NICHOLAS FINANCIAL INC
Form 10-K
June 27, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934
For the fiscal year ended March 31, 2018

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________.

Commission file number: 0-26680

NICHOLAS FINANCIAL, INC.

(Exact Name of Registrant as Specified in its Charter)

British Columbia, Canada	**8736-3354**

(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

2454 McMullen Booth Road, Building C

Clearwater, Florida 33759

(Address of Principal Executive Offices, Including Zip Code)

(727) 726-0763

(Registrant s Telephone Number, Including Area Code)

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

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

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	Accelerated filer

Non-accelerated filer Smaller reporting company

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

At September 30, 2017, the aggregate market value of the Registrant s common shares held by non-affiliates of the Registrant was approximately $48.8 million.

As of June 22, 2018, approximately 12.6 million shares, no par value, of the Registrant were outstanding (of which approximately 4.7 million shares were held by the Registrant s principal operating subsidiary and pursuant to applicable law, not entitled to vote and approximately 7.9 million shares were entitled to vote).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive Proxy Statement and Information Circular for the 2018 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 and similar expressions are intended to identify forward-looking statements. Although Nicholas Financial, Inc. and its subsidiaries (collectively the Company) 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. Such statements are subject to certain risks, uncertainties and assumptions, including but not limited to the risk factors discussed herein under Item 1A Risk Factors. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or expected. Among the key factors that may cause actual results to differ materially from those projected in forward-looking statements include the 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 the effect of changes in tax law, such as the effect of the Tax Cuts and Jobs Act (TCJA) that was enacted on December 22, 2017, fluctuations in the economy, the degree and nature of competition and its effects on the Company s financial results, fluctuations in interest rates, 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, the Company s products and services, increases in the default rates experienced on automobile finance installment contracts (Contracts), adverse regulatory changes in the Company s existing and future markets, the Company s intentions regarding strategic alternatives, the Company s ability to expand its business, including its ability to complete acquisitions and integrate the operations of acquired businesses and to expand into new markets, and the Company s ability to recruit and retain qualified employees. All forward-looking statements included in this Report are based on information available to the Company as of the date of filing of this Report, and the Company assumes no obligation to update any such forward-looking statement. Prospective investors should also consult the risk factors described from time to time in the Company s other filings made with the US 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. To a lesser extent, Nicholas Financial also 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.

Nicholas Financial-Canada, Nicholas Financial and NDS are hereafter collectively referred to as the Company . Nicholas Financial s operations accounted for 100% of the Company s consolidated revenue for the fiscal years ended March 31, 2018, 2017 and 2016.

All financial information herein is designated in United States dollars. References to fiscal 2018 are to our fiscal year ended March 31, 2018, references to fiscal 2017 are to our fiscal year ended March 31, 2017, and references to fiscal 2016 are to our fiscal year ended March 31, 2016.

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 web site as a part of, or incorporating such information by reference into, this Report. Copies of any materials the Company files with the SEC can also be obtained free of charge through the SEC s website at http://www.sec.gov or at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information regarding the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

Operating Strategy

The Company previously announced that it was re-evaluating its operational strategy and structure. Under its new management team, however, the Company has elected to remain committed to its branch-based model and its core product of financing primary transportation to and from work for the subprime borrower. The Company will strategically employ the use of centralized services departments to supplement the branch operations and improve operational efficiencies, but its focus will be on its core business model of decentralized operations. The Company s strategy will also include pricing based on risk (rate, yield, advance, etc.) and a commitment to the underwriting discipline required for optimal portfolio performance.

The Company s principal goals are to increase its profitability and its long-term shareholder value through the measured acquisition of Contracts in existing markets and broadening the geographic area in which its current branches operate. The Company seeks to strengthen its automobile financing program in the seventeen states Alabama, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Michigan, Missouri, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, Virginia and Wisconsin in which it currently operates by employing its core branch-based business model in each market it services, while supporting its branch network with targeted centralized servicing departments. During fiscal 2016, the Company started buying Contracts in Wisconsin and Pennsylvania. Dealers in Wisconsin are serviced in our Gurnee, Illinois branch. During fiscal 2017, the Company consolidated branch offices located in Sarasota, Florida, Toledo, Ohio and Troy, Michigan with other branches in those markets. During fiscal 2018, the Company consolidated branch offices located in Dayton, Ohio, Doral, Florida and Villa Park, Illinois with other branches in those markets. The Company also exited the Maryland market by closing its branch office located in Baltimore. The Company will continue to evaluate any branch locations not meeting its minimum profitability targets and may elect to close additional branches in the future. The Company also continues to look for expansion opportunities both in states in which it currently operates and in new states. 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.

Although the Company has not made any bulk purchases of Contracts in over two decades, if the opportunity arises, the Company may consider possible acquisitions of portfolios of seasoned Contracts from dealers or lenders in bulk transactions as a means of further penetrating its existing markets or expanding its presence in targeted geographic locations.

The Company is currently licensed to provide Direct Loans in Florida and North Carolina. The Company is considering the solicitation of current customers in Florida and North Carolina for the purpose of selling Direct Loans to such customers, and 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 3% and 10% 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 traditional lenders, which look primarily to the credit history of the borrower in making lending decisions and typically finance new automobiles, the Company is willing to purchase Contracts for purchases made by borrowers who do not have a good credit history and for older model and high-mileage automobiles. In making decisions regarding the purchase of a particular Contract, the Company considers the following factors related to the borrower: current income; credit history; history in making installment payments for automobiles; current and prior job status; and place and length of residence. In addition, the Company examines its prior experience with Contracts purchased from the dealer from which the Company is purchasing the Contract, and the value of the automobile in relation to the purchase price and the term of the Contract.

As of the date of this Annual Report on Form 10-K, the Company s automobile finance programs are conducted in sixteen states through a total of 60 branch offices, consisting of seventeen in Florida, six in Georgia, five in each of Ohio, Indiana, Kentucky, and Missouri, two in each of North Carolina, Alabama, South Carolina, Tennessee, Texas, Michigan, and Virginia, and one in each of Illinois, Kansas, and Pennsylvania. The Company acquires Contracts in Wisconsin using the underwriting staff of the Gurnee, Illinois branch location. As of March 31, 2018, the Company had non-exclusive agreements with approximately 4,500 dealers, of which approximately 1,400 were active, for the purchase of individual Contracts that meet the Company s financing criteria. The Company considers a dealer agreement to be active if the Company has purchased a Contract thereunder in the last six months. Each dealer agreement requires the dealer to originate Contracts in accordance with the Company s guidelines. Once a Contract is purchased by the Company, the dealer is no longer involved in the relationship between the Company and the borrower, other than through the existence of limited representations and warranties of the dealer in favor of the Company.

A customer under a Contract typically makes a down payment, in the form of cash or trade-in, ranging from 5% to 35% of the sale price of the vehicle financed. The balance of the purchase price of the vehicle plus taxes, title fees and, if applicable, premiums for extended service contracts, gap insurance, roadside assistance plans, credit disability insurance and/or credit life insurance are generally financed over a period of 12 to 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. We refer 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. As of March 31, 2018, the Company s loan portfolio consisted exclusively of Contracts 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 currently purchases Contracts in the states listed in the table below. The Contracts purchased by the Company are predominately for used vehicles; for the periods shown below, less than 1% were for new vehicles. The average model year

collateralizing the portfolio as of March 31, 2018 was a 2011 vehicle. The dollar amounts shown in the table below represent the Company s finance receivables, net of unearned interest on Contracts purchased:

State	Maximum allowable interest rate (1)	Fiscal year ended March 31, (In thousands) 2018	2017	2016
Alabama	(2)	**$ 3,108**	$ 5,106	$ 5,764
Florida	18-30%(3)	**29,206**	47,923	55,270
Georgia	18-30%(3)	**11,192**	16,080	18,227
Illinois	(2)	**2,667**	7,057	7,563
Indiana	25%	**7,001**	9,330	8,595
Kansas	(2)	**1,788**	2,946	3,052
Kentucky	18-25%(3)	**5,558**	8,422	8,837
Maryland	24%	**1,040**	2,714	2,626
Michigan	25%	**4,709**	6,622	7,671
Missouri	(2)	**4,663**	8,244	8,227
North Carolina	18-29%(3)	**8,836**	12,910	14,291
Ohio	25%	**14,599**	19,366	24,520
Pennsylvania	18-21%(3)	**2,200**	2,749	392
South Carolina	(2)	**4,055**	4,572	6,145
Tennessee	(2)	**3,374**	5,249	6,134
Texas	18-28%(3)	**2,835**	6,557	4,965
Virginia	(2)	**2,639**	3,973	4,614
Wisconsin	(2)	**105**	1,121	382
Total		**$ 109,575**	$ 170,941	$ 187,275

(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 30% per annum.
(3) The maximum allowable interest rate in each of these states varies depending upon the model year of the vehicle being financed. In addition, Georgia does not currently impose a maximum allowable interest rate with respect to Contracts over $5,000.

