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NICHOLAS FINANCIAL INC
Form 10QSB
November 13, 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 SEPTEMBER 30, 2003

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

For the transition period from _____ to _____.

Commission file number: 0-26680

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

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

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

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

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

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

As of October 31st, 2003 there were 5,061,088 shares of common stock outstanding.

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Part I. Item 1

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

September 30,
2003

Assets	
Cash	\$ 1,984,453
Finance receivables, net	92,122,665
Accounts receivable	13,526

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Prepaid expenses and other assets	864,339
Property and equipment, net	511,989
Deferred income taxes	3,005,123

Total assets	\$98,502,095
	=====
Liabilities	
Line of credit	\$65,010,238
Drafts payable	521,974
Notes payable - related party	991,530
Accounts payable	3,742,609
Dividends payable	253,354
Derivatives	1,932,077
Income taxes payable	735,007
Deferred revenues	999,732

Total liabilities	74,186,521
Shareholders' equity	
Preferred stock, no par: 5,000,000 shares authorized; none issued and outstanding	-
Common stock, no par: 50,000,000 shares authorized; 5,061,088 shares issued and outstanding	4,570,041
Other comprehensive loss	(1,202,718)
Retained earnings	20,948,251

	24,315,574

Total liabilities and shareholders' equity	\$98,502,095
	=====

See accompanying notes.

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

	Three months ended September 30,		Six months ended September 30,	
	2003	2002	2003	2002

Revenue:				
Interest income on finance receivables	\$6,074,327	\$5,492,139	\$12,062,800	\$10,725,488
Sales	70,750	92,939	142,308	175,315
	-----	-----	-----	-----
	6,145,077	5,585,078	12,205,108	10,900,803
Expenses:				
Cost of sales	11,615	25,652	28,689	42,820
Marketing	220,591	155,860	431,823	309,341
Administrative	2,481,856	2,114,689	4,797,733	4,096,548
Provision for credit losses	404,156	582,138	984,155	1,129,204
Depreciation	62,500	42,000	132,218	79,000

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Interest expense	968,310	967,632	1,955,638	1,931,695
	-----	-----	-----	-----
	4,149,028	3,887,971	8,330,256	7,588,608
Operating income before income taxes	1,996,049	1,697,107	3,874,852	3,312,195
Income tax expense:				
Current	616,493	508,509	2,208,600	1,081,758
Deferred	130,664	132,442	(748,615)	161,117
	-----	-----	-----	-----
	747,157	640,951	1,459,985	1,242,875
	-----	-----	-----	-----
Net Income	\$1,248,892	\$1,056,156	\$2,414,867	\$2,069,320
	=====	=====	=====	=====
Earnings per share - basic	\$0.25	\$0.21	\$0.48	\$0.41
	=====	=====	=====	=====
Earnings per share - diluted	\$0.23	\$0.20	\$0.45	\$0.39
	=====	=====	=====	=====

See accompanying notes.

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

	Six months ended September 30, 2003	2002
	-----	-----
Operating activities		
Net income	\$ 2,414,867	\$ 2,069,320
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	132,218	79,000
Provision for credit losses	984,155	1,129,204
Deferred income taxes	(836,391)	161,117
Changes in operating assets and liabilities:		
Accounts receivable	2,702	(4,604)
Prepaid expenses and other assets	(227,066)	(323,055)
Accounts payable	671,733	(291,170)
Drafts payable	(142,546)	(121,320)
Income taxes payable	629,132	(110,116)
Deferred revenues	82,843	255,781
	-----	-----
Net cash provided by operating activities	3,711,647	2,844,157
Investing activities		
Purchase and origination of finance contracts	(34,313,256)	(31,145,587)
Principal payments received	27,384,548	24,565,321
Purchase of property and		

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equipment, net of disposals	(176,611)	(118,151)

Net cash used in investing activities	(7,105,319)	(6,698,417)
Financing activities		
Issuance of notes payable - related party	182,920	107,094
Net proceeds from line of credit	4,850,000	4,260,000
Payment of dividend	(253,354)	-
Sale of common stock	117,348	34,130

Net cash provided by financing activities	4,896,914	4,401,224

Net increase in cash	1,503,242	546,964
Cash, beginning of period	481,211	51,239

Cash, end of period	\$ 1,984,453	\$ 598,203
	=====	
See accompanying notes.		

