

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

AVCO FINANCIAL SERVICES INC

CIK: **8795** | IRS No.: **132530491** | State of Incorpor.: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-06119** | Film No.: **94528308**
SIC: **6141** Personal credit institutions

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 1994

or

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

(The Registrant meets the conditions set forth in General Instruction
H(1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced
disclosure format.)

Commission file number 0-6119

AVCO FINANCIAL SERVICES, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE

13-2530491

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

3349 Michelson Drive, Irvine, California 92715

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (714) 553-1200

Indicate by check mark whether the Registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
Registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. Yes X No

At March 31, 1994, the Registrant had 500,000 shares of common stock (\$1 par
value per share) outstanding, all of which are owned by Textron Inc.

AVCO FINANCIAL SERVICES, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

AVCO FINANCIAL SERVICES, INC.
CONSOLIDATED BALANCE SHEET
MARCH 31, 1994 AND DECEMBER 31, 1993

<TABLE>
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	1994	1993
	-----	-----
	(Thousands of dollars)	
<S>	<C>	<C>
ASSETS		
Finance receivables	\$5,471,769	\$5,469,563
Allowance for losses	(156,413)	(155,015)
Insurance reserves and claims	(230,723)	(231,532)
	-----	-----
Investments	5,084,633	5,083,016
Property and equipment	654,287	655,690
Unamortized insurance policy acquisition costs	58,718	59,636
Goodwill	33,700	34,265
Cash	22,778	23,130
Other	11,866	7,858
	-----	-----
TOTAL ASSETS	\$6,117,598	\$6,122,960
	=====	=====
LIABILITIES AND STOCKHOLDER'S EQUITY		
Senior debt		
Commercial paper	\$1,785,041	\$1,933,570
Banks	30,047	25,493

Savings deposits	3,542	5,032
Notes	2,944,886	2,831,419
	-----	-----
Senior subordinated debt	4,763,516	4,795,514
	19,481	19,980
	-----	-----
Total debt	4,782,997	4,815,494
Accounts payable and accrued liabilities	253,453	235,029
Insurance reserves and claims		
Unearned insurance premiums	118,479	121,694
Losses and adjustment expenses	58,139	59,171
Income taxes	64,227	64,061
	-----	-----
Total liabilities	5,277,295	5,295,449
	-----	-----
Stockholder's equity		
Common stock (\$1 par value, 1,000,000 shares authorized; 500,000 shares outstanding)	500	500
Additional paid-in capital	137,588	137,588
Retained earnings	798,129	778,804
Securities valuation adjustment	28,371	31,980
Currency translation adjustment	(124,285)	(121,361)
	-----	-----
Total stockholder's equity	840,303	827,511
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$6,117,598	\$6,122,960
	=====	=====

</TABLE>

See accompanying note.

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AVCO FINANCIAL SERVICES, INC.
CONSOLIDATED STATEMENT OF INCOME
THREE MONTHS ENDED MARCH 31, 1994 AND 1993

	1994	1993
	-----	-----
	(Thousands of dollars)	(Thousands of dollars)
	<C>	<C>
<S>		
REVENUES		
Interest, discount and service charges	\$251,257	\$246,109
Credit life, credit disability and casualty insurance premiums	63,286	69,186
Investment and other income (including net capital gains and losses)	13,023	11,829
	-----	-----
Total revenues	327,566	327,124
EXPENSES		
Interest and debt expense	78,278	82,981
Provision for losses on collection of finance receivables, less recoveries	29,901	27,960
Credit life, credit disability and casualty insurance losses and adjustment expenses, less recoveries	30,449	33,049
Amortization of insurance policy acquisition costs	12,150	15,962
Other operating expenses	114,902	112,297
	-----	-----
Total expenses	265,680	272,249
	-----	-----
Income before income taxes	61,886	54,875

Income taxes	23,061	20,385
	-----	-----
NET INCOME	\$ 38,825	\$ 34,490
	=====	=====

</TABLE>

See accompanying note.

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AVCO FINANCIAL SERVICES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 1994 AND 1993

<TABLE>
<CAPTION>

	1994	1993
	-----	-----
	(Thousands of dollars)	
	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 38,825	\$ 34,490
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for losses on receivables	36,835	34,952
Depreciation	3,972	3,983
Gain on sales of investments	(1,034)	(458)
Decrease in unamortized insurance policy acquisition costs	459	7
Increase (decrease) in unearned insurance premiums and reserves for insurance losses and adjustment expenses	(4,479)	1,246
Increase in accounts payable and accrued liabilities	19,053	6,434
Increase (decrease) in income taxes	79	(3,888)
Other, net	7,770	14,591
	-----	-----
Net cash provided by operating activities	101,480	91,357
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans originated or purchased	(828,859)	(747,497)
Loans repaid or sold	772,248	691,774
Purchases of investments available for sale	(60,957)	
Purchases of investments held for investment		(55,999)
Proceeds from sales of investments available for sale	19,179	4,840
Proceeds from maturities and calls of investments available for sale	37,880	
Proceeds from maturities and calls of investments held for investment		29,893
Capital expenditures	(3,199)	(3,125)
	-----	-----
Net cash used in investing activities.	(63,708)	(80,114)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term debt	(140,004)	184,075
Proceeds from issuance of notes	150,745	274,991
Principal payments on notes	(23,529)	(451,945)
Decrease in savings deposits	(1,476)	(1,664)
Dividends paid	(19,500)	(17,000)
	-----	-----
Net cash used in financing activities	(33,764)	(11,543)
	-----	-----
Net increase (decrease) in cash	4,008	(300)
Cash at beginning of period	7,858	318
	-----	-----
Cash at end of period	\$ 11,866	\$ 18
	=====	=====

</TABLE>

See accompanying note.

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AVCO FINANCIAL SERVