

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2021

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

Commission File Number 0-26680

NICHOLAS FINANCIAL, INC.

(Exact name of Registrant as specified in its Charter)

British Columbia, Canada
(State or other jurisdiction of
incorporation or organization)
2454 McMullen Booth Road, Building C
Clearwater, FL
(Address of principal executive offices)

59-2506879
(I.R.S. Employer
Identification No.)

33759
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common shares, no par value	NICK	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: **None**

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

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES NO

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

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). YES NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of the shares of common stock on The NASDAQ Stock Market on September 30, 2020, was approximately \$36.3 million.

The number of shares of Registrant's Common Stock outstanding as of June 19, 2021 was approximately 12.6 million shares, no par value (of which approximately 4.9 million shares were held by the Registrant's principal operating subsidiary and pursuant to applicable law, not entitled to vote and approximately 7.7 million shares were entitled to vote).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement and Information Circular for the 2021 Annual General Meeting of Shareholders are incorporated by reference in Part III, Items 10 through 14, of this Annual Report on Form 10-K.

NICHOLAS FINANCIAL, INC.
FORM 10-K ANNUAL REPORT
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Forward-Looking Information

This Annual Report on Form 10-K (this “Report” or “Annual Report”) contains various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based on management’s current beliefs and assumptions, as well as information currently available to management. When used in this document, the words “anticipate,” “estimate,” “expect,” “will,” “may,” “plan,” “believe,” “intend” and similar expressions are intended to identify forward-looking statements. Although Nicholas Financial, Inc. and its subsidiaries (collectively the “Company,” “we,” “us,” or “our”) believes that the expectations reflected or implied in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. As a result, actual results could differ materially from those indicated in these forward-looking statements. Forward-looking statements in this Annual Report may include, without limitation: (1) the projected impact of the novel coronavirus disease (“COVID-19”) outbreak on our customers and our business, (2) projections of revenue, income, and other items relating to our financial position and results of operations, (3) statements of our plans, objectives, strategies, goals and intentions, (4) statements regarding the capabilities, capacities, market position and expected development of our business operations, and (5) statements of expected industry and general economic trends. These statements are subject to certain risks, uncertainties and assumptions that may cause results to differ materially from those expressed or implied in forward-looking statements, including without limitation:

- future impacts of the COVID-19 outbreak and measures taken in response thereto, including without limitation the successful delivery of vaccines effective against the different variants of the virus, for which future developments are highly uncertain and difficult to predict;
- availability of capital (including the ability to access bank financing);
- recently enacted, proposed or future legislation and the manner in which it is implemented, including tax legislation initiatives or challenges to our tax positions and/or interpretations, and state sales tax rules and regulations;
- fluctuations in the economy;
- the degree and nature of competition and its effects on the Company’s financial results;
- fluctuations in interest rates;
- effectiveness of our risk management processes and procedures, including the effectiveness of the Company’s internal control over financial reporting and disclosure controls and procedures;
- demand for consumer financing in the markets served by the Company;
- our ability to successfully develop and commercialize new or enhanced products and services;
- the sufficiency of our allowance for credit losses and the accuracy of the assumptions or estimates used in preparing our financial statements;
- increases in the default rates experienced on automobile finance installment contracts (“Contracts”);
- higher borrowing costs and adverse financial market conditions impacting our funding and liquidity;
- our ability to securitize our loan receivables, occurrence of an early amortization of our securitization facilities, loss of the right to service or subservice our securitized loan receivables, and lower payment rates on our securitized loan receivables;
- regulation, supervision, examination and enforcement of our business by governmental authorities, and adverse regulatory changes in the Company’s existing and future markets, including the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and other legislative and regulatory developments, including regulations relating to privacy, information security and data protection and the impact of the Consumer Financial Protection Bureau's (the “CFPB”) regulation of our business
- fraudulent activity;
- failure of third parties to provide various services that are important to our operations;
- alleged infringement of intellectual property rights of others and our ability to protect our intellectual property;
- litigation and regulatory actions;

- our ability to attract, retain and motivate key officers and employees;
- use of third-party vendors and ongoing third-party business relationships;
- cyber-attacks or other security breaches;
- disruptions in the operations of our computer systems and data centers;
- our ability to realize our intentions regarding strategic alternatives;
- our ability to expand our business, including our ability to complete acquisitions and integrate the operations of acquired businesses and to expand into new markets; and
- the risk factors discussed herein under “Item 1A – Risk Factors.”

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or expected. All forward-looking statements included in this Report are based on information available to the Company as the date of filing of this Annual Report, and the Company assumes no obligation to update any such forward-looking statement. Prospective investors should also consult the risk factors described from time to time in the Company’s other filings made with the U.S. Securities and Exchange Commission (“SEC”), including its reports on Forms 10-Q, 8-K and annual reports to shareholders.

PART I

Item 1. Business

General

Nicholas Financial, Inc. (“Nicholas Financial-Canada”) is a Canadian holding company incorporated under the laws of British Columbia in 1986. The business activities of Nicholas Financial-Canada are currently conducted exclusively through its wholly-owned indirect subsidiary, Nicholas Financial, Inc., a Florida corporation (“Nicholas Financial”). Nicholas Financial is a specialized consumer finance company engaged primarily in acquiring and servicing automobile finance installment contracts (“Contracts”) for purchases of used and new automobiles and light trucks. Additionally, Nicholas Financial originates direct consumer loans (“Direct Loans”) and sells consumer-finance related products. A second Florida subsidiary, Nicholas Data Services, Inc. (“NDS”), serves as the intermediate holding company for Nicholas Financial. In addition, NF Funding I, LLC (“NF Funding I”), is a wholly-owned, special purpose financing subsidiary of Nicholas Financial.

Nicholas Financial-Canada, Nicholas Financial, NDS, and NF Funding I are hereafter collectively referred to as the “Company”.

All financial information herein is designated in United States dollars. References to “fiscal 2021” are to the fiscal year ended March 31, 2021 and references to “fiscal 2020” are to the fiscal year ended March 31, 2020.

The Company’s principal executive offices are located at 2454 McMullen Booth Road, Building C, Clearwater, Florida 33759, and its telephone number is (727) 726-0763.

Available Information

The Company’s filings with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q, definitive proxy statements on Schedule 14A, current reports on Form 8-K, and any amendments to those reports filed pursuant to Sections 13, 14 or 15(d) of the Securities Exchange Act of 1934, are made available free of charge through the Investor Center section of the Company’s Internet website at <http://www.nicholasfinancial.com> as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. The Company is not including the information contained on or available through its website as a part of, or incorporating such information by reference into, this Report. Copies of any materials the Company files with the SEC can also be obtained free of charge through the SEC’s website at <http://www.sec.gov>.

Operating Strategy

The Company remains committed to its branch-based model and its core product of financing primary transportation to and from work for the subprime borrower through the local independent automobile dealership. The Company strategically employs the use of centralized servicing departments to supplement the branch operations and improve operational efficiencies, but its focus is on its core business model of decentralized operations. The Company’s strategy also includes risk-based pricing (rate, yield, advance, term, collateral value) and a commitment to the underwriting discipline required for optimal portfolio performance as opposed to chasing competition for to sake of simply generating volume. The Company’s principal goals are to increase its profitability and its long-term shareholder value. During fiscal 2021, the Company focused on the following items:

- maintaining our commitment to the local branch model;
- expanding the local branch model into new states;
- identifying additional ancillary products to enhance profitability and asset performance;
- continuing to focus on strategic acquisitions or bulk portfolio purchases to accelerate total revenue;
- ensuring that Direct Loans are available in all our existing branch offices based on the applicable regulatory requirements.

The Company also focused on selecting the right markets to have branch locations. As of March 31, 2021, the Company operated brick and mortar branch locations in 16 states — Alabama, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Missouri, North Carolina, Nevada, Ohio, Pennsylvania, South Carolina, Tennessee, Utah, and Wisconsin. The Company also originated business in its expansion states of Idaho, Kansas, and Texas without a physical branch in such markets.

In fiscal 2021, the Company did not initiate any new restructuring activities. During the first quarter of fiscal 2020, the Company consolidated two branches in North Carolina and two branches in Georgia. In the fourth quarter of fiscal 2020, the Company consolidated five branches in Florida.

In fiscal 2021, the Company expanded the branch network with the opening of branches in Columbia, South Carolina; Las Vegas, Nevada; Milwaukee, Wisconsin; and Salt Lake City, Utah. During fiscal 2020, the Company expanded into the markets of Boise, Idaho and Phoenix, Arizona. The Company also continues to look for other expansion opportunities. Although the Company cannot assert how many new markets it will enter (if any) in the foreseeable future, it does remain focused on growing the branch network where conditions are favorable.

During fiscal 2021, the Company completed bulk portfolio purchases for a total of \$1.4 million, with \$0.3 million in the first quarter, \$0.7 million in the third quarter, and \$0.4 million in the fourth quarter, respectively. The Company plans to consider more bulk portfolio purchases when favorable opportunities present themselves.

During fiscal 2020, the Company completed bulk portfolio purchases for a total of \$21.0 million, with \$1.1 million in the third quarter and \$19.9 million in the fourth quarter, respectively.

On April 30, 2019 the Company acquired substantially all of the assets of ML Credit Group, LLC (d/b/a Metrolina Credit Company) (“Metrolina”). Metrolina provided automobile financing to consumers by direct loans and through purchases of retail installment sales contracts originated by automobile dealers in the states of North Carolina and South Carolina. This acquisition represented the first bulk purchase of Contracts in over two decades.

The Company is currently licensed to provide Direct Loans in 14 states— Alabama, Florida, Georgia (over \$3,000), Illinois, Indiana, Kansas, Kentucky, Michigan, Missouri, North Carolina, Ohio, Pennsylvania, South Carolina, and Tennessee. The Company solicits current and former customers in these states for the purpose of providing Direct Loans to such customers, and intends to continue the expansion of its Direct Loan capabilities to the other states in which it acquires Contracts. Even with this targeted expansion, the Company expects its total Direct Loans portfolio to remain between 8% and 12% of its total portfolio for the foreseeable future.

The Company cannot provide any assurances that it will be able to expand in either its current markets or any targeted new markets.

Automobile Finance Business – Contracts

The Company is engaged in the business of providing financing programs, primarily to purchasers of used cars and light trucks who meet the Company’s credit standards but who do not meet the credit standards of traditional lenders, such as banks and credit unions, because of the customer’s credit history, job instability, the age of the vehicle being financed, or some other factor(s). Unlike lenders that look primarily to the credit history of the borrower in making lending decisions, typically financing new automobiles, the Company is willing to purchase Contracts for purchases made by borrowers who do not have a good credit history and for older model and high-mileage automobiles. In making decisions regarding the purchase of a particular Contract, the Company considers the following factors related to the borrower: current income; credit history; history in making installment payments for automobiles; current and prior job status; and place and length of residence. In addition, the Company examines its prior experience with Contracts purchased from the dealer from which the Company is purchasing the Contract, and the value of the automobile in relation to the purchase price and the term of the Contract.

As of the date of this Annual Report, the Company's automobile finance programs are conducted in 16 states through a total of 45 branch offices located in the states of Alabama, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Missouri, North Carolina, Nevada, Ohio, Pennsylvania, South Carolina, Tennessee, Utah, and Wisconsin. (Texas, Idaho, and Kansas are expansion states with no local branch office). The Company acquires Contracts in these states through its virtual expansion office operations based in the Charlotte, North Carolina branch location. As of March 31, 2021, the Company had non-exclusive agreements with approximately 13,000 dealers, of which approximately 10,000 were active, for the purchase of individual Contracts that meet the Company's financing criteria. The Company considers a dealer agreement to be active if the Company has purchased a Contract thereunder in the last six months. Each dealer agreement requires the dealer to originate Contracts in accordance with the Company's guidelines. Once a Contract is purchased by the Company, the dealer is no longer involved in the relationship between the Company and the borrower, other than through the existence of limited representations and warranties of the dealer in favor of the Company.

A customer under a Contract typically makes a down payment, in the form of cash and/or trade-in, ranging from 5% to 35% of the sale price of the vehicle financed. The balance of the purchase price of the vehicle plus taxes, title fees and, if applicable, premiums for extended service contracts, GAP waiver coverage, roadside assistance plans, credit disability insurance and/or credit life insurance are generally financed over a period of 12 to 60 months. At approximately the time of origination, the Company purchases a Contract from an automobile dealer at a negotiated price that is less than the original principal amount being financed by the purchaser of the automobile. The Company refers to the difference between the negotiated price and the original principal amount being financed as the dealer discount. The amount of the dealer discount depends upon factors such as the age and value of the automobile and the creditworthiness of the customer. The Company has recommitted to maintaining pricing discipline and therefore places less emphasis on competition when pricing the discount. Generally, the Company will pay more (i.e., purchase the Contract at a smaller discount from the original principal amount) for Contracts as the credit risk of the customer improves. To date, the Contracts purchased by the Company have been purchased at discounts that range from 1% to 15% of the original principal amount of each Contract, with the typical average discount being between 7.00% and 8.00%. As of March 31, 2021, the Company's loan portfolio consisted of Contracts purchased from a dealer or acquired through a bulk acquisition. Such Contracts are purchased without recourse to the dealer, however each dealer remains potentially liable to the Company for breaches of certain representations and warranties made by the dealer with respect to compliance with applicable federal and state laws and valid title to the vehicle. The Company's policy is to only purchase a Contract after the dealer has provided the Company with the requisite proof that (a) the Company has a first priority lien on the financed vehicle (or the Company has, in fact, perfected such first priority lien), (b) the customer has obtained the required collision insurance naming the Company as loss payee with a deductible of not more than \$1,000 and (c) the Contract has been fully and accurately completed and validly executed. Once the Company has received and approved all required documents, it pays the dealer for the Contract and commences servicing the Contract.

Contract Procurement

The Company purchased Contracts in the states listed in the table below during the periods indicated. The Contracts purchased by the Company are predominantly for used vehicles; for the periods shown below, less than 1% were for new vehicles. The average model year collateralizing the portfolio as of March 31, 2021 was a 2012 vehicle. The dollar amounts shown in the table below represent the Company's finance receivables on Contracts purchased within the respective fiscal year:

State	Maximum allowable interest rate (1)	Number of Branches	Fiscal year ended March 31, (In thousands)	
			2021	2020
Alabama	18-36%(2)	2	\$ 2,534	\$ 2,359
Florida	18-30%(3)	11	16,268	19,294
Georgia	18-30%(3)	5	11,129	10,712
Idaho	(2)	-	418	-
Illinois	(2)	1	1,128	815
Indiana	25%	2	3,259	3,661
Kansas	(2)	-	14	1,030
Kentucky	18-25%(3)	3	4,890	3,990
Michigan	25%	2	2,508	3,043
Missouri	(2)	2	4,759	4,361
Nevada	(2)	1	1,567	350
North Carolina	18-29%(3)	3	4,586	6,859
Ohio	25%	6	11,636	10,380
Pennsylvania	18-21%(3)	1	1,359	1,678
South Carolina	(2)	3	4,545	4,566
Tennessee	(2)	1	2,518	3,285
Texas	18-23%(3)	-	307	-
Utah	(2)	1	244	-
Wisconsin	(2)	1	357	313
Total		45	\$ 74,025	\$ 76,696

- (1) The maximum allowable interest rates are subject to change and vary based on the laws of the individual states.
- (2) None of these states currently imposes a maximum allowable interest rate with respect to the types and sizes of Contracts the Company purchases. The maximum rate which the Company will typically charge any customer in each of these states is 36% per annum.
- (3) The maximum allowable interest rate in each of these states varies depending upon the model year of the vehicle being financed. In addition, Georgia does not currently impose a maximum allowable interest rate with respect to Contracts over \$5,000.

The following table presents selected information on Contracts purchased by the Company:

Contracts	Fiscal year ended March 31, (Purchases in thousands)	
	2021	2020
Purchases	\$ 74,025	\$ 76,696
Average APR	23.4%	23.4%
Average dealer discount	7.5%	7.9%
Average term (months)	46	47
Average loan	\$ 10,135	\$ 10,035
Number of Contracts purchased	7,307	7,647

Direct Loans

The Company currently originates Direct Loans in Alabama, Florida, Georgia (over \$3,000), Illinois, Indiana, Kansas, Kentucky, Michigan, Missouri, North Carolina, Ohio, Pennsylvania, South Carolina, and Tennessee. Direct Loans are loans originated directly between the Company and the consumer. These loans are typically for amounts ranging from \$500 to \$11,000 and are generally secured by a lien on an automobile, watercraft or other permissible tangible personal property. The average loan made during fiscal 2021 by the Company had an initial principal balance of approximately \$4,100. The Company does not expect the average loan size to increase significantly within the foreseeable future. Most of the Direct Loans are originated with current or former customers under the Company's automobile financing program. The typical Direct Loan represents a better credit risk than our typical Contract due to the customer's payment history with the Company, as well as their established relationship with the local branch staff. The Company does not have a Direct Loan license in Idaho, Nevada, Texas, Utah, or Wisconsin, and none is presently required in Georgia provided that the original principal balance of the loan is greater than \$3,000. The size of the loan and maximum interest rate that may be (and is) charged varies from state to state. The Company considers the individual's income, credit history, job stability, and the value of the collateral offered by the borrower to secure the loan as the primary factors in determining whether an applicant will receive an approval for such loan. Additionally, because most of the Direct Loans made by the Company to date have been made to borrowers under Contracts previously purchased by the Company, the payment history of the borrower under the Contract is a significant factor in making the loan decision. The Company's Direct Loan program was implemented in April 1995 and accounted for approximately 7% of the Company's annual consolidated revenues during the year ended March 31, 2021.

In connection with its Direct Loan program, the Company also makes available credit disability insurance, credit life insurance, and involuntary unemployment insurance coverage to customers through unaffiliated third-party insurance carriers. Approximately 71% of the Direct Loans outstanding as of March 31, 2021 elected to purchase third-party insurance coverage made available by the Company. The cost of this insurance to the customer, which includes a commission for the Company, is included in the amount financed by the customer.

The following table presents selected information on Direct Loans originated by the Company:

<u>Direct Loans</u>	<u>Fiscal year ended March 31,</u> <u>(Originations in thousands)</u>	
	<u>2021</u>	<u>2020</u>
Originations	\$ 14,148	\$ 12,638
Average APR	29.6%	28.2%
Average term (months)	25	25
Average loan	\$ 4,131	\$ 4,017
Number of contracts originated	3,497	3,142

Underwriting Guidelines

The Company's typical customer has a credit history that fails to meet the lending standards of most banks and credit unions. Some of the credit problems experienced by the Company's customers that resulted in a poor credit history include but are not limited to: prior automobile account repossessions, unpaid revolving credit card obligations, unpaid medical bill, unpaid student loans, prior bankruptcy, and evictions for nonpayment of rent. The Company believes that its customer profile is similar to that of its direct competitors.

The Company's process to approve the purchase of a Contract begins with the Company receiving a standardized credit application completed by the consumer which contains information relating to the consumer's background, employment, and credit history. The Company also obtains credit reports from Equifax and/or TransUnion, which are independent credit reporting services. The Company verifies the consumer's employment history, income, and residence. In most cases, consumers are interviewed via telephone by a Company application processor (usually the Branch Manager or Assistant Branch Manager). The Company also considers the customer's prior payment history with the Company, if any, as well as the collateral value of the vehicle being financed.

The Company has established internal underwriting guidelines to be used by its Branch Managers and internal underwriters when purchasing Contracts. Any Contract that does not meet these guidelines must be approved by the District Managers or senior management of the Company. The Company currently has District Managers charged with managing the specific branches in a defined geographic area. In addition to a variety of administrative duties, the District Managers are responsible for monitoring their assigned branches' compliance with the Company's underwriting guidelines as well as approving underwriting exceptions.

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

After reviewing the information included in the Contract or Direct Loan application and taking the other factors into account, the Company's loan origination system categorizes the customer using internally developed credit classifications of "1," indicating higher creditworthiness, through "4," indicating lower creditworthiness. Contracts are financed for individuals who fall within all four acceptable rating categories utilized, "1" through "4". Usually a customer who falls within the two highest categories (i.e., "1" or "2") is purchasing a two to five-year old, lower mileage used automobile, while a customer in any of the two lowest categories (i.e., "3," or "4") usually is purchasing an older, higher mileage automobile from an independent used automobile dealer.

The Company performs audits of its branches' compliance with Company underwriting guidelines. The Company audits branches on a schedule that is variable depending on the size of the branch, length of time a branch has been open, current tenure of the Branch Manager, previous branch audit score, and current and historical branch profitability. Additionally, field supervisions and audits are conducted by District Managers, Divisional Vice Presidents and Divisional Administrative Assistants to ensure operational and underwriting compliance throughout the branch network.

Monitoring and Enforcement of Contracts

The Company requires each customer under a Contract to obtain and maintain collision insurance covering damage to the vehicle. Failure to maintain such insurance constitutes a default under the Contract, and the Company may, at its discretion, repossess the vehicle. To reduce potential loss due to insurance lapse, the Company has the contractual right to obtain collateral protection insurance through a third-party, which covers loss due to physical damage to a vehicle not covered by any insurance policy of the customer.

The Company's Management Information Services personnel maintain a number of reports to monitor compliance by customers with their obligations under Contracts and Direct Loans made by the Company. These reports may be accessed on a real-time basis or at the end of the day throughout the Company by management personnel, including Branch Managers and staff, at computer terminals located in the main office and each branch office. These reports include delinquency reports, customer promise reports, vehicle information reports, purchase reports, dealer analysis reports, static pool reports, and repossession reports.

A delinquency report is an aging report that provides basic information regarding each customer account and indicates accounts that are past due. The report includes information such as the account number, address of the customer, phone numbers of the customer, original term of the Contract, number of remaining payments, outstanding balance, due dates, date of last payment, number of days past due, scheduled payment amount, amount of last payment, total past due, and special payment arrangements or agreements.

For portion of the year ended March 31, 2021, the Company extended assistance to its customers experiencing hardship due to COVID-19 in the form of up to two months' worth of hardship deferments. These hardship deferments are processed in the same manner as any other deferment, including the proper review and approval by management.

When an account becomes delinquent, the Company immediately contacts the customer to determine the reason for the delinquency and to determine if appropriate arrangements for payment can be made. If payment arrangements acceptable to the Company can be made, the information is entered in its database and is used to generate a customer promises report, which is utilized by the Company's collection staff for account follow up.

The Company prepares a repossession report that provides information regarding repossessed vehicles and aids the Company in disposing of repossessed vehicles. In addition to information regarding the customer, this report provides information regarding the date of repossession, date the vehicle was sold, number of days it was held in inventory prior to sale, year, make and model of the vehicle, mileage, payoff amount on the Contract, NADA book value, Black Book value, suggested sale price, location of the vehicle, original dealer and condition of the vehicle, as well as notes other information that may be helpful to the Company.

If an account is 121 days delinquent and the related vehicle has not yet been repossessed, the account is charged-off and transferred to the Loss Prevention and Recovery Department. Once a vehicle has been repossessed, the related loan balance no longer appears on the delinquency report. Instead, the vehicle appears on the Company's repossession report and is generally sold at auction.

The Company also prepares a dealer analysis report that provides information regarding each dealer from which it purchases Contracts. This report allows the Company to analyze the volume of business done with each dealer, the terms on which it has purchased Contracts from such dealer, as well as the overall portfolio performance of Contracts purchased from the dealer.

The Company is subject to seasonal variations within the subprime marketplace. While the APR, discount, and term remain consistent across quarters, write offs and delinquencies tend to be lower while purchases tend to be higher in the fourth and first quarter of the fiscal year. The second and third quarter of the fiscal year tend to have higher write offs and delinquencies, and a lower level of purchases.

Marketing and Advertising

The Company's Contract marketing efforts currently are directed primarily toward automobile dealers. The Company attempts to meet dealers' needs by offering highly responsive, cost-competitive, and service-oriented financing programs. The Company relies on its District and Branch Managers to solicit agreements for the purchase of Contracts with automobile dealers located within a 60-mile radius of each branch office. The Branch Manager provides dealers with information regarding the Company and the general terms upon which the Company is willing to purchase Contracts. The Company uses web advertising, social media and print ads in dealer association publications for marketing purposes. The Company is a member and corporate sponsor of the National Independent Auto Dealers Association, which also gives it access to state-level associations. Its representatives attend conferences and events for both state and national associations to market its products directly to dealers in attendance.

The Company solicits customers under its Direct Loan program primarily through direct mailings, followed by telephone calls to individuals who have a good credit history with the Company in connection with Contracts purchased by the Company. It also relies on other forms of electronic messaging and in-store advertising.

Computerized Information System

All Company personnel are provided with real-time access to information. The Company has created specialized programs to automate the tracking of Contracts and Direct Loans from inception. The Company's computer network encompasses both its corporate headquarters and its branch office locations. See "Monitoring and Enforcement of Contracts" above for a summary of the different reports prepared by the Company.

Competition

The consumer finance industry is highly fragmented and highly competitive. Due to various factors, including the existing low interest rate environment, the competitiveness of the industry continues to increase as new competitors continue to enter the market and certain existing competitors continue to expand their operations. There are numerous financial service companies that provide consumer credit in the markets served by the Company, including banks, credit unions, other consumer finance companies, and captive finance companies owned by automobile manufacturers and retailers. Increased competition for the purchase of Contracts enables automobile dealers to shop for the best price, which can result in an erosion in the dealer discounts from the initial principal amounts at which the Company is willing to purchase Contracts and higher advance rates. However, the Company instead focuses on purchasing Contracts that are priced to reflect the inherent risk level of the Contract, and sacrifices loan volume, if necessary, to maintain that pricing discipline. For the fiscal year ended March 31, 2021, the Company's average dealer discount on Contracts purchased decreased to 7.5%, compared to 7.9% for the fiscal year ended March 31, 2020. The table below shows number and principal amount of Contracts purchased, average amount financed, average term, and average APR and discount for the periods presented:

Key Performance Indicators on Contracts Purchased
(Purchases in thousands)

Fiscal Year /Quarter	Number of Contracts Purchased	Principal Amount Purchased#	Average Amount Financed*^	Average APR*	Average Discount%*	Average Term*
2021	7,307	\$ 74,025	\$ 10,135	23.4 %	7.5 %	46
4	2,429	24,637	10,143	23.2 %	7.5 %	46
3	1,483	15,285	10,307	23.4 %	7.5 %	46
2	1,709	17,307	10,127	23.5 %	6.8 %	46
1	1,686	16,796	9,962	23.5 %	8.0 %	46
2020	7,647	\$ 76,696	\$ 10,035	23.4 %	7.9 %	47
4	1,991	19,658	9,873	23.5 %	7.9 %	46
3	1,753	17,880	10,200	23.3 %	7.6 %	47
2	2,011	20,104	9,997	23.5 %	7.9 %	46
1	1,892	19,054	10,071	23.4 %	8.3 %	47
2019	7,684	\$ 77,499	\$ 10,086	23.5 %	8.2 %	47
4	2,151	21,233	9,871	23.5 %	8.0 %	46
3	1,625	16,476	10,139	23.5 %	8.1 %	47
2	1,761	17,845	10,133	23.5 %	8.4 %	47
1	2,147	21,945	10,221	23.7 %	8.3 %	48

Key Performance Indicators on Direct Loans Originated
(Originations in thousands)

Fiscal Year /Quarter	Number of Contracts Originated	Principal Amount Originated#	Average Amount Financed*^	Average APR*	Average Term*
2021	3,497	\$ 14,148	\$ 4,131	29.6 %	25
4	753	3,284	4,362	29.6 %	25
3	1,265	4,605	3,641	30.9 %	22
2	924	3,832	4,147	29.2 %	25
1	555	2,427	4,373	28.7 %	26
2020	3,142	\$ 12,638	\$ 4,017	28.2 %	25
4	720	3,104	4,310	28.6 %	25
3	1,137	4,490	3,949	28.4 %	24
2	739	2,988	4,043	27.4 %	25
1	546	2,056	3,765	28.2 %	24
2019	1,918	\$ 7,741	\$ 4,036	26.4 %	25
4	236	1,240	4,654	27.3 %	24
3	738	2,999	4,063	25.9 %	25
2	495	1,805	3,646	26.5 %	25
1	449	1,697	3,779	25.7 %	28

*Each average included in the tables is calculated as a simple average.

^Average amount financed is calculated as a single loan amount.
#Bulk portfolio purchase excluded for period-over-period comparability.

The Company's ability to compete effectively with other companies offering similar financing arrangements depends in part upon the Company maintaining close business relationships with dealers of used and new vehicles. No single dealer out of the approximately 10,000 dealers with which the Company currently has active contractual relationships represents a significant amount of the Company's business volume for any of the fiscal years ended March 31, 2021 or 2020.

Regulation

The Company's financing operations are subject to regulation, supervision and licensing under many federal, state and local statutes, regulations and ordinances. Additionally, the procedures that the Company must follow regarding the repossession of vehicles securing Contracts are regulated by each of the states in which the Company does business. Accordingly, the laws of such states, as well as applicable federal law, govern the Company's operations. The following constitute certain of the existing federal, state and local statutes, regulations and ordinances with which the Company must comply:

- *State consumer regulatory agency requirements.* Pursuant to state regulations, on-site or off-site examinations can be conducted for any of the locations listed below. Examinations monitor compliance with applicable regulations. These regulations include, but are not limited to: licensure requirements; requirements for maintenance of proper records; payment of required fees; maximum interest rates that may be charged on loans to finance used vehicles; and proper disclosure to customers regarding financing terms.
- *State licensing requirements.* The Company files a notification or obtains a license to acquire Contracts in each state in which it acquires Contracts. Furthermore, some states require dealers to maintain a Retail Installment Seller's License, and where applicable, the Company only conducts business with dealers who hold such a license. For Direct Loan activities, the Company obtains licenses, where required, from each state in which it offers consumer loans.
- *Fair Debt Collection Practices Act.* The Fair Debt Collection Practices Act ("FDCPA") and applicable state law counterparts prohibit the Company from contacting customers during certain times and at certain places, from using certain threatening practices and from making false implications when attempting to collect a debt.
- *Truth in Lending Act.* The Truth in Lending Act ("TILA") requires the Company and the dealers it does business with to make certain disclosures to customers, including the terms of repayment, the total finance charge and the annual percentage rate charged on each Contract or Direct Loan.
- *Equal Credit Opportunity Act.* The Equal Credit Opportunity Act ("ECOA") prohibits creditors from discriminating against loan applicants on the basis of race, color, sex, age or marital status. Pursuant to Regulation B promulgated under the ECOA, creditors are required to make certain disclosures regarding consumer rights and advise consumers whose credit applications are not approved of the reasons for the rejection.
- *Electronic Signatures in Global and National Commerce Act.* The Electronic Signatures in Global and National Commerce Act ("ESIGN") requires the Company to provide consumers with clear and conspicuous disclosures before the consumer gives consent to authorize the use of electronic signatures, electronic contracts, and electronic records.
- *Fair Credit Reporting Act.* The Fair Credit Reporting Act ("FCRA") requires the Company to provide certain information to consumers whose credit applications are not approved on the basis of a report obtained from a consumer reporting agency, as well as, ensure the accuracy and integrity of consumer information reported to credit reporting agencies.
- *Gramm-Leach-Bliley Act.* The Gramm-Leach-Bliley Act ("GLBA") requires the Company to maintain privacy with respect to certain consumer data in its possession and to periodically communicate with consumers on privacy matters.

- *Servicemembers Civil Relief Act.* The Servicemembers Civil Relief Act (“SCRA”) requires the Company to reduce the interest rate charged on each loan to customers who have subsequently joined, enlisted, been inducted or called to active military duty and places limitations on collection and repossession activity.
- *Military Lending Act.* The Military Lending Act (“MLA”) requires the Company to limit the military annual percentage rate (“MAPR”) that the Company may charge to a maximum of 36 percent, requires certain disclosures to military consumers, and provides other substantive consumer protections on credit extended to Servicemembers and their families.
- *Electronic Funds Transfer Act.* The Electronic Funds Transfer Act (“EFTA”) prohibits the Company from requiring its customers to repay a loan or other credit by electronic funds transfer (“EFT”), except in limited situations which do not apply to the Company. The Company is also required to provide certain documentation to its customers when an EFT is initiated and to provide certain notifications to its customers with regard to preauthorized payments.
- *Telephone Consumer Protection Act.* The Telephone Consumer Protection Act (“TCPA”) governs the Company’s practice of contacting customers by certain means i.e. auto dealers, pre-recorded or artificial voice calls on customers’ land lines, fax machines and cell phones, including text messages.
- *Bankruptcy.* Federal bankruptcy and related state laws may interfere with or affect the Company’s ability to recover collateral or enforce a deficiency judgment.
- *Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank Act”).* Title X of the Dodd-Frank Act created the Consumer Financial Protection Bureau (“CFPB”), which, effective as of July 21, 2011, has the authority to issue and enforce regulations under the federal “enumerated consumer laws,” including (subject to certain statutory limitations) FDCPA, TILA, ECOA, FCRA, GLBA and EFTA. The CFPB has rulemaking and enforcement authority over certain non-depository institutions, including us. The CFPB is specifically authorized, among other things, to take actions to prevent companies providing consumer financial products or services and their service providers from engaging in unfair, deceptive or abusive acts or practices in connection with consumer financial products and services, and to issue rules requiring enhanced disclosures for consumer financial products or services. Under the Dodd-Frank Act, the CFPB also may restrict the use of pre-dispute mandatory arbitration clauses in contracts between covered persons and consumers for a consumer financial product or service. The CFPB also has authority to interpret, enforce, and issue regulations implementing enumerated consumer laws, including certain laws that apply to the Company’s business. The CFPB issued rules regarding the supervision and examination of non-depository “larger participants” in the automobile finance business. At this time, the Company is not deemed a larger participant.

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

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

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

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

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

The Company's management believes that the Company maintains all requisite licenses and permits and is in material compliance with applicable local, state and federal laws and regulations. The Company periodically reviews its branch office practices in an effort to ensure such compliance. Although compliance with existing laws and regulations has not had a material adverse effect on the Company's operations to date, given the increasingly complex regulatory environment, the increasing costs of complying with such laws and regulations, and the increasing risk of penalties, fines or other liabilities associated therewith, no assurances can be given that the Company is in material compliance with all of such laws or regulations or that the costs of such compliance, or the failure to be in such compliance, will not have a material adverse effect on the Company's business, financial condition or results of operations.

For more information, please refer to the risk factors titled "On October 5, 2017, the CFPB released the final rule Payday, Vehicle Title and Certain High-Cost Installment Loans under the Dodd Frank Act, which as adopted could potentially have a material adverse effect on our operations and financial performance", "The CFPB has broad authority to pursue administrative proceedings and litigation for violations of federal consumer financing laws" and "Pursuant to the authority granted to it under the Dodd-Frank Act, the CFPB adopted rules that subject larger nonbank automobile finance companies to supervision and examination by the CFPB. Any such examination by the CFPB likely would have a material adverse effect on our operations and financial performance", which are incorporated herein by reference.

Employees

The Company's management and various support functions are centralized at the Company's corporate headquarters in Clearwater, Florida. As of March 31, 2021, the Company employed a total of 261 persons, of which 43 persons were employed at the Company's corporate headquarters. None of the Company's employees are subject to a collective bargaining agreement, and the Company considers its relations with its employees generally to be good.

We are also committed to fostering, cultivating, and preserving a culture of diversity, equity, and inclusion ("DE&I"). We believe that the collective sum of the individual differences, life experiences, knowledge, inventiveness, self-expression, unique capabilities, and talent that our employees invest in their work represent a significant part of our culture, reputation, and achievement. We believe that an emphasis on DE&I drives value for our employees, customers, and stockholders, and that our DE&I commitment enables us to better serve our communities.

In fiscal year 2021, we also focused on and invested in maintaining the health and safety of our employees in the midst of the COVID-19 pandemic. We implemented enhanced safety measures in all of our branches, covered the cost of virtual health visits for our employees, and offered paid leave for those exposed to the COVID-19 virus.

We also offer our employees a variety of training and development opportunities. New employees complete a comprehensive training curriculum that focuses on the company- and position-specific competencies needed to be successful. The training includes a blended approach utilizing eLearning modules, hands-on exercises, webinars, and assessments. Training content is focused on our operating policies and procedures, as well as several key compliance areas.

Item 1A. Risk Factors

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

Risks Related to COVID-19

The extent to which COVID-19 and measures taken in response thereto impact our business, results of operations and financial condition will continue to depend on factors outside of our control. COVID-19 has had and is likely to continue to have a material impact on our results of operations and financial condition and heightens many of our known risks.

The outbreak of the global pandemic of COVID-19 and resultant economic effects of preventative measures taken across the United States and worldwide have been weighing on the macroeconomic environment, negatively impacting consumer confidence, employment rates and other economic indicators that contribute to consumer spending behavior and demand for credit. The extent to which COVID-19 impacts our business, results of operations and financial condition will continue to depend on factors outside of our control, which are highly uncertain and difficult to predict, including, but not limited to, the duration and spread of the outbreak in light of different levels of vaccination across the globe and new variants of the virus, its severity, actions to contain the virus or treat its impact, and whether the currently observable resumption of pre-pandemic economic and operating conditions in the United States can continue. While the magnitude of the ultimate impact from COVID-19 continues to be uncertain, we observed for a portion of the year ended March 31, 2021 declines in purchase volume that contributed to a decline in interest income. For more information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

In addition, the spread of COVID-19 has caused us to modify our business practices (including restricting employee travel, developing social distancing plans for our employees and cancelling physical participation in meetings, events and conferences), and we may take further actions as may be required by government authorities or as we determine is in the best interests of our employees, partners and customers. The outbreak has adversely impacted and may further adversely impact our workforce and operations and the operations of our partners, customers, suppliers and third-party vendors, throughout the time period during which the spread of COVID-19 continues and related restrictions remain in place, and even after the COVID-19 outbreak has subsided.

Even after the COVID-19 outbreak has subsided, our business may continue to experience materially adverse impacts as a result of the virus’s economic impact, including the availability and cost of funding and any recession that has occurred or may occur in the future. There are no comparable recent events that provide guidance as to the effect COVID-19 as a global pandemic may have, and, as a result, the ultimate impact of the outbreak is highly uncertain and subject to change.

Risks Related to Our Business and Industry

Our success is dependent on our ability to forecast the performance of our Contracts and Direct Loans.

We have in the past experienced and may in the future experience high delinquency and loss rates in our portfolios. This has in the past reduced and may continue to reduce our profitability. In addition, our inability to accurately forecast and estimate the amount and timing of future collections could have a material adverse effect on our financial position, liquidity and results of operations.

Our consolidated net income for the year ended March 31, 2021 was \$8.4 million as compared to net income of \$3.5 million for the year ended March 31, 2020. Our profitability depends, to a material extent, on the performance of

contracts that we purchase. Historically, we have experienced higher delinquency rates than traditional financial institutions because substantially all of our Contracts and Direct Loans are to non-prime borrowers, who are unable to obtain financing from traditional sources due primarily to their credit history. Contracts and Direct Loans made to these individuals generally entail a higher risk of delinquency, default, repossession, and higher losses than loans made to consumers with better credit.

Our underwriting standards and collection procedures may not offer adequate protection against the risk of default, especially in periods of economic uncertainty and wage stagnation such as have existed over much of the past few years. In the event of a default, the collateral value of the financed vehicle usually does not cover the outstanding Contract or Direct Loan balance and costs of recovery.

Our ability to accurately forecast performance and determine an appropriate provision and allowance for credit losses, is critical to our business and financial results. The allowance for credit losses is established through a provision for credit losses based on management's evaluation of the risk inherent in the portfolio, the composition of the portfolio, specific impaired Contracts and Direct Loans, and current economic conditions. Please see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policy" in Item 7 of this Form 10-K and which is incorporated herein by reference.

There can be no assurance that our performance forecasts will be accurate. In periods with changing economic conditions, such as is the case currently, accurately forecasting the performance of Contract and Direct Loans is more difficult. Our allowance for losses is an estimate, and if actual Contract and Direct Loan losses are materially greater than our allowance for losses, or more generally, if our forecasts are not accurate, our financial position, liquidity and results of operations could be materially adversely affected. For example, uncertainty surrounding the continuing economic impact of COVID-19 on our customers has made historical information on credit losses slightly less reliable in the current environment, and there can be no assurances that we have accurately estimated loan losses.

Other than limited representations and warranties made by dealers in favor of the Company, Contracts are purchased from the dealers without recourse, and we are therefore only able to look to the borrowers for repayment.

In June 2016, the Financial Accounting Standards Board ("FASB") issued the ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. Among other things, the amendments in this ASU require the measurement of all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. The ASU also requires additional disclosures related to estimates and judgments used to measure all expected credit losses. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Recently, the FASB voted to delay the implementation date for this accounting standard, for smaller reporting companies, the new effective date is beginning after December 15, 2022, and early adoption is permitted. The Company is currently evaluating the impact of the adoption of this ASU on the consolidated financial statements and is collecting and analyzing data that will be needed to produce historical inputs into any models created as a result of adopting this ASU. At this time, the Company believes the adoption of this ASU will likely have a material effect and is expected to increase the overall allowance for credit losses.

We operate in an increasingly competitive market.

