FINANCIAL FEDERAL CORP
Form 10-Q
June 15, 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 April 30, 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 June 1, 2001, 16,517,259 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 April 30, 2001

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FINANCIAL FEDERAL CORPORATION
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
(Dollars in Thousands)

	April 30, 2001 *	July
ASSETS		
Finance receivables	$1,279,245	$1,137
Allowance for possible losses	(21,176)	(19
Finance receivables - net	1,258,069	1,118

Cash	10,608	6
Other assets	3,831	3
TOTAL ASSETS	$1,272,508	$1,127
LIABILITIES		
Senior debt:		
Long-term ($18,950 at April 30, 2001 and $37,073 at July 31, 2000 due to related parties)	$588,611	$608
Short-term	325,697	182
Subordinated debt ($2,951 at April 30, 2001 and $4,681 at July 31, 2000 due to related parties)	93,485	93
Accrued interest, taxes and other liabilities	37,731	43
Deferred income taxes	29,869	26
Total liabilities	1,075,393	955
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: 16,473,647 (net of 136,961 treasury shares) at April 30, 2001 and 14,958,379 at July 31, 2000	8,237	7
Additional paid-in capital	62,262	58
Warrants - issued and outstanding 1,606,500 at July 31, 2000		
Retained earnings	126,616	106
Total stockholders' equity	197,115	172
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,272,508	$1,127

FINANCIAL FEDERAL CORPORATION
AND SUBSIDIARIES

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

	Three months ended April 30,		Nine months e April	
	2001	2000	2001	
Finance income	$34,825	$28,194	$102,678	$80
Interest expense	15,886	13,027	48,981	37
Finance income before provision for possible losses on finance receivables	18,939	15,167	53,697	43

Provision for possible losses on finance receivables	1,300	975	3,550	2
Net finance income	17,639	14,192	50,147	40
Gain on debt retirement		379		
Salaries and other expenses	(4,517)	(3,405)	(12,481)	(9
Earnings before income taxes	13,122	11,166	37,666	32
Provision for income taxes	5,112	4,328	14,654	12
NET EARNINGS	8,010	6,838	23,012	19
Retained earnings - beginning of period	118,606	92,395	106,130	79
Acquisition of treasury shares			(2,526)	
RETAINED EARNINGS - END OF PERIOD	$126,616	$99,233	$126,616	$99
EARNINGS PER COMMON SHARE:				
Diluted	$0.44	$0.39	$1.28	$
Basic	$0.49	$0.46	$1.47	$

FINANCIAL FEDERAL CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS *
(Dollars in Thousands)

Nine Months Ended April 30,	2001	
Cash flows from operating activities:		
Net earnings	$23,012	$19
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for possible losses on finance receivables	3,550	2
Depreciation and amortization	6,680	5
Deferred income taxes	2,900	3
Gain on debt retirement		
(Increase) decrease in other assets	(61)	
Increase (decrease) in accrued interest, taxes and other liabilities	(5,824)	8
Net cash provided by operating activities	30,257	39
Cash flows from investing activities:		
Finance receivables:		
Originated	(533,454)	(522
Collected	383,578	388
Other	(410)	
Net cash (used in) investing activities	(150,286)	(134
Cash flows from financing activities:		

Commercial paper:		
Maturities 90 days or less - net proceeds (repayments)	(195,846)	71
Maturities greater than 90 days:		
Proceeds	123,014	64
Repayments	(118,462)	(71
Bank borrowings - net proceeds (repayments)	222,400	(37
Proceeds from senior term notes	128,000	65
Repayments of senior term notes	(35,000)	
Repurchases of convertible subordinated notes		(3
Variable rate senior notes - net proceeds (repayments)	(1,146)	5
Proceeds from exercise of warrants	1,114	
Proceeds from exercise of stock options	381	
Other	114	
Net cash provided by financing activities	124,569	94
NET INCREASE (DECREASE) IN CASH	4,540	
Cash - beginning of period	6,068	5
CASH - END OF PERIOD	$10,608	$5
Supplemental disclosures of cash flow information:		
Interest paid	$44,460	$33
Income taxes paid	$14,784	$7

