NICHOLAS FINANCIAL INC
Form 10-Q
February 11, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2007

¨ 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	**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)

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 ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ¨ No x

As of January 31, 2008, the registrant had 10,052,031 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Nicholas Financial, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

	December 31, 2007 (Unaudited)	March 31, 2007
Assets		
Cash	$ 4,704,995	$ 1,499,193
Finance receivables, net	171,939,068	164,364,715
Accounts receivable	7,656	17,858
Assets held for resale	1,746,255	887,687
Prepaid expenses and other assets	597,773	578,095
Income taxes receivable	631,176	
Property and equipment, net	878,623	1,014,698
Derivatives		659,724
Deferred income taxes	4,341,726	3,997,278
Total assets	$ 184,847,272	$ 173,019,248
Liabilities		
Line of credit	$ 99,903,485	$ 94,012,099
Drafts payable	803,563	1,291,948
Accounts payable and accrued expenses	4,795,802	6,155,492
Derivatives	811,512	
Income taxes payable		225,648
Deferred revenues	1,468,340	1,527,076
Total liabilities	107,782,702	103,212,263
Shareholders equity		
Preferred stock, no par: 5,000,000 shares authorized; none issued and outstanding		
Common stock, no par: 50,000,000 shares authorized; 10,052,031 and 9,984,281 shares issued and outstanding, respectively	16,638,234	16,088,477
Accumulated other comprehensive income	(500,865)	408,237
Retained earnings	60,927,201	53,310,271
Total shareholders equity	77,064,570	69,806,985
Total liabilities and shareholders equity	$ 184,847,272	$ 173,019,248

See accompanying notes.

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Nicholas Financial, Inc. and Subsidiaries

Condensed Consolidated Statements of Income

(Unaudited)

	Three months ended December 31, 2007	Three months ended December 31, 2006	Nine months ended December 31, 2007	Nine months ended December 31, 2006
Revenue:				
Interest and fee income on finance receivables	$ 12,593,397	$ 11,706,733	$ 37,301,655	$ 34,575,726
Sales	21,085	23,496	61,091	90,111
	12,614,482	11,730,229	37,362,746	34,665,837
Expenses:				
Cost of sales	13,715	3,955	26,621	9,357
Marketing	313,808	293,550	947,535	914,937
Salaries and employee benefits	3,056,564	2,858,164	9,296,942	8,791,841
Administrative	1,511,082	1,358,572	4,448,942	3,885,779
Provision for credit losses	2,466,564	1,193,778	5,280,443	2,856,231
Depreciation	87,274	91,030	264,499	269,972
Interest expense	1,610,758	1,451,647	4,842,628	4,074,541
	9,059,765	7,250,698	25,107,610	20,802,659
Operating income before income taxes	3,554,717	4,479,531	12,255,136	13,863,178
Income tax expense	1,318,293	1,709,737	4,638,206	5,295,517
Net income	$ 2,236,424	$ 2,769,794	$ 7,616,930	$ 8,567,661
Earnings per share:				
Basic	$ 0.22	$ 0.28	$ 0.76	$ 0.86
Diluted	$ 0.22	$ 0.27	$ 0.74	$ 0.83

See accompanying notes.

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Nicholas Financial, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Nine months ended December 31, 2007	Nine months ended December 31, 2006
Cash flows from operating activities		
Net income	$ 7,616,930	$ 8,567,661
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	264,499	269,972
Gain on sale of property and equipment	(33,689)	(22,889)
Provision for credit losses	5,280,443	2,856,231
Deferred income taxes	200,893	206,144
Share-based compensation	273,968	251,952
Changes in operating assets and liabilities:		
Accounts receivable	10,202	(17,087)
Prepaid expenses and other assets	(19,678)	(15,372)
Accounts payable and accrued expenses	(1,359,690)	(80,231)
Income taxes payable and receivable	(856,824)	(460,577)
Deferred revenues	(58,736)	(54,355)
Net cash provided by operating activities	11,318,318	11,501,449
Cash flows from investing activities		
Purchase and origination of finance contracts	(79,092,612)	(81,027,914)
Principal payments received	66,237,816	62,324,079
Increase in assets held for resale	(858,568)	(379,726)
Purchase of property and equipment	(135,833)	(441,681)
Proceeds from sale of property and equipment	41,098	72,027
Net cash used in investing activities	(13,808,099)	(19,453,215)
Cash flows from financing activities		
Net proceeds from line of credit	5,891,386	8,412,675
Increase in drafts payable	(488,385)	(208,247)
Proceeds from exercise of stock options	110,352	60,376
Net excess tax benefits related to exercise of stock options and issuance of performance share awards	182,230	103,987
Net cash provided by financing activities	5,695,583	8,368,791
Net increase in cash	3,205,802	417,025
Cash, beginning of period	1,499,193	1,729,057
Cash, end of period	$ 4,704,995	$ 2,146,082

See accompanying notes.

Nicholas Financial, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

The accompanying condensed consolidated balance sheet as of March 31, 2007, which has been derived from audited financial statements, and the accompanying unaudited interim condensed consolidated financial statements of Nicholas Financial, Inc. (including its subsidiaries, 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-Q pursuant to the Securities and Exchange Act of 1934, as amended in Article 10 of Regulation S-X. 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, although the Company believes that the disclosures made are adequate to make the information not misleading. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for interim periods are not necessarily indicative of the results that may be expected for the year ending March 31, 2008. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and accompanying notes thereto included in the Company s Annual Report on Form 10-K for the year ended March 31, 2007 as filed with the Securities and Exchange Commission on June 14, 2007.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Certain amounts in our prior-period condensed consolidated financial statements and notes have been reclassified to conform to the current-period presentation.

2. Revenue Recognition

The Company is principally a specialized consumer finance company engaged primarily in acquiring and servicing retail installment sales contracts (Contracts) for purchases of new and used automobiles and light trucks. To a lesser extent, the Company also makes direct loans and sells consumer-finance related products.

Interest income on finance receivables is recognized using the effective 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.

A dealer discount represents the difference between the finance receivable, net of unearned interest, of a Contract and the amount of money the Company actually pays for the Contract. The entire amount of discount is related to credit quality and is considered to be part of the credit loss reserve. 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 effective 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 effective interest method.

The amount of future unearned income 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 each of its branch locations. After the analysis of purchase date accounting is complete, any uncollectible amounts would be contemplated in the allowance for credit losses.

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Nicholas Financial, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

3. Earnings Per Share

Basic earnings per share is calculated by dividing the reported net income for the period by the weighted average number of shares of common stock outstanding. Diluted earnings per share includes the effect of dilutive options and other share awards. Basic and diluted earnings per share have been computed as follows:

	Three months ended December 31,		Nine months ended December 31,	
	2007	2006	2007	2006
Numerator for earnings per share net income	$ 2,236,424	$ 2,769,794	$ 7,616,930	$ 8,567,661
Denominator:				
Denominator for basic earnings per share weighted average shares	10,045,493	9,934,559	10,028,280	9,927,019
Effect of dilutive securities:				
Stock options and other share awards	252,622	365,585	317,274	361,422
Denominator for diluted earnings per share	10,298,115	10,300,144	10,345,554	10,288,441
Earnings per share basic	$ 0.22	$ 0.28	$ 0.76	$ 0.86
Earnings per share diluted	$ 0.22	$ 0.27	$ 0.74	$ 0.83

4. Finance Receivables

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

	December 31, 2007	March 31, 2007
Finance receivables, gross contract	$ 267,268,355	$ 256,992,111
Unearned interest	(75,623,473)	(71,663,796)
Finance receivables, net of unearned interest	191,644,882	185,328,315
Allowance for credit losses	(19,705,814)	(20,963,600)
Finance receivables, net	$ 171,939,068	$ 164,364,715

The terms of the receivables range from 12 to 72 months and bear a weighted average interest rate of 24% for the three and nine months ended December 31, 2007.

5. Line of Credit

The Company has a $115.0 million line of credit facility (the Line) which expires on November 30, 2010. The Company may borrow the lesser of the $115.0 million or amounts based upon formulas principally related to a percentage of eligible finance receivables, as defined. Borrowings under the Line may be under various LIBOR pricing options plus 162.5 basis points or at the prime rate plus 37.5 basis points. Prime rate based borrowings are generally less than $5.0 million. The Company s cost of borrowed funds, which is based upon the interest rates charged under the Line and the effect of the interest rate swap agreements (see note 6), amounted to 6.51% and 6.71% for the three and nine months ended December 31, 2007, respectively, as compared to 6.53% and 6.34% for the three and nine month period ended December 31, 2006, respectively. Pledged as collateral for this credit facility are all of the assets of the Company. As of December 31, 2007 the outstanding amount of the credit facility was approximately $99.9 million and the amount available under the line of credit was approximately $15.1 million. The facility requires compliance with certain financial ratios and covenants and satisfaction of specified financial tests, including maintenance of asset quality and performance tests. Dividends require consent in writing by the agent and majority lenders under the facility. As of December 31, 2007, the Company was in full compliance with all debt covenants.

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Nicholas Financial, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

6. Derivatives and Hedging

The Company utilizes interest rate swap agreements to manage 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. As of December 31, 2007, $70,000,000 of the Company s borrowings have been designated as the hedged items to interest rate swap agreements which are detailed as follows:

Date Entered	Effective Date	Notional Amount	Fixed Rate Of Interest	Maturity Date
February 26, 2003	May 17, 2004	$ 10,000,000	3.91%	May 19, 2008
March 11, 2004	October 5, 2004	$ 10,000,000	3.64%	October 2, 2009
January 18, 2005	July 5, 2005	$ 10,000,000	4.38%	July 2, 2010
September 9, 2005	September 13, 2005	$ 10,000,000	4.46%	September 2, 2010
October 18, 2007	October 22, 2007	$ 20,000,000	4.73%	November 2, 2009
November 29, 2007	December 3, 2007	$ 10,000,000	4.04%	December 2, 2010

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.

Each swap agreement has identical terms to the critical terms of the hedged item and meets each condition in Statement of Financial Accounting Standards (SFAS) No. 133 for utilization of the short-cut method to assess the effectiveness of the swap agreement in hedging the variability of interest payments on the floating rate borrowings under the Line. The short-cut method presumes there is no hedge ineffectiveness if all such applicable conditions are met and the critical terms of the hedge and the hedged item do not change. During the life of each hedge, the critical terms of the hedge and the hedged item have not changed. Accordingly, the Company did not have any gain or loss from hedge ineffectiveness.

The Company records net gains and losses from the swap agreements into the interest expense line item of the consolidated statement of income. Under the swap agreements, the Company received an average variable rate of 5.02% and 5.33% for the three months ended December 31, 2007 and 2006, respectively. During the same periods the Company paid an average fixed rate of 4.24% and 3.95%, respectively. Under the swap agreements, the Company received an average variable rate of 5.23% and 5.20% for the nine months ended December 31, 2007 and 2006, respectively. During the same periods the Company paid an average fixed rate of 4.16% and 3.89%, respectively. The interest rate swaps are recorded at fair value, approximately ($812,000) and $660,000 as of December 31 and March 31, 2007, respectively, in the captions derivatives on the condensed consolidated balance sheet. Accumulated other comprehensive (loss) income as of December 31, and March 31, 2007 of approximately ($501,000) and $408,000, respectively, represents the after-tax effect of the derivative (losses) gains.

The following table reconciles net income with comprehensive income.

	Three months ended December 31,		Nine months ended December 31,	
	2007	2006	2007	2006
Net Income	$ 2,236,424	$ 2,769,794	$ 7,616,930	$ 8,567,661
Mark to market interest rate swaps, net of tax benefit of $419,902, $30,776, $562,134 and $258,486, respectively	(678,520)	(49,959)	(909,102)	(424,052)

Comprehensive income	$ 1,557,904	$ 2,719,835	$ 6,707,828	$ 8,143,609

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Nicholas Financial, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

7. Share-Based Payments

A summary of stock option activity as of December 31, 2007, and changes during the nine-month period then ended is presented below.

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of March 31, 2007	709,250	$ 2.65		
Granted	157,500	$ 10.11		
Exercised	(56,750)	$ 1.94		
Forfeited	(27,350)	$ 9.59		
Outstanding as of December 31, 2007	782,650	$ 3.96	3.84	$ 3,050,240
Exercisable as of December 31, 2007	590,850	$ 2.21	2.23	$ 3,004,290

The Company granted 157,500 options with a weighted average fair value of $4.35 per share during the nine months ended December 31, 2007. The fair value of options granted during the nine-month period ended December 31, 2007 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

Risk-free interest rate	4.43%
Weighted average expected term	7 years
Expected volatility	47%
Expected dividend yield	0.00%

During the nine months ended December 31, 2007, 56,750 options were exercised at exercise prices ranging from $1.13 to $10.35 per share. The total intrinsic value of options exercised during the nine months ended December 31, 2007 was approximately $479,000. During the same period, 27,350 options were forfeited at exercise prices ranging from $6.07 to $11.23 per share. As of December 31, 2007, there was approximately $559,000 of unrecognized compensation cost related to options granted under the Plan. The cost is expected to be recognized over a weighted-average period of approximately three years.

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company s closing stock price on December 31, 2007 and the exercise price, multiplied by the number of in-the-money stock options) that would have been received by the option holders had all option holders exercised their options on December 31, 2007. The amount of aggregate intrinsic value will change based on the fair market value of the Company s stock.

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Nicholas Financial, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

7. Share-Based Payments (continued)

A summary of the status of non-vested restricted and performance shares as of December 31, 2007, and changes during the nine-month period then ended is presented below.

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Nonvested as of March 31, 2007	45,000	$ 12.59		
Granted	18,250	$ 11.15		
Vested		$		
Forfeited	(6,000)	$ 11.03		
Nonvested as of December 31, 2007	57,250	$ 12.29	1.23	$ 413,918

The Company issued 2,000 restricted shares with a weighted average grant date fair value of $11.23 per share and granted 16,250 performance shares with a weighted average grant date fair value of $11.14 per share during the nine-month period ended December 31, 2007. Restricted stock awards generally cliff vest over a three-year period based on service conditions. The vesting of performance share awards is contingent upon the attainment of company-wide performance goals including annual revenue growth and operating income targets. There are no post-vesting restrictions for share awards. As of December 31, 2007, there was approximately $305,000 of unrecognized compensation cost related to non-vested restricted and performance share awards. That cost is expected to be recognized over a weighted-average period of approximately 15 months.

8. Income Taxes

Effective April 1, 2007 the Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB No. 109 , or FIN 48. The Company concluded that there are no significant uncertain tax positions requiring recognition in the financial statements. Accordingly, the adoption of FIN 48 did not have a material effect on the Company s consolidated financial statements.

The Company files income tax returns in the U.S. federal jurisdiction and various states. The Company is no longer subject to U.S. federal tax examinations for years before 2005. State jurisdictions that remain subject to examination range from 2003 to 2006. State income tax returns for the years 2003 through 2005 are currently under examination by the State of North Carolina. The Company does not believe there will be any material changes in our unrecognized tax positions over the next 12 months.

The Company s policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption of FIN 48, the Company did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor has the Company recognized any related interest expense during fiscal 2008.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Forward-Looking Information

This report on Form 10-Q contains various statements, other than those concerning historical information, that are based on management s beliefs and assumptions, as well as information currently available to management, and should be considered forward-looking statements. This notice is intended to take advantage of the safe harbor provided by the Private Securities Litigation Reform Act of 1995 with respect to such forward-looking statements. 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. All forward looking statements included in this report are based on information available to the Company on the date hereof, and the Company assumes no obligations to update any such forward looking statement. You should also consult factors described from time to time in the Company s filings made with the Securities and Exchange Commission, including its reports on Form 10-K, 10-Q, 8-K and annual reports to shareholders.

Critical Accounting Policy

The Company s critical accounting policy relates to the allowance for losses on loans. It is based on management s opinion of an amount that is adequate to absorb losses in the existing portfolio. The allowance for credit losses is established through allocations of dealer discount, and for loans acquired prior to April 1, 2005, a portion of unearned income, and a provision for loss based on management s evaluation of the risk inherent in the loan portfolio, the composition of the portfolio, specific impaired loans and current economic conditions. Such evaluation, which includes a review of all loans on which full collectibility may not be reasonably assured, considers among other matters, the estimated net realizable value or the fair value of the underlying collateral, economic conditions, historical loan loss experience, management s estimate of probable credit losses and other factors that warrant recognition in providing for an adequate credit loss allowance.

Because of the nature of the customers under the Company s Contracts and its direct loan program, the Company considers the establishment of adequate reserves for credit losses to be imperative. The Company segregates its Contracts into static pools for purposes of establishing reserves for losses. All Contracts purchased by a branch during a fiscal quarter comprise a static pool. The Company pools Contracts according to branch location because the branches purchase Contracts in different geographic markets. 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. Each such static pool consists of the Contracts purchased by a branch office during the fiscal quarter.

Contracts are purchased from many different dealers and are all purchased on an individual Contract by Contract basis. Individual Contract pricing is determined by the automobile dealerships and is generally the lesser of state maximum interest rates or the maximum interest rate at which the customer will accept. In certain markets, competitive forces will drive down Contract rates from the maximum rate to a level where an individual competitor is willing to buy an individual Contract. The Company only buys Contracts on an individual basis and never purchases Contracts in batches, although the Company does consider portfolio acquisitions as part of its growth strategy.

The Company has detailed underwriting guidelines it utilizes to determine which Contracts to purchase. These guidelines are specific and are designed to cause all of the Contracts that the Company purchases to have 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 a loss recovery 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 may interpret the guidelines differently, and as a result, the common risk characteristics tend to be the same on an individual branch level but not necessarily compared to another branch.

A dealer discount represents the difference between the finance receivable, net of unearned interest, of a 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 is related to credit quality and is considered to be part of the allowance for credit losses. The Company utilizes a static pool approach to track portfolio performance. A static pool retains an amount equal to 100% of the discount as a reserve for credit losses.

Subsequent to the purchase, if the reserve for credit losses is determined to be inadequate for a static pool which is not fully liquidated, then an additional charge to income through the provision is used to reestablish adequate reserves. If a static pool is fully liquidated and has any remaining reserves, the excess discounts are immediately recognized into income and the excess provision is immediately reversed during the period. For static pools not fully liquidated that are determined to have excess discounts, such excess amounts are accreted into income over the remaining life of the static pool. For static pools not fully liquidated that are deemed to have excess reserves, such excess amounts are reversed against provision for credit losses during the period.

In analyzing a static pool, the Company considers the performance of prior static pools originated by the branch office, the performance of prior Contracts purchased from the dealers whose Contracts are included in the current static pool, the credit rating of the customers under the Contracts in the static pool, and current market and economic conditions. Each static pool is analyzed monthly to determine if the loss reserves are adequate and adjustments are made if they are determined to be necessary.

Introduction

Consolidated net income decreased to $2.2 million for the three-month period ended December 31, 2007 as compared to $2.8 million for the corresponding period ended December 31, 2006. Consolidated net income decreased to $7.6 million for the nine-month period ended December 31, 2007 as compared to $8.6 million for the corresponding period ended December 31, 2006. Earnings were negatively impacted primarily by an increase in the charge-off rate, and an increase in the cost of borrowed funds. The Company s software subsidiary, Nicholas Data Services (NDS), did not contribute significantly to consolidated operations in the three and nine-month periods ended December 31, 2007 or 2006.

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Portfolio Summary	Three months ended December 31, 2007	2006	Nine months ended December 31, 2007	2006
Average finance receivables, net of unearned interest (1)	$ 192,408,861	$ 174,444,124	$ 189,618,834	$ 169,638,227
Average indebtedness (2)	$ 98,899,680	$ 88,950,919	$ 96,177,013	$ 85,716,061
Finance revenue (3)	$ 12,593,397	$ 11,706,733	$ 37,301,655	$ 34,575,726
Interest expense	1,610,758	1,451,647	4,842,628	4,074,541
Net finance revenue	$ 10,982,639	$ 10,255,086	$ 32,459,027	$ 30,501,185
Weighted average contractual rate (4)	24.14%	23.78%	24.25%	23.95%
Average cost of borrowed funds (2)	6.51%	6.53%	6.71%	6.34%
Gross portfolio yield (5)	26.18%	26.84%	26.23%	27.18%
Interest expense as a percentage of average finance receivables, net of unearned interest	3.35%	3.33%	3.41%	3.20%
Provision for credit losses as a percentage of average finance receivables, net of unearned interest	5.13%	2.74%	3.71%	2.24%
Net portfolio yield (5)	17.70%	20.77%	19.11%	21.74%
Operating expenses as a percentage of average finance receivables, net of unearned interest (6)	10.23%	10.46%	10.41%	10.80%
Pre-tax yield as a percentage of average finance receivables, net of unearned interest (7)	7.47%	10.31%	8.70%	10.94%
Write-off to liquidation (8)	10.35%	7.96%	8.77%	6.91%
Net charge-off percentage (9)	9.51%	7.38%	7.98%	6.47%

Note: All three and nine-month key performance indicators expressed as percentages have been annualized.

(1) Average finance receivables, net of unearned interest, represents the average of gross finance receivables, less unearned interest throughout the period.

(2) Average indebtedness represents the average outstanding borrowings under the Line. Average cost of borrowed funds represents interest expense as a percentage of average indebtedness.

(3) Finance revenue is interest and fee income on finance receivables and does not include revenue generated by NDS. See Computer Software Business caption below for details on NDS revenue during the period.

(4) Weighted average contractual rate represents the weighted average annual percentage rate (APR) of all Contracts purchased and direct loans originated during the period.

(5) Gross portfolio yield represents finance revenue as a percentage of average finance receivables, net of unearned interest. Net portfolio yield represents finance revenue minus (a) interest expense and (b) the provision for credit losses as a percentage of average finance receivables, net of unearned interest.

(6) Operating expenses represent total expenses, less interest expense, the provision for credit losses and operating costs associated with NDS. See Computer Software Business caption below for details on NDS operating expenses during the period.

(7) Pre-tax yield represents net portfolio yield minus operating expenses as a percentage of average finance receivables, net of unearned interest.

(8) Write-off to liquidation percentage is defined as net charge-offs divided by liquidation. 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 finance receivables, net of unearned interest, outstanding during the period.

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Three months ended December 31, 2007 compared to three months ended December 31, 2006

Interest Income and Loan Portfolio

Interest income on finance receivables, predominately finance charge income, increased 8% to approximately $12.6 million for the three-month period ended December 31, 2007, from $11.7 million for the corresponding period ended December 31, 2006. Average finance receivables, net of unearned interest equaled approximately $192.4 million for the three-month period ended December 31, 2007, an increase of 10% from $174.4 million for the corresponding period ended December 31, 2006. The primary reason average finance receivables, net of unearned interest increased was the increase in the receivable base of several existing branches. The gross finance receivable balance increased 10% to approximately $267.3 million as of December 31, 2007 from $244.0 million as of December 31, 2006. The primary reason interest income increased was the increase in the outstanding loan portfolio. The gross portfolio yield decreased from 26.84% for the three-month period ended December 31, 2006 to 26.18% for the three-month period ended December 31, 2007. The net portfolio yield decreased from 20.77% for the three-month period ended December 31, 2006 to 17.70% for the corresponding period ended December 31, 2007. The gross portfolio yield decreased due to reduced accretion of discounts. The decrease was partially offset by a change to reflect interest earned on a contractual basis, as opposed to on the basis of expected yield (see discussion under Analysis of Credit Losses below). The net portfolio yield decreased due to the above factors, plus the effect of additional provisions for credit losses required for the change in the recognition of interest and the resulting effect on credit loss provisions, together with additional provisions in response to increased charge-off rates.

Computer Software Business

Sales for the three-month period ended December 31, 2007 were approximately $21,000 as compared to $23,000 for the corresponding period ended December 31, 2006, a decrease of 9%. This decrease was primarily due to lower revenue from the existing customer base during the period ended December 31, 2007. Cost of sales and operating expenses increased to approximately $62,000 for the three-month period ended December 31, 2007 from $46,000 for the three-month period ended December 31, 2006.

Operating Expenses

Operating expenses, excluding provision for credit losses and interest expense and costs associated with NDS, increased to approximately $4.9 million for the three-month period ended December 31, 2007 from $4.6 million for the corresponding period ended December 31, 2006. This increase of 7% was primarily attributable to the additional staffing of several existing branches and increased general operating expenses. Operating expenses as a percentage of finance receivables, net of unearned interest decreased to 10.23% for the three-month period ended December 31, 2007 from 10.46% for the three-month period ended December 31, 2006. The primary reason for the decrease was the increase in average finance receivables, net of unearned interest.

Interest Expense

Interest expense increased to approximately $1.6 million for the three-month period ended December 31, 2007 from $1.5 million for the three-month period ended December 31, 2006. The average indebtedness for the three-month period ended December 31, 2007 increased to approximately $98.9 million as compared to $89.0 million for the corresponding period ended December 31, 2006. The Company s average cost of borrowed funds decreased to 6.51% for the three-month period ended December 31, 2007 as compared to 6.53% for the corresponding period ended December 31, 2006.

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Nine months ended December 31, 2007 compared to nine months ended December 31, 2006

Interest Income and Loan Portfolio

Interest income on finance receivables, predominately finance charge income, increased 8% to approximately $37.3 million for the nine-month period ended December 31, 2007, from $34.6 million for the corresponding period ended December 31, 2006. Average finance receivables, net of unearned interest equaled approximately $189.6 million for the nine-month period ended December 31, 2007, an increase of 12% from $169.6 million for the corresponding period ended December 31, 2006. The primary reason average finance receivables, net of unearned interest increased was the increase in the receivable base of several existing branches. The gross finance receivable balance increased 10% to approximately $267.3 million as of December 31, 2007 from $244.0 million as of December 31, 2006. The primary reason interest income increased was the increase in the outstanding loan portfolio. The gross portfolio yield decreased from 27.18% for the nine-month period ended December 31, 2006 to 26.23% for the nine-month period ended December 31, 2007. The net portfolio yield decreased from 21.74% for the nine-month period ended December 31, 2006 to 19.11% for the corresponding period ended December 31, 2007. The gross portfolio yield decreased due to reduced accretion of discounts. The decrease was partially offset by a change to reflect interest earned on a contractual basis, as opposed to on the basis of expected yield (see discussion under Analysis of Credit Losses below). The net portfolio yield decreased due to the above factors, plus the effect of additional provisions for credit losses required for the change in the recognition of interest and the resulting effect on credit loss provisions, together with additional provisions in response to increased charge-off rates.

Computer Software Business

Sales for the nine-month period ended December 31, 2007 were approximately $61,000 as compared to $90,000 for the corresponding period ended December 31, 2006, a decrease of 32%. This decrease was primarily due to lower revenue from the existing customer base during the period ended December 31, 2007. Cost of sales and operating expenses increased to approximately $177,000 for the nine-month period ended December 31, 2007 from $132,000 for the nine-month period ended December 31, 2006.

Operating Expenses

Operating expenses, excluding provision for credit losses and interest expense and costs associated with NDS, increased to approximately $14.8 million for the nine-month period ended December 31, 2007 from $13.7 million for the corresponding period ended December 31, 2006. This increase of 8% was primarily attributable to the additional staffing of several existing branches and increased general operating expenses. Operating expenses as a percentage of finance receivables, net of unearned interest decreased to 10.41% for the nine-month period ended December 31, 2007 from 10.80% for the nine-month period ended December 31, 2006. The primary reason for the decrease was the increase in average finance receivables, net of unearned interest.

Interest Expense

Interest expense increased to approximately $4.8 million for the nine-month period ended December 31, 2007 from $4.1 million for the nine-month period ended December 31, 2006. The average indebtedness for the nine-month period ended December 31, 2007 increased to approximately $96.2 million as compared to $85.7 million for the corresponding period ended December 31, 2006. The Company s average cost of borrowed funds increased to 6.71% for the nine-month period ended December 31, 2007 as compared to 6.34% for the corresponding period ended December 31, 2006.

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Contract Procurement

The Company purchases Contracts in the eleven states listed in the table below. The Contracts purchased by the Company are predominately for used vehicles; for the three-month periods ended December 31, 2007 and 2006, less than 3% were for new vehicles. As of December 31, 2007, the average model year of vehicles collateralizing the portfolio was a 2001 vehicle.

The following tables present selected information on Contracts purchased by the Company, net of unearned interest.

State	Three months ended December 31, 2007	Three months ended December 31, 2006	Nine months ended December 31, 2007	Nine months ended December 31, 2006
FL	$ 10,881,386	$ 12,410,354	$ 36,255,569	$ 39,429,480
GA	2,024,286	2,916,940	8,997,984	8,034,792
NC	2,934,295	3,024,486	9,208,081	9,328,922
SC	638,304	1,132,544	2,870,616	2,810,928
OH	3,633,921	3,059,850	10,292,674	9,603,298
MI	446,308	491,898	1,338,732	1,314,090
VA	1,181,912	1,927,412	2,907,605	5,264,673
IN	581,405	875,071	2,303,757	1,937,198
KY	1,425,847	1,945,599	3,959,141	4,463,092
MD	980,844	991,385	3,300,386	2,831,028
AL	741,254	326,448	2,064,281	817,456
Total	$ 25,469,762	$ 29,101,987	$ 83,498,826	$ 85,834,957

Contracts	Three months ended December 31, 2007	Three months ended December 31, 2006	Nine months ended December 31, 2007	Nine months ended December 31, 2006
Purchases	$ 25,469,762	$ 29,101,987	$ 83,498,826	$ 85,834,957
Weighted APR	24.08%	23.66%	24.13%	23.84%
Average discount	8.34%	8.53%	8.18%	8.46%
Weighted average term (months)	48	46	48	46
Average loan	$ 9,316	$ 9,100	$ 9,369	$ 9,073
Number of Contracts	2,734	3,198	8,912	9,460

Loan Origination

The following table presents selected information on direct loans originated by the Company, net of unearned interest.

Direct Loans Originated	Three months ended December 31, 2007	Three months ended December 31, 2006	Nine months ended December 31, 2007	Nine months ended December 31, 2006
Originations	$ 2,252,404	$ 2,154,419	$ 6,784,701	$ 6,796,106

Weighted APR	24.89%	25.36%	25.67%	25.31%
Weighted average term (months)	26	30	29	31
Average loan	$ 3,090	$ 3,269	$ 3,305	$ 3,415
Number of loans	729	659	2,053	1,990

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Analysis of Credit Losses

As of December 31, 2007, the Company had 831 active static pools. The average pool upon inception consisted of 67 Contracts with aggregate finance receivables, net of unearned interest, of approximately $612,000.

Prior to April 1, 2005, in situations where, at the date of purchase, the dealer discount was determined to be insufficient to absorb all potential credit losses associated with a static pool, a portion of unearned income associated with the static pool was allocated to the allowance for credit losses. For loans purchased prior to April 1, 2005, the Company recognized revenue on the basis of interest expected to be collected, which was the gross contractual interest less amounts allocated to the reserve for dealer discounts.

Effective with loans purchased after March 31, 2005, the Company discontinued the practice of allocating a portion of unearned income to the allowance for credit losses. This change was made to reflect the predominate practice in the industry and improve comparability with other companies within the finance industry. Effective with loans purchased after March 31, 2005 the Company began recognizing interest income based upon the contractual rate of the loan. In situations where, at the date of purchase, the discount is determined to be insufficient to absorb all potential losses associated with the static pool, a charge to income is calculated and amortized into provision for credit losses over the life of the pool.

The change in the practice of allocating a portion of the unearned income to allowance for credit losses did not have a significant effect on the periodic net operating results, but rather resulted in differences in the classification of amounts within the statement of income. Both interest income and provisions for credit losses were higher for those pools acquired since March 31, 2005 than those pools previously acquired.

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

	Three months ended December 31,		Nine months ended December 31,	
	2007	2006	2007	2006
Balance at beginning of period	$ 19,899,906	$ 21,141,240	$ 20,638,912	$ 22,274,255
Discounts acquired on new volume	2,077,969	2,442,800	6,705,953	7,164,509
Losses absorbed	(4,960,826)	(3,617,983)	(12,652,859)	(9,437,127)
Current period provision	2,306,620	1,088,810	4,932,197	2,617,586
Recoveries	433,603	418,639	1,383,935	1,216,634
Discounts accreted	(422,163)	(911,300)	(1,673,029)	(3,273,651)
Balance at end of period	$ 19,335,109	$ 20,562,206	$ 19,335,109	$ 20,562,206

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

	Three months ended December 31,		Nine months ended December 31,	
	2007	2006	2007	2006
Balance at beginning of period	$ 319,208	$ 290,392	$ 324,688	$ 293,767
Current period provision	139,945	94,637	280,752	193,671
Losses absorbed	(103,963)	(86,951)	(266,450)	(202,285)
Recoveries	15,515	6,697	31,715	19,622
Balance at end of period	$ 370,705	$ 304,775	$ 370,705	$ 304,775

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Reserves accreted into income for the three months ended December 31, 2007 and 2006, were approximately $422,000 and $911,000, respectively. Reserves accreted into income for the nine months ended December 31, 2007 and 2006, were approximately $1.7 million and $3.3 million, respectively. The Company has seen deterioration in the performance of its Contract portfolio, more specifically, static pools originated since June 30, 2006 have seen an increase in the default rate when compared to the preceding year pool performance during their same liquidation cycle. The Company attributes this increase to weakness in the consumer credit cycle and weakness in employment and believes this trend will continue for the remainder of its fiscal year. Provisions reversed for the three-month periods ended December 31, 2007 and 2006, totaled approximately $35,000 and $0, respectively. Provisions reversed for the nine-month periods ended December 31, 2007 and 2006, totaled approximately $302,000 and $617,000, respectively. The reversal of provisions previously recorded in each period was due to the charge-off performance of static pools originated from April 2005 through December 2005. The Company experienced a higher net charge-off percentage of 9.51% during the three-month period ended December 31, 2007 as compared to 7.38% for the three-month period ended December 31, 2006. The Company experienced a higher net charge-off percentage of 7.98% during the nine-month period ended December 31, 2007 as compared to 6.47% for the nine-month period ended December 31, 2006.

The average dealer discount associated with new volume for the three months ended December 31, 2007 and 2006 were 8.34% and 8.53%, respectively. The average dealer discount associated with new volume for the nine months ended December 31, 2007 and 2006 were 8.18% and 8.46%, respectively. The Company believes the average dealer discount may continue to decrease as the result of competition in the markets the Company is currently operating in.

The provision for credit losses increased from approximately $1.2 million for the three-month period ended December 31, 2006, to $2.5 million for the three-month period ended December 31, 2007. The provision for credit losses increased from approximately $2.9 million for the nine-month period ended December 31, 2006, to $5.3 million for the nine-month period ended December 31, 2007. The Company s losses as a percentage of liquidation increased from 7.96% for the three months ended December 31, 2006, to 10.35% for the three months ended December 31, 2007. The Company s losses as a percentage of liquidation increased from 6.91% for the nine months ended December 31, 2006, to 8.77% for the nine months ended December 31, 2007. The Company anticipates losses as a percentage of liquidation will be in the 8-12% range during the remainder of the current fiscal year. The longer term outlook for portfolio performance will depend on the overall economic conditions, the unemployment rate and the Company s ability to monitor, manage and implement its underwriting philosophy in additional geographic areas as it strives to continue its expansion. The Company does not believe there have been any significant changes in loan concentrations, terms or quality of Contracts purchased during the three or nine months ended December 31, 2007 that would have contributed to the increase in losses.

Recoveries as a percentage of charge-offs decreased from 13% for the three months ended December 31, 2006 to 10% for the three months ended December 31, 2007. Recoveries as a percentage of charge-offs decreased from 15% for the nine months ended December 31, 2006 to 12% for the nine months ended December 31, 2007. The Company believes that as it continues to expand its operations, it will become more difficult to implement its loss recovery model in geographic areas further away from its Corporate headquarters, and as a result, the Company will likely experience declining recovery rates over the long term.

The Company believes there is a correlation between the unemployment rate and future portfolio performance. The Company believes the down turn in the housing sector is affecting its customer s employment status and does not foresee any recovery during the current fiscal year. The number of bankruptcy filings by customers during the nine months ended December 31, 2007 has increased when compared to the nine months ended December 31, 2006.

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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:

	December 31, 2007		December 31, 2006	
Contracts				
Gross balance outstanding	$ 256,278,730		$ 233,992,372	
Delinquencies				
30 to 59 days	$ 8,908,945	3.48%	$ 4,942,628	2.11%
60 to 89 days	2,933,134	1.14%	1,682,993	0.72%
90 + days	1,402,143	0.55%	691,092	0.30%
Total delinquencies	$ 13,244,222	5.17%	$ 7,316,713	3.13%
Direct Loans				
Gross balance outstanding	$ 10,989,625		$ 10,052,202	
Delinquencies				
30 to 59 days	$ 212,084	1.93%	$ 94,912	0.95%
60 to 89 days	77,503	0.71%	55,635	0.55%
90 + days	91,271	0.83%	25,482	0.25%
Total delinquencies	$ 380,858	3.47%	$ 176,029	1.75%

The delinquency percentage for Contracts more than thirty days past due as of December 31, 2007 was 5.17% as compared to 3.13% as of December 31, 2006. The delinquency percentage for direct loans more than thirty days past due as of December 31, 2007 was 3.47% as compared to 1.75% as of December 31, 2006.

The Company believes delinquency trends over several reporting periods are useful in estimating future losses and overall portfolio performance. The Company also estimates future portfolio performance by considering various factors, the most significant of which are described as follows. The Company analyzes historical static pool performance for each branch location when determining appropriate reserve levels. Additionally, the Company utilizes internal branch audits as an indication of future static pool performance. 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.

Income Taxes

The provision for income taxes decreased to approximately $1.3 million for the three months ended December 31, 2007 as compared to $1.7 million for the three months ended December 31, 2006. The provision for income taxes decreased to approximately $4.6 million for the nine months ended December 31, 2007 as compared to $5.3 million for the nine months ended December 31, 2006. The Company s effective tax rate decreased from 38.17% for the three months ended December 31, 2006 to 37.09% for the three months ended December 31, 2007. The Company s effective tax rate decreased from 38.20% for the nine months ended December 31, 2006 to 37.85% for the nine months ended December 31, 2007.

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Liquidity and Capital Resources

The Company s cash flows are summarized as follows:

	Nine months ended December 31,	
	2007	2006
Cash provided by (used in):		
Operating activities	$ 11,318,318	$ 11,501,449
Investing activities (primarily purchase of Contracts)	(13,808,099)	(19,453,215)
Financing activities	5,695,583	8,368,791
Net increase in cash	$ 3,205,802	$ 417,025

The Company s primary use of working capital for the three months ended December 31, 2007 was the funding of the purchase of Contracts. The Company has a Line which is secured by all of the assets of the Company s Nicholas Financial, Inc. subsidiary. As of December 31, 2007 the Company could borrow the lesser of $115.0 million or amounts based upon formulas principally related to a percentage of eligible finance receivables, as defined. Borrowings under the Line may be under various LIBOR pricing options plus 162.5 basis points or at the prime rate plus 37.5 basis points. Prime rate based borrowings are generally less than $5.0 million. As of December 31, 2007, the amount outstanding under the Line was approximately $99.9 million and the amount available under the Line was approximately $15.1 million.

The Company has entered into interest rate swap agreements, each of which effectively converts a portion of the Company s floating-rate debt to a fixed-rate, thus reducing the impact of interest rate change on the Company s interest expense. As of December 31, 2007, approximately 70% of the Company s borrowings under the Line were subject to interest rate swap agreements. These swap agreements have maturities ranging from May 19, 2008 through December 2, 2010.

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

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Future Expansion

The Company currently operates a total of forty-six branch locations in eleven states, including nineteen in Florida, five in Ohio, five in North Carolina, five in Georgia, three in Virginia, three in Kentucky, one in South Carolina, two in Maryland and one in Michigan, Indiana and Alabama. Each office is budgeted (size of branch, number of employees and location) to handle up to 1,000 accounts and up to $7.5 million in outstanding finance receivables, net of unearned interest. To date six of our branches have reached this capacity. The Company plans to open two additional branch offices during the three months ending March 31, 2008. These new branch offices will be located in Indianapolis, Indiana and Birmingham, Alabama.

The Company currently intends to continue its expansion through the purchase of additional Contracts and the expansion of its direct consumer loan program. The Company is evaluating certain new markets and plans to develop these markets using the recently announced Central Processing Center to underwrite, process and collect new loans. The Company may or may not open new branch offices in these new markets. The Company is currently evaluating certain under performing branch locations and may at sometime in the near future elect to close these branches. The Company believes opportunities for growth continue to exist in states where it currently operates branches and plans to continue its expansion activities in those states. No assurances can be given, however, that the Company will be able to continue to expand or, if it does continue to expand, that it will be able to do so profitably. 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.

Recently Issued Accounting Standards

In November 2007, the SEC issued Staff Accounting Bulletin No. 109, Written Loan Commitments Recorded at Fair Value Through Earnings . SAB 109 provides guidance on the accounting for written loan commitments recorded at fair value under GAAP. Specifically, the SAB revises the Staff s views on incorporating expected net future cash flows related to loan servicing activities in the fair value measurement of a written loan commitment. SAB 109, which supersedes SAB 105, Application of Accounting Principles to Loan Commitments , requires the expected net future cash flows related to the associated servicing of the loan be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SAB 109 is effective in fiscal quarters beginning after December 15, 2007. The Company is currently evaluating SAB No. 109 and the potential impact, if adopted, on the consolidated financial statements.

In December 2007, the SEC issued Staff Accounting Bulletin No. 110, Share-Based Payment . SAB No. 110 addresses the use of a simplified method in developing an estimate of expected term of plain vanilla share options in accordance FAS No. 123R, Share-Based Payment . SAB No. 110 allows the use of the simplified method of estimating expected term where a company may not have sufficient historical exercise data. SAB No. 110 is effective January 1, 2008 and the Company is currently assessing whether it will continue to use the simplified method for stock options granted after January 1, 2008.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of SFAS No. 115 . SFAS No. 159 allows measurement at fair value of eligible financial assets and liabilities that are not otherwise measured at fair value. If the fair value option for an eligible item is elected, unrealized gains and losses on that item shall be reported in current earnings at each subsequent reporting date. SFAS No. 159 also establishes presentation and disclosure requirements designed to draw comparison between the different measurement attributes the company elects for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted. The Company is currently evaluating SFAS No. 159 and the potential impact, if adopted, on the consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements . This statement enhances existing guidance for measuring assets and liabilities using fair value. Prior to the issuance of SFAS No. 157, guidance for applying fair value was incorporated in several accounting pronouncements. This statement provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under this statement, fair value measurements are disclosed by level within that hierarchy. While SFAS No. 157 does not add any new fair value measurements, it does change current practice. Changes to practice include: (1) a requirement for an entity to include its own credit standing in the measurement of its liabilities; (2) a modification of the transaction price presumption; (3) a prohibition on the use of block discounts when valuing large blocks of securities for broker-dealers and investment companies; and (4) a requirement to adjust the value of restricted stock for the effect of the restriction even if

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the restriction lapses within one year. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact SFAS No. 157 will have on the consolidated financial statements.

In September 2006, the FASB Emerging Issues Task Force (EITF) reached a consensus on Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements and EITF Issue 06-5, Accounting for Purchases of Life Insurance Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4 . Both issues provide guidance on the recognition of company-paid life insurance protecting against the loss of key employees. These issues are effective for fiscal years beginning after December 15, 2007. The Company is currently evaluating both EITF No. 06-4 and EITF No. 06-5 and the potential impact that adoption will have on the consolidated financial statements.

Other recent accounting pronouncements issued by the FASB (including its EITF), the AICPA, and the SEC did not and are not believed by the Company to have a material impact on the Company s present or future consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to the Company s operations result primarily from changes in interest rates. The Company does not engage in speculative or leveraged transactions, nor does it hold or issue financial instruments for trading purposes.

Interest rate risk

Management s objective is to minimize the cost of borrowing through an appropriate mix of fixed and floating rate debt. Derivative financial instruments, such as interest rate swap agreements, may be used for the purpose of managing fluctuating interest rate exposures that exist from ongoing business operations. There was no ineffectiveness associated with the interest rate swap agreements during the three or nine-month periods ended December 31, 2007 and 2006.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q, the Company s management evaluated, with the participation of the Company s President and Chief Executive Officer and Senior Vice President and Chief Financial Officer, the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based upon their evaluation of these disclosure controls and procedures, the President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer have concluded that the disclosure controls and procedures were effective as of the date of such evaluation to ensure that material information relating to the Company, including its consolidated subsidiaries, was made known to them by others within those entities, particularly during the period in which this Quarterly Report on Form 10-Q was being prepared.

Changes in internal controls. In response to the material weaknesses described in our Form 10-K for the year ended March 31, 2007, the Company s management is taking a series of actions to remediate these material weaknesses in our system of internal controls. We are continuing to implement changes and will need to assess the operating effectiveness of these changes prior to concluding that our remediation efforts are complete. The Company s management anticipates that our remediation efforts will be complete before the filing of our 2008 Annual Report on Form 10-K.

There have been no changes in the Company s internal control over financial reporting that occurred during the Company s last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting, except to the extent that the changes being implemented in connection with the remediation plan affect such controls.

PART II - OTHER INFORMATION

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I Item 1A. Risk Factors in the Company s Annual Report on Form 10-K for the year ended March 31, 2007, which could materially affect our business, financial condition or future results. The risks described in the Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 6. EXHIBITS

See exhibit index following the signature page.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

NICHOLAS FINANCIAL, INC.
(Registrant)

Date: February 11, 2008	/s/ Peter L. Vosotas Peter L. Vosotas Chairman of the Board, President, Chief Executive Officer and Director
Date: February 11, 2008	/s/ Ralph T. Finkenbrink Ralph T. Finkenbrink Senior Vice President, Chief Financial Officer and Director

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EXHIBIT INDEX

Exhibit No.	Description
10.1	Amendment No. 9 to Loan Agreement dated November 13, 2007
31.1	Certification of President and Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Written Statement of the Chief Executive Officer Pursuant to 18 U.S.C. § 1350
32.2	Written Statement of the Chief Financial Officer Pursuant to 18 U.S.C. § 1350