The non-prime consumer-finance industry is highly competitive, and the competitiveness of the market continues to increase as new competitors continue to enter the market and certain existing competitors continue to expand their operations and become more aggressive in offering competitive terms. There are numerous financial service companies that provide consumer credit in the markets served by us, including banks, credit unions, other consumer finance companies and captive finance companies owned by automobile manufacturers and retailers. Many of these competitors have substantially greater financial resources than us. In addition, some of our competitors often provide financing on terms more favorable to automobile purchasers or dealers than we offer. Many of these competitors also have long-standing relationships with automobile dealerships and may offer dealerships, or their customers,

other forms of financing including dealer floor-plan financing and leasing, which are not provided by us. Providers of non-prime consumer financing have traditionally competed primarily on the basis of:

- interest rates charged;
- the quality of credit accepted;
- dealer discount;
- amount paid to dealers relative to the wholesale book value;
- the flexibility of Contract and Direct Loan terms offered; and
- the quality of service provided.

Our ability to compete effectively with other companies offering similar financing arrangements depends in part on our ability to maintain close relationships with dealers of used and new vehicles. We may not be able to compete successfully in this market or against these competitors. In recent years, it has become increasingly difficult for the Company to match or exceed pricing of its competitors, which has generally resulted in declining Contract acquisition rates during the 2020 and 2021 fiscal years.

We have focused on a segment of the market composed of consumers who typically do not meet the more stringent credit requirements of traditional consumer financing sources and whose needs, as a result, have not been addressed consistently by such financing sources. As new and existing providers of consumer financing have undertaken to penetrate our targeted market segment, we have experienced increasing pressure to reduce our interest rates, fees and dealer discounts in order to maintain our market share. The Company's average dealer discount on Contracts purchased for the fiscal years ended March 31, 2021 and 2020 was 7.5% and 7.9%, respectively. The Company's average APR on Contracts purchased for the fiscal years ended March 31, 2021 and 2020, was 23.4% and 23.4%, respectively. These competitive factors continue to exist and may impact our ability to secure quality loans on our preferred terms in significant quantities.

In addition, the number of Contracts and Direct Loans under which customers decided to discontinue contractually required payments to us after they were approved by other lenders for new vehicle financing has recently increased. We are particularly vulnerable to the effects of these practices because of our focus on providing financing with respect to used vehicles.

Our business depends on our continued access to bank financing on acceptable terms.

Prior to March 2019, we financed our operations through traditional bank credit facilities and cash flows generated from operations. On March 29, 2019, we entered into a new senior secured credit facility (the "Credit Facility"). Our ability to access capital through our existing Credit Facility, or undertake a future facility, or other debt or equity transactions on economically favorable terms or at all, depends in large part on factors that are beyond our control, including:

- Conditions in the securities and finance markets generally, and for securitized instruments in particular;
- A negative bias toward our industry;
- General economic conditions and the economic health of our earnings, cash flows and balance sheet;
- Security or collateral requirements;
- The credit quality and performance of our customer receivables;
- Regulatory restrictions applicable to us;
- Our overall business and industry prospects;
- Our overall sales performance, profitability, cash flow, balance sheet quality, and regulatory restrictions;
- Our ability to provide or obtain financial support for required credit enhancement;

- Our ability to adequately service our financial instruments;
- Our ability to meet debt covenant requirements; and
- Prevailing interest rates.

Our Credit Facility is subject to certain defaults and negative covenants.

The Credit Facility loan documents contain customary events of default and negative covenants, including but not limited to those governing indebtedness, liens, fundamental changes, investments, and sales of receivables. Such loan documents also restrict the Company’s ability, without lenders’ consent, to modify its credit policies or make changes to its form of Direct Loan contract or its form of dealer agreement. If an event of default occurs, the lenders could increase borrowing costs, restrict our ability to obtain additional advances under the Credit Facility, accelerate all amounts outstanding under the Credit Facility, enforce their interest against collateral pledged under the Credit Facility or enforce their rights under the guarantees.

Our existing and future levels of indebtedness could adversely affect our financial health, ability to obtain financing in the future, ability to react to changes in our business and ability to fulfill our obligations under such indebtedness.

As of March 31, 2021, we had aggregate outstanding indebtedness, under our Credit Facility of \$88.3 million compared to \$126.8 million as of March 31, 2020. This level of indebtedness could:

- Make it more difficult for us to satisfy our obligations with respect to our outstanding notes and other indebtedness, resulting in possible defaults on and acceleration of such indebtedness;
- Require us to dedicate a substantial portion of our cash flow from operations to the payment of principal and interest on our indebtedness, thereby reducing the availability of such cash flows to fund working capital, acquisitions, new store openings, capital expenditures and other general corporate purposes;
- Limit our ability to obtain additional financing for working capital, acquisitions, new store openings, capital expenditures, debt service requirements and other general corporate purposes;
- Limit our ability to refinance indebtedness or cause the associated costs of such refinancing to increase;
- Increase our vulnerability to general adverse economic and industry conditions, including interest rate fluctuations (because a portion of our borrowings are at variable rates of interest); and
- Place us at a competitive disadvantage compared to our competitors with proportionately less debt or comparable debt at more favorable interest rates which, as a result, may be better positioned to withstand economic downturns.

On May 27, 2020, the Company obtained a loan in the amount of \$3,243,900 from a bank in connection with the U.S. Small Business Administration’s (“SBA”) Paycheck Protection Program (the “PPP Loan”). Pursuant to the Paycheck Protection Program, all or a portion of the PPP Loan may be forgiven if the Company uses the proceeds of the PPP Loan for its payroll costs and other expenses in accordance with the requirements of the Paycheck Protection Program. The Company used the proceeds of the PPP Loan for payroll costs and other covered expenses and sought full forgiveness of the PPP Loan, but there can be no assurance that the Company will obtain any forgiveness of the PPP Loan. The Company submitted the forgiveness application to Fifth Third Bank, the lender, on December 7, 2020 and submitted supplemental documentation on January 16, 2021. Currently the application is pending SBA decision. Therefore, per the Paycheck Protection Flexibility Act of 2020, P.L. 116-142, all loan payments are deferred while the Company awaits the SBA’s decision on loan forgiveness. If the PPP Loan is not fully forgiven, the Company will remain liable for the full and punctual payment of the outstanding principal balance plus accrued and unpaid interest.

Unless forgiven, the outstanding principal balance plus accrued and unpaid interest (accruing at the rate of 1.00% per annum) is due on May 22, 2022. The PPP Loan is unsecured. The PPP Loan may be prepaid at any time prior to

maturity with no prepayment penalties. The related promissory note contains events of default and other provisions customary for a loan of this type.

Any of the foregoing impacts of our level of indebtedness could have a material adverse effect on us.

An increase in market interest rates may reduce our profitability.

Our long-term profitability may be directly affected by the level of and fluctuations in interest rates. Sustained, significant increases in interest rates may adversely affect our liquidity and profitability by reducing the interest rate spread between the rate of interest we receive on our Contracts and interest rates that we pay under our Credit Facility. As interest rates increase, our gross interest rate spread on new originations will generally decline since the rates charged on the contracts originated or purchased from dealers generally are limited by statutory maximums, restricting our opportunity to pass on increased interest costs. We monitor the interest rate environment and, on occasion, enter into interest rate swap agreements relating to a portion of our outstanding debt. Such agreements effectively convert a portion of our floating-rate debt to a fixed-rate, thus reducing the impact of interest rate changes on our interest expense. However, the interest rate swap agreements in effect for most of the past five years matured during the fiscal year ended March 31, 2018, and we have not entered into new arrangements. We will continue to evaluate interest rate swap pricing and we may or may not enter into interest rate swap agreements in the future.

We are subject to risks associated with litigation.

As a consumer finance company, we are subject to various consumer claims and litigation seeking damages and statutory penalties, based upon, among other things:

- usury laws;
- disclosure inaccuracies;
- wrongful repossession;
- violations of bankruptcy stay provisions;
- certificate of title disputes;
- fraud;
- breach of contract; and
- discriminatory treatment of credit applicants.

Some litigation against us could take the form of class action complaints by consumers. As the assignee of Contracts originated by dealers, we may also be named as a co-defendant in lawsuits filed by consumers principally against dealers. The damages and penalties claimed by consumers in these types of actions can be substantial. The relief requested by the plaintiffs varies but may include requests for compensatory, statutory, and punitive damages. We also are periodically subject to other kinds of litigation typically experienced by businesses such as ours, including employment disputes and breach of contract claims. No assurances can be given that we will not experience material financial losses in the future as a result of litigation or other legal proceedings.

We depend upon our relationships with our dealers.

Our business depends in large part upon our ability to establish and maintain relationships with reputable dealers who originate the Contracts we purchase. Although we believe we have been successful in developing and maintaining such relationships, such relationships are not exclusive, and many of them are not longstanding. There can be no assurances that we will be successful in maintaining such relationships or increasing the number of dealers with whom we do business, or that our existing dealer base will continue to generate a volume of Contracts comparable to the volume of such Contracts historically generated by such dealers.

Our business is highly dependent upon general economic conditions.

We are subject to changes in general economic conditions that are beyond our control. During periods of economic uncertainty, such as has existed for much of the past few years, delinquencies, defaults, repossessions, and losses generally increase, absent offsetting factors. These periods also may be accompanied by decreased consumer demand for automobiles and declining values of automobiles securing outstanding loans, which weakens collateral coverage on our loans and increases the amount of a loss we would experience in the event of default. Because we focus on non-prime borrowers, the actual rates of delinquencies, defaults, repossessions, and losses on these loans are higher than those experienced in the general automobile finance industry and could be more dramatically affected by a general economic downturn. In addition, during an economic slowdown or recession, our servicing costs may increase without a corresponding increase in our servicing income. No assurances can be given that our underwriting criteria and collection methods to manage the higher risk inherent in loans made to non-prime borrowers will afford adequate protection against these risks. Any sustained period of increased delinquencies, defaults, repossessions, or losses, or increased servicing costs could have a material adverse effect on our business and financial condition.

Furthermore, in a low interest-rate environment such as has existed in the United States in recent years, the level of competition increases in the non-prime consumer-finance industry as new competitors enter the market and many existing competitors expand their operations. Such increased competition, in turn, has exerted increased pressure on us to reduce our interest rates, fees, and dealer discount rates in order to maintain our market share. Any further reductions in our interest rates, fees or dealer discount rates could have a material adverse impact on our profitability or financial condition.

The auction proceeds we receive from the sale of repossessed vehicles and other recoveries are subject to fluctuation due to economic and other factors beyond our control.

If we repossess a vehicle securing a Contract, we typically have it transported to an automobile auction for sale. Auction proceeds from the sale of repossessed vehicles and other recoveries are usually not sufficient to cover the outstanding balance of the Contract, and the resulting deficiency is charged off. In addition, there is, on average, approximately a 30-day lapse between the time we repossess a vehicle and the time it is sold. The proceeds we receive from such sales depend upon various factors, including the supply of, and demand for, used vehicles at the time of sale. Such supply and demand are dependent on many factors. For example, during periods of economic uncertainty, the demand for used cars may soften, resulting in decreased auction proceeds to us from the sale of repossessed automobiles. Furthermore, depressed wholesale prices for used automobiles may result from significant liquidations of rental or fleet inventories, and from increased volume of trade-ins due to promotional financing programs offered by new vehicle manufacturers. Newer, more expensive vehicles securing our larger dollar loans are more susceptible to wholesale pricing fluctuations than are older vehicles and also experience depreciation at a much greater rate. Until the Company's portfolio has been successfully converted to primarily consisting of our target vehicle (primary transportation to and from work for the subprime borrower), the Company expects to be affected by softer auction activity and reduced vehicle values.

We partially rely on third parties to deliver services, and failure by those parties to provide these services or meet contractual requirements could have a material adverse effect on our business, financial condition and results of operations.

We depend on third-party service providers for many aspects of our business operations, including loan origination, title processing, and online payments, which increases our operational complexity and decreases our control. We rely on these service providers to provide a high level of service and support, which subjects us to risks associated with inadequate or untimely service. If a service provider fails to provide the services that we require or expect, or fails to meet contractual requirements, such as service levels or compliance with applicable laws, a failure could negatively impact our business by adversely affecting our ability to process customers' transactions in a timely and accurate manner, otherwise hampering our ability to service our customers, or subjecting us to litigation or regulatory risk for poor vendor oversight. We may be unable to replace or be delayed in replacing these sources and there is a risk that we would be unable to enter into a similar agreement with an alternate provider on terms that we consider favorable or in a timely manner. Such a failure could have a material and adverse effect on our business, financial condition, and results of operations.

Our growth depends upon our ability to retain and attract a sufficient number of qualified employees.

To a large extent, our growth strategy depends on the opening of new offices that focus primarily on purchasing Contracts and making Direct Loans in markets we have not previously served. Future expansion of our branch office network depends, in part, upon our ability to attract and retain qualified and experienced office managers and the ability of such managers to develop relationships with dealers that serve those markets. We generally do not open a new office until we have located and hired a qualified and experienced individual to manage the office. Typically, this individual will be familiar with local market conditions and have existing relationships with dealers in the area to be served. Although we believe that we can attract and retain qualified and experienced personnel as we proceed with planned expansion into new markets, no assurance can be given that we will be successful in doing so. Competition to hire personnel possessing the skills and experience required by us could contribute to an increase in our employee turnover rate. High turnover or an inability to attract and retain qualified personnel could have an adverse effect on our origination, delinquency, default, and net loss rates and, ultimately, our business and financial condition.

Natural disasters, acts of war, terrorist attacks and threats, or the escalation of military activity in response to these attacks or otherwise may negatively affect our business, financial condition, and results of operations.

Natural disasters (such as hurricanes), acts of war, terrorist attacks and the escalation of military activity in response to these attacks or otherwise may have negative and significant effects, such as disruptions in our operations, imposition of increased security measures, changes in applicable laws, market disruptions and job losses. Our headquarters are located in Clearwater, Florida and much of our revenue is generated in Florida. Florida is particularly susceptible to hurricanes. These events may have an adverse effect on the economy in general. Moreover, the potential for future terrorist attacks and the national and international responses to these threats could affect the business in ways that cannot be predicted. The effect of any of these events or threats could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Regulation

On October 5, 2017, the CFPB released the final rule Payday, Vehicle Title and Certain High-Cost Installment Loans under the Dodd Frank Act, which as adopted could potentially have a material adverse effect on our operations and financial performance.

In 2017, the CFPB adopted rules applicable to payday, title and certain high-cost installment loans. The rules address the underwriting of covered short-term loans and longer-term balloon-payment loans, including payday and vehicle title loans, as well as related reporting and recordkeeping provisions. These provisions have become known as the “mandatory underwriting provisions” and include rules for lenders to follow to determine whether or not consumers have the ability to repay the loans according to their terms. If this rule becomes effective it could have a materially adverse effect on our current business and make it less profitable. If this rule becomes effective it could have a materially adverse effect on our current business and make it less profitable. Additionally, the CFPB may target specific features of loans by rulemaking that could cause us to cease offering certain products, or adopt rules imposing new and potentially burdensome requirements and limitations with respect to any of our current or future lines of business, which could have a material adverse effect on our operations and financial performance. The CFPB could also implement rules that limit our ability to continue servicing our financial products and services.

The CFPB has broad authority to pursue administrative proceedings and litigation for violations of federal consumer financing laws.

The CFPB has the authority to obtain cease and desist orders (which can include orders for restitution or rescission of contracts, as well as other kinds of affirmative relief) and monetary penalties ranging from \$5,000 per day for minor violations of federal consumer financial laws (including the CFPB’s own rules) to \$25,000 per day for reckless violations and \$1 million per day for knowing violations. If we are subject to such administrative proceedings, litigation, orders or monetary penalties in the future, this could have a material adverse effect on our operations and financial performance. Also, where a company has violated Title X of the Dodd-Frank Act or CFPB regulations under Title X, the Dodd-Frank Act empowers state attorneys general and state regulators to bring civil actions for the kind of cease and desist orders available to the CFPB (but not for civil penalties). If the CFPB or one or more state officials believe we have violated the foregoing laws, they could exercise their enforcement powers in

ways that would have a material adverse effect on us. See “Item 1. Business – Regulation” for additional information.

Pursuant to the authority granted to it under the Dodd-Frank Act, the CFPB adopted rules that subject larger nonbank automobile finance companies to supervision and examination by the CFPB. Any such examination by the CFPB likely would have a material adverse effect on our operations and financial performance.

The CFPB defines a “larger participant” of automobile financing if it has at least 10,000 aggregate annual originations. The Company does not meet the threshold of at least 10,000 aggregate annual direct loan originations, and therefore would not fall under the CFPB’s supervisory authority. The CFPB issued rules regarding the supervision and examination of non-depository “larger participants” in the automobile finance business. The CFPB’s stated objectives of such examinations are: to assess the quality of a larger participant’s compliance management systems for preventing violations of federal consumer financial laws; to identify acts or practices that materially increase the risk of violations of federal consumer finance laws and associated harm to consumers; and to gather facts that help determine whether the larger participant engages in acts or practices that are likely to violate federal consumer financial laws in connection with its automobile finance business. At such time, as we become or the CFPB defines us as a larger participant, we will be subject to examination by the CFPB for, among other things, ECOA compliance; unfair, deceptive or abusive acts or practices (“UDAAP”) compliance; and the adequacy of our compliance management systems.

We have continued to evaluate our existing compliance management systems. We expect this process to continue as the CFPB promulgates new and evolving rules and interpretations. Given the time and effort needed to establish, implement and maintain adequate compliance management systems and the resources and costs associated with being examined by the CFPB, such an examination could likely have a material adverse effect on our business, financial condition and profitability. Moreover, any such examination by the CFPB could result in the assessment of penalties, including fines, and other remedies which could, in turn, have a material effect on our business, financial condition, and profitability.

We are subject to many other laws and governmental regulations, and any material violations of or changes in these laws or regulations could have a material adverse effect on our financial condition and business operations.

Our financing operations are subject to regulation, supervision, and licensing under various other federal, state and local statutes and ordinances. Additionally, the procedures that we must follow in connection with the repossession of vehicles securing Contracts are regulated by each of the states in which we do business. The various federal, state and local statutes, regulations, and ordinances applicable to our business govern, among other things:

- licensing requirements;
- requirements for maintenance of proper records;
- payment of required fees to certain states;
- maximum interest rates that may be charged on loans to finance used and new vehicles;
- debt collection practices;
- proper disclosure to customers regarding financing terms;
- privacy regarding certain customer data;
- interest rates on loans to customers;
- late fees and insufficient fees charged;
- telephone solicitation of Direct Loan customers; and
- collection of debts from loan customers who have filed bankruptcy.

We believe that we maintain all material licenses and permits required for our current operations and are in substantial compliance with all applicable local, state and federal regulations. Our failure, or the failure by dealers who originate the Contracts we purchase, to maintain all requisite licenses and permits, and to comply with other

regulatory requirements, could result in consumers having rights of rescission and other remedies that could have a material adverse effect on our financial condition. Furthermore, any changes in applicable laws, rules and regulations, such as the passage of the Dodd-Frank Act and the creation of the CFPB, may make our compliance therewith more difficult or expensive or otherwise materially adversely affect our business and financial condition.

Some litigation against us could take the form of class action complaints by consumers. As the assignee of contracts originated by dealers, we may also be named as a co-defendant in lawsuits filed by consumers principally against dealers. The damages and penalties claimed by consumers in these types of actions can be substantial. The relief requested by the plaintiffs varies but may include requests for compensatory, statutory, and punitive damages. We also are periodically subject to other kinds of litigation typically experienced by businesses such as ours, including employment disputes and breach of contract claims. No assurances can be given that we will not experience material financial losses in the future as a result of litigation or other legal proceedings.

Risks Related to Privacy and Cybersecurity

Failure to properly safeguard confidential customer information could subject us to liability, decrease our profitability, and damage our reputation.

In the ordinary course of our business, we collect and store sensitive data, including our proprietary business information and personally identifiable information of our customers, on our computer networks, and share such data with third parties. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy.

Any failure, interruption, or breach in our cyber security, including through employee misconduct or any failure of our back-up systems or failure to maintain adequate security surrounding customer information, could result in reputational harm, disruption in the management of our customer relationships, or the inability to originate, process and service our products. Further, any of these cyber security and operational risks could result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to lawsuits by customers for identity theft or other damages resulting from the misuse of their personal information and possible financial liability, any of which could have a material adverse effect on our results of operations, financial condition and liquidity. In addition, regulators may impose penalties or require remedial action if they identify weaknesses in our security systems, and we may be required to incur significant costs to increase our cyber security to address any vulnerabilities that may be discovered or to remediate the harm caused by any security breaches. As part of our business, we may share confidential customer information and proprietary information with clients, vendors, service providers, and business partners. The information systems of these third parties may be vulnerable to security breaches and we may not be able to ensure that these third parties have appropriate security controls in place to protect the information we share with them. If our confidential information is intercepted, stolen, misused, or mishandled while in possession of a third party, it could result in reputational harm to us, loss of customer business, and additional regulatory scrutiny, and it could expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our results of operations, financial condition, and liquidity.