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 April 30, 2001 and the results of operations and cash flows of the Company for the three and nine month periods ended April 30, 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, 2000. The consolidated results of operations for the three and nine month periods ended April 30, 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 representing diverse industries such as general construction, road and infrastructure construction and repair, manufacturing, transportation and waste disposal. The Company lends against, finances and leases a wide range of revenue-producing equipment such as cranes, earthmovers, 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 April 30,		Nine months ended April 30,	
	2001	2000	2001	2000
Net earnings (used for basic earnings per share)	$8,010	$6,838	$23,012	$19,825
Effect of convertible securities	707	716	2,160	2,227
Adjusted net earnings (used for diluted earnings per share)	$8,717	$7,554	$25,172	$22,052
Weighted average common shares outstanding (used for basic earnings per share)	16,466	14,911	15,686	14,879
Effect of dilutive securities:				
Convertible subordinated notes	3,024	3,040	3,024	3,118
Warrants		1,356	725	1,374
Stock options	333	157	281	216
Adjusted weighted average common shares and assumed conversions (used for diluted earnings per share)	19,823	19,464	19,716	19,587
Net earnings per common share - Diluted	$0.44	$0.39	$1.28	$1.13
Net earnings per common share - Basic	$0.49	$0.46	$1.47	$1.33

NOTE 4 - SENIOR DEBT

At April 30, 2001, the Company had $450.0 million of committed unsecured revolving credit facilities with various banks including $205.0 million that expire after April 30, 2002 and $245.0 million that expire before April 30, 2002. Long-term senior debt of $588.6 million at April 30, 2001 comprised $137.3 million of borrowings under credit facilities that expire after April 30, 2002, $67.7 million of borrowings under credit facilities that expire before April 30, 2002 that were supported by credit facilities that expire after April 30, 2002 and $383.6 million of term notes payable. In September

2000, the Company established a $200.0 million Medium Term Note Program and issued the following notes thereunder in October 2000 and March 2001, respectively; $38.0 million of 8.50% fixed rate term notes that mature in May 2003 and $65.0 million of 7.05% fixed rate term notes that mature in April 2004.

NOTE 5 - STOCKHOLDERS' EQUITY

In December 2000, the Company and the majority of the warrant holders amended the warrant agreements to purchase the Company's common stock. The amendment permitted the warrant holders to pay for the exercise of their warrants with previously owned common stock of the Company in lieu of cash at the holders' option.

During the quarter ended January 31, 2001, subsequent to the amendment, all of the Company's 1,606,500 outstanding warrants were exercised. The total proceeds to the Company were $4.5 million (1,125,000 warrants at an exercise price of $2.83 per warrant and 481,500 warrants at an exercise price of $2.72 per warrant). The Company received $1.1 million and 136,961 shares of its common stock at an average market value of $24.70 per share. As a result of receiving 136,961 shares, the amount available under the Company's Stock and Convertible Debenture Repurchase Program decreased to $6.6 million. At April 30, 2001, the Company held the 136,961 shares in treasury.

In February 2001, the Company adopted a Management Incentive Plan for its Chief Executive Officer. The plan provides for awards of restricted stock and payments of performance bonuses that are both contingent upon the Company attaining certain operating results. The plan is subject to shareholder approval in December 2001.

In February 2001, the Company awarded 55,500 shares of restricted stock to certain of its senior officers. The shares vest ratably over four years from the date granted.

NOTE 6 - RELATED PARTY DEBT

Related party debt decreased during the first nine months of fiscal 2001 primarily because certain holders of the Company's senior and subordinated debt ceased to be classified as related parties due to changes in stock ownership and the passing of the Company's then Chairman of the Board in November 2000.

NOTE 7 - RECENT ACCOUNTING PRONOUNCEMENTS

In August 2000, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." These Statements require the fair value of derivatives to be recorded as assets or liabilities. Gains or losses resulting from changes in the fair values of derivatives are accounted for depending on the purpose of the derivatives and whether they qualify for hedge accounting treatment. The adoption of SFAS 133 and SFAS 138 did not have a material effect on the Company's earnings or financial position.

PART I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

Comparison of three months ended April 30, 2001 to three months ended April 30, 2000

Finance income increased by 24% to $34.8 million in the third quarter of fiscal 2001 from $28.2 million in the third quarter of fiscal 2000. The increase was primarily due to the 21%, or $219 million, increase in average finance receivables outstanding to $1.263 billion in the third quarter of fiscal 2001 from $1.044 billion in the third quarter of fiscal 2000 and higher yields obtained on new receivables as a result of increases in market interest rates during May 2000 through December 2000. Finance receivables booked in the third quarter of fiscal 2001 and fiscal 2000 were $190 million and $186 million, respectively.

Interest expense, incurred on borrowings used to fund finance receivables, increased by 22% to $15.9 million in the third quarter of fiscal 2001 from $13.0 million in the third quarter of fiscal 2000. The increase was primarily due to the 22% increase in average debt outstanding in the third quarter of fiscal 2001 from the third quarter of fiscal 2000 and the $135.0 million increase in fixed rate term debt since April 30, 2000, partially offset by decreases in the cost of the Company's short term and variable rate debt as a result of lower average market interest rates in the third quarter of fiscal 2001 from the third quarter of fiscal 2000.

