FINANCIAL FEDERAL CORP
Form 10-Q
March 13, 2002

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 January 31, 2002

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 March 4, 2002, 16,712,663 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 January 31, 2002

TABLE OF CONTENTS

FINANCIAL FEDERAL CORPORATION
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

	January 31, 2002 *	Jul
ASSETS		
Finance receivables	$1,384,285	$1,32
Allowance for possible losses	(23,023)	(2
Finance receivables - net	1,361,262	1,29

Cash	7,120	1
Other assets	3,824	
TOTAL ASSETS	$1,372,206	$1,31
LIABILITIES		
Senior debt:		
Long-term	$641,674	$70
Short-term	326,990	22
Subordinated debt	93,485	9
Accrued interest, taxes and other liabilities	54,052	5
Deferred income taxes	29,887	2
Total liabilities	1,146,088	1,10
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): 16,700,112 at January 31, 2002 and 16,540,329 at July 31, 2001	8,350	
Additional paid-in capital	64,494	6
Retained earnings	153,274	13
Total stockholders' equity	226,118	20
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,372,206	$1,31

FINANCIAL FEDERAL CORPORATION
AND SUBSIDIARIES

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

	Three months ended January 31,		Six months Janaur	
	2002	2001	2002	
Finance income	$34,589	$34,760	$69,222	$6
Interest expense	12,477	16,970	26,633	3
Net finance income before provision for possible losses on finance receivables	22,112	17,790	42,589	3
Provision for possible losses on finance receivables	1,600	1,100	2,625	

Net finance income	20,512	16,690	39,964	3
Salaries and other expenses	5,302	4,044	10,195	
Earnings before income taxes	15,210	12,646	29,769	2
Provision for income taxes	5,988	4,916	11,715	
NET EARNINGS	9,222	7,730	18,054	1
Retained earnings - beginning of period	144,052	113,402	135,220	10
Acquisition of treasury shares	--	(2,526)	--	(
RETAINED EARNINGS - END OF PERIOD	$153,274	$118,606	$153,274	$11
EARNINGS PER COMMON SHARE:				
Diluted	$0.50	$0.43	$0.98	
Basic	$0.56	$0.49	$1.09	

4

FINANCIAL FEDERAL CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS *
(Dollars in Thousands)

Six Months Ended January 31,	2002	
Cash flows from operating activities:		
Net earnings	$18,054	$1
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for possible losses on finance receivables	2,625	
Depreciation and amortization	6,313	
Deferred income taxes	800	
Decrease in other assets	296	
Increase (decrease) in accrued interest, taxes and other liabilities	970	(1
Net cash provided by operating activities	29,058	1
Cash flows from investing activities:		
Finance receivables:		
Originated	(396,776)	(34
Collected	326,348	24
Other	(201)	
Net cash used in investing activities	(70,629)	(10
Cash flows from financing activities:		
Commercial paper:		
Maturities 90 days or less (net)	3,713	(23

Maturities greater than 90 days:		
Proceeds	17,799	10
Repayments	(38,526)	(8
Bank borrowings - net proceeds	3,740	26
Proceeds from asset securitization financing	100,000	
Proceeds from senior term notes	5,000	6
Repayments of senior term notes	(55,000)	(3
Variable rate senior notes - net proceeds (repayments)	340	
Proceeds from exercise of stock options	1,262	
Proceeds from exercise of warrants	--	
Other	112	
Net cash provided by financing activities	38,440	9
NET (DECREASE) INCREASE IN CASH	(3,131)	
Cash - beginning of period	10,251	
CASH - END OF PERIOD	$7,120	$
Supplemental disclosures of cash flow information:		
Interest paid	$28,570	$3
Income taxes paid	$11,711	$

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 January 31, 2002 and the results of operations and cash flows of the Company for the three and six month periods ended January 31, 2002 and 2001. 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 fiscal year ended July 31, 2001. The consolidated results of operations for the three and six month periods ended January 31, 2002 and 2001 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 January 31,		Six months ended January 31,	
	2002	2001	2002	2001
Net earnings (used for basic earnings per share)	$9,222	$7,730	$18,054	$15,002
Effect of convertible securities	725	722	1,458	1,452
Adjusted net earnings (used for diluted earnings per share)	$9,947	$8,452	$19,512	$16,454
Weighted average common shares outstanding (used for basic earnings per share)	16,601	15,656	16,579	15,309
Effect of dilutive securities:				
Convertible notes	3,024	3,024	3,024	3,024
Stock options and restricted stock	413	301	385	255
Warrants	--	760	--	1,076
Adjusted weighted average common shares and assumed conversions (used for diluted earnings per share)	20,038	19,741	19,988	19,664
Net earnings per common share - Diluted	$0.50	$0.43	$0.98	$0.84
Net earnings per common share - Basic	$0.56	$0.49	$1.09	$0.98