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

Fiscal year ended March 31,
(Purchases in thousands)

Contracts	2018	2017	2016
Purchases	**$ 109,575**	$ 170,941	$ 187,275
Weighted APR	**22.35%**	22.22%	22.66%
Average dealer discount	**7.41%**	7.08%	7.51%
Weighted average term (months)	**54**	57	56
Average loan	**$ 11,219**	$ 11,693	$ 11,348
Number of Contracts purchased	**9,767**	14,619	16,503

Direct Loans

The Company currently originates Direct Loans in Florida and North Carolina. Direct Loans are loans originated directly between the Company and the consumer. These loans are typically for amounts ranging from $1,000 to 11,000 and are generally secured by a lien on an automobile, watercraft or other permissible tangible personal property. The average loan made to date by the Company had an initial principal balance of approximately $4,000. The Company does not expect the average loan size to increase significantly within the foreseeable future. The majority of Direct Loans are originated with current or former customers under the Company s automobile financing program. The typical Direct Loan represents a better credit risk than our typical Contract due to the customer s historical payment history with the Company. The Company does not have a Direct Loan license in Alabama, Illinois, Indiana, Kansas, Kentucky, Maryland, Michigan, Missouri, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, Virginia or Wisconsin, and none is presently required in Georgia provided that the original principal balance of the loan is greater than $3,000. The Company did not pursue a Direct Loan license in any other state during fiscal year ending March 31, 2018 but expects to pursue licenses in one or more states in the foreseeable future. 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 2.4% of the Company s annual consolidated revenues during the year ended March 31, 2018.

In connection with its Direct Loan program, the Company also makes available credit disability, credit life insurance, and involuntary unemployment insurance coverage to customers through unaffiliated third-party insurance carriers. Customers in approximately 62% of the approximate 2,600 Direct Loan transactions outstanding as of March 31, 2018 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, net of unearned interest:

	Fiscal year ended March 31, (Originations in thousands)		
Direct Loans	**2018**	**2017**	**2016**
Originations	**$ 7,642**	$ 8,676	$ 9,578
Weighted APR	**25.20%**	25.99%	25.82%
Weighted average term (months)	**29**	30	30
Average loan	**$ 3,754**	$ 3,626	$ 3,589
Number of contracts originated	**2,036**	2,393	2,669

Underwriting Guidelines

The Company s typical customer has a credit history that fails to meet the lending standards of most traditional banks and credit unions. Among the credit problems experienced by the Company s customers that resulted in a poor credit history are: prior automobile account repossessions, unpaid revolving credit card obligations; unpaid medical bills; unpaid student loans; prior bankruptcy; and evictions for nonpayment of rent. The Company believes that its customer profile is similar to that of its direct competitors.

Prior to its approval of the purchase of a Contract, the Company is provided with a standardized credit application completed by the consumer which contains information relating to the consumer s background, employment, and credit history. The Company also obtains credit reports from Equifax 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 essentially the same criteria in analyzing a Direct Loan as it does in analyzing the purchase of a Contract. Lending decisions regarding Direct Loans are made based upon a review of the customer s loan application, income, credit history, job stability, and the value of the collateral offered by the borrower to secure the loan. To date, since the majority of the Company s Direct Loans have been made to individuals whose automobiles have been financed by the Company, the customer s payment history under his or her existing or past Contract is a significant factor in the lending decision.

After reviewing the information included in the Contract or Direct Loan application and taking the other factors into account, the Company s loan origination system categorizes the customer using internally developed credit classifications of 1, indicating higher creditworthiness, through 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 four-year old, low mileage used automobile, while a customer in any of the two lowest categories (i.e., 3, or 4) usually is purchasing an older, high mileage automobile from an independent used automobile dealer.

The Company utilizes internal audit (the IA) to perform audits of its branches compliance with Company underwriting guidelines. IA audits Company branches on a schedule that is variable depending on the size of the branch, length of time a branch has been open, current tenure of the Branch Manager, previous branch audit score and current and historical branch profitability.

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 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 promises reports, vehicle information reports, purchase reports, dealer analysis reports, static pool reports, and repossession reports.

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

Any Contract acquired by the Company less than 180 days prior to the determination date is included on the delinquency report on the first day that the Contract is contractually past due. Contracts acquired by the Company 180 or more days prior to the determination date are not included on the delinquency report until they are more than 10 days past due. Determinations with respect to repossession are based on many factors which include but are not limited to, delinquency status, payment history, number of months since Contract acquisition, current value of the collateral, customer s employment status, communication with the customer, customer s intent to pay, etc. If an account is 180 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.

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.

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

The Company 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 is evaluating and assessing other forms of advertising, such as radio or newspaper advertisements, for the purchase of Contracts.

The Company solicits customers under its Direct Loan program primarily through direct mailings, followed by telephone calls to individuals who have a good credit history with the Company in connection with Contracts purchased by the Company.

Computerized Information System

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

Competition

The consumer finance industry is highly fragmented and highly competitive. Due to various factors, including the existing low interest rate environment, the competitiveness of the industry continues to increase as new competitors continue to enter the market and certain existing competitors continue to expand their operations. There are numerous financial service companies that provide consumer credit in the markets served by the Company, including banks, credit unions, other consumer finance companies, and captive finance companies owned by automobile manufacturers and retailers. Increased competition for the purchase of Contracts enabled automobile dealers to shop for the best price, resulting in an erosion in the dealer discounts from the initial principal amounts at which the Company was willing to purchase Contracts and higher advance rates. The Company s average dealer discount on loans purchased for the fiscal years ended March 31, 2017 and 2016 was 7.08% and 7.51%, respectively. Further, increased competition resulted in the purchase of lower credit quality Contracts. However, with the Company s recent change in management, it has begun to place less emphasis on competition when pricing the dealer discount. The Company instead focuses on purchasing Contracts that are priced to reflect the inherent risk level of the contract, and intends to sacrifice loan volume if necessary to maintain that pricing discipline. Primarily as a result of this shift in focus for the fiscal year ended March 31, 2018, the Company s average dealer discount on loans purchased increased to 7.41%. The following table shows number and principal amount of Contracts purchased, average amount financed, average term, and average APR and discount for the periods presented:

Fiscal Year /Quarter	Number of Contracts purchased	Principal Amount purchased	Average Financed	Average APR	Average Discount%	Average Term
2018	9,767	109,575,099	11,219	22.4%	7.4%	54
4	2,814	29,253,725	10,396	23.3%	7.9%	50
3	2,365	27,378,449	11,577	21.7%	6.9%	54
2	2,239	25,782,056	11,515	22.0%	7.3%	55
1	2,349	27,160,869	11,563	22.3%	7.6%	55
2017	14,619	170,941,206	11,693	22.2%	7.1%	57
4	3,677	42,629,274	11,593	22.3%	7.3%	56
3	3,846	45,941,459	11,945	22.0%	6.9%	57
2	3,592	41,540,401	11,565	22.3%	7.0%	57
1	3,504	40,830,072	11,609	22.4%	7.2%	57

The Company s target market consists of persons who are generally unable to obtain traditional used car financing because of their credit history or the vehicle s mileage or age. Historically, the Company was able to expand its automobile finance business in the non-prime credit market by offering to purchase Contracts on terms that are competitive with those of other companies. Over the course of fiscal 2016, 2017 and most of fiscal 2018, the Company attempted to expand its product mix to include larger loans with lower APRs and reduced discounts. With the recent change in management, the Company rededicated itself to its core product of financing primary transportation to and from work for the subprime borrower and refocused on pricing integrity on those Contracts acquired. The Company is committed to the branch-based model and believes that model allows it maintain pricing integrity through solid dealer relationships and a knowledge of the local market.

