NICHOLAS FINANCIAL INC
Form 10-Q
February 09, 2015
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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, 2014

¨ **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 Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
2454 McMullen Booth Road, Building C Clearwater, Florida	**33759**
(Address of Principal Executive Offices)	**(Zip Code)**

(727) 726-0763

(Registrant s telephone number, including area code)

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

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 February 2, 2015, the registrant had 12,310,735 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Nicholas Financial, Inc. and Subsidiaries

Consolidated Balance Sheets

	December 31, 2014 (Unaudited)	March 31, 2014
Assets		
Cash	$ 2,635,791	$ 2,635,036
Finance receivables, net	282,845,253	269,343,595
Assets held for resale	2,041,974	1,696,330
Income taxes receivable	646,342	1,093,682
Prepaid expenses and other assets	877,764	891,044
Property and equipment, net	906,348	869,693
Interest rate swap agreements	100,811	183,603
Deferred income taxes	6,445,921	6,716,596
Total assets	$ 296,500,204	$ 283,429,579
Liabilities and shareholders equity		
Line of credit	$ 130,000,000	$ 127,900,000
Drafts payable	1,668,605	2,338,561
Interest rate swap agreements	23,086	
Accounts payable and accrued expenses	6,352,633	8,924,919
Deferred revenues	2,903,406	2,328,544
Total liabilities	140,947,730	141,492,024
Shareholders equity		
Preferred stock, no par: 5,000,000 shares authorized; none issued		
Common stock, no par: 50,000,000 shares authorized; 12,292,329 and 12,220,874 shares issued and outstanding, respectively	31,758,255	31,151,781
Retained earnings	123,794,219	110,785,774
Total shareholders equity	155,552,474	141,937,555
Total liabilities and shareholders equity	$ 296,500,204	$ 283,429,579

See accompanying notes.

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Nicholas Financial, Inc. and Subsidiaries

Consolidated Statements of Income

(Unaudited)

	Three months ended December 31, 2014	Three months ended December 31, 2013	Nine months ended December 31, 2014	Nine months ended December 31, 2013
Interest and fee income on finance receivables	$ 21,800,765	$ 20,761,230	$ 64,856,351	$ 62,185,889
Expenses:				
Marketing	333,813	350,408	1,196,069	1,109,997
Salaries and employee benefits	5,100,035	4,859,897	15,441,864	14,542,906
Professional Fees	314,124	1,060,863	1,124,912	2,012,249
Administrative	2,422,678	2,225,656	7,272,577	6,614,055
Provision for credit losses	5,796,648	4,183,035	15,182,698	10,797,930
Dividend tax				142,557
Depreciation	92,070	78,755	276,194	230,909
Interest expense	1,457,919	1,441,175	4,391,697	4,288,979
Change in fair value of interest rate swap agreements	144,999	(98,346)	105,878	(681,989)
	15,662,286	14,101,443	44,991,889	39,057,593
Operating income before income taxes	6,138,479	6,659,787	19,864,462	23,128,296
Income tax expense	2,368,923	2,833,019	6,856,017	9,284,483
Net income	$ 3,769,556	$ 3,826,768	$ 13,008,445	$ 13,843,813
Earnings per share:				
Basic	$ 0.31	$ 0.32	$ 1.07	$ 1.15
Diluted	$ 0.30	$ 0.31	$ 1.05	$ 1.13
Dividends declared per share	$	$	$	$ 0.24

See accompanying notes.

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Nicholas Financial, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

	Nine months ended December 31, 2014	2013
Cash flows from operating activities		
Net income	$ 13,008,445	$ 13,843,813
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	276,194	230,909
Loss (gain) on sale of property and equipment	6,691	(21,800)
Provision for credit losses	15,182,698	10,797,930
Amortization of dealer discounts	(10,204,562)	(9,911,725)
Deferred income taxes	270,675	1,378,601
Share-based compensation	382,883	405,264
Change in fair value of interest rate swap agreements	105,878	(681,989)
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	13,280	24,912
Accounts payable and accrued expenses	(2,572,286)	(728,528)
Income taxes receivable	447,340	(173,824)
Deferred revenues	574,862	654,952
Net cash provided by operating activities	17,492,098	15,818,515
Cash flows from investing activities		
Purchase and origination of finance receivables	(119,758,892)	(111,941,584)
Principal payments received	101,279,098	99,626,856
Increase in assets held for resale	(345,644)	(554,507)
Purchase of property and equipment	(377,859)	(273,507)
Proceeds from sale of property and equipment	58,319	40,781
Net cash used in investing activities	(19,144,978)	(13,101,961)
Cash flows from financing activities		
Net draws on line of credit	2,100,000	1,500,000
Change in drafts payable	(669,956)	(525,556)
Payment of cash dividends		(2,851,126)
Proceeds from exercise of stock options	154,575	275,772
Excess tax benefits from share-based compensation	69,016	176,106
Net cash provided (used) by financing activities	1,653,635	(1,424,804)

Net increase in cash	755	1,291,750
Cash, beginning of period	2,635,036	2,797,716
Cash, end of period	$ 2,635,791	$ 4,089,466

See accompanying notes.

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Nicholas Financial, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

The accompanying consolidated balance sheet as of March 31, 2014, which has been derived from audited financial statements, and the accompanying unaudited interim 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 (U.S. GAAP) 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 U.S. GAAP for complete consolidated financial statements, although the Company believes that the disclosures made are adequate to ensure the information is 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, 2015. It is suggested that these 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, 2014 as filed with the Securities and Exchange Commission on June 16, 2014. The March 31, 2014 consolidated balance sheet included herein has been derived from the March 31, 2014 audited consolidated balance sheet included in the aforementioned Form 10-K.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses on finance receivables and the fair value of interest rate swap agreements.

2. Revenue Recognition

Finance receivables consist of automobile finance installment contracts (Contracts) and direct consumer loans (Direct Loans). Interest income on finance receivables is recognized using the interest method. Accrual of interest income on finance receivables is suspended when a loan enters bankruptcy status, is contractually delinquent for 60 days or more or the collateral is repossessed, whichever is earlier. Chapter 13 bankrupt accounts are accounted for under the cost-recovery method. Interest income on Chapter 13 bankrupt accounts does not resume until all principal amounts are recovered (see Note 4).