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

September 30, 2003

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Nicholas Financial, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-QSB pursuant to the Securities and Exchange Act of 1934, as amended in Article 10 of Regulation SB. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending March 31, 2004. For further information, refer to the condensed consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended March 31, 2003.

2. Revenue Recognition

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

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

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

3. Earnings Per Share

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

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

3. Earnings Per Share (continued)

	Three months ended		Six months ended	
	September 30,	September 30,	September 30,	September 30,
	2003	2002	2003	2002

Numerator:				
Numerator for basic earnings per share - Net income available to common stockholders	\$1,248,892	\$1,056,156	\$2,414,867	\$2,069,320
Denominator:				
Denominator for basic earnings per share - weighted average shares	5,038,318	5,010,351	5,022,622	5,004,909
Effect of dilutive securities:				
Employee stock options	366,858	305,659	330,195	324,398

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Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions	5,405,176	5,316,010	5,352,817	5,329,307
	=====	=====	=====	=====
Earnings per share - basic	\$0.25	\$0.21	\$0.48	\$0.41
	=====	=====	=====	=====
Earnings per share - diluted	\$0.23	\$0.20	\$0.45	\$0.39
	=====	=====	=====	=====

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

4. Finance Receivables

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

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

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

Finance receivables, gross contract	\$146,989,453
Less:	
Unearned interest	(35,197,359)

	111,792,094
Dealer discounts	(13,693,961)
Allowance for credit losses	(5,975,468)

Finance receivables, net	\$ 92,122,665
	=====

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 twenty-five basis points. The Company also has several LIBOR pricing options available. If the outstanding balance falls below \$10 million the Line bears

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interest at the prime rate plus 2.00%. Pledged as collateral for this credit facility are all of the assets of Nicholas Financial, Inc. As of September 30, 2003 the outstanding amount of the credit facility was \$65,010,238, the amount available under the line of credit was \$9,989,762. As of September 30, 2003 the Company was in full compliance with all debt covenants.

6. Notes Payable - Related Party

The Company's notes payable consist of unsecured notes bearing interest at 6.60% with principal and interest due within 30-days upon demand. The notes totaled \$991,530 at September 30, 2003.

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

7. Derivatives and Hedging

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

The Company has entered into interest rate swap agreements that effectively convert a portion of its floating-rate debt to a fixed-rate basis, thus reducing the impact of interest rate changes on future interest expense. At September 30, 2003, approximately \$50,000,000 of the Company's borrowings have been designated as the hedged items to interest rate swap agreements. Under the swap agreements, the Company received an average variable rate of 3.46% and 3.78% and paid an average fixed rate of 6.04% and 6.77% during the three months ended September 30, 2003, 2002, respectively. Under the swap agreements, the Company received an average variable rate of 3.49% and 3.99% and paid an average fixed rate of 6.19% and 6.85% during the six months ended September 30, 2003, 2002, respectively. A loss of \$1,932,077 related to the fair value of the swaps at September 30, 2003 has been recorded in the caption derivatives on the balance sheet. Amounts of net losses on derivative instruments expected to be reclassified from comprehensive income to earnings in the next 12 months are not expected to be material. The Company has also entered into one forward locking swap disclosed in the table below.

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

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Date Entered	Effective Date	Notional Amount	Fixed Rate Of Interest	Maturity Date
August 19, 1999	August 19, 1999	\$10,000,000	5.80%	August 1, 2003
May 17, 2000	May 17, 2000	10,000,000	6.87%	May 17, 2004
October 5, 2001	October 5, 2001	10,000,000	3.85%	October 5, 2004
June 28, 2002	June 28, 2002	10,000,000	3.83%	July 2, 2005
January 6, 2003	April 2, 2003	10,000,000	3.35%	April 2, 2007
January 31, 2003	August 1, 2003	10,000,000	3.20%	August 2, 2006
February 26, 2003	May 17, 2004	10,000,000	3.91%	May 19, 2008

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

The Company utilizes the above noted interest rate swaps to manage its interest rate exposure. The swaps effectively convert a portion of the Company's floating rate debt to a fixed rate, more closely matching the interest rate characteristics of the Company's finance receivables. There has historically been no ineffectiveness associated with the Company's hedges.

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

8. Stock Options

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

The Company has an employee stock incentive plan (the SIP) for officers, directors and key employees under which 557,866 shares of common stock were reserved for issuance as of September 30, 2003. Options currently granted by the Company generally vest over a five-year period.

