FINANCIAL FEDERAL CORP
Form 10-Q
December 08, 2003

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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, 2003

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, New York 10017
(Address of principal executive offices)

(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 |_|

Indicate by check mark whether the Registrant is an accelerated filer as defined in Rule 12b-2 of the Securities Exchange Act of 1934. Yes |X| No |_|

At December 1, 2003, 18,645,244 shares of Registrant's common stock, $.50 par value, were outstanding.

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FINANCIAL FEDERAL CORPORATION AND SUBSIDIARIES

Quarterly Report on Form 10-Q
for the quarter ended October 31, 2003

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FINANCIAL FEDERAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

	October 31, 2
ASSETS	
Finance receivables	$ 1,405,
Allowance for credit losses	(23,
Finance receivables - net	1,381,
Cash	8,
Other assets	19,
TOTAL ASSETS	$ 1,409,
LIABILITIES	
Debt:	
Long-term ($9,169 at October 31, 2003 and $9,080 at July 31, 2003 due to related parties)	$ 777,
Short-term	244,
Accrued interest, taxes and other liabilities	61,
Total liabilities	1,083,
STOCKHOLDERS' EQUITY	
Preferred stock - $1 par value, authorized 5,000 shares	
Common stock - $.50 par value, authorized 100,000 shares, shares issued and outstanding (net of 149 treasury shares): 18,628 at October 31, 2003 and	

18,483 at July 31, 2003	9,
Additional paid-in capital	110,
Retained earnings	206,
Total stockholders' equity	326,
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,409,

* Unaudited

The notes to consolidated financial statements are made a part hereof.

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FINANCIAL FEDERAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY *
(In thousands)

	Common Stock - $.50 Par Value			
	Shares	Par Value	Additional Paid-in Capital	Re Ea
BALANCE AT JULY 31, 2002	17,372	$ 8,686	$ 67,595	$ 1
Conversion of subordinated debt	1,159	580	34,439	
Employee stock plans:				
Shares issued	39	19	305	
Compensation recognized	--	--	703	
Tax benefits	--	--	275	
Net earnings	--	--	--	
BALANCE AT OCTOBER 31, 2002	18,570	$ 9,285	$ 103,317	$ 1

	Common Stock - $.50 Par Value			
	Shares	Par Value	Additional Paid-in Capital	Re Ea
BALANCE AT JULY 31, 2003	18,483	$ 9,242	$ 105,464	$ 2
Repurchases of common stock	(142)	(71)	(2,568)	
Employee stock plans:				
Shares issued	287	143	5,353	
Compensation recognized	--	--	596	
Tax benefits	--	--	1,430	
Net earnings	--	--	--	
BALANCE AT OCTOBER 31, 2003	18,628	$ 9,314	$ 110,275	$ 2

* Unaudited

The notes to consolidated financial statements are made a part hereof.

FINANCIAL FEDERAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS *
(In thousands, except per share amounts)

Three Months Ended October 31,	2003	2002
Finance income	$30,232	$34,971
Interest expense	8,653	12,378
Net finance income before provision for credit losses on finance receivables	21,579	22,593
Provision for credit losses on finance receivables	3,550	1,550
Net finance income	18,029	21,043
Salaries and other expenses	6,288	5,556
Loss on redemption of convertible debt	--	1,737
Earnings before income taxes	11,741	13,750
Provision for income taxes	4,589	5,477
NET EARNINGS	$ 7,152	$ 8,273
EARNINGS PER COMMON SHARE:		
Diluted	$ 0.39	$ 0.45
Basic	$ 0.39	$ 0.47

* Unaudited

The notes to consolidated financial statements are made a part hereof.

FINANCIAL FEDERAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS *

(In thousands)

Three Months Ended October 31,	2003
Cash flows from operating activities:	
Net earnings	$ 7,152
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Provision for credit losses on finance receivables	3,550
Depreciation and amortization	4,210
Loss on redemption of convertible debt	--
Decrease (increase) in other assets	6,612
(Decrease) increase in accrued interest, taxes and other liabilities	(4,232)
Tax benefits from stock plans	1,430
Net cash provided by operating activities	18,722
Cash flows from investing activities:	
Finance receivables originated	(169,632)
Finance receivables collected	172,565
Net cash provided by (used in) investing activities	2,933
Cash flows from financing activities:	
Commercial paper - maturities 90 days or less, net increase (decrease)	1,004
Commercial paper - maturities greater than 90 days:	
Proceeds	3,627
Repayments	(3,279)
Bank borrowings - net decrease	(11,445)
Proceeds from asset securitization financing	--
Proceeds from senior term notes issued	5,000
Repayments of senior term notes	(17,000)
Redemption of subordinated debt	--
Proceeds from stock option exercises	1,557
Repurchases of common stock	(900)
Net cash used in financing activities	(21,436)
NET INCREASE IN CASH	219
Cash - beginning of period	8,015
CASH - END OF PERIOD	$ 8,234
Supplemental disclosures of cash flow information:	
Interest paid	$ 8,802
Income taxes paid	$ 4,222

* Unaudited

The notes to consolidated financial statements are made a part hereof.

