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FINANCIAL FEDERAL CORP
Form 10-Q
June 06, 2008

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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 quarterly period ended April 30, 2008

OR

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

For the transition period from _____ to _____

Commission file number 001-14237

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

Nevada
(State of incorporation)

88-0244792
(I.R.S. Employer Identification No.)

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

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

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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The number of shares outstanding of the registrant's common stock on May 30, 2008 was 25,512,477.

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FINANCIAL FEDERAL CORPORATION AND SUBSIDIARIES

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Quarterly Report on Form 10-Q
for the quarter ended April 30, 2008

TABLE OF CONTENTS

| Part I - Financial Information | Page No. |
|--|----------|
| Item 1. Financial Statements: | |
| Consolidated Balance Sheets at April 30, 2008 (unaudited) and July 31, 2007 (audited) | 3 |
| Consolidated Income Statements for the three and nine months ended April 30, 2008 and 2007 (unaudited) | 4 |
| Consolidated Statements of Changes in Stockholders' Equity for the nine months ended April 30, 2008 and 2007 (unaudited) | 5 |
| Consolidated Statements of Cash Flows for the nine months ended April 30, 2008 and 2007 (unaudited) | 6 |
| Notes to Consolidated Financial Statements (unaudited) | 7-14 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 14-26 |
| Item 3. Quantitative and Qualitative Disclosures about Market Risk | 26 |
| Item 4. Controls and Procedures | 26 |
| Part II - Other Information | |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 26 |
| Item 5. Other Information | 26 |
| Item 6. Exhibits | 27 |
| Signatures | 28 |

2

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

FINANCIAL FEDERAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In thousands, except par value)

=====
April 30, 2008* July 31, 2007
=====

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| | | | |
|---|--|-------------|-------------|
| ASSETS | | | |
| Finance receivables | | \$2,011,253 | \$2,128,353 |
| Allowance for credit losses | | (24,677) | (23,992) |
| ----- | | | |
| Finance receivables - net | | 1,986,576 | 2,104,361 |
| Cash | | 10,987 | 5,861 |
| Other assets | | 14,875 | 9,852 |
| ----- | | | |
| TOTAL ASSETS | | \$2,012,438 | \$2,120,074 |
| ===== | | | |
| LIABILITIES | | | |
| Debt: | | | |
| Long-term (\$2,100 at April 30, 2008 and \$5,700 at July 31, 2007 owed to related parties) | | \$1,100,000 | \$1,335,850 |
| Short-term | | 456,000 | 324,750 |
| Accrued interest, taxes and other liabilities | | 55,286 | 71,721 |
| ----- | | | |
| Total liabilities | | 1,611,286 | 1,732,321 |
| ----- | | | |
| 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 1,696 treasury shares): 25,500 at April 30, 2008 and 25,760 at July 31, 2007 | | 12,750 | 12,880 |
| Additional paid-in capital | | 134,273 | 129,167 |
| Retained earnings | | 256,729 | 244,646 |
| Accumulated other comprehensive (loss) income | | (2,600) | 1,060 |
| ----- | | | |
| Total stockholders' equity | | 401,152 | 387,753 |
| ----- | | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | | \$2,012,438 | \$2,120,074 |
| ===== | | | |

* Unaudited

See accompanying notes to consolidated financial statements

3

FINANCIAL FEDERAL CORPORATION AND SUBSIDIARIES

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

| | Three Months Ended April 30, | | Nine Months Ended April 30, | |
|------------------|---------------------------------|----------|--------------------------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| Finance income | \$46,361 | \$47,490 | \$144,665 | \$141,803 |
| Interest expense | 17,239 | 20,541 | 59,847 | 62,506 |

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| | | | | |
|--|----------|----------|-----------|-----------|
| Net finance income before provision for credit losses on finance receivables | 29,122 | 26,949 | 84,818 | 79,297 |
| Provision for credit losses on finance receivables | 1,500 | -- | 2,700 | -- |
| Net finance income | 27,622 | 26,949 | 82,118 | 79,297 |
| Salaries and other expenses | 6,922 | 6,243 | 20,283 | 18,494 |
| Income before provision for income taxes | 20,700 | 20,706 | 61,835 | 60,803 |
| Provision for income taxes | 8,008 | 7,996 | 23,893 | 23,468 |
| NET INCOME | \$12,692 | \$12,710 | \$ 37,942 | \$ 37,335 |
| EARNINGS PER COMMON SHARE: | | | | |
| Diluted | \$ 0.51 | \$ 0.48 | \$ 1.52 | \$ 1.40 |
| Basic | \$ 0.52 | \$ 0.49 | \$ 1.55 | \$ 1.43 |

* Unaudited

See accompanying notes to consolidated financial statements

4

FINANCIAL FEDERAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY *
(In thousands)

| | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | To |
|--|------------------------|------------------------|----------------------------------|----------------------|--|--------|
| BALANCE - JULY 31, 2006 | 27,216 | \$13,608 | \$123,091 | \$253,128 | \$ 552 | \$390, |
| Net income | -- | -- | -- | 37,335 | -- | 37, |
| Unrealized gain on cash flow hedge, net of tax | -- | -- | -- | -- | 720 | |
| Reclassification adjustment for realized gain included in net income, net of tax | -- | -- | -- | -- | (150) | (|
| Comprehensive income | | | | | | 37, |
| Stock repurchased (retired) | (1,710) | (855) | (8,625) | (36,372) | -- | (45, |
| Stock plan activity: | | | | | | |

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| | | | | | | |
|---|--------------|------------|-----------|---------------|------------|--------|
| Shares issued | 435 | 217 | 5,082 | -- | -- | 5, |
| Shares canceled | (9) | (4) | 4 | -- | -- | |
| Compensation recognized | -- | -- | 5,031 | -- | -- | 5, |
| Excess tax benefits | -- | -- | 1,102 | -- | -- | 1, |
| Common stock cash dividends | -- | -- | -- | (10,927) | -- | (10, |
| ----- | | | | | | |
| BALANCE - APRIL 30, 2007 | 25,932 | \$12,966 | \$125,685 | \$243,164 | \$ 1,122 | \$382, |
| ===== | | | | | | |
| ----- | | | | | | |
| | Common Stock | Additional | Retained | Accumulated | | |
| | ----- | Paid-In | Earnings | Other | | |
| | Shares | Capital | | Comprehensive | | To |
| | Amount | | | (Loss) Income | | |
| ===== | | | | | | |
| BALANCE - JULY 31, 2007 | 25,760 | \$12,880 | \$129,167 | \$244,646 | \$ 1,060 | \$387, |
| Net income | -- | -- | -- | 37,942 | -- | 37, |
| Unrealized loss on cash flow hedge, net of tax | -- | -- | -- | -- | (3,624) | (3, |
| Reclassification adjustment for net realized loss included in net income, net of tax | -- | -- | -- | -- | (36) | |
| Comprehensive income | | | | | | 34, |
| Stock repurchased (retired) | (713) | (357) | (3,782) | (14,317) | -- | (18, |
| Stock plan activity: | | | | | | |
| Shares issued | 453 | 227 | 2,724 | -- | -- | 2, |
| Compensation recognized | -- | -- | 5,907 | -- | -- | 5, |
| Excess tax benefits | -- | -- | 257 | -- | -- | |
| Common stock cash dividends | -- | -- | -- | (11,542) | -- | (11, |
| ----- | | | | | | |
| BALANCE - APRIL 30, 2008 | 25,500 | \$12,750 | \$134,273 | \$256,729 | \$ (2,600) | \$401, |
| ===== | | | | | | |

* Unaudited

See accompanying notes to consolidated financial statements

5

FINANCIAL FEDERAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS *
(In thousands)

| Nine Months Ended April 30, | 2008 | 2007 |
|---------------------------------------|-----------|-----------|
| Cash flows from operating activities: | | |
| Net income | \$ 37,942 | \$ 37,335 |

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| | | |
|--|-----------|-----------|
| Adjustments to reconcile net income to net cash provided | | |
| by operating activities: | | |
| Amortization of deferred origination costs and fees | 13,411 | 11,961 |
| Stock-based compensation | 3,593 | 2,892 |
| Provision for credit losses on finance receivables | 2,700 | -- |
| Depreciation and amortization | 527 | 393 |
| (Increase) decrease in other assets | (5,612) | 2,453 |
| (Decrease) increase in accrued interest, taxes and other liabilities | (11,461) | 13,369 |
| Excess tax benefits from stock-based awards | (257) | (1,102) |
| <hr style="border-top: 1px dashed black;"/> | | |
| Net cash provided by operating activities | 40,843 | 67,301 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Cash flows from investing activities: | | |
| Finance receivables originated | (715,474) | (911,373) |
| Finance receivables collected | 819,462 | 795,317 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Net cash provided by (used in) investing activities | 103,988 | (116,056) |
| <hr style="border-top: 1px dashed black;"/> | | |
| Cash flows from financing activities: | | |
| Bank borrowings, net increase (decrease) | 126,550 | (126,033) |
| Asset securitization borrowings, net decrease | -- | (42,500) |
| Commercial paper, net (decrease) increase | (222,800) | 171,072 |
| Proceeds from term notes | 75,000 | 125,000 |
| Repayments of term notes | (85,750) | (25,000) |
| (Payments) proceeds from settlement of interest rate locks | (5,915) | 1,175 |
| Proceeds from stock option exercises | 2,906 | 5,254 |
| Excess tax benefits from stock-based awards | 257 | 1,102 |
| Common stock issued | 45 | 45 |
| Repurchases of common stock | (18,456) | (45,852) |
| Common stock cash dividends | (11,542) | (10,927) |
| <hr style="border-top: 1px dashed black;"/> | | |
| Net cash (used in) provided by financing activities | (139,705) | 53,336 |
| <hr style="border-top: 1px dashed black;"/> | | |
| NET INCREASE IN CASH | 5,126 | 4,581 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Cash - beginning of period | 5,861 | 8,143 |
| <hr style="border-top: 1px dashed black;"/> | | |
| CASH - END OF PERIOD | \$ 10,987 | \$ 12,724 |
| <hr style="border-top: 3px double black;"/> | | |

* Unaudited

See accompanying notes to consolidated financial statements

6

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

Description of Business

Financial Federal Corporation and subsidiaries (the "Company") provide

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collateralized lending, financing and leasing services nationwide to small and medium sized businesses in the general construction, road and infrastructure construction and repair, road transportation and refuse industries. We lend against, finance and lease a wide range of new and used revenue-producing, essential-use equipment including cranes, earthmovers, personnel lifts, trailers and trucks.

Basis of Presentation and Principles of Consolidation

We prepared the accompanying unaudited Consolidated Financial Statements according to the Securities and Exchange Commission's rules and regulations. These rules and regulations permit condensing or omitting certain information and note disclosures normally included in financial statements prepared according to accounting principles generally accepted in the United States of America (GAAP). The July 31, 2007 Consolidated Balance Sheet was derived from audited financial statements but does not include all disclosures required by GAAP. However, we believe the disclosures are sufficient to make the information presented not misleading. These Consolidated Financial Statements and accompanying notes should be read with the Consolidated Financial Statements and accompanying notes included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2007.

In our opinion, the Consolidated Financial Statements include all adjustments (consisting of only normal recurring items) necessary to present fairly our financial position and results of operations for the periods presented. The results of operations for the three and nine months ended April 30, 2008 may not be indicative of full year results.

Use of Estimates

GAAP requires us to make significant estimates and assumptions affecting the amounts reported in the Consolidated Financial Statements and accompanying notes for the allowance for credit losses, non-performing assets, residual values, income taxes and stock-based compensation. Actual results could differ from these estimates significantly.

New Accounting Standards

Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB 109", ("FIN No. 48") became effective for us on August 1, 2007. FIN No. 48 requires us to determine if any tax positions taken on our income tax returns lowering the amount of tax currently due would more likely than not be allowed by a taxing authority. If tax positions pass this more-likely-than-not test, the benefits recorded from them are limited to the amount having a greater than 50% chance of being realized upon being challenged by a taxing authority. For tax positions failing the more-likely-than-not test, no income tax benefits can be recorded. Applicable interest and penalties on any unrecognized tax benefits must be also accrued.

Applying FIN No. 48 to account for uncertain tax positions was not significantly different from how we previously accounted for uncertain tax positions because our income taxes are straightforward. We have no foreign operations, we are not involved in any questionable tax transactions and we file returns in almost every state with a corporate income tax. Therefore, applying FIN No. 48 did not result in an adjustment to beginning retained earnings nor did it affect our effective tax rate. Our fiscal 2005 and 2004 tax returns were audited by the IRS in fiscal 2007 and our fiscal 1996 and 1995 tax returns were audited by the IRS in fiscal 1997. These audits were completed with no changes to the tax we reported. We only take uncertain positions on our income tax returns when tax law is unclear and subject to interpretation and we believe not taking the position would unfairly distort our income tax liability. One state

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is currently examining our income tax returns. Our federal tax returns can be examined for three years and our state tax returns for three to five years after we file them.

We record interest and penalties related to uncertain tax positions in income tax expense. The gross liability recorded for uncertain tax positions was \$1,200 on August 1, 2007 including \$200 of interest and penalties. The entire amount, net of \$300 of federal income tax benefits on state income taxes, would lower our effective tax rate if recognized. There were no material changes to these amounts at April 30, 2008 and we do not expect any significant changes in the next twelve months.

7

The FASB issued Staff Position ("FSP") APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlements)", in May 2008. This FSP requires a portion of this type of convertible debt to be recorded as equity and to record interest expense on the debt portion at a rate that would have been charged on non-convertible debt with the same terms. This FSP takes effect in the first quarter of fiscal years beginning after December 15, 2008 and will be applied retrospectively for all periods presented. It will take effect for us on August 1, 2009. This FSP will apply to our 2.0% convertible debentures and we are evaluating how it may affect our consolidated financial statements.

The FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS No. 157") in September 2006 and SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115" in February 2007. SFAS No. 157 defines fair value (replacing all prior definitions) and creates a framework to measure fair value, but does not create any new fair value measurements. SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value at specified election dates and to report unrealized gains and losses on these items in earnings at each subsequent reporting date. These statements take effect in the first quarter of fiscal years beginning after November 15, 2007 and will take effect for us on August 1, 2008. We are evaluating how they may affect our consolidated financial statements, but we do not expect they will have a material impact.

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 direct financing leases as follows:

| | April 30, 2008 | July 31, 2007 |
|---------------------------|----------------|---------------|
| Loans: | | |
| Fixed rate | \$ 1,649,650 | \$ 1,757,211 |
| Floating rate | 171,258 | 168,574 |
| Total loans | 1,820,908 | 1,925,785 |
| Direct financing leases * | 190,345 | 202,568 |
| Finance receivables | \$ 2,011,253 | \$ 2,128,353 |

* includes residual values of \$43,300 at April 30, 2008 and \$42,900 at July

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31, 2007

Line of credit arrangements contain off-balance sheet risk and are subject to the same credit policies and procedures as other finance receivables. The unused portion of these commitments was \$32,200 at April 30, 2008 and \$31,400 at July 31, 2007.

Allowance for credit losses activity is summarized below:

| | Three Months Ended April 30, | | Nine Months Ended April 30, | |
|-----------------------------------|---------------------------------|-----------|--------------------------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| Allowance - beginning of period | \$ 24,133 | \$ 24,148 | \$ 23,992 | \$ 24,100 |
| Provision | 1,500 | -- | 2,700 | -- |
| Write-downs | (1,737) | (775) | (4,061) | (1,925) |
| Recoveries | 781 | 742 | 2,046 | 1,940 |
| Allowance - end of period | \$ 24,677 | \$ 24,115 | \$ 24,677 | \$ 24,115 |
| Percentage of finance receivables | 1.23% | 1.15% | 1.23% | 1.15% |
| Net charge-offs (recoveries) * | \$ 956 | \$ 33 | \$ 2,015 | \$ (15) |
| Loss ratio ** | 0.19% | 0.01% | 0.13% | --% |

* write-downs less recoveries

** net charge-offs (recoveries) over average finance receivables, annualized

8

Non-performing assets comprise finance receivables classified as non-accrual (income recognition has been suspended and the receivables are considered impaired) and assets received to satisfy finance receivables (repossessed equipment, included in other assets) as follows:

| | April 30, 2008 | July 31, 2007 |
|--|----------------|---------------|
| Finance receivables classified as non-accrual | \$ 31,726 | \$ 18,817 |
| Assets received to satisfy finance receivables | 8,745 | 2,342 |
| Non-performing assets | \$ 40,471 | \$ 21,159 |

The allowance for credit losses included \$800 at April 30, 2008 and \$500 at July 31, 2007 specifically allocated to \$11,200 and \$4,100 of impaired finance receivables, respectively. We did not recognize any income in the nine months ended April 30, 2008 or 2007 on impaired loans before collecting our net investment.

NOTE 3 - DEBT

Debt is summarized below:

| | April 30, 2008 | July 31, 2007 |
|--|----------------|---------------|
|--|----------------|---------------|

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| | | |
|---|--------------|--------------|
| Fixed rate term notes: | | |
| 4.31% - 4.60% due 2013 | \$ 75,000 | \$ -- |
| 5.00% due 2010 - 2011 | 250,000 | 250,000 |
| 5.45% - 5.57% due 2011 - 2014 | 325,000 | 325,000 |
| 6.80% due 2008 | -- | 5,000 |
| ----- | | |
| Total fixed rate term notes | 650,000 | 580,000 |
| Asset securitization borrowings - term | 200,000 | -- |
| 2.0% convertible debentures due 2034 | 175,000 | 175,000 |
| Fixed rate term notes swapped to floating rates due 2008 - 2010 | 62,500 | 143,250 |
| ----- | | |
| Total term debt | 1,087,500 | 898,250 |
| Asset securitization borrowings - revolving | 225,000 | 425,000 |
| Bank borrowings | 176,600 | 50,050 |
| Commercial paper | 66,900 | 289,700 |
| ----- | | |
| Total principal | 1,556,000 | 1,663,000 |
| Fair value adjustment of hedged debt | -- | (2,400) |
| ----- | | |
| Total debt | \$ 1,556,000 | \$ 1,660,600 |
| ===== | | |

Term Notes

We converted \$75,000 of bank credit facilities scheduled to expire in February 2008, March 2010 and January 2012 into five-year fixed rate term notes in February 2008. Interest is payable semiannually at a 4.43% average rate and the notes are due at maturity in February 2013.

We repaid \$80,750 of fixed rate term notes swapped to floating rates at maturity in the first nine months of fiscal 2008. The floating rate on these notes averaged 6.75%. We also repaid a 6.80% \$5,000 term note at maturity.

Asset Securitization Borrowings

Our asset securitization facility was partially renewed and partially converted into amortizing term debt in April 2008. The facility decreased to \$325,000 from \$425,000 and we converted \$200,000 of borrowings into term debt. The two renewing banks increased their commitments \$50,000 each and we converted the amounts borrowed from the two non-renewing banks into term debt. This increased our borrowing capacity to \$525,000 at April 30, 2008, and \$100,000 of the facility was unused at April 30, 2008.

The \$325,000 facility provides for committed revolving financing through April 2009 and we can then convert borrowings outstanding into term debt if the facility is not renewed. The \$200,000 of term debt will be repaid monthly from collections of securitized receivables and should be substantially repaid after two years. Finance receivables include \$500,000 and \$480,000 of securitized receivables at April 30, 2008 and July 31, 2007, respectively. Our major operating subsidiary's

debt agreements limit securitized receivables to 40% of its total receivables. Therefore, we could securitize an additional \$300,000 of receivables at April 30, 2008.

Borrowings under the facility and the term debt combined are limited to

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94% of eligible securitized receivables. Securitized receivables 120 or more days past due, classified as impaired or subject to a bankruptcy, or with terms outside of defined limits, are ineligible to be borrowed against. The facility also restricts the amount of net charge-offs of securitized receivables and the amount of delinquent securitized receivables. The facility would terminate if these restrictions are exceeded, and borrowings outstanding would then be repaid monthly from collections of securitized receivables.

Convertible Debentures

We issued the debentures in April 2004. The debentures are due at maturity in April 2034, but we can redeem them anytime starting in April 2009 by paying the principal amount in cash and debenture holders can require us to repurchase them on each five-year anniversary of issuance or when a specified corporate transaction occurs by paying the principal amount in cash. Debenture holders can also convert the debentures into cash and common stock before maturity as discussed below.

The debentures can only be converted (i) in a fiscal quarter when the closing price of our common stock is at least 30% higher than the adjusted conversion price for at least 20 of the last 30 trading days of the prior fiscal quarter (the "market price condition") (ii) if the debentures are rated 'BB' or lower by Fitch Ratings, Inc. (three ratings levels lower than the initial rating) (iii) if we call the debentures or (iv) if a specified corporate transaction occurs. No event allowing for the debentures to be converted has occurred through April 30, 2008. The market price condition would have been met at April 30, 2008 if the price of our common stock closed above \$35.98 for the required period. The closing price of our common stock was \$23.35 on April 30, 2008.

We irrevocably elected (under the debentures' original terms and without modifying the debentures) in fiscal 2005 to pay the value of converted debentures, not exceeding their principal amount, in cash instead of issuing shares of our common stock. The value of converted debentures equals the number of convertible shares multiplied by the market value of our common stock. We would only issue shares if the value of converted debentures exceeded their principal amount. Shares of common stock needed to pay any value over principal would equal the difference between the conversion date price of our common stock and the conversion price, divided by the conversion date price and multiplied by the number of convertible shares. There were 6,323,000 convertible (but not issuable) shares, the adjusted conversion price was \$27.68 per share and the adjusted conversion rate was 36.13 shares for each \$1 (one thousand) of principal at April 30, 2008.

The conversion rate and number of convertible shares increased and the conversion price decreased in the first nine months of fiscal 2008 because we paid cash dividends on our common stock. The conversion rate, conversion price and number of convertible shares were 35.43, \$28.22 and 6,200,000, respectively at July 31, 2007. Future cash dividends will cause additional conversion rate and convertible shares increases and conversion price decreases.

Bank Borrowings

We have \$480,000 of committed unsecured revolving credit facilities from eleven banks with \$55,000 expiring within one year and \$425,000 expiring between July 2009 and February 2013. Borrowings outstanding at April 30, 2008 matured May 1, 2008, were reborrowed and remain outstanding, and \$303,400 of these facilities was unused at April 30, 2008.

Other

Our major operating subsidiary's debt agreements have restrictive

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covenants including limits on its indebtedness, encumbrances, investments, dividends and other distributions to us, sales of assets, mergers and other business combinations, capital expenditures, interest coverage and net worth. We were in compliance with all debt covenants and restrictions at April 30, 2008. None of the agreements have a material adverse change clause. All of our debt is senior.

Long-term debt comprised the following:

| | April 30, 2008 | July 31, 2007 |
|--|----------------|---------------|
| Term notes | \$ 675,000 | \$ 599,100 |
| Bank borrowings and commercial paper supported by bank credit facilities expiring after one year | 243,500 | 339,750 |
| Asset securitization borrowings - revolving | 101,500 | 222,000 |
| Asset securitization borrowings - term | 80,000 | -- |
| Convertible debentures | -- | 175,000 |
| Total long-term debt | \$ 1,100,000 | \$ 1,335,850 |

10

NOTE 4 - DERIVATIVES

We entered into interest rate locks (in the form of Treasury locks) with a total notional amount of \$75,000 in August 2007. We designated the rate locks as cash flow hedges of our anticipated issuance of fixed rate term notes hedging the risk of higher interest payments on the notes for the first five years from increases in market interest rates before the notes were issued. We paid \$5,915 when the rate locks expired in January 2008.

We determined there was no hedge ineffectiveness and therefore we recorded the entire payment as a reduction of stockholders' equity in accumulated other comprehensive loss net of deferred income tax of \$2,291. We are reclassifying the after-tax amount into net income over the five-year term of the notes issued in February 2008 by increasing interest expense and deferred income tax. This effectively increases the interest rate on the notes, and increased interest expense by \$250 and reduced deferred income tax by \$100 in the third quarter of fiscal 2008.

We have fixed to floating interest rate swaps with a total notional amount of \$62,500 at April 30, 2008 and \$143,250 at July 31, 2007. In the first nine months of fiscal 2008, \$80,750 of the swaps expired when the swapped fixed rate term notes matured. The swaps effectively converted fixed rate term notes into floating rate term notes and we designated them as fair value hedges of fixed rate term notes. The swaps expire on the notes' maturity dates. Semiannually, we receive fixed amounts from the swap counterparty banks equal to the interest we pay on the hedged fixed rate notes, and we pay amounts to the swap counterparty banks equal to the swaps' floating rates multiplied by the swaps' notional amounts. We record the differences between these amounts in interest expense. The swaps' floating rates change semiannually to a fixed amount over six-month LIBOR. The average pay rate of 4.38% at April 30, 2008 was less than the 4.61% average receive rate by 23 basis points (0.23%). The average pay rate was 6.90% and the average receive rate was 4.88% at July 31, 2007. The fair value of the swaps was zero at April 30, 2008 and was a \$2,400 liability at July 31, 2007.

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NOTE 5 - STOCKHOLDERS' EQUITY

We repurchased 707,600 shares of our common stock in the first nine months of fiscal 2008 under our repurchase program for \$18,345 at a \$25.92 average price per share. We also received 5,700 shares of common stock from employees at an average price of \$19.59 per share for payment of income tax due on vested shares of restricted stock. We retired all shares repurchased and received. There was \$26,749 available for future repurchases under the program at April 30, 2008.

We paid quarterly cash dividends of \$0.45 per share in the first nine months of fiscal 2008. In June 2008, we declared a \$0.15 per share quarterly cash dividend payable in July 2008.

NOTE 6 - STOCK PLANS

We have two stockholder approved stock plans; the 2006 Stock Incentive Plan (the "2006 Plan") and the Amended and Restated 2001 Management Incentive Plan (the "Amended MIP"). The 2006 Plan provides for the issuance of 2,500,000 incentive or non-qualified stock options, shares of restricted stock, stock appreciation rights, stock units and common stock to officers, other employees and directors with annual participant limits, and expires in December 2016. Awards may be performance-based. The exercise price of stock options can not be less than the fair market value of our common stock when granted and the term of stock options is limited to ten years. There were 1,890,000 shares available for future grants under the 2006 Plan at April 30, 2008. The Amended MIP provides for the issuance of 1,000,000 shares of restricted stock, with an annual participant limit of 200,000 shares, and performance-based cash or stock bonuses to be awarded to our CEO and other selected officers. The Amended MIP expires in December 2011. There were 675,000 shares available for future grants under the Amended MIP at April 30, 2008.

We also have a Supplemental Retirement Benefit ("SERP") for our CEO. We awarded 150,000 stock units in fiscal 2002 vesting annually in equal amounts over eight years. Subject to forfeiture, our CEO will receive shares of common stock equal to the number of stock units vested when our CEO retires. There were 113,000 units vested at April 30, 2008.

Stock options granted through the first half of fiscal 2005 were mostly incentive stock options with a six-year term vesting 25% after two, three, four and five years. Options granted in the second half of fiscal 2005 were non-qualified stock options with a four-year term and 33 1/3% vested on July 31, 2005, 2006 and 2007. Options granted after fiscal 2005 were non-qualified stock options with a five-year term vesting 25% after one, two, three and four years. We granted 118,000 non-qualified stock options to employees in the first nine months of fiscal 2008 with a \$3.60 average fair value.

11

Shares of restricted stock awarded (excluding 435,000 shares awarded in February 2006 and 225,000 shares awarded in the first nine months of fiscal 2008 to executive officers) vest annually in equal amounts over initial periods of three to eight years (seven year average). Shares of restricted stock awarded to executive officers in February 2006 vest when the officer's service terminates, other than upon a non-qualifying termination, after six months (i) after the executive officer attains age 62 or (ii) after August 2026 if earlier (twelve year average).

We awarded 150,000 shares of performance-based restricted stock to

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executive officers under the 2006 Plan and 75,000 shares of performance-based restricted stock to our CEO under the Amended MIP in the first nine months of fiscal 2008. Shares earned would vest in October 2012. We also awarded 68,000 shares of restricted stock to other officers vesting annually in equal amounts over three to five years.

We awarded 12,000 restricted stock units under the 2006 Plan to non-employee directors in December 2007. The units vest in one year or earlier upon the sale of the Company or the director's death or disability, and are subject to forfeiture. Each unit represents the right to receive one share of common stock. Vested units will convert into shares of common stock when the director's service terminates. We also issued 2,000 shares of common stock under the 2006 Plan as payment of annual director retainer fees at a director's election. The price of our common stock on the date we issued these shares was \$22.08.

All unvested shares of restricted stock and the SERP stock units would vest immediately upon the sale of the Company or an employee's death or disability. Unvested shares of restricted stock awarded before fiscal 2007 and the SERP stock units would also vest immediately upon a qualifying employment termination, but only a portion (based on the percentage of the vesting period elapsed) of the shares awarded to executive officers in February 2006 would vest immediately upon a qualifying employment termination. Unvested shares and units would be forfeited upon any other employment termination. Dividends are paid on all unvested shares of restricted stock and on all stock units. The restricted stock agreements and the SERP also allow employees to pay income taxes required to be withheld at vesting by surrendering a portion of the shares or units vested.

Stock options, shares of restricted stock and stock units are the only incentive compensation we provide (other than a cash bonus for the CEO) and we believe these stock-based awards further align employees' and directors' interests with those of our stockholders. We issue new shares when options are exercised or when we award shares of restricted stock, and we do not have a policy to repurchase shares in the open market when options are exercised or when we award shares of restricted stock.

Stock option activity and related information for the nine months ended April 30, 2008 are summarized below (options and intrinsic value in thousands):

| | Options | Weighted-Average Exercise Price | Remaining Term (years) | Intrinsic Value * |
|------------------------------|---------|------------------------------------|---------------------------|----------------------|
| Outstanding - August 1, 2007 | 1,124 | \$ 22.60 | | |
| Granted | 118 | 22.67 | | |
| Exercised | (158) | 18.35 | | |
| Forfeited | (16) | | | |
| Outstanding - April 30, 2008 | 1,068 | \$ 23.19 | 2.1 | \$ 1,500 |
| Exercisable - April 30, 2008 | 661 | \$ 22.32 | 1.5 | \$ 1,300 |

* number of in-the-money options multiplied by the difference between their average exercise price and the \$23.35 closing price of our common stock on April 30, 2008

Information on stock option exercises follows (in thousands, except intrinsic value per option):

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| Nine Months Ended April 30, | 2008 | 2007 |
|------------------------------|----------|----------|
| Number of options exercised | 158 | 313 |
| Total intrinsic value * | \$ 1,300 | \$ 3,400 |
| Intrinsic value per option | 8.23 | 10.86 |
| Excess tax benefits realized | 300 | 752 |

* options exercised multiplied by the difference between their exercise prices and the closing prices of our common stock on the exercise dates

12

Restricted stock activity for the nine months ended April 30, 2008 is summarized below (shares in thousands):

| | Shares | Weighted-Average Grant-Date Fair Value |
|---------------------------|--------|--|
| Unvested - August 1, 2007 | 1,050 | \$ 25.34 |
| Granted | 293 | 26.99 |
| Vested | (167) | 22.22 |
| Forfeited | -- | |
| Unvested - April 30, 2008 | 1,176 | \$ 26.20 |

Information on shares of restricted stock that vested follows (in thousands, except intrinsic value per share):

| Nine Months Ended April 30, | 2008 | 2007 |
|--|----------|----------|
| Number of shares vested | 167 | 142 |
| Total intrinsic value * | \$ 3,400 | \$ 3,800 |
| Intrinsic value per share | 20.36 | 26.76 |
| (Tax shortfall) excess tax benefits realized | (43) | 350 |

* shares vested multiplied by the closing prices of our common stock on the dates vested

Future compensation expense (before deferral under SFAS No. 91) for stock-based awards unvested at April 30, 2008 and expected to vest, and the average expense recognition periods follow:

| | Expense | Weighted-Average Years |
|------------------|-----------|------------------------|
| Restricted stock | \$ 20,700 | 5.4 |
| Stock options | 1,200 | 2.5 |
| Stock units | 900 | 1.5 |
| Total | \$ 22,800 | 5.0 |

Total compensation recorded, compensation capitalized (deferred recognizing) under SFAS No. 91, compensation included in salaries and other expenses and tax benefits recorded for stock-based awards follow:

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| | Three Months Ended April 30, | | Nine Months Ended April 30, | |
|--|---------------------------------|------|--------------------------------|------|
| | 2008 | 2007 | 2008 | 2007 |

Compensation for stock options:

| | | | | |
|---|--------|--------|--------|--------|
| Total recorded | \$ 162 | \$ 264 | \$ 518 | \$ 838 |
| Capitalized under SFAS No. 91 | 104 | 155 | 331 | 506 |
| Included in salaries and other expenses | \$ 58 | \$ 109 | \$ 187 | \$ 332 |
| Tax benefits recorded | \$ 14 | \$ 17 | \$ 41 | \$ 49 |

Compensation for shares of restricted stock and stock units:

| | | | | |
|---|---------|---------|---------|---------|
| Total recorded | \$1,784 | \$1,485 | \$5,389 | \$4,193 |
| Capitalized under SFAS No. 91 | 689 | 540 | 1,983 | 1,633 |
| Included in salaries and other expenses | \$1,095 | \$ 945 | \$3,406 | \$2,560 |
| Tax benefits recorded | \$ 415 | \$ 357 | \$1,285 | \$ 973 |

Total stock-based compensation:

| | | | | |
|---|---------|---------|---------|---------|
| Total recorded | \$1,946 | \$1,749 | \$5,907 | \$5,031 |
| Capitalized under SFAS No. 91 | 793 | 695 | 2,314 | 2,139 |
| Included in salaries and other expenses | \$1,153 | \$1,054 | \$3,593 | \$2,892 |
| Tax benefits recorded | \$ 429 | \$ 374 | \$1,326 | \$1,022 |

13

NOTE 7 - EARNINGS PER COMMON SHARE

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

| | Three Months Ended April 30, | | Nine Months Ended April 30, | |
|--|---------------------------------|----------|--------------------------------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| Net income | \$12,692 | \$12,710 | \$37,942 | \$37,335 |
| Weighted-average common shares outstanding (used for basic EPS) | 24,359 | 26,042 | 24,459 | 26,177 |
| Effect of dilutive securities: | | | | |
| Stock options | 46 | 228 | 94 | 269 |
| Shares of restricted stock and stock units | 284 | 259 | 335 | 284 |
| Shares issuable from | | | | |

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| | | | | |
|--|---------|---------|---------|---------|
| convertible debt | -- | -- | 59 | -- |
| ----- | | | | |
| Adjusted weighted-average common shares outstanding (used for diluted EPS) | 24,689 | 26,529 | 24,947 | 26,730 |
| ===== | | | | |
| Earnings per common share: | | | | |
| Diluted | \$ 0.51 | \$ 0.48 | \$ 1.52 | \$ 1.40 |
| Basic | 0.52 | 0.49 | 1.55 | 1.43 |
| ===== | | | | |
| Antidilutive stock options, shares of restricted stock and stock units * | 1,257 | 310 | 964 | 200 |
| ===== | | | | |
| * excluded from the calculation because they would have increased diluted EPS | | | | |

The convertible debentures lower diluted EPS when the quarterly average price of our common stock exceeds the adjusted conversion price. When this occurs, shares of common stock needed to deliver the value of the debentures over their principal amount based on the average stock price would be included as shares outstanding in calculating diluted EPS. Shares to be included would equal the difference between the average stock price and the adjusted conversion price, divided by the average stock price and multiplied by the number of convertible shares, currently 6,323,000 (referred to as the treasury stock method). The average price of our common stock exceeded the adjusted conversion price in the three months ended October 31, 2007 resulting in 59,000 dilutive shares for the nine months ended April 30, 2008.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Financial Federal Corporation is an independent financial services company operating in the United States through three wholly owned subsidiaries. We do not have any unconsolidated subsidiaries, partnerships or joint ventures. We also do not have any off-balance sheet assets or liabilities (other than commitments to extend credit), goodwill, other intangible assets or pension obligations, and we are not involved in income tax shelters. We have one fully consolidated special purpose entity we established for our on-balance-sheet asset securitization facility.

We have one line of business. We lend money under installment sale agreements, secured loans and leases (collectively referred to as "finance receivables") to small and medium sized businesses for their equipment financing needs. Finance receivable transactions generally range between \$50,000 and \$1.5 million, have terms ranging between two and five years and provide for monthly payments. The average transaction size is approximately \$250,000. We earn revenue solely from interest and other fees and amounts earned on our finance receivables. We need to borrow most of the money we lend. Therefore, liquidity (money currently available for us to borrow) is important. We borrow from banks and insurance companies and we issue commercial paper to other investors. Approximately 80% of our finance receivables were funded with debt at April 30, 2008.

Our main areas of focus are (i) asset quality (ii) liquidity (iii) net interest spread (the difference between the rates we earn on our receivables and the rates we incur on our debt) and (iv) interest rate risk. Changes in the asset quality of our finance receivables can affect our profitability significantly. Finance income, provisions for credit losses and operating

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expenses can be affected by reclassifying receivables to or from non-accrual status, incurring write-downs and incurring

14

costs associated with non-performing assets. Changes in market interest rates can also affect our profitability significantly because interest rates on our finance receivables were 91% fixed and 9% floating, and interest rates on our debt were 53% fixed and 47% floating at April 30, 2008. We use various strategies to manage our credit risk and interest rate risk. Each of these areas is integral to our long-term profitability and we discuss them in detail in separate sections of this discussion.

Our key operating statistics are net charge-offs, loss ratio, non-performing assets, delinquencies, receivables growth, leverage, available liquidity, return on equity, net interest margin and net interest spread, and expense and efficiency ratios.

Significant events

A crisis started in the credit markets in August 2007 and continues to disrupt a wider range of financing sources. The credit crisis has made it increasingly difficult and significantly more expensive through higher credit spreads for finance companies to obtain and renew financing. Credit spread is the percentage amount lenders charge borrowers above a base market interest rate. Credit spreads on new term notes rose to their highest levels in over five years, the asset-backed securitization market has contracted and banks have curbed their lending because of the credit crisis. These are our main sources of funding. Our liquidity and funding sources are discussed further in the Liquidity and Capital Resources section. The crisis is generally believed to have been caused by problems in the subprime mortgage markets. We do not provide subprime mortgage financing.

The Federal Reserve responded to the crisis by adding significant liquidity to the credit markets at more favorable terms and by lowering its target Federal Funds Rate seven times by a total of 325 basis points (3.25%). These were the first decreases in over four years and the largest decreases since 2001. This lowered the interest rates on our floating rate debt and reduced our interest expense as discussed in the Market Interest Risk and Sensitivity section.

The credit crisis caused decreased demand for and higher credit spreads on commercial paper. As a result, our commercial paper outstanding decreased from \$320.0 million to a low of \$37.0 million during the first nine months of fiscal 2008. We also decreased borrowings under our asset securitization facility from \$425.0 million to a low of \$119.0 million because of higher credit spreads on the underlying commercial paper. We were able to reduce our debt from these funding sources because we had over \$480.0 million available to borrow under our committed unsecured revolving bank credit facilities. We estimate this reduced our interest expense for the first nine months of fiscal 2008 by \$1.0 million. The commercial paper and securitization markets are not expected to return to their pre-crisis state for some time.

During this difficult environment, we partially renewed our \$425.0 million asset securitization facility in April 2008. The asset securitization market was among the hardest hit by the credit crisis, but we were able to increase the amount available to borrow to \$525.0 million from \$425.0 million. Two of the banks in the facility increased their combined commitment by \$100.0 million and the other two banks did not renew their commitments because of the credit crisis. Therefore, we converted the \$200.0 million borrowed from them into

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amortizing term debt. The securitization facility is discussed further in the Liquidity and Capital Resources section.

Having a significant amount of unused committed bank credit facilities allowed us to fund our operations without being disrupted during the ongoing credit crisis and mitigated the effects of higher interest rates on other short-term borrowings. We have always stressed the importance of having ample liquidity from diverse, reliable sources.

Critical Accounting Policies and Estimates

Accounting principles generally accepted in the United States require judgment, assumptions and estimates that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. In Note 1 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended July 31, 2007, we describe the significant accounting policies and methods we use to prepare the Consolidated Financial Statements. Accounting policies involving significant judgment, assumptions and estimates are considered critical accounting policies and are discussed below.

Allowance for Credit Losses

The allowance for credit losses on finance receivables is our estimate of losses inherent in our finance receivables at the balance sheet date. The allowance is difficult to determine and requires significant judgment. The allowance is based on total finance receivables, net charge-off experience, non-accrual and delinquent finance receivables and our current assessment of the risks inherent in our finance receivables from national and regional economic conditions, industry conditions, concentrations, the financial condition of customers and guarantors, collateral values and other factors. We may

15

need to change the allowance level significantly if unexpected changes in these conditions or factors occur. Increases in the allowance would reduce net income through higher provisions for credit losses. We would need to record a \$2.0 million provision for each 0.10% required increase in the allowance. The allowance was \$24.7 million (1.23% of finance receivables) at April 30, 2008 including \$0.8 million specifically allocated to impaired receivables.

The allowance includes amounts specifically allocated to impaired receivables and an amount to provide for losses inherent in the remainder of finance receivables (the "general allowance"). We evaluate the fair values of impaired receivables and compare them to the carrying amounts. The carrying amount is the amount receivables are recorded at when we evaluate them and may include prior write-downs or a specific allowance. If our fair value estimate is lower than the carrying amount, we record a write-down or establish a specific allowance depending on (i) how we determined fair value (ii) how certain we are of our estimate and (iii) the level and type of factors and items other than the primary collateral supporting our fair value estimate, such as guarantees and secondary collateral.

To estimate the general allowance, we analyze historical write-down activity to develop percentage loss ranges by risk profile. Risk profiles are assigned to receivables based on past due status and the customers' industry. We then adjust the calculated range of losses for expected recoveries and we may also adjust the range for differences between current and historical loss trends and other factors to arrive at the estimated allowance. We record a provision for credit losses if the recorded allowance differs from our current estimate. Although our method is designed to calculate probable losses, the adjusted

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calculated range of losses may differ from actual losses significantly because we use significant estimates.

Non-Performing Assets

We record non-accrual (impaired) finance receivables and repossessed equipment (assets received to satisfy receivables) at their current estimated fair value (if less than their carrying amount). We estimate fair value of these non-performing assets by evaluating the market value and condition of the collateral or assets and the expected cash flows of impaired receivables. We evaluate market value based on recent sales of similar equipment, used equipment publications, our market knowledge and information from equipment vendors. Unexpected adverse changes in or incorrect estimates of expected cash flows, market value or the condition of collateral or assets, or time needed to sell equipment would require us to record a write-down. This would lower net income. Non-performing assets totaled \$40.5 million (2.0% of finance receivables) at April 30, 2008.

Residual Values

We record residual values on 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) our projection of the equipment's fair value at the end of the lease. We may not fully realize recorded residual values because of unexpected adverse changes in or incorrect projections of future equipment values. This would lower net income. Residual values totaled \$43.3 million (2.2% of finance receivables) at April 30, 2008. Historically, we have realized the recorded residual value on disposition.

Income Taxes

We record a liability for uncertain income tax positions according to FIN No. 48. FIN No. 48 requires us to (i) identify uncertain tax positions we take on our income tax returns (ii) determine if these positions would more likely than not be allowed by a taxing authority, and (iii) if tax positions pass this more-likely-than-not test, estimate the amount of tax benefit to record. Therefore, we must record a liability for tax benefits from positions failing the test and from positions where the full amount of the tax benefits are not expected to be realized. Identifying uncertain tax positions, determining if they pass the test and determining the liability to record requires significant judgment because tax laws are complicated and subject to interpretation, and because FIN No. 48 requires us to assess the outcome of hypothetical challenges to these positions by taxing authorities. Actual outcomes of these uncertain tax positions differing from our assessments significantly and taxing authorities examining positions we did not consider uncertain could require us to record additional income tax expense including interest and penalties on any underpayment of tax. This would lower net income. The gross liability recorded for uncertain tax positions was \$1.2 million on August 1, 2007 and we do not expect this amount to change significantly.

Stock-Based Compensation

We record compensation expense for stock options under SFAS No. 123R using the Black-Scholes option pricing model. This model requires us to estimate the expected volatility of the price of our common stock, the expected life of options and the expected dividend rate. SFAS No. 123R also requires us to estimate forfeitures of stock awards. Estimating volatility, expected life, dividend rate and forfeitures requires significant judgment and an analysis of historical data. We may have to increase compensation expense for stock awards if actual results differ from our estimates significantly.

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RESULTS OF OPERATIONS

Comparison of three months ended April 30, 2008 to three months ended April 30, 2007

| (\$ in millions, except per share amounts) | Three Months Ended April 30, | | \$ Change | % Change |
|---|---------------------------------|--------|-----------|----------|
| | 2008 | 2007 | | |
| Finance income | \$46.3 | \$47.5 | \$(1.2) | (2)% |
| Interest expense | 17.2 | 20.5 | (3.3) | (16) |
| Net finance income before provision for credit losses | 29.1 | 27.0 | 2.1 | 8 |
| Provision for credit losses | 1.5 | -- | 1.5 | 100 |
| Salaries and other expenses | 6.9 | 6.3 | 0.6 | 11 |
| Provision for income taxes | 8.0 | 8.0 | -- | -- |
| Net income | 12.7 | 12.7 | -- | -- |
| | | | | |
| Diluted earnings per share | 0.51 | 0.48 | 0.03 | 6 |
| Basic earnings per share | 0.52 | 0.49 | 0.03 | 6 |
| | | | | |
| Return on equity | 13.0% | 13.1% | | |

Net income was \$12.7 million in the third quarter of fiscal 2008 and 2007 because the net positive effects of lower short-term market interest rates offset the effects of higher non-performing assets as discussed below.

Finance income decreased by 2% to \$46.3 million in the third quarter of fiscal 2008 from \$47.5 million in the third quarter of fiscal 2007. The decrease resulted from the 2% decrease in average finance receivables (\$32.0 million) to \$2.05 billion in the third quarter of fiscal 2008 from \$2.08 billion in the third quarter of fiscal 2007 and the lower net yield on finance receivables. The net yield on finance receivables was 9.21% in the third quarter of fiscal 2008 and 9.37% in the third quarter of fiscal 2007. The 325 basis point (3.25%) decrease in the prime rate and higher non-accrual finance receivables lowered the net yield.

Interest expense (incurred on debt used to fund finance receivables) decreased by 16% to \$17.2 million in the third quarter of fiscal 2008 from \$20.5 million in the third quarter of fiscal 2007. The decrease resulted from the 89 basis point (0.89%) decrease in our cost of debt to 4.44% in the third quarter of fiscal 2008 from 5.33% in the third quarter of fiscal 2007. Our cost of debt decreased because of lower short-term market interest rates as discussed in the Market Interest Rate Risk and Sensitivity section. The change in average debt was not significant.

Net finance income before provision for credit losses on finance receivables increased by 8% to \$29.1 million in the third quarter of fiscal 2008 from \$27.0 million in the third quarter of fiscal 2007. Net interest margin (net finance income before provision for credit losses expressed as an annualized percentage of average finance receivables) increased to 5.79% in the third quarter of fiscal 2008 from 5.32% in the third quarter of fiscal 2007 because of lower short-term market interest rates.

We recorded a \$1.5 million provision for credit losses on finance receivables in the third quarter of fiscal 2008. We did not record provisions in

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the prior two fiscal years. The provision for credit losses is the amount needed to change the allowance for credit losses to our estimate of losses inherent in finance receivables. Net charge-offs (write-downs of finance receivables less recoveries) increased to \$1.0 million in the third quarter of fiscal 2008 from \$33,000 in the third quarter of fiscal 2007, and the loss ratio (net charge-offs expressed as an annualized percentage of average finance receivables) was 0.19% in the third quarter of fiscal 2008 and less than 0.01% in the third quarter of fiscal 2007. Net charge-offs have been increasing because of higher non-performing assets. The allowance and net charge-offs are discussed further in the Finance Receivables and Asset Quality section.

Salaries and other expenses increased by 11% to \$6.9 million in the third quarter of fiscal 2008 from \$6.3 million in the third quarter of fiscal 2007. The increase resulted from higher non-performing asset costs and, to a lesser extent, salary increases. The expense ratio (salaries and other expenses expressed as an annualized percentage of average finance receivables) worsened to 1.38% in the third quarter of fiscal 2008 from 1.23% in the third quarter of fiscal 2007 because expenses increased and receivables decreased. The efficiency ratio (expense ratio expressed as a percentage of net interest margin) worsened to 23.7% in the third quarter of fiscal 2008 from 23.2% in the third quarter of fiscal 2007 because the increase in expenses exceeded the increase in net finance income.

17

Diluted earnings per share increased by 6% to \$0.51 per share in the third quarter of fiscal 2008 from \$0.48 per share in the third quarter of fiscal 2007, and basic earnings per share increased by 6% to \$0.52 per share in the third quarter of fiscal 2008 from \$0.49 per share in the third quarter of fiscal 2007. Diluted and basic earnings per share increased even though net income was the same because we repurchased 2.7 million shares of our common stock (10% of total shares outstanding) in the last five fiscal quarters.

Comparison of nine months ended April 30, 2008 to nine months ended April 30, 2007

| (\$ in millions, except per share amounts) | Nine Months Ended April 30, | | \$ Change | % Change |
|---|--------------------------------|---------|-----------|----------|
| | 2008 | 2007 | | |
| Finance income | \$144.7 | \$141.8 | \$ 2.9 | 2% |
| Interest expense | 59.9 | 62.5 | (2.6) | (4) |
| Net finance income before provision for credit losses | 84.8 | 79.3 | 5.5 | 7 |
| Provision for credit losses | 2.7 | -- | 2.7 | 100 |
| Salaries and other expenses | 20.3 | 18.5 | 1.8 | 10 |
| Provision for income taxes | 23.9 | 23.5 | 0.4 | 2 |
| Net income | 37.9 | 37.3 | 0.6 | 2 |
| Diluted earnings per share | 1.52 | 1.40 | 0.12 | 9 |
| Basic earnings per share | 1.55 | 1.43 | 0.12 | 8 |
| Return on equity | 12.8% | 12.9% | | |

Net income increased by 2% to \$37.9 million in the first nine months of fiscal 2008 from \$37.3 million in the first nine months of fiscal 2007. The

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increase resulted from the net positive effects of lower short-term market interest rates and, to a lesser extent, the increase in average receivables, partially offset by the effects of higher non-performing assets as discussed below.

Finance income increased by 2% to \$144.7 million in the first nine months of fiscal 2008 from \$141.8 million in the first nine months of fiscal 2007. The increase resulted from the 2% increase in average finance receivables (\$41.0 million) to \$2.09 billion in the first nine months of fiscal 2008 from \$2.05 billion in the first nine months of fiscal 2007. The net yield on finance receivables was 9.24% in the first nine months of fiscal 2008 and 9.25% in the first nine months of fiscal 2007. The net yield did not change significantly because the higher average yield on finance receivables in the first nine months of fiscal 2008 was offset by the effects of decreases in the prime rate and higher non-accrual finance receivables.

Interest expense decreased by 4% to \$59.9 million in the first nine months of fiscal 2008 from \$62.5 million in the first nine months of fiscal 2007. The decrease resulted from the 42 basis point (0.42%) decrease in our cost of debt to 4.94% in the first nine months of fiscal 2008 from 5.36% in the first nine months of fiscal 2007, partially offset by the 4% (\$59.0 million) increase in average debt. Our cost of debt decreased because of lower short-term market interest rates.

Net finance income before provision for credit losses on finance receivables increased by 7% to \$84.8 million in the first nine months of fiscal 2008 from \$79.3 million in the first nine months of fiscal 2007. Net interest margin increased to 5.42% in the first nine months of fiscal 2008 from 5.17% in the first nine months of fiscal 2007 because of lower short-term market interest rates.

We recorded a \$2.7 million provision for credit losses on finance receivables in the first nine months of fiscal 2008. Net charge-offs were \$2.0 million in the first nine months of fiscal 2008 compared to a \$15,000 net recovery (recoveries exceeded write-downs of finance receivables) in the first nine months of fiscal 2007, and the loss ratio was 0.13% in the first nine months of fiscal 2008 and near zero in the first nine months of fiscal 2007. Net charge-offs have been increasing because of higher non-performing assets.

Salaries and other expenses increased by 10% to \$20.3 million in the first nine months of fiscal 2008 from \$18.5 million in the first nine months of fiscal 2007. The increase resulted from higher non-performing asset costs and, to a lesser extent, salary increases. The expense ratio worsened to 1.30% in the first nine months of fiscal 2008 from 1.21% in the first nine months of fiscal 2007 and the efficiency ratio worsened to 23.9% in the first nine months of fiscal 2008 from 23.3% in the first nine months of fiscal 2007.

18

Diluted earnings per share increased by 9% to \$1.52 per share in the first nine months of fiscal 2008 from \$1.40 per share in the first nine months of fiscal 2007, and basic earnings per share increased by 8% to \$1.55 per share in the first nine months of fiscal 2008 from \$1.43 per share in the first nine months of fiscal 2007. The percentage increases in diluted and basic earnings per share were higher than the percentage increase in net income because we repurchased 2.7 million shares of our common stock in the last five fiscal quarters.

FINANCE RECEIVABLES AND ASSET QUALITY

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We discuss trends and characteristics of our finance receivables and our approach to managing credit risk in this section. The key aspect is asset quality. Asset quality statistics measure our underwriting standards, skills and policies and procedures and can indicate the direction and levels of future net charge-offs and non-performing assets.

| (\$ in millions) | April 30, 2008 * | July 31, 2007 * | Change | % Change |
|--------------------------------|---------------------|--------------------|-----------|----------|
| Finance receivables | \$2,011.3 | \$2,128.4 | \$(117.1) | (6)% |
| Allowance for credit losses | 24.7 | 24.0 | 0.7 | 3 |
| Non-performing assets | 40.5 | 21.2 | 19.3 | 91 |
| Delinquent finance receivables | 22.9 | 9.9 | 13.0 | 132 |
| Net charge-offs | 2.0 | 0.1 | 1.9 | |

As a percentage of receivables:

| | | |
|--------------------------------|-------|-------|
| Allowance for credit losses | 1.23% | 1.13% |
| Non-performing assets | 2.01 | 0.99 |
| Delinquent finance receivables | 1.14 | 0.46 |
| Net charge-offs (annualized) | 0.13 | 0.01 |

* as of and for the nine months ended

Finance receivables comprise installment sale agreements and secured loans (collectively referred to as loans) and direct financing leases. Loans were 91% (\$1.82 billion) of finance receivables and leases were 9% (\$190 million) at April 30, 2008. Finance receivables decreased \$117.1 million during the first nine months of fiscal 2008 to \$2.01 billion at April 30, 2008 because of lower originations and higher prepayments.

Finance receivables originated in the third quarter of fiscal 2008 and 2007 were \$232 million and \$307 million, respectively, and finance receivables originated in the first nine months of fiscal 2008 and 2007 were \$715 million and \$911 million, respectively. Originations decreased because of weak demand for construction and transportation equipment financing. Finance receivables collected in the third quarter of fiscal 2008 and 2007 were \$288 million and \$257 million, respectively, and finance receivables collected in the first nine months of fiscal 2008 and 2007 were \$819 million and \$795 million, respectively. Collections increased because of increased prepayment activity. Prepayments typically increase when market interest rates decline.

Our primary focus is the credit quality of our receivables. We manage our credit risk by using disciplined and sound underwriting policies and procedures, by monitoring our receivables closely and by handling non-performing accounts effectively. Our underwriting policies and procedures require a first lien on equipment financed. We focus on financing equipment with a remaining useful life longer than the term financed, historically low levels of technological obsolescence, use in more than one type of business, ease of access and transporting, and broad, established resale markets. Securing our receivables with equipment possessing these characteristics can mitigate potential net charge-offs. We may also obtain additional equipment or other collateral, third-party guarantees, advance payments or hold back a portion of the amount financed. We do not finance or lease aircraft or railcars, computer related equipment, telecommunications equipment or equipment located outside the United States, and we do not lend to consumers.

Our underwriting policies limit our credit exposure with any customer. The limit was \$44.0 million at April 30, 2008. Our ten largest customers accounted for 6.5% (\$132.0 million) of total finance receivables at April 30, 2008.

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Our allowance for credit losses was \$24.7 million at April 30, 2008 and \$24.0 million at July 31, 2007, and the allowance level was 1.23% and 1.13% of finance receivables, respectively. The allowance is our estimate of losses inherent in our finance receivables. We determine the allowance quarterly based on our analysis of historical losses and the past due status of receivables adjusted for expected recoveries and any differences between current and historical loss trends and other factors. Our estimate of inherent losses at April 30, 2008 increased because of the higher levels of net charge-offs.

19

Net charge-offs of finance receivables (write-downs less recoveries) were \$2.0 million in the first nine months of fiscal 2008 compared to \$0.1 million in the last nine months of fiscal 2007 (the prior nine month period) and the annualized loss ratios were 0.13% and 0.01%. Net charge-offs were \$1.0 million in the third quarter of fiscal 2008 compared to \$0.7 million in the second quarter of fiscal 2008 and the annualized loss ratios were 0.19% and 0.13%. Net charge-offs are increasing because the slowing economy, construction and transportation industries, and higher energy and commodity prices are reducing our customers' cash flows and values of certain collateral.

The net investments in non-accrual (impaired) finance receivables, repossessed equipment (assets received to satisfy receivables), total non-performing assets and delinquent finance receivables (transactions with more than a nominal portion of a contractual payment 60 or more days past due) follow (\$ in millions):

| | April 30, 2008 | July 31, 2007 | April 30, 2007 |
|--|-------------------|------------------|-------------------|
| Non-accrual finance receivables * | \$ 31.7 | \$ 18.8 | \$ 15.9 |
| Repossessed equipment | 8.8 | 2.4 | 2.1 |
| Total non-performing assets | \$ 40.5 | \$ 21.2 | \$ 18.0 |
| Delinquent finance receivables | \$ 22.9 | \$ 9.9 | \$ 15.2 |
| Percentage of non-accrual receivables not delinquent | 63% | 69% | 46% |

* before specifically allocated allowance of \$0.8 million at April 30, 2008, \$0.5 million at July 31, 2007 and \$0.2 million at April 30, 2007

We expect continued increases in delinquent and non-accrual receivables, repossessed equipment and net charge-offs because of continued recessionary economic conditions, higher energy and commodity prices and the effects of the crisis in the credit markets. This could require us to record higher provisions for credit losses.

LIQUIDITY AND CAPITAL RESOURCES

We describe our need for raising capital (debt and equity), our need for a substantial amount of liquidity (money currently available for us to borrow), our approach to managing liquidity and our current funding sources in this section. Key indicators are leverage (the number of times debt exceeds equity), available liquidity, credit ratings and debt diversification. Our leverage is low for a finance company, we have been successful in issuing debt, we have

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ample liquidity available and our debt is diversified with maturities staggered over five years.

Liquidity and access to capital are vital to our operations and growth. We need continued availability of funds to originate or acquire finance receivables and to repay debt. To ensure we have enough liquidity, we project our financing needs based on estimated receivables growth and maturing debt, we monitor capital markets closely, we diversify our funding sources and we stagger our debt maturities. Funding sources usually available to us include operating cash flow, private and public issuances of term debt, committed unsecured revolving bank credit facilities, conduit and term securitizations of finance receivables, secured term financings, dealer placed and direct issued commercial paper and sales of common and preferred equity. We believe our liquidity sources are diversified, and we are not dependent on any funding source or provider.

As discussed previously, the crisis in the credit markets has made it difficult and expensive for finance companies to obtain financing. However, we do not anticipate a need for new financing until the third quarter of fiscal 2009 because (i) we have \$336.5 million available to borrow under our committed revolving bank credit and asset securitization facilities (after subtracting commercial paper outstanding) at April 30, 2008 (ii) receivables originations have been decreasing (iii) our operating cash flow remains strong and (iv) we have only \$30.0 million of bank credit facilities expiring and \$37.5 million of term notes maturing before the third quarter of fiscal 2009 in addition to the amortizing asset securitization debt. Although we don't need new financing currently, we continue to seek additional sources of financing actively to strengthen our liquidity beyond this period. We believe sufficient, reasonably priced capital will be available to us to sustain our future operations and growth, even though financing has been difficult to obtain and credit spreads have risen substantially because of the credit market crisis.

20

Our term notes are rated 'BBB+' by Fitch Ratings, Inc. ("Fitch", a Nationally Recognized Statistical Ratings Organization) and our commercial paper is rated 'F2' by Fitch. Fitch recently affirmed these investment grade ratings in January 2008 and maintained its stable outlook. As a condition of our 'F2' credit rating, commercial paper outstanding is limited to the unused amount of our committed credit facilities. Our access to capital markets and our credit spreads are partly dependent on these investment grade credit ratings.

Our major operating subsidiary's debt agreements have restrictive covenants including limits on its indebtedness, encumbrances, investments, dividends and other distributions to us, sales of assets, mergers and other business combinations, capital expenditures, interest coverage and net worth. We were in compliance with all debt covenants and restrictions at April 30, 2008. None of the agreements have a material adverse change clause.

Debt decreased by 6% (\$104.6 million) to \$1.56 billion at April 30, 2008 from \$1.66 billion at July 31, 2007 and stockholders' equity increased by 3% (\$13.4 million) to \$401.2 million at April 30, 2008 from \$387.8 million at July 31, 2007. Therefore, leverage (debt-to-equity ratio) decreased to 3.9 at April 30, 2008 from 4.3 at July 31, 2007. Our leverage is considered low allowing for substantial asset growth and equity repurchases. Historically, our leverage has not exceeded 5.5 which is also considered low for a finance company.

Debt comprised the following (\$ in millions):

=====
April 30, 2008 July 31, 2007

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| | Amount | Percent | Amount | Percent |
|--------------------------------------|-----------|---------|-----------|---------|
| Term notes | \$ 712.5 | 46% | \$ 723.3 | 43% |
| Asset securitization borrowings | | | | |
| - revolving | 225.0 | 15 | 425.0 | 26 |
| Asset securitization borrowings | | | | |
| - term | 200.0 | 13 | -- | -- |
| Convertible debentures | 175.0 | 11 | 175.0 | 11 |
| Bank borrowings | 176.6 | 11 | 50.0 | 3 |
| Commercial paper | 66.9 | 4 | 289.7 | 17 |
| Total principal | 1,556.0 | 100% | 1,663.0 | 100% |
| Fair value adjustment of hedged debt | -- | | (2.4) | |
| Total debt | \$1,556.0 | | \$1,660.6 | |

Term Notes

We converted \$75.0 million of bank credit facilities scheduled to expire in February 2008, March 2010 and January 2012 into five-year fixed rate term notes in February 2008. Interest is payable semiannually at a 4.43% average rate and the notes are due at maturity in February 2013.

We repaid \$80.8 million of fixed rate term notes swapped to floating rates at maturity in the first nine months of fiscal 2008. The floating rate on these notes averaged 6.75%. We also repaid a 6.80% \$5.0 million term note at maturity. We repaid these notes with borrowings under our securitization and bank credit facilities.

Asset Securitization Borrowings

Our asset securitization facility was partially renewed and partially converted into amortizing term debt in April 2008. The facility decreased to \$325.0 million from \$425.0 million and we converted \$200.0 million of borrowings into term debt. The two renewing banks increased their commitments \$50.0 million each and we converted the amounts borrowed from the two non-renewing banks into term debt. This increased our borrowing capacity to \$525.0 million at April 30, 2008, and \$100.0 million of the facility was unused at April 30, 2008. We established the facility in July 2001 with one bank for \$125.0 million and this was the seventh renewal.

The facility provides for committed revolving financing through April 2009 and we can then convert borrowings outstanding into term debt if the facility is not renewed. The \$200.0 million of term debt will be repaid monthly from collections of securitized receivables and should be substantially repaid after two years. Finance receivables include \$500.0 million of securitized receivables at April 30, 2008. Our major operating subsidiary's debt agreements limit securitized receivables to 40% of its total receivables. Therefore, we could securitize an additional \$300.0 million of receivables at April 30, 2008.

Borrowings under the facility and the term debt combined are limited to 94% of eligible securitized receivables. Securitized receivables 120 or more days past due, classified as impaired or subject to a bankruptcy, or with terms outside of defined limits, are ineligible to be borrowed against. The facility also restricts the amount of net charge-offs of securitized receivables and the amount of delinquent securitized receivables. The facility would terminate if

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these restrictions are exceeded, and borrowings outstanding would then be repaid monthly from collections of securitized receivables.

Convertible Debentures

We issued the convertible debentures in April 2004. They are due at maturity in April 2034, but we can redeem (call) them anytime starting in April 2009 by repaying the principal amount in cash and debenture holders can require us to repurchase (put) them on each five-year anniversary of issuance or when a specified corporate transaction occurs by paying the principal amount in cash. Debenture holders can also convert the debentures into cash and common stock before maturity as discussed below.

The debentures can only be converted (i) in a fiscal quarter when the closing price of our common stock is at least 30% higher than the adjusted conversion price for at least 20 of the last 30 trading days of the prior fiscal quarter (the "market price condition") (ii) if the debentures are rated 'BB' or lower by Fitch (three ratings levels lower than the initial rating) (iii) if we call the debentures or (iv) if a specified corporate transaction occurs. No event allowing for the debentures to be converted has occurred through April 30, 2008. The market price condition would have been met at April 30, 2008 if the price of our common stock closed above \$35.98 for the required period. The closing price of our common stock was \$23.35 on April 30, 2008.

We irrevocably elected (under the debentures' original terms and without modifying the debentures) in fiscal 2005 to pay the value of converted debentures, not exceeding their principal amount, in cash instead of issuing shares of our common stock. The value of converted debentures equals the number of convertible shares multiplied by the market value of our common stock. We would only issue shares if the value of converted debentures exceeded their principal amount. Shares of common stock needed to pay any value over principal would equal the difference between the conversion date price of our common stock and the conversion price, divided by the conversion date price and multiplied by the number of convertible shares. There were 6.3 million convertible (but not issuable) shares, the adjusted conversion price was \$27.68 per share and the adjusted conversion rate was 36.13 shares for each \$1,000 of principal at April 30, 2008. The conversion rate and number of convertible shares increase and the conversion price decreases when we pay dividends on our common stock.

Bank Credit Facilities

We have \$480.0 million of committed unsecured revolving credit facilities from eleven banks. This amount decreased from \$580.0 million at July 31, 2007 because we converted \$75.0 million of facilities into five-year term notes and a \$25.0 million facility expired, and includes \$455.0 million of facilities with original terms ranging from two to five years and a \$25.0 million facility with a one year original term. The average remaining term of the multi-year facilities is 3.2 years. The facilities range from \$15.0 million to \$110.0 million. Borrowings under these facilities can mature between 1 and 270 days. Borrowings outstanding at April 30, 2008 matured on May 1, 2008, were reborrowed and remain outstanding. We borrow amounts mostly for one day, and also for one week or one month depending on the interest rates, and roll the borrowings over when they mature depending on whether we issue or repay other debt.

These committed facilities are a low-cost source of funds and support our commercial paper program. We can borrow the full amount under each facility immediately. None of the facilities are for commercial paper back-up only and the facilities do not have usage fees. These facilities may be renewed, extended or increased before they expire. We borrowed the full amount under each facility during the first nine months of fiscal 2008.

Commercial Paper

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We issue commercial paper direct and through a \$500.0 million program with maturities between 1 and 270 days. The amount of commercial paper we could issue is limited to the unused amount of our committed credit facilities (\$403.4 million at April 30, 2008).

Stockholders' Equity

We repurchased 0.7 million shares of our common stock in the first nine months of fiscal 2008 for \$18.5 million at a \$25.87 average price per share. We financed the repurchases with borrowings under our bank credit facilities. There was \$26.7 million available for future repurchases under our program at April 30, 2008. Repurchases are discretionary and future repurchases are contingent upon many conditions.

22

We paid \$11.5 million of cash dividends and we received \$3.2 million from stock option exercises and excess tax benefits from stock-based awards in the first nine months of fiscal 2008.

MARKET INTEREST RATE RISK AND SENSITIVITY

We discuss how changes in market interest rates affect our net interest spread and how we manage interest rate risk in this section. Net interest spread (net yield of finance receivables less cost of debt) is an integral part of a finance company's profitability and is calculated below:

| | Three Months Ended April 30, | | Nine Months Ended April 30, | |
|----------------------------------|---------------------------------|--------------|--------------------------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| Net yield of finance receivables | 9.21% | 9.37% | 9.24% | 9.25% |
| Cost of debt | 4.44 | 5.33 | 4.94 | 5.36 |
| Net interest spread | 4.77% | 4.04% | 4.30% | 3.89% |

Our net interest spread was 0.73% (73 basis points) higher in the third quarter of fiscal 2008 compared to the third quarter of fiscal 2007, and was 0.41% (41 basis points) higher in the first nine months of fiscal 2008 compared to the first nine months of fiscal 2007 because decreases in market interest rates in the first nine months of fiscal 2008 lowered our cost of debt more than the net yield on our finance receivables. Decreases in short-term market interest rates lower the net yield because our floating rate receivables are indexed to the prime rate.

Our net interest spread is sensitive to changes in short-term and long-term market interest rates (includes LIBOR, rates on U.S. Treasury securities, money-market rates, swap rates and the prime rate). Increases in short-term rates reduce our net interest spread and decreases in short-term rates increase it (this is currently occurring) because our floating rate debt (includes short-term debt) exceeds our floating rate finance receivables by a significant amount. Interest rates on our debt change faster than the yield on our receivables because 47% of our debt is floating rate compared to floating rate finance receivables of only 9%.

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Our net interest spread is also affected when the differences between short-term and long-term rates change. Long-term rates normally exceed short-term rates. When this excess narrows (resulting in a "flattening yield curve") or when short-term rates exceed long-term rates (an "inverted yield curve"), our net interest spread should decrease and when the yield curve widens our net interest spread should increase because the rates we charge our customers are partially determined by long-term market interest rates and rates on our floating rate debt are largely determined by short-term market interest rates. We can mitigate the effects of an inverted yield curve by issuing long-term fixed rate debt. Short-term LIBOR rates (the base rates used for our short-term borrowings) were higher than the rates on five-year Treasury notes (the base rate used for our long-term borrowings) during most of the first nine months of fiscal 2008 but are currently lower.

Our net interest spread is also affected by credit spreads. Changes in credit spreads affect the yield on our receivables when originated and the cost of debt when issued. Credit spreads increased significantly during the first nine months of fiscal 2008 because of the current credit market crisis.

Short-term market interest rates decreased in the first nine months of fiscal 2008 significantly because the Federal Reserve lowered the target Federal Funds Rate 325 basis points (3.25%). This is the primary reason our cost of debt declined by 90 basis points (0.9%) and should cause our cost of debt to decline further. Long-term market interest rates also decreased significantly. Lower long-term market interest rates would normally decrease the cost of fixed-rate term debt and also result in lower yields on finance receivables, but these effects have been mostly offset by significantly higher credit spreads.

Our income is subject to the risk of rising short-term market interest rates and a flat or inverted yield curve at April 30, 2008 because floating rate debt exceeded floating rate receivables by \$559.7 million (see the table below). The terms and prepayment experience of our fixed rate receivables mitigate this risk. Receivables are collected monthly over short periods of two to five years and have been accelerated by prepayments. At April 30, 2008, \$644.0 million (35%) of fixed rate receivables are scheduled to be collected in one year and their average remaining life excluding prepayments is approximately twenty months. Historically, annual collections have exceeded 50% of average receivables. We do not match the maturities

23

of our debt to our receivables. The fixed and floating rate amounts and percentages of our receivables and capital at April 30, 2008 follow (\$ in millions):

| | Fixed Rate | | Floating Rate | | Total |
|-----------------------|------------|---------|---------------|---------|-----------|
| | Amount | Percent | Amount | Percent | |
| Finance receivables | \$1,840.0 | 91% | \$171.3 | 9% | \$2,011.3 |
| Debt | \$ 825.0 | 53% | \$731.0 | 47% | \$1,556.0 |
| Stockholders' equity | 401.2 | 100 | -- | -- | 401.2 |
| Total debt and equity | \$1,226.2 | 63% | \$731.0 | 37% | \$1,957.2 |

Floating rate debt comprises asset securitization borrowings, bank

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borrowings, commercial paper and floating rate swaps of fixed rate notes, and will reprice (interest rates change based on current short-term market interest rates) at April 30, 2008 as follows: \$641.9 million (88%) within one month, \$60.4 million (8%) in two to three months and \$28.7 million (4%) in four to six months. The floating rate swaps of fixed rate notes last repriced in April 2008. The repricing frequencies of floating rate debt follow (in millions):

| | Balance | Repricing Frequency |
|---|----------|-------------------------------|
| Asset securitization borrowings | | |
| - revolving | \$ 225.0 | daily |
| Asset securitization borrowings | | |
| - term | 200.0 | 1 to 30 days |
| Bank borrowings | 176.6 | daily |
| Commercial paper | 66.9 | 1 to 90 days (30 day average) |
| Floating rate swaps of fixed rate notes | 62.5 | semiannually |

We quantify interest rate risk by calculating the effect on net income of a hypothetical, immediate 100 basis point (1.0%) rise in market interest rates. This hypothetical change in rates would reduce quarterly net income by approximately \$0.5 million at April 30, 2008 based on scheduled repricings of floating rate debt, fixed rate debt maturing within one year and the expected effects on the yield of new receivables. This amount increases to \$0.9 million excluding the effect on the yield of new receivables. We believe these amounts are acceptable considering the cost of floating rate debt is lower than fixed rate debt. Actual future changes in market interest rates and the effect on net income may differ from these amounts materially. These hypothetical reductions of quarterly net income at April 30, 2007 were \$0.6 million and \$1.0 million. Other factors that may accompany an actual immediate 100 basis point rise in market interest rates were not considered in the calculation.

We monitor and manage our exposure to potential adverse changes in market interest rates with derivative financial instruments and by changing the proportion of our fixed and floating rate debt. We may use derivatives to hedge our exposure to interest rate risk on existing debt and debt expected to be issued. We do not speculate with or trade derivatives.

We entered into interest rate locks (in the form of Treasury locks) with a total notional amount of \$75.0 million in August 2007. We designated the rate locks as cash flow hedges of our anticipated issuance of fixed rate term notes hedging the risk of higher interest payments on the notes for the first five years from increases in market interest rates before the notes were issued. We paid \$5.9 million when the rate locks expired in January 2008.

We determined there was no hedge ineffectiveness and therefore we recorded the entire payment as a reduction of stockholders' equity in accumulated other comprehensive loss net of deferred income tax of \$2.3 million. We are reclassifying the after-tax amount into net income over the five-year term of the notes issued in February 2008 by increasing interest expense and deferred income tax. This effectively increases the interest rate on the notes.

We also have fixed to floating interest rate swaps with a total notional amount of \$62.5 million at April 30, 2008. The swaps effectively converted fixed rate term notes into floating rate term notes. Semiannually, we receive fixed amounts from the swap counterparty banks equal to the interest we pay on the hedged fixed rate notes, and we pay amounts to the swap counterparty banks equal to the swaps' floating rates multiplied by the swaps' notional amounts. The swaps' floating rates change semiannually to a fixed amount over six-month LIBOR (2.97% at April 30, 2008). The swaps increased interest expense by \$0.4 million and \$0.8 million in the third quarter of fiscal 2008 and 2007, respectively, and

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by \$1.4 million and \$2.3 million in the first nine months of fiscal 2008 and 2007, respectively. The average pay rate of 4.38% at April 30, 2008 was 23 basis points (0.23%) less than the 4.61% average receive rate. The average pay rate was 6.90% and the average

24

receive rate was 4.88% at July 31, 2007. The average remaining term of the swaps at April 30, 2008 is one year. Swaps with a total notional amount of \$80.8 million expired in the first nine months of fiscal 2008 when the swapped fixed rate term notes matured. The swaps have no value at expiration.

NEW ACCOUNTING STANDARDS

Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB 109", ("FIN No. 48") became effective for us on August 1, 2007. FIN No. 48 requires us to determine if any tax positions taken on our income tax returns lowering the amount of tax currently due would more likely than not be allowed by a taxing authority. If tax positions pass this more-likely-than-not test, the benefits recorded from them are limited to the amount having a greater than 50% chance of being realized upon being challenged by a taxing authority. For tax positions failing the more-likely-than-not test, no income tax benefits can be recorded. Applicable interest and penalties on any unrecognized tax benefits must be also accrued.

Applying FIN No. 48 to account for uncertain tax positions was not significantly different from how we previously accounted for uncertain tax positions because our income taxes are straightforward. We have no foreign operations, we are not involved in any questionable tax transactions and we file returns in almost every state with a corporate income tax. Therefore, applying FIN No. 48 did not result in an adjustment to beginning retained earnings nor did it affect our effective tax rate. Our fiscal 2005 and 2004 tax returns were audited by the IRS in fiscal 2007 and our fiscal 1996 and 1995 tax returns were audited by the IRS in fiscal 1997. These audits were completed with no changes to the tax we reported. We only take uncertain positions on our income tax returns when tax law is unclear and subject to interpretation and we believe not taking the position would unfairly distort our income tax liability. One state is currently examining our income tax returns. Our federal tax returns can be examined for three years and our state tax returns for three to five years after we file them.

We record interest and penalties related to uncertain tax positions in income tax expense. The gross liability recorded for uncertain tax positions was \$1.2 million on August 1, 2007 including \$0.2 million of interest and penalties. The entire amount, net of \$0.3 million of federal income tax benefits on state income taxes, would lower our effective tax rate if recognized. There were no material changes to these amounts at April 30, 2008 and we do not expect any significant changes in the next twelve months.

The FASB issued Staff Position ("FSP") APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlements)", in May 2008. This FSP requires a portion of this type of convertible debt to be recorded as equity and to record interest expense on the debt portion at a rate that would have been charged on non-convertible debt with the same terms. This FSP takes effect in the first quarter of fiscal years beginning after December 15, 2008 and will be applied retrospectively for all periods presented. It will take effect for us on August 1, 2009. This FSP will apply to our 2.0% convertible debentures and we are

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evaluating how it may affect our consolidated financial statements.

The FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS No. 157") in September 2006 and SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115" in February 2007. SFAS No. 157 defines fair value (replacing all prior definitions) and creates a framework to measure fair value, but does not create any new fair value measurements. SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value at specified election dates and to report unrealized gains and losses on these items in earnings at each subsequent reporting date. These statements take effect in the first quarter of fiscal years beginning after November 15, 2007 and will take effect for us on August 1, 2008. We are evaluating how they may affect our consolidated financial statements, but we do not expect they will have a material impact.

FORWARD-LOOKING STATEMENTS

Statements in this report containing the words or phrases "expect," "anticipate," "may," "believe," "appears," "estimate," "intend," "could," "should," "would," "if," "outlook" and other words and phrases expressing our expectations are "forward-looking statements." Actual results could differ from those contained in the forward-looking statements materially because they involve various assumptions and known and unknown risks and uncertainties. Information about risk factors that could cause actual results to differ materially is discussed in "Part I, Item 1A Risk Factors" in our Annual

25

Report on Form 10-K for the year ended July 31, 2007 and other sections of this report. Risk factors include (i) an economic slowdown (ii) the inability to collect finance receivables and the sufficiency of the allowance for credit losses (iii) the inability to obtain capital or maintain liquidity (iv) rising short-term market interest rates and adverse changes in the yield curve (v) increased competition (vi) the inability to retain key employees and (vii) adverse conditions in the construction and road transportation industries. Forward-looking statements do not guarantee our future performance and apply only as of the date made. We are not required to update or revise them for future or unanticipated events or circumstances.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Item 2, Market Interest Rate Risk and Sensitivity.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

Our management (with our Chief Executive Officer's and Chief Financial Officer's participation) evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) at the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded our disclosure controls and procedures are effective to ensure information required to be disclosed in reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported timely.

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Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the third quarter of fiscal 2008 that materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

ISSUER PURCHASES OF EQUITY SECURITIES For the Quarter Ended April 30, 2008

| Month | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs |
|------------|--------------------------------------|----------------------------------|--|--|
| March 2008 | 80,659 | \$ 21.20 | 80,659 | \$ 26,749,000 |

We did not sell any unregistered shares of our common stock during the third quarter of fiscal 2008. We established our \$50.0 million common stock and convertible debt repurchase program in June 2007.

Item 5. Other Information

We issued a press release on June 4, 2008 reporting our results for the quarter ended April 30, 2008. The press release is attached as Exhibit 99.1. Exhibit 99.1 shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference.

We issued a press release on June 4, 2008 announcing our Board of Directors declared a quarterly dividend of \$0.15 per share on our common stock. The press release is attached as Exhibit 99.2. The dividend is payable on July 10, 2008 to stockholders of record at the close of business on June 20, 2008. The dividend rate is the same as the previous quarter.

26

Item 6. Exhibits

Exhibit No. Description of Exhibit

- | | | |
|-----|-----|--|
| 3.1 | (a) | Articles of Incorporation |
| 3.2 | (b) | Certificate of Amendment of Articles of Incorporation dated December 9, 1998 |

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- 3.3 (c) Amended and Restated By-laws dated March 5, 2007
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
- 32.1 Section 1350 Certification of Chief Executive Officer
- 32.2 Section 1350 Certification of Chief Financial Officer
- 99.1 Press release dated June 4, 2008
- 99.2 Press release dated June 4, 2008

Previously filed with the Securities and Exchange Commission as an exhibit to our:

-
- (a) Registration Statement on Form S-1 (Registration No. 33-46662) filed May 28, 1992
 - (b) Form 10-Q for the quarter ended January 31, 1999
 - (c) Form 10-Q for the quarter ended January 31, 2007

27

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)

June 5, 2008

(Date)

28