FINANCIAL FEDERAL CORP
Form 10-K
September 28, 2009

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

# FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended July 31, 2009

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 | 88-0244792 |
| (State of incorporation) | (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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of exchange on which registered |
|---|---|
| Common Stock, $0.50 Par Value | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

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 the registrant was required to file such reports), and (2) has been subject to these filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether each registrant has submitted electronically and posted on its corporate Web site every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this Chapter) is not contained in this Form 10-K, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company as defined in Rule 12b-2 of the Exchange Act. (Check one)

| | | | |
|---|---|---|---|
| Large accelerated filer | [X] | 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 [X]

The aggregate market value of common stock held by non-affiliates of the registrant was $513,744,398 based on the January 31, 2009 closing price of the registrant's common stock on the New York Stock Exchange. For purposes of calculating this amount, executive officers and directors of the registrant were deemed to be affiliates.

The number of shares outstanding of the registrant's common stock at September 15, 2009 was 25,904,128.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2009 Annual Meeting of Stockholders, to be held December 8, 2009, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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FINANCIAL FEDERAL CORPORATION AND SUBSIDIARIES

Annual Report on Form 10-K
for the year ended July 31, 2009

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# PART I

## ITEM 1. BUSINESS

Financial Federal Corporation incorporated in Nevada in 1989. We are an independent financial services company with $1.5 billion of assets at July 31, 2009. We provide collateralized lending, financing and leasing services nationwide to small and medium sized businesses with annual revenues typically below $25 million in the general construction, road and infrastructure construction and repair, road transportation and refuse industries. We finance new and used revenue-producing, essential-use equipment from major manufacturers that is movable, has an economic life longer than the term financed, is not subject to rapid technological obsolescence, can be used in more than one type of business and has broad resale markets. We finance bulldozers, buses, cement mixers, compactors, concrete pumps, crawler cranes, earthmovers, excavators, hydraulic truck cranes, loaders, motor graders, pavers, personnel and material lifts, recycling equipment, resurfacers, rough terrain cranes, sanitation trucks, scrapers, trucks, truck tractors and trailers. Virtually all of our finance receivables are secured by a first lien on the equipment financed. We do not have reportable operating segments.

AVAILABLE INFORMATION

Our website is http://www.financialfederal.com. The following filings are available in the Investor Relations section of our website under SEC Filings after they are filed with or furnished to the Securities and Exchange Commission: Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Definitive Proxy Statements and any amendments. Our Corporate Governance Guidelines, Code of Business Conduct and Ethics, and the charters for our Audit Committee, Executive Compensation and Stock Option Committee, and Corporate Governance and Nominating Committee are available in the Investor Relations section of our website under Corporate Governance. These filings and charters are also available free to any stockholder on request to Financial Federal Corporation, 733 Third Avenue, New York, NY 10017, Attn: Corporate Secretary. Please address requests for these filings and charters to 730 Third Avenue, New York, New York after October 2009. We will satisfy the disclosure requirements of Item 5.05 of Form 8-K by posting any amendments or waivers to our Code of Business Conduct and Ethics on our website.

MARKETING

Our marketing activities are relationship and service oriented. We focus on providing prompt, responsive and customized service. Our marketing and managerial personnel average about twenty years of financing experience in the industries they serve. They are full-time employees compensated by salary, not commissions or bonuses, and most are granted equity awards. We believe their experience, knowledge of equipment values, resale markets and local economic and industry conditions, and their relationships with current and prospective customers enable us to compete by providing prompt, responsive and customized service. Our customer service includes making prompt credit decisions, arranging financing terms to meet customers' needs (and our underwriting criteria), providing customers with direct contact to our executives with decision-making authority, and giving prompt, knowledgeable responses to customers' inquiries and business issues.

We have marketing personnel in over twenty locations nationwide, including eight full-service operations centers in Texas, North Carolina, New Jersey, Illinois and California. We originate finance receivables through relationships with equipment dealers and, to a lesser extent, manufacturers (collectively referred to as "vendors") and by marketing our services direct to equipment users to acquire equipment or refinance debt. Vendors refer their customers to us for direct financing and we purchase installment sale contracts, leases and personal property security agreements from vendors who extended credit to their customers. We also provide capital loans and we lease equipment typically under noncancelable full-payout leases. We may also purchase portfolios of finance receivables from vendors and other lenders.

We have relationships with over 100 midsized vendors. We are not obligated to purchase receivables from vendors and vendors are not obligated to sell receivables to us. Our vendor relationships are nonexclusive and we are not dependent on any vendor. We analyze and approve all transactions obtained through vendors.

ORIGINATING, STRUCTURING AND UNDERWRITING FINANCE RECEIVABLES

We originate finance receivables generally between $50,000 and $1.5 million primarily with fixed interest rates and terms of two to five years. Finance receivables require monthly payments and include prepayment premium provisions.

The average transaction size is approximately $250,000. Finance receivables include installment sales, secured loans and leases.



Our underwriting policies and procedures are designed to maximize yields and minimize delinquencies and net charge-offs. We do not use computer credit scoring. We rely on the hands-on experience of our credit officers and management to assess creditworthiness and to evaluate collateral. At least two credit officers approve every transaction.

Structuring transactions involves determining the repayment schedule, rate and other fees and charges, evaluating the equipment being financed and determining the need for (i) liens on additional equipment collateral, accounts receivable, inventory or real property (ii) guarantees from the customer's principals or affiliates (iii) security deposits (iv) delayed funding or (v) full or partial vendor recourse.

We may require vendors and equipment users to submit a credit application. The application includes financial and other information of the applicant and any guarantors, and a description of the equipment. Our credit personnel analyze the application, investigate the applicant's and potential guarantor's credit, evaluate the collateral, investigate financial, trade and industry references and review the applicant's payment history. We may also obtain reports from credit reporting agencies and conduct lien, UCC, litigation, judgment, bankruptcy and tax searches. If we approve the application and the terms of the transaction are agreed to, we purchase an installment sale contract or lease from the vendor or enter into a finance or lease transaction with the equipment user. We fund the transaction upon receiving all necessary documents. Our customers are responsible for maintaining and insuring the equipment financed or leased and for any sales, use or property taxes.

The procedures we use to purchase portfolios of finance receivables include reviewing and analyzing the terms of the receivables, the credit and payment history of the obligors, the documents, the value of the collateral and the yield.

## COLLECTION AND SERVICING

We instruct our customers to mail payments to bank lockboxes. Customers may also choose to pay electronically by automated direct payment, wire transfer or telephone. We monitor past due accounts closely and we are diligent in collecting past due payments. Our collection activities are performed by experienced personnel and managers in each operations center and may involve senior management or the legal department. Senior management reviews all past due accounts at least monthly. Decisions regarding collateral repossession and subsequent sale involve management and the legal department.

## COMPETITION

Our business is competitive. We compete with national and regional banks, manufacturer-owned and other finance and leasing companies, and other financial institutions. Some of our competitors may be better positioned to market their services and financing programs because of their ability to offer more favorable rates and terms and other services. Many of our competitors provide financing at rates lower than we may be willing to provide because they are much larger, have greater financial and other resources and may have lower funding costs. Many of our competitors have also received substantial financial assistance from the U.S. government because of the crisis in credit markets. We compete by emphasizing a high-level of equipment and financial expertise, customer service, flexibility in structuring transactions, management involvement in customer relationships and by attracting and retaining experienced managerial and marketing personnel.

EMPLOYEES

We had 206 full-time employees at July 31, 2009. All employees and officers are salaried. We offer group health, life and disability insurance benefits, a qualified 401(k) plan and Section 125 cafeteria plans. We do not match employees' 401(k) contributions. None of our employees have collective bargaining arrangements. We consider our relations with employees to be satisfactory.

REGULATION

Our commercial financing, lending and leasing activities are not subject to the same degree of regulation as consumer finance or banking activities. We are subject to Federal and State requirements and regulations covering motor vehicle transactions, licensing, documentation and lien perfection. States also limit the rates and fees we can charge. Our failure to comply with these regulations and requirements can result in loss of principal, interest, or finance charges, the imposition of penalties and restrictions on future business activities.

EXECUTIVE OFFICERS

PAUL R. SINSHEIMER, 62, has served as Chairman of the Board and Chief Executive Officer of the Company since December 2000, as President of the Company since September 1998, as an Executive Vice President of the Company from its inception in 1989 to September 1998 and as a director of the Company since its inception. From 1970 to 1989, Mr. Sinsheimer worked for Commercial Alliance Corporation in several positions including Executive Vice President.

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JOHN V. GOLIO, 48, has served as an Executive Vice President of the Company since October 2001, as a Senior Vice President of the Company from 1997 to October 2001, as an Operations Center Manager since joining the Company in January 1996 to October 2001 and as a Vice President of the Company's major operating subsidiary from January 1996 to 1997. Before joining the Company, Mr. Golio worked for Commercial Alliance Corporation and its successors in several positions including branch operations manager.

JAMES H. MAYES, JR., 40, has served as an Executive Vice President of the Company since March 2004 and held several positions including Vice President of the Company's major operating subsidiary and an Operations Center Manager since joining the Company in 1992 to March 2004.

WILLIAM M. GALLAGHER, 60, has served as a Senior Vice President of the Company since 1990, as Chief Credit Officer since 2002, as an Operations Center Manager from the Company's inception in 1989 to 1999 and as a Vice President of the Company from its inception to 1990. From 1973 to 1989, Mr. Gallagher worked for Commercial Alliance Corporation in several positions including Vice President and branch manager.

TROY H. GEISSER, 48, has served as a Senior Vice President and Secretary of the Company since February 1996, as General Counsel from 1996 to 2000 and held several positions including Vice President of the Company's major operating subsidiary and Operations Center Manager since joining the Company in 1990 to 1996. From 1986 to 1990, Mr. Geisser worked for Commercial Alliance Corporation and its successors in several positions including Northern Division Counsel.

STEVEN F. GROTH, CFA, 57, has served as a Senior Vice President and Chief

Financial Officer of the Company since joining the Company in September 2000. Mr. Groth was Senior Banker and Managing Director of Specialty Finance and Transportation with Fleet Bank from 1997 to 2000 and, from 1985 to 1996, he held several positions, including Division Head, with Fleet Bank and its predecessor, NatWest Bank.

ANGELO G. GARUBO, 49, has served as a Vice President and General Counsel of the Company since joining the Company in April 2000. From 1990 to 2000, Mr. Garubo was a partner in the law firm Danzig, Garubo & Kaye where he represented the Company in various legal matters.

DAVID H. HAMM, CPA, 44, has served as a Vice President of the Company since October 2001, as Treasurer since March 2004 and as Controller since joining the Company in July 1996. From 1985 to 1996, Mr. Hamm was employed in the public accounting profession, including eight years as an audit manager.

ITEM 1A. RISK FACTORS

The risks we discuss below are events, conditions and uncertainties we believe could have a meaningful adverse impact on our growth, asset quality, liquidity and net interest spread. Growth, asset quality, liquidity and net interest spread are integral to our business, financial position and profitability.

Growth is important for several reasons. Increasing our size could help reduce our funding costs, retain and attract qualified personnel, finance larger customers and compete more effectively. If we are unable to grow, our funding costs could increase, we could lose personnel and it could be harder for us to compete.

We consider asset quality the most important aspect of our business. Asset quality statistics, delinquencies, non-performing assets and net charge-offs, (i) measure how effectively we collect our receivables (ii) reflect the effectiveness of our underwriting standards, skills, policies and procedures and (iii) can indicate the direction of future net charge-offs and non-performing assets. When asset quality weakens, revenue is reduced, provisions for credit losses increase and operating expenses increase because we would classify more receivables as impaired (stop recognizing income), we would incur more write-downs and we would incur more costs to collect and manage the additional non-performing accounts. Significantly weaker asset quality could also limit our ability to obtain or retain needed capital and could cause our credit ratings to be lowered. We use various strategies to manage credit risk. We discuss asset quality and how we manage credit risk in detail in the Finance Receivables and Asset Quality section in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A").

Liquidity (money currently available for us to borrow) and access to capital (debt and equity) are vital to our operations and growth. We cannot maintain or grow our finance receivables and we may not be able to repay debt if our access to capital is limited. We discuss this in detail in the Liquidity and Capital Resources section of the MD&A.

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Our net interest spread (net yield of finance receivables less cost of debt) is the key component of our profitability. Decreases in net interest spread lower net income. Net interest spread is affected by changes in market interest rates and credit spreads. We discuss this in detail in the Market Interest Rate Risk and Sensitivity section of the MD&A.

RISKS

A slowdown in the economy could reverse our growth and cause the quality of our finance receivables to deteriorate

A recession or less severe economic slowdown would reduce demand for the equipment we finance. This would limit our ability to obtain new business and lower or reverse our finance receivables growth. An economic slowdown would also weaken asset quality because more of our customers would not be able to pay us timely if at all and the value of the equipment securing our finance receivables would decline, possibly significantly. This would increase delinquencies, non-performing assets and net charge-offs.
Therefore, slowing economic conditions would weaken our financial position and profitability, and depending on the severity of the impact, could make it difficult for us to maintain our credit ratings and to obtain needed capital. Most finance companies face this risk, but its effects can be more pronounced on us because we only have one source of revenue and one line of business, commercial equipment financing.

Our inability to collect our finance receivables would cause our asset quality to deteriorate

It is critical for finance companies to collect all amounts owed from their customers. Asset quality weakens when customers fail to make their payments or pay late, or when the value of the equipment securing receivables declines. Therefore, finance companies must underwrite transactions properly and must be diligent in collecting past due accounts. Underwriting includes assessing the customer's creditworthiness, obtaining and assessing the value of collateral and ensuring transactions are documented properly. Equipment values can decline because of excess supply, reduced demand, limited availability of parts and regulatory changes (e.g. higher vehicle emissions standards). We may need to raise dilutive, expensive capital if our inability to collect receivables causes significant write-downs.

Our inability to obtain needed capital or maintain adequate liquidity would reverse our receivables growth

Our ability to obtain new debt or equity or to renew or refinance credit facilities (see the Liquidity and Capital Resources section of our MD&A for information about maturity and expiration dates) could be limited by (i) conditions in and the availability of funds in capital markets as discussed further in the Significant Events section of our MD&A (ii) a significant deterioration in our asset quality (iii) a significant deterioration in our profitability (iv) reductions of our credit ratings (v) the poor performance of other finance companies and (vi) economic conditions. Capital markets have been reluctant to provide capital to finance companies facing these conditions. We may need to sell receivables, possibly at a loss, to finance our operations if we are unable to obtain or renew needed financing.

Rising short-term market interest rates would reduce our net interest spread

Rising short-term market interest rates reduce our net interest spread because our floating rate debt (includes short-term debt) exceeds our floating rate finance receivables significantly (by $448.0 million at July 31, 2009 as adjusted for the $168.6 million August 2009 repayment of fixed rate term notes). Our net interest spread would also decrease when the differences between long and short-term rates narrow (resulting in a "flattening yield curve") or when short-term rates exceed long-term rates (an "inverted yield curve"). Rising short-term interest rates could also cause an economic slowdown, and an inverted yield curve has been a precursor to economic downturns. Most finance companies face this risk, but its effect is more pronounced on us because of the significant difference between our floating rate debt and floating rate receivables. Short-term market interest rates are at or near their lowest levels ever. Therefore, the current risks of rising short-term interest rates are much greater than usual.

We face increased competition because of our small size

Most of our competitors are significantly larger than we are. Larger competitors have many competitive advantages. We compete with large national and regional banks, manufacturer-owned finance companies (commonly called "captives") and other finance and leasing companies. Larger competitors have greater resources, lower-cost funding sources and offer more products and services. This enables them to offer interest rates lower than ours and to finance larger customers. Larger competitors could also lower the rates they offer to levels that we may be unwilling or unable to match because the rates would not be sufficient to cover the level of risk and because our funding costs may be higher. This has been occurring in fiscal 2009 and has contributed to the decrease in finance receivables outstanding, and could reduce our net interest spread if we see the need to lower the rates we charge.



We may not be able to retain employees key to our operations

We have 206 employees and we are highly dependent on a small number of key operating personnel including our CEO. The loss of key operating personnel (i) could impair our ability to maintain or grow our finance receivables and to maintain asset quality because they are familiar with our operating methods and are integral in our customer relationships, and (ii) could impair our ability to raise capital.

There is competition for qualified people in the finance industry and our larger competitors may offer higher salaries and better benefits. We do not have employment contracts with key employees. Instead, we periodically award shares of restricted stock to them with extended vesting periods. It would be difficult for us to replace our key employees.

Our growth and asset quality are highly dependent on conditions in the construction and road transportation industries

Over 80% of our finance receivables are with customers in the construction and road transportation industries. Therefore, a slowdown in or other events or conditions affecting these industries adversely would have similar, or worse, negative effects on us as a general economic slowdown. Many of our construction customers' business depend on State funding. Therefore, limited availability of State funds for construction projects would have a negative effect on their business and cash flows. This limited focus of our business could also limit our ability to grow, could make it difficult for us to expand our business to other industries and could cause us to be affected by slowing economic conditions more severely.

Lending to small, privately owned companies exposes us to increased credit risk

Most of our customers are small to medium sized, privately owned businesses with significantly less resources than larger companies. Therefore, the effects of poor local economic conditions, general economic conditions, rising gasoline and interest costs, loss of key personnel or increased competition on their operations and ability to pay us could be more pronounced because of their size.

Significantly higher prices and limited availability of gasoline could impact our customers severely and weaken our asset quality

Most of the equipment we finance uses gasoline. It is a significant operating expense for our customers and its cost and availability are critical to their operations. Higher than normal increases in its price or a disruption in its supply could hurt our customers' operations and their ability to pay us, and could cause an economic slowdown.

Our allowance for credit losses may be insufficient to cover future net charge-offs

Our allowance for credit losses may be inadequate if our asset quality unexpectedly weakens significantly. This would cause us to record larger provisions for credit losses. We discuss this in detail in the Critical Accounting Policies section of our MD&A.

Our failure to comply with State and Federal lending and leasing regulations could result in write-offs and litigation

Our business activities, including amounts we can charge customers, equipment repossession, lien perfection and documentation, are subject to State and Federal regulations. Our failure to comply with these regulations or changes to these regulations could prevent us from collecting the amounts owed from customers, and could result in lawsuits, penalties and fines against us and restrictions on our ability to do business.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None

## ITEM 2. PROPERTIES

All of our property is leased office space. Our executive office is located at 733 Third Avenue, New York, New York. We also have eight full-service operations centers (where credit analysis and approval, collection and marketing functions are performed) in Houston, Texas (two); Lisle (Chicago), Illinois; Teaneck (New York metropolitan area), New Jersey; Charlotte, North Carolina (three) and Irvine (Los Angeles), California. The office leases terminate on various dates through fiscal 2020. We believe our offices are suitable and adequate for their present and proposed uses, and suitable and adequate offices should be available on reasonable terms as needed. We are moving our executive offices to 730 Third Avenue, New York, New York in October 2009.