Previous to SFAS 148 the Company had elected to follow APB 25, "Accounting For Stock Based Compensation" and related Interpretations in accounting for its employee stock options because the alternative, fair value method, provided for under SFAS 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

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equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

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

	Three months ended		Six months ended	
	September 30		September 30	
	2003	2002	2003	2002

Net Income	\$1,248,892	\$1,056,156	\$2,414,867	\$2,069,320
Basic earnings per share	\$.25	\$.21	\$.48	\$.41
Fully diluted earnings per share	\$.23	\$.20	\$.45	\$.39
Stock based employee compensation cost under the Fair Value Method	\$9,021	\$20,103	\$21,033	\$44,312
Pro forma net income	\$1,239,871	\$1,036,053	\$2,393,834	\$2,025,008
Pro forma basic earnings per share	\$.25	\$.21	\$.48	\$.40
Pro forma diluted earnings per share	\$.23	\$.19	\$.45	\$.38

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

9. Comprehensive Income

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

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

Three months ended		Six months ended	
September 30		September 30	
2003	2002	2003	2002

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Net Income	\$1,248,892	\$1,056,156	\$2,414,867	\$2,069,320
Mark to market interest rate swaps	463,896	(407,715)	199,627	(654,587)
Comprehensive income	\$1,712,788	\$648,441	\$2,614,494	\$1,414,713
	=====	=====	=====	=====

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Part I. Item 2

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

Introduction

Consolidated net income increased for the three month period ended September 30, 2003 to \$1,248,892 from \$1,056,156 for the three month period ended September 30, 2002. Consolidated net income increased for the six month period ended September 30, 2003 to \$2,414,867 from \$2,069,320 for the six month period ended September 30, 2002. Earnings were favorably impacted by an increase in the outstanding loan portfolio. The Company's Nicholas Data Services (NDS) subsidiary did not contribute significantly to consolidated operations in the three or six month periods ended September 30, 2003 or 2002.

Portfolio Summary

	Three months ended September 30		Six months ended September 30	
	2003	2002	2003	2002

Average Net Finance Receivables(1)	111,195,574	97,378,535	109,204,020	95,579,869
Average Indebtedness(2)	64,162,081	57,165,923	63,200,691	56,373,558
Total Finance Revenue(3)	6,074,326	5,492,139	12,062,800	10,725,488
Interest Expense	968,310	967,632	1,955,638	1,931,695
Net Finance Revenue	5,106,016	4,524,507	10,107,162	8,793,793
Weighted average Contractual rate(5)	23.55%	23.84%	23.55%	23.84%
Gross Portfolio Yield(4)	21.85%	22.56%	22.09%	22.44%
Average Cost of Borrowed Funds	6.04%	6.77%	6.19%	6.85%
Provision for Credit Losses as a				

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Percentage of Average Net Finance Receivables	1.45%	2.39%	1.80%	2.36%
Net Portfolio Yield (4)	16.91%	16.19%	16.71%	16.04%
Operating Expenses as a Percentage of Average Net Finance Receivables (6)	9.71%	9.21%	9.57%	9.07%
Pre-tax Yield as a Percentage of Average Net Finance Receivables (7)	7.21%	6.98%	7.14%	6.97%
Write-off to Liquidation (8)	9.89%	9.29%	8.85%	8.60%
Net Charge-Off Percentage (9)	8.58%	7.97%	7.63%	7.47%

See accompanying notes.

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- (1) Average net finance receivables represent the average of net finance receivables throughout the period. Net finance receivables represents gross finance receivables less any unearned finance charges related to those receivables.
- (2) Average indebtedness represents the average outstanding borrowings under the Line of Credit and notes payable-related party. Average cost of borrowed funds represents interest expense as a percentage of average indebtedness.
- (3) Does not include revenue of \$70,750 and \$92,939 associated with the Company's software subsidiary NDS for the three months ended September 30, 2003 and 2002, respectively. Does not include revenue of \$142,308 and \$175,315 associated with the Company's software subsidiary NDS for the six months ended September 30, 2003 and 2002, respectively.
- (4) Gross portfolio yield represents total finance revenues as a percentage of average net finance receivables. Net portfolio yield represents net finance revenue income minus the provision for credit losses as a percentage of average net finance receivables.
- (5) Weighted average contractual rate represents the weighted average annual percentage rate (APR) of all contracts in the portfolio during the period.
- (6) Does not include operating expenses of \$66,585 and \$96,460 associated with the Company's software subsidiary NDS for the three months ended September 30, 2003 and 2002, respectively. Does not include operating expenses of \$136,066 and \$193,166 associated with the Company's software subsidiary NDS for the six months ended September 30, 2003 and 2002, respectively.
- (7) Pre-tax yield represents net portfolio yield minus operating expenses as a percentage of interest earning assets

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- (8) Liquidation is defined as beginning receivable balance plus current period purchases minus voids and refinances minus ending receivable balance.
- (9) Net charge-off percentage represents net charge-offs divided by average net finance receivables outstanding during the period.