FINANCIAL FEDERAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)
(Unaudited)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2003 and the results of operations and cash flows of the Company for the three month periods ended October 31, 2003 and 2002. 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, 2003. The consolidated results of operations for the three month periods ended October 31, 2003 and 2002 are not necessarily indicative of the results for the respective full years.

Description of Business

The Company provides collateralized lending, financing and leasing services nationwide to middle-market businesses in the general construction, road and infrastructure construction and repair, road transportation, waste disposal and manufacturing industries. The Company lends against, finances and leases a wide range of new and used revenue-producing/essential-use equipment such as cranes, earth movers, machine tools, personnel lifts, trailers and trucks.

Stock-Based Compensation

The Company continues to apply Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and related Interpretations to account for stock options. Under APB No. 25, the Company does not record compensation expense for its stock options. If the Company applied the expense recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," compensation expense would have been recorded for stock options based on their fair value computed with an option-pricing model. The effect on net earnings and earnings per share had the Company recorded compensation expense using the fair value method under SFAS No. 123 follows:

Three Months Ended October 31,	2003	2002
Net earnings, as reported	$7,152	$8,273
Add: Compensation expense recorded for restricted stock awards (after-tax)	364	431
Deduct: Total stock-based compensation expense determined under fair value based method for all awards (after-tax)	(778)	(858)
Pro forma net earnings	$6,738	$7,846
Diluted earnings per common share:		
As reported	$ 0.39	$ 0.45

Pro forma	0.37	0.43
Basic earnings per common share:		
As reported	$ 0.39	$ 0.47
Pro forma	0.37	0.44

New Accounting Standards

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities--an interpretation of ARB No. 51." Variable interest entities often are created for a single specified purpose, for example, to facilitate securitization, leasing, hedging, research and development, reinsurance or other transactions or arrangements. FIN No. 46 requires certain variable interest entities to be consolidated by the primary beneficiary (the entity that will be at risk for a majority of the expected losses or receive a majority of the expected residual returns of the variable interest entity). FIN No. 46 applies to variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired on or prior to January 31, 2003, the Company is required to apply FIN

No. 46 (as amended by FASB Staff Position No. FIN 46-6 issued in October 2003) on January 31, 2004. The Company consolidates fully one variable interest entity (a special purpose entity that it established for its asset securitization facility) under current accounting rules. The consolidation of this entity will not be affected by the adoption of FIN No. 46. The Company does not expect the adoption of FIN No. 46 will have a material impact on its results of operations or financial position.

Use of Estimates

The consolidated financial statements and the notes thereto were prepared in accordance with accounting principles generally accepted in the United States of America which require significant estimates and assumptions to be made by management that affect the amounts reported therein. Actual results could differ significantly from those estimates.

NOTE 2 - FINANCE RECEIVABLES

Finance receivables comprise installment sale agreements and secured loans (including line of credit arrangements), collectively referred to as loans, with fixed or floating (indexed to the prime rate) interest rates, and investments in direct financing leases as follows:

	October 31, 2003	July 31, 2003
Loans:		
Fixed rate	$1,097,018	$1,073,158
Floating rate	69,253	85,532
Total loans	1,166,271	1,158,690
Direct financing leases	239,072	256,799
Finance receivables	$1,405,343	$1,415,489

Direct financing leases include residual values of $47,675 at October 31, 2003 and $48,813 at July 31, 2003.

Non-performing assets comprise finance receivables classified as non-accrual (income recognition has been suspended) and assets received to satisfy finance receivables (repossessed equipment) as follows:

	October 31, 2003	July 31, 2003
Finance receivables classified as non-accrual	$40,441	$42,910
Assets received to satisfy finance receivables	12,860	19,666
Non-performing assets	$53,301	$62,576

The activity of the allowance for credit losses is summarized as follows:

Three Months Ended October 31,	2003	2002
Beginning balance	$23,754	$24,171
Provision	3,550	1,550
Write-downs	(3,991)	(2,190)
Recoveries	279	696
Ending balance	$23,592	$24,227
Percentage of finance receivables	1.68%	1.68%
Net charge-offs *	$ 3,712	$ 1,494
Loss ratio **	1.05%	0.41%

* write-downs less recoveries

** net charge-offs over average finance receivables, annualized

The allowance for credit losses included $650 at October 31, 2003 and $750 at July 31, 2003 that were specifically allocated to $6,152 and $6,222, respectively, of impaired receivables.

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The Company also provides commitments to extend credit. These commitments contain off-balance sheet risk. The Company uses the same credit policies and procedures in making these commitments as it does for finance receivables, as the credit risks are substantially the same. The unused portion of these commitments was $9,222 at October 31, 2003 and $8,624 at July 31, 2003.

NOTE 3 - DEBT

Debt is summarized as follows:

	October 31, 2003	July 2
Fixed rate term notes (as swapped) due 2004 - 2008	$ 277,500	$ 319,
Floating rate term notes due 2004 - 2010	307,500	278,
Total term notes	585,000	597,
Asset securitization financings	325,000	325,
Commercial paper	112,913	111,
Bank borrowings	--	11,
Total principal amount	1,022,913	1,045,
Fair value adjustment of hedged debt	(1,338)	(2,
Total debt	$ 1,021,575	$ 1,042,

Asset Securitization Financings

The asset securitization facility provides for committed revolving financing for a one year term that, if not renewed prior to the current expiration date of March 27, 2004, can be converted into term debt at the Company's option. Finance receivables include $424,033 and $432,328 of securitized receivables at October 31, 2003 and July 31, 2003, respectively. At October 31, 2003, the Company could securitize an additional $131,000 of finance receivables. The amount that the Company can borrow under the securitization facility is limited to 94% of securitized receivables.

Bank Borrowings

At October 31, 2003, the Company had $335,000 of committed unsecured revolving credit facilities with various banks expiring as follows: $200,000 within one year and $135,000 on various dates from December 2004 through September 2006.

Other

The debt agreements of the Company's major operating subsidiary contain certain restrictive covenants including limitations on the subsidiary's indebtedness, encumbrances, investments, dividends and other distributions to the Company, sales of assets, mergers and other business combinations, capital expenditures, interest coverage and net worth. None of the debt agreements contain a material adverse change clause. Based on the minimum net worth requirements of these agreements, the amount of equity that the Company could distribute was indirectly limited to $141,200 at October 31, 2003.

Long-term debt comprised the following:

	October 31, 2003	July 2
Term notes	$ 508,662	$ 502,
Asset securitization financings	155,577	149,
Commercial paper and bank borrowings supported by		

bank credit facilities expiring after October 31, 2004 and July 31, 2004, respectively	112,913	123,
Total long-term debt	$ 777,152	$ 775,

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NOTE 4 - DERIVATIVES

In August 2003, the Company entered into another interest rate swap agreement, with a notional amount of $24,500, and designated it as a fair value hedge of its 4.37% fixed rate term notes issued in April 2003. The total notional amount of interest rate swaps designated as fair value hedges was $112,000 at October 31, 2003 and $87,500 at July 31, 2003. Under the terms of the swaps, the Company receives fixed rates equal to the rates of the respective hedged notes and pays floating rates indexed to six-month LIBOR on the notional amount. The swaps expire on the respective notes' maturity dates. The fair value of the swaps was a liability of $1,338 at October 31, 2003 and $2,730 at July 31, 2003.

NOTE 5 - EARNINGS PER COMMON SHARE

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

Three Months Ended October 31,	2003	2002
Net earnings (used for basic EPS)	$ 7,152	$ 8,273
Effect of convertible securities	--	115
Adjusted net earnings (used for diluted EPS)	$ 7,152	$ 8,388
Weighted average common shares outstanding (used for basic EPS)	18,117	17,761
Effect of dilutive securities:		
Stock options	306	465
Restricted stock	96	75
Convertible notes	--	493
Adjusted weighted average common shares and assumed conversions (used for diluted EPS)	18,519	18,794
Net earnings per common share:		
Diluted	$ 0.39	$ 0.45
Basic	$ 0.39	$ 0.47

NOTE 6 - STOCKHOLDERS' EQUITY

In October 2003, the Company received 135,000 shares of common stock (at the market price of $34.15 per share) for its CEO's exercise of 200,000 stock options and related minimum income taxes pursuant to the terms of the October

1998 stock option agreement. The Company also received 7,000 shares at $34.15 for other senior officers' exercise of 12,000 stock options and taxes. These shares were retired. At October 31, 2003, $13,885 remained available under the Company's common stock repurchase program.

