

NICHOLAS FINANCIAL INC  
Form 10-K  
June 14, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**

**FORM 10-K**

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934**  
**For the fiscal year ended March 31, 2016**

.. **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.**

**(Exact Name of Registrant as Specified in its Charter)**

**British Columbia, Canada**  
**(State or Other Jurisdiction of**

**8736-3354**  
**(I.R.S. Employer**

**Incorporation or Organization)**

**Identification No.)**

**2454 McMullen Booth Road, Building C**

**Clearwater, Florida 33759**

**(Address of Principal Executive Offices, Including Zip Code)**

**(727) 726-0763**

**(Registrant's Telephone Number, Including Area Code)**

**Securities registered under Section 12(b) of the Exchange Act:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
<b>Common shares, no par value</b>	<b>NASDAQ Global Select Market</b>

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

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 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  No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not 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-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting

company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At September 30, 2015, the aggregate market value of the Registrant's Common Shares held by non-affiliates of the Registrant was approximately \$95.8 million.

As of June 6, 2016, approximately 12.5 million shares, no par value, of the Registrant were outstanding (of which approximately 4.7 million shares were held by the Registrant's principal operating subsidiary and pursuant to applicable law, not entitled to vote and approximately 7.8 million shares were entitled to vote).

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive Proxy Statement and Information Circular for the 2016 Annual General Meeting of Shareholders currently expected to be held on September 8, 2016, are incorporated by reference in Part III, Items 10 through 14, of this Annual Report on Form 10-K.

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This Annual Report on Form 10-K ( Report ) 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. Such statements are based on management's current beliefs and assumptions, as well as information currently available to management. When used in this document, the words anticipate, estimate, expect, will, may, plan, believe, intend and expressions are intended to identify forward-looking statements. Although Nicholas Financial, Inc., including its subsidiaries (collectively 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, including but not limited to the risk factors discussed herein under Item 1A Risk Factors. 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, the availability of capital at acceptable rates and terms, 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 (Contracts), regulatory changes in the Company's existing and future markets, the Company's intentions regarding strategic alternatives, and the Company's ability to expand its business, including its ability to identify and 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 as of the date of filing of this Report, 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 filings made with the US Securities and Exchange Commission (SEC), including its reports on Forms 10-Q, 8-K and 10-K and annual reports to shareholders.

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**PART I**

**Item 1. 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 currently conducted exclusively through its wholly-owned indirect subsidiary, Nicholas Financial, Inc., a Florida corporation ( Nicholas Financial ). Nicholas Financial is a specialized consumer finance company engaged primarily in acquiring and servicing automobile finance installment contracts ( Contracts ) for purchases of new and used automobiles and light trucks. To a lesser extent, Nicholas Financial also originates direct consumer loans ( Direct Loans ) and sells consumer-finance related products. Nicholas Financial's financing activities accounted for 100% of the Company's consolidated revenue for the fiscal year ended March 31, 2016 and more than 99% of the Company's consolidated revenues for each of the fiscal years ended March 31, 2015 and 2014, respectively.

A second Florida subsidiary, Nicholas Data Services, Inc. ( NDS ), historically was engaged in supporting and updating industry-specific computer application software for small businesses located primarily in the Southeastern United States. NDS's activities accounted for less than 1% of the Company's consolidated revenues for each of the fiscal years ended March 31, 2015 and 2014. NDS ceased its operations during the fiscal year ended March 31, 2015; however it continues as the interim holding company for Nicholas Financial.

Nicholas Financial-Canada, Nicholas Financial and NDS are hereafter collectively referred to as the Company . All financial information herein is designated in United States dollars. References to fiscal 2016 are to our fiscal year ended March 31, 2016 and references to fiscal 2017 are to our fiscal year ending March 31, 2017.

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.

