FINANCIAL FEDERAL CORP
Form 10-Q
December 10, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarter Ended October 31, 2001

Commission file number 1-12006

FINANCIAL FEDERAL CORPORATION
(Exact name of registrant as specified in its charter)

Nevada	88-0244792
(State of incorporation)	(I.R.S. Employer Identification Number)

733 Third Avenue, New York, NY 10017
(Address of principal executive offices)
(Zip code)

(212) 599-8000
(Registrant's telephone number, including area code)

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

At December 3, 2001, 16,637,171 shares of Registrant's common stock, $.50 par value, were outstanding.

FINANCIAL FEDERAL CORPORATION
AND SUBSIDIARIES

Quarterly Report on Form 10-Q

for the quarter ended October 31, 2001

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FINANCIAL FEDERAL CORPORATION
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

	October 31, 2001 *	July 31, 2001
ASSETS		
Finance receivables	$1,336,828	$1,321,226
Allowance for possible losses	(22,235)	(21,938)
Finance receivables - net	1,314,593	1,299,288
Cash	10,065	10,251
Other assets	4,030	4,124

TOTAL ASSETS	$1,328,688	$1,313,663
LIABILITIES		
Senior debt:		
Long-term	$628,391	$703,584
Short-term	309,491	228,014
Subordinated debt	93,485	93,485
Accrued interest, taxes and other liabilities	52,175	53,082
Deferred income taxes	29,487	29,087
Total liabilities	1,113,029	1,107,252
STOCKHOLDERS' EQUITY		
Preferred stock - $1 par value, authorized 5,000,000 shares, none issued		
Common stock - $.50 par value, authorized 100,000,000 shares; shares issued and outstanding (net of 136,961 treasury shares): 16,637,171 at October 31, 2001 and 16,540,329 at July 31, 2001	8,319	8,270
Additional paid-in capital	63,288	62,921
Retained earnings	144,052	135,220
Total stockholders' equity	215,659	206,411
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,328,688	$1,313,663

FINANCIAL FEDERAL CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
AND RETAINED EARNINGS *
(Dollars in Thousands, Except Per Share Amounts)

Three Months Ended October 31,	2001	2000
Finance income	$34,633	$33,093
Interest expense	14,156	16,125
Net finance income before provision for possible losses on finance receivables	20,477	16,968
Provision for possible losses on finance receivables	1,025	1,150
Net finance income	19,452	15,818
Salaries and other expenses	4,893	3,920
Earnings before income taxes	14,559	11,898
Provision for income taxes	5,727	4,626

NET EARNINGS	8,832	7,272
Retained earnings - beginning of period	135,220	106,130
RETAINED EARNINGS - END OF PERIOD	$144,052	$113,402
EARNINGS PER COMMON SHARE:		
Diluted	$0.48	$0.41
Basic	$0.53	$0.49

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FINANCIAL FEDERAL CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS *
(Dollars in Thousands)

Three Months Ended October 31,	2001	2000
Cash flows from operating activities:		
Net earnings	$8,832	$7,272
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for possible losses on finance receivables	1,025	1,150
Depreciation and amortization	2,946	1,941
Deferred income taxes	400	1,200
Decrease in other assets	112	97
Decrease in accrued interest, taxes and other liabilities	(907)	(6,394)
Net cash provided by operating activities	12,408	5,266
Cash flows from investing activities:		
Finance receivables:		
Originated	(182,116)	(172,694)
Collected	163,019	119,451
Other	(116)	(49)
Net cash used in investing activities	(19,213)	(53,292)
Cash flows from financing activities:		
Commercial paper:		
Maturities 90 days or less (net)	(3,854)	(51,585)
Maturities greater than 90 days:		
Proceeds	14,243	70,243
Repayments	(18,772)	(17,615)
Bank borrowings - net proceeds (repayments)	69,450	19,685
Proceeds from senior term notes	--	38,000
Repayment of senior term notes	(55,000)	(10,000)
Variable rate senior notes - net proceeds (repayments)	217	(156)
Proceeds from exercise of stock options	335	62
Other	--	46
Net cash provided by financing activities	6,619	48,680

NET (DECREASE) INCREASE IN CASH	(186)	654
Cash - beginning of period	10,251	6,068
CASH - END OF PERIOD	$10,065	$6,722
Supplemental disclosures of cash flow information:		
Interest paid	$13,934	$12,848
Income taxes paid	$1,925	$2,598

FINANCIAL FEDERAL CORPORATION
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

In the opinion of the management of Financial Federal Corporation and Subsidiaries (the "Company"), the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring items) necessary to present fairly the financial position at October 31, 2001 and the results of operations and cash flows of the Company for the three month periods ended October 31, 2001 and 2000. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and note disclosures included in the Company's Annual Report on Form 10-K for the year ended July 31, 2001. The consolidated results of operations for the three month periods ended October 31, 2001 and 2000 are not necessarily indicative of the results for the respective full years.

NOTE 2 - DESCRIPTION OF BUSINESS

The Company is an independent financial services company providing collateralized lending, financing and leasing services nationwide to primarily middle-market commercial enterprises in the general construction, road and infrastructure construction and repair, manufacturing, road transportation and waste disposal industries. The Company lends against, finances and leases a wide range of revenue-producing equipment such as cranes, earth movers, machine tools, personnel lifts, trailers and trucks.

NOTE 3 - EARNINGS PER COMMON SHARE

Earnings per common share was calculated as follows (in thousands, except per share amounts):

Three months ended October 31,	2001	2000
Net earnings (used for basic earnings per share)	$8,832	$7,272
Effect of convertible securities	733	730
Adjusted net earnings (used for diluted earnings per share)	$9,565	$8,002

Weighted average common shares outstanding (used for basic earnings per share)	16,557	14,963
Effect of dilutive securities:		
Convertible notes	3,024	3,024
Stock options	357	209
Warrants	--	1,391
Adjusted weighted average common shares and assumed conversions (used for diluted earnings per share)	19,938	19,587
Net earnings per common share - Diluted	$0.48	$0.41
Net earnings per common share - Basic	$0.53	$0.49

NOTE 4 - SENIOR DEBT

At October 31, 2001, the Company had $465.0 million of committed unsecured revolving credit facilities with various banks including $205.0 million that expire after October 31, 2002 and $260.0 million that expire before October 31, 2002. Long-term senior debt of $628.4 million at October 31, 2001 comprised $350.0 million of term notes payable, $124.5 million of borrowings under credit facilities that expire after October 31, 2002, $80.5 million of borrowings under credit facilities that expire before October 31, 2002 that were supported by credit facilities that expire after October 31, 2002 and $73.4 million of the securitization financing.

PART I
Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

Comparison of three months ended October 31, 2001 to three months ended October 31, 2000

Finance income increased by 5% to $34.6 million in the first quarter of fiscal 2002 from $33.1 million in the first quarter of fiscal 2001. The increase was primarily due to the 14%, or $163 million, increase in average finance receivables outstanding to $1.330 billion in the first quarter of fiscal 2002 from $1.166 billion in the first quarter of fiscal 2001, partially offset by (i) lower rates obtained on new receivables and decreases in rates on variable rate finance receivables as a result of the sharp decline in market interest rates since January 2001 and, to a lesser extent, (ii) an increase in non-performing assets in the first quarter of fiscal 2002 from the first quarter of fiscal 2001. Finance receivables booked in the first quarter of fiscal 2002 and fiscal 2001 were $182 million and $173 million, respectively.

Interest expense, incurred on borrowings used to fund finance receivables, decreased by 12% to $14.2 million in the first quarter of fiscal 2002 from $16.1 million in the first quarter of fiscal 2001. The decrease was primarily due to decreases in the cost of the Company's short-term and variable rate debt as a result of significantly lower average market interest rates in the first quarter of fiscal 2002 as compared to the first quarter of fiscal 2001, partially offset by the 13% increase in average debt outstanding in the first quarter of fiscal 2002 from the first quarter of fiscal 2001.

Net finance income before provision for possible losses on finance receivables increased by 21% to $20.5 million in the first quarter of fiscal 2002 from $17.0 million in the first quarter of fiscal 2001. Net finance income before provision for possible losses expressed as an annualized percentage of average finance receivables outstanding (net interest margin) increased to 6.1% in the first quarter of fiscal 2002 from 5.8% in the first quarter of fiscal 2001. The increase was primarily due to the decline in market interest rates since January 2001.

The provision for possible losses on finance receivables decreased by 11% to $1.0 million in the first quarter of fiscal 2002 from $1.2 million in the first quarter of fiscal 2001. The provision for possible losses is determined by the amount required to increase the allowance for possible losses to a level that management considers appropriate. The allowance for possible losses was $22.2 million, or 1.66% of finance receivables at October 31, 2001, compared to $21.9 million, or 1.66% of finance receivables, at July 31, 2001 and $19.9 million, or 1.67% of finance receivables, at October 31, 2000. The allowance is periodically reviewed by the Company's management and is estimated based on total finance receivables, net credit losses incurred and management's current assessments of the risks inherent in the Company's finance receivables from national and regional economic conditions, industry conditions, concentrations, the financial condition of counterparties and other factors. An increase in the level of the allowance may be necessary based on unexpected changes in these factors.