## ITEM 3. LEGAL PROCEEDINGS

We are not involved in any legal proceedings we believe could have a material impact on our financial condition or results of operations.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

# PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the New York Stock Exchange under the symbol "FIF." The quarterly high and low closing sales prices of our common stock reported by the New York Stock Exchange and quarterly cash dividends follow:

| | Price Range High | Price Range Low | Cash Dividends per Share |
|---|---|---|---|
| **Fiscal 2009** | | | |
| First Quarter ended October 31, 2008 | $26.35 | $19.17 | $0.15 |
| Second Quarter ended January 31, 2009 | $24.07 | $15.01 | $0.15 |
| Third Quarter ended April 30, 2009 | $24.61 | $17.50 | $0.15 |
| Fourth Quarter ended July 31, 2009 | $25.24 | $18.89 | $0.15 |
| **Fiscal 2008** | | | |
| First Quarter ended October 31, 2007 | $31.60 | $26.26 | $0.15 |
| Second Quarter ended January 31, 2008 | $25.90 | $19.92 | $0.15 |
| Third Quarter ended April 30, 2008 | $24.37 | $19.18 | $0.15 |
| Fourth Quarter ended July 31, 2008 | $25.78 | $20.43 | $0.15 |

We initiated a quarterly cash dividend in December 2004 and raised it by 50% in December 2005 and by 50% again in December 2006. Future cash dividends will depend on our net income, leverage, liquidity, financial condition, capital requirements, cash flow, long-range plans, credit market conditions, income tax laws and other factors the Board of Directors considers relevant.

We established our $50.0 million common stock and convertible debt repurchase program in June 2007. We increased the amount authorized by $23.2 million in September 2008 and by an additional $35.3 million in January 2009. We purchased 0.9 million shares of common stock for $24.0 million and $42.3 million of convertible debentures for $40.6 million since the inception of the program through July 31, 2009. The program does not have an expiration date and $43.9 million remained authorized for future repurchases at July 31, 2009.

The amount of equity we can distribute (dividend payments and common stock repurchases) is limited indirectly by our major operating subsidiary's debt agreements as discussed in the Liquidity section in the MD&A.

There were 68 holders of record of our common stock on September 15, 2009. This amount includes nominees who hold our common stock for investors in "street name." We did not sell unregistered shares of our common stock and we did not repurchase shares of our common stock during the fourth quarter of fiscal 2009.



## STOCK PERFORMANCE GRAPH

The following graph compares the percentage change in cumulative total stockholder return on our common stock during the five-years ended July 31, 2009 with the cumulative total return on the Russell 2000 Index and on the S&P Financials Index. The comparison assumes $100 was invested on July 31, 2004 in each index and all dividends were reinvested. Historical returns are not indicative of future returns.

[THE FOLLOWING TABLE WAS REPRESENTED BY A LINE GRAPH IN THE PRINTED MATERIAL.]

| | 7/04 | 7/05 | 7/06 | 7/07 | 7/08 | 7/09 |
|---|---|---|---|---|---|---|
| Financial Federal Corporation | 100.0 | 120.7 | 128.0 | 137.7 | 114.8 | 103.9 |
| Russell 2000 | 100.0 | 124.8 | 130.1 | 145.8 | 136.1 | 98.4 |
| S&P Financials | 100.0 | 109.7 | 124.4 | 128.4 | 86.0 | 53.7 |



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ITEM 6. SELECTED FINANCIAL DATA

The financial data presented below (dollars in thousands, except per share amounts) should be read with the information in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", and our Consolidated Financial Statements and accompanying notes in Item 8, "Financial Statements and Supplementary Data."

| Years Ended July 31, | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Finance receivables - net | $1,511,391 | $1,916,023 | $2,104,361 | $1,967,588 | $1,641,854 |
| Total assets | 1,548,114 | 1,942,868 | 2,120,074 | 1,988,344 | 1,661,845 |
| Debt | 1,052,000 | 1,467,000 | 1,660,600 | 1,527,661 | 1,259,700 |
| Stockholders' equity | 452,046 | 414,872 | 387,753 | 390,379 | 342,114 |
| Finance income | 157,488 | 188,402 | 191,254 | 162,475 | 126,643 |
| Interest expense | 51,407 | 75,473 | 84,828 | 67,402 | 43,748 |
| Net interest margin | 106,081 | 112,929 | 106,426 | 95,073 | 82,895 |
| Provision for credit losses | 7,900 | 4,000 | -- | -- | 1,500 |
| Salaries and other expenses | 29,537 | 27,323 | 24,945 | 23,676 | 21,477 |
| Net income | 43,148 | 50,084 | 50,050 | 43,619 | 36,652 |
| Earnings per common share, diluted | 1.72 | 2.01 | 1.90 | 1.65 | 1.41 |
| Earnings per common share, basic | 1.75 | 2.05 | 1.94 | 1.68 | 1.44 |
| Cash dividends per common share | 0.60 | 0.60 | 0.55 | 0.37 | 0.20 |
| Leverage | 2.33 | 3.54 | 4.28 | 3.91 | 3.68 |
| Available liquidity | $ 579,000 | $ 357,000 | $ 240,300 | $ 201,400 | $ 88,000 |
| Non-performing assets | 87,043 | 46,724 | 21,159 | 14,559 | 25,330 |
| Delinquent receivables | 37,998 | 22,901 | 9,868 | 8,619 | 10,171 |
| Net charge-offs | 7,662 | 3,223 | 108 | 125 | 1,356 |
| Loss ratio | 0.43% | 0.16% | 0.01% | 0.01% | 0.09% |
| Net interest margin | 5.95 | 5.48 | 5.15 | 5.20 | 5.37 |
| Net interest spread | 4.86 | 4.39 | 3.89 | 4.04 | 4.41 |
| Expense ratio | 1.66 | 1.33 | 1.21 | 1.30 | 1.39 |
| Efficiency ratio | 27.80 | 24.20 | 23.40 | 24.90 | 25.90 |
| Return on equity | 10.00 | 12.50 | 12.90 | 11.90 | 11.30 |

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Financial Federal Corporation ("FFC") is an independent financial services holding company operating in the United States primarily through one subsidiary. 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 two fully consolidated special purpose entities for our on-balance-sheet asset securitization facilities.

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 between two and five years and require 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 very important. We borrow from banks and insurance companies and we issue commercial paper to other investors. Approximately 70% of our finance receivables were funded with debt at July 31, 2009.

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. Classifying receivables as impaired, incurring write-downs and incurring costs associated with non-performing assets can have an adverse affect on our finance income, provisions for credit



losses and operating expenses. Changes in market interest rates can also affect our profitability significantly because the interest rates on our finance receivables were 92% fixed and 8% floating, and the interest rates on our debt were 62% fixed and 38% floating at July 31, 2009. We use various strategies to manage our credit risk and interest rate risk. These four areas are 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, leverage, available liquidity, receivables growth, return on equity, net interest margin and net interest spread, and expense and efficiency ratios.

Significant events

We obtained a new $100.0 million asset securitization facility in April 2009. The facility provides for committed revolving financing through April 2010. We also renewed our existing $325.0 million securitization facility for one year in June 2009. This facility now expires in June 2010. We discuss these facilities in the Liquidity and Capital Resources section.

We repaid the entire $175.0 million of 2.0% convertible debentures in fiscal 2009. We repaid $132.7 million at their principal amount in April 2009 because all holders chose to exercise their first five-year put option as we expected and we purchased $42.3 million of the debentures in the open market in the second quarter of fiscal 2009 for $40.6 million. This resulted in a $1.6 million debt retirement gain (net of $0.1 million of unamortized deferred debt issuance costs).

In July 2009, we offered to prepay, for their principal amount, (i) the $25.0 million of seven-year 4.96% term notes maturing in April and June 2010 and (ii) the $250.0 million of five-year 5.00% term notes maturing in May and August 2010. All holders of the seven-year 4.96% term notes accepted the offer and we repaid the notes in July 2009, and holders of $168.6 million of the five-year 5.00% term notes accepted the offer and we repaid $168.6 million of the notes in August 2009. There was no gain or loss on these prepayments. The note holders accepted our offer to prepay these notes at principal even though they were entitled to a prepayment premium.

We decided to prepay these term notes because (i) their rates were significantly higher than the rates on borrowings available under our unused bank credit and asset securitization facilities (ii) they had short maturities of nine and twelve months and (iii) we had over $580.0 million of available liquidity. Based on this liquidity level, our outlook for the economy and the level of receivables originations expected for fiscal 2010, and the relatively small amount of credit facilities expiring in fiscal 2010, we determined we did not need this debt. We financed the prepayment with borrowings under our committed bank credit facilities. The interest rates on these bank borrowings were 425 bps (4.25%) lower than the rates on the term notes.

It is still difficult and expensive for finance companies to obtain or renew financing because of the crisis in credit markets that began approximately two years ago, although conditions appear to be improving. Most banks and other lenders, including all of our funding sources, are lending selectively and are charging much higher credit spreads. Credit spread is the percentage amount lenders charge above a base market interest rate. Our cost of debt will increase considerably as we obtain or renew financing if credit spreads persist at these levels. The credit spread on our new and renewed asset securitization facilities are higher than the credit spread we were previously charged.

The U.S. government has taken unprecedented, drastic steps to support credit markets and improve the flow of capital. The Federal Reserve has lowered its target Federal Funds Rate ten times since September 2007 to between 0.00% and 0.25%; the lowest level in history. This includes three decreases totaling 175 basis points in fiscal 2009. The government has also injected over $1.0 trillion into the financial system through several programs to prevent it from failing and to encourage lending.

Our available liquidity has increased by $339.0 million to $579.0 million at July 31, 2009 from $240.0 million at July 31, 2007 (the approximate start of the credit markets crisis). The increase resulted from significantly lower receivable originations, our ability to obtain and renew financing and strong operating cash flows. Our liquidity was $410.4 million after the August 2009 repayment of term notes. Based on the amount of our available liquidity, the maturity and expiration dates of our debt and credit facilities, and receivable originations and collections continuing at recent levels, we do not anticipate a need for any new financing until the third quarter of fiscal 2011. We discuss our liquidity and debt in the Liquidity and Capital Resources section.

In addition, our cost of debt has decreased during the crisis because (i) short-term market interest rates decreased significantly (ii) the relatively small amount and timing of expiring credit facilities and maturing debt have limited the impact of higher credit spreads and (iii) we have $455.0 million of low-cost committed bank credit facilities without any restrictions on borrowing the full amount. Our cost of debt was 4.12% in the fourth quarter of fiscal 2009 compared to 5.35% in the fourth quarter of fiscal 2007 (the quarter before the crisis started). The repayment of $193.6 million of term notes in July and

August 2009 will lower our cost of debt in fiscal 2010, but we otherwise expect our cost of debt to increase because short-term market interest rates are at historic lows and we have been and will be charged higher credit spreads as we renew or obtain financing. We discuss our cost of debt in the Market Interest Rate Risk and Sensitivity section.

Maintaining conservative leverage and ample liquidity, having multi-year committed bank credit facilities and term debt with staggered maturities, and our approach to managing credit risk on our finance receivables (as discussed in the Finance Receivables and Asset Quality section) have been integral to our success during this difficult period.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Applying accounting principles generally accepted in the United States requires judgment, assumptions and estimates to record the amounts in the Consolidated Financial Statements and accompanying notes. We describe the significant accounting policies and methods we use to prepare the Consolidated Financial Statements in Note 1. 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 receivables, net charge-off experience, impaired and delinquent receivables and our current assessment of the risks inherent in our receivables from national and regional economic conditions, industry conditions, concentrations, the financial condition of customers and guarantors, collateral values and other factors. We may 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 $1.5 million provision for each 0.10% required increase in the allowance. The allowance was $25.0 million (1.63% of finance receivables) at July 31, 2009 including $1.1 million specifically allocated to impaired receivables.

The allowance includes amounts specifically allocated to impaired receivables and an amount to provide for losses inherent in finance receivables not impaired (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 fair value 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. We do not have a fixed formula or a pre-determined period of past due status to record write-downs or specific reserves and we do not write-off our entire net investment because our receivables are secured by collateral that retains value, and we do not lend to consumers.

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 do not use a loan grading system. We then adjust the calculated range of losses for expected recoveries and 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. The adjusted calculated range of losses may differ from actual losses significantly because we use significant estimates.

Non-Performing Assets

We record impaired finance receivables and repossessed equipment (assets received to satisfy receivables) at the lower of their current estimated fair value or 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 were $87.0 million (5.7% of finance receivables) at July 31, 2009.

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 realize the full amount of recorded residual values because of unexpected adverse changes in or incorrect projections of future equipment values. This would lower net income. Residual values were $31.5 million (2.0% of finance receivables) at July 31, 2009. Historically, we have realized recorded residual values on disposition.

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Income Taxes

We record a liability for uncertain income tax positions by (i) identifying the uncertain tax positions we take on our income tax returns (ii) determining if these positions would more likely than not be allowed by a taxing authority and (iii) estimating the amount of tax benefit to record if these tax positions pass the more-likely-than-not test. Therefore, we record a liability for tax benefits from positions failing the test and from positions we do not expect to realize all of the tax benefits. 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 we have to assess the likely outcome of hypothetical challenges to these positions by taxing authorities. Actual outcomes of challenges to 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. This would lower net income. The gross liability recorded for uncertain tax positions was $1.3 million at July 31, 2009 and we do not expect this amount to change significantly in fiscal 2010.

Stock-Based Compensation

We record compensation expense only for stock-based awards expected to vest. Therefore, we must estimate expected forfeitures of stock awards. This requires significant judgment and an analysis of historical data. We would need to record more compensation expense for stock awards if expected forfeitures exceed actual forfeitures. Our average expected annual rate of forfeitures on all stock awards was 2.3% at July 31, 2009 resulting in 0.2 million stock awards expected to be forfeited.

RESULTS OF OPERATIONS

COMPARISON OF FISCAL 2009 TO FISCAL 2008

| ($ in millions, except per share amounts) | Years Ended July 31, 2009 | 2008 | $ Change | % Change |
|---|---|---|---|---|
| Finance income | $157.5 | $188.4 | $ (30.9) | (16)% |
| Interest expense | 51.4 | 75.5 | (24.1) | (32) |
| Net finance income before provision for credit losses | 106.1 | 112.9 | (6.8) | (6) |
| Provision for credit losses | 7.9 | 4.0 | 3.9 | 98 |
| Gain on debt retirement | 1.6 | -- | 1.6 | 100 |
| Salaries and other expenses | 29.6 | 27.3 | 2.3 | 8 |
| Provision for income taxes | 27.1 | 31.5 | (4.4) | (14) |
| Net income | 43.1 | 50.1 | (7.0) | (14) |
| Diluted earnings per share | 1.72 | 2.01 | (0.29) | (14) |
| Basic earnings per share | 1.75 | 2.05 | (0.30) | (15) |
| Return-on-equity | 10.0% | 12.5% | | |
| Excluding the debt retirement gain: | | | | |
| Net income | $42.1 | $50.1 | $ (8.0) | (16)% |
| Diluted earnings per share | 1.68 | 2.01 | (0.33) | (16) |
| Basic earnings per share | 1.71 | 2.05 | (0.34) | (17) |
| Return-on-equity | 9.7% | 12.5% | | |

Net income decreased by 14% to $43.1 million in fiscal 2009 from $50.1 million in fiscal 2008. Without the $1.0 million after-tax debt retirement gain, net income decreased by 16%. Net income without the after-tax debt retirement gain decreased because the effects of the 14% decrease in average receivables and higher non-performing assets exceeded the effects of lower short-term market interest rates.

Finance income decreased by 16% to $157.5 million in fiscal 2009 from $188.4 million in fiscal 2008 because (i) average finance receivables decreased 14% ($280.0 million) to $1.78 billion from $2.06 billion (ii) the yield on finance receivables decreased to 8.84% from 9.14% mostly due to the prime rate averaging 270 basis points (2.70%) lower and, to a lesser extent, (iii) higher impaired receivables.



Interest expense (incurred on debt used to fund finance receivables) decreased by 32% to $51.4 million in fiscal 2009 from $75.5 million in fiscal 2008 because our average debt decreased 19% ($300.0 million) and our cost of debt decreased to 3.98% from 4.75%. Lower short-term market interest rates caused the decrease in our cost of debt because the interest rates on over 40% of our debt were indexed to short-term market interest rates. We discuss this in the Market Interest Rate Risk and Sensitivity section.

Net finance income before provision for credit losses on finance receivables decreased by 6% to $106.1 million in fiscal 2009 from $112.9 million in fiscal 2008. Net interest margin (net finance income before provision for credit losses expressed as a percentage of average finance receivables) increased to 5.95% from 5.48% because of lower short-term market interest rates.

The provision for credit losses on finance receivables was $7.9 million in fiscal 2009 and $4.0 million in fiscal 2008. Net charge-offs (write-downs of finance receivables less recoveries) increased to $7.7 million in fiscal 2009 from $3.2 million in fiscal 2008, and the loss ratio (net charge-offs expressed as a percentage of average finance receivables) increased to 0.43% from 0.16%. Net charge-offs have been increasing because of higher non-performing assets, the recession and declining collateral values. We discuss the allowance and net charge-offs further in the Finance Receivables and Asset Quality section.

Salaries and other expenses increased by 8% to $29.6 million in fiscal 2009 from $27.3 million in fiscal 2008 because of higher non-performing asset costs and, to a lesser extent, because we deferred a lower percentage of salary costs as a result of the decrease in receivables originated. The expense ratio (salaries and other expenses expressed as a percentage of average finance receivables) worsened to 1.66% from 1.33% because expenses increased and receivables decreased. The efficiency ratio (expense ratio expressed as a percentage of net interest margin) worsened to 27.8% from 24.2% because expenses increased and net finance income before provision for credit losses decreased.

The provision for income taxes decreased to $27.1 million in fiscal 2009 from $31.5 million in fiscal 2008 because of the decrease in net income. Our effective tax rate was 38.6% in fiscal 2009 and 2008.

Diluted earnings per share decreased by 14% to $1.72 in fiscal 2009 from $2.01 in fiscal 2008 and basic earnings per share decreased by 15% to $1.75 from $2.05 because of the decrease in net income. The $1.0 million after-tax debt retirement gain increased diluted and basic earnings per share by $0.04 in fiscal 2009. Without this gain, diluted earnings per share decreased by 16% and basic earnings per share decreased by 17%.

The amounts of net income, diluted and basic earnings per share and return-on-equity excluding the $1.0 million after-tax debt retirement gain are non-GAAP financial measures. We believe presenting these financial measures is useful to investors because they provide consistency and comparability with our operating results for the prior period and a better understanding of the changes and trends in our operating results.