**Available Information**

The Company's filings with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q, definitive proxy statements on Schedule 14A, current reports on Form 8-K, and any amendments to those reports filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, are made available free of charge through the Investor Center section of the Company's Internet website at <http://www.nicholasfinancial.com> as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. The Company is not including the information contained on or available through its web site as a part of, or incorporating such information by reference into, this Report. Copies of any materials the Company files with the SEC can also be obtained free of charge through the SEC's website at <http://www.sec.gov> or at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information regarding the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

**Growth Strategy**

The Company's principal goals are to increase its profitability and its long-term shareholder value through greater penetration in its current markets and controlled geographic expansion into new markets. The Company seeks to expand its automobile financing program in the eighteen states Alabama, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Maryland, Michigan, Missouri, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Texas,

Virginia and Wisconsin in which it currently operates by increasing the business generated at its existing branch locations and by targeting certain geographic locations within some of these states where it believes there is a sufficient market for its automobile financing program. The Company's strategy is to monitor these markets and ultimately decide if and where it will open additional branch locations. During fiscal 2016, the Company started buying Contracts in Wisconsin and Pennsylvania. The Company is planning to open a branch in Pittsburgh by the end of the second quarter in fiscal 2017. Dealers in Wisconsin are serviced in our Gurnee, Illinois branch. During fiscal 2016, the Company also opened a branch in the Chicago area, and two new branch offices in Texas. The Company consolidated two branch locations (Clearwater, FL and Birmingham, AL) into branches previously established within their market. The Company will continue to evaluate any branch locations that do not meet its minimum profitability targets and may elect to close one or more of these branches in the future. The Company also continues to analyze other markets in states in which it does not currently operate for expansion opportunities. The Company is also evaluating the organization and its structure. The Company's decisions on how it plans to continue operating its business strategy will be influenced by the sustainability of some of its competitors' underwriting and risk-based pricing. Although the Company has not made any bulk purchases of Contracts in over two decades, if the opportunity arises, the Company may consider

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possible acquisitions of portfolios of seasoned Contracts from dealers in bulk transactions as a means of further penetrating its existing markets or expanding its presence in targeted geographic locations. The Company cannot provide any assurances, however, that it will be able to further expand in either its current markets or any targeted new markets.

The Company is currently licensed to provide Direct Loans in Florida and North Carolina. The Company does not have any current plans to expand its strategy of soliciting current customers and expects total Direct Loans to remain less than 5% of its total portfolio for the foreseeable future.

## **Automobile Finance Business – Contracts**

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 customer's credit history or job instability or the age of the vehicle being financed. 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 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 Contract, the Company considers the following factors related to the borrower: current income; credit history; history in making installment payments for automobiles; current and prior job status; and place and length of residence. 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 Contract.

As of the date of this annual report on Form 10-K, the Company's automobile finance programs are conducted in eighteen states through a total of 67 branch offices, consisting of twenty in Florida, eight in Ohio, six in each of North Carolina and Georgia, three in each of Illinois, Indiana, Kentucky, Missouri and Michigan, two in each of Alabama, South Carolina, Tennessee, Texas and Virginia, and one in each of Kansas and Maryland. The Company has also commenced Contract acquisition in Pennsylvania utilizing the underwriting staff of the Columbus, Ohio branch location. The Company is planning to open a branch in Pittsburgh by the end of the second quarter in fiscal 2017. The Company has also commenced Contract acquisition in Wisconsin using the underwriting staff of the Gurnee, Illinois branch location. At this time, the Company does not have any plans to open a branch in the Wisconsin area. As of March 31, 2016 the Company had non-exclusive agreements with approximately 4,100 dealers, of which approximately 2,300 were active, for the purchase of individual Contracts that meet the Company's financing criteria. The Company considers a dealer agreement to be active if the Company has purchased a Contract thereunder in the last six months. Each dealer agreement requires the dealer to originate Contracts in accordance with the Company's guidelines. Once a Contract is purchased by the Company, the dealer is no longer involved in the relationship between the Company and the borrower, other than through the existence of limited representations and warranties of the dealer in favor of the Company.

A customer under a Contract typically makes a down payment, in the form of cash or trade-in, ranging from 5% to 35% 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, gap insurance, roadside assistance plans, credit disability insurance and/or credit life insurance are generally financed over a period of 12 to 72 months.