We rely on encryption and authentication technology licensed from third parties to provide the security and authentication necessary to secure online transmission of confidential customer information. Advances in computer capabilities, new discoveries in the field of cryptography or other events or developments may result in a compromise or breach of the algorithms that we use to protect sensitive customer data. A party who is able to circumvent our security measures could misappropriate proprietary information or cause interruptions in our operations. We may be required to expend capital and other resources to protect against, or alleviate problems caused by, security breaches or other cybersecurity incidents. Although we have not experienced any material cybersecurity incidents to date, there can be no assurance that a cyber-attack, security breach or other cybersecurity incident will not have a material adverse effect on our business, financial condition or results of operations in the future. Our security measures are designed to protect against security breaches, but our failure to prevent security breaches could subject us to liability, decrease our profitability and damage our reputation.

Risks Related to our Common Stock

Our stock is thinly traded, which may limit your ability to resell your shares.

The average daily trading volume of our common shares on the NASDAQ Global Select Market for the fiscal year ended March 31, 2021 was approximately 7,500 shares, which makes ours a thinly traded stock. Thinly traded stocks pose several risks for investors because they have wider spreads and less displayed size than other stocks that

trade in higher volumes or an active trading market. Other risks posed by thinly traded stocks include difficulty selling the stock, challenges attracting market makers to make markets in the stock, and difficulty with financings. Our financial results, the introduction of new products and services by us or our competitors, and various factors affecting the consumer-finance industry generally may also have a significant impact on the market price of our common shares. In recent years, the stock market has experienced a high level of price and volume volatility, and market prices for the stocks of many companies, including ours, have experienced wide price fluctuations that have not necessarily been related to their operating performance. These risks could affect a shareholder's ability to sell their shares at the volumes, prices, or times that they desire.

We currently do not have any analysts covering our stock which could negatively impact both the stock price and trading volume of our stock.

The trading market for our common stock will likely be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market or our competitors. We do not currently have, and may never obtain, research coverage by financial analysts. If no or few analysts commence coverage of us, the trading price of our stock may not increase. Even if we do obtain analyst coverage, if one or more of the analysts covering our business downgrade their evaluation of our stock, the price of our stock could decline. If one or more of these analysts cease to cover our stock, we could lose visibility in the market for our stock, which in turn could cause our stock price to decline. Furthermore, if our operating results fail to meet analysts' expectations our stock price would likely decline.

Some provisions of our Articles may deter third parties from acquiring us and diminish the value of our common stock.

Our Articles provide for, among other things:

- division of our board of directors into three classes of directors serving staggered three-year terms;
- our ability to issue additional shares of common stock and to issue preferred stock with terms that our board of directors may determine, in each case without stockholder approval (unless required by law); and
- the absence of cumulative voting in the election of directors.

These provisions may discourage, delay or prevent a transaction involving a change in control of our Company that is in the best interest of our stockholders. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if they are viewed as discouraging future takeover attempts. These provisions could also make it more difficult for stockholders to nominate directors for election to our board of directors and take other corporate actions.

We are a "smaller reporting company" as defined in SEC regulations, and the reduced disclosure requirements applicable to smaller reporting companies may make our common stock less attractive to investors.

We are a "smaller reporting company" as defined under SEC regulations and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not smaller reporting companies including, among other things, reduced financial disclosure requirements including being permitted to provide only two years of audited financial statements and reduced disclosure obligations regarding executive compensation. As a result, our stockholders may not have access to certain information that they may deem important. We could remain a smaller reporting company indefinitely. As a smaller reporting company, investors may deem our stock less attractive and, as a result, there may be less active trading of our common stock, and our stock price may be more volatile.

General Risk Factors

We have in the past had material weaknesses in our internal control over financial reporting. Failure to maintain an effective system of internal control over financial reporting and disclosure controls and procedures could lead to a loss of investor confidence in our financial statements and have an adverse effect on our stock price.

In fiscal 2021, we remediated each of the two material weaknesses that were previously identified and were disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2020. See "Item 9A. Controls and Procedures—Remediation of Material Weaknesses."

However, we may in the future discover areas of our internal financial and accounting controls and procedures that need improvement. Our internal control over financial reporting will not prevent or detect all errors and all fraud. A control system, regardless of how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected.

If we are not able to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner, or if we are unable to maintain proper and effective internal controls, we may not be able to produce timely and accurate financial statements. If that were to happen, investors could lose confidence in our reported financial information, which could lead to a decline in the market price of our common stock and we could be subject to sanctions or investigations by the stock exchange on which our common stock is listed, the SEC or other regulatory authorities.

Additionally, the existence of any material weakness could require management to devote significant time and incur significant expense to remediate any such material weakness and management may not be able to remediate any such material weakness in a timely manner. The existence of any material weakness in our internal control over financial reporting could also result in errors in our financial statements that could require us to restate our financial statements, cause us to fail to meet our reporting obligations and cause the holders of our common stock to lose confidence in our reported financial information, all of which could materially adversely affect our business and share price.

We may experience problems with integrated computer systems or be unable to keep pace with developments in technology or conversion to new integrated computer systems.

We use various technologies in our business, including telecommunication, data processing, and integrated computer systems. Technology changes rapidly. Our ability to compete successfully with other financing companies may depend on our ability to efficiently and cost-effectively implement technological changes. Moreover, to keep pace with our competitors, we may be required to invest in technological changes that do not necessarily improve our profitability.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company leases its corporate headquarters and branch office facilities. The Company's headquarters, located at 2454 McMullen Booth Road, Building C, in Clearwater, Florida, consist of approximately 15,000 square feet of office space leased at an annual rate of approximately \$16.20 per square foot. The current lease relating to this space was entered into effective April 1, 2015 and expires on March 31, 2023.

As of March 31, 2021, each of the Company's 45 branch offices located in Alabama, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Missouri, Nevada, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Utah, and Wisconsin consists of approximately 1,700 square feet of office space (Idaho and Texas are expansion states with no local branch office). The Company acquires Contracts in Idaho and Texas through its virtual expansion office operations based in the Charlotte, North Carolina branch location. These offices are located in office parks, shopping centers, or strip malls and are occupied pursuant to leases with an initial term of one to five years at annual rates ranging from approximately \$5.00 to \$44.00 per square foot. The Company believes that these facilities and additional or alternate space available to it are adequate to meet its needs for the foreseeable future.

Item 3. 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 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's common shares are traded on the NASDAQ Global Select Market under the symbol "NICK."

As of June 14, 2021, there were approximately 116 holders of record of the Company's common shares.

The Company has not declared and paid cash dividends on its common shares in the recent past and has no current plans to declare or pay any cash dividends in the foreseeable future. There are no Canadian foreign exchange controls or laws that would affect the remittance of dividends or other payments to the Company's non-Canadian resident shareholders. There are no Canadian laws that restrict the export or import of capital, other than the Investment Canada Act (Canada), which requires the notification or review of certain investments by non-Canadians to establish or acquire control of a Canadian business. The Company is not a Canadian business as defined under the Investment Canada Act because it has no place of business in Canada, has no individuals employed in Canada in connection with its business, and has no assets in Canada used in carrying on its business.

Canada and the United States of America are signatories to the Convention Between the United States of America and Canada With Respect to Taxes on Income and on Capital (the "Tax Treaty"). The Tax Treaty contains provisions governing the tax treatment of interest, dividends, gains, and royalties paid to or received by a person residing in the United States. The Tax Treaty also contains provisions to prevent the occurrence of double taxation, essentially by permitting the taxpayer to claim a tax credit for taxes paid in the foreign jurisdiction.

Earnings from U.S. subsidiaries are permanently invested in the U.S. The Company has not provided any Canadian income tax or U.S. withholding tax on unremitted earnings. If a dividend was paid to the Company from the current or accumulated earnings and profits of the U.S. subsidiary, the dividend would be subject to a U.S. withholding tax of 5%. The gross dividend (i.e., before payment of the withholding tax) would generally be included in the Company's Canadian taxable income. However, under certain circumstances, the Company may be allowed to deduct the dividends in the calculation of its Canadian taxable income. If the Company has no other foreign (i.e., non-Canadian) non-business income, no relief is available in that case to recover the withholding taxes previously paid.

A 15% Canadian withholding tax applies to dividends paid by the Company to a U.S. shareholder (including those that own less than 10% of the Company's voting shares) that is an individual. The U.S. shareholder must include the gross amount of the dividends in the shareholder's net income to be taxed at the regular rates. In general, a U.S. shareholder can obtain a foreign tax credit for U.S. federal income tax purposes with respect to the Canadian withholding tax on such dividends, but the amount of such credit is subject to a limitation that depends, in part, on the amount of the shareholder's income and losses from other sources. A U.S. shareholder that is an individual also can elect to claim a deduction (rather than a foreign tax credit) for all non-U.S. income taxes paid by the shareholder during the particular year. The benefit of any deduction for foreign taxes may be negatively impacted by the overall limitation on deducting income and other taxes. U.S. shareholders are urged to consult their own tax advisors regarding the U.S. federal income tax treatment of any Canadian withholding tax imposed on dividends from the Company.

Unregistered Sales of Equity Securities and Use of Proceeds

The tables below sets forth the information with respect to purchase made by or on behalf of the Company or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Exchange Act) of our shares of common stock during the Fiscal Year 2021:

Period	Total Number of Shares Purchased	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under Plans or Programs
	(In thousands, except for average price paid per share)			
January 1, 2021 to January 31, 2021	15	\$ 8.52	15	\$ 7,155
February 1, 2021 to February 28, 2021	2	9.00	2	7,137
March 1, 2021 to March 31, 2021	1	10.55	1	\$ 7,126
Total	<u>18</u>	<u>\$ 8.71</u>	<u>18</u>	

In May 2019, the Company’s Board of Directors (“Board”) authorized a new stock repurchase program allowing for the repurchase of up to \$8.0 million of the Company’s outstanding shares of common stock in open market purchases, privately negotiated transactions, or through other structures in accordance with applicable federal securities laws. The authorization was effective immediately.

The timing and actual number of sharers will depend on a variety of factors, including stock price, corporate and regulatory requirements and other market and economic conditions. The Company’s stock repurchase program may be suspended or discontinued at any time.

In August 2019, the Company’s Board authorized additional repurchase of up to \$1.0 million of the Company’s outstanding shares.

Item 6. [Reserved]

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

Nicholas Financial-Canada is a Canadian holding company incorporated under the laws of British Columbia in 1986. Nicholas Financial-Canada currently conducts its business activities exclusively through a wholly-owned indirect Florida subsidiary, Nicholas Financial. Nicholas Financial is a specialized consumer finance company engaged primarily in acquiring and servicing automobile finance installment contracts (“Contracts”) for purchases of used and new automobiles and light trucks. To a lesser extent, Nicholas Financial also originates direct consumer loans (“Direct Loans”) and sells consumer-finance related products. Nicholas Financial’s financing activities accounted for 100% of the Company’s consolidated revenue for the fiscal years ended March 31, 2021 and 2020. A second Florida subsidiary, Nicholas Data Services, Inc. (“NDS”), serves as an intermediate holding company for Nicholas Financial. In addition, NF Funding I, LLC (“NF Funding I”) is a wholly-owned, special purpose financing subsidiary of Nicholas Financial.

Nicholas Financial-Canada, Nicholas Financial, NDS, NF Funding I are collectively referred to herein as the “Company”.

Introduction

The Company’s consolidated revenues decreased from \$62.1 million for the fiscal year ended March 31, 2020 to \$56.0 million for the fiscal year ended March 31, 2021. The Company’s diluted earnings per share increased from \$0.45 per share for the fiscal year ended March 31, 2020 to \$1.09 per share for the fiscal year ended March 31, 2021. The Company’s operating income increased from \$2.2 million for the year ended March 31, 2020 to \$10.9 million for the year ended March 31, 2021. The increase was a result of:

- continuing focus on disciplined underwriting and risk-based pricing;
- releasing \$4.3 million of the qualitative reserve as a result of the decrease in net charge-off percentage;
- expanding the local branch model into new states;
- identifying additional ancillary products to enhance profitability; and
- decreasing interest expense of \$2.5 million for fiscal 2021 due to a reduction in the outstanding balance and associated LIBOR.

The Company’s consolidated net income increased from \$3.5 million for the fiscal year ended March 31, 2020 to \$8.4 million for the fiscal year ended March 31, 2021.

The gross portfolio yield of the portfolio for the fiscal years ended March 31, 2021 and 2020 was 27.23% and 27.41%, respectively. Primarily as a result of the Company's decision not to sacrifice pricing for volume, the average dealer discount as a percent of finance receivables associated with new volume for recent fiscal years has generally increased. Nevertheless, for the years ended March 31, 2021 and 2020, the average dealer discount decreased from 7.9% to 7.5% primarily as a result of market conditions in the 2021 fiscal year. The APR (and therefore overall yield) on new purchases was consistent in fiscal 2021 and fiscal 2020, which was primarily driven by the Company's continuing commitment to its core principles of disciplined underwriting and risk-based pricing.

<u>Portfolio Summary</u>	<u>Fiscal Year ended March 31,</u> <u>(In thousands)</u>	
	<u>2021</u>	<u>2020</u>
Average finance receivables (1)	\$ 199,102	\$ 226,541
Average indebtedness (2)	\$ 107,615	\$ 132,552
Interest and fee income on finance receivables	54,211	62,095
Interest expense	5,980	8,515
Net interest and fee income on finance receivables	\$ 48,231	\$ 53,580
Gross portfolio yield (3)	27.23%	27.41%
Interest expense as a percentage of average finance receivables	3.00%	3.76%
Provision for credit losses as a percentage of average finance receivables	3.64%	7.46%
Net portfolio yield (3)	20.59%	16.19%
Operating expenses as a percentage of average finance receivables	15.99%	15.20%
Pre-tax yield as a percentage of average finance receivables(4)	4.60%	0.99%
Net charge-off percentage (5)	6.16%	10.01%
Finance receivables	\$ 184,237	\$ 219,366
Allowance percentage (6)	3.34%	5.09%
Total reserves percentage (7)	7.49%	9.18%

- (1) Average finance receivables represent the average of finance receivables throughout the period.
- (2) Average indebtedness represents the average outstanding borrowings under the Credit Facility.
- (3) Gross portfolio yield represents interest and fee income on finance receivables as a percentage of average finance receivables. Net portfolio yield represents (a) interest and fee income on finance receivables minus (b) interest expense minus (c) the provision for credit losses, as a percentage of average finance receivables.
- (4) Pre-tax yield represents net portfolio yield minus operating expenses, as a percentage of average finance receivables.
- (5) Net charge-off percentage represents net charge-offs (charge-offs less recoveries) divided by average finance receivables, outstanding during the period, annualized for 12 months.
- (6) Allowance percentage represents the allowance for credit losses divided by finance receivables outstanding as of ending balance sheet date.
- (7) Total reserves percentage represents the allowance for credit losses, unearned purchase price discount, and unearned dealer discounts divided by finance receivables outstanding as of ending balance sheet date.

COVID-19

The expansion of unemployment benefits by the CARES Act, the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 and the American Rescue Plan Act of 2021 to eligible individuals collectively had a beneficial effect on the Company. While pandemic unemployment assistance has been extended through September 6, 2021, the beneficial impact these benefits have had on the Company will disappear once its customers no longer qualify for such benefits. The Company continued to experience strong cash collections and experienced positive trending on gross charge-off balances for the twelve months ended March 31, 2021.

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. Due to COVID-19, the number of deferments increased to 3,114 in April 2020 from 724 in March 2020. For the year ended March 31, 2021 the Company has experienced an average monthly number of deferments of 696, which would represent approximately 2.6% of total Contracts and Direct Loans, as of March 31, 2021. For the three months ended March 31, 2021 and March 31, 2020 the Company granted deferrals to approximately 31.2% and 13.8%, respectively, of total Contracts and Direct Loans. The number of deferrals is also influenced by portfolio performance, including but not limited to, inflation, credit quality of loans purchased, competition at the time of Contract acquisition, and general economic conditions.

From May through November 2020, the monthly level of one-month principal payment deferrals declined reaching 258 deferments in November. After a brief rise in deferments in December 2020 to 446, deferments declined over the fourth quarter of fiscal 2021, averaging 237 per month with a low of 173 in March 2021. The Company believes the number of one-month principal payments deferrals is now largely consistent with pre-pandemic levels.

However, the extent to which the COVID-19 pandemic eventually impacts our business, financial condition, results of operations or cash flows will depend on numerous evolving factors that we are unable to accurately predict at this time. The length and scope of the restrictions imposed by various governments, success of vaccination efforts, and scope and duration of special government benefits to be unemployed, among other factors, will determine the ultimate severity of the COVID-19 impact on our business. It is likely that prolonged periods of difficult market conditions could have material adverse impacts on our business, financial condition, results of operations and cash flows.

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 incurred in the existing portfolio. Because of the nature of the customers under the Company's Contracts and Direct Loan program, the Company considers the establishment of adequate reserves for credit losses to be imperative.

The Company uses trailing six-month net charge-offs as a percentage of average finance receivables, annualized and applies this calculated percentage to ending finance receivables to calculate estimated future probable credit losses for purposes of determining the allowance for credit losses. The Company then takes into consideration the composition of its portfolio, current economic conditions, estimated net realizable value of the underlying collateral, historical loan loss experience, delinquency, non-performing assets, and bankrupt accounts and adjusts the above, if necessary, to determine management's total estimate of probable credit losses and its assessment of the overall adequacy of the allowance for credit losses. Management utilizes significant judgment in determining probable incurred losses and in identifying and evaluating qualitative factors. This approach aligns with the Company's lending policies and underwriting standards.

In addition, the Company takes into consideration the composition of the portfolio, current economic conditions, the estimated net realizable value of the underlying collateral, historical loan loss experience, delinquency, non-performing assets, and bankrupt accounts when determining management's estimate of probable credit losses and the adequacy of the allowance for credit losses. If the allowance for credit losses is determined to be inadequate, then an additional charge to the provision would be recorded to maintain adequate reserves based on management's evaluation of the risk inherent in the loan portfolio.

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 the applicable state maximum interest rate, if any, or the maximum interest rate which the customer will accept. In most 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 generally purchases Contracts on an individual basis.

The Company utilizes the branch model, which allows for Contract purchasing to be done at the branch level. The Company has detailed underwriting guidelines it utilizes to determine which Contracts to purchase. These guidelines

are specific and are designed to provide reasonable assurance that the Contracts that the Company purchases have common risk characteristics. The Company utilizes its District Managers to evaluate their respective branch locations for adherence to these underwriting guidelines, as well as approve underwriting exceptions. Any Contract that does not meet the Company’s underwriting guidelines can be submitted by a branch manager for approval from the Company’s District Managers or senior management.

Fiscal 2021 Compared to Fiscal 2020

Interest and Fee Income on Finance Receivables

Interest and fee income on finance receivables, predominantly finance charge income, decreased to \$54.2 million in fiscal 2021 as compared to \$62.1 million in fiscal 2020. The average finance receivables totaled \$199.1 million for the fiscal year ended March 31, 2021, a decrease of 12.1% from \$226.5 million for the fiscal year ended March 31, 2020. Purchasing volume decreased from fiscal 2020 primarily as a result of continuing conservative underwriting practices, even in the face of the effects of Covid-19.

Competition also continued to affect the Company’s ability to acquire Contracts at desired yields. The average APR on new Contract purchases was constant at 23.4% for the fiscal years 2021 and 2020, respectively. Concurrently, the dealer discount on new Contract purchases decreased from 7.9% for fiscal year 2020 to 7.5% for fiscal year 2021, primarily as a result of competitive pressures. Overall, the Company maintains its strategy focused on risk-based pricing (rate, yield, advance, term, etc.) and a commitment to the underwriting discipline required for optimal portfolio performance.

The gross portfolio yield decreased to 27.2% for the fiscal year ended March 31, 2021 as compared to 27.4% for the fiscal year ended March 31, 2020. The net portfolio yield increased to 20.6% for the fiscal year ended March 31, 2021 from 16.2% for the fiscal year ended March 31, 2020. The net portfolio yield increased primarily due to a decrease in the provision for credit losses as a percentage of finance receivables, as described under “Analysis of Credit Losses” below. Additionally, the Company recorded lower interest expenses for the fiscal year 2021, which also increased net portfolio yield.

Operating Expenses

Operating expenses decreased to \$31.8 million for the fiscal year ended March 31, 2021 compared to \$34.4 million for the fiscal year ended March 31, 2020 as a result of decreases across expense accounts, including but not limited to, repossessions, collection expenses, professional/consulting fees, and other identified expenses. Administrative expense decreased by approximately \$2.1 million, due to a decrease of \$1.3 million in repossession and recovery expenses, and \$0.8 million in rent charges, professional fees, and several other expense areas.