Net credit losses (write-downs of finance receivables less subsequent recoveries) were $728,000 and $346,000 in the first quarter of fiscal 2002 and 2001, respectively. Net credit losses expressed as an annualized percentage of average finance receivables outstanding (loss ratio) were 0.22% and 0.12% in the first quarter of fiscal 2002 and 2001, respectively. Non-performing assets were $41.8 million, or 3.1% of total finance receivables, at October 31, 2001, compared to $34.4 million, or 2.6% of total finance receivables, at July 31, 2001 and $18.9 million, or 1.6% of total finance receivables, at October 31, 2000. Delinquent finance receivables (transactions with a contractual payment more than 60 days past due) were $34.4 million, or 2.6% of total finance receivables, at October 31, 2001, compared to $24.8 million, or 1.9% of total finance receivables, at July 31, 2001 and $19.9 million, or 1.7% of total finance receivables, at October 31, 2000. Although the Company's non-performing assets, delinquent finance receivables and net credit losses have increased, and could continue to increase, their current and expected levels are below historical and current industry standards.

Salaries and other expenses increased by 25% to $4.9 million in the first quarter of fiscal 2002 from $3.9 million in the first quarter of fiscal 2001. The increase was primarily due to the increase in the number of marketing and administrative employees, salary increases and, to a lesser extent, additional costs incurred relating to the increased number of problem accounts in the first quarter of fiscal 2002 as compared to the first quarter of fiscal 2001.

Net earnings increased by 21% to $8.8 million in the first quarter of fiscal 2002 from $7.3 million in the first quarter of fiscal 2001. Diluted earnings per share increased by 17% to $0.48 per share in the first quarter of fiscal 2002 from $0.41 per share in the first quarter of fiscal 2001 and basic earnings per share increased by 8% to $0.53 per share in the first quarter of fiscal 2002 from $0.49 per share in the first quarter of fiscal 2001. The increase in diluted earnings per share was lower than the increase in net earnings primarily due to the effect that the convertible notes have on the diluted earnings per share calculation and the 26% increase in the average price of the Company's common stock in the first quarter of fiscal 2002 from the first quarter of fiscal 2001. The increase in basic earnings per share was lower than the increase in net earnings primarily due to the increase in the number of outstanding shares of the Company's common stock resulting from the exercise of the Company's 1.6 million warrants in the second quarter of fiscal 2001.

LIQUIDITY AND CAPITAL RESOURCES

The Company is dependent upon the continued availability of funds to originate or acquire finance receivables and to purchase portfolios of finance receivables. The Company may obtain required funds from a variety of sources, including operating cash flow, dealer placed and directly issued commercial paper, borrowings under committed unsecured revolving credit facilities, private and public issuances of term debt, conduit and term securitizations of its finance receivables and sales of common and preferred equity. Management believes, but cannot assure, that the Company has available sufficient liquidity to support its future operations.

The Company issues investment grade commercial paper directly and through a $350.0 million program with recognized dealers. Commercial paper outstanding at October 31, 2001 was $135.4 million. The Company's commercial paper is unsecured and matures within 270 days. Increases in commercial paper are generally offset by decreases in bank and other borrowings, and vice versa. The Company's current policy is to maintain committed revolving credit facilities from banks so that the aggregate amount available thereunder exceeds commercial paper outstanding.

At October 31, 2001, the Company had $465.0 million of committed unsecured revolving credit facilities with various banks including $205.0 million that expire after one year and $260.0 million that expire within one year. At October 31, 2001, the Company had $124.5 million of borrowings outstanding under credit facilities expiring after one year and $89.0 million of borrowings outstanding under credit facilities expiring within one year.

In September 2001, the Company repaid $55.0 million of term debt at maturity with the proceeds from additional borrowings under bank credit facilities.

FORWARD-LOOKING STATEMENTS

Certain statements in this document may include the words or phrases "can be," "expects," "may affect," "may depend," "believe," "estimate," "intend," "could," and similar words and phrases that constitute "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. Forward-looking statements are subject to various known and unknown risks and uncertainties and the Company cautions you that any forward-looking information provided by or on its behalf is not a guarantee of future performance. The Company's actual results could differ materially from those anticipated by such forward-looking statements due to a number of factors, some of which are beyond the Company's control, including, without limitation, (i) the ability to obtain funding on acceptable terms, (ii) changes in the risks inherent in the Company's receivables portfolio and the adequacy of the Company's reserves, (iii) changes in market interest rates, (iv) changes in economic, financial, and market conditions, (v) changes in competitive conditions and (vi) the loss of key executives or other personnel. Forward-looking statements apply only as of the date made and the Company is not required to update forward-looking statements for subsequent or unanticipated events or circumstances.

PART II
Item 6

EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits: None

(b) Reports on Form 8-K: None

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SIGNATURES

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

FINANCIAL FEDERAL CORPORATION

(Registrant)

By: /s/ Steven F. Groth

Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

By: /s/ David H. Hamm

Vice President and Controller
(Principal Accounting Officer)

December 10, 2001

(Date)

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