At approximately the time of origination, the Company purchases a Contract from an automobile dealer at a negotiated price that is less than the original principal amount being financed (the dealer discount) by the purchaser of the automobile. The amount of the dealer discount depends upon factors such as the age and value of the automobile, creditworthiness of the customer and competition in any given market. The Company will pay more (i.e., purchase the



Contract at a smaller discount from the original principal amount) for Contracts as the credit risk of the customer improves. In certain markets, competition more significantly impacts the discount that the Company can charge. To date, the Contracts purchased by the Company have been purchased at discounts that range from 1% to 15% of the original principal amount of each Contract. As of March 31, 2016, the Company's loan portfolio consisted exclusively of Contracts purchased without recourse to the dealer. Although all of the Contracts in the Company's loan portfolio were acquired without recourse, each dealer remains potentially liable to the Company for breaches of 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's policy is to only purchase a Contract after the dealer has provided the Company with the requisite proof that the Company has a first priority lien on the financed vehicle (or the Company has, in fact, perfected such first priority lien), that the customer has obtained the required collision insurance naming the Company as loss payee and that the 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. 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 \$1,000.

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The Company currently purchases Contracts in the states listed in the table below. The Contracts purchased by the Company are predominately for used vehicles; for the periods shown below, less than 1% were for new vehicles. The average model year

collateralizing the portfolio as of March 31, 2016 was a 2007 vehicle. The dollar amounts shown in the table below represent the Company's finance receivables, net of unearned interest on Contracts purchased:

State	Maximum allowable interest rate (1)	Fiscal year ended March 31, (In thousands)		
		2016	2015	2014
Alabama	(2)	\$ 5,764	\$ 6,289	\$ 6,041
Florida	18-30%(3)	55,270	54,653	51,841
Georgia	18-30%(3)	18,227	18,710	17,423
Illinois	(2)	7,563	6,457	3,905
Indiana	25%	8,595	7,654	6,983
Kansas	(2)	3,052	2,165	1,539
Kentucky	18-25%(3)	8,837	9,768	8,758
Maryland	24%	2,626	4,081	3,081
Michigan	25%	7,671	7,355	6,345
Missouri	(2)	8,227	7,554	5,651
North Carolina	18-29%(3)	14,291	15,078	15,753
Ohio	25%	24,520	24,245	24,682
Pennsylvania	18-21%(3)	392		
South Carolina	(2)	6,145	3,966	4,965
Tennessee	(2)	6,134	5,206	6,270
Texas	18-28%(3)	4,965	821	
Virginia	(2)	4,614	4,367	6,008
Wisconsin	(2)	382		
<b>Total</b>		<b>\$ 187,275</b>	<b>\$ 178,369</b>	<b>\$ 169,245</b>

- (1) The maximum allowable interest rates by state are subject to change and are governed by the individual states the Company conducts business in.
- (2) None of these states currently imposes a maximum allowable interest rate with respect to the types and sizes of Contracts the Company purchases. The maximum rate which the Company will typically charge any customer in each of these states is 30% per annum.
- (3) The maximum allowable interest rate in each of these states varies depending upon the model year of the vehicle being financed. In addition, Georgia does not currently impose a maximum allowable interest rate with respect to Contracts over \$5,000.

The following table presents selected information on Contracts purchased by the Company, net of unearned interest:

<b>Contracts</b>	<b>Fiscal year ended March 31,</b>		
	<b>(Purchases in thousands)</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Purchases	\$ 187,275	\$ 178,369	\$ 169,245
Weighted APR	22.66%	22.90%	23.00%
Average dealer discount	7.51%	8.08%	8.44%
Weighted average term (months)	56	55	52
Average loan	\$ 11,348	\$ 10,967	\$ 10,612
Number of Contracts purchased	16,503	16,264	15,949

**Direct Loans**

The Company currently originates Direct Loans in Florida and North Carolina. Direct Loans are loans originated directly between the Company and the consumer. These loans are typically for amounts ranging from \$1,000 to \$9,000 and are generally secured by a lien on an automobile, watercraft or other permissible tangible personal property. The average loan made to date by the Company had an initial principal balance of approximately \$4,000. The Company does not expect the average loan size to increase significantly within the foreseeable future. The majority of Direct Loans are originated with current or former customers under the Company's automobile