PART I

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make judgments, assumptions, and estimates that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Note 1 to the Consolidated Financial Statements in the Annual Report on Form 10-K for the fiscal year ended July 31, 2003 describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. Estimates are used for, but not limited to, the accounting for the allowance for credit losses on finance receivables, impaired finance receivables, assets received to satisfy receivables and residual values on direct financing leases. The following critical accounting policies are impacted significantly by judgments, assumptions, and estimates used in the preparation of the Consolidated Financial Statements.

The allowance for credit losses on finance receivables is estimated by management based on total finance receivables, charge-offs, non-accrual/delinquent finance receivables 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 (includes the obligor/lessee and other parties the Company may have recourse to such as equipment vendors/manufacturers and owners/affiliates of the obligor/lessee), equipment collateral values and other factors. Changes in the allowance level may be necessary based on unexpected changes in these factors.

Impaired finance receivables are recorded at their current estimated net realizable value (if less than their carrying amount). Assets received to satisfy receivables are recorded at their current estimated fair value less selling costs (if less than their carrying amount). Management estimates these amounts based on expected cash flows and the prevailing market value and condition of the collateral. Adverse changes in the expected cash flows and market value and condition of the collateral would cause the Company to incur additional write-downs.

The Company records residual values on its direct financing leases at the lowest of (i) any stated purchase option, (ii) the present value at the end of the initial lease term of rentals due under any renewal options or (iii) the estimated fair value of the equipment at the end of the lease. The Company may not be able to realize the full amount of the estimated residual value recorded due to subsequent adverse changes in equipment values that would cause the Company to incur a write-down.

RESULTS OF OPERATIONS

Comparison of three months ended October 31, 2003 to three months ended October 31, 2002

Net earnings decreased by 14% to $7.2 million in the first quarter of fiscal 2004 from $8.3 million in the first quarter of fiscal 2003. Excluding the $1.7 million loss on the redemption of the Company's convertible debt in the first quarter of fiscal 2003 ($1.1 million after-tax), net earnings decreased by 24%. The decrease was due to (i) a higher provision for credit losses on finance receivables, increased costs and reduced finance income resulting from a higher level of non-performing assets and, to a lesser extent, (ii) the effects of continued low market interest rates and (iii) increased costs of being a public company. These factors were partially offset by lower salary expense.

Finance income decreased by 14% to $30.2 million in the first quarter of fiscal 2004 from $35.0 million in the first quarter of fiscal 2003. The decrease resulted from the lower net yield of finance receivables from continued low market interest rates and, to a lesser extent, the 2% ($26 million) decrease in average finance receivables outstanding to $1.414 billion in the first quarter of fiscal 2004 from $1.440 billion in the first quarter of fiscal 2003 and increased non-accrual finance receivables.

Interest expense, incurred on borrowings used to fund finance receivables, decreased by 30% to $8.7 million in the first quarter of fiscal 2004 from $12.4 million in the first quarter of fiscal 2003. The decrease resulted from lower average market interest rates and, to a lesser extent, $112.0 million of fixed rate term notes swapped to significantly lower floating rates and the 6% ($61 million) decrease in average debt outstanding.

Net finance income before provision for credit losses on finance receivables decreased by 4% to $21.6 million in the first quarter of fiscal 2004 from $22.6 million in the first quarter of fiscal 2003. Net finance income before provision for credit losses expressed as a percentage of average finance receivables outstanding ("net interest margin") decreased to 6.1% in the first quarter of fiscal 2004 from 6.2% in the first quarter of fiscal 2003. The decrease resulted from the effects of continued low market interest rates and increased non-accrual finance receivables. These factors were partially offset by the effect of the decrease in the Company's leverage.

The provision for credit losses on finance receivables increased to $3.6 million in the first quarter of fiscal 2004 from $1.6 million in the first quarter of fiscal 2003 due to increased net charge-offs (write-downs of finance receivables less recoveries) of $3.7 million from $1.5 million. Net charge-offs, expressed as a percentage of average finance receivables outstanding ("loss ratio"), increased to 1.05% in the first quarter of fiscal 2004 from 0.41% in the first quarter of fiscal 2003. Net charge-offs increased due a higher level of non-performing assets, lower equipment values and a weaker resale market. The provision for credit losses is determined by the amount required to increase the allowance for credit losses to a level considered appropriate by management.

Salaries and other expenses increased by 13% to $6.3 million in the first quarter of fiscal 2004 from $5.6 million in the first quarter of fiscal 2003. The increase resulted from increased costs associated with higher amounts of non-performing assets and, to a lesser extent, increased costs of being a public company (includes insurance, internal and external audit costs, legal fees and Sarbanes-Oxley compliance costs). These factors were partially offset by decreased salary expense due to the effect of work force reductions exceeding salary increases. Salaries and other expenses expressed as a percentage of average finance receivables outstanding ("expense ratio") increased to 1.8% in the first quarter of fiscal 2004 from 1.5% in the first quarter of fiscal 2003 resulting from the increase in expenses.