Finance income before provision for possible losses on finance receivables increased by 25% to $18.9 million in the third quarter of fiscal 2001 from $15.2 million in the third quarter of fiscal 2000. Finance income before provision for possible losses expressed as an annualized percentage of average finance receivables outstanding ("net interest margin") increased to 6.2% in the third quarter of fiscal 2001 from 5.9% in the third quarter of fiscal 2000. The increase was primarily due to the increase in the yield on the Company's finance receivables and the decrease in the cost of the Company's short term and variable rate debt, partially offset by higher rates incurred on the additional $135.0 million of fixed rate term debt.

The provision for possible losses on finance receivables increased by 33% to $1.3 million in the third quarter of fiscal 2001 from $975,000 in the third quarter of fiscal 2000. 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 $21.2 million, or 1.66% of finance receivables at April 30, 2001, compared to $19.0 million, or 1.68% of finance receivables, at July 31, 2000 and $18.1 million, or 1.68% of finance receivables, at April 30, 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 assessment 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. Future additions to the allowance may be necessary based on changes in these factors.

Net credit losses (write-downs of finance receivables less subsequent recoveries) were $586,000 and $164,000 in the third quarter of fiscal 2001 and 2000, respectively. Net credit losses expressed as an annualized percentage of average finance receivables outstanding ("loss ratio") was 0.19% and 0.06% in the third quarter of 2001 and 2000, respectively. Finance receivables on non-accrual (income recognition has been suspended) were $28.8 million, or 2.2% of total finance receivables, at April 30, 2001, compared to $16.2 million, or 1.4% of total finance receivables, at July 31, 2000 and $14.2 million, or 1.3% of total finance receivables, at April 30, 2000. Delinquent finance receivables (receivables with a contractual payment more than 60 days past due) were $29.4 million, or 2.3% of total finance receivables, at April 30, 2001, compared to $17.3 million, or 1.5% of total finance receivables, at July 31, 2000 and $15.4 million, or 1.4% of total finance receivables, at April 30, 2000. The Company's non-accruing and delinquent finance receivables and net credit losses have been increasing, and could continue to do so, although their current and expected levels are within industry standards.

Salaries and other expenses increased by 33% to $4.5 million in the third quarter of fiscal 2001 from $3.4 million in the third quarter of fiscal 2000. 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 delinquent accounts. In addition, the Company relocated its Phoenix, Arizona operations center to Irvine, California.

Net earnings increased by 17% to $8.0 million in the third quarter of fiscal 2001 from $6.8 million in the third quarter of fiscal 2000. Diluted earnings per share increased by 13% to $0.44 per share in the third quarter of fiscal 2001 from $0.39 per share in the third quarter of fiscal 2000 and basic earnings per share increased by 7% to $0.49 per share in the third quarter of fiscal 2001 from $0.46 per share in the third quarter of fiscal 2000. The increase in diluted earnings per share was lower than the increase in net earnings primarily due to the effect that the convertible subordinated notes have on the diluted earnings per share calculation and the 40% increase in the average price of the Company's common stock in the third quarter of fiscal 2001 from the third quarter of fiscal 2000. 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 1,606,500 warrants in the second quarter of fiscal 2001.

In the third quarter of fiscal 2000, the Company repurchased $2.0 million principal amount of its convertible subordinated notes for $1.6 million. Excluding the net after tax gain on this retirement of debt, net earnings

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increased by 22%, diluted earnings per share increased by 16% and basic earnings per share increased by 11% in the third quarter of fiscal 2001 from the third quarter of fiscal 2000.

Comparison of nine months ended April 30, 2001 to nine months ended April 30, 2000

Finance income increased by 28% to $102.7 million in the first nine months of fiscal 2001 from $80.3 million in the first nine months of fiscal 2000. The increase was primarily due to the 21%, or $213 million, increase in average finance receivables outstanding to $1.214 billion in the first nine months of fiscal 2001 from $1.001 billion in the first nine months of fiscal 2000 and higher yields obtained on new receivables and on variable rate receivables as a result of increases in market interest rates during May 2000 through December 2000. Finance receivables booked in the first nine months of fiscal 2001 and fiscal 2000 were $533 million and $522 million, respectively.