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financing program. The typical Direct Loan represents a significantly better credit risk than our typical Contract due to the customer's historical payment history with the Company. The Company does not have a Direct Loan license in Alabama, Illinois, Indiana, Kansas, Kentucky, Maryland, Michigan, Missouri, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, Virginia or Wisconsin, and none is presently required in Georgia (as long as the Direct Loan is greater than \$3,000). The Company is currently not pursuing Direct Loans in Georgia. The Company does not expect to pursue a Direct Loan license in any other state during the fiscal year ending March 31, 2017. The size of the loan and maximum interest rate that can be charged vary from state to state. In deciding whether or not to make a loan, the Company considers the individual's income, credit history, job stability, and the value of the collateral offered by the borrower to secure the loan. Additionally, because most of the Direct 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 Company's Direct Loan program was implemented in April 1995 and accounted for approximately 3% of the Company's annual consolidated revenues during the year ended March 31, 2016.

In connection with its Direct Loan program, the Company also makes available credit disability, credit life insurance, and involuntary unemployment insurance coverage to customers through an unaffiliated third-party insurance carrier. Customers in approximately 76% of the approximate 3,000 Direct Loan transactions outstanding as of March 31, 2016 had elected to purchase third-party insurance coverage made available by the Company. The cost of this insurance is included in the amount financed by the customer.

The following table presents selected information on Direct Loans originated by the Company, net of unearned interest:

<b>Direct Loans</b>	<b>Fiscal year ended March 31, (Originations in thousands)</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Originations	<b>\$ 9,578</b>	\$ 9,525	\$ 9,787
Weighted APR	<b>25.82%</b>	26.47%	26.72%
Weighted average term (months)	<b>30</b>	29	29
Average loan	<b>\$ 3,589</b>	\$ 3,536	\$ 3,427
Number of contracts originated	<b>2,669</b>	2,694	2,856

**Underwriting Guidelines**

The Company's typical customer has 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, Experian and/or TransUnion, which are independent credit reporting services. The Company verifies the consumer's employment history, income and residence. In most cases, consumers are interviewed via telephone by a Company application processor. The Company also considers the customer's prior payment history with the Company, if any, as well as the collateral value of the vehicle being financed.

The Company has established internal buying guidelines to be used by its Branch Managers and internal 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 branches' compliance with the Company's underwriting standards.

The Company uses essentially the same criteria in analyzing a Direct Loan as it does in analyzing the purchase of a Contract. Lending decisions regarding Direct Loans are made based upon a review of the customer's loan application, income, credit history, job stability, and the value of the collateral offered by the borrower to secure the loan. To date, since the majority 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 his or her existing or past Contract is a significant factor in the lending decision.

After reviewing the information included in the Contract or Direct Loan application and taking the other factors into account, the Company's loan origination system categorizes the customer using internally developed credit classifications of 1, indicating higher creditworthiness, through 6, indicating lower creditworthiness. Contracts are financed for individuals who fall within all six acceptable rating categories utilized, 1 through 6. Usually a customer who falls within the two highest categories (i.e., 1 or 2) is purchasing a two to four-year old, low mileage used automobile from the inventory of a new car or franchise dealer, while a customer in any of the three lowest categories (i.e., 4, 5, or 6) usually is purchasing an older, high mileage automobile from an independent used automobile dealer.

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The Company utilizes internal audit ( the IA ) to perform on-site audits of its branches compliance with Company underwriting guidelines. IA 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. IA reports directly to the SVP of Operations of the Company.

## **Monitoring and Enforcement of Contracts**

The Company requires each customer under a Contract to obtain and maintain collision insurance covering damage to the vehicle. Failure to maintain such 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 contractual right to force place collateral protection insurance through a third-party, which covers loss due to physical damage to a vehicle not covered by any insurance policy of the customer.

The Company s Management Information Services personnel maintain a number of reports to monitor compliance by customers 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 Managers and staff, at computer terminals located in the main office and each branch office. These reports include delinquency aging reports, customer promises reports, vehicle information reports, purchase reports, dealer analysis reports, static pool reports, and repossession reports.

A 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 customer, phone numbers of the customer, 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.