Diluted earnings per share decreased by 13% to $0.39 in the first quarter of fiscal 2004 from $0.45 in the first quarter of fiscal 2003, and basic earnings per share decreased by 17% to $0.39 in the first quarter of fiscal 2004 from $0.47 in the first quarter of fiscal 2003. The percentage decrease in diluted earnings per share was lower than the percentage decrease in net earnings primarily due to the decrease in the number of dilutive shares from the August 2002 redemption of convertible debt. The percentage decrease in basic earnings per share was higher than the percentage decrease in net earnings primarily due to the issuance of 1.16 million shares of common stock in August 2002 from the conversion of $35.0 million of debt. Diluted and basic earnings per share for the first quarter of fiscal 2003 excluding the after-tax loss on redemption of convertible debt were $0.51 and $0.53, respectively.

The amounts of net earnings and diluted and basic earnings per share excluding the $1.1 million after-tax loss on the redemption of convertible debt presented for fiscal 2003 are non-GAAP financial measures. Management believes these amounts are useful to investors in comparing the Company's operating results for fiscal 2004 to fiscal 2003. The excluded loss resulted from the Company's redemption of its 4.5% convertible subordinated notes. The notes were redeemed to eliminate their dilutive effect. This was a non-recurring event.

RECEIVABLE PORTFOLIO AND ASSET QUALITY

Finance receivables outstanding decreased by 1% ($10.1 million) to $1.405 billion at October 31, 2003 from $1.415 billion at July 31, 2003. Finance receivables comprise installment sale agreements and secured loans (collectively referred to as "loans") and investments in direct financing leases. At October 31, 2003, loans were 83% ($1.166 billion) of finance receivables and leases were 17% ($239.1 million) of finance receivables.

Finance receivables originated in the first quarter of fiscal 2004 and 2003 were $170 million and $184 million, respectively. Finance receivables collected in the first quarter of fiscal 2004 and 2003 were $173 million and $178 million, respectively. Originations decreased due to continued weak domestic commercial loan demand.

The Company's underwriting policies and procedures require obtaining a first lien on equipment financed or ownership of equipment leased. The equipment financed/leased by the Company generally possesses certain characteristics that can mitigate losses. The equipment collateral typically has an economic life exceeding the term of the transaction, historically low levels of technological obsolescence, use in multiple industries, ease of access and transporting, and a broad, established resale market. The Company does not finance/lease aircraft and railcars, computer related equipment, fixtures and telecommunications equipment or equipment not located in the United States.

The allowance for credit losses was $23.6 million at October 31, 2003 and $23.8 million at July 31, 2003. The allowance level was 1.68% of finance receivables at October 31, 2003 and at July 31, 2003. Management periodically reviews the allowance to determine that its level is appropriate. The purpose of the allowance is to provide for any inherent losses at the balance sheet date.

Net charge-offs of finance receivables (write-downs less recoveries) decreased to $3.7 million in the first quarter of fiscal 2004 from $3.9 million in the fourth quarter of fiscal 2003. The loss ratio decreased to 1.05% in the first quarter of fiscal 2004 from 1.11% in the fourth quarter of fiscal 2003. Net charge-offs decreased primarily due to the lower amount of non-performing assets and improving economic conditions.

Non-performing assets comprise non-accrual finance receivables and repossessed equipment as follows ($ in millions):

	October 31, 2003	July 31, 2003
Non-accrual finance receivables	$40.4	$42.9
Repossessed equipment	12.9	19.7
Total non-performing assets	$53.3	$62.6
Percentage of total finance receivables	3.8%	4.4%

Delinquent finance receivables (transactions with a contractual payment 60 or more days past due) were $29.0 million (2.1% of total finance receivables) at October 31, 2003 compared to $22.2 million (1.6% of total finance receivables) at July 31, 2003. Approximately half of the Company's non-accrual finance receivables at October 31, 2003 and July 31, 2003 were not delinquent.

The Company's asset quality statistics in the first quarter of fiscal 2004 continued to reflect weak conditions in the industries financed by the Company, but have improved since July 31, 2003. A continuation of these conditions could result in sustained or higher levels of net charge-offs and non-performing assets. Increases in net charge-offs and non-performing assets would have a negative effect on earnings through increases in the provision for credit losses and by reducing finance income. Conversely, further improvement in net charge-offs and non-performing assets would have a positive effect on earnings through decreases in the provision for credit losses and by increasing finance income.