Interest expense, incurred on borrowings used to fund finance receivables, increased by 32% to $49.0 million in the first nine months of fiscal 2001 from $37.2 million in the first nine months of fiscal 2000. The increase was primarily due to the 22% increase in average debt outstanding in the first nine months of fiscal 2001 from the first nine months of fiscal 2000, the $135.0 million increase in fixed rate term debt since April 30, 2000 and increases in the cost of the Company's short term and variable rate debt as a result of higher average market interest rates in the first nine months of fiscal 2001 from the first nine months of fiscal 2000 (market interest rates started to decline in January 2001).

Finance income before provision for possible losses on finance receivables increased by 25% to $53.7 million in the first nine months of fiscal 2001 from $43.1 million in the first nine months of fiscal 2000. The net interest margin increased to 5.9% in the first nine months of fiscal 2001 from 5.7% in the first nine months of fiscal 2000. The increase was primarily due to the increase in the yield on the Company's finance receivables, partially offset by the increase in the cost of the Company's short term and variable rate debt and higher rates incurred on the additional $135.0 million of fixed rate term debt.

The provision for possible losses on finance receivables increased by 61% to $3.6 million in the first nine months of fiscal 2001 from $2.2 million in the first nine months of fiscal 2000. Net credit losses were $1.4 million and $317,000 in the first nine months of fiscal 2001 and 2000, respectively. The loss ratio was 0.16% and 0.04% in the first nine months of 2001 and 2000, respectively.

Salaries and other expenses increased by 35% to $12.5 million in the first nine months of fiscal 2001 from $9.3 million in the first nine months of fiscal 2000. 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 delinquent accounts. In addition, the Company relocated its Phoenix, Arizona operations center to Irvine, California.

Net earnings increased by 16% to $23.0 million in the first nine months of fiscal 2001 from $19.8 million in the first nine months of fiscal 2000. Diluted earnings per share increased by 13% to $1.28 per share in the first nine months of fiscal 2001 from $1.13 per share in the first nine months of fiscal 2000 and basic earnings per share increased by 11% to $1.47 per share in the first nine months of fiscal 2001 from $1.33 per share in the first nine months of fiscal 2000. The increase in diluted earnings per share was lower than the increase in net earnings primarily due to the effect that the convertible subordinated notes have on the diluted earnings per share calculation and the 20% increase in the average price of the Company's common stock in the first nine months of fiscal 2001 from the first nine months of fiscal 2000. 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 1,606,500 warrants in the second quarter of fiscal 2001.

In the first nine months of fiscal 2000, the Company repurchased $4.3 million principal amount of its convertible subordinated notes for $3.5 million. Excluding the net after tax gain on this retirement of debt, net earnings increased by 19%, diluted earnings per share increased by 16% and basic earnings per share increased by 13% in the first nine months of fiscal 2001 from the first nine months of fiscal 2000.

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 and securitizations, 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 April 30, 2001 was $144.5 million; a decrease of $191.3 million from the amount outstanding at July 31, 2000. Commencing December 2000, the Company has increased its borrowings under committed unsecured revolving bank credit facilities and reduced its outstanding commercial paper in order to vary the maturities and lower the cost of its short term debt. 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 April 30, 2001, the Company had $450.0 million of committed unsecured revolving credit facilities with various banks including $205.0 million that expire after one year and $245.0 million that expire within one year. At April 30, 2001, the Company had $137.3 million of borrowings outstanding under credit facilities expiring after one year and $129.0 million of borrowings outstanding under credit facilities expiring within one year.

In September 2000, the Company established a $200.0 million Medium Term Note Program and issued the following notes thereunder in October 2000 and March 2001, respectively; $38.0 million of 8.50% fixed rate term notes that mature in May 2003 and $65.0 million of 7.05% fixed rate term notes that mature in April 2004. At April 30, 2001, $97.0 million was available under the program for future issuances.

FORWARD-LOOKING STATEMENTS

Certain statements in this document including the words or phrases "can be," "expects," "may affect," "may depend," "believes," "estimate," "project," "could," and similar words and phrases 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. Such 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 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:

- 10.27 2001 Management Incentive Plan for the Chief Executive Officer of the Registrant
- 10.28 Form of Restricted Stock Agreement between the Registrant and its Chief Executive Officer
- 10.29 Form of Restricted Stock Agreement between the Registrant

and certain senior officers

(b) Reports on Form 8-K

None.

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
Controller and Assistant
Treasurer (Principal
Accounting Officer)

June 8, 2001
(Date)

INDEX TO EXHIBITS

Exhibit No.	Exhibits
10.27	2001 Management Incentive Plan for the Chief Executive Officer of the Registrant
10.28	Form of Restricted Stock Agreement between the Registrant and its Chief Executive Officer
10.29	Form of Restricted Stock Agreement between the Registrant and certain senior officers