

**Research Update**

January 28, 2005

Nicholas Financial, Inc. (NICK—\$16.38)

Rating: Hold

Target: NA

Our valuation model, which applies a market-capitalization discount of 20% to NICK shares, suggests a value \$16.36 per share for the stock based on our updated calendarized 2005 EPS forecast. With the stock currently trading at essentially this level, we are lowering our rating on NICK from Buy to Hold based solely on valuation.

Additional details to be supplied in a pending review of the company's recent December quarter.

In yesterday's news, Nicholas Financial reported fiscal third quarter (Dec.) diluted EPS of \$0.32 vs. \$0.24. Per share results for the quarter were above our expectation of \$0.25. Originations increased 20%, in line with our expectation. The stronger quarter was due to an improvement in loan quality (lower charge offs), which translated directly into higher yields.

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**Important Disclosures and Analyst Certification**

Prices herein are intraday, January 28, 2005.

At the time of this report, Ferris, Baker Watts, Inc. makes a market in the shares of Nicholas Financial, Inc.

In the past 12 months, Ferris, Baker Watts, Inc. has managed or co-managed a public offering of the securities of Nicholas Financial, Inc. for investment banking services.

In the past 12 months, Ferris, Baker Watts, Inc. has received compensation from Nicholas Financial, Inc. for investment banking services.

The analyst(s) who prepared this report may be compensated in part from a bonus pool that is partially funded by fees received by Ferris, Baker Watts, Inc. for providing investment banking services.

There are three rating categories within the FBW Investment Rating System: Buy, Hold, and Sell. The rating assigned to each company is based on an analysis of four factors: intrinsic value, relative value, capital flow/market sentiment, and fundamental catalysts. In order for a Buy rating to be assigned, one factor must be positive, or two positives must be identified if one factor is negative; under a Hold rating, all factors are considered neutral, or positives and negatives are balanced; a Sell rating indicates that all four factors are negative, or negative fundamental developments imply questionable intrinsic value.

Analyst Certification: I, Henry J. Coffey, Jr., hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company and its underlying securities. I further certify that we have not and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this research report.

### Rating & Target History



Key: FBW Rating - Target

*FBW initiated coverage of NICK on 6/27/03.*

*Source: FactSet Data Systems and FBW*

### Additional Information Available Upon Request

This report does not constitute an offer to sell or the solicitation of an offer to buy any security. The material herein has been obtained from sources believed to be reliable but is not guaranteed as to accuracy or authenticity. It does not purport to include all the information available on the companies mentioned. The reader is referred to the regular statistical services, company reports and any official prospectuses for further details. From time to time, Ferris, Baker Watts, Incorporated, its officers or employees may have a position in the securities mentioned in this report. The information and opinions contained in this report are subject to change without notice. Past performance is not indicative of future results.