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 1,400 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, 2018, 2017 or 2016.

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. To date, the Company s operations have been conducted exclusively in the states of Alabama, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Maryland, Michigan, Missouri, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, Virginia and Wisconsin. Accordingly, the laws of such states, as well as applicable federal law, govern the Company s operations. The following constitute certain of the existing federal, state and local statutes, regulations and ordinances with which the Company must comply:

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

State licensing requirements. The Company files a notification or obtains a license to acquire Contracts within the following states: Alabama; Florida; Illinois; Indiana; Kansas; Maryland; Michigan; Missouri; Pennsylvania; South Carolina; Texas; and, Wisconsin. In regard to its Direct Loan activities in Florida and North Carolina, the Company maintains separate Consumer Finance Licenses with the Florida Department of Banking and Finance and the North Carolina Office of the Commissioner of Banks. 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.

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 our business. The CFPB issued rules regarding the supervision and examination of non-depository larger participants in the automobile finance business. Since we are deemed a larger participant, we are subject to supervision and examination by the CFPB.

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

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

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

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

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

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

Employees

The Company s management and various support functions are centralized at the Company s corporate headquarters in Clearwater, Florida. As of March 31, 2018, the Company employed a total of 299 persons, of which 55 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.

Item 1A. Risk Factors

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

We have in the past experienced and may in the future experience high delinquency and loss rates in our portfolios. This has 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 (loss) income for the fiscal years ended March 31, 2018, 2017, and 2016 was $(1.1) million, $5.4 million and $12.4 million, respectively. 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 and 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 Management s Report on Internal Control over Financial Reporting in Item 9A of this Form 10-K, both of which are 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.

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, 2019. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. 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, we believe the adoption of this ASU will have likely have a material adverse effect on our consolidated financial statements.

We operate in an increasingly competitive market.

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

- interest rates charged;
- the quality of credit accepted;
- dealer discount;
- amount paid to dealers relative to the wholesale book value;
- the flexibility of 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 2016, 2017 and 2018 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, 2018, 2017, and 2016 was 7.41%, 7.08%, and 7.51%, respectively. The Company s weighted average APR on Contracts purchased for the fiscal years ended March 31, 2018, 2017, and 2016 was 22.35%, 22.22%, and 22.66%, 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.

Our business is particularly dependent on our ability to access bank financing at competitive rates. We currently use a $200.0 million line of credit facility (the Line of Credit) with a consortium of lenders to finance a large portion of our Contract purchases and Direct Loans. This Line of Credit has a maturity date of March 30, 2019. Our average indebtedness under the Line of Credit decreased to $189.4 million in fiscal 2018 from $211.0 million in fiscal 2017 and $208.2 million in fiscal 2016.

Pledged as collateral for the Line of Credit are substantially all of the assets of the Company. The Line of Credit requires compliance with certain financial ratios and covenants and satisfaction of specified financial tests, including maintenance of asset quality and performance tests. In the years ended March 31, 2017 and 2018, the Company faced difficulties in complying with all of these requirements. Had the Company not entered into amendment 6 and amendment 7 to the credit agreement in effect at such time, the Company would not have been in compliance with the minimum interest coverage ratio of 1.5:1 as of June 30, 2017, September 30, 2017 and December 31, 2017, respectively. There can be no assurances that the Company will be able to comply with all of the financial ratios, covenants and financial tests going forward. Failure to meet any financial ratios, covenants or financial tests could result in an event of default under the Line of Credit. If an event of default occurs, our lenders could increase our borrowing costs, restrict our ability to obtain additional borrowings under the Line of Credit, accelerate all amounts outstanding under the Line of Credit, or enforce their interest against collateral pledged under the Line of Credit.

Since the borrowings available under the Line of Credit are calculated every month based on individual loan criteria as defined in the credit agreement, no assurances can be given that the Company will maintain sufficient availability. During the fiscal year ended March 31, 2017 and the first nine months of the fiscal year ended March 31, 2018, the quality of the Company s loan portfolio generally deteriorated, which resulted in an increase in non-performing loans, an increase in delinquencies (with a decrease limited to the quarter ended December 31, 2017) and other factors, which in turn resulted in increased net charge-offs and an increase in the provision for credit losses. These conditions affected our borrowing capacity under the Line of Credit. In addition, the maximum amount that may be borrowed under our Line of Credit was recently reduced from $225 million to $200 million as of March 30, 2018.

While management believes that it will be able to obtain renewals or extensions of the Line of Credit beyond its current maturity date, there are no assurances that the lenders will approve the renewal or extension, or, assuming they will approve it, that the renewal or extension will not be on terms less favorable than the current agreement. The Company may also determine to seek alternative financing, including but not limited through the issuance of equity or debt. We may not be able to raise additional funds on acceptable terms, or at all. If we are unable to secure sufficient capital to fund our operating activities, whether through use of the Line of Credit or through the issuance of equity or debt, we may be required to curtail portions of our strategic plan and, in certain circumstances, we may be forced to liquidate. Any equity financings may cause substantial dilution to our stockholders and could involve the issuance of securities with rights senior to the common stock. Any allowed debt financings may require us to comply with onerous financial covenants and restrict our business operations. Our ability to complete additional financings is dependent on, among other things, the state of the capital markets at the time of any proposed offering, market reception of the Company and the likelihood of the success of our business model, and the offering terms, among other things.

The terms of our indebtedness impose significant restrictions on us.

Our existing outstanding indebtedness restricts our ability to, among other things:

- sell or transfer assets;
- incur additional debt;
- repay other debt;
- make certain investments or acquisitions;
- repurchase or redeem capital stock;
- engage in mergers or consolidations; and
- engage in certain transactions with subsidiaries and affiliates.

In addition, our Line of Credit requires us to comply with certain financial ratios and covenants and to satisfy specified financial tests, including maintenance of asset quality and portfolio performance tests. The need to comply with such covenants and other provisions could impact our ability to pay dividends to our shareholders, to the extent we otherwise would be in a position to do so. Moreover, our ability to continue to meet those financial ratios and tests could be affected by events beyond our control. Failure to meet any of these covenants, financial ratios or financial tests could result in an event of default under our Line of Credit. If an event of default occurs under this credit facility, our lenders may take one or more of the following actions:

- increase our borrowing costs;

- restrict our 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.

If our lender accelerates our debt payments, our assets may not be sufficient to fully repay the debt.

Potential events of default under our current line of credit facility, include, but are not limited to:

- Any one person owning more than thirty percent (30%) of our voting stock without the prior written approval of the majority lenders of the credit facility;
- Failure to maintain the appropriate Interest Coverage Ratio of at least 1.00:1 calculated as of the last day of each month for the three-month period then ended (defined as (a) the sum of (i) adjusted net earnings from operations for the applicable period (reduced by any increase in charge off shortfall and loss reserve shortfall), (ii) interest expense and (iii) any provision for income taxes for such period, divided by (b) aggregate interest expense for such period, as further set forth in the Second Amended and Restated Loan and Security Agreement, as subsequently amended); or
- Failure to maintain appropriate ratios as it pertains to the Accelerated Collateral Adjustment Percent (as defined in the Second Amended and Restated Loan and Security Agreement, as subsequently amended).