Any account that is less than 120 days old is included on the delinquency report on the first day that the Contract is contractually past due. Once an account becomes 30 days past due, repossession proceedings are implemented unless the customer provides the Company with an acceptable explanation for the delinquency and displays a willingness and the ability to make the payment, and commits to a plan to return the account to current status. When an account is 61 days past due, the Company ceases recognition of income on 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. Instead, the vehicle 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 customer to determine the reason for the delinquency and to determine if appropriate arrangements for payment can be made. If payment arrangements acceptable to the Company can be made, the information is entered in its database and is used to generate a Promises Report, which is utilized by the Company s collection staff for account follow up.

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 customer, 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, 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 condition of the vehicle, as well as notes other information that may be helpful to the Company.

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 has purchased Contracts from such dealer.

The Company's policy is to pursue legal remedies to collect deficiencies from customers. Oral requests for payment are made beginning when an account becomes 11 days delinquent. When an account becomes 30 days delinquent and the customer has not made payment arrangements acceptable to the Company or has failed to respond to the requests for payment, a repossession request is generally contemplated by the responsible branch office employee for approval by the Branch Manager for the vicinity in which the borrower lives; however, each account is unique and looked at individually. Once the repossession request has been approved, first by the Branch Manager and second by the applicable District Manager, it must then be approved by the Director of Loss Recovery. The reposessor delivers the vehicle to a secure location specified by the Company. The Company maintains relationships with several licensed repossession firms that repossess vehicles for fees that range from \$250 to \$500 for each vehicle repossessed. As required by Alabama, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Maryland, Michigan, Missouri, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, and Wisconsin law, the customer is notified by certified letter that the vehicle has been repossessed and what the customer needs to do in order to regain their vehicle.

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Generally, 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 applicable 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 to a dealer or at auction. When the Company determines that there is a reasonable likelihood of recovering part or all of any deficiency against the customer under the Contract, it pursues legal remedies available to it, including lawsuits, judgment liens and wage garnishments. Historically, the Company has recovered approximately 10-18% of deficiencies from such customers. Proceeds from the disposition of the vehicles are not included in calculating the foregoing percentage range.

## **Marketing and Advertising**

The Company's Contract marketing efforts currently are directed exclusively 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 30-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, such as radio or newspaper advertisements, for the purchase of Contracts.

The Company solicits customers under its Direct Loan program primarily 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.

## **Computerized Information System**

The Company uses a third party loan origination system and an internally developed loan servicing system to assist in responding to customer inquiries and to monitor the performance of its Contract and Direct Loan portfolio and the performance of individual customers under Contracts. All Company personnel are provided with real-time access to information. The Company has created specialized programs to automate the tracking of Contracts and Direct Loans from inception. The Company's computer network encompasses both its corporate headquarters and its branch office locations. See "Monitoring and Enforcement of Contracts" above for a summary of the different reports prepared by the Company.

## **Competition**

The consumer finance industry is highly fragmented and highly competitive. Due to various factors, including the existing low interest rate environment, the competitiveness of the industry continues to increase as new competitors continue to enter the market and certain existing competitors continue to expand their operations. There are numerous financial service companies that provide consumer credit in the markets served by the Company, including banks, credit unions, 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. Increased competition for the purchase of Contracts has caused a reduction in the interest rates payable by many individual purchasers of automobiles, and the Company believes that continued increased competition could materially reduce such interest rates in the foreseeable future. In addition, increased competition for the purchase of Contracts has enabled automobile dealers to shop for the best price, thereby giving rise to an erosion in the dealer discounts from the initial principal amounts at which the Company is willing to purchase Contracts and higher advance rates. The Company's average



dealer discount for the fiscal years ended March 31, 2016, 2015, and 2014 was 7.51%, 8.08% and 8.44%, respectively. Further, increased competition has resulted in the purchase of lower credit quality Contracts, though these Contracts are still acceptable under the Company's underwriting guidelines.

The Company's target market consists of persons who are generally unable to obtain traditional used car financing because of their credit history or 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. However, the Company generally will not sacrifice its purchasing criteria or prudent business practices in order to meet the competition.

The Company's ability to compete effectively with other companies offering similar financing arrangements depends in part upon the Company maintaining close business relationships with dealers of new and used vehicles. No single dealer out of the approximately 2,300 dealers with which the Company currently has active Contractual relationships accounted for over 1% of its business volume for any of the fiscal years ended March 31, 2016, 2015 or 2014.