Interest Expense

Interest expense decreased to \$6.0 million for the fiscal year ended March 31, 2021, as compared to \$8.5 million for the fiscal year ended March 31, 2020, due to a decrease in average outstanding debt and interest rate. The average outstanding debt during the year ended March 31, 2021 decreased to \$107.6 million from \$132.6 million during the year ended March 31, 2020. The following table summarizes the Company’s average cost of borrowed funds for the fiscal years ended March 31:

	<u>2021</u>	<u>2020</u>
Variable interest under the line of credit and credit facility	1.81%	2.67%
Credit spread under the line of credit and credit facility	<u>3.75%</u>	<u>3.75%</u>
Average cost of borrowed funds	<u><u>5.56%</u></u>	<u><u>6.42%</u></u>

Analysis of Credit Losses

The following table sets forth a reconciliation of the changes in the allowance for credit losses on Contracts and Direct Loans for the fiscal years ended March 31:

	For the year ended March 31, 2021		
	(In thousands)		
	Indirect	Direct	Total
Balance at beginning of year	\$ 10,433	\$ 729	\$ 11,162
Provision for credit losses	7,250	-	7,250
Charge-offs	(17,141)	(682)	(17,823)
Recoveries	5,459	106	5,565
Balance at end of year	<u>\$ 6,001</u>	<u>\$ 153</u>	<u>\$ 6,154</u>

	For the year ended March 31, 2020		
	(In thousands)		
	Indirect	Direct	Total
Balance at beginning of year	\$ 16,575	\$ 357	\$ 16,932
Provision for credit losses	16,096	805	16,901
Charge-offs	(29,174)	(663)	(29,837)
Recoveries	6,936	230	7,166
Balance at end of year	<u>\$ 10,433</u>	<u>\$ 729</u>	<u>\$ 11,162</u>

The Company uses a trailing six-month net charge-off percentage, annualized, to calculate the allowance for credit losses. Management believes that using the trailing six-month net charge-off percentage, annualized, will more quickly reflect changes in the portfolio as compared to a trailing twelve-month charge-off analysis.

In addition, the Company takes into consideration the composition of the portfolio, current economic conditions, estimated net realizable value of the underlying collateral, historical loan loss experience, delinquency, non-performing assets, and bankrupt accounts when determining management's estimate of probable credit losses and adequacy of the allowance for credit losses. If the allowance for credit losses is determined to be inadequate, then an additional charge to the provision is recorded to maintain adequate reserves based on management's evaluation of the risk inherent in the loan portfolio. Conversely, the Company could identify abnormalities in the composition of the portfolio, which would indicate the calculation is overstated and management judgement may be required to determine the allowance of credit losses for both Contracts and Direct Loans. The Company's allowance for credit losses also incorporates recent trends such as delinquency, non-performing assets, and bankruptcy. The Company believes that this approach reflects the current trends of incurred losses within the portfolio and better aligns the allowance for credit losses with the portfolio's performance indicators.

Non-performing assets are defined as accounts that are contractually delinquent for 61 or more days past due or Chapter 13 bankruptcy accounts. For these accounts, the accrual of interest income is suspended, and any previously accrued interest is reversed. Upon notification of a bankruptcy, an account is monitored for collection with other Chapter 13 accounts. In the event the debtors' balance is 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, whether to begin repossession proceedings or allow the customer to begin making regularly scheduled payments.

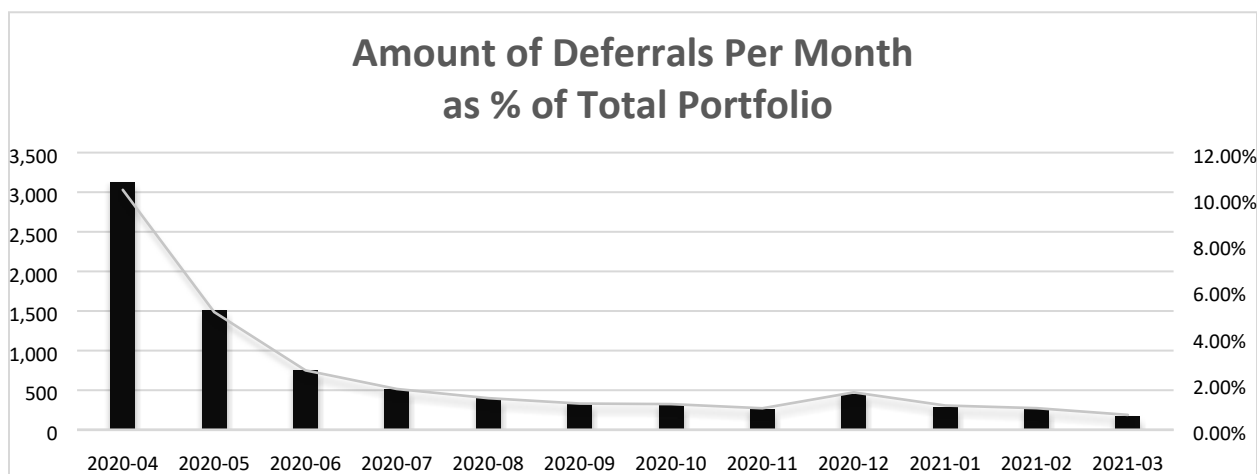
The Company defines a Chapter 13 bankruptcy account as a Troubled Debt Restructuring ("TDR"). Beginning on March 31, 2018, the Company allocated a specific reserve using a look back method to calculate the estimated losses. Based on this look back, management calculated a specific reserve of approximately \$68,000 and \$0 for these accounts as of March 31, 2021 and March 31, 2020, respectively.

The provision for credit losses decreased to \$7.3 million for the fiscal year ended March 31, 2021 from \$16.9 million for the fiscal year ended March 31, 2020, due to the 12.1% decrease in the average finance receivables and enhanced performance of the portfolio. The Company’s allowance for credit losses also incorporates recent trends such as delinquency, non-performing assets, and bankruptcy. The Company believes that this approach reflects the current trends of incurred losses within the portfolio and better aligns the allowance for credit losses with the portfolio’s performance indicators.

Net charge-offs decreased to 6.2% for the fiscal year ended March 31, 2021 from 10.0% for the fiscal year ended March 31, 2020, primarily resulting from the Company’s active management of the portfolio. (See note 5 in the Portfolio Summary table in the “Introduction” above for the definition of net charge-off percentage.)

The delinquency percentage for Contracts more than thirty days past due, excluding Chapter 13 bankruptcy accounts, as of March 31, 2021 was 5.7%, a decrease from 10.2% as of March 31, 2020. The delinquency percentage for Direct Loans more than thirty days past due, excluding Chapter 13 bankruptcy accounts, as of March 31, 2021 was 3.2%, a slight decrease from 3.6% as of March 31, 2020. The changes in delinquency percentage for both Contracts and Direct Loans was driven primarily by the Company’s renewed focus on local branch-based servicing, improving servicing, and stricter underwriting policies.

In accordance with Company policies and procedures, certain borrowers qualify for, and the Company offers, one-month principal payment deferrals on Contracts and Direct Loans. For the fiscal years ended March 31, 2021 and March 31, 2020 the Company granted deferrals to approximately 31.2% and 13.8%, respectively, of total Contracts and Direct Loans. The increase in the total number of deferrals in fiscal 2021 compared to fiscal 2020 was primarily the result of a spike on April 30, 2020, as shown in the graph below. However, the Company experienced increased collections on finance receivables on gross charge-off balances in April 2020 and May 2020. The number of deferrals is also influenced by portfolio performance, including but not limited to, inflation, credit quality of loans purchased, competition at the time of Contract acquisition, and general economic conditions. For further information on deferrals, please see the disclosure under “COVID-19” above.



Income Taxes

The Company recorded a tax benefit of approximately \$1.2 million during fiscal 2020 compared to a tax expenses of approximately \$2.6 million during fiscal 2021. The Company’s effective tax rate in fiscal 2020 was (54.3)% compared to 23.7% in fiscal 2021. For further discussion regarding income taxes see “Note 7 – Income Taxes”.

Liquidity and Capital Resources

The Company's cash flows are summarized as follows:

	Fiscal Year ended March 31,	
	(In thousands)	
	2021	2020
Cash provided by (used in):		
Operating activities	\$ 14,623	\$ 10,485
Investing activities	29,861	(3,676)
Financing activities	(36,191)	(19,767)
Net increase (decrease) in cash	<u>\$ 8,293</u>	<u>\$ (12,958)</u>

The Company's primary use of working capital for the fiscal year ended March 31, 2021 was funding the purchase of Contracts, which are financed substantially through cash from principal and interest payments received, and the Company's line of credit.

On March 29, 2019, NF Funding I, a special purpose financing subsidiary of Nicholas Financial, entered into a senior secured credit facility (the "Credit Facility") pursuant to a credit agreement with Ares Agent Services, L.P., as administrative agent and collateral agent, and the lenders that are party thereto (the "Credit Agreement"). The Company's prior line of credit was paid off in connection with this Credit Facility. As of March 31, 2021, the total amount outstanding under the Credit Facility was \$88.3 million. The Company decreased the total amount outstanding to \$74.9 million on May 31, 2021.

Pursuant to the Credit Agreement, the lenders agreed to extend to the Company a line of credit of up to \$175,000,000, which will be used to purchase Contracts from Nicholas Financial on a revolving basis pursuant to a related receivables purchase agreement between NF Funding I and Nicholas Financial (the "Receivables Purchase Agreement"). Under the terms of the Receivables Purchase Agreement, Nicholas Financial sells to NF Funding I the receivables under Contracts. Nicholas Financial continues to service the Contracts transferred to NF Funding I pursuant to a related servicing agreement (the "Servicing Agreement").

The availability of funds under the Credit Facility is generally limited to 82.5% of the value of non-delinquent receivables, and outstanding advances under the Credit Facility will accrue interest at a rate of LIBOR plus a credit spread, which is currently 3.75%. The commitment period for advances under the Credit Facility is three years. At the end of the commitment period, the outstanding balance would be paid off over a four-year amortization period.

The Company will continue to depend on the availability the Credit Facility, together with cash from operations, to finance future operations. The Credit Agreement and the other loan documents contain customary events of default and negative covenants, including but not limited to those governing indebtedness, liens, fundamental changes, investments, and sales of receivables. See "*Risk Factors - Risks Related to Our Business and Industry - Our Credit Facility is subject to certain defaults and negative covenants.*" If an event of default occurs under the Credit Facility, the Company's lenders could increase the Company's borrowing costs, restrict the Company's ability to obtain additional borrowings under the facility, accelerate all amounts outstanding under the facility, or enforce their interest against collateral pledged under the facility, or enforce their rights under guarantees. See also "Note 2 – Summary of Significant Accounting Policies – Variable Interest Entity" and "Note 13 – Variable Interest Entity", which disclosure is incorporated herein by reference.

On May 27, 2020, the Company obtained a loan in the amount of \$3,243,900 from a bank in connection with the U.S. Small Business Administration's ("SBA") Paycheck Protection Program (the "PPP Loan"). Pursuant to the Paycheck Protection Program, all or a portion of the PPP Loan may be forgiven if the Company uses the proceeds of the PPP Loan for its payroll costs and other expenses in accordance with the requirements of the Paycheck Protection Program. The Company used the proceeds of the PPP Loan for payroll costs and other covered expenses and sought full forgiveness of the PPP Loan, but there can be no assurance that the Company will obtain any forgiveness of the PPP Loan. The Company submitted the forgiveness application to Fifth Third Bank, the lender, on December 7, 2020 and submitted supplemental documentation on January 16, 2021. Currently the application is

pending SBA decision. Therefore, per the Paycheck Protection Flexibility Act of 2020, P.L. 116-142, all loan payments are deferred while the Company awaits the SBA's decision on loan forgiveness. If the PPP Loan is not fully forgiven, the Company will remain liable for the full and punctual payment of the outstanding principal balance plus accrued and unpaid interest.

Unless forgiven, the outstanding principal balance plus accrued and unpaid interest (accruing at the rate of 1.00% per annum) is due on May 22, 2022. The PPP Loan is unsecured. The PPP Loan may be prepaid at any time prior to maturity with no prepayment penalties. The related promissory note contains events of default and other provisions customary for a loan of this type.

Impact of Inflation

The Company is affected by inflation primarily through increased operating costs and expenses including increases in interest rates. Inflationary pressures on operating costs and expenses historically have been largely offset by the Company's continued emphasis on stringent operating and cost controls, although no assurances can be given regarding the Company's ability to offset the effects of inflation in the future.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

The following financial statements are filed as part of this Report:

Report of Independent Registered Public Accounting Firm	35
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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Nicholas Financial, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Nicholas Financial, Inc. and Subsidiaries (the Company) as of March 31, 2021 and 2020, the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for credit losses

As described in Notes 2 and 3 to the consolidated financial statements, the Company's allowance for credit losses was \$6.2 million at March 31, 2021. The Company calculates the allowance using their trailing six-month net charge-offs as a percentage of average finance receivables, annualized and adjusts for qualitative factors, as necessary, such as the composition of its portfolio, current economic conditions, estimated net realizable value of the underlying collateral, delinquency, non-performing assets, and bankrupt accounts. Management utilizes significant judgment in determining probable incurred losses and in identifying and evaluating qualitative factors.

We identified the allowance for credit losses, specifically the qualitative factors and the reasonableness of the trailing six-month net charge-offs as a percentage of average finance receivables, annualized, as a critical audit matter as auditing management's assumptions for the adequacy of the allowance for credit losses required a high degree of subjectivity, auditor judgment and increased extent of audit effort in evaluating these assumptions.

Our audit procedures related to the Company's allowance for credit losses included the following procedures, among others:

- a. We tested the completeness and accuracy of data inputs utilized by the Company to calculate the historical trailing six-month net charge-off calculations.
- b. We recomputed the mathematical accuracy of the quantitative calculations used by the Company.
- c. We evaluated the reasonableness of the Company's calculations of probable losses by comparing past historical estimates with actual loss experience in subsequent periods.
- d. We evaluated management's delinquency and past-due calculations for finance receivables by re-performing the Company's loan system calculations on a sample of finance receivables and performing analytical review procedures over the Company's historical and current delinquency trends and historical losses.
- e. We evaluated key assumptions and qualitative factors identified by the Company by comparing to internal and external sources for the consumer finance industry.

/s/ RSM US LLP

We have served as the Company's auditor since 2018.

Raleigh, North Carolina

June 22, 2021

Nicholas Financial, Inc. and Subsidiaries

Consolidated Balance Sheets
(In thousands)

	March 31,	
	2021	2020
Assets		
Cash	\$ 22,022	\$ 16,802
Restricted cash	10,955	7,882
Finance receivables, net	170,318	199,781
Repossessed assets	685	1,340
Operating lease right-of-use assets	3,392	2,598
Prepaid expenses and other assets	1,271	1,126
Income taxes receivable	653	4,898
Property and equipment, net	859	482
Deferred income taxes	2,283	3,909
Total assets	<u>\$ 212,438</u>	<u>\$ 238,818</u>
Liabilities and shareholders' equity		
Credit facility, net of debt issuance costs	\$ 86,154	\$ 124,255
Note payable	3,244	-
Net long-term debt	89,398	124,255
Operating lease liabilities	3,367	2,652
Accounts payable and accrued expenses	4,451	4,332
Total liabilities	<u>97,216</u>	<u>131,239</u>
Shareholders' equity:		
Preferred stock, no par: 5,000 shares authorized; none issued	—	—
Common stock, no par: 50,000 shares authorized; 12,653 and 12,639 shares issued respectively; 7,708 and 7,806 shares outstanding, respectively	35,064	34,867
Treasury stock: 4,945 and 4,833 common shares, at cost, respectively	(72,343)	(71,438)
Retained earnings	152,501	144,150
Total shareholders' equity	<u>115,222</u>	<u>107,579</u>
Total liabilities and shareholders' equity	<u>\$ 212,438</u>	<u>\$ 238,818</u>

The following table represents the assets and liabilities of our consolidated variable interest entity as of March 31:

	2021	2020
Assets		
Restricted cash	\$ 10,955	\$ 7,882
Finance receivables, net	150,706	165,966
Repossessed assets	631	1,277
Total assets	<u>\$ 162,292</u>	<u>\$ 175,125</u>
Liabilities		
Credit facility, net of debt issuance costs	\$ 86,154	\$ 124,255
Accounts payable and accrued expenses	405	597
Total liabilities	<u>\$ 86,559</u>	<u>\$ 124,852</u>

See accompanying notes to the Consolidated Financial Statements.

Nicholas Financial, Inc. and Subsidiaries

Consolidated Statements of Income
(In thousands, except per share amounts)

	Fiscal Year ended March 31,	
	2021	2020
Revenue:		
Interest and fee income on finance receivables	\$ 54,211	\$ 62,095
Realized gain on equity investments	1,809	-
Total revenue	<u>56,020</u>	<u>62,095</u>
Expenses:		
Marketing	1,269	1,548
Salaries and employee benefits	19,083	18,804
Administrative	11,248	13,393
Provision for credit losses	7,250	16,901
Amortization of intangibles	13	55
Depreciation	231	337
Goodwill impairment charge	-	295
Interest expense	5,980	8,515
Total expenses	<u>45,074</u>	<u>59,848</u>
Operating income before income taxes	10,946	2,247
Income tax expense (benefit)	2,595	(1,219)
Net income	<u>\$ 8,351</u>	<u>\$ 3,466</u>
Earnings per share:		
Basic	<u>\$ 1.09</u>	<u>\$.45</u>
Diluted	<u>\$ 1.09</u>	<u>\$.45</u>

See accompanying notes to the Consolidated Financial Statements.

Nicholas Financial, Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity
(In thousands)

	<u>Common Stock</u>		<u>Treasury Stock</u>	<u>Retained Earnings</u>	<u>Total Shareholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>			
Balance at March 31, 2019	<u>7,910</u>	<u>\$ 34,660</u>	<u>\$ (70,459)</u>	<u>\$ 140,684</u>	<u>\$ 104,885</u>
Net income	—	—	—	3,466	3,466
Issuance of restricted stock awards	39	—	—	—	—
Exercise of stock options	2	5	—	—	5
Cancellation of restricted stock awards	(26)	—	—	—	—
Treasury stock repurchases	(119)	—	(979)	—	(979)
Share-based compensation	—	202	—	—	202
Balance at March 31, 2020	<u>7,806</u>	<u>\$ 34,867</u>	<u>\$ (71,438)</u>	<u>\$ 144,150</u>	<u>\$ 107,579</u>
Net income	—	—	—	8,351	8,351
Issuance of restricted stock awards	14	—	—	—	—
Treasury stock repurchases	(112)	—	(905)	—	(905)
Share-based compensation	—	197	—	—	197
Balance at March 31, 2021	<u>7,708</u>	<u>\$ 35,064</u>	<u>\$ (72,343)</u>	<u>\$ 152,501</u>	<u>\$ 115,222</u>

See accompanying notes to the Consolidated Financial Statements.

Nicholas Financial, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
(In thousands)

	Fiscal Year ended March 31,	
	2021	2020
Cash flows from operating activities:		
Net income	\$ 8,351	\$ 3,466
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	231	337
Amortization of intangibles	13	55
Amortization of debt issuance costs	429	429
Amortization of operating of lease right-of-use assets	1,593	1,913
Gain on sale of property and equipment	(13)	(23)
Goodwill impairment charge	-	295
Purchases of equity investments	(4,142)	-
Proceeds from equity investments	5,951	-
Realized gains on equity investments	(1,809)	-
Repossessed assets	655	677
Provision for credit losses	7,250	16,901
Amortization of dealer discounts	(6,421)	(8,031)
Amortization of insurance and fee commissions	(2,370)	(2,615)
Accretion of purchase price discount	(551)	(746)
Deferred income taxes	1,626	3,215
Principal reduction on operating lease liabilities	(1,193)	(1,841)
Share-based compensation	197	202
Changes in operating assets and liabilities:		
Accrued interest receivable	879	(275)
Prepaid expenses and other assets	(145)	304
Accounts payable and accrued expenses	(373)	(744)
Income taxes receivable	4,245	(3,244)
Unearned insurance and fee commissions	220	210
Net cash provided by operating activities	<u>14,623</u>	<u>10,485</u>
Cash flows from investing activities:		
Purchase and origination of finance receivables	(88,173)	(89,334)
Principal payments received	118,629	106,248
Net assets acquired from branch acquisitions, primarily loans	-	(20,483)
Purchase of property and equipment	(615)	(130)
Proceeds from sale of property and equipment	20	23
Net cash provided by (used in) investing activities	<u>29,861</u>	<u>(3,676)</u>
Cash flows from financing activities:		
Repayments on credit facility	(38,530)	(38,950)
Proceeds from the credit facility	-	20,780
Payment of loan originations fees	-	(623)
Proceeds from PPP Loan	3,244	-
Proceeds from exercise of stock options	-	5
Repurchases of treasury stock	(905)	(979)
Net cash used in financing activities	<u>(36,191)</u>	<u>(19,767)</u>
Net increase (decrease) in cash	8,293	(12,958)
Cash and restricted cash, beginning of year	24,684	37,642
Cash and restricted cash, end of year	<u>\$ 32,977</u>	<u>\$ 24,684</u>
Supplemental Disclosures:		
Interest paid, including debt originations cost, during the year	\$ 5,714	\$ 8,187
Income taxes paid during the year	1,357	6
Leased assets obtained in exchange for new operating lease liabilities	2,067	4,058

The following table reconciles cash and restricted cash from the Consolidated Balance Sheets to the statements above:

	Fiscal Year ended March 31,	
	2021	2020
Cash	\$ 22,022	\$ 16,802
Restricted cash	10,955	7,882
Total cash and restricted cash	<u>\$ 32,977</u>	<u>\$ 24,684</u>

See accompanying notes to the Consolidated Financial Statements.

Nicholas Financial, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Organization and Basis of Presentation

Nicholas Financial, Inc. (“Nicholas Financial – Canada”) is a Canadian holding company incorporated under the laws of British Columbia with two wholly owned United States subsidiaries, Nicholas Data Services, Inc. (“NDS”) and Nicholas Financial, Inc. (“NFI”). NDS historically was engaged in supporting and updating industry-specific computer application software for small businesses located primarily in the Southeastern United States. NDS has ceased its operations; however, it continues as the interim holding company for Nicholas Financial. NFI is a specialized consumer finance company engaged primarily in acquiring and servicing automobile finance installment contracts (“Contracts”) for purchases of used and new automobiles and light trucks. NFI also offers direct consumer loans (“Direct Loans”) and sells consumer-finance related products. In addition, NF Funding I, LLC (“NF Funding I”), is a wholly-owned, special purpose financing subsidiary of NFI. All three companies are based in Florida, U.S.A. The accompanying consolidated financial statements are stated in U.S. dollars and are presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

2. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of Nicholas Financial – Canada and its wholly owned subsidiaries, NDS, NFI, and NF Funding I, collectively referred to as the “Company”. All intercompany transactions and balances have been eliminated.

Segment Reporting

The Company reports operating segments in accordance with FASB Accounting Standards Codification (“ASC”) Topic 280, Segment Reporting. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assesses performance. FASB ASC Topic 280 requires that a public enterprise report a measure of segment profit or loss, certain specific revenue and expense items, segment assets, information about the way the operating segments were determined and other items.

The Company has one reportable segment, which is the consumer finance company.

Use of Estimates

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.

Restricted Cash

Restricted cash includes cash and cash equivalents for which the Company’s ability to withdraw funds is contractually limited. The Company’s restricted cash consist of cash restricted for debt serving of the Company’s variable interest entity.

Finance Receivables

Finance receivables are recorded at cost, net of unearned dealer discounts, unearned insurance and commissions (see “Revenue Recognition”), and the allowance for credit losses (See Note 3).

Allowance for Credit Losses

The Company uses trailing six-month net charge-offs as a percentage of average finance receivables, annualized and applies this calculated percentage to ending finance receivables to calculate estimated future probable credit losses for purposes of determining the allowance for credit losses. The Company then takes into consideration the composition of its portfolio, current economic conditions, estimated net realizable value of the underlying collateral, historical loan loss experience, delinquency, non-performing assets, and bankrupt accounts and adjusts the above, if necessary, to determine management's total estimate of probable credit losses and its assessment of the overall adequacy of the allowance for credit losses. Management utilizes significant judgment in determining probable incurred losses and in identifying and evaluating qualitative factors. Use of a trailing six-month net charge-off percentage reflects the Company lending policies, underwriting standards, and aligns with business strategies to finance primary transportation to and from work for the subprime borrower.

In addition, the Company takes into consideration the composition of the portfolio, current economic conditions, estimated net realizable value of the underlying collateral, historical loan loss experience, delinquency, non-performing assets, and bankrupt accounts when determining management's estimate of probable credit losses and adequacy of the allowance for credit losses. If the allowance for credit losses is determined to be inadequate, then an additional charge to the provision is recorded to maintain adequate reserves based on management's evaluation of the risk inherent in the loan portfolio. Conversely, the Company could identify abnormalities in the composition of the portfolio, which would indicate the calculation is overstated and management judgement may be required to determine the allowance of credit losses for both Contracts and Direct Loans.

Reposessed Assets

Reposessed assets are stated at net realizable value and consist primarily of automobiles that have been reposessed by the Company and are awaiting final disposition. Most costs associated with repossession, transport, and auction preparation expenses are reported under operating expenses in the period in which they are incurred.

Property and Equipment

Property and equipment is recorded at cost, net of accumulated depreciation. Expenditures for repairs and maintenance are charged to expense as incurred. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets as follows:

Automobiles	3 years
Equipment	5 years
Furniture and fixtures	7 years
Software	7 years
Leasehold improvements	Lesser of lease term or useful life (generally 6 - 7 years)

Goodwill

Goodwill represents the excess of the cost of net assets acquired in business combinations over the fair value of identifiable tangible and intangible assets acquired and liabilities assumed in a business combination. Goodwill impairment exists when the fair value of a reporting unit is less than the carrying value. Goodwill is tested for impairment annually, as of the last day of the fiscal year, or more frequently whenever events or changes in circumstances would more likely than not reduce the fair value of a reporting unit below its carrying amount. Goodwill is tested for impairment at the reporting unit level. The Company has one reporting unit, which is the same level as the Company's one operating segment, the consumer finance company. The Company has the option of either assessing qualitative factors to determine whether it is more likely than not that the carrying value of our reporting unit exceeds its fair value or proceeding directly to a quantitative test. The Company elected to perform the quantitative impairment test at March 31, 2021 and March 31, 2020, respectively.

The quantitative impairment test compares the fair value of the reporting unit to its carrying value, including goodwill. The fair value of a reporting unit refers to the price that would be received to sell the reporting unit in an orderly transaction between market participants at the measurement date. Quoted market prices in active markets are the best evidence of fair value and shall be used as the basis for the measurement, if available. If the fair value

exceeds its carrying value, the goodwill of the reporting unit is not considered impaired. However, if the carrying value of the reporting unit exceeds its fair value, the Company recognizes an impairment loss equal to that excess.

As the Company only has one reporting unit, the Company estimated the fair value of the reporting unit using a market based approach, with the primary input being the Company's market capitalization at the measurement date, adjusted for a control premium. Based upon the impairment test at March 31, 2020, the Company concluded that its recorded balance of goodwill was impaired and recorded an impairment charge of \$0.3 million, which resulted in a full write-off of the Company's goodwill balance. In fiscal year 2021, no purchases accounting transactions were executed by the Company and no goodwill was recorded. The goodwill balance remains at \$0 at March 31, 2021. (See Note 5).

Impairment of Long-Lived Assets

The Company assesses impairment of long-lived assets, including property and equipment and intangible assets, whenever changes or events indicate that the carry amount may not be recoverable. The Company assesses impairment of these assets generally at the branch level based on profitability of the branch and the Company's plans for branch closings. The Company will write down such assets to fair value, based on operational results, if impairment has occurred. The Company did not record any impairment charges for the long-lived assets for the fiscal year ended March 31, 2021 or 2020.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases along with operating loss and tax credit carryforwards, if any. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date.

The Company recognizes tax benefits from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from any such position would be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. It is the Company's policy to recognize interest and penalties accrued on any uncertain tax benefits as a component of income tax expense. There were no unrecognized tax positions as of March 31, 2021 or 2020.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions the Company is no longer subject to U.S. federal and state tax examinations for fiscal years prior to 2017.

We are subject to taxation at the federal, state, and local levels in the United States. On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("TCJA"). The changes included in TCJA are broad and complex. The final transition impacts of TCJA may differ from the estimates provided elsewhere in this Annual Report, possibly materially, due to, among other things, changes in interpretations of TCJA, any legislative action to address questions that arise because of TCJA, any changes in accounting standards for income taxes or related interpretations in response to TCJA, or any updates or changes to estimates the Company has utilized to calculate the transition impacts, including impacts from changes to current year earnings estimates. The estimated impact of the new law is based on management's current knowledge and assumptions and recognized impacts could be materially different from current estimates.

The effect on deferred taxes of a change in tax rates is recognized in income tax expense in the period that includes the enactment date. See Note 8 for details regarding the impact of Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") by the U.S. government on March 27, 2020.

Revenue Recognition

Interest income on finance receivables is recognized using the interest method. Accrual of interest income on finance receivables is suspended when a loan is contractually delinquent for 61 days or more, or the collateral is repossessed, whichever is earlier. The Company reverses the accrual of interest income when the loan is contractually delinquent 61 days or more.

The Company defines a non-performing asset as one that is 61 or more days past due, a Chapter 7 bankruptcy account, or a Chapter 13 bankruptcy account that has not been confirmed by the courts, for which the accrual of interest income is suspended. Upon confirmation of a Chapter 13 bankruptcy trustee's plan (BK13), the account is immediately charged-off. Upon notification of a Chapter 7 bankruptcy, an account is monitored for collectability. In the event the debtors' balance is reduced by the bankruptcy court, the Company records a loss equal to the amount of principal balance reduction. The remaining balance is reduced as payments are received. In the event an account is dismissed from bankruptcy, the Company will decide whether to begin repossession proceedings or to allow the customer to make regularly scheduled payments. (see Note 3).

A dealer discount represents the difference between the finance receivable 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 dealer discount is amortized as an adjustment to yield using the interest method over the life of the loan. The average dealer discount, as a percent of the amount financed, associated with new volume for the fiscal years ended March 31, 2021 and 2020, were 7.5% and 7.9%, respectively.

Unearned insurance and fee commissions 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, involuntary unemployment insurance, and forced placed automobile insurance. These commissions are amortized over the life of the Contract using the interest method.

Earnings Per Share

The Company has granted stock compensation awards with nonforfeitable dividend rights which are considered participating securities. Earnings per share is calculated using the two-class method, as such awards are more dilutive under this method than the treasury stock method. Ordinarily, basic earnings per share is calculated by dividing net income allocated to common shareholders by the weighted average number of common shares outstanding during the period, which excludes the participating securities. Dilutive earnings per share are calculated by dividing net income allocated to common shareholders by the weighted average number of common shares outstanding during the period which includes the dilutive effect of additional potential common shares from stock compensation awards. For the years ended March 31, 2021 and 2020, Company experienced net income. Income per share has been computed based on the following weighted average number of common shares outstanding:

	Fiscal Year ended March 31, (In thousands, except earnings per share numbers)	
	<u>2021</u>	<u>2020</u>
Numerator:		
Net income per consolidated statements of income	<u>\$ 8,351</u>	<u>\$ 3,466</u>
Percentage allocated to shareholders *	<u>99%</u>	<u>99%</u>
Numerator for basic and diluted earnings per share	<u>8,307</u>	<u>3,434</u>
Denominator:		
Denominator for Basic earnings per share - weighted-average shares outstanding	7,626	7,702
Dilutive effect of stock options	-	1
Denominator for diluted earnings per share	<u>7,626</u>	<u>7,703</u>
Per share income from continuing operations		
Basic	<u>\$ 1.09</u>	<u>\$ 0.45</u>
Diluted	<u>\$ 1.09</u>	<u>\$ 0.45</u>
<i>*Basic weighted-average shares outstanding</i>	7,626	7,702
<i>Basic weighted-average shares outstanding and unvested restricted stock units expected to vest</i>	7,666	7,774
<i>Percentage allocated to shareholders</i>	99%	99%

Share-Based Payments

The grant date fair value of share awards is recognized in earnings over the requisite service period (presumptively, the vesting period), net of estimated forfeitures. The Company estimates the fair value of option awards using the Black-Scholes option pricing model. The risk-free interest rate is based upon a U.S. Treasury instrument with a life that is similar to the expected term of the options. Expected volatility is based upon the historical volatility for the previous period equal to the expected term of the options. The expected term is based upon the average life of previously issued options. The expected dividend yield is based upon the yield expected on date of grant to occur over the term of the option.

The fair value of non-vested restricted shares and performance units are measured at the market price of a share on a grant date. Restricted shares have a three-year service period. Performance units include a performance period (generally ending at the end of the fiscal year in which the units were granted) followed by a two-year service period. At the end of the performance period, these units effectively become restricted shares for the remaining two-year service period at which time they become vested.

Fair Value Measurements

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 (see Note 7).

Financial Instruments and Concentrations

The Company's financial instruments consist of cash, finance receivables (accrued interest receivable is a part of finance receivables), and a Credit Facility. Financial instruments that are exposed to concentrations of credit risk are primarily finance receivables and cash.

For the year ended, March 31, 2021, the Company operated in 16 states through 45 branch locations. Of the aggregate finance receivables as of March 31, 2021, Florida represented 27%, Ohio represented 14%, Georgia represented 12%, and North Carolina represented 10%. Each of Kentucky, Missouri, and South Carolina represented 5%. Of the remaining states, no one state represented more than 5% of the total finance receivables. The Company provides credit during the normal course of business and performs ongoing credit evaluations of its customers.

The Company maintains reserves for potential credit losses which, when realized, have been within the range of management's expectations. The Company perfects a primary security interest in all vehicles financed as a form of collateral.

The combined account balances the Company maintains at financial institutions typically exceed federally insured limits, and there is a concentration of credit risk related to accounts on deposit in excess of federally insured limits. The Company has not experienced any losses in such accounts and believes this risk of loss is not significant.

Variable Interest Entity

In March 2019, the Company entered into a new senior secured credit facility collateralized by customer financed receivables by transferring the receivables into a bankruptcy-remote variable interest entity (VIE). Under the terms of the transaction, all cash collections and other cash proceeds of the customer receivables go first to the servicer and the holders of the asset-backed notes, and then to the residual equity holder. The Company retained the servicing of the portfolio and receives a monthly fee of 2.5% (annualized) based on the outstanding balance of the financed receivables, and the Company currently holds all of the residual equity, monthly fees are eliminated in the consolidated financial statements. In addition, the Company, rather than the VIE, will retain certain credit insurance income together with certain recoveries related to credit insurance and on charge-offs of the financed receivables, which will continue to be reflected as a reduction of net charge-offs on a consolidated basis for as long as the Company consolidates the VIE.

The Company consolidates the VIE's when the Company determines that it is the primary beneficiary, the Company has the power to direct the activities that most significantly impact the performance of the VIE and it has the obligation to absorb losses and its right to receive residual returns is significant. The Company determined it is the primary beneficiary of the VIE, it has the right to direct activities that most significantly impact the performance of the VIE and has the obligation to absorb losses and significant right to receive residual returns. The Company therefore consolidated the VIE for the fiscal years ended March 31, 2020 and 2021.

Reclassifications

Certain prior-period amounts have been reclassified to conform to the current presentation. Such reclassifications had no impact on previously reported net loss or shareholders' equity.

Recently Adopted Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment. ASU 2017-04 eliminates Step 2 from the goodwill impairment test. Instead, under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. ASU 2017-04 also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. The amendments in this update are effective for public entities who are SEC filers for fiscal years beginning after December 15, 2019. The Company adopted the guidance on March 31, 2020 and applied it to the Company's goodwill impairment test at March 31, 2020 (See Note 5).

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities. This amendment requires that equity investments be measured at fair value with changes in fair value recognized in net income. When fair value is not readily determinable, an entity may elect to measure the equity investment at cost, less impairment, plus or minus any change in the investment's observable price. For financial liabilities that are measured at fair value, the amendment requires an entity to present separately, in other comprehensive income, any change in fair value resulting from a change in instrument specific credit risk. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The standard requires retrospective application for equity investments with readily determinable fair values and prospective application for equity investments without readily determinable fair values. The Company adopted the standard during the year and no prospective basis existed for these equity investments since they were also purchased during the fiscal year. The purchase of these equity investments was recorded in the Consolidated Balance Sheets. See Note 7 for further information.

Recent Accounting Pronouncements

In June 2016, the FASB issued the ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. Among other things, the amendments in this ASU require the measurement of all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. The ASU also requires additional disclosures related to estimates and judgments used to measure all expected credit losses. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Recently, the FASB voted to delay the implementation date for this accounting standard, for smaller reporting companies, the new effective date is for fiscal years beginning after December 15, 2022, and early adoption is permitted. The Company is currently evaluating the impact of the adoption of this ASU on the consolidated financial statements and is collecting and analyzing data that will be needed to produce historical inputs into any models created as a result of adopting this ASU. At this time, the Company believes the adoption of this ASU will likely have a material effect and is expected to increase the overall allowance for credit losses.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitating of the Effects of Reference Rate Reform on Financial Reporting, which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions in which the reference LIBOR or another reference rate is expected to be discontinued as a result of the Reference Rate Reform. This ASU is intended to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The new guidance was effective immediately and through December 31, 2022. The Company is currently evaluating the effect the adoption of this standard will have on its 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.

3. Finance Receivables

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

The Company purchases individual Contracts from used and new automobile dealers in its markets. There is no relationship between the Company and the dealer with respect to a given Contract once the assignment of that Contract is complete. The dealer has no vested interest in the performance of any Contract the Company purchases. The Company's charge off policy is 121 days past due. In addition, Chapter 13 Bankruptcies, once confirmed by the courts, are also charged off. This policy is in line with industry standards, considering the sub-prime nature of our customers. In the event of repossession, the charge-off will occur after standard collection practices by the Company, as determined by the residency state of a customer. This practice is consistent with the sub-prime industry.

Contracts and Direct Loans included in finance receivables are detailed as follows as of fiscal years ended March 31:

	<u>(In thousands)</u>	
	<u>2021</u>	<u>2020</u>
Finance receivables	\$ 184,237	\$ 219,366
Accrued interest receivable	2,285	3,164
Unearned dealer discounts	(7,290)	(8,056)
Unearned purchase price discount	(364)	(915)
Unearned insurance and fee commissions	(2,396)	(2,616)
Finance receivables, net of unearned	176,472	210,943
Allowance for credit losses	(6,154)	(11,162)
Finance receivables, net	<u>\$ 170,318</u>	<u>\$ 199,781</u>

Contracts

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 predominantly for used vehicles. As of March 31, 2021, the average model year of vehicles collateralizing the portfolio was a 2012 vehicle. The terms of the Contracts range from 12 to 60 months and bear an average contractual interest rate of 23.4% and 23.4% as of March 31, 2021 and 2020, respectively.

Direct Loans

Direct Loans are typically for amounts ranging from \$1,000 to \$15,000 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 better credit risk than Contracts due to the customer's historical payment history with the Company; however, the underlying collateral is less valuable. 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 the Direct Loans made by the Company to date have been made to borrowers under Contracts previously purchased by the Company, the payment history of the borrower under the Contract is a significant factor in making the loan decision. As of March 31, 2021, loans made by the Company pursuant to its Direct Loan program constituted approximately 8% of the aggregate principal amount of the Company's loan portfolio. The terms of the Direct Loans range from 12 to 72 months and bear an average contractual interest rate of 29.7% and 28.2% as of March 31, 2021 and 2020, respectively.

Allowance for Credit Losses

The Company uses trailing six-month net charge-offs as a percentage of average finance receivables, annualized and applies this calculated percentage to ending finance receivables to calculate estimated future probable credit losses for purposes of determining the allowance for credit losses. The Company then takes into consideration the composition of its portfolio, current economic conditions, estimated net realizable value of the underlying collateral, historical loan loss experience, delinquency, non-performing assets, and bankrupt accounts and adjusts the above, if necessary, to determine management's total estimate of probable credit losses and its assessment of the overall adequacy of the allowance for credit losses. Management utilizes significant judgment in determining probable incurred losses and in identifying and evaluating qualitative factors. The Company focuses on financing primary transportation to and from work for the subprime borrower, which has resulted in purchasing higher yielding loans, with smaller amounts financed and shorter monthly terms. Management believes a trailing six-month will more accurately reflect changes in the portfolio.

In addition, the Company takes into consideration the composition of the portfolio, current economic conditions, estimated net realizable value of the underlying collateral, historical loan loss experience, delinquency, non-performing assets, and bankrupt accounts when determining management's estimate of probable credit losses and adequacy of the allowance for credit losses. If the allowance for credit losses is determined to be inadequate, then an additional charge to the provision is recorded to maintain adequate reserves based on management's evaluation of the risk inherent in the loan portfolio. Conversely, the Company could identify abnormalities in the composition of the portfolio, which would indicate the calculation is overstated and management judgement may be required to determine the allowance of credit losses for both Contracts and Direct Loans.

The following presents the activity in our allowance for credit losses:

	For the year ended March 31, 2021		
	(In thousands)		
	Indirect	Direct	Total
Balance at beginning of year	\$ 10,433	\$ 729	\$ 11,162
Provision for credit losses	7,250	-	7,250
Charge-offs	(17,141)	(682)	(17,823)
Recoveries	5,459	106	5,565
Balance at end of year	<u>\$ 6,001</u>	<u>\$ 153</u>	<u>\$ 6,154</u>

	For the year ended March 31, 2020		
	(In thousands)		
	Indirect	Direct	Total
Balance at beginning of year	\$ 16,575	\$ 357	\$ 16,932
Provision for credit losses	16,096	805	16,901
Charge-offs	(29,174)	(663)	(29,837)
Recoveries*	6,936	230	7,166
Balance at end of year	<u>\$ 10,433</u>	<u>\$ 729</u>	<u>\$ 11,162</u>

*For the year ended March 31, 2020, the Company completed bulk sales of charge-off accounts, which included \$1.6 million of bankruptcy accounts and \$0.1 million of non-performing accounts.

A performing account is defined as an account that is less than 61 days past due. The Company defines an automobile contract as delinquent when more than 25% of a payment contractually due by a certain date has not been paid by the immediately following due date, which date may have been extended within limits specified in the servicing agreements or as a result of a deferral. The period of delinquency is based on the number of days payments are contractually past due, as extended where applicable.

In certain circumstances, the Company will grant obligors one-month payment extensions. The only modification of terms in those circumstances is to advance the obligor's next due date by one month and extend the maturity date of the receivable. There are no other concessions, such as a reduction in interest rate, forgiveness of principal or of accrued interest. Accordingly, the Company considers such extensions to be insignificant delays in payments rather than troubled debt restructurings.

A non-performing account is defined as an account that is contractually delinquent for 61 days or more or is a Chapter 13 bankruptcy account, and the accrual of interest income is suspended. The Company's charge-off policy for contractually delinquent is 121 days. The Company's charge-off policy aligns with practices within the subprime auto financing segment. See "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations" for more details.

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.

The following table is an assessment of the credit quality by creditworthiness as of March 31:

	(In thousands)					
	2021			2020		
	Contracts	Direct Loans	Total	Contracts	Direct Loans	Total
Performing accounts	\$ 166,828	\$ 13,717	\$ 180,545	\$ 201,045	\$ 11,649	\$ 212,694
Non-performing accounts	3,367	192	3,559	6,202	195	6,397
Total	170,195	13,909	184,104	207,247	11,844	219,091
Chapter 13 bankruptcy	123	10	133	274	1	275
Finance receivables	<u>\$ 170,318</u>	<u>\$ 13,919</u>	<u>\$ 184,237</u>	<u>\$ 207,521</u>	<u>\$ 11,845</u>	<u>\$ 219,366</u>

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

	(In thousands)					
	Balance Outstanding	30 – 59 days	60 – 89 days	90-119 days	120+ days	Total
Contracts						
March 31, 2021	\$ 170,195	\$ 6,289	\$ 2,430	\$ 896	\$ 42	\$ 9,657
		3.70%	1.43%	0.53%	0.02%	5.67%
March 31, 2020	\$ 207,247	\$ 14,977	\$ 4,290	\$ 1,893	\$ 19	\$ 21,179
		7.23%	2.07%	0.91%	0.01%	10.22%
Direct Loans						
March 31, 2021	\$ 13,909	\$ 253	\$ 101	\$ 81	\$ 10	\$ 445
		1.82%	0.73%	0.58%	0.07%	3.20%
March 31, 2020	\$ 11,844	\$ 344	\$ 136	\$ 59	\$ -	\$ 539
		2.90%	1.15%	0.50%	0.00%	4.55%

4. Property and Equipment

Property and equipment as of March 31, 2021 and 2020 is summarized as follows:

	(In thousands)		
	Cost	Accumulated Depreciation	Net Book Value
2021			
Automobiles	\$ 342	\$ 280	\$ 62
Software	165	46	119
Equipment	2,009	1,555	454
Furniture and fixtures	615	543	72
Leasehold improvements	1,297	1,145	152
	<u>\$ 4,428</u>	<u>\$ 3,569</u>	<u>\$ 859</u>
2020			
Automobiles	\$ 451	\$ 396	\$ 55
Software	160	23	137
Equipment	1,571	1,439	132
Furniture and fixtures	575	519	56
Leasehold improvements	1,207	1,105	102
	<u>\$ 3,964</u>	<u>\$ 3,482</u>	<u>\$ 482</u>

5. Acquisition

On April 30, 2019, the Company completed an acquisition of three branches, representing substantially all of the assets, of ML Credit Group, LLC (d/b/a Metrolina Credit Company) (“Metrolina”). Two acquired branches are located in the state of North Carolina and one branch is located in South Carolina. Based on its evaluation of the agreement, the Company accounted for the acquisition as a business combination. The Company allocated the purchase price to acquired assets and liabilities on their fair values. The Company acquired finance receivables, net of \$20.1 million, other assets of \$0.1 million, assumed liabilities of \$0.2 million and incurred approximately \$0.3 million in related expenses. The purchase price allocation resulted in goodwill of \$0.3 million which the Company determined to be impaired as of March 31, 2020. Finance receivables from the Metrolina acquisition as of March 31, 2021 and March 31, 2020 were \$4.4 million and \$10.9 million, respectively.

6. Credit Facility

Senior Secured Credit Facility

On March 29, 2019, NF Funding I, a wholly-owned, special purpose financing subsidiary of NFI entered into a senior secured credit facility (the “Credit Facility”) pursuant to a credit agreement with Ares Agent Services, L.P., as administrative agent and collateral agent, and the lenders that are party thereto (the “Credit Agreement”). The Company’s prior credit facility was paid off in connection with this Credit Facility.

Pursuant to the Credit Agreement, the lenders have agreed to extend to the NF Funding I a line of credit of up to \$175,000,000, which will be used to purchase motor vehicle retail installment sale contracts from NFI on a revolving basis pursuant to a related receivables purchase agreement between NF Funding I and NFI (the “Receivables Purchase Agreement”). Under the terms of the Receivables Purchase Agreement, NFI will sell to NF Funding I the receivables under the installment sale contracts. NFI will continue to service the motor vehicle retail installment sale contracts transferred to NF Funding I pursuant to a related servicing agreement (the “Servicing Agreement”).

As of March 31, 2021, the Company had aggregate outstanding indebtedness under the Credit Facility of \$88.3 million, compared to \$126.8 million as of March 31, 2020. In addition, the Company had \$2.1 million and \$2.6 million in debt issuance costs as of March 31, 2021 and March 31, 2020 respectively.

The availability of funds under the Credit Facility is generally limited to 82.5% of the value of non-delinquent receivables, and outstanding advances under the Credit Facility will accrue interest at a rate of LIBOR plus 3.75%. The commitment period for advances under the Credit Facility is three years. At the end of the commitment period, the outstanding balance will convert to a term loan and require monthly principal and interest payments over a four-year amortization period.

In connection with the Credit Facility, NFI has guaranteed the NF Funding I's obligations under the Credit Agreement up to 10% of the highest aggregate principal amount outstanding under the Credit Agreement at any time pursuant to the Limited Guaranty. The Company is also obligated to cover any losses of the lender parties resulting from certain "bad acts" of the Company or its subsidiaries, such as fraud, misappropriation of funds or unpermitted disposition of the assets.

Pursuant to a related security agreement (the "Security Agreement"), NF Funding I granted a security interest in substantially all of its assets as collateral for its obligations under the Credit Facility. In addition, NFI pledged the equity interests of NF Funding I as additional collateral.

The Credit Agreement and the other loan documents contain customary events of default and negative covenants, including but not limited to those governing indebtedness, liens, fundamental changes, investments, and sales of receivables. If an event of default occurs, the lenders could increase borrowing costs, restrict the NF Funding I's ability to obtain additional advances under the Credit Facility, accelerate all amounts outstanding under the Credit Facility, enforce their interest against collateral pledged under the Credit Facility or enforce their rights under the Company's guarantees.

Once sold to the NF Funding I, the assets described above will be separate and distinct from the Company's own assets and will not be available to its creditors should the Company become insolvent, although they will be presented on a consolidated basis on the Company's balance sheet.

Future maturities of debt as of March 31, 2021 are as follows:

(in thousands)	
Year Ended March 31,	
2022	\$ —
2023	22,075
2024	22,075
2025	22,075
2026	22,075
	<u>\$ 88,300</u>

On May 27, 2020, the Company obtained a loan in the amount of \$3,243,900 from a bank in connection with the U.S. Small Business Administration's ("SBA") Paycheck Protection Program (the "PPP Loan"). Pursuant to the Paycheck Protection Program, all or a portion of the PPP Loan may be forgiven if the Company uses the proceeds of the PPP Loan for its payroll costs and other expenses in accordance with the requirements of the Paycheck Protection Program. The Company used the proceeds of the PPP Loan for payroll costs and other covered expenses and sought full forgiveness of the PPP Loan, but there can be no assurance that the Company will obtain any forgiveness of the PPP Loan. The Company submitted the forgiveness application to Fifth Third Bank, the lender, on December 7, 2020 and submitted supplemental documentation on January 16, 2021. Currently the application is pending SBA decision. Therefore, per the Paycheck Protection Flexibility Act of 2020, P.L. 116-142, all loan payments are deferred while the Company awaits the SBA's decision on loan forgiveness. If the PPP Loan is not fully forgiven, the Company will remain liable for the full and punctual payment of the outstanding principal balance plus accrued and unpaid interest.

Unless forgiven, the outstanding principal balance plus accrued and unpaid interest (accruing at the rate of 1.00% per annum) is due on May 22, 2022. The PPP Loan is unsecured. The PPP Loan may be prepaid at any time prior to maturity with no prepayment penalties. The related promissory note contains events of default and other provisions customary for a loan of this type.

7. Fair Value Disclosures

Financial Instruments Measured at Fair Value

In fiscal year 2021 the Company initiated certain equity investments. The Company defined these equity investments as trading securities for which the changes in fair value were immediately recognized through net income in each quarter, respectively. The Company sold all equity investments as of March 31, 2021, all gains were recognized in the Consolidated Statements of Income, for the year ended March 31, 2021.

Financial Instruments Not Measured at Fair Value

The Company's financial instruments consist of cash and restricted cash, finance receivables, repossessed assets, and the Credit Facility. For the cash and the credit facility, the carrying value approximates fair value.

Finance receivables, net, approximates fair value based on the price paid to acquire Contracts. The price 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 generally range from 12 to 72 months. Beginning in December 2017, the maximum initial term of a Contract was reduced to 60 months. The initial terms of the Direct Loans generally range from 12 to 60 months. If liquidated outside of the normal course of business, the amount received may not be the carrying value.

Repossessed assets are valued at the lower of the finance receivable balance prior to repossession or the estimated net realizable value of the repossessed asset. The Company estimates the net realizable value using the projected cash value upon liquidation plus insurance claims outstanding, if any.

Based on current market conditions, any new or renewed credit facility would contain pricing that approximates the Company's current Credit Facility. Based on these market conditions, the fair value of the Credit Facility as of March 31, 2021 was estimated to be equal to the book value. The interest rate for the Credit Facility is a variable rate based on LIBOR pricing options.

Description	Fair Value Measurement Using (In thousands)			Fair Value	Carrying Value
	Level 1	Level 2	Level 3		
Cash and restricted cash:					
March 31, 2021	\$ 32,977	\$ —	\$ —	\$ 32,977	\$ 32,977
March 31, 2020	\$ 24,684	\$ —	\$ —	\$ 24,684	\$ 24,684
Finance receivables:					
March 31, 2021	\$ —	\$ —	\$ 170,318	\$ 170,318	\$ 170,318
March 31, 2020	\$ —	\$ —	\$ 199,781	\$ 199,781	\$ 199,781
Repossessed assets:					
March 31, 2021	\$ —	\$ —	\$ 685	\$ 685	\$ 685
March 31, 2020	\$ —	\$ —	\$ 1,340	\$ 1,340	\$ 1,340
Credit facility:					
March 31, 2021	\$ —	\$ 88,300	\$ —	\$ 88,300	\$ 88,300
March 31, 2020	\$ —	\$ 126,830	\$ —	\$ 126,830	\$ 126,830
Note payable:					
March 31, 2021	\$ 3,244	\$ —	\$ —	\$ 3,244	\$ 3,244
March 31, 2020	\$ —	\$ —	\$ —	\$ —	\$ —

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a nonrecurring basis. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. Management has determined that this level to be most appropriate for finance receivables, repossessed assets, and note payable shown in the table above.

Level 2 assets are financial assets and liabilities that do not have regular market pricing, but whose fair value can be determined based on other data values or market pricing. Management has determined that this level to be most appropriate for the credit facility shown in the table above.

Level 1 assets are financial assets that have a regular mark to market mechanism for setting a fair market value. These assets are considered to have readily observable, transparent prices and therefore a reliable, fair market value. Management has determined that this level to be most appropriate for cash, restricted cash, and equity investments.

8. Income Taxes

The income tax expense (benefit) consists of the following for the years ended March 31:

	(In thousands)	
	2021	2020
Current:		
Federal	\$ 969	\$ (4,440)
State	-	6
Total current	<u>969</u>	<u>(4,434)</u>
Deferred:		
Federal	1,447	3,008
State	179	207
Total deferred	<u>1,626</u>	<u>3,215</u>
Income tax expense (benefit)	<u>\$ 2,595</u>	<u>\$ (1,219)</u>

The net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes are reflected in deferred income taxes. Significant components of the Company's deferred tax assets consist of the following as of March 31:

	(In thousands)	
	2021	2020
Deferred Tax Assets		
Allowance for credit losses not currently deductible for tax purposes	\$ 1,647	\$ 2,948
Share-based compensation	125	320
State net operating loss carryforwards	496	458
Right of use liability	826	462
Other items	158	249
Total deferred tax assets	<u>3,252</u>	<u>4,437</u>
Deferred tax liabilities		
Right of use asset	832	457
Other items	137	71
Total deferred tax liabilities	<u>969</u>	<u>528</u>
Deferred income taxes	<u>\$ 2,283</u>	<u>\$ 3,909</u>

The income tax expense (benefit) reflects an effective U.S. tax rate, which differs from the corporate tax rate for the following reasons:

	(In thousands)	
	2021	2020
Income tax expense (benefit) at Federal statutory rate	\$ 2,303	\$ 479
Increase (decrease) resulting from:		
Federal Fiscal Year 2020 NOL rate differential	-	(414)
Federal Fiscal Year 2019 NOL rate differential	-	(1,362)
State income taxes, net of Federal benefit	378	91
Other	(86)	(13)
Income tax expense (benefit)	<u>\$ 2,595</u>	<u>\$ (1,219)</u>

The Company's effective tax rate increased to 23.7% in fiscal 2021 from (54.3)% in fiscal 2020, resulting from the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). In response to the global impacts of COVID-19 on U.S. companies and citizens, the government enacted the CARES Act on March 27, 2020. The CARES Act included several tax relief options for companies, which resulted in the following provisions available to the Company.

- In May 2020, the Company elected to carryback its fiscal year 2019 net operating losses of \$9.7 million to 2013, thus generating a refund of \$3.5 million and an income tax benefit of \$1.4 million. The tax benefit is the result of the federal income tax rate differential between the current statutory rate of 21% and the 35% rate applicable to 2013.
- The Company elected to carryback its fiscal year 2020 net operating losses of \$3.0 million to 2014, thus generating an anticipated refund of \$1.0 million and an income tax benefit of \$0.4 million. The tax benefit is the result of the federal income tax rate differential between the current statutory rate of 21% and the 35% rate applicable to 2014.

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of positive evidence evaluated was the cumulative pre-tax income over the three-year period ended March 31, 2021, cumulative pre-tax income for the next three years, and substantial federal NOL rate differentials, previously noted. As of March 31, 2021, a valuation allowance was not required. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income are reduced. Generally, NOL's begin to expire March 31, 2039.

The Company considers the earnings of the Company's U.S. subsidiaries to be indefinitely invested outside Canada on the basis of estimates that future domestic cash generation will be sufficient to meet future domestic cash needs and the Company's specific plans for reinvestment of those subsidiary earnings. The Company has not recorded a deferred tax liability related to the Canadian income taxes and U.S. withholding taxes on approximately \$152.5 million of undistributed earnings of the U.S. subsidiaries indefinitely invested outside Canada. If the Company decided to repatriate the U.S. earnings, it would need to adjust its income tax provision in the period the Company determined that the earnings will no longer be indefinitely invested outside of Canada.

9. Leases

The Company adopted a new lease accounting standard in April 2019. See Note 2, "Summary of Significant Accounting Policies," for an overview of the transition to this standard.

The Company maintains lease agreements related to its branch network and for its corporate headquarters. The branch lease agreements range from one to five years and generally contain options to extend from one to three years. The corporate headquarters lease agreement expires in April 2023 and the Company is in the process of negotiating a new lease agreement. All of the Company's lease agreements are considered operating leases. None of the Company's lease payments are dependent on a rate or index that may change after the commencement date, other than the passage of time.

The Company's lease liability was \$3.4 million as of March 31, 2021 and \$2.7 million as of March 31, 2020. The liability is based on the present value of the remaining minimum rental payments using a discount rate that is

determined based on the Company's incremental borrowing rate on its senior revolving credit facility. The right of use asset was \$3.4 million as of March 31, 2021 and \$2.6 million as of March 31, 2020.

The Company has made several policy elections related to lease assets and liabilities. The Company elected to utilize the package of transition practical expedients, which includes not reassessing the following at adoption: (i) whether existing contracts contained leases, (ii) the existing classification of leases as operating or financing, or (iii) the initial direct costs of leases. In addition, the Company did not use hindsight to determine the lease term or include options to extend for leases existing at the transition date.

The Company had elected the practical expedient of combining lease and non-lease components for its real estate leases in calculating the present value of the fixed payments without having to perform an allocation between the types of lease components. Future minimum lease payments under non-cancellable operating leases in effect as of March 31, 2021, are as follows:

<i>in thousands</i>	
2022	\$ 1,420
2023	1,053
2024	582
2025	407
2026	223
Thereafter	—
Total future minimum lease payments	<u>3,685</u>
Present value adjustment	(318)
Operating lease liability	<u>\$ 3,367</u>

The following table reports information about the Company's lease cost for the twelve months ended March 31:

	<u>(In thousands)</u>	
	<u>2021</u>	<u>2020</u>
Lease cost:		
Operating lease cost	\$ 1,530	\$ 1,777
Variable lease cost	344	435
Total lease cost	<u>\$ 1,874</u>	<u>\$ 2,212</u>

The following table reports other information about the Company's leases for the twelve months ended March 31:

	<u>(In thousands)</u>	
	<u>2021</u>	<u>2020</u>
Other Lease Information		
Operating Lease - Operating Cash Flows (Fixed Payments)	\$ 1,593	\$ 1,913
Operating Lease - Operating Cash Flows (Liability Reduction)	\$ 1,193	\$ 1,841
Weighted Average Lease Term - Operating Leases	2.8 years	2.5 years
Weighted Average Discount Rate - Operating Leases	6.50%	6.50%

Rent expense for the fiscal years ended March 31, 2021 and 2020 was approximately \$1.9 million and \$2.2 million, respectively. The Company recognizes rent expense on a straight-line basis over the term of the lease, taking into account, when applicable, lessor incentives for tenant improvements, periods where no rent payment is required and escalations in rent payments over the term of the lease.

10. Share-Based Payments

The Company has share awards outstanding under two share-based compensation plans (the “Equity Plans”). The Company believes that such awards generally align the interests of its employees with those of its shareholders. Under the shareholder-approved 2006 Equity Incentive Plan (the “2006 Plan”) the Board of Directors was authorized to grant option awards for up to approximately 1.1 million common shares. On August 13, 2015, the Company’s shareholders approved the Nicholas Financial, Inc. Omnibus Incentive Plan (the “2015 Plan”) for employees and non-employee directors. Under the 2015 Plan, the Board of Directors is authorized to grant total share awards for up to 750,000 common shares. Awards under the 2006 Plan will continue to be governed by the terms of that plan. The 2015 Plan replaced the 2006 Plan; accordingly, no additional option awards may be granted under the 2006 Plan. In addition to option awards, the 2015 Plan provides for restricted stock, restricted stock units, performance shares, performance units, and other equity-based compensation.

Option awards previously granted to employees and directors under the 2006 Plan generally vest ratably based on service over a five- and three-year period, respectively, and generally have a contractual term of ten years. Vesting and contractual terms for option awards under the 2015 Plan are essentially the same as those of the 2006 Plan. Restricted stock awards generally cliff vest over a three-year period based on service conditions. Vesting of performance units generally does not commence until the attainment of Company-wide performance goals including annual revenue growth and operating income targets. There are no post-vesting restrictions for share awards.

The Company funds share awards from authorized but unissued shares and does not purchase shares to fulfill its obligations under the Equity Plans. Cash dividends, if any, are not paid on unvested performance units or unexercised options but are paid on unvested restricted stock awards.

The Company did not grant any options during the years ended March 31, 2021 or 2020.

A summary of option activity under the Equity Plans as of March 31, 2021, and changes during the year are presented below.

Options	(Shares and Aggregate Intrinsic Value in thousands)			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at March 31, 2020	62	\$ 11.67	3.13	\$ -
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited	(7)	11.18	—	—
Outstanding at March 31, 2021	<u>55</u>	<u>\$ 11.73</u>	<u>2.09</u>	<u>\$ -</u>
Exercisable at March 31, 2021	<u>55</u>	<u>\$ 11.73</u>	<u>2.09</u>	<u>\$ -</u>

The total intrinsic value of options exercised during the years ended March 31, 2021 and 2020 was approximately \$0 and \$7000, respectively.

During the fiscal year ended March 31, 2021, no options were exercised. During the same period, approximately 7,000 options were forfeited at exercise prices ranging from \$7.00 to \$12.68 per share.

During the fiscal year ended March 31, 2020, approximately 2,000 options were exercised at exercise prices ranging from \$1.20 to \$4.18 per share. During the same period, approximately 8,000 options were forfeited at exercise prices ranging from \$10.87 to \$12.68 per share.

Cash received from options exercised during the fiscal years ended March 31, 2021 and 2020 totaled approximately \$0 and \$5,000, respectively. As of March 31, 2021, the Company had no unrecognized compensation related to options grants. For the year ended, March 31, 2021 and March 31, 2020, respectively, the Company had approximately \$0 and \$0 of total unrecognized compensation cost related to options granted.

A summary of the status of the Company's non-vested restricted shares under the Equity Plan as of March 31, 2021, and changes during the year then ended is presented below.

<u>Restricted Share Awards</u>	<u>(Shares and Aggregate Intrinsic Value in thousands)</u>			
	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Non-vested at March 31, 2020	50	\$ 9.65	1.40	341
Granted	15	8.05		
Vested	(17)	9.23		
Forfeited	(7)	9.49		
Non-vested at March 31, 2021	<u>41</u>	<u>\$ 9.24</u>	<u>0.96</u>	<u>\$ 436</u>

The Company awarded approximately 15,000 restricted shares during the fiscal year ended March 31, 2021. There are no performance shares included within the 15,000 restricted shares granted that resulted from the Company meeting a performance threshold. During the same period there were approximately 7,000 restricted shares forfeited. With the adoption of ASU 2016-09 on January 1, 2017, the Company no longer reduces stock-based compensation by estimated forfeitures. Instead the Company accounts for forfeitures when they occur. For any vesting tranche of an award, the cumulative amount of compensation cost recognized is at least equal to the portion of the grant-date value of the award tranche that is actually vested at that date.

As of March 31, 2021, there was approximately \$132,000 of total unrecognized compensation cost related to non-vested restricted share awards granted under the Equity Plans. That cost is expected to be recognized over a weighted-average period of approximately 0.96 years.

11. Employee Benefit Plan

The Company has a 401(k)-retirement plan under which all employees are eligible to participate. Employee contributions are voluntary and subject to Internal Revenue Service limitations. The Company did not make a discretionary matching employee contribution. The Board will re-evaluate the Company's matching policy for plan year 2021 later in the year.

12. Commitments and 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.

13. Variable Interest Entity

In March 2019, the Company entered into a new senior secured credit facility collateralized by customer financed receivables by transferring the receivables into a bankruptcy-remote variable interest entity (VIE). Under the terms of the transaction, all cash collections and other cash proceeds of the customer receivables go first to the servicer and the holders of the asset-backed notes, and then to the residual equity holder. The Company retained the servicing of the portfolio and receives a monthly fee of 2.5% (annualized) based on the outstanding balance of the financed receivables, and the Company currently holds all of the residual equity. In addition, the Company, rather than the VIE, will retain certain credit insurance income together with certain recoveries related to credit insurance and on charge-offs of the financed receivables, which will continue to be reflected as a reduction of net charge-offs on a consolidated basis for as long as the Company consolidates the VIE.

The Company consolidated the VIE's when the Company determines that it is the primary beneficiary, the Company has the power to direct the activities that most significantly impact the performance of the VIE and it has the obligation to absorb losses and has the right to receive residual returns is significant. The Company determined it is the primary beneficiary of the VIE.

The assets of the VIE serve as collateral for the obligations of the VIE. The lender has no recourse to assets outside of the VIE.

The following table presents the assets and liabilities held by the VIE (for legal purposes, the assets and the liabilities of the VIE will remain distinct from the Company):

	<u>2021</u>	<u>2020</u>
Assets		
Restricted cash	\$ 10,955	\$ 7,882
Finance receivables, net	150,706	165,966
Repossessed assets	631	1,277
Total assets	<u>\$ 162,292</u>	<u>\$ 175,125</u>
Liabilities		
Credit facility, net of debt issuance costs	\$ 86,154	\$ 124,255
Accounts payable and accrued expenses	405	597
Total liabilities	<u>\$ 86,559</u>	<u>\$ 124,852</u>

14. Stock Plans

In May 2019, the Company's Board of Directors ("Board") authorized a new stock repurchase program allowing for the repurchase of up to \$8.0 million of the Company's outstanding shares of common stock in open market purchases, privately negotiated transactions, or through other structures in accordance with applicable federal securities laws. The authorization was effective immediately.

The timing and actual number of shares will depend on a variety of factors, including stock price, corporate and regulatory requirements and other market and economic conditions. The Company's stock repurchase program may be suspended or discontinued at any time.

In August 2019, the Company's Board authorized additional repurchase of up to \$1.0 million of the Company's outstanding shares.

The table below summarizes treasury share transactions under the Company's stock repurchase program.

	Twelve months ended March 31,			
	(In thousands)			
	<u>2021</u>		<u>2020</u>	
Number of Shares	Amount	Number of Shares	Amount	
Treasury shares at the beginning of period	4,833	\$ (71,438)	4,714	\$ (70,459)
Treasury shares purchased	112	(905)	119	(979)
Treasury shares at the end of period	<u>4,945</u>	<u>\$ (72,343)</u>	<u>4,833</u>	<u>\$ (71,438)</u>

15. Subsequent Events

Paycheck Protection Program: On May 27, 2020, the Company obtained a loan in the amount of \$3,243,900 from a bank in connection with the U.S. Small Business Administration's ("SBA") Paycheck Protection Program (the "PPP Loan"). Pursuant to the Paycheck Protection Program, all or a portion of the PPP Loan may be forgiven if the Company uses the proceeds of the PPP Loan for its payroll costs and other expenses in accordance with the requirements of the Paycheck Protection Program. The Company used the proceeds of the PPP Loan for payroll

costs and other covered expenses and sought full forgiveness of the PPP Loan, but there can be no assurance that the Company will obtain any forgiveness of the PPP Loan. The Company submitted the forgiveness application to Fifth Third Bank, the lender, on December 7, 2020 and submitted supplemental documentation on January 16, 2021. Currently the application is pending SBA decision. Therefore, per the Paycheck Protection Flexibility Act of 2020, P.L. 116-142, all loan payments are deferred while the Company awaits the SBA's decision on loan forgiveness. If the PPP Loan is not fully forgiven, the Company will remain liable for the full and punctual payment of the outstanding principal balance plus accrued and unpaid interest.

Unless forgiven, the outstanding principal balance plus accrued and unpaid interest (accruing at the rate of 1.00% per annum) is due on May 22, 2022. The PPP Loan is unsecured. The PPP Loan may be prepaid at any time prior to maturity with no prepayment penalties. The related promissory note contains events of default and other provisions customary for a loan of this type.

Share Repurchases: For the period April 1, 2021 through June 17, 2021, the Company repurchased an additional 40,110 shares of our common stock for \$433 thousand at an average price of \$10.63 per share.

COVID-19: The Company has discussed COVID-19 throughout the 10-K, including but not limited, to forward-looking information, Item 1. Business, Item 1A. Risk Factors, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and Notes to the Consolidated Financial Statements

16. Quarterly Results of Operations (Unaudited)

	Fiscal Year ended March 31, 2021			
	(In thousands, except earnings per share amounts)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenue	\$ 14,151	\$ 14,109	\$ 14,474	\$ 13,286
Interest expense	1,649	1,569	1,442	1,320
Provision for credit losses	3,300	3,050	650	250
Non-interest expense	7,343	8,131	7,407	8,963
Operating income before income taxes	1,859	1,359	4,975	2,753
Income tax expense	429	92	1,190	884
Net income	<u>\$ 1,430</u>	<u>\$ 1,267</u>	<u>\$ 3,785</u>	<u>\$ 1,869</u>
Earnings per share:				
Basic	<u>\$ 0.18</u>	<u>\$ 0.16</u>	<u>\$ 0.49</u>	<u>\$ 0.24</u>
Diluted	<u>\$ 0.18</u>	<u>\$ 0.16</u>	<u>\$ 0.49</u>	<u>\$ 0.24</u>

	Fiscal Year ended March 31, 2020			
	(In thousands, except earnings per share amounts)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenue	\$ 16,641	\$ 15,585	\$ 14,973	\$ 14,896
Interest expense	2,488	2,298	1,886	1,843
Provision for credit losses	4,385	4,000	4,597	3,919
Non-interest expense	8,971	8,927	7,950	8,584
Operating income before income taxes	797	360	540	550
Income tax expense (benefit)	206	92	229	(1,746)
Net income	<u>\$ 591</u>	<u>\$ 268</u>	<u>\$ 311</u>	<u>\$ 2,296</u>
Earnings per share:				
Basic	<u>\$ 0.07</u>	<u>\$ 0.03</u>	<u>\$ 0.04</u>	<u>\$ 0.31</u>
Diluted	<u>\$ 0.07</u>	<u>\$ 0.03</u>	<u>\$ 0.04</u>	<u>\$ 0.31</u>

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure information required to be disclosed in its reports filed or submitted under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is (i) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure. The Company’s management, including its Chief Executive Officer and Chief Financial Officer, does not expect that the Company’s disclosure controls and procedures or internal controls will prevent all possible error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

The Company’s management, including its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of March 31, 2021. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures were effective as of March 31, 2021.

Management’s Report on Internal Control over Financial Reporting

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. The Company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company’s management, including its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company’s internal control over financial reporting as of March 31, 2021, the end of the fiscal year covered by this Report, based on the criteria set forth in *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that the Company’s internal control over financial reporting was effective as of March 31, 2021.

No Attestation Report of the Independent Registered Public Accounting Firm

This Annual Report does not include an attestation report of the Company’s independent registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s independent registered public accounting firm pursuant to the rules of the Securities and Exchange Commission.

Remediation of Previously Reported Material Weaknesses in Internal Control over Financial Reporting

As disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2020, the Company reported that its internal control over financial reporting was not effective as of March 31, 2020, as a result of two material weaknesses. A material weakness is a deficiency or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the registrant’s annual or interim financial statements will not be prevented or detected on a timely basis. Specifically, the Company reported two material weaknesses for the year ended March 31, 2020:

- 1) Lack of Comprehensive Sarbanes-Oxley (SOX) Compliance Program

Deficiencies were identified in key activities which prevented the Company from achieving full compliance with Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

2) Test of Design Effectiveness

Starting in the fourth quarter of fiscal 2020, the Company identified several design gaps and design control deficiencies across multiple business processes and information technology general controls, which impacted the testing of operating effectiveness.

The Company has taken the following remedial actions to address the material weaknesses:

- The Company identified key activities to establish a comprehensive SOX Compliance Program, including but not limited to planning and scoping activities, enterprise risk assessment, and initial reporting, which were completed during the first half of fiscal 2021.
- The Company started the test of design effectiveness in the second quarter of fiscal 2021 and completed these activities during October 2020, which the Company believes provided adequate time for remediation activities before testing of operating effectiveness.
- The Company tested operating effectiveness during the second half of fiscal 2021, including reporting and aggregation of all control deficiencies, including evaluation of them individually and in the aggregate.

Management concluded that the remedial actions above were in place and operating effectively for a sufficient period of time during fiscal 2021 to conclude that the material weaknesses have been remediated as of March 31, 2021. As management continues to evaluate and work to improve the Company's internal control over financial reporting, additional or different measures may be taken to address control deficiencies with the overall objective to provide reasonable assurance regarding the effectiveness of our internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

No change in the Company's internal control over financial reporting occurred during the Company's fiscal quarter ended March 31, 2021 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting, except as disclosed above.

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The relevant information to be set forth in the definitive Proxy Statement and Information Circular for the 2021 Annual General Meeting of Shareholders of the Company (the “Proxy Statement”), is incorporated herein by reference.

The Company has adopted a written code of ethics applicable to its chief executive officer, chief financial officer, principal accounting officer and persons performing similar functions. A copy of the code of ethics is posted on the Company’s web site at www.nicholasfinancial.com. Anyone who wishes to receive a written copy of the code of ethics may receive one without charge by submitting a request in writing to Corporate Secretary, Nicholas Financial, Inc., 2454 McMullen Booth Road, Building C, Clearwater, Florida 33759. The Company intends to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding amendments to, or waivers from, the code of ethics by posting such information on the Company’s web site at www.nicholasfinancial.com. The Company is not including the information contained on or available through its web site as a part of, or incorporating such information by reference into, this Report.

Item 11. Executive Compensation, Compensation Interlocks and Insider Participation

The relevant information to be set forth in the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth certain information, as of March 31, 2021, with respect to compensation plans under which equity securities of the Company were authorized for issuance:

EQUITY COMPENSATION PLAN INFORMATION (In thousands, except exercise price)

<u>Plan Category</u>	<u>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</u> (a)	<u>Weighted – Average Exercise Price of Outstanding Options, Warrants and Rights</u> (b)	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))</u> (c)
Equity Compensation Plans Approved by Security Holders	55	\$ 11.73	662
Equity Compensation Plans Not Approved by Security Holders	None	Not Applicable	None
TOTAL	<u>55</u>	<u>\$ 11.73</u>	<u>662</u>

The relevant information to be set forth in the Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, Director Independence and Board of Directors

The relevant information to be set forth in the Proxy Statement is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The relevant information to be set forth in the Proxy Statement is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this Report:

(1) Financial Statements

See Part II, Item 8, of this Report.

(2) Financial Statement Schedules

All financial schedules are omitted as the required information is not applicable or the information is presented in the consolidated financial statements or related notes.

(3) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
3.1	Articles of Nicholas Financial, Inc. (1)
3.2	Notice of Articles of Nicholas Financial, Inc. (2)
4.1	Form of Common Stock Certificate (3)
4.2	Description of the Registrant's Securities (4)
10.1-10.11	[Reserved.]
10.12	Credit Agreement dated as of March 29, 2019 by and among NF Funding I, LLC, Ares Agent Services, L.P., as administrative agent and collateral agent, and the lenders that are party thereto (5)
10.13	Consent and First Amendment to Credit Agreement dated as of August 19, 2019 by and amount NF Funding, LLC, Ares Agent Services, L.P., as administrative agent and collateral agent, and the lenders that are party thereto (6)
10.14	Receivables Purchase Agreement dates as of March 29,2019 by and between NF Funding I, LLC and Nicholas Financial, Inc. (7)
10.15	Servicing Agreement dates as of March 29,2019 by and among Ares Agent Services, L.P., as administrative agent, NF Funding I, LLC and Nicholas Financial, Inc. (8)
10.16	Limited Guaranty dated as of March 29, 2019 by Nicholas Financial, Inc. in favor of Ares Agent Services, L.P., as administrative agent and collateral agent (9)
10.17	Security Agreement dated as of March 29, 2019 by and between NF Funding I, LLC, Ares Agent Services, L.P., as collateral agent (10)
10.21	Note dated May 27, 2020 by the Company in favor of Fifth Third Bank (11)
10.22.1	Purchase and Sale Agreement, dated December 11, 2019, by and between Platinum Auto Finance of Tampa Bay, LLC (12)
10.22.2	Purchase and Sale Agreement, dated January 30, 2020, by and between Platinum Auto Finance of Tampa Bay, LLC (13)
10.22.3	Purchase and Sale Agreement, dated February 20, 2020, by and between Platinum Auto Finance of Tampa Bay, LLC (14)
10.23	Nicholas Financial, Inc. 2015 Omnibus Incentive Plan (15) *
10.24	Form of Nicholas Financial, Inc. 2015 Omnibus Incentive Plan Stock Option Award (16) *
10.25	Form of Nicholas Financial, Inc. 2015 Omnibus Incentive Plan Restricted Stock Award (17) *

- 10.26 Form of Nicholas Financial, Inc 2015 Omnibus Incentive Plan Performance Share Award (18) *
- 10.27 Employment Agreement between the Company and Douglas W. Marohn, dated as of July 8, 2020 (19) *
- 10.27 Employment Agreement between the Company and Irina Nashtatik, dated as of July 7, 2020 (20) *
- 10.29 Form of Dealer Agreement and Schedule thereto listing dealers that are parties to such agreements (21)
- 21 Subsidiaries of Nicholas Financial, Inc.
- 23.1 Consent of RSM, LLP
- 24 Powers of Attorney (included on signature page hereto)
- 31.1 Certification of President and Chief Executive Officer
- 31.2 Certification of Chief Financial Officer
- 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 Inline XBRL Instance Document
- 101.SCH Inline XBRL Taxonomy Extension Schema Document
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB Inline XBRL Taxonomy Extension Labels Linkbase Document
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document

- 104.The cover page from the Company’s Annual Report on form 10-K for the year ended March 31, 2021, has been formatted in Inline XBRL.

* Represents a management contract or compensatory plan, contract or arrangement in which a director or named executive officer of the Company participated.

- (1) Incorporated by reference to Appendix B to the Company’s Proxy Statement and Information Circular for the 2006 Annual General Meeting of Shareholders filed with the SEC on June 30, 2006.
- (2) Incorporated by reference to Exhibit 4.2 to the Company’s Registration Statement on Form S-8 filed with the SEC on May 24, 2007.
- (3) Incorporated by reference to Exhibit 4 to the Company’s Annual Report on Form 10-KSB for the fiscal year ended March 31, 2004, as filed with the SEC on June 29, 2004.
- (4) Incorporated by reference to Exhibit 4.2 to the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2020, as filed with the SEC on June 22, 2020.
- (5) Incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K, dated March 29, 2019, as filed with the SEC on April 1, 2019.
- (6) Incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K, dated August 16, 2019, as filed with the SEC on August 19, 2019.
- (7) Incorporated by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K, dated March 29, 2019, as filed with the SEC on April 1, 2019.
- (8) Incorporated by reference to Exhibit 10.3 to the Company’s Current Report on Form 8-K, dated March 29, 2019, as filed with the SEC on April 1, 2019.

- (9) Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K, dated March 29, 2019, as filed with the SEC on April 1, 2019.
- (10) Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K, dated March 29, 2019, as filed with the SEC on April 1, 2019.
- (11) Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated June 4, 2020, as filed with the SEC on June 6, 2020.
- (12) Incorporated by reference to Exhibit 10.22.1 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2020, as filed with the SEC on June 22, 2020.
- (13) Incorporated by reference to Exhibit 10.22.2 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2020, as filed with the SEC on June 22, 2020.
- (14) Incorporated by reference to Exhibit 10.22.3 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2020, as filed with the SEC on June 22, 2020.
- (15) Incorporated by reference to Appendix A to the Company's Proxy Statement and Information Circular for the 2015 Annual General Meeting of Shareholders, as filed with the SEC on July 6, 2015.
- (16) Incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2016, as filed with the SEC on June 14, 2016.
- (17) Incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2016, as filed with the SEC on June 14, 2016.
- (18) Incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2016, as filed with the SEC on June 14, 2016.
- (19) Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, dated July 7, 2020, as filed with the SEC on July 9, 2020.
- (20) Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated July 7, 2020, as filed with the SEC on July 9, 2020.
- (21) Incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2017, as filed with the SEC on June 14, 2017.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated: June 22, 2021

By: /s/ Douglas Marohn

Douglas Marohn

President and Chief Executive Officer

KNOW ALL MEN BY THESE PRESENTS that each person whose signature appears below constitutes and appoints Douglas Marohn, his or her true and lawful attorney-in-fact and agent, with full power of substitution and re-substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Report, and to file the same, with all exhibits thereto, and any other documents in connection therewith, with the U.S. Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Douglas Marohn</u> Douglas Marohn	President, Chief Executive Officer, and Director (Principal Executive Officer)	June 22, 2021
<u>/s/ Irina Nashtatik</u> Irina Nashtatik	Chief Financial Officer (Principal Financial and Accounting Officer)	June 22, 2021
<u>/s/ Jeffrey C. Royal</u> Jeffrey C. Royal	Chairman of the Board of Directors	June 22, 2021
<u>/s/ Robin Hastings</u> Robin Hastings	Director	June 22, 2021
<u>/s/ Adam K. Peterson</u> Adam K. Peterson	Director	June 22, 2021
<u>/s/ Jeremy Q. Zhu</u> Jeremy Q. Zhu	Director	June 22, 2021