COMPARISON OF FISCAL 2008 TO FISCAL 2007

| ($ in millions, except per share amounts) | Years Ended July 31, 2008 | 2007 | $ Change | % Change |
|---|---|---|---|---|
| Finance income | $188.4 | $191.2 | $(2.8) | (1)% |
| Interest expense | 75.5 | 84.8 | (9.3) | (11) |
| Net finance income before provision for credit losses | 112.9 | 106.4 | 6.5 | 6 |
| Provision for credit losses | 4.0 | -- | 4.0 | 100 |
| Salaries and other expenses | 27.3 | 24.9 | 2.4 | 10 |
| Provision for income taxes | 31.5 | 31.4 | 0.1 | -- |
| Net income | 50.1 | 50.1 | -- | -- |
| | | | | |
| Diluted earnings per share | 2.01 | 1.90 | 0.11 | 6 |
| Basic earnings per share | 2.05 | 1.94 | 0.11 | 6 |

| | | |
|---|---|---|
| Return-on-equity | 12.5% | 12.9% |

Net income was $50.1 million in fiscal 2008 and 2007 because the net positive effects of lower short-term market interest rates and the negative effects of higher non-performing assets offset.

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Finance income decreased by 1% to $188.4 million in fiscal 2008 from $191.2 million in fiscal 2007 because the net yield on finance receivables declined slightly to 9.14% in fiscal 2008 from 9.25% in fiscal 2007. The 325 basis point (3.25%) decrease in the prime rate and higher non-accrual receivables caused the decline. Decreases in the prime rate lower the net yield because 9% of our receivables are indexed to the prime rate. The change in average receivables was not significant.

Interest expense decreased by 11% to $75.5 million in fiscal 2008 from $84.8 million in fiscal 2007 because our cost of debt declined to 4.75% in fiscal 2008 from 5.36% in fiscal 2007. Lower short-term market interest rates caused the decline because 50% of our debt was indexed to short-term market interest rates in fiscal 2008. The change in average debt was not significant.

Net finance income before provision for credit losses on finance receivables increased by 6% to $112.9 million in fiscal 2008 from $106.4 million in fiscal 2007. Net interest margin increased to 5.48% in fiscal 2008 from 5.15% in fiscal 2007 because of lower short-term market interest rates.

We recorded a $4.0 million provision for credit losses on finance receivables in fiscal 2008. We did not record a provision in fiscal 2007. 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 increased to $3.2 million in fiscal 2008 from $108,000 in fiscal 2007, and the loss ratio increased to 0.16% in fiscal 2008 from less than 0.01% in fiscal 2007. Net charge-offs have been increasing because of higher non-performing assets.

Salaries and other expenses increased by 10% to $27.3 million in fiscal 2008 from $24.9 million in fiscal 2007. The increase resulted from higher non-performing asset costs and, to a lesser extent, salary increases. The expense ratio worsened to 1.33% in fiscal 2008 from 1.21% in fiscal 2007 because of the increase in expenses. The efficiency ratio worsened to 24.2% in fiscal 2008 from 23.4% in fiscal 2007 because the percentage increase in expenses exceeded the percentage increase in net finance income before provision for credit losses.

The provision for income taxes was $31.5 million in fiscal 2008 and $31.4 million in fiscal 2007. The change was not significant because income before income taxes increased by $0.1 million and our effective tax rate was 38.6% in fiscal 2008 and 2007.

Diluted earnings per share increased by 6% to $2.01 per share in fiscal 2008 from $1.90 per share in fiscal 2007, and basic earnings per share increased by 6% to $2.05 per share in fiscal 2008 from $1.94 per share in 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 six fiscal quarters.

FINANCE RECEIVABLES AND ASSET QUALITY

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 of future net charge-offs and non-performing assets.

| ($ in millions) | July 31, 2009 * | July 31, 2008 * | $ Change | % Change |
|---|---|---|---|---|
| Finance receivables | $1,536.4 | $1,940.8 | $(404.4) | (21)% |
| Allowance for credit losses | 25.0 | 24.8 | 0.2 | 1 |
| Non-performing assets | 87.0 | 46.7 | 40.3 | 86 |
| Delinquent finance receivables | 38.0 | 22.9 | 15.1 | 66 |
| Net charge-offs | 7.7 | 3.2 | 4.5 | 138 |
| As a percentage of receivables: | | | | |
| Allowance for credit losses | 1.63% | 1.28% | | |
| Non-performing assets | 5.67 | 2.41 | | |
| Delinquent finance receivables | 2.47 | 1.18 | | |
| Net charge-offs (loss ratio) | 0.43 | 0.16 | | |

* as of and for the year ended

Finance receivables comprise installment sale agreements and secured loans (collectively referred to as loans) and direct financing leases. Loans were 91% ($1.41 billion) of finance receivables and leases were 9% ($131 million) at July 31, 2009. Finance receivables decreased $404.4 million or 21% in fiscal 2009 because of lower originations.

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We originated $487.7 million of finance receivables in fiscal 2009 compared to $923.8 million in fiscal 2008. Originations decreased because the recession has reduced equipment financing demand significantly and because we are approving transactions selectively to preserve asset quality. We collected $861.9 million of finance receivables and repossessions in fiscal 2009 compared to $1.08 billion in 2008. Collections decreased because of lower receivables, fewer prepayments and the increase in delinquent receivables.

Our primary focus is the credit quality of our receivables. We manage our credit risk by adhering to disciplined and sound underwriting policies and procedures, by monitoring our receivables closely, by handling non-performing accounts effectively and by managing the size of our receivables portfolio. 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 also limit our credit exposure with any customer. The limit was $40.0 million at July 31, 2009. Our ten largest customers accounted for 8.0% ($125.0 million) of total finance receivables at July 31, 2009 compared to 6.4% ($125.0 million) at July 31, 2008.

Our allowance for credit losses was $25.0 million at July 31, 2009 compared to $24.8 million at July 31, 2008, and the allowance level increased to 1.63% of finance receivables from 1.28%. 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 estimates of inherent losses increased during fiscal 2009 because of higher net charge-offs, delinquencies and non-performing assets.

Net charge-offs of finance receivables (write-downs less recoveries) were $7.7 million in fiscal 2009 compared to $3.2 million in fiscal 2008 and the loss ratios were 0.43% and 0.16%. Net charge-offs have been increasing because the recession is having an adverse impact on our customers' cash flows and collateral values.

The net investments in 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):

| July 31, | 2009 | 2008 |
|---|---|---|
| Impaired receivables * | $ 64.5 | $ 33.5 |
| Repossessed equipment | 22.5 | 13.2 |
| Total non-performing assets | $ 87.0 | $ 46.7 |
| Delinquent receivables | $ 38.0 | $ 22.9 |
| Impaired receivables not delinquent | 60% | 52% |

* before specifically allocated allowance of $1.1 million at July 31, 2009 and $0.9 million at July 31, 2008

We expect the trend of increases in net charge-offs, impaired and delinquent receivables and repossessed equipment to continue because of the recession's worsening impact on our customers. This could require us to record higher provisions for credit losses.

Our finance receivables contain industry and geographic concentrations of credit risk. These concentrations result from customers having similar economic characteristics that could cause their ability to repay us to be affected by changes in economic or other conditions similarly. Our industry concentrations were construction related-44%, road transportation-36% and refuse-13%, and our U.S. regional geographic concentrations were Southwest-30%, Southeast-25%, Northeast-19%, Central-13% and West-13% at July 31, 2009.



LIQUIDITY AND CAPITAL RESOURCES

We describe our need for raising capital (debt and equity), our need to maintain a substantial amount of liquidity (money currently available for us to borrow), how we manage liquidity and our funding sources in this section. Key indicators are leverage (the number of times debt exceeds equity), available liquidity, credit ratings and debt maturities. Our leverage is low for a finance company, we have ample liquidity available, we have been successful in issuing debt and our debt is diversified with maturities staggered over five years. We are not dependent on any of our funding sources or providers.

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. The external funding sources may not be available to us currently or may only be available at unfavorable terms because of credit markets conditions. However, we have $410.4 million available to borrow under our committed revolving bank and asset securitization facilities (after subtracting commercial paper outstanding) at July 31, 2009 (as adjusted for the $168.6 million August 2009 repayment of term notes). Therefore, we do not have a current need for additional financing.

Changes in our liquidity for fiscal 2009 and 2008 are summarized below:

| July 31, | 2009 | 2008 |
|---|---|---|
| Liquidity - beginning of year | $ 357.0 | $ 240.3 |
| Decrease in receivables (excludes non-cash items) | 374.2 | 158.9 |
| New financing | 100.0 | 100.0 |
| Operating cash flow | 54.0 | 72.8 |
| Debt repaid and expired credit facilities | (291.3) | (179.3) |
| Dividends paid and common stock repurchased | (16.3) | (33.8) |
| Other | 1.4 | (1.9) |
| Liquidity - end of year | 579.0 | 357.0 |
| Debt prepaid in August 2009 | (168.6) | -- |
| Liquidity, as adjusted | $ 410.4 | $ 357.0 |
| Increase in liquidity, as adjusted | $ 53.4 | $ 116.7 |

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 affirmed these investment grade ratings in March 2009 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 bank and securitization credit facilities. Our ability to obtain or renew financing and our credit spreads can be dependent on these investment grade credit ratings.

We obtained all of our debt and credit facilities through our major operating subsidiary except for the convertible debentures (issued by FFC). The subsidiary's debt agreements have restrictive covenants limiting its indebtedness, encumbrances, investments, sales of assets, mergers and other business combinations, capital expenditures, interest coverage, net worth and dividends and other distributions to FFC. The subsidiary has always complied with all debt covenants and restrictions. None of the agreements or facilities has a material adverse change clause and all of our debt is senior.

Our leverage (debt-to-equity ratio) has decreased to 2.3 at July 31, 2009 from 3.5 at July 31, 2008 and from 4.3 at July 31, 2007 because we have remained profitable while contracting during the credit markets crisis and recession. As a result, debt decreased by 28% ($415.0 million) to $1.05 billion from $1.47 billion during fiscal 2009 and stockholders' equity increased by 9% ($37.0 million) to $452.0 million from $415.0 million. Our low leverage level allows for substantial asset growth and equity distributions and repurchases.