NOTE 4 - SENIOR DEBT

At January 31, 2002, the Company had $400.0 million of committed unsecured revolving credit facilities with various banks including $195.0 million that expire after January 31, 2003 and $205.0 million that expire before January 31, 2003. Long-term senior debt of $641.7 million at January 31, 2002 comprised $315.0 million of term notes payable, $84.8 million of borrowings under credit facilities that expire after January 31, 2003, $63.0 million of borrowings under credit facilities that expire before January 31, 2003 and $47.2 million of commercial paper that were supported by credit facilities

that expire after January 31, 2003 and $131.7 million of the asset securitization financings.

In December 2001, the Company completed its second asset securitization financing transaction obtaining proceeds of $100.0 million. At January 31, 2002, the Company had $225.0 million of asset securitization financings accounted for as secured borrowings in the accompanying Consolidated Balance Sheet. The terms of both of the Company's securitizations provide for committed revolving financing for a one year term that, if not renewed, can be converted into term debt at the Company's option. At January 31, 2002, finance receivables in the accompanying Consolidated Balance Sheet included

$254.7 million of securitized receivables.

PART I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

Comparison of three months ended January 31, 2002 to three months ended January 31, 2001

Finance income decreased by less than 1% to $34.6 million in the second quarter of fiscal 2002 from $34.8 million in the second quarter of fiscal 2001. The decrease was primarily due to (i) lower rates obtained on new finance 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 second quarter of fiscal 2002 from the second quarter of fiscal 2001, offset by the 12%, or $149 million, increase in average finance receivables outstanding to $1.362 billion in the second quarter of fiscal 2002 from $1.214 billion in the second quarter of fiscal 2001. Finance receivables booked in the second quarter of fiscal 2002 and fiscal 2001 were $215 million and $171 million, respectively.

Interest expense, incurred on borrowings used to fund finance receivables, decreased by 26% to $12.5 million in the second quarter of fiscal 2002 from $17.0 million in the second 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 second quarter of fiscal 2002 as compared to the second quarter of fiscal 2001, partially offset by the 10% increase in average debt outstanding in the second quarter of fiscal 2002 from the second quarter of fiscal 2001.

Net finance income before provision for possible losses on finance receivables increased by 24% to $22.1 million in the second quarter of fiscal 2002 from $17.8 million in the second 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 6.4% in the second quarter of fiscal 2002 from 5.8% in the second 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 increased by 45% to $1.6 million in the second quarter of fiscal 2002 from $1.1 million in the second 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 $23.0 million, or 1.66% of finance receivables at January 31, 2002, compared to $21.9 million, or 1.66% of finance receivables, at July 31, 2001 and $20.5 million, or 1.66% of finance receivables, at January 31, 2001. 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 $812,000 and $490,000 in the second quarter of fiscal 2002 and 2001, respectively. Net credit losses expressed as an annualized percentage of average finance receivables outstanding ("loss ratio") were 0.24% and 0.16% in the second quarter of fiscal 2002 and 2001, respectively. Non-performing assets (includes finance receivables classified as non-accrual and assets received to satisfy finance receivables) were $46.3 million, or 3.3% of total finance receivables, at January 31, 2002, compared to $34.4 million, or 2.6% of total finance receivables, at July 31, 2001 and $23.7

million, or 1.9% of total finance receivables, at January 31, 2001. Delinquent finance receivables (transactions with a contractual payment more than 60 days past due) were $41.8 million, or 3.0% of total finance receivables, at January 31, 2002, compared to $24.8 million, or 1.9% of total finance receivables, at July 31, 2001 and $23.4 million, or 1.9% of total finance receivables, at January 31, 2001. 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 31% to $5.3 million in the second quarter of fiscal 2002 from $4.0 million in the second quarter of fiscal 2001. The increase was primarily due to the increase in the number of marketing and administrative employees, salary increases and additional costs incurred relating to the increased number of problem accounts in the second quarter of fiscal 2002 as compared to the second quarter of fiscal 2001.

Net earnings increased by 19% to $9.2 million in the second quarter of fiscal 2002 from $7.7 million in the second quarter of fiscal 2001. Diluted earnings per share increased by 16% to $0.50 per share in the second quarter of fiscal 2002 from $0.43 per share in the second quarter of fiscal 2001 and basic earnings per share increased by 14% to $0.56 per share in the second quarter of fiscal 2002 from $0.49 per share in the second 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 had on the diluted earnings per share calculation and the 17% increase in the average price of the Company's common stock in the second quarter of fiscal 2002 from the second 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.