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Three months ended September 30, 2003 compared to three months ended September 30, 2002

Interest Income and Loan Portfolio

Interest revenue increased 11% to \$6.1 million for the period ended September 30, 2003, from \$5.5 million for the period ended September 30, 2002. The net finance receivable balance totaled \$92.1 million at September 30, 2003, an increase of 13% from the \$81.5 million at September 30, 2002. The primary reason net finance receivables increased was the increase in the receivable base of several existing branches and the opening of three additional branch locations. The gross finance receivable balance increased 13% to \$147.0 million at September 30, 2003 from \$129.6 million at September 30, 2002. The primary reason interest revenue increased was the increase in the outstanding loan portfolio. The gross portfolio yield decreased from 22.56% for the period ended September 30, 2002 to 21.85% for the period ended September 30, 2003. The net portfolio yield increased from 16.19% for the period ended September 30, 2002 to 16.91% for the period ended September 30, 2003. The primary reason for the increase in the net portfolio yield was an decrease in the provision for credit losses for the period ended September 30, 2003.

Computer Software Business

Sales for the period ended September 30, 2003 were \$70,750 compared to \$92,939 for the period ended September 30, 2002, a decrease of 24%. This decrease was primarily due to attrition in the customer base. The Company expects this trend to continue as it continues to focus on its core business of consumer finance. Cost of sales and operating expenses decreased from \$105,682 for the period ended September 30, 2002 to \$78,200 for the period ended September 30, 2003.

Operating Expenses

Operating expenses, excluding provision for credit losses and interest expense, increased to \$2.8 million for the period ended September 30, 2003 from \$2.3 million for the period ended September 30, 2002. This increase of 19% was primarily attributable to the additional staffing of several existing branches, increased general operating expenses and the opening of three additional branch offices. Operating expenses as a percentage of interest earning assets increased from 9.21% for the period ended September 30, 2002 to 9.71% for the period ended September 30, 2003.

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Interest Expense

Interest expense increased to \$968,310 for the period ended September 30, 2003 as compared to \$967,632 for the period ended September 30, 2002. The average indebtedness for the period ended September 30, 2003 increased to \$64.2 million compared to \$57.2 million for the period ended September 30, 2002. This increase was offset by a decrease in the average cost of outstanding borrowings from 6.77% during the three months ended September 30, 2002 to 6.04% during the three months ended September 30, 2003.

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Six months ended September 30, 2003 compared to six months ended September 30, 2002

Interest Income and Loan Portfolio

Interest revenue increased 12% to \$12.1 million for the period ended September 30, 2003, from \$10.7 million for the period ended September 30, 2002. The net finance receivable balance totaled \$92.1 million at September 30, 2003, an increase of 13% from the \$81.5 million at September 30, 2002. The primary reason net finance receivables increased was the increase in the receivable base of several existing branches and the opening of three additional branch locations. The gross finance receivable balance increased 13% to \$147.0 million at September 30, 2003 from \$129.6 million at September 30, 2002. The primary reason interest revenue increased was the increase in the outstanding loan portfolio. The gross portfolio yield decreased from 22.44% for the period ended September 30, 2002 to 22.09% for the period ended September 30, 2003. The net portfolio yield increased from 16.04% for the period ended September 30, 2002 to 16.71% for the period ended September 30, 2003. The primary reason for the increase in the net portfolio yield was a decrease in the provision for credit losses for the period ended September 30, 2003.

Computer Software Business

Sales for the period ended September 30, 2003 were \$142,308 compared to \$175,315 for the period ended September 30, 2002, a decrease of 19%. This decrease was primarily due to attrition in the customer base. The Company expects this trend to continue as it continues to focus on its core business of consumer finance. Cost of sales and operating expenses decreased from \$193,166 for the period ended September 30, 2002 to \$164,755 for the period ended September 30, 2003.