LIQUIDITY AND CAPITAL RESOURCES

The Company's operations and growth depend upon the continued availability of funds to originate or acquire finance receivables, to purchase portfolios of finance receivables and to repay maturing debt. The Company may obtain funds from many sources, including operating cash flow, private and public issuances of term debt, conduit and term securitizations of finance receivables, borrowings under committed unsecured revolving credit facilities, dealer placed and directly issued commercial paper and sales of common and preferred equity. Management believes that the Company's sources of liquidity are well diversified. The Company is not dependent on any single funding source or on any single credit provider. Management believes, but cannot assure, that sufficient liquidity is available to the Company to support its future operations and growth.

The term notes and commercial paper of the Company's major operating subsidiary are rated "BBB" and "F-2," respectively, by Fitch, Inc. (a Nationally Recognized Statistical Ratings Organization) with a positive outlook. All of the Company's term notes and a majority of its commercial paper were issued by the subsidiary. The Company's access to capital markets at competitive rates is partly dependent on these investment grade credit ratings.

The debt agreements of the subsidiary contain certain restrictive covenants including limitations on indebtedness, encumbrances, investments, dividends and other distributions to the Company, sales of assets, mergers and other business combinations, capital expenditures, interest coverage and net worth. None of the debt agreements contain a material adverse change clause. Based on the minimum net worth requirements of these agreements, the amount of equity that the Company could distribute was indirectly limited to $141.2 million at October 31, 2003.

Total debt decreased by 2% ($20.7 million) to $1.022 billion at October 31, 2003 from $1.042 billion at July 31, 2003 and stockholders' equity increased by 3% ($9.8 million) to $326.2 million at October 31, 2003 from $316.4 million at July 31, 2003. As a result, leverage (debt-to-equity ratio) decreased to 3.1 at October 31, 2003 from 3.3 at July 31, 2003.

Debt comprised the following ($ in millions):

	October 31, 2003		July 31, 2003	
	Amount	Percent	Amount	Percent
Term notes	$ 585.0	57%	$ 597.0	57
Asset securitization financings	325.0	32	325.0	31
Commercial paper	112.9	11	111.6	11
Borrowings under bank credit facilities	--	--	11.4	1
Total principal amount	1,022.9	100%	1,045.0	100
Fair value adjustment of hedged debt	(1.3)		(2.7)	
Total debt	$1,021.6		$1,042.3	

Term Notes

In August 2003, the Company repaid $17.0 million of 8.89% fixed rate unsecured term notes at maturity and in September 2003, the Company issued a $5.0 million variable rate unsecured term note with a bank maturing in December 2004.

At October 31, 2003, the $585.0 million of term notes outstanding comprised $540.0 million of private placements and medium term notes with insurance companies and $45.0 million of bank term loans.

Asset Securitization Financings

Borrowings under the securitization facility are limited to a minimum level of securitized receivables. When borrowings exceed the minimum level, the Company can repay the excess or securitize more receivables. The Company can securitize more receivables during the term of the facility. The facility expires March 27, 2004. The Company currently intends to renew the facility for another year. Upon the expiration of the facility, the Company can repay borrowings outstanding or convert them into term debt. The term debt would be repaid in monthly amounts equal to the collections of securitized receivables. Currently, the Company would exercise the conversion option if the facility was not renewed. Based on the contractual payments of the $424.0 million of securitized receivables at October 31, 2003, the term debt would be fully repaid by December 2005.

The unsecured senior debt agreements of the Company's major operating subsidiary limit the amount of finance receivables that the subsidiary can securitize to 40% of its finance receivables outstanding, approximately $555.0 million at October 31, 2003. Therefore, the Company could securitize an additional $131.0 million of finance receivables at October 31, 2003. The amount that the Company can borrow under the securitization facility is limited to 94% of securitized receivables.

Commercial Paper

The Company issues commercial paper directly and through a $350.0 million program. The Company's commercial paper is unsecured and matures within 270 days. The Company has not obtained commitments from any purchaser of its commercial paper for additional or future purchases. 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.

Bank Credit Facilities

At October 31, 2003, the Company had $335.0 million of committed unsecured revolving credit facilities from nine banks (a $50.0 million decrease from July 31, 2003). This includes $180.0 million of facilities with original terms ranging from two to five years and $155.0 million of facilities with an original term of one year.

These facilities provide the Company with a dependable, low-cost source of funds and support for its commercial paper program. The Company can borrow the full amount under each facility. None of the facilities are for commercial paper back-up only. These facilities may or may not be renewed upon expiration.