We require a significant amount of cash to service our indebtedness and meet our other liquidity needs.

Our ability to make payments on or to refinance our indebtedness and to fund our operations and planned capital expenditures depends on our future operating performance. Our primary cash requirements include the funding of:

- Contract purchases and Direct Loans;
- interest payments under our line of credit facility and other indebtedness;
- capital expenditures for technology and facilities;

- ongoing operating expenses;
- planned expansions by opening additional branch offices; and
- any required income tax payments.

Our high level of indebtedness could have important consequences for our business. For example,

- we may be unable to satisfy our obligations under our outstanding indebtedness;
- we may find it more difficult to fund future working capital, capital expenditures, acquisitions, and general corporate needs;
- we may have to dedicate a substantial portion of our cash resources to the payments on our outstanding indebtedness, thereby reducing the funds available for operations and future business opportunities; and
- we may be more vulnerable to adverse general economic and industry conditions.

Our ability to make payments on, or to refinance, our indebtedness will depend on our future operating performance, including our ability to access additional debt and equity financing, which to a certain extent, is subject to economic, financial, competitive and other factors beyond our control, including in light of the current volatility affecting the global economic system and uncertainty surrounding regulatory reforms. If new debt is added to our current levels, the risks described above could intensify.

If we fail to maintain an effective system of internal control over financial reporting and disclosure controls and procedures, we may not be able to accurately and timely report our financial results, which could lead to a loss of investor confidence in our financial statements and have an adverse effect on our stock price.

Effective internal control over financial reporting and disclosure controls and procedures are necessary for us to provide reliable and accurate financial statements, to effectively prevent fraud and to operate successfully as a public company. As further described in Item 9A. *Controls and Procedures*, our management has concluded that, because of a material weakness, our internal control over financial reporting and our disclosure controls and procedures were not effective as of March 31, 2018. The Company has and will continue to enhance its controls and expects to remediate the material weakness. However, we cannot be certain that these measures will be successful or that we will be able to prevent future significant deficiencies or material weaknesses. Inadequate internal control over financial reporting or inadequate disclosure controls and procedures could cause investors to lose confidence in our reported financial information, which could hurt our reputation and have a negative effect on the trading price of our stock and our access to capital.

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

Title X of the Dodd-Frank Act established the CFPB, which became operational on July 21, 2011. Under the Dodd-Frank Act, the CFPB has regulatory, supervisory and enforcement powers over providers of consumer financial products, such as the Contracts and Direct Loans that we offer, including explicit supervisory authority to examine and require registration of installment lenders such as ourselves. Included among the powers afforded to the CFPB is the authority to adopt rules describing specified acts and practices as being unfair, deceptive or abusive, and hence unlawful. The CFPB has outlined several proposals under consideration for the purpose of requiring lenders to take steps to ensure consumers have the financial ability to repay their loans. The proposals under consideration would require lenders to determine at the outset of each loan whether a consumer can afford to borrow from the lender and would require that lenders comply with various restrictions designed to ensure that consumers can affordably repay their debt to the lender. To date, the proposals under consideration by the CFPB have not been adopted. If adopted, the proposals outlined by the CFPB may require the Company to make significant changes to its lending practices to develop compliant procedures.

Although the Dodd-Frank Act expressly provides that the CFPB has no authority to establish usury limits, some consumer advocacy groups have suggested that certain forms of alternative consumer finance products, such as installment loans, should be a regulatory priority and it is possible that at some time in the future the CFPB could propose and adopt rules making such lending or other products that we may offer materially less profitable or impractical. Further, the CFPB may target specific features of loans by rulemaking that could cause us to cease offering certain products. Any such rules could have a material adverse effect on our business, results of operation and financial condition. The CFPB could also adopt rules imposing new and potentially burdensome requirements and limitations with respect to any of our current or future lines of business, which could have a material adverse effect on our operations and financial performance.

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

In February 2016, the CFPB published a list of nine policy priorities on which it intends to focus its resources over the next two years. These priorities include, among other things, initiation of the rulemaking process regarding debt collection practices that would apply to third-party collectors and first-party collectors and continued examination and investigation of, and potential rulemaking regarding, consumer credit reporting practices. The timing and impact of these anticipated rules on our business remain uncertain.

We have evaluated our existing compliance management systems and are in the process of updating, improving and/or replacing such 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 would 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.

We have recently experienced substantial turnover in our senior management. The loss of our key executives could have a material adverse effect on our business.

Our future growth and development is significantly dependent upon the skills and experience of our senior management team and our ability to retain that team.

On June 12, 2017, Ralph T. Finkenbrink informed us that he would be retiring as our President and Chief Executive Officer effective September 30, 2017. Mr. Finkenbrink had been employed by the Company for 29 years, including 25 years in senior executive positions. On December 11, 2017, the Company appointed Douglas Marohn as President and CEO. On February 1, 2018, Katie L. MacGillivary informed us that she would be resigning from her position as CFO and Vice President of Finance. Ms. MacGillivary was with the Company for 10 years. On February 20, 2018, we announced that Chad Steinorth would rejoin the Company as Vice President and interim CFO. Mr. Steinorth resigned from the position of interim CFO on June 20, 2018, when Kelly M. Malson assumed her role as CFO. In March 2018, our Controller position was likewise replaced. On April 27, 2018, the Company notified Kevin D. Bates that it would not be renewing his employment contract, which therefore expires in July 2018. Mr. Bates has been with the Company for 15 years, including 5 years as a senior executive.

We do not maintain key-man life insurance policies on any of these executives. The loss of services of one or more of the executives could have a material adverse effect on our business, results of operations and financial condition. In fact, the turnover of our CEO, CFO and Controller during the year ended March 31, 2018 contributed to a material weakness in our internal control over financial reporting. See *Item 9A. Controls and Procedures* in this Annual Report, the text of which is incorporated herein by reference.

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 success depends upon our ability to implement our business strategy.

Our financial position depends on management s ability to execute our business strategy. Key factors involved in the execution of our business strategy include achievement of the desired contract purchase volume, the use of effective risk management techniques and collection methods, continued investment in technology to support operating efficiency, and continued access to significant funding and liquidity sources.

With the recent change in senior management, the Company s business strategy has been redefined. This strategy includes remaining committed to the branch-based model, focusing on financing primary transportation to and from work for the subprime borrower, pricing based on risk (rate, yield, advance, etc.) and a commitment to the underwriting discipline required for optimal portfolio performance.

Our failure or inability to execute any element of our business strategy could have a material adverse effect on our business and financial condition.

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. Although the Company has recently shifted its focus on not reducing APR and discounts to secure new loan volume, it can provide no assurances that it will be successful in doing so. 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.

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 Line of Credit. 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 may experience problems with our integrated computer systems or be unable to keep pace with developments in technology.

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.

We utilize our integrated computer systems to respond to customer inquiries and to monitor the performance of our Contract and Direct Loan portfolios and the performance of individual customers under our Contracts and Direct Loans. Problems with our systems operations could adversely impact our ability to monitor our portfolios or collect amounts due under our Contracts and Direct Loans, which could have a material adverse effect on our financial condition and results of operations.

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 dates, 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.

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.

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, 2018 was approximately 10,000 shares. Thus, our common shares are thinly traded. Thinly traded stock can be more volatile than stock trading in an active public market. Factors such as 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 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. Therefore, our shareholders may not be able to sell their shares at the volumes, prices, or times that they desire.

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. 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.

Changes in U.S. federal, state and local tax law or interpretations of existing tax law could increase our tax burden or otherwise adversely affect our financial condition or results of operations.