Operating Expenses

Operating expenses, excluding provision for credit losses and interest expense, increased to \$5.4 million for the period ended September 30, 2003 from \$4.5 million for the period ended September 30, 2002. This increase of 19% was primarily attributable to the additional staffing of several existing branches, increased general operating expenses and the opening of three additional branch offices. Operating expenses as a percentage of interest earning assets increased from 9.07% for

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the period ended September 30, 2002 to 9.57% for the period ended September 30, 2003.

Interest Expense

Interest expense increased to \$2.0 million for the period ended September 30, 2003 as compared to \$1.9 million for the period ended September 30, 2002. The average indebtedness for the period ended September 30, 2003 increased to \$63.2 million compared to \$56.4 million for the period ended September 30, 2002. This increase was offset by a decrease in the average cost of outstanding borrowings from 6.85% during the six months ended September 30, 2002 to 6.19% during the six months ended September 30, 2003.

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Contract Procurement

The Company purchases contracts in the states listed below. The amounts shown in the table below represent the total face value of contracts acquired. The 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, Ohio, Virginia and Michigan. Please see Future Expansion.

The Contracts purchased by the Company are predominately for used vehicles, less than 3% were new. The average model year collateralizing the portfolio is a 1999 vehicle. Contracts purchased and originated are shown at face value.

State	Maximum allowable Interest	3 Months Ended		6 Months Ended	
	rate (1)	9/30/03	9/30/02	9/30/03	9/30/02
FL	30%	\$9,077,354	\$9,760,594	\$19,125,752	\$19,259,893
OH	25%	3,109,399	2,131,955	6,214,025	3,678,333
GA	29%	2,263,364	2,092,776	4,570,548	3,866,887
NC	29%	1,998,984	1,957,783	3,969,578	3,955,127
SC	29%	743,924	586,870	1,479,639	1,098,633
MI	25%	612,723	-	1,068,257	-
VA	29%	184,573	8,400	201,613	55,042
		\$17,990,321	\$16,538,378	\$36,629,412	\$31,913,915

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

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Indirect Contracts Purchased				
		3 Months Ended		6 Months Ended
		9/30/03	9/30/02	9/30/03 9/30/02

Purchases	\$17,990,321	\$16,538,378	\$36,629,412	\$31,913,915
Weighted APR	24.00%	24.03%	23.96%	24.32%
Average Discount	8.95%	8.81%	8.95%	8.82%
Average Term(mths)	43	41	44	41
Average Loan	\$8,082	\$8,273	\$8,138	\$8,194
Number of Contracts	2,226	1,999	4,501	3,895

Direct Loans Originated				
		3 Months Ended		6 Months Ended
		9/30/03	9/30/02	9/30/03 9/30/02

Originations	\$961,073	\$935,539	\$1,893,856	\$2,046,435
Weighted APR	26.29%	26.08%	26.46%	25.82%
Average Term(mths)	28	21	27	22
Average Loan	\$2,930	\$3,057	\$2,896	\$3,134
Number of Loans	328	306	654	653

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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 71 Contracts with an aggregate initial principal amount of approximately \$574,735. As of September 30, 2003, the Company had 446 active pools.

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

Contracts are purchased from many different dealers and are all purchased on an individual contract by contract basis. Individual contract pricing is determined by the automobile dealerships and

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is generally the lesser of State maximum interest rates or the maximum interest rate at which the customer will accept. In certain markets, competitive forces will drive down contract rates from the maximum rate to a level where an individual competitor is willing to buy an individual contract. The Company only buys contracts on an individual basis and never purchases contracts in batches.

Dealer discount represents the difference between the face value of an installment contract and the amount of money the Company actually pays for the contract. The discount negotiated by the Company is a function of the credit quality of the customer and the wholesale value of the vehicle. The automotive dealer accepts these terms by executing a dealer agreement with the Company. The entire amount of discount relates to credit quality, and is therefore considered to be part of the credit loss reserve. The Company utilizes a static pool approach to track portfolio performance. A static pool retains an amount equal to 100% of the discount into a reserve for credit losses. In situations where, at the date of purchase, the discount is determined to be insufficient to absorb all potential losses associated with the pool, a portion of future unearned income associated with that specific pool will be added to the reserves for credit losses until total reserves have reached the appropriate level. Subsequent to the purchase, if the reserve for credit losses is determined to be inadequate for a pool which is not fully liquidated, then a charge to income through the provision is used to reestablish adequate reserves. If a pool is fully liquidated and has any remaining reserves, the excess reserves are immediately recognized into income. For pools not fully liquidated, that are determined to have excess reserves, such excess amounts are accreted into income over the remaining life of the pool. Reserves accreted into income for the three months ended September 30, 2003 were \$496,826 compared to \$566,869 for the three months ended September 30, 2002. Reserves accreted into income for the six months ended September 30, 2003 were \$1,020,951 compared to \$1,147,920 for the six months ended September 30, 2002.