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**Regulation**

The Company's financing operations are subject to regulation, supervision and licensing under various federal, state and local statutes, regulations and ordinances. Additionally, the procedures that the Company must follow 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 Alabama, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Maryland, Michigan, Missouri, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, Virginia and Wisconsin. Accordingly, the laws of such states, as well as applicable federal law, govern the Company's operations. The following constitute certain of the existing federal, state and local statutes, regulations and ordinances with which the Company must comply:

*State consumer regulatory agency requirements.* Pursuant to state regulations, on-site audits can be conducted for each of the Company's branches located within Florida, Alabama, Illinois, Indiana, Michigan and Missouri to monitor compliance with applicable regulations. These regulations include, but are not limited to: licensure requirements; requirements for maintenance of proper records; payment of required fees; maximum interest rates that may be charged on loans to finance used vehicles; and proper disclosure to customers regarding financing terms. Pursuant to North Carolina law, the Company's Direct Loan activities in that state are subject to similar periodic on-site audits by the North Carolina Office of the Commissioner of Banks.

*State licensing requirements.* The Company maintains a Sales Finance Company License with the Florida Department of Banking and Finance, as well as consumer loan licenses in Florida and North Carolina. In addition, each of the dealers that the Company does business with is required to maintain a Retail Installment Seller's License with each state in which it operates.

*Fair Debt Collection Practices Act.* The Fair Debt Collection Practices Act ( FDCPA ) and applicable state law counterparts prohibit the Company from contacting customers during certain times and at certain places, from using certain threatening practices and from making false implications when attempting to collect a debt.

*Truth in Lending Act.* The Truth in Lending Act ( TILA ) requires the Company and the dealers it does business with to make certain disclosures to customers, including the terms of repayment, the total finance charge and the annual percentage rate charged on each Contract or Direct Loan.

*Equal Credit Opportunity Act.* The Equal Credit Opportunity Act ( ECOA ) prohibits creditors from discriminating against loan applicants on the basis of race, color, sex, age or marital status. Pursuant to Regulation B promulgated under the ECOA, creditors are required to make certain disclosures regarding consumer rights and advise consumers whose credit applications are not approved of the reasons for the rejection.

*Fair Credit Reporting Act.* The Fair Credit Reporting Act ( FCRA ) requires the Company to provide certain information to consumers whose credit applications are not approved on the basis of a report obtained from a consumer-reporting agency.

*Gramm-Leach-Bliley Act.* The Gramm-Leach-Bliley Act ( GLBA ) requires the Company to maintain privacy with respect to certain consumer data in its possession and to periodically communicate with consumers on privacy matters.

*Servicemembers Civil Relief Act.* The Servicemembers Civil Relief Act ( SCRA ) requires the Company to reduce the interest rate charged on each loan to customers who have subsequently joined, enlisted, been inducted or called to active military duty.

*Electronic Funds Transfer Act.* The Electronic Funds Transfer Act ( EFTA ) prohibits the Company from requiring its customers to repay a loan or other credit by electronic funds transfer ( EFT ), except in limited situations which do not apply to the Company. The Company is also required to provide certain documentation to its customers when an EFT is initiated and to provide certain notifications to its customers with regard to preauthorized payments.

*Telephone Consumer Protection Act.* The Telephone Consumer Protection Act ( TCPA ) governs the Company s practice of contacting customers by certain means i.e. auto dialers, pre-recorded or artificial voice calls on customers land lines, fax machines and cell phones, including text messages.

*Bankruptcy.* Federal bankruptcy and related state laws may interfere with or affect the Company s ability to recover collateral or enforce a deficiency judgment.

*Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ( Dodd-Frank Act ).* Title X of the Dodd-Frank Act created the Consumer Financial Protection Bureau ( CFPB ), which, effective as of July 21, 2011, has the authority to issue and enforce regulations under the federal enumerated consumer laws, including (subject to certain statutory limitations) FDCPA, TILA, ECOA, FCRA, GLBA and EFTA. The CFPB has rulemaking and enforcement authority over certain non-depository institutions, including us. The CFPB is specifically authorized, among other things, to take actions to prevent companies providing consumer financial products or services and their service providers from engaging in unfair, deceptive or abusive acts or practices in connection with consumer financial products and services, and to issue rules requiring enhanced disclosures for consumer financial products or services. Under the Dodd-Frank Act, the CFPB

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also may restrict the use of pre-dispute mandatory arbitration clauses in contracts between covered persons and consumers for a consumer financial product or service. The CFPB also has authority to interpret, enforce, and issue regulations implementing enumerated consumer laws, including certain laws that apply to our business. The CFPB recently issued rules regarding the supervision and examination of non-depository larger participants in the automobile finance business. Since we are deemed a larger participant, we are subject to supervision and examination by the CFPB.