Stockholders' Equity

In fiscal 2004, the Company acquired 142,000 shares of common stock for $4.8 million (as described in Note 6 to the Consolidated Financial Statements). At October 31, 2003, $13.9 million remained available under the Company's common stock repurchase program.

MARKET INTEREST RATE RISK AND SENSITIVITY

The Company's earnings are sensitive to fluctuations in market interest rates (includes LIBOR, rates on U.S. Treasury securities, money market rates and the prime rate). Changes in these rates affect the Company's finance income and interest expense. Generally, based on the current mix of fixed rate and floating rate finance receivables and debt, increases in rates would have a negative impact on earnings, and decreases in rates would have a positive impact on earnings because the Company has more floating rate and short-term debt than fixed rate term debt, and more fixed rate finance receivables than floating rate finance receivables. As a result, if market interest rates rise, the Company's borrowing costs would increase faster than the yield on its finance receivables. Conversely, if market interest rates decline, the Company's borrowing costs would decrease faster than the yield on its finance receivables. These effects would diminish over time. In addition, since the Company's interest earning assets exceed its interest bearing liabilities, eventually, lower market interest rates would reduce net earnings and higher rates would increase net earnings. These broad statements do not take into account the effects of economic and other conditions that could accompany interest rate fluctuations.

The net yield of finance receivables less the weighted average cost of borrowed funds represents the net interest spread, an important measure of a finance company's profitability. The net interest spread for the first quarters of fiscal 2004 and 2003 follow:

Three Months Ended October 31,	2003	2002
Net yield of finance receivables	8.5%	9.6%
Weighted average cost of borrowed funds	3.3	4.5
Net interest spread	5.2%	5.1%

The net yield on finance receivables continued to decline since new receivables were originated at lower rates than finance receivables collected. In the first quarter of fiscal 2004, the decline in yield was exceeded by the decline in the Company's weighted average cost of funds primarily due to $112.0 million of fixed rate term notes swapped to significantly lower floating rates and the repayment of $200.0 million of matured term notes with high fixed interest rates. The yield on finance receivables should continue to decline, but the cost of funds is not expected to decline further.

The Company monitors and manages its exposure to market interest rate fluctuations through risk management procedures that include using certain derivative financial instruments and changing the proportion of its fixed rate term debt versus its floating rate and short term debt. The Company may use derivatives to hedge its exposure to interest rate risk on certain debt obligations. The Company does not use derivatives for speculation and the Company does not trade derivatives.

In August 2003, the Company entered into an interest rate swap agreement, with a notional amount of $24.5 million, as a fair value hedge of its 4.37% $24.5 million five-year fixed rate term notes issued in April 2003. Under the terms of the swap, the Company receives a fixed rate equal to the rate of the hedged note and pays a floating rate (1.90% at October 31, 2003) indexed to six-month LIBOR on the notional amount. The swap expires on the notes' maturity date. The swap effectively converted the fixed rate notes to a floating rate. At October 31, 2003, the total amount of fixed rate term notes swapped to floating rates was $112.0 million.

At October 31, 2003, $1.333 billion (95%) of finance receivables were fixed rate and $72.8 million (5%) were indexed to the prime rate. Finance receivables provide for monthly payments for periods of two to five years. The Company experiences some prepayments that accelerate the scheduled maturities of finance receivables. At October 31, 2003, $484.0 million of fixed rate finance receivables are scheduled to mature within one year and the weighted average remaining maturity of fixed rate finance receivables is approximately two years.

At October 31, 2003, fixed rate term debt (as swapped) of $277.5 million and stockholders' equity of $326.2 million totaled $603.7 million. Since fixed rate finance receivables exceeds this amount significantly, the net interest spread would be affected by fluctuations in market interest rates. The Company does not match the maturities of its debt to its finance receivables.

Management periodically calculates the effect on net earnings of a hypothetical, immediate 100 basis point (1.0%) increase in market interest rates. At October 31, 2003, such a hypothetical adverse change in rates would reduce quarterly net earnings by approximately $650,000. Actual future changes in market interest rates may differ materially and their effect on net earnings may also differ materially due to changes in finance receivable and debt repricing structures. In addition, any other factors that may accompany an actual immediate 100 basis point increase in market interest rates were not considered in the calculation.