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

In analyzing a pool, the Company considers the performance of prior pools originated by the branch office, the performance of prior Contracts purchased from the dealers whose Contracts are included in the current pool, the credit rating of the borrowers under the Contracts in the pool, and current market and economic conditions. Each pool is analyzed monthly to determine if the loss reserves are adequate, and adjustments are made if they are determined to be necessary. As of September 30, 2003, the Company had established reserves for losses on Contracts of \$19,468,081

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or 13.65% of gross outstanding receivables under the Contracts.

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

	Three months ended September 30, 2003 2002		Six months ended September 30, 2003 2002	
Balance at beginning of period	\$13,358,345	\$11,686,394	\$12,394,089	\$11,259,898
Discounts acquired on new volume	2,896,626	2,675,639	5,964,475	5,218,073
Losses absorbed	(2,391,406)	(2,148,048)	(4,247,938)	(3,937,298)
Recoveries	303,148	276,746	580,212	525,774
Reserves accreted	(472,752)	(538,609)	(996,877)	(1,114,325)
Balance at end of period	\$13,693,961	\$11,952,122	\$13,693,961	\$11,952,122
Reserves as a percent of gross Finance receivables	9.60%	9.58%	9.60%	9.58%

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

	Three months ended September 30, 2003 2002		Six months ended September 30, 2003 2002	
Balance at beginning of period	\$5,736,120	\$4,452,746	\$5,428,681	\$4,105,174
Current period provision	344,655	518,525	864,108	1,009,989
Losses absorbed	(306,656)	(91,898)	(518,670)	(235,791)
Balance at end of period	\$5,774,119	\$4,879,373	\$5,774,119	\$4,879,372
Reserves as a percent of gross Finance receivables	4.05%	3.91%	4.05%	3.91%

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

	Three months ended September 30,		Six months ended September 30,	
	2003	2002	2003	2002
Balance at beginning of period	\$201,017	\$226,747	\$176,126	\$200,612
Current period provision	59,501	63,613	120,047	119,215
Losses absorbed	(42,488)	(67,851)	(83,739)	(98,448)
Recoveries	7,393	8,060	12,989	14,525
Reserves accreted	(24,074)	(28,260)	(24,074)	(33,595)
Balance at end of period	\$201,349	\$202,309	\$201,349	\$202,309
Reserves as a percent of gross Finance receivables	4.59%	4.19%	4.59%	4.19%
Total reserves at end of period	\$19,669,429	\$17,033,804	\$19,669,429	\$17,033,804
Reserves as a percent of gross Finance receivables	13.38%	13.15%	13.38%	13.15%

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The average dealer discount associated with new volume increased for the three and six months ended September 30, 2003 to 8.95% and 8.95% respectively, from 8.81% and 8.82% for the three and six months ended September 30, 2002, 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 decreased for the three and six-month periods ended September 30, 2003 to \$404,156 and \$984,155 respectively, as compared to \$582,138 and \$1,129,204 for the three and six-month periods ended September 30, 2002. This reduction is primarily attributed to an increase in the collections of ancillary charges from existing customers. To a lesser extent, the provision for credit losses decreased as a result of static pool performance meeting or exceeding Company expectations.

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The Company's losses as a percentage of liquidation increased during the three and six months periods ended September 30, 2003 as compared to last year. The three and six-month periods ended September 30, 2003 were 9.89% and 8.85% compared to 9.29% and 8.60% for the three and six-month periods ended September 30, 2002. The Company anticipates portfolio performance will deteriorate in the near term, but will stabilize in the long term, unless the overall economic conditions and current unemployment rates continue to decline. 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 September 30, 2003 decreased to 2.63% from 2.88% for the period ended September 30, 2002. The delinquency percentage for direct loans more than thirty days past due for the period ended September 30, 2003 increased to 2.99% from 2.08% for the period ended September 30, 2002. The Company does not give significant consideration to short-term trends in delinquency when evaluating reserve levels. Delinquency percentages tend to be very volatile and often are not necessarily an indication of future losses. The Company utilizes a static pool approach to 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 11.33% and 12.23% for the three and six-month periods ended September 30, 2003 as compared to 12.34% and 12.65% for the three and six-month periods ended September 30, 2002. The Company expects recoveries as a percent of losses to decline in the future, as the Company continues to expand, it will become more difficult to implement the loss recovery model in geographic areas further away from the Company's origin.