Comparison of six months ended January 31, 2002 to six months ended January 31, 2001

Finance income increased by 2% to $69.2 million in the first half of fiscal 2002 from $67.9 million in the first half of fiscal 2001. The increase was primarily due to the 13%, or $156 million, increase in average finance receivables outstanding to $1.346 billion in the first half of fiscal 2002 from $1.190 billion in the first half of fiscal 2001 offset by (i) lower rates obtained on new finance 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 half of fiscal 2002 from the first half of fiscal 2001. Finance receivables booked in the first half of fiscal 2002 and fiscal 2001 were $397 million and $344 million, respectively.

Interest expense, incurred on borrowings used to fund finance receivables, decreased by 20% to $26.6 million in the first half of fiscal 2002 from $33.1 million in the first half 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 half of fiscal 2002 as compared to the first half of fiscal 2001, partially offset by the 12% increase in average debt outstanding in the first half of fiscal 2002 from the first half of fiscal 2001.

Net finance income before provision for possible losses on finance receivables increased by 23% to $42.6 million in the first half of fiscal 2002 from $34.8 million in the first half of fiscal 2001. The net interest margin was 6.3% in the first half of fiscal 2002 compared to 5.8% in the first half 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 increased by 17% to $2.6 million in the first half of fiscal 2002 from $2.3 million in the first half of fiscal 2001. Net credit losses were $1.5 million and $836,000 in the first half of fiscal 2002 and 2001, respectively. The loss ratio was 0.23% and 0.14% in the first half of fiscal 2002 and 2001, respectively.

Salaries and other expenses increased by 28% to $10.2 million in the first half of fiscal 2002 from $8.0 million in the first half of fiscal 2001. The increase was primarily due to the increase in the number of marketing and administrative employees, salary increases and additional costs incurred relating to the increased number of problem accounts in the first half of fiscal 2002 as compared to the first half of fiscal 2001.

Net earnings increased by 20% to $18.1 million in the first half of fiscal 2002 from $15.0 million in the first half of fiscal 2001. Diluted earnings per share increased by 17% to $0.98 per share in the first half of fiscal 2002 from $0.84 per share in the first half of fiscal 2001 and basic earnings per share increased by 11% to $1.09 per share in the first half of fiscal 2002 from $0.98 per share in the first half 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 had on the diluted

earnings per share calculation and the 21% increase in the average price of the Company's common stock in the first half of fiscal 2002 from the first half 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 January 31, 2002 was $126.8 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 January 31, 2002, the Company had $400.0 million of committed unsecured revolving credit facilities with various banks including $195.0 million that expire after one year and $205.0 million that expire within one year. At January 31, 2002, the Company had $84.8 million of borrowings outstanding under credit facilities expiring after one year and $63.0 million of borrowings outstanding under credit facilities expiring within one year.

In December 2001, the Company completed its second asset securitization financing transaction obtaining proceeds of $100.0 million. The Company used the proceeds to repay borrowings under bank credit facilities. At January 31, 2002, the Company had $225.0 million of asset securitization financings accounted for as secured borrowings in the accompanying Consolidated Balance Sheet. The terms of both of the Company's securitizations provide for committed revolving financing for a one year term that, if not renewed, can be converted into term debt at the Company's option.

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 4

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Company's Annual Meeting of Stockholders held on December 11, 2001, the following matters were voted upon:

The following nominees were elected to the Board of Directors:

Nominee	Number of Votes For	Withheld
Lawrence B. Fisher	13,186,608	396,034
William C. MacMillen, Jr.	13,317,831	264,811
Michael C. Palitz	11,593,386	1,989,256
Thomas F. Robards	13,318,806	263,836
Paul R. Sinsheimer	11,799,051	1,783,591
H. E. Timanus, Jr.	13,318,806	263,836
Steven D. Weinroth	13,317,281	265,361

The appointment of Arthur Andersen LLP as the independent public accounting firm to audit the Company's financial statements for the fiscal year ending July 31, 2002 was ratified by a vote of 13,467,857 shares for, 110,725 shares against and 4,060 shares abstained.

The Management Incentive Plan, adopted by the Board of Directors on February 27, 2001, was approved by a vote of 10,970,535 shares for, 2,592,313 shares against and 19,794 shares abstained.

Item 6

EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits: None

(b) Reports on Form 8-K: None

10

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)

March 13, 2002

(Date)