Debt comprised the following ($ in millions):

| | July 31, 2009 | | July 31, 2008 | |
|---|---|---|---|---|
| | Amount | Percent | Amount | Percent |
| Term notes | $ 650.0 | 62% | $ 675.0 | 46% |
| Bank borrowings | 197.0 | 19 | 369.0 | 25 |
| Commercial paper | 104.0 | 10 | 79.0 | 5 |
| Asset securitization borrowings - term | 101.0 | 9 | 169.0 | 12 |
| Convertible debentures | -- | -- | 175.0 | 12 |
| Total debt | $1,052.0 | 100% | $1,467.0 | 100% |

Term Notes

We issued the term notes between fiscal 2005 and 2008. They are five and seven year fixed rate notes with principal due at maturity between May 2010 and April 2014. We prepaid $168.6 million of the term notes in August 2009. Interest is payable semiannually. Maturity information for the notes is in the Contractual Obligations section below.

Bank Credit Facilities

We have $455.0 million of committed unsecured revolving credit facilities from ten banks with original terms between two and five years, and $258.0 million was unused and available for us to borrow at July 31, 2009. The facilities range from $15.0 million to $110.0 million. Borrowings under the facilities can mature between 1 and 270 days. We borrow amounts for one day, one week or one month depending on interest rates, and roll the borrowings over when they mature depending on our financing needs and whether we issue or repay other debt. Borrowings outstanding at July 31, 2009 matured in August 2009, were reborrowed and remain outstanding. The facilities expire as follows (in millions):

| Fiscal: | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| | $95.0 | $85.0 | $260.0 | $15.0 |

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 might be renewed, extended or increased before they expire. Bank credit facility activity is summarized below ($ in millions):

| Years Ended July 31, | 2009 | 2008 |
|---|---|---|

| | Amount | # of Banks | Amount | # of Banks |
|---|---|---|---|---|
| Total - beginning of year | $ 480.0 | 10 | $ 580.0 | 11 |
| Expired not renewed | (25.0) | 1 | (25.0) | 1 |
| Converted into term notes | -- | -- | (75.0) | 2 |
| Total - end of year | $ 455.0 | 10 | $ 480.0 | 10 |
| Renewed at expiration | $ 30.0 | 1 | $ 25.0 | 1 |
| Term extended before expiration | $ 15.0 | 1 | $ 15.0 | 1 |

Asset Securitization Borrowings

We have $425.0 million of asset securitization facilities that provide for committed revolving financing during their term and we can convert borrowings into amortizing term debt if the facilities are not renewed. The amortizing term debt would be repaid monthly from collections of securitized receivables and would be repaid substantially within two years. The full amount of the facilities was unused and available for us to borrow at July 31, 2009. Borrowings under these facilities and the amortizing term debt are without recourse.

We converted $200.0 million of revolving asset securitization borrowings into amortizing term debt in fiscal 2008 and are repaying the remaining $101.0 million monthly from collections of securitized receivables. The monthly repayment amounts vary based on the amount of securitized receivables collected and the amount borrowed under our $325.0 million facility, and would increase if we borrow under this facility or convert it into amortizing term debt upon nonrenewal. The term debt would be repaid substantially in two years based on the amount of securitized receivables at July 31, 2009 and not borrowing under this facility.

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Finance receivables included $167.0 million of securitized receivables at July 31, 2009 and $410.0 million at July 31, 2008. The amount of receivables we can securitize is limited to 50% of our major operating subsidiary's receivables because of restrictions in its other debt agreements. This limit was $760.0 million at July 31, 2009. Borrowings under these facilities and the amortizing term debt are limited to 90% of securitized receivables classified as eligible. Securitized receivables classified as impaired or with terms outside of defined limits are not eligible.

These facilities would terminate if net charge-offs of securitized receivables or if delinquent receivables exceed certain levels. This would convert borrowings outstanding into amortizing term debt required to be repaid monthly from collections of securitized receivables.

Commercial Paper

We issue commercial paper direct and through a $500.0 million dealer program with maturities between 1 and 270 days. The amount of commercial paper we could issue is limited to the lower of $500.0 million and the unused amount of our committed credit facilities ($683.0 million at July 31, 2009).

There is still reduced demand for and higher credit spreads on our commercial paper because of credit market conditions. As a result, our commercial paper was $104.0 million at July 31, 2009 compared to $289.7 million at July 31, 2007.

Information on the combined amounts of bank borrowings and commercial paper follows (in millions):

| Years Ended July 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| Maximum outstanding during the year | $ 446.0 | $ 630.0 | $ 393.7 |
| Average outstanding during the year | 366.0 | 469.0 | 329.6 |
| Outstanding at end of year | 301.0 | 448.0 | 339.7 |

Contractual Obligations

Our long-term contractual obligations and other information at July 31, 2009 are summarized below ($ in millions):

| | | | | | Payments Due by Fiscal Y | | |
|---|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 - 2020 | T |
| Term notes | $ 225.0 | $ 185.0 | $ 75.0 | $ 115.0 | $ 50.0 | $ -- | $ 6 |
| Asset securitization borrowings - term | 58.0 | 43.0 | -- | -- | -- | -- | 1 |
| Operating leases | 1.4 | 1.6 | 1.1 | 0.6 | 0.5 | 2.1 | |
| Total payments | $ 284.4 | $ 229.6 | $ 76.1 | $ 115.6 | $ 50.5 | $ 2.1 | $ 7 |
| Percentage | 38% | 30% | 10% | 15% | 7% | --% | |
| Other debt | $ 301.0 | $ -- | $ -- | $ -- | $ -- | $ -- | $ 3 |
| Cumulative payments | $ 585.4 | $ 815.0 | $ 891.1 | $1,006.7 | $1,057.2 | $1,059.3 | |
| Cumulative scheduled collections of finance receivables | $ 621.4 | $1,065.7 | $1,352.3 | $1,476.8 | $1,519.5 | $1,536.4 | |

The average maturity of our term notes (excluding the $168.6 million of term notes prepaid in August 2009) was 2.5 years at July 31, 2009 and 2008. The term notes and term asset securitization borrowings are discussed in Note 3 to the Consolidated Financial Statements and operating leases in Note 10. Other debt is bank borrowings and commercial paper that we can refinance under our long-term committed bank and asset securitization credit facilities expiring on various dates through fiscal 2013. As shown in the table, cumulative scheduled collections of finance receivables exceed cumulative payments under contractual obligations each year.

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Stockholders' Equity

We increased the amount authorized under our common stock and convertible debt repurchase program by $58.5 million in fiscal 2009. We also purchased $42.3 million of our convertible debentures under the program for $40.6 million and 37,000 shares of our common stock for $0.8 million, leaving $43.9 million authorized for future repurchases at July 31, 2009. We established the program in fiscal 2007 and it does not have an expiration date. Repurchases are discretionary and contingent upon many conditions.

The amount of equity we can distribute to stockholders is limited, indirectly, because the amount of funds we can obtain from our major operating subsidiary is restricted by its debt agreements. As a result, the amount of stockholders' equity we could distribute at July 31, 2009 was limited to $144.0 million.

We paid $15.5 million and $15.4 million of cash dividends and we received $1.3 million and $6.4 million from stock option exercises in fiscal 2009 and 2008, respectively.

MARKET INTEREST RATE RISK AND SENSITIVITY

We discuss how changes in market interest rates and credit spreads 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:

| Years Ended July 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| Net yield of finance receivables | 8.84% | 9.14% | 9.25% |
| Cost of debt | 3.98 | 4.75 | 5.36 |
| Net interest spread | 4.86% | 4.39% | 3.89% |

Our net interest spread was 47 basis points (0.47%) higher in fiscal 2009 compared to fiscal 2008 because decreases in market interest rates lowered our cost of debt more than they lowered the net yield on our finance receivables as explained below. Short-term market interest rates have decreased significantly since July 2007 because the Federal Reserve lowered its target Federal Funds Rate more than 500 basis points (5.00%) in response to credit market and economic conditions. Short-term LIBOR rates decreased on average 490 basis points (4.90%) with overnight LIBOR decreasing more than 500 basis points to 0.23% at July 31, 2009. Interest rates on most of our floating rate debt are indexed to short-term LIBOR rates. This is the primary reason our cost of debt decreased in fiscal 2009. Decreases in short-term market interest rates also lowered the net yield because the rates on our floating rate receivables are indexed to the prime rate. The prime rate also decreased by 500 basis points since July 2007. Long-term market interest rates also decreased significantly. Lower long-term market interest rates normally would decrease the cost of new fixed-rate term debt and result in lower yields on finance receivable originations, but these effects have been offset largely by significantly higher credit spreads.

Our net interest spread is sensitive to changes in short 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 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 38% of our debt is floating rate compared to floating rate receivables of only 8%.

Credit spreads also affect our net interest spread. Changes in credit spreads affect the yield on our receivables when originated and the cost of our debt when issued. Credit spreads have increased significantly since the crisis in credit markets began. Our cost of debt will increase considerably as we obtain or renew financing if credit spreads remain high.

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 largely 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 a flat or inverted yield curve by issuing long-term fixed rate debt.



Our income is subject to the risk of rising short-term market interest rates and changes in the yield curve because floating rate debt exceeded floating rate receivables by $279.8 million at July 31, 2009 as shown in the table below and by $448.4 million as adjusted for the $168.6 million August 2009 repayment of fixed rate term notes. The terms and prepayment experience of fixed rate receivables mitigate this risk. We collect receivables monthly over short periods of two to five years. Fixed rate receivables have an average remaining life excluding prepayments of approximately eighteen months at July 31, 2009 and scheduled collections of $570.0 million (40%) in fiscal 2010. Historically, annual collections have exceeded 50% of average receivables because of prepayment activity. We do not match the maturities of our debt to our receivables.