Reserves accreted into income for the three and six-month periods ended September 30, 2003 were \$496,826 and \$1,020,951 respectively as compared to \$566,869 and \$1,147,920 for the three and six-month periods ended September 30, 2002. 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.

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The current unemployment rate compared to last year has risen. The Company believes there is a correlation between the unemployment rate and future portfolio performance. The Company does not anticipate the unemployment level to rise significantly in the future nor does it expect it to drop significantly in the future, therefore the Company does not plan on increasing or decreasing reserves based on the current unemployment rate. The number of voluntary repossessions has remained steady for the six

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months ended September 30, 2003 as compared to the six months ended September 30, 2002. As a result of this stability the Company believes the current reserve levels are adequate in this regard. The number of bankruptcy filings has increased during the six months ended September 30, 2003 as compared to the six months ended September 30, 2002.

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

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

	Three Months Ended September 30, 2003		Three Months Ended September 30, 2002	
	-----		-----	
Contracts				
Gross Balance				
Outstanding	\$142,611,322		\$124,728,292	
Delinquencies	Dollar Amount	Percent*	Dollar Amount	Percent*
-----	-----	-----	-----	-----
30 to 59 days	\$ 2,554,310	1.79%	\$ 2,538,101	2.03%
60 to 89 days	921,969	0.65%	733,604	0.59%
90 + days	269,734	0.19%	325,314	0.26%
	-----	-----	-----	-----
Total Delinquencies	\$ 3,746,013		\$ 3,597,019	
*Total Delinquencies as percent of outstanding balance	2.63%		2.88%	
Direct Loans				
Gross Balance				
Outstanding	\$ 4,378,131		\$ 4,829,199	
Delinquencies				
30 to 59 days	\$ 67,549	1.54%	\$ 72,985	1.51%
60 to 89 days	15,716	0.36%	14,414	0.30%
90 + days	47,737	1.09%	13,150	0.27%
	-----	-----	-----	-----
Total Delinquencies	\$131,002		\$100,549	
*Total Delinquencies				

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as a percent of		
outstanding balance	2.99%	2.08%

The delinquency percentage for contracts more than thirty days past due for the three months ended September 30, 2003 was 2.63% compared to 2.88% for the three months ended September 30, 2002. The delinquency percentage for direct loans more than thirty days past due for the three months ended September 30, 2003 was 2.99% compared to 2.08% for the three months ended September 30, 2002.

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

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Income Taxes

The Company's effective tax rate remained relatively consistent at 37.43% and 37.68% for the three and six month periods ended September 30, 2003 compared to 37.77% and 37.52% for the three and six months ended September 30, 2002.

Liquidity and Capital Resources

The Company's cash flows for the six months ended September 30, 2003 and September 30, 2002 are summarized as follows:

	Six months ended September 30, 2003	Six months ended September 30, 2002
	-----	-----
Cash provided by:		
Operating Activities -	\$ 3,711,647	\$ 2,844,157
Investing Activities -		
(primarily purchase of		
Contracts)	(7,105,319)	(6,698,417)
Financing Activities	4,896,914	4,401,224
Net increase in cash	1,503,242	546,964

The Company's primary use of working capital during the three months ended September 30, 2003 was the funding of the purchase of Contracts. The Contracts were financed substantially through borrowings on the Company's Line of Credit. The Line of Credit is secured primarily by Contracts, and available borrowings are based on a percentage of qualifying Contracts. As of September 30, 2003 the Company had approximately \$10.0 million available under the Line of Credit. Since inception, the Company has also funded a portion of its working capital needs through cash flows from operating activities.

The self-liquidating nature of installment Contracts and other loans enables the Company to assume a higher debt-to-equity ratio than in most businesses. The amount of debt the Company incurs from time to time under these financing mechanisms depends on the Company's need for cash and its 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.

On August 11, 2003 the Company announced a \$.10 per share semi-annual cash dividend. The Company intends to continue the cash dividend program, provided that future earnings meet expectations. The Company must also receive waivers from its current lenders in order to pay cash dividends. The ability for the Company to receive the necessary waivers is largely dependent upon portfolio performance. No assurance can be given that these waivers will be granted.