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 lender, the wholesale value of the vehicle and competition in any given market. In making decisions regarding the purchase of a particular Contract the Company considers the following factors related to the borrower: place and length of residence; current and prior job status; history in making installment payments for automobiles; current income; and credit history. In addition, the Company examines its prior experience with Contracts purchased from the dealer from which the Company is purchasing the Contract, and the value of the automobile in relation to the purchase price and the term of the Contract. The entire amount of discount is amortized as an adjustment to yield using the interest method over the life of the loan. The average dealer discount associated with new volume for the nine months ended December 31, 2014 and 2013 was 8.13% and 8.47%, respectively in relation to the total amount financed.

Gross finance receivables represent principal balance plus unearned income. The amount of future unearned income is computed as the product of the Contract rate, the Contract term, and the Contract amount.

Deferred revenues consist primarily of commissions received from the sale of ancillary products. These products include automobile warranties, roadside assistance programs, accident and health insurance, credit life insurance and forced placed automobile insurance. These commissions are amortized over the life of the contract using the interest method.

The Company s net costs for originating direct loans are recognized as an adjustment to the yield and are amortized over the life of the loan using the interest method.

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Nicholas Financial, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

(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,	
	2014	**2013**	**2014**	**2013**
Numerator for earnings per share net income	$ 3,769,556	$ 3,826,768	$ 13,008,445	$ 13,843,813
Denominator:				
Denominator for basic earnings per share weighted average shares	12,197,125	12,108,988	12,188,778	12,088,835
Effect of dilutive securities:				
Stock options and other share awards	178,214	225,191	183,220	197,136
Denominator for diluted earnings per share	12,375,339	12,334,179	12,371,998	12,285,971
Earnings per share:				
Basic	$ 0.31	$ 0.32	$ 1.07	$ 1.15
Diluted	$ 0.30	$ 0.31	$ 1.05	$ 1.13

For the three months ended December 31, 2014 and 2013, potential shares of common stock from stock options totaling 130,870 and 10,000, respectively, were not included in the diluted earnings per share calculation because their effect is anti-dilutive. For the nine months ended December 31, 2014 and 2013 potential shares of common stock from stock options totaling 83,036 and 10,000, respectively, were not included in the diluted earnings per share calculation because their effect is anti-dilutive.

4. Finance Receivables

Finance receivables consist of automobile finance installment Contracts and Direct Loans and are detailed as follows:

	December 31, 2014	March 31, 2014
Finance receivables, gross contract	$ 447,456,954	$ 424,344,193
Unearned interest	(134,947,560)	(124,306,969)
Finance receivables, net of unearned interest	312,509,394	300,037,224
Unearned dealer discounts	(17,535,048)	(17,214,269)
Finance receivables, net of unearned interest and unearned dealer discounts	294,974,346	282,822,955
Allowance for credit losses	(12,129,093)	(13,479,360)
Finance receivables, net	$ 282,845,253	$ 269,343,595

The terms of the Contracts range from 12 to 72 months and the Direct Loans range from 6 to 48 months. The Contracts and Direct Loans bear a weighted average effective interest rate of 22.93% and 26.33% as of December 31, 2014, respectively and 23.08% and 26.32% as of March 31, 2014, respectively.

Finance receivables consist of Contracts and Direct Loans, each of which comprises a portfolio segment. Each portfolio segment consists of smaller balance homogeneous loans which are collectively evaluated for impairment.

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,	
	2014	2013	2014	2013
Balance at beginning of period	$ 11,942,694	$ 13,479,022	$ 12,889,082	$ 16,090,652
Current period provision	5,658,695	4,157,616	14,799,782	10,525,262
Losses absorbed	(6,948,034)	(5,540,334)	(18,844,447)	(16,218,673)
Recoveries	682,830	884,373	2,491,768	2,583,436
Balance at end of period	$ 11,336,185	$ 12,980,677	$ 11,336,185	$ 12,980,677

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Nicholas Financial, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

(Unaudited)

4. Finance Receivables (continued)

The Company purchases Contracts from automobile dealers at a negotiated price that is less than the original principal amount being financed by the purchaser of the automobile. The Contracts are predominately for used vehicles. As of December 31, 2014, the average model year of vehicles collateralizing the portfolio was a 2006 vehicle. The average loan to value ratio, which expresses the amount of the Contract as a percentage of the value of the automobile, is approximately 96%. The Company utilizes a static pool approach to track portfolio performance. If the allowance for credit losses is determined to be inadequate for a static pool, then an additional charge to income through the provision is used to maintain adequate reserves based on management s evaluation of the risk inherent in the loan portfolio, the composition of the portfolio, and current economic conditions. Such evaluation, 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 allowance for credit losses.

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,	
	2014	**2013**	**2014**	**2013**
Balance at beginning of period	$ 734,500	$ 659,615	$ 590,278	$ 467,917
Current period provision	137,953	25,419	382,916	272,668
Losses absorbed	(82,948)	(56,424)	(202,063)	(126,997)
Recoveries	3,403	9,172	21,777	24,194
Balance at end of period	$ 792,908	$ 637,782	$ 792,908	$ 637,782

Direct Loans are originated directly between the Company and the consumer. These loans are typically for amounts ranging from $1,000 to $8,000 and are generally secured by a lien on an automobile, watercraft or other permissible tangible personal property. The majority of Direct Loans are originated with current or former customers under the Company s automobile financing program. The typical Direct Loan represents a significantly better credit risk than our typical Contract due to the customer s historical payment history with the Company. In deciding whether or not to make a loan, the Company considers the individual s credit history, job stability, income and impressions created during a personal interview with a Company loan officer. Additionally, because most of Direct Loans made by the Company to date have been made to borrowers under Contracts previously purchased by the Company, the payment history of the borrower under the Contract is a significant factor in making the loan decision. As of December 31, 2014, loans made by the Company pursuant to its Direct Loan program constituted approximately 3% of the aggregate principal amount of the Company s loan portfolio.

Changes in the allowance for credit losses for both Contracts and Direct Loans were driven by current economic conditions and trends over several reporting periods which are useful in estimating future losses and overall portfolio performance.

A performing account is defined as an account that is less than 61 days past due. A non-performing account is defined as an account that is contractually delinquent for 61 days or more and the accrual of interest income is suspended. When an account is 120 days contractually delinquent, the account is written off. Upon notification of a Chapter 13 bankruptcy, an account is monitored for collection with other Chapter 13 bankrupt accounts. In the event the debtors balance has been reduced by the bankruptcy court, the Company will record a loss equal to the amount of principal balance reduction. The remaining balance will be reduced as payments are received by the bankruptcy court. In the event an account is dismissed from bankruptcy, the Company will decide, based on several factors, to begin repossession proceedings or to allow the customer to begin making regularly scheduled payments.

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Notes to the Consolidated Financial Statements (Continued)

(Unaudited)

4. Finance Receivables (continued)

The following table is an assessment of the credit quality by creditworthiness:

	December 31, 2014		December 31, 2013	
	Contracts	Direct Loans	Contracts	Direct Loans
Performing accounts	$ 422,592,527	$ 11,575,091	$ 388,770,979	$ 11,231,143
Non-performing accounts	9,284,558	105,818	7,011,853	69,933
Total	$ 431,877,085	$ 11,680,909	$ 395,782,832	$ 11,301,076
Chapter 13 bankrupt accounts	3,872,186	26,774	4,002,282	18,811
Finance receivables, gross contract	$ 435,749,271	$ 11,707,683	$ 399,785,114	$ 11,319,887

The following tables present certain information regarding the delinquency rates experienced by the Company with respect to Contracts and under its Direct Loans, excluding Chapter 13 bankrupt accounts:

Contracts	**Gross Balance Outstanding**	**31 60 days**	**61 90 days**	**Over 90 days**	**Total**
December 31, 2014	$ 431,877,085	$ 21,749,891	$ 6,103,607	$ 3,180,951	$ 31,034,449
		5.04%	1.41%	0.74%	7.19%
December 31, 2013	$ 395,782,832	$ 18,523,310	$ 4,829,999	$ 2,106,854	$ 25,460,163
		4.68%	1.22%	0.53%	6.43%

Direct Loans	**Gross Balance Outstanding**	**31 60 days**	**61 90 days**	**Over 90 days**	**Total**
December 31, 2014	$ 11,680,909	$ 164,347	$ 59,043	$ 46,776	$ 270,166
		1.41%	0.51%	0.40%	2.31%
December 31, 2013	$ 11,301,076	$ 176,446	$ 40,887	$ 29,046	$ 246,379
		1.56%	0.36%	0.26%	2.18%

5. Line of Credit

The Company has a line of credit facility (the Line) up to $150,000,000. The pricing of the Line, which expires on January 31, 2015, is 300 basis points above 30-day LIBOR with a 1% floor on LIBOR (4.00% at December 31, 2014 and March 31, 2014). Pledged as collateral for this Line are all of the assets of the Company. The outstanding amount of the Line was $130,000,000 and $127,900,000 as of December 31, 2014 and March 31, 2014, respectively. The amount available under the Line was approximately $20,000,000 and $22,100,000 as of December 31, 2014 and March 31, 2014, respectively. The line was subsequently amended, see Note 12 Subsequent Events .

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 do not require consent in writing by the agent and majority lenders under the new facility as long as the Company is in compliance with a net income covenant. As of December 31, 2014, the Company was in full compliance with all debt covenants.

6. Interest Rate Swap Agreements

The Company utilizes interest rate swap agreements to manage exposure to variability in expected cash flows attributable to interest rate risk. The interest rate swap agreements convert a portion of the floating rate debt to a fixed rate, more closely matching the interest rate characteristics of finance receivables.

As of the nine months ended December 31, 2014 and 2013 no new contracts were initiated and no contracts matured.

The Company currently has two interest rate swap agreements. A June 4, 2012 interest rate swap agreement provides for a five-year interest rate swap in which the Company pays a fixed rate of 1% and receives payments from the counterparty on the 1-month LIBOR rate. This interest rate swap agreement has an effective date of June 13, 2012 and a notional amount of $25,000,000. A July 30, 2012 agreement provides for a five-year interest rate swap in which the Company pays a fixed rate of 0.87% and receives payments from the counterparty on the 1-month LIBOR rate. This interest rate swap agreement has an effective date of August 13, 2012 and a notional amount of $25,000,000.

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Nicholas Financial, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

(Unaudited)

6. Interest Rate Swap Agreements (continued)

The locations and amounts of (gains) losses in income are as follows:

	Three months ended December 31, 2014	Three months ended December 31, 2013	Nine months ended December 31, 2014	Nine months ended December 31, 2013
Periodic change in fair value of interest rate swap agreements	$ 144,999	$ (98,346)	$ 105,878	$ (681,989)
Periodic settlement differentials included in interest expense	98,517	95,641	297,355	284,680
Total	$ 243,516	$ (2,705)	$ 403,233	$ (397,309)

Net realized gains and losses from the interest rate swap agreements were recorded in the interest expense line item of the consolidated statements of income. The following table summarizes the average variable rates received and average fixed rates paid under the swap agreements.

	Three months ended December 31, 2014	Three months ended December 31, 2013	Nine months ended December 31, 2014	Nine months ended December 31, 2013
Variable rate received	0.16%	0.17%	0.15%	0.18%
Fixed rate paid	0.94%	0.94%	0.94%	0.94%

7. Income Taxes

The provision for income taxes decreased to approximately $2.4 million for the three months ended December 31, 2014 from approximately $2.8 million for the three months ended December 31, 2013. The Company s effective tax rate decreased to 38.59% for the three months ended December 31, 2014 from 42.54% for the three months ended December 31, 2013. The provision for income taxes decreased to approximately $6.9 million for the nine months ended December 31, 2014 from approximately $9.3 million for the nine months ended December 31, 2013. The Company s effective tax rate decreased to 34.51% for the nine months ended December 31, 2014 from 40.14% for the nine months ended December 31, 2013. The significant decrease in the effective tax rate for the nine months ended December 31, 2014 is related to certain professional fees totaling approximately $1.2 million associated with the potential sale of the Company becoming deductible during the three months ended June 30, 2014 when the

Arrangement Agreement was terminated.

8. Fair Value Disclosures

The Company measures specific assets and liabilities at fair value, which is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When applicable, the Company utilizes market data or assumptions that market participants would use in pricing the asset or liability under a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The Company estimates the fair value of interest rate swap agreements based on the estimated net present value of the future cash flows using a forward interest rate yield curve in effect as of the measurement period, adjusted for nonperformance risk, if any, including a quantitative and qualitative evaluation of both the Company s credit risk and the counterparty s credit risk. Accordingly, the Company classifies interest rate swap agreements as Level 2.

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Nicholas Financial, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

(Unaudited)

8. Fair Value Disclosures (continued)

	Fair Value Measurement Using			
Description	Level 1	Level 2	Level 3	Fair Value
Interest rate swap agreements:				
December 31, 2014 asset:	$	$ 100,811	$	$ 100,811
December 31, 2014 liability:	$	$ (23,086)	$	$ (23,086)
March 31, 2014 asset:	$	$ 183,603	$	$ 183,603

Financial Instruments Not Measured at Fair Value

The Company s financial instruments consist of finance receivables and the Line. For each of these financial instruments the carrying value approximates fair value.

Finance receivables, net approximates fair value based on the price paid to acquire indirect loans. The price paid reflects competitive market interest rates and purchase discounts for the Company s chosen credit grade in the economic environment. This market is highly liquid as the Company acquires individual loans on a daily basis from dealers. The initial terms of the Contracts range from 12 to 72 months. The initial terms of the Direct Loans range from 6 to 48 months. In addition, there have been minimal changes in interest rates and purchase discounts related to these types of loans. If liquidated outside of the normal course of business, the amount received may not be the carrying value.

Based on current market conditions, any new or renewed credit facility would contain pricing that approximates the Company s current Line. Based on these market conditions, the fair value of the Line as of December 31, 2014 was estimated to be equal to the book value. The interest rate for the Line is a variable rate based on LIBOR pricing options.

	Fair Value Measurement Using			
Description	Level 1	Level 2	Level 3	Fair Value
Finance receivables:				
December 31, 2014	$	$	$ 282,845,000	$ 282,845,000
March 31, 2014	$	$	$ 269,344,000	$ 269,344,000
Line of credit:				
December 31, 2014	$	$ 130,000,000	$	$ 130,000,000
March 31, 2014	$	$ 127,900,000	$	$ 127,900,000

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a nonrecurring basis. The Company does not currently have any assets or liabilities measured at fair value on a nonrecurring basis.

9. Cash Dividend

Dividends were not declared or paid during the nine months ended December 31, 2014. On May 7, 2013 the Board of Directors announced a quarterly cash dividend equal to $0.12 per common share, to be paid on June 28, 2013 to shareholders of record as of June 21, 2013. On August 13, 2013 the Board of Directors announced a quarterly cash dividend equal to $0.12 per common share, to be paid on September 27, 2013 to shareholders of record as of September 20, 2013.

Payment of cash dividends results in a 5% withholding tax payable by the Company under the Canada-United States Income Tax Convention which is included in earnings under the caption of dividend tax.

Nicholas Financial, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

(Unaudited)

10. Contingencies

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

11. Recently Issued Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) . The ASU requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company has not yet selected a transition method. The Company will be evaluating the effect that the ASU will have on the consolidated financial statements and related disclosures.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern. The guidance requires an entity to evaluate whether there are conditions or events, in the aggregate, that raise substantial doubt about the entity s ability to continue as a going concern within one year after the date that the financial statements are issued and to provide related footnote disclosures in certain circumstances. The guidance is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early application is permitted. The Company does not believe the adoption of this ASU will have a significant impact on the consolidated financial statements.

The Company does not believe there are any other recently issued accounting standards that have not yet been adopted that will have a material impact on the Company s consolidated financial statements.

12. Subsequent Events

On January 30, 2015, the Company entered into Amendment No. 4 (the Amendment) to its Second Amended and Restated Loan and Security Agreement, dated as of January 12, 2010, as previously amended (the Line). The Amendment, among other things, extends the maturity date of the Line from January 31, 2015 to January 31, 2018.

Prior to the Amendment, the credit facility provided for a $150.0 million revolving line of credit. The Amendment provides for an increase in the credit line of $75 million, bringing the total credit line to $225 million, in the event of the successful completion of a presently contemplated issuer tender offer. As previously announced, Nicholas intends to purchase up to $70.0 million (but not less than $50.0 million) in aggregate value of the Company s outstanding Common shares via a modified Dutch auction tender offer. If such a tender offer is not successfully completed, the credit line will remain at $150.0 million. Borrowings under the Line may be under various LIBOR pricing options, plus 300 basis points, with a 1% floor on LIBOR.

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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 ability to access bank financing, 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 Forms 10-K, 10-Q, 8-K and annual reports to shareholders.

Litigation and Legal Matters

See Item 1. Legal Proceedings in Part II of this quarterly report below.

Regulatory Developments

As previously reported, Title X of the Dodd-Frank Act established the Bureau of Consumer Finance Protection, or CFPB, which became operational in 2011 and has regulatory, supervisory and enforcement powers over providers of consumer financial products, such as those offered by the Company. The CFPB recently issued a proposal to supervise nonbank companies that qualify as larger participants of a market for automobile financing. The proposal defines as larger participants nonbank entities that engage in automobile financing and have at least 10,000 aggregate originations. The Company believes that it would qualify as a larger participant for such purposes. An automobile finance company that qualifies as a larger participant will be subject to CFPB examination for federal law compliance once a final rule becomes effective. The CFPB can be expected, among other things, to scrutinize a larger participant s practices under Dodd-Frank standards for unfair, deceptive, or abusive acts or practices, as well as to examine such larger participant s compliance with federal consumer financial laws. The CFPB will have the authority to impose on the larger participants it examines fines and other penalties for violations of such federal laws and standards. The Company could incur material additional costs complying with applicable consumer finance laws and standards as well as any CFPB examination. In addition, if the CFPB were to determine that the Company has violated any such laws or standards, it could exercise its enforcement powers in ways that would have a material adverse effect on the Company, its business and financial condition.

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Critical Accounting Policy

The Company s critical accounting policy relates to the allowance for credit losses. It is based on management s opinion of an amount that is adequate to absorb losses in the existing portfolio. The allowance for credit losses is established through a provision for losses based on management s evaluation of the risk inherent in the loan portfolio, the composition of the portfolio, and current economic conditions. Such evaluation, 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 Loans, 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 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 may 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 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 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.

The allowance for loan losses is established through charges to earnings through the provision for credit losses. The allowance for credit losses is maintained at an amount that reduces the net carrying amount of finance receivables for incurred losses. If a static pool is fully liquidated and has any remaining reserves, the excess provision is immediately reversed during the period. For static pools that are not fully liquidated that are deemed to have excess reserves, such 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 remained flat at $3.8 million for the three-month period ended December 31, 2014 as compared to $3.8 million for the corresponding period ended December 31, 2013. Diluted earnings per share decreased to $0.30 as compared to $0.31 for the three months ended December 31, 2013. Consolidated net income decreased 6% to approximately $13.0 million for the nine-month period ended December 31, 2014 as compared to $13.8 million for the corresponding period ended December 31, 2013. Diluted earnings per share decreased 7% to $1.05 for the nine months ended December 31, 2014 as compared to $1.13 for the nine months ended December 31, 2013.

Our results for the three months ended December 31, 2014 were adversely affected by a reduction in the gross portfolio yield, an increase in the provision for losses and a change in fair value of the interest rate swap agreements. The interest rate swap agreements resulted in a loss of $145,000 for the three-month period ended December 31, 2014 compared to a gain of $99,000 for the comparable three-month period ended December 31, 2013. Our results for three-month period ended December 31, 2013 were unfavorably impacted by professional fees associated with the previously announced potential sale of the Company; such fees included in the three months ended December 31, 2013 were $821,000. In addition, prior to the termination of the Arrangement Agreement relating to such potential sale of the Company, which termination was announced on July 1, 2014, these professional fees were not deductible for tax purposes. As a result, our effective income tax rate was higher than our normal effective rate for the three months ended December 31, 2013.

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The results for the nine-month period ended December 31, 2014 were adversely affected by a reduction in the gross portfolio yield, an increase in the provision for losses, and a change in the fair value of the interest rate swap agreements. For the nine-month periods December 31, 2014 and 2013, the interest rate swap agreements resulted in a loss of $106,000 and a gain of $682,000, respectively. Our results were favorably impacted by a reduction in professional fees associated with the previously announced potential sale of the Company; such fees included in the nine months ended December 31, 2014 and 2013 were $362,000 and $1,181,000, respectively. Prior to the termination of the Arrangement Agreement relating to the potential sale of the Company, which termination was announced on July 1, 2014, the fees were not deductible for tax purposes. Accordingly, results for the nine-month period ended December 31, 2014 were favorably impacted due to the tax benefit recognized upon abandonment of this strategic alternative. As a result, our effective income tax rate was higher and lower than our normal effective rate for the nine months ended December 31, 2013 and 2014, respectively.

The Company s software subsidiary, Nicholas Data Services, did not contribute significantly to consolidated operations in the period ended December 31, 2014 or 2013, and operations ceased during the quarter ended June 30, 2014.

	Three months ended December 31,		Nine months ended December 31,	
Portfolio Summary	**2014**	**2013**	**2014**	**2013**
Average finance receivables, net of unearned interest (1)	$ 310,882,006	$ 291,620,270	$ 308,351,789	$ 289,110,042
Average indebtedness (2)	$ 130,112,500	$ 128,500,000	$ 130,580,000	$ 127,545,256
Interest and fee income on finance receivables	$ 21,800,764	$ 20,756,034	$ 64,851,435	$ 62,168,566
Interest expense	1,457,919	1,441,175	4,391,697	4,288,979
Net interest and fee income on finance receivables	$ 20,342,845	$ 19,314,859	$ 60,459,738	$ 57,879,587
Weighted average contractual rate (3)	23.02%	23.21%	23.02%	23.21%
Average cost of borrowed funds (2)	4.48%	4.49%	4.48%	4.48%
Gross portfolio yield (4)	28.05%	28.47%	28.04%	28.67%
Interest expense as a percentage of average finance receivables, net of unearned interest	1.88%	1.98%	1.90%	1.98%
Provision for credit losses as a percentage of average finance receivables, net of unearned interest	7.46%	5.74%	6.57%	4.98%
Net portfolio yield (4)	18.71%	20.75%	19.57%	21.71%

Marketing, salaries, employee benefits, depreciation, administrative, professional fee expenses and dividend taxes as a percentage of average finance receivables, net of unearned interest (5)	10.63%	11.68%	10.94%	11.29%
Pre-tax yield as a percentage of average finance receivables, net of unearned interest (6)	8.08%	9.07%	8.63%	10.42%
Write-off to liquidation (7)	9.60%	7.62%	8.38%	7.24%
Net charge-off percentage (8)	8.16%	6.34%	7.15%	6.20%

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) Weighted average contractual rate represents the weighted average annual percentage rate (APR) of all Contracts and Direct Loans as of the period ending date.

(4) Gross portfolio yield represents finance revenues 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.

(5) The numerators include expenses associated with the potential sale of the Company and include taxes associated with the payments of cash dividends. Absent these expenses, the percentages would have been 10.55% for the three months ended December 31, 2013, and 10.79% and 10.68% for the nine months ended December 31, 2014 and 2013, respectively.

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(6) Pre-tax yield represents net portfolio yield minus administrative expenses as a percentage of average finance receivables, net of unearned interest.
(7) Write-off to liquidation percentage is defined as net charge-offs divided by liquidation. Liquidation is defined as beginning gross receivable balance plus current period purchases minus voids and refinances minus ending gross receivable balance.
(8) Net charge-off percentage represents net charge-offs divided by average finance receivables, net of unearned interest, outstanding during the period.

Three months ended December 31, 2014 compared to three months December 31, 2013

Interest Income and Loan Portfolio

Interest and fee income on finance receivables, predominately finance charge income, increased 4.8% to approximately $21.8 million for the three-month period ended December 31, 2014 from $20.8 million for the corresponding period ended December 31, 2013. Average finance receivables, net of unearned interest equaled approximately $310.9 million for the three-month period ended December 31, 2014, an increase of 6.6% from $291.6 million for the corresponding period ended December 31, 2013. The primary reason average finance receivables, net of unearned interest increased was the increase of the receivable base of several existing branches in younger markets and one new branch (see Contract Procurement and Loan Origination below). The gross finance receivable balance increased 8.9% to approximately $447.5 million as of December 31, 2014, from $411.1 million as of December 31, 2013. The primary reason interest income increased was the increase in the outstanding loan portfolio. The gross portfolio yield decreased to 28.05% for the three-month period ended December 31, 2014 compared to 28.47% for the three-month period ended December 31, 2013. The gross portfolio yield decreased primarily due to the decrease in the average dealer discount, which is a result of increased competition. The average dealer discount associated with new volume for the three months ended December 31, 2014 and 2013 was 8.04% and 8.58%, respectively in relation to the total amount financed. The net portfolio yield decreased to 18.71% for the three-month period ended December 31, 2014 from 20.75% for the corresponding period ended December 31, 2013. The net portfolio yields decreased due to a decrease in the gross portfolio yield and an increase in the provision for credit losses (see Analysis of Credit Losses below).

Marketing, Salaries, Employee Benefits, Depreciation, Administrative, and Professional Fee Expenses

Marketing, salaries, employee benefits, depreciation, administrative, and professional fee expenses decreased to approximately $8.3 million for the three-month period ended December 31, 2014 from approximately $8.6 million for the corresponding period ended December 31, 2013. The decrease was primarily related to the decrease in professional fees due to strategic alternatives in 2013. The Company operated 66 and 65 branch locations as of December 31, 2014 and 2013, respectively. Marketing, salaries, employee benefits, depreciation, administrative, and professional fee expenses as a percentage of finance receivables, net of unearned interest, decreased to 10.63% for the three-month period ended December 31, 2014 from 11.68% for the three-month period ended December 31, 2013. For the three months ended December 31, 2013, the numerator includes expenses associated with the potential sale of the Company. Absent these costs, the percentage would have been 10.55%.

Interest Expense

Interest expense increased to approximately $1.46 million for the three-month period ended December 31, 2014 from $1.44 million for the three-month period ended December 31, 2013. The following table summarizes the Company s average cost of borrowed funds:

	Three months ended December 31,	
	2014	2013
Variable interest under the line of credit facility	0.33%	0.36%
Settlements under interest rate swap agreements	0.30%	0.30%
Credit spread under the line of credit facility	3.85%	3.83%
Average cost of borrowed funds	4.48%	4.49%

The Company s average cost of funds remained relatively flat. The credit spread increased and the variable interest decreased due to a decrease in LIBOR rates in the three months ended December 31, 2014 as compared to December 31, 2013.

The notional amount of interest rate swap agreements was $50.0 million at a weighted average fixed rate of 0.94% for each of the three-month periods ended December 31, 2014 and 2013. For further discussions regarding the effect of interest rate swap agreements see Note 6 Interest Rate Swap Agreements .

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Nine months ended December 31, 2014 compared to nine months ended December 31, 2013

Interest Income and Loan Portfolio

Interest and fee income on finance receivables, predominately finance charge income, increased 4% to approximately $64.9 million for the nine-month period ended December 31, 2014 from $62.2 million for the corresponding period ended December 31, 2013. Average finance receivables, net of unearned interest equaled approximately $308.4 million for the nine-month period ended December 31, 2014, an increase of 7% from $289.1 million for the corresponding period ended December 31, 2013. The primary reason average finance receivables, net of unearned interest, increased was the increase in the receivable base of several existing branches in younger markets and also the opening of one new branch location (see Contract Procurement and Loan Origination below). The gross finance receivable balance increased 9% to approximately $447.5 million as of December 31, 2014, from $411.1 million as of December 31, 2013. The primary reason interest income increased was the increase in the outstanding loan portfolio. The gross portfolio yield decreased to 28.04% for the nine-month period ended December 31, 2014 from 28.67% for the nine-month period ended December 31, 2013. The net portfolio yield decreased to 19.57% for the period ended December 31, 2014 from 21.71% for the nine-month period ended December 31, 2013. The gross portfolio yield decreased primarily due to a decrease in the average dealer discount and a reduction in the weighted APR. The average dealer discount associated with new volume for the nine months ended December 31, 2014 and 2013 was 8.13% and 8.47%, respectively, in relation to the total amount financed. The decrease in the average dealer discount is due to an increase in competition. The net portfolio yield decreased due to a decrease in the gross portfolio yield and an increase in the provision for credit losses (see Analysis of Credit Losses below).

Marketing, Salaries, Employee Benefits, Depreciation, Administrative, Professional Fee Expenses and Dividend Taxes

Marketing, salaries, employee benefits, depreciation, administrative, professional fee expenses and dividend taxes increased to approximately $25.3 million for the nine-month period ended December 31, 2014 from approximately $24.7 million for the corresponding period ended December 31, 2013. The increase of 3% was primarily attributable to an increase in costs associated with maintaining the finance receivable portfolio. The Company opened one new branch location and increased average headcount to 330 for the nine-month period ended December 31, 2014 from 325 for the nine-month period ended December 31, 2013. Marketing, salaries, employee benefits, depreciation, administrative, professional fee expenses and dividend taxes as a percentage of finance receivables, net of unearned interest, decreased to 10.94% for the nine-month period ended December 31, 2014 from 11.29% for the nine-month period ended December 31, 2013. For the nine months ended December 31, 2014, the numerator includes expenses associated with the potential sale of the Company. Absent these expenses, the percentage would have been 10.79%. For the nine months ended December 31, 2013, the numerator includes dividend taxes and expenses associated with the potential sale of the Company. Absent these costs, the percentage would have been 10.68%.

Interest Expense

Interest expense remained relatively flat at $4.4 million for the nine-month period ended December 31, 2014 from $4.3 million for the nine-month period ended December 31, 2013. The following table summarizes the Company s average cost of borrowed funds for the nine-month period ended December 30:

	Nine months ended December 31,

	2014	2013
Variable interest under the line of credit facility	0.31%	0.36%
Settlements under interest rate swap agreements	0.30%	0.30%
Credit spread under the line of credit facility	3.87%	3.82%
Average cost of borrowed funds	4.48%	4.48%

The Company s average cost of funds remained flat. The credit spread increased and the variable interest decreased due to a decrease in LIBOR rates in the nine months ended December 31, 2014 as compared to December 31, 2013.

The weighted average notional amount of interest rate swap agreements was $50.0 million at a weighted average fixed rate of 0.94% for the nine months ended December 31, 2014 and 2013. For further discussions regarding the effect of interest rate swap agreements see Note 6 Interest Rate Swap Agreements .

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Contract Procurement

The Company purchases Contracts in the sixteen states listed in the table below. The Contracts purchased by the Company are predominately for used vehicles; for the three- and nine-month periods ended December 31, 2014 and 2013, less than 1% were for new vehicles.

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

	Three months ended December 31,		Nine months ended December 31,	
State	2014	2013	2014	2013
FL	$ 12,479,607	$ 11,735,597	$ 40,126,531	$ 36,060,726
GA	4,406,896	3,658,423	13,890,638	12,106,958
NC	3,415,112	2,407,374	11,313,314	11,148,966
SC	738,420	937,853	2,701,344	3,861,730
OH	5,788,850	5,300,116	17,486,943	17,304,458
MI	2,043,383	1,482,660	5,465,002	4,734,261
VA	848,809	1,474,651	3,513,891	4,166,493
IN	1,649,495	1,374,439	5,435,903	5,372,001
KY	2,421,467	1,914,143	6,912,724	6,455,058
MD	797,697	847,833	3,133,351	2,057,133
AL	1,710,827	1,087,795	4,647,562	4,437,886
TN	1,289,402	1,098,554	3,696,904	4,358,732
IL	1,925,892	1,181,598	4,402,104	2,849,941
MO	1,688,515	1,414,162	5,275,282	4,176,562
KS	563,344	326,063	1,412,568	991,585
TX	64,833		64,833	
Total	$ 41,832,549	$ 36,241,261	$ 129,478,894	$ 120,082,490

	Three months ended December 31,		Nine months ended December 31,	
Contracts	2014	2013	2014	2013
Purchases	$ 41,832,549	$ 36,241,261	$ 129,478,894	$ 120,082,490
Weighted APR	22.77%	23.05%	22.95%	22.96%
Average discount	8.04%	8.58%	8.13%	8.47%
Weighted average term (months)	55	52	55	52
Average loan	$ 11,041	$ 10,578	$ 11,005	$ 10,638
Number of Contracts	3,789	3,426	11,765	11,288

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, 2014	Three months ended December 31, 2013	Nine months ended December 31, 2014	Nine months ended December 31, 2013
Originations	$ 2,665,407	$ 2,683,337	$ 7,696,461	$ 7,978,194
Weighted APR	26.25%	27.14%	26.57%	26.74%
Weighted average term (months)	28	28	29	29
Average loan	$ 3,357	$ 3,363	$ 3,473	$ 3,391
Number of loans	794	798	2,216	2,353

Analysis of Credit Losses

As of December 31, 2014, the Company had 1,436 active static pools. The average pool upon inception consisted of 60 Contracts with aggregate finance receivables, net of unearned interest, of approximately $647,000.

The Company anticipates losses absorbed as a percentage of liquidation (see note 7 in the Portfolio Summary table on page 14 for the definition of write-off to liquidation) will be in the 8%-10% range during the remainder of the current fiscal year; however, no assurances can be given that the actual losses absorbed may not be higher as a result of continued fierce competition. The longer-term outlook for portfolio performance will depend largely on the competition. Other indicators include the overall economic conditions, the unemployment rate, repossessed car resale rates, and the price of oil which impacts the cost of gasoline, food and many other items used or consumed by the average person. Also, the Company s ability to monitor, manage and implement its underwriting philosophy in additional geographic areas as it strives to continue its expansion will impact future portfolio performance. The Company does not believe there have been any significant changes in loan concentrations; however, the weighted average term increased to 55 months from 52 months of Contracts purchased during the three and nine months ended December 31, 2014 as compared to the three and nine months ended December 31, 2013.

The provision for credit losses increased to approximately $5.8 million from approximately $4.2 million for the three months ended December 31, 2014 and 2013, respectively. The Company has experienced favorable variances between projected write-offs and actual write-offs on many seasoned pools which has resulted in an increase in expected future cash flows. However, due to increased competition in more recent periods, the percentage of loans acquired that are categorized in the lower tiers of the Company s guidelines has increased. Static pools originated during fiscal 2014 and 2013, while still performing at acceptable net charge-off levels, have experienced losses higher than static pools originated in previous years. Consequently, if this trend continues, the Company would expect the provision for credit losses to remain higher for future static pools. Accordingly, the amount of additional provision necessary to maintain an adequate allowance to absorb incurred losses in the existing portfolio was greater than the provision in fiscal 2014. The Company s losses as a percentage of liquidation increased to 9.60% from 7.62% for the three months ended December 31, 2014 and 2013, respectively. The Company has also experienced increased losses in part due to a small decrease in auction proceeds from repossessed vehicles. These proceeds are dependent upon several variables including the general market for repossessed vehicles. During the three months ended December 31, 2014 and 2013, auction proceeds from the sale of repossessed vehicles averaged approximately 44% and 47%, respectively, of the related principal balance.

The Company also considers the following factors to assist in determining the appropriate loss reserve levels: unemployment rates; competition; the number of bankruptcy filings; the results of internal branch audits; consumer sentiment; consumer spending; economic growth (i.e., changes in GDP); the condition of the housing sector; and other leading economic indicators. The Company continues to evaluate reserve levels on a pool-by-pool basis during each reporting period. While unemployment rates have stabilized somewhat, they remain elevated, which will make it difficult for improvement in loss rates. The longer-term outlook for portfolio performance will depend on overall economic conditions, the unemployment rate, the rational or irrational behavior of the Company s competitors, 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 delinquency percentage for Contracts more than thirty days past due as of December 31, 2014 was 7.19% as compared to 6.43% as of December 31, 2013. This increase is primarily as a result of increased competition in all markets that the Company presently operates in. Increased competition typically reduces discounts on Contracts purchased and also results in a greater percentage of Contracts, while still within guidelines, that result in lower credit quality. The delinquency percentage for Direct Loans more than thirty days past due as of December 31, 2014 was

2.31% as compared to 2.18% as of December 31, 2013. See Note 4 Finance Receivables for changes in allowance for credit losses, credit quality and delinquencies. Such increases in the delinquency percentage for Contracts and the losses as a percentage of liquidation were contemplated in determining the appropriate reserve levels, particularly for less seasoned pools.

Recoveries as a percentage of charge-offs decreased to approximately 9.77% for the three months ended December 31, 2014 from approximately 17.70% for the three months ended December 31, 2013. Recoveries as a percentage of charge-offs decreased to approximately 13.20% for the nine months ended December 31, 2014 from approximately 17.83% for the nine months ended December 31, 2013. Historically, recoveries as a percentage of charge-offs fluctuate from period to period, and the Company does not attribute this decrease to any particular change in operational strategy or economic event. From time to time the Company will aggregate charge-off accounts, it deems uncollectable, and sell them to third party recovery specialists.

In accordance with our policies and procedures, certain borrowers qualify for, and the Company offers, one-month principal payment deferrals on Contracts and Direct Loans. For the three months ended December 31, 2014 and December 31, 2013 the Company granted deferrals to approximately 6.98% and 6.99%, respectively, of total Contracts and Direct Loans. For the nine months ended December 31, 2014 and December 31, 2013 the Company granted deferrals to approximately 18.02% and 18.70%, respectively, of total Contracts and Direct Loans. The number of deferrals is influenced by portfolio performance, general economic conditions and the unemployment rate.

Income Taxes

The provision for income taxes decreased to approximately $2.4 million for the three months ended December 31, 2014 from approximately $2.8 million for the three months ended December 31, 2013. The Company s effective tax rate decreased to 38.60% for the three months ended December 31, 2014 from 42.54% for the three months ended December 31, 2013. The provision for income taxes decreased to approximately $6.9 million for the nine months ended December 31, 2014 from approximately $9.3 million for the nine months ended December 31, 2013. The Company s effective tax rate decreased to 34.52% for the nine months ended December 31, 2014 from 40.14% for the nine months ended December 31, 2013. The significant decrease in the effective tax rate for the three and nine months ended December 31, 2014 is related to certain professional fees associated with the potential sale of the Company becoming deductible during the three months ended June 30, 2014 when the Arrangement Agreement was terminated.

Liquidity and Capital Resources

The Company s cash flows are summarized as follows:

	Nine months ended December 31,	
	2014	**2013**
Cash provided by (used in):		
Operating activities	$ 17,492,098	$ 15,818,515
Investing activities (primarily purchase of Contracts)	(19,144,978)	(13,101,961)
Financing activities	1,653,635	(1,424,804)
Net increase in cash	$ 755	$ 1,291,750

The Company s primary use of working capital during the three months ended December 31, 2014, was the funding of the purchase of Contracts which are financed substantially through cash from principal payments received and cash from operations. The Line is secured by all of the assets of the Company and has a maturity date of January 31, 2015. The Company may borrow up to $150.0 million. Borrowings under the Line may be under various LIBOR pricing options plus 300 basis points with a 1% floor on LIBOR. As of December 31, 2014, the amount outstanding under the Line was approximately $130.0 million, and the amount available under the Line was approximately $20.0 million.

The Company also announced that, on January 30, 2015, the Company executed an Amendment to its existing credit facility. Please see Note 12 Subsequent Events for more information.

The Company will continue to depend on the availability of the Line, together with cash from operations, to finance future operations. Amounts outstanding under the Line have increased by approximately $2.1 million during the nine months ended December 31, 2014. The increase of the Line is principally related to the fact that cash needed to fund new contracts exceeded cash received from operations. 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. The Line requires compliance with certain debt covenants including financial ratios, asset quality and other performance tests. The Company is in compliance with all of its debt covenants.

On May 7, 2013 the Board of Directors announced a quarterly cash dividend equal to $0.12 per common share, to be paid on June 28, 2013 to shareholders of record as of June 21, 2013. On August 13, 2013 the Board of Directors announced a quarterly cash dividend equal to $0.12 per common share, to be paid on September 27, 2013 to shareholders of record as of September 20, 2013. No dividends were declared during the nine-month period ending December 31, 2014.

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Contractual Obligations

The following table summarizes the Company s material obligations as of December 31, 2014.

	Payments Due by Period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Operating leases	$ 3,692,423	$ 1,733,402	$ 1,579,949	$ 379,072	$
Line of credit	130,000,000	130,000,000			
Interest on Line[1]	485,333	485,333			
Total	$ 134,177,756	$ 132,218,735	$ 1,579,949	$ 379,072	$

The Company s Line matured on January 31, 2014 and was subsequently amended, see Note 12 Subsequent Events . Interest on outstanding borrowings under the Line as of December 31, 2014, is based on an effective interest rate of 4.48% which includes the estimated effect of the interest rate swap agreements settlements through the maturity date. The effective interest rate used in the above table does not contemplate the possibility of entering into interest rate swap agreements in the future.

Future Expansion

The Company currently operates a total of sixty-six branch locations in fifteen states, including twenty-one in Florida; eight in Ohio; six in North Carolina and Georgia; three in Kentucky, Indiana, Missouri, Michigan, and Alabama; two in Virginia, Tennessee, Illinois, and South Carolina; and one each in Maryland, and Kansas. 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 gross finance receivables. To date, nineteen of our branches meet this capacity. The Company continues to evaluate additional markets for future branch locations, and subject to market conditions, may open an additional branch location during fiscal 2015.

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. The Company does not use interest rate swap agreements for speculative purposes. At December 31, 2014, $80,000,000, or approximately 62.1% of our total debt, was subject to floating interest rates; however, due to a 1% floor on the debt these rates are effectively fixed until the variable rates exceed this threshold. As a result, a hypothetical increase in the variable interest rates of 1% or 100 basis points (1.17% as of December 31, 2014) as of December 31, 2014 applicable to this floating rate debt would have an annual after-tax impact of approximately $84,000.

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 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 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. 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.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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, 2014, 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 9, 2015	/s/ Ralph T. Finkenbrink Ralph T. Finkenbrink Chairman of the Board, President, Chief Executive Officer and Director
Date: February 9, 2015	/s/ Katie L. MacGillivary Katie L. MacGillivary Vice President and Chief Financial Officer

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EXHIBIT INDEX

Exhibit No.	Description
10.8	Form of Dealer Agreement and Schedule thereto listing dealers that are parties to such agreements
10.16	Amendment No. 4 to Second Amended and Restated Loan and Security Agreement, dated January 30, 2015
31.1	Certification of the President and Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Vice President and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. § 1350
32.2*	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. § 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* This certification accompanies the Quarterly Report on Form 10-Q and is not filed as part of it.