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 (the TCJA). The changes included in the TCJA are broad and complex. The final transition impacts of the TCJA may differ from the estimates provided elsewhere in this Annual Report, possibly materially, due to, among other things, changes in interpretations of the TCJA, any legislative action to address questions that arise because of the TCJA, any changes in accounting standards for income taxes or related interpretations in response to the 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.

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 $18.00 per square foot. The current lease relating to this space was entered into effective April 1, 2015 and expires on March 31, 2020.

Each of the Company s 60 branch offices located in Alabama, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Maryland, Michigan, Missouri, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, and Virginia consists of approximately 1,400 square feet of office space. 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 $12.00 to $37.00 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.

The following table sets forth the high and low sales prices of the Company s common shares for the fiscal years ended March 31, 2018 and 2017, respectively.

Fiscal year ended March 31, 2018	**High**	**Low**
First Quarter	**$ 11.15**	**$ 7.65**
Second Quarter	**$ 9.46**	**$ 8.25**
Third Quarter	**$ 9.44**	**$ 7.59**
Fourth Quarter	**$ 9.49**	**$ 8.51**

Fiscal year ended March 31, 2017	**High**	**Low**
First Quarter	$ 11.03	$ 10.03
Second Quarter	$ 10.95	$ 10.01
Third Quarter	$ 12.50	$ 8.56

Fourth Quarter	$ 12.50	$ 10.01

As of June 22, 2018, there were approximately 134 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. The payment of future dividends, if any, is reviewed periodically by the Company s directors and management and will depend upon, among other things, existing conditions, including earnings, financial condition and capital requirements, restrictions in financing agreements, business opportunities, tax considerations and other conditions and factors.

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.

Dividends paid to the Company from its U.S. subsidiaries current and accumulated earnings and profits will be subject to a U.S. withholding tax of 5%. The gross dividends (i.e., before payment of the withholding tax) must be included in the Company s net 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. 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.

Performance Graph

Set forth below is a graph comparing the cumulative total return on the Company s common shares for the five-year period ended March 31, 2018, with that of an overall stock market (NASDAQ Composite) and the Company s peer group index (Dow Jones US General Financial Index). The stock performance graph assumes that the value of the investment in each of the Company s common shares, the NASDAQ Composite Index and the Dow Jones US General Financial Index was $100 on April 1, 2013 and that all dividends were reinvested.

The graph displayed below is presented in accordance with SEC requirements. Shareholders are cautioned against drawing any conclusions from the data contained therein, as past results are not necessarily indicative of future performance. This graph in no way reflects the Company s forecast of future financial performance.

	04/01/2013	03/31/2014	03/31/2015	03/31/2016	03/31/2017	03/31/2018
Nicholas Financial, Inc.	$ 100.00	$ 119.26	$ 106.22	$ 81.80	$ 80.59	$ 68.76
NASDAQ Composite	100.00	135.82	158.52	157.52	191.22	228.47
Dow Jones US General Financial Index	100.00	155.73	172.20	157.56	197.75	251.26

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Unregistered Sales of Equity Securities

None.

Item 6. Selected Financial Data

The following tables present selected consolidated financial data of the Company as of and for the fiscal years ended March 31, 2018, 2017, 2016, 2015 and 2014. The selected consolidated financial data have been derived from our consolidated financial statements. You should read the selected consolidated financial data below in conjunction with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited consolidated financial statements and notes thereto that are included elsewhere in this Report and, for the fiscal years ended March 31, 2015 and 2014 and as of March 31, 2016, 2015 and 2014, that are included in our annual reports for such fiscal years. Quarterly results of operations are incorporated herein by reference to *Note 12 Quarterly Results of Operations (Unaudited)* in the notes to the consolidated financial statements included elsewhere in this Report.

	Fiscal Year ended March 31, (In thousands, except earnings per share numbers)				
	2018	**2017**	**2016**	**2015**	**2014**
Statement of Operations Data					
Interest income on finance receivables	**$ 83,917**	**$ 90,466**	$ 90,707	$ 86,790	$ 82,629
Interest expense	**10,137**	**9,222**	9,007	5,970	5,678
Provision for credit losses	**37,450**	**37,177**	26,278	20,371	14,979
Salaries and employee benefits	**19,868**	**21,437**	22,313	20,835	19,634
Change in fair value of interest rate swaps	**17**	**(222)**	24	364	(688)
Other expenses	**13,282**	**14,112**	12,980	13,154	14,509
	80,754	**81,726**	70,602	60,694	54,112
Operating income before income taxes	**3,163**	**8,740**	20,105	26,096	28,517
Income tax expense	**4,261**	**3,331**	7,726	9,240	11,814
Net income (loss)	**$ (1,098)**	**$ 5,409**	$ 12,379	$ 16,856	$ 16,703
Earnings (loss) per share basic:	**$ (.14)**	**$ .70**	$ 1.60	$ 1.40	$ 1.38
Weighted average shares outstanding	**7,719**	**7,664**	7,622	12,013	12,096
Earnings (loss) per share diluted:	**$ (.14)**	**$ .69**	$ 1.59	$ 1.38	$ 1.36
Weighted average shares outstanding	**7,719**	**7,726**	7,692	12,192	12,325

	As of and for the Fiscal Year ended March 31, (In thousands, except number of branch locations)				
	2018	**2017**	**2016**	**2015**	**2014**
Balance Sheet Data					
Total assets	$ 284,162	$ 333,612	$ 325,309	$ 302,529	$ 283,430
Finance receivables, net	269,876	317,205	311,837	288,904	269,344
Line of credit	165,750	213,000	211,000	199,000	127,900
Shareholders equity	108,437	108,860	102,849	89,888	141,938

Operating Data					
Return on average assets	(0.36%)	1.64%	3.94%	5.75%	6.10%
Return on average equity	(1.01%)	5.11%	12.85%	14.54%	12.42%
Gross portfolio yield (1)	25.60%	26.04%	27.10%	28.00%	28.44%
Pre-tax yield (1)	0.98%	2.46%	6.02%	8.54%	9.65%
Total delinquencies over 30 days, excluding Chapter 13 bankruptcy accounts	10.33%	9.92%	5.50%	4.11%	4.00%
Write-off to liquidation (1)	13.92%	11.81%	9.10%	8.13%	7.17%
Net charge-off percentage (1)	10.65%	9.37%	7.56%	7.04%	6.22%
Automobile Finance Data & Direct Loan Origination					
Contracts purchased/Direct Loans originated	$ 117,217	$ 179,617	$ 196,853	$ 187,893	$ 179,031
Average dealer discount on Contracts purchased	7.41%	7.08%	7.51%	8.08%	8.44%
Weighted average contractual rate on Contracts & Direct Loans purchased	22.54%	22.40%	22.81%	23.08%	23.20%
Number of branch locations	60	65	67	66	65

(1) See the definitions set forth in the notes to the Portfolio Summary table under *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Overview.*

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, 2018, 2017 and 2016, a second Florida subsidiary, Nicholas Data Services, Inc. (NDS), serves as an intermediate holding company for Nicholas Financial. Nicholas Financial-Canada, Nicholas Financial and NDS are collectively referred to herein as the Company .

Introduction

The Company s consolidated revenues decreased from $90.5 million for the fiscal year ended March 31, 2017 to $83.9 million for the fiscal year ended March 31, 2018. Consolidated revenues for the fiscal year ended March 31, 2016 were $90.7 million. The Company s diluted earnings per share decreased from earnings of $0.69 per share for the fiscal year ended March 31, 2017 to a loss of $(0.14) per share for the fiscal year ended March 31, 2018. Diluted earnings per share for the fiscal year ended March 31, 2016 were $1.59. The Company s operating income before taxes for the fiscal year ended March 31, 2018 decreased to $3.2 million from $8.7 million and $20.1 million for the fiscal years ended March 31, 2017 and 2016, respectively. The decrease from $8.7 million to $3.2 million was a result of decreased revenues due to a reduction in volume and the gross portfolio yield along with increased interest expense due to cost of debt and increased provision for credit losses. The Company s consolidated net (loss) income for the fiscal years ended March 31, 2018, 2017, and 2016 was $(1.1) million, $5.4 million and $12.4 million, respectively.