Failure to comply with these laws or regulations could have a material adverse effect on us by, among other things, limiting the jurisdictions in which we may operate, restricting our ability to realize the value of the collateral securing the Contracts, making it more costly or burdensome to do business or resulting in potential liability. The volume of new or modified laws and regulations and the activity of agencies enforcing such law have increased in recent years in response to issues arising with respect to consumer lending. From time to time, legislation and regulations are enacted which increase the cost of doing business, limit or expand permissible activities or affect the competitive balance among financial services providers. Proposals to change the laws and regulations governing the operations and taxation of financial institutions and financial services providers are frequently made in the U.S. Congress, in the state legislatures and by various regulatory agencies. This legislation may change our operating environment in substantial and unpredictable ways and may have a material adverse effect on our business.

In particular, the Dodd-Frank Act and regulations promulgated thereunder, including the rules regarding supervision and examination recently issued by the CFPB, are likely to affect our cost of doing business, may limit or expand our permissible activities, may affect the competitive balance within our industry and market areas and could have a material adverse effect on us. Our management continues to assess the Dodd-Frank Act's probable impact on our business, financial condition and results of operations, and to monitor developments involving the entities charged with promulgating regulations thereunder. However, the ultimate effect of the Dodd-Frank Act on the financial services industry in general, and on us in particular, is uncertain at this time.

In addition to the CFPB, other state and federal agencies have the ability to regulate aspects of our business. For example, the Dodd-Frank Act provides a mechanism for state Attorneys General to investigate us. In addition, the Federal Trade Commission has jurisdiction to investigate aspects of our business. We expect that regulatory investigation by both state and federal agencies will continue and that the results of these investigations could have a material adverse impact on us.

Dealers with which we do business must also comply with credit and trade practice statutes and regulations. Failure of these dealers to comply with such statutes and regulations could result in customers having rights of rescission and other remedies that could have a material adverse effect on us.

The sale of vehicle service contracts and other ancillary products by dealers in connection with Contracts assigned to us from dealers is also subject to state laws and regulations. As we are the holder of the Contracts that may, in part, finance these products, some of these state laws and regulations may apply to our servicing and collection of the Contracts. Although these laws and regulations may not significantly affect our business, there can be no assurance that insurance or other regulatory authorities in the jurisdictions in which these products are offered by dealers will not seek to regulate or restrict the operation of our business in these jurisdictions. Any regulation or restriction of our business in these jurisdictions could materially adversely affect the income received from these products.

The Company's management believes that the Company maintains all requisite licenses and permits and is in material compliance with applicable local, state and federal laws and regulations. The Company periodically reviews its branch office practices in an effort to ensure such compliance. In addition, the Company continues to increase the size of its compliance department in response to the increasing complexity of the regulatory environment. Although compliance with existing laws and regulations has not had a material adverse effect on the Company's operations to date, given the

increasingly complex regulatory environment, the increasing costs of complying with such laws and regulations, and the increasing risk of penalties, fines or other liabilities associated therewith, no assurances can be given that we are in material compliance with all of such laws or regulations or that the costs of such compliance, or the failure to be in such compliance, will not have a material adverse effect on our business, financial condition or results of operations.

### **Employees**

The Company's management and various support functions are centralized at the Company's Corporate Headquarters in Clearwater, Florida. As of March 31, 2016 the Company employed a total of 333 persons, of which 41 persons were employed at the Company's Corporate Headquarters. None of the Company's employees are subject to a collective bargaining agreement, and the Company considers its relations with its employees generally to be good.