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Future Expansion

The Company currently operates twenty-eight branch locations, fifteen in the State of Florida, three in the State of Georgia, three in the State of North Carolina, one in the state of South Carolina, five in the state of Ohio and one in the state of Michigan.

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 believes that opportunity for growth continues to

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exist in Florida, Georgia, North Carolina, South Carolina, Ohio, and Michigan and intends to continue its expansion activities in those states. The Company is currently expanding its automobile financing program in the State of Virginia. The Company has targeted certain geographic locations within the State of Virginia where it believes there is a sufficient market for its automobile financing program. The Company is currently purchasing Contracts in the State of Virginia utilizing employees who reside in the State of Virginia. These employees are developing their respective markets in Virginia and the Company has created a Central Buying Office in its Corporate Headquarters in Clearwater Florida to purchase, process and service these Contracts. The Company's strategy is to monitor these new markets and ultimately decide where and when to open actual branch locations. No assurances can be given, however, that any further such expansion will occur. The Company is also analyzing other markets in States the Company does not currently operate in, however no assurance can be given that any expansion will occur in these new markets.

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.

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(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 -

On August 11, 2003, Nicholas Financial, Inc. (the "Company") filed an 8-K announcing a cash dividend of \$.10 payable semi-annual to shareholders of record as of September 30, 2003.

On September 30, 2003, the Company filed an 8-K announcing Ernst & Young LLP had advised the Company's audit committee that, following completion of its review of the Company's financial statements as of, and for the quarter ended September 30, 2003, it would resign as the Company's independent auditors.

Ernst & Young's reports on Nicholas' financial statements for the years ended March 31, 2003 and 2002 did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles.

During the fiscal years ended March 31, 2003 and 2002, and the subsequent interim period ended September 30, 2003, there have not been any disagreements between Nicholas and Ernst & Young on any matter of accounting principles or practices, financial statement disclosures, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Ernst & Young, would have caused it to make reference to the subject matter of the disagreements in connection with its reports.

Nicholas has commenced the process of retaining new independent auditors. That process is not yet complete.

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SIGNATURES

In accordance with the requirements of the Securities Act of

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1934, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form 10-QSB and authorized this Report to be signed on its behalf by the undersigned, in the City of Clearwater, State of Florida, on November 13, 2003.

NICHOLAS FINANCIAL, INC.
(Registrant)

Date: November 13, 2003 /s/Peter L Vosotas

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

Date: November 13, 2003 /s/Ralph T Finkenbrink

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

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CERTIFICATION

I, Peter L. Vosotas, certify that:

- 1.I have reviewed this Quarterly Report on Form 10-QSB of Nicholas Financial, Inc.;
- 2.Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3.Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4.The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a)Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

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- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 13, 2003

/s/Peter L Vosotas

Peter L. Vosotas
President &
Chief 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 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

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light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

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

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

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

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

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

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

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

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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b)Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: November 13, 2003 /s/Ralph T Finkenbrink

Ralph T. Finkenbrink
Senior Vice President

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EXHIBIT INDEX

Item 13. Exhibits and Reports on Form 8-K

3.1 Articles of Incorporation and By-Laws of Nicholas Financial, Inc.

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

4.1 Stock Certificate

Incorporated by reference to Exhibit 4.1 to the Company's Form 10-SB (File No. 0-26680) filed on March 13, 1996

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

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

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

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

10.1.3 Temporary Line Increase Agreement dated Mach 28, 1994

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10.3.1 Employee Stock Option Plan

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

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10.3.2 Non-Employee Stock Option Plan

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

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

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

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

Incorporated by reference to the Company's 2001 Annual proxy
statement dated July 2, 2001

21 Subsidiaries of Nicholas Financial, Inc.

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

24 Powers of Attorney (included on signature page hereto)

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

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

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Exhibit 99.1

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

Solely for the purposes of complying with 18 U.S.C. 1350, I ,
the undersigned Chief Executive Officer of Nicholas Financial,
Inc. (the "Company"), hereby certify, based on my knowledge, that
the Quarterly Report on Form 10-QSB of the Company for the
quarter ended September 30, 2003 (the "Report") fully complies
with the requirements of Section 13(a) of the Securities Exchange
Act of 1934 and that information contained in the Report fairly
presents, in all material respects, the financial condition and
results of operations of the Company.

/s/Peter L Vosotas

Peter L. Vosotas
Chief Executive Officer
November 13, 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 September 30, 2003 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Ralph T Finkenbrink

Ralph Finkenbrink
Chief Financial Officer
November 13, 2003