We monitor our exposure to potential adverse changes in market interest rates by comparing the fixed and floating rate percentages of our receivables and debt and by determining the potential impact adverse changes in market interest rates could have on our net income. We may hedge our exposure to this interest rate risk by entering into derivatives on existing debt or debt we expect to issue, and we may change the proportion of our fixed and floating rate debt. We do not speculate with or trade derivatives. We had no derivatives outstanding in fiscal 2009.

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 annual net income by approximately $1.3 million at July 31, 2009 based on the scheduled repricing of floating rate debt, fixed rate debt maturing within one year, the expected effects on the yield of new receivables and including the prepayment of $168.6 million of fixed rate term notes in August 2009. This amount increases to $2.6 million excluding the effects 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 their effect on net income may differ from these amounts materially. Other factors that may accompany an actual immediate 100 basis point rise in market interest rates were not considered in the calculation. These hypothetical reductions of net income at July 31, 2008 were $1.5 million with the effects on the yield of new receivables and $3.0 million without the effects on the yield of new receivables. The impact of this hypothetical increase in rates was lower at July 31, 2009 because our floating rate debt decreased by 35% to $402.0 million from $617.0 million at July 31, 2008.

The fixed and floating rate amounts and percentages of our receivables and capital at July 31, 2009 follow ($ in millions):

| | Fixed Rate | | Floating Rate | | |
|---|---|---|---|---|---|
| | Amount | Percent | Amount | Percent | Total |
| Finance receivables | $1,414.2 | 92% | $122.2 | 8% | $1,536.4 |
| Debt * | $ 650.0 | 62% | $402.0 | 38% | $1,052.0 |
| Stockholders' equity | 452.0 | 100 | -- | -- | 452.0 |
| Capital * | $1,102.0 | 73% | $402.0 | 27% | $1,504.0 |

* the percentages of fixed and floating rate debt are 46% and 54%, respectively, after the August 2009 prepayment of $168.6 million of fixed rate term notes, and the percentages of fixed and floating rate capital are 62% and 38%, respectively.

The fixed and floating rate amounts and percentages of our receivables and capital at July 31, 2008 follow ($ in millions):

| | Fixed Rate | | Floating Rate | | |
|---|---|---|---|---|---|
| | Amount | Percent | Amount | Percent | Total |
| Finance receivables | $1,772.0 | 91% | $168.8 | 9% | $1,940.8 |
| Debt | $ 850.0 | 58% | $617.0 | 42% | $1,467.0 |
| Stockholders' equity | 414.9 | 100 | -- | -- | 414.9 |
| Capital | $1,264.9 | 67% | $617.0 | 33% | $1,881.9 |

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Floating rate debt comprises bank borrowings, commercial paper and term asset securitization borrowings, and reprices (interest rates change based on current short-term market interest rates) after July 31, 2009 as follows: $357.0 million (89%) in one month and $45.0 million (11%) in two to three months. Floating rate receivables only reprice when the prime rate changes. Repricing frequencies of floating rate debt follow ($ in millions):

| | Balance | Repricing Frequency |
|---|---|---|
| Bank borrowings | $ 197.0 | 1 to 30 days |
| Commercial paper | 104.0 | 1 to 90 days (30 day average) |
| Asset securitization borrowings - term | 101.0 | 1 to 30 days |

NEW ACCOUNTING STANDARDS

Refer to Note 1 (Summary of Significant Accounting Policies) to the consolidated financial statements.

FORWARD-LOOKING STATEMENTS

Statements in this report containing the words or phrases "expect," "anticipate," "may," "might," "believe," "appears," "intend," "estimate," "could," "should," "would," "will," "if," "outlook," "likely," "unlikely" 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 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, higher credit spreads, 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Item 7, Market Interest Rate Risk and Sensitivity.

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## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Financial Federal Corporation:

We have audited the accompanying consolidated balance sheets of Financial Federal Corporation and subsidiaries (the "Company" or "Financial Federal") as of July 31, 2009 and 2008, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended July 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Financial Federal as of July 31, 2009 and 2008, and the results of its operations and its cash flows for each of the years in the three-year period ended July 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Financial Federal's internal control over financial reporting as of July 31, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated September 22, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

New York, New York
September 22, 2009

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FINANCIAL FEDERAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

| July 31, | 2009 | 2008 |
|---|---|---|
| ASSETS | | |
| Finance receivables | $ 1,536,398 | $ 1,940,792 |
| Allowance for credit losses | (25,007) | (24,769) |
| Finance receivables - net | 1,511,391 | 1,916,023 |
| Cash | 8,038 | 8,232 |
| Other assets | 28,685 | 18,613 |
| TOTAL ASSETS | $ 1,548,114 | $ 1,942,868 |
| LIABILITIES | | |
| Debt: | | |
| Long-term ($5,400 at July 31, 2009 and $1,400 at July 31, 2008 owed to related parties) | $ 932,000 | $ 1,189,000 |
| Short-term | 120,000 | 278,000 |
| Accrued interest, taxes and other liabilities | 20,768 | 34,260 |
| Deferred income taxes | 23,300 | 26,736 |
| Total liabilities | 1,096,068 | 1,527,996 |
| 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): 25,889 at July 31, 2009 and 25,673 at July 31, 2008 | 12,945 | 12,836 |
| Additional paid-in capital | 148,501 | 139,490 |
| Retained earnings | 292,604 | 265,026 |
| Accumulated other comprehensive loss | (2,004) | (2,480) |

| | | |
|---|---|---|
| Total stockholders' equity | 452,046 | 414,872 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 1,548,114 | $ 1,942,868 |

See accompanying notes to consolidated financial statements



FINANCIAL FEDERAL CORPORATION AND SUBSIDIARIES

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

| Years Ended July 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| Finance income | $157,488 | $188,402 | $191,254 |
| Interest expense | 51,407 | 75,473 | 84,828 |
| Net finance income before provision for credit losses on finance receivables | 106,081 | 112,929 | 106,426 |
| Provision for credit losses on finance receivables | 7,900 | 4,000 | -- |
| Net finance income | 98,181 | 108,929 | 106,426 |
| Gain on debt retirement | 1,588 | -- | -- |
| Salaries and other expenses | (29,537) | (27,323) | (24,945) |
| Income before income taxes | 70,232 | 81,606 | 81,481 |
| Provision for income taxes | 27,084 | 31,522 | 31,431 |
| NET INCOME | $ 43,148 | $ 50,084 | $ 50,050 |
| EARNINGS PER COMMON SHARE: | | | |
| Diluted | $ 1.72 | $ 2.01 | $ 1.90 |
| Basic | $ 1.75 | $ 2.05 | $ 1.94 |

See accompanying notes to consolidated financial statements



FINANCIAL FEDERAL CORPORATION AND SUBSIDIARIES

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

| | Common Stock | | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| BALANCE - JULY 31, 2006 | 27,216 | $13,608 | $123,091 | $253,128 | $ 552 | $39 |
| Net income | -- | -- | -- | 50,050 | -- | 5 |
| Unrealized gain on cash flow hedge, after $455 of tax | -- | -- | -- | -- | 720 | |
| Reclassification of realized gain in net income, after $(134) of tax | -- | -- | -- | -- | (212) | |
| Comprehensive income | | | | | | 5 |
| Stock repurchased and retired | (2,031) | (1,016) | (10,188) | (43,744) | -- | (5 |
| Stock plan activity: | | | | | | |
| Shares issued | 584 | 292 | 7,869 | -- | -- | |
| Shares canceled | (9) | (4) | 4 | -- | -- | |
| Compensation recognized | -- | -- | 6,867 | -- | -- | |
| Excess tax benefits | -- | -- | 1,524 | -- | -- | |
| Common stock cash dividends | -- | -- | -- | (14,788) | -- | (1 |
| BALANCE - JULY 31, 2007 | 25,760 | 12,880 | 129,167 | 244,646 | 1,060 | 38 |
| Net income | -- | -- | -- | 50,084 | -- | 5 |
| Unrealized loss on cash flow hedge, after $(2,291) of tax | -- | -- | -- | -- | (3,624) | ( |
| Reclassification of realized net loss to net income, after $49 of tax | -- | -- | -- | -- | 84 | |
| Comprehensive income | | | | | | 4 |
| Stock repurchased and retired | (713) | (357) | (3,782) | (14,317) | -- | (1 |
| Stock plan activity: | | | | | | |
| Shares issued | 626 | 313 | 5,634 | -- | -- | |
| Compensation recognized | -- | -- | 7,966 | -- | -- | |
| Excess tax benefits | -- | -- | 505 | -- | -- | |
| Common stock cash dividends | -- | -- | -- | (15,387) | -- | (1 |
| BALANCE - JULY 31, 2008 | 25,673 | 12,836 | 139,490 | 265,026 | (2,480) | 41 |
| Net income | -- | -- | -- | 43,148 | -- | 4 |
| Reclassification of realized net loss to net income, after $300 of tax | -- | -- | -- | -- | 476 | |
| Comprehensive income | | | | | | 4 |
| Stock repurchased and retired | (37) | (18) | (722) | (36) | -- | |
| Stock plan activity: | | | | | | |
| Shares issued | 265 | 133 | 1,177 | -- | -- | |
| Shares canceled | (12) | (6) | 6 | -- | -- | |
| Compensation recognized | -- | -- | 8,550 | -- | -- | |
| Common stock cash dividends | -- | -- | -- | (15,534) | -- | (1 |

| | | | | | | |
|---|---|---|---|---|---|---|
| BALANCE - JULY 31, 2009 | 25,889 | $12,945 | $148,501 | $292,604 | $(2,004) | $45 |