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**Item 1A. Risk Factors**

*The following factors, as well as other factors not set forth below, may adversely affect the business, operations, financial condition or results of operations of the Company (sometimes referred to in this section as we us or our ).*

**We operate in an increasingly competitive market.**

The non-prime consumer-finance industry is highly competitive, and the competitiveness of the market continues to increase as new competitors continue to enter the market and certain existing competitors continue to expand their operations and become more aggressive in offering competitive terms. There are numerous financial service companies that provide consumer credit in the markets served by us, including banks, credit unions, other consumer finance companies and captive finance companies owned by automobile manufacturers and retailers. Many of these competitors have substantially greater financial resources than us. In addition, our competitors often provide financing on terms more favorable to automobile purchasers or dealers than we offer. Many of these competitors also have long-standing relationships with automobile dealerships and may offer dealerships or their customers other forms of financing, including dealer floor-plan financing and leasing, which are not provided by us. Providers of non-prime consumer financing have traditionally competed primarily on the basis of:

interest rates charged;

the quality of credit accepted;

dealer discount;

amount paid to dealers relative to the wholesale book value;

the flexibility of loan terms offered; and

the quality of service provided.

Our ability to compete effectively with other companies offering similar financing arrangements depends in part on our ability to maintain close relationships with dealers of new and used vehicles. We may not be able to compete successfully in this market or against these competitors.

We have focused on a segment of the market composed of consumers who typically do not meet the more stringent credit requirements of traditional consumer financing sources and whose needs, as a result, have not been addressed consistently by such financing sources. As new and existing providers of consumer financing have undertaken to penetrate our targeted market segment, we have experienced increasing pressure to reduce our interest rates, fees and dealer discounts in order to maintain our market share. The Company's average dealer discount for the fiscal years ended March 31, 2016, 2015, and 2014 was 7.51%, 8.08%, and 8.44%, respectively. Further reductions in our interest rates, fees or dealer discount rates could have a material adverse impact on our profitability or financial condition.

**The Dodd-Frank Act authorizes the CFPB to adopt rules that could potentially have a material adverse effect on our operations and financial performance.**

Title X of the Dodd-Frank Act established the CFPB, which became operational on July 21, 2011. Under the Dodd-Frank Act, the CFPB has regulatory, supervisory and enforcement powers over providers of consumer financial products, such as Contracts and the Direct Loans that we offer, including explicit supervisory authority to examine and require registration of installment lenders such as ourselves. Included among the powers afforded to the CFPB is the authority to adopt rules describing specified acts and practices as being unfair, deceptive or abusive, and hence unlawful. Although the Dodd-Frank Act expressly provides that the CFPB has no authority to establish usury limits, some consumer advocacy groups have suggested that certain forms of alternative consumer finance products, such as installment loans, should be a regulatory priority and it is possible that at some time in the future the CFPB could propose and adopt rules making such lending or other products that we may offer materially less profitable or impractical. Further, the CFPB may target specific features of loans by rulemaking that could cause us to cease offering certain products. Any such rules could have a material adverse effect on our business, results of operation and financial condition. The CFPB could also adopt rules imposing new and potentially burdensome requirements and limitations with respect to any of our current or future lines of business, which could have a material adverse effect on our operations and financial performance.

In addition to the Dodd-Frank Act's grant of regulatory powers to the CFPB, the Dodd-Frank Act gives the CFPB authority to pursue administrative proceedings or litigation for violations of federal consumer financial laws. In these proceedings, the CFPB can obtain cease and desist orders (which can include orders for restitution or rescission of contracts, as well as other kinds of affirmative relief) and monetary penalties ranging from \$5,000 per day for minor violations of federal consumer financial laws (including the CFPB's own rules) to \$25,000 per day for reckless violations and \$1 million per day for knowing violations. If we are subject to such administrative proceedings, litigation, orders or monetary penalties in the future, this could have a material adverse effect on our

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operations and financial performance. Also, where a company has violated Title X of the Dodd-Frank Act or CFPB regulations under Title X, the Dodd-Frank Act empowers state attorneys general and state regulators to bring civil actions for the kind of cease and desist orders available to the CFPB (but not for civil penalties). If the CFPB or one or more state officials believe we have violated the foregoing laws, they could exercise their enforcement powers in ways that would have a material adverse effect on us. See Item 1. Business Regulation for additional information.