NEW ACCOUNTING STANDARDS

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities--an interpretation of ARB No. 51." Variable interest entities often are created for a single specified purpose, for example, to facilitate securitization, leasing, hedging, research and development, reinsurance or other transactions or arrangements. FIN No. 46 requires certain variable interest entities to be consolidated by the primary beneficiary (the entity that will be at risk for a majority of the expected losses or receive a majority of the expected residual returns of the variable interest entity). FIN No. 46 applies to variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired on or prior to January 31, 2003, the Company is required to apply FIN No. 46 (as amended by FASB Staff Position No. FIN 46-6 issued in October 2003) on January 31, 2004. The Company consolidates fully one variable interest entity (a special purpose entity that it established for its asset securitization facility) under current accounting rules. The consolidation of this entity will not be affected by the adoption of FIN No. 46. The Company does not expect the adoption of FIN No. 46 will have a material impact on its results of operations or financial position.

FORWARD-LOOKING STATEMENTS

Certain statements in this document may include the words or phrases "can be," "expects," "plans," "may," "may affect," "may depend," "believe," "estimate," "intend," "could," "should," "would," "if" 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 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 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.

Item 4. CONTROLS AND PROCEDURES

a. Evaluation of disclosure controls and procedures. The Company's Chief Executive Officer and Chief Financial Officer have conducted an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this report and each has concluded that such disclosure controls and procedures were effective as of such date to ensure that information required to be disclosed in the Company's reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

b. Changes in internal controls. There were no changes in the Company's internal controls over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits: Page No.

Exhibit No.		Description of Exhibit
3.1	(a)	Articles of Incorporation of the Registrant
3.2	(a)	By-laws of the Registrant
3.3	(a)	Form of Restated and Amended By-laws of the Registrant
3.4	(f)	Certificate of Amendment of Articles of Incorporation dated December 9, 1998
3.5	(f)	Restated By-laws of the Registrant as amended through December 30, 1998
3.6	(g)	Restated By-laws of the Registrant as amended through March 7, 2000
4.8	(c)	Indenture dated January 14, 1998 for Credit's Rule 144A Medium Term Note Program
4.12	(d)	Specimen Common Stock Certificate
4.13	(h)	Indenture dated September 20, 2000 for Financial Federal Credit Inc.'s $200 million Rule 144A Medium Term Note program
10.8	(a)	Form of Commercial Paper Note issued by the Registrant
10.9	(a)	Form of Commercial Paper Note issued by Credit
10.10	(a)	Stock Option Plan of the Registrant and forms of related stock option agreements
10.21	(b)	Form of Commercial Paper Dealer Agreement of Credit
10.22	(b)	Form of Deferred Compensation Agreement with certain officers as filed under the Top Hat Plan with the Department of Labor
10.25	(e)	Amended and Restated 1998 Stock Option/Restricted Stock Plan of the Registrant
10.26	(g)	Deferred Compensation Agreement dated March 7, 2000 between the Registrant and Clarence Y. Palitz, Jr.
10.27	(h)	2001 Management Incentive Plan for the Chief Executive Officer("CEO") of the Registrant

10.28	(h)	Form of Restricted Stock Agreement dated February 27, 2001 between the Registrant and its CEO
10.29	(h)	Form of Restricted Stock Agreement dated February 27, 2001 between the Registrant and certain senior officers
10.30	(i)	Form of Restricted Stock Agreement dated March 1, 2002 between the Registrant and its CEO
10.31	(i)	Form of Restricted Stock Agreement dated March 1, 2002 between the Registrant and certain senior officers
10.32	(j)	Supplemental Retirement Benefit dated June 4, 2002 between the Registrant and its CEO
10.33	(k)	Agreement to Defer Restricted Stock dated February 26, 2003 between the Registrant and its CEO
10.34	(k)	Agreement to Defer Restricted Stock dated February 26, 2003 between the Registrant and its CEO
31.1	*	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2	*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32.1	*	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes Oxley Act of 2002
32.2	*	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes Oxley Act of 2002

Previously filed with the Securities and Exchange Commission as an exhibit to the Company's:

(a) Registration Statement on Form S-1 (Registration No. 33-46662).

(b) Form 10-K for the fiscal year ended July 31, 1996.

(c) Form 10-Q for the quarter ended January 31, 1998.

(d) Registration Statement on Form S-3 (Registration No. 333-56651).

(e) Registration Statement on Form S-8 (Registration No. 333-50962).

(f) Form 10-Q for the quarter ended January 31, 1999.

(g) Form 10-Q for the quarter ended January 31, 2000.

(h) Form 10-Q for the quarter ended April 30, 2001.

(i) Form 10-Q for the quarter ended April 30, 2002.

(j) Form 10-K for the fiscal year ended July 31, 2002.

(k) Form 10-Q for the quarter ended January 31, 2003.

* Filed herewith.

(b) Reports on Form 8-K

The Company filed a report on Form 8-K dated September 30, 2003 reporting, under Item 12, the announcement of earnings for the fiscal year ended July 31, 2003.

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 8, 2003

(Date)