The Company s operating results have generally deteriorated as a result of several factors, including, but not limited to, loosened underwriting guidelines, more aggressive pricing on originations, the acquisition of Contracts that contained some degree of fraudulent information that at the time of Contract acquisition was not identified, and an increase in the number of Contracts and Direct Loans under which customers decided to discontinue payments to us after they were approved by other lenders for new vehicle financing.

In addition, aggressive competition had previously influenced the Company to purchase lower credit quality Contracts. Historically, the Company was able to expand its automobile finance business in the non-prime credit market by offering to purchase Contracts on terms that were competitive with those of other companies. However, it became increasingly difficult for the Company to match or exceed pricing of its competitors, which resulted in declining Contract acquisition rates during the 2016, 2017 and 2018 fiscal years. The Company expects this trend of declining acquisition rates to continue in the foreseeable future; however, the driver behind this trend is now expected to be the Company s intentional focus on pricing discipline.

In addition to affecting the volume of Contracts acquired in recent years, the level of competition exerted pressure on the Company s yields associated with Contract acquisitions. While management expects that the Company s renewed focus on pricing discipline will continue to put downward pressure on the volume of Contracts purchased to the extent that competitors continue to reduce their contract acquisition yields as part of their operating strategy, it also expects that the Company s yields will improve. While it is difficult to predict the level of competition long-term, the Company believes that the current highly competitive environment will prevail for the foreseeable future. The weighted average APR of the portfolio for the fiscal years ended March 31, 2018, 2017, and 2016 were 22.35%, 22.44%, and 22.73%, respectively. The average dealer discount as a percent of gross finance receivables associated with new volume for the fiscal years ended March 31, 2018, 2017, and 2016 were 7.41%, 7.08%, and 7.51%, respectively. The decrease in APR and discount (and therefore overall yield) on new purchases in fiscal 2018 as compared with fiscal 2017 was primarily driven by purchases in the first three quarters offset slightly by purchases in the fourth quarter of fiscal 2018.

Portfolio Summary	**Fiscal Year ended March 31, (In thousands)**		
	2018	**2017**	**2016**
Average finance receivables, net of unearned interest (1)	**$ 327,832**	$ 347,367	$ 334,754
Average indebtedness (2)	**$ 189,375**	$ 210,987	$ 208,214
Interest and fee income on finance receivables	**$ 83,917**	$ 90,466	$ 90,707
Interest expense	**$ 10,137**	$ 9,222	$ 9,007
Net interest and fee income on finance receivables	**$ 73,780**	$ 81,244	$ 81,700
Gross portfolio yield (3)	**25.60%**	26.04%	27.10%
Interest expense as a percentage of average finance receivables, net of unearned interest	**3.09%**	2.65%	2.69%
Provision for credit losses as a percentage of average finance receivables, net of unearned interest	**11.42%**	10.70%	7.85%
Net portfolio yield (3)	**11.09%**	12.69%	16.56%
Marketing, salaries, employee benefits, depreciation, and administrative expenses as a percentage of average finance receivables, net of unearned interest	**10.11%**	10.23%	10.54%
Pre-tax yield as a percentage of average finance receivables, net of unearned interest (4)	**0.98%**	2.46%	6.02%
Write-off to liquidation (5)	**13.92%**	11.81%	9.10%
Net charge-off percentage (6)	**10.65%**	9.37%	7.56%

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

(2) Average indebtedness represents the average outstanding borrowings under the Line of Credit.
(3) Gross portfolio yield represents interest and fee income on finance receivables as a percentage of average finance receivables, net of unearned interest. 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, net of unearned interest.
(4) Pre-tax yield represents net portfolio yield minus administrative expenses (marketing, salaries, employee benefits, depreciation, and administrative), as a percentage of average finance receivables, net of unearned interest.
(5) Write-off to liquidation percentage is defined as net charge-offs divided by liquidation. Liquidation is defined as beginning receivable balance plus current period purchases and originations minus ending receivable balance.
(6) Net charge-off percentage represents net charge-offs divided by average finance receivables, net of unearned interest, outstanding during the period.

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.

The allowance for credit losses is established through a provision for credit losses based on management s evaluation of the risk inherent in the loan portfolio which includes the competitive environment that existed when the loan was acquired, the composition of the portfolio, and current economic conditions. Such evaluation considers, among other matters, the estimated net realizable value or the fair value of the underlying collateral, economic conditions, historical loan loss experience, management s estimate of probable credit losses and other factors that warrant recognition in providing for an adequate credit loss allowance.

Because of the nature of the customers under the Company s Contracts and its Direct Loan program, the Company considers the establishment of adequate reserves for credit losses to be imperative. The Company segregates its Contracts into static pools for purposes of establishing reserves for losses. All Contracts purchased by a branch during a fiscal quarter comprise a static pool. The Company pools Contracts according to branch location because the branches purchase Contracts in different geographic markets. This method of pooling by branch and quarter allows the Company to evaluate the different markets where the branches operate. The pools also allow the Company to evaluate the different levels of customer income, stability and credit history, and the types of vehicles purchased, in each market. The Company analyzes each consolidated static pool at specific points in time. A consolidated static pool consists of all branches for the same fiscal quarter. In analyzing a static pool, the Company considers the performance of prior static pools originated by the same branch office, the competition at time of acquisition, and current market and economic conditions. Each static pool is analyzed monthly to determine if the loss reserves are adequate, and adjustments are made if they are determined to be necessary.

The Company has been maintaining historical write-off information for over 10 years with respect to every consolidated static pool, segregating each static pool by liquidation and in effect creating snapshots of a pool s write-off-to liquidation ratio at five different points in such pool s liquidation cycle. These snapshots help the Company in determining the appropriate provision for credit losses and subsequent allowance for credit losses. The five snapshots are taken when the liquidation levels are at 20%, 40%, 60%, 80% and 100%.

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 purchases Contracts on an individual basis. The Company does not anticipate any portfolio acquisitions in the near-term.

The Company utilizes the branch model, which allows for Contract purchasing to be done on 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. The Company also utilizes IA to assure adherence to its underwriting guidelines. Any Contract that does not meet our underwriting guidelines can be submitted by a branch manager for approval from the Company s District Managers or senior management.

As of March 31, 2016, the Company refined the allowance for loan losses by changing it to a loan by loan analysis, which more

closely depicts the amount of the provision expense needed to maintain an adequate reserve. As of March 31, 2017, the Company further refined the reserve for losses by increasing the allowance for loan losses by 50% of the principal balance, with respect to accounts whose contractual delinquency falls into the range of 120-180 days past due. Currently, management evaluates each Contract on an independent basis each quarter and accounts for such Contract s term, how far along the corresponding loan is in its liquidation cycle, late charges, the number of deferments, and delinquency.

Fiscal 2018 Compared to Fiscal 2017

Interest and Fee Income on Finance Receivables

Interest income on finance receivables, predominantly finance charge income, decreased to $83.9 million in fiscal 2018 as compared to $90.5 million in fiscal 2017. The average finance receivables, net of unearned interest, totaled $327.8 million for the fiscal year ended March 31, 2018, a decrease of 6% from $347.4 million for the fiscal year ended March 31, 2017. Purchasing volume has continued to slow from fiscal 2017 as a result of a tightening of the Company s credit underwriting standards and a reduction in auto sales year over year.

Competition also continued to affect the Company s ability to acquire Contracts, furthermore, our renewed strategic focus of financing primary transportation to and from work for the subprime borrower has also impacted our ability to acquire Contracts at desired yields. As demonstrated in the fourth quarter of fiscal 2018, the yield on new purchases has increased compared to the third quarter of fiscal 2018 with average APR increasing from 21.7% to 23.3% and average discount increasing from 6.9% to 7.9%. Although the Company will continue to try and find ways to grow market share, it is focused on yield.

The gross portfolio yield decreased to 25.60% for the fiscal year ended March 31, 2018 as compared to 26.04% for the fiscal year ended March 31,2017. The gross portfolio yield decreased primarily due to the decrease in the average net receivables. The net portfolio yield decreased to 11.09% for the fiscal year ended March 31, 2018 from 12.69% for the fiscal year ended March 31,2017. The net portfolio yield decreased due to a decrease in the gross portfolio yield and an increase in the provision for credit losses as a percentage of finance receivables, as described under Analysis of Credit Losses .

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

Marketing, salaries and employee benefits, depreciation, and administrative expenses decreased approximately $2.3 million to $33.2 million for the fiscal year ended March 31, 2018 compared to $35.5 million for the fiscal year ended March 31, 2017. The decrease was primarily due to the Company having consolidated five branch locations during the fiscal year ended March 31, 2018. Marketing, salaries and employee benefits, depreciation, and administrative expenses as a percentage of average finance receivables, net of unearned interest, decreased to 10.11% for the fiscal year ended March 31, 2018 from 10.23% for the fiscal year ended March 31, 2017.

Interest Expense

Interest expense increased to $10.1 million for the fiscal year ended March 31, 2018 as compared to $9.2 million for the fiscal year ended March 31, 2017. While the average outstanding debt during the year ended March 31, 2018 decreased to $190.0 million from $211.0 million during the year ended March 31, 2017, this decrease was partially offset by an increase in interest rates under the Company s Line of Credit. The following table summarizes the Company s average cost of borrowed funds for the fiscal years ended March 31:

	2018	**2017**
Variable interest under the line of credit facility	2.76%	0.70%
Settlements under interest rate swap agreements	-0.01%	0.09%
Credit spread under the line of credit facility	4.35%	3.58%
Average cost of borrowed funds	7.10%	4.37%

LIBOR rates have increased (1.88% as of March 31, 2018 compared to .98% as of March 31, 2017) which caused a decrease in expense related to our interest rate swap agreements. In addition, the Company entered into a temporary agreement on December 30, 2016 that increased the effective interest rate by 50 basis points through June 30, 2017. On November 8, 2017 the Company executed amendment 7 to this existing Line of Credit which extended the maturity date to March 31, 2018 and increased the pricing of the Line of Credit an additional 50 basis points to 400. On March 30, 2018 the Company executed amendment 8 to this Line of Credit which extended the maturity date to March 30, 2019. For further discussions regarding interest rates see *Note 5 Line of Credit* .

Analysis of Credit Losses

As of March 31, 2018, the Company had approximately 1,375 active static pools. The average pool upon inception consisted of 37 Contracts with aggregate finance receivables, net of unearned interest, of approximately $422,000.

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

	(In thousands)	
	2018	**2017**
Balance at beginning of year	**$ 16,885**	$ 12,265
Current year provision	**36,890**	36,843
Losses absorbed	**(36,183)**	(34,419)
Recoveries	**1,841**	2,196

Balance at end of year	**$ 19,433**	$ 16,885

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

	(In thousands)	
	2018	**2017**
Balance at beginning of year	**$ 773**	$ 748
Current year provision	**560**	334
Losses absorbed	**(536)**	(338)
Recoveries	**36**	29
Balance at end of year	**$ 833**	$ 773

The provision for credit losses increased to $37.5 million for the fiscal year ended March 31, 2018 from $37.2 million for the fiscal year ended March 31, 2017 largely due to net charge-offs increasing to 10.65% for the fiscal year ended March 31, 2018 from 9.37% for the fiscal year ended March 31, 2017.

The Company s losses as a percentage of liquidation (see note 5 in the Portfolio Summary table in the *Introduction* above for the definition of write-off to liquidation) increased to 13.92% for the fiscal year ended March 31, 2018 as compared to 11.81% for the fiscal year ended March 31, 2017. This increase was the result of several factors, including, but not limited to, loosened underwriting guidelines, insufficient execution of our servicing model, the acquisition of Contracts that contained some degree of fraudulent information that at the time of Contract acquisition was not identified, and an increase in the number of Contracts and Direct Loans under which customers decided to discontinue payments to us after they were approved by other lenders for new vehicle financing.

In addition, aggressive competition had influenced the Company to purchase lower credit quality Contracts. The Company also experienced a decrease in auction prices relative to loan balances from fiscal year 2018 to fiscal year 2017. Decreased auction proceeds from repossessed vehicles increased the amount of write-offs which, in turn, increased the write-off to liquidation percentage. During the fiscal years ended March 31, 2018 and 2017, auction proceeds from the sale of repossessed vehicles averaged approximately 35% and 37%, respectively, of the related principal balance.

Recoveries as a percentage of charge-offs were approximately 5.09% and 6.40% for the fiscal years ended March 31, 2018 and 2017, respectively. The Company attributes a large portion of this decrease simply to the increase in charge-offs; historically, there is a six to twelve-month cooling off period prior to receiving any benefits from post charge-off collection activity. During fiscal 2017 we were in a cycle in which credit was more easily available to our typical customer, which led many of our customers to be less disciplined about their credit record, including the payment schedule on their Contracts and Direct Loans. Periodically, the Company will aggregate charge-off accounts it deems uncollectible and sell them to a third-party.

The delinquency percentage for Contracts more than thirty days past due, excluding Chapter 13 bankruptcy accounts, as of March 31, 2018 was 8.07%, a decrease from 10.05% as of March 31, 2017. The delinquency percentage for Direct Loans more than thirty days past due, excluding Chapter 13 bankruptcy accounts, as of March 31, 2018 was 4.88%, an increase from 3.89% as of March 31, 2017. The decrease in delinquency percentage for Contracts was driven by the Company s renewed focus on operations and servicing.

The Company considers the following factors to assist in determining the appropriate loss reserve levels: competition; the number of bankruptcy filings; the results of internal branch audits; consumer sentiment; consumer spending; economic growth (i.e., changes in GDP); the condition of the housing sector; and other leading economic indicators. The Company continues to evaluate reserve levels on a pool-by-pool basis during each reporting period. The longer-term outlook for portfolio performance will depend on overall economic conditions, the rational or irrational behavior of the Company s competitors, and the Company s ability to monitor, manage and implement its underwriting and collections philosophy in additional geographic areas as it strives to expand its operations.

In accordance with our policies and procedures, certain borrowers qualify for, and the Company offers, one-month principal payment deferrals on Contracts and Direct Loans. For the fiscal years ended March 31, 2018 and March 31, 2017 the Company granted deferrals to approximately 38.38% and 34.77%, respectively, of total Contracts and Direct Loans. The increase in the number of deferrals for the fiscal year ended 2018 is a result of portfolio weakness which was exacerbated by the effect of the Company s unsuccessful attempt at centralizing collections in the prior year. The Company is reasonably certain that its delinquency rates would be higher without the increase in deferrals. The number of deferrals is 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.

Income Taxes

The provision for income taxes increased to approximately $4.3 million in fiscal 2018 from approximately $3.3 million in fiscal 2017. The Company s effective tax rate increased to 134.71% in fiscal 2018 from 38.11% in fiscal 2017 due to an additional expense taken by the Company caused by the write-off of certain deferred tax assets. These changes are a result of the U.S. Tax Cuts and Jobs Act (the Tax Act), which) was enacted on December 22, 2017. For further discussion regarding income taxes see *Note 8 Income Taxes* .

Fiscal 2017 Compared to Fiscal 2016

Interest and Fee Income on Finance Receivables

Interest income on finance receivables, predominantly finance charge income, decreased slightly to $90.5 million in fiscal 2017 as compared to $90.7 million in fiscal 2016. The average finance receivables, net of unearned interest, totaled $347.4 million for the fiscal year ended March 31, 2017, an increase of 4% from $334.8 million for the fiscal year ended March 31, 2016. While our purchasing volume has slowed, mainly as a result of a highly competitive market place, our finance receivables continued growing in our more recently entered markets, including our three newer states (see Item 1. Business Contract Procurement). Increases in our average term and average loan amount have contributed to the increase in finance receivables.

The gross portfolio yield decreased to 26.04% for the fiscal year ended March 31, 2017 as compared to 27.10% for the fiscal year ended March 31,2016. The gross portfolio yield decreased primarily due to the decrease in the average dealer discount and in the average weighted APR, intensified by the increase in average finance receivables, net of unearned interest, particularly as a result of an increase in past-due accounts. The net portfolio yield decreased to 12.69% for the fiscal year ended March 31, 2017 from 16.56% for the fiscal year ended March 31,2016. The net portfolio yield decreased due to a decrease in the gross portfolio yield and an increase in the provision for credit losses, as described under Analysis of Credit Losses .

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

Marketing, salaries and employee benefits, depreciation, and administrative expenses remained relatively flat at $35.5 million for the fiscal year ended March 31, 2017 compared to $35.3 million for the fiscal year ended March 31, 2016. The Company opened one new branch location during the fiscal year ended March 31, 2017, and consolidated three branch locations into branches previously established within their market. Marketing, salaries, employee benefits, depreciation, and administrative expenses as a percentage of average finance receivables, net of unearned interest, decreased to 10.23% for the fiscal year ended March 31, 2017 from 10.54% for the fiscal year ended March 31, 2016.

Interest Expense

Interest expense increased to $9.2 million for the fiscal year ended March 31, 2017 as compared to $9.0 million for the fiscal year ended March 31, 2016. The average outstanding debt as of March 31, 2017 and March 31, 2016 was $211.0 million and $208.2 million, respectively. The following table summarizes the Company s average cost of borrowed funds for the fiscal years ended March 31:

	2017	**2016**
Variable interest under the line of credit facility	**0.70%**	**0.37%**
Settlements under interest rate swap agreements	**0.09%**	**0.16%**
Credit spread under the line of credit facility	**3.58%**	**3.80%**
Average cost of borrowed funds	**4.37%**	**4.33%**

LIBOR rates have increased (.98% as of March 31, 2017 compared to .44% as of March 31, 2016) which caused a decrease in expense related to our interest rate swap agreements. The increase in LIBOR rates has also caused the credit spread to decrease and the variable interest to increase but has no net effect on total cost because there is a 1.0% floor on the line of credit. In addition, the Company entered into a temporary agreement on December 30, 2016 that increased the effective interest rate by 50 basis points through June 30, 2017. For further discussions regarding interest rates see *Note 5* *Line of Credit* .

Analysis of Credit Losses

As of March 31, 2017, the Company had approximately 1,400 active static pools. The average pool upon inception consisted of 62 Contracts with aggregate finance receivables, net of unearned interest, of approximately $708,000.

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

	(In thousands)	
	2017	**2016**
Balance at beginning of year	**$ 12,265**	**$ 11,325**
Current year provision	**36,843**	**25,926**
Losses absorbed	**(34,419)**	**(27,963)**
Recoveries	**2,196**	**2,977**
Balance at end of year	**$ 16,885**	**$ 12,265**

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

	(In thousands)	
	2017	**2016**
Balance at beginning of year	**$ 748**	**$ 703**
Current year provision	**334**	**352**
Losses absorbed	**(338)**	**(328)**
Recoveries	**29**	**21**
Balance at end of year	**$ 773**	**$ 748**

The provision for credit losses increased to $37.2 million for the fiscal year ended March 31, 2017 from $26.3 million for the fiscal year ended March 31, 2016, largely due to net charge-offs increasing to 9.37% for the fiscal year ended March 31, 2017 from 7.56% for the fiscal year ended March 31, 2016. During the fourth quarter of the fiscal year ended March 31, 2016, the Company refined its allowance for credit loss model to incorporate recent trends that include the acquisition of longer term contracts and increased delinquencies by changing it to a loan by loan analysis, which more closely depicts the amount of the allowance for credit losses needed to maintain an adequate reserve. During the fourth quarter of the fiscal year ended March 31, 2017, the Company further refined the reserve for losses by increasing the allowance by 50% of the principal balance, with respect to accounts whose contractual delinquency falls into the range of 120-180 days past due. The Company believes that these improvements better reflect the current trends of incurred losses within the portfolio and better align the allowance for credit losses with the portfolio s performance indicators.

The Company s losses as a percentage of liquidation (see note 5 in the Portfolio Summary table in the *Introduction* above for the definition of write-off to liquidation) increased to 11.81% for the fiscal year ended March 31, 2017 as compared to 9.10% for the fiscal year ended March 31, 2016. This increase was the result of several factors, including, but not limited to, lower auction proceeds, the acquisition of Contracts that contained some degree of fraudulent information, that at the time of Contract acquisition was not identified, and an increase in the number of Contracts and Direct Loans under which customers decided to discontinue payments to us after they were approved by other lenders for new vehicle financing.

In addition, aggressive competition had influenced the Company s prior Management to purchase lower credit quality Contracts. The Company also experienced a decrease in auction prices from fiscal year 2017 to fiscal year 2016 relative to its loan balances. Decreased auction proceeds from repossessed vehicles increased the amount of write-offs which, in turn, increased the write-off to liquidation percentage. During the fiscal years ended March 31, 2017 and 2016, auction proceeds from the sale of repossessed vehicles averaged approximately 37% and 42%, respectively, of the related principal balance.

Recoveries as a percentage of charge-offs were approximately 6.40% and 10.59% for the fiscal years ended March 31, 2017 and 2016, respectively. The Company attributes a large portion of this decrease simply to the increase in charge-offs; historically, there is a six to twelve-month cooling off period prior to receiving any benefits from post charge-off collection activity. We currently remain in a cycle in which credit is more easily available credit to our typical customer, which leads many of our customers to be less disciplined about their credit record, including the payment schedule on their Contracts and Direct Loans. Periodically, the Company will aggregate charge-off accounts it deems uncollectible and sell them to a third-party.

The Company considers the following factors to assist in determining the appropriate loss reserve levels: competition; the number of bankruptcy filings; the results of internal branch audits; consumer sentiment; consumer spending; economic growth (i.e., changes in GDP); the condition of the housing sector; and other leading economic indicators. The Company continues to evaluate reserve levels on a pool-by-pool basis during each reporting period. The longer-term outlook for portfolio performance will depend on overall economic conditions, the rational or irrational behavior of the Company s competitors, and the Company s ability to monitor, manage and implement its underwriting and collections philosophy in additional geographic areas as it strives to continue its expansion.

In accordance with our policies and procedures, certain borrowers qualify for, and the Company offers, one-month principal payment deferrals on Contracts and Direct Loans. For the fiscal years ended March 31, 2017 and March 31, 2016 the Company granted deferrals to approximately 34.77% and 22.65%, respectively, of total Contracts and Direct Loans. The increase in the number of deferrals for the fiscal year ended 2017 is a result of portfolio weakness which was exacerbated by the effect of the Company s unsuccessful attempt at centralizing collections described above. The Company is reasonably certain that its delinquency rates would be higher without the increase in deferrals. The number of deferrals is 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.

Income Taxes

The provision for income taxes decreased to approximately $3.3 million in fiscal 2017 from approximately $7.7 million in fiscal 2016. The Company s effective tax rate decreased to 38.11% in fiscal 2017 from 38.43% in fiscal 2016.

Liquidity and Capital Resources

The Company s cash flows are summarized as follows:

	Fiscal Year ended March 31, (In thousands)		
	2018	**2017**	**2016**
Cash provided by (used in):			
Operations	**$ 23,681**	$ 27,321	$ 22,408