See accompanying notes to consolidated financial statements



FINANCIAL FEDERAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

| Years Ended July 31, | 2009 | 2008 | 2007 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income | $ 43,148 | $ 50,084 | $ 50,050 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Amortization of deferred origination costs and fees | 16,601 | 17,733 | 15,951 |
| Provision for credit losses on finance receivables | 7,900 | 4,000 | -- |
| Stock-based compensation | 5,142 | 4,839 | 3,992 |
| Depreciation and amortization | 1,491 | 918 | 437 |
| Deferred income taxes | (3,736) | 3,210 | 5,738 |
| Gain on debt retirement | (1,588) | -- | -- |
| (Increase) decrease in other assets | (1,502) | 1,294 | 1,976 |
| Decrease in accrued interest, taxes and other liabilities | (13,492) | (8,788) | (116) |
| Excess tax benefits from stock-based awards | -- | (505) | (1,524) |
| Net cash provided by operating activities | 53,964 | 72,785 | 76,504 |
| Cash flows from investing activities: | | | |
| Finance receivables originated | (487,685) | (923,809) | (1,208,161) |
| Finance receivables collected and repossessed assets sales proceeds | 861,870 | 1,082,701 | 1,058,312 |
| Net cash provided by (used in) investing activities | 374,185 | 158,892 | (149,849) |
| Cash flows from financing activities: | | | |
| Commercial paper, net increase (decrease) | 25,000 | (210,700) | 170,861 |
| Repayments of convertible debentures | (173,343) | -- | -- |
| Bank borrowings, net (decrease) increase | (172,000) | 318,950 | (109,672) |
| Repayments of term asset securitization borrowings | (68,000) | (31,000) | -- |
| Asset securitization borrowings - revolving, net decrease | -- | (225,000) | -- |
| Proceeds from term notes | -- | 75,000 | 125,000 |
| Repayments of term notes | (25,000) | (123,250) | (56,250) |
| (Payments) proceeds from settlement of interest rate locks | -- | (5,915) | 1,175 |
| Proceeds from stock option exercises | 1,265 | 5,902 | 8,116 |
| Common stock issued | 45 | 45 | 45 |
| Common stock cash dividends | (15,534) | (15,387) | (14,788) |
| Common stock repurchased | (776) | (18,456) | (54,948) |
| Excess tax benefits from stock-based awards | -- | 505 | 1,524 |
| Net cash (used in) provided by financing activities | (428,343) | (229,306) | 71,063 |

| | | | |
|---|---|---|---|
| NET (DECREASE) INCREASE IN CASH | (194) | 2,371 | (2,282) |
| Cash - beginning of year | 8,232 | 5,861 | 8,143 |
| CASH - END OF YEAR | $ 8,038 | $ 8,232 | $ 5,861 |
| Supplemental disclosures of cash flow information: | | | |
| Interest paid | $ 52,786 | $ 76,521 | $ 82,278 |
| Income taxes paid | 32,026 | 27,632 | 21,654 |

See accompanying notes to consolidated financial statements



FINANCIAL FEDERAL CORPORATION AND SUBSIDIARIES

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Financial Federal Corporation ("FFC") is a holding company operating primarily through one subsidiary to provide 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 Consolidated Financial Statements according to accounting principles generally accepted in the United States of America (GAAP). We eliminated all significant intercompany accounts and transactions. We do not have reportable operating segments. We have two fully consolidated special purpose entities for our on-balance-sheet asset securitization facilities.

The Financial Accounting Standards Board ("FASB") implemented the FASB Accounting Standards Codification ("ASC") on July 1, 2009. The FASB ASC is a major restructuring of accounting standards and is now the only source of GAAP. It replaced all prior accounting standards previously referred to as FASBs, EITFs, APBs, FSPs, etc. All public companies will be required to refer to appropriate FASB ASC sections instead of the original accounting standards formerly disclosed starting with the first fiscal quarter ending after September 15, 2009. It takes effect for us for the quarter ending October 31, 2009, but we are providing both references below to ease the transition. The FASB ASC does not change GAAP.

Use of Estimates

GAAP requires us to make significant estimates and assumptions to record 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.

Finance Receivables

Finance receivables comprise loans and other financings and noncancelable leases. All leases are accounted for as direct financing leases, where total lease payments, plus any residual values, less the cost of the leased equipment is recorded as unearned finance income. We record residual values 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.

Income Recognition

We recognize interest income earned on finance receivables over the term of receivables using the interest method. Costs incurred to originate receivables and nonrefundable fees earned on receivables are deferred and recognized in finance income over the term of receivables using the interest method. We stop recognizing income and net deferred costs when we classify receivables as impaired. We classify receivables as impaired when we believe collecting all principal and interest due is doubtful. This typically occurs when (i) a contractual payment is 90 days or more past due (unless we expect this to be temporary) (ii) the customer is subject to a bankruptcy proceeding or (iii) the collateral is being liquidated, and the value of the collateral does not exceed our net investment. We resume recognizing income and net deferred costs after we believe collecting all amounts contractually due is probable.

Allowance for Credit Losses

The allowance for credit losses on finance receivables is our estimate of losses inherent in our receivables. We record a provision for credit losses on finance receivables to adjust the allowance to the estimated amount. The allowance is a significant estimate we determine based on total receivables, net charge-off experience, impaired and delinquent receivables and our current assessment of the risks inherent in our receivables from national and regional economic conditions, industry conditions, concentrations, the financial condition of customers and guarantors, collateral values and other factors. Changes in the allowance level may be necessary based on unexpected changes in these factors.



Impaired finance receivables are written-down to our estimate of their fair value by a charge to (decrease in) the allowance for credit losses. Write-downs subsequently recovered are credited to (increase) the allowance. Assets received to satisfy finance receivables (repossessed equipment, included in other assets) are initially written-down to our estimate of fair value by a charge to the allowance for credit losses and any subsequent write-downs and recoveries are recorded in earnings.

We measure fair value of these non-performing assets by using significant other observable inputs; primarily quoted prices in active markets for identical or similar assets adjusted for their condition. These are Level 2 inputs under the fair value hierarchy of Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements", (FASB ASC 820-10).

Derivative Financial Instruments

Derivative financial instruments are used to manage the exposure to the effects of changes in market interest rates. Derivatives are recorded at fair value as an asset or liability. Derivatives can be designated as a fair value or cash flow hedge, or not designated as a hedge. We do not speculate with or trade derivatives.

For derivatives designated as a fair value hedge, the hedged asset or liability is also recorded at its fair value (to the extent of the change in the fair value due to the hedged risk) and any changes in the fair value of the derivative and the hedged asset or liability from changes in the hedged risk are recorded in earnings.

For derivatives designated as a cash flow hedge, changes in the fair value of the effective portion of the derivative are recorded in accumulated other comprehensive (loss) income within stockholders' equity, net of tax, and reclassified to earnings in the same future periods the hedged transaction impacts earnings. Any ineffective portion is recorded in earnings immediately.

Derivatives designated as a hedge must be linked to a specific asset, liability, forecast transaction or firm commitment depending on the type of hedge, and the risk management objective and strategy and the method to be used to determine hedge effectiveness and measure ineffectiveness must be documented at the hedging relationship's inception. Changes in the fair value of derivatives not designated as a hedge are recorded in earnings immediately.

Stock-Based Compensation Expense

We record the fair value of shares of restricted stock and stock units as compensation expense over the awards' vesting periods using the straight-line method for awards without a performance condition and the graded-vesting method for awards with a performance condition and multiple vesting dates. The fair value of these awards is the market value of our common stock on the date of award.

We record the fair value of options as compensation expense over the options' vesting periods using straight-line or graded-vesting (accelerated) methods. We use the Black-Scholes option-pricing model to calculate fair value. We use the straight-line method to recognize compensation expense for options granted after July 31, 2005 and we used the graded-vesting method for options unvested on August 1, 2005.

We only record compensation expense for stock-based awards expected to vest. Therefore, we estimate how many awards will be forfeited and periodically review our estimates based on actual forfeitures and revise them cumulatively as necessary. We also defer a portion of stock-based compensation considered a cost of originating receivables.

We record tax benefits (reductions of the provision for income taxes) on compensation expense for shares of restricted stock, stock units and non-qualified stock options, and for incentive stock options when employees exercise and subsequently sell the shares within one year. We realize excess tax benefits when the compensation expense for stock-based awards deducted in our income tax returns exceeds the expense recorded in our financial statements, and we incur tax shortfalls when the financial statement expense exceeds the tax deduction. We record excess tax benefits by increasing additional paid-in capital and by reducing income taxes currently payable. We record tax shortfalls by increasing income taxes currently payable and by (i) reducing additional paid-in capital for the amount of the shortfall exceeded by any net excess tax benefits recorded previously and (ii) increasing the provision for income taxes for the amount of the shortfall exceeding net excess tax benefits recorded previously.



Earnings Per Common Share

Basic earnings per share equals net income divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share equals net income divided by the weighted-average number of common shares plus potential common shares from the assumed conversion of dilutive securities. Dilutive securities are shares of restricted stock, stock options, stock units and convertible debt.

Income Taxes

We record deferred tax assets and liabilities for the estimated future tax effects of temporary differences between the financial statement and tax return amounts of assets and liabilities using enacted tax rates. Deferred tax assets are reduced by a valuation allowance when it is "more likely than not" the assets will not be realized.

We record tax benefits for positions we take on our income tax returns that lower the amount of tax currently due. If we determine a tax position does not pass a more-likely-than-not test of a taxing authority allowing it, we reverse the tax benefits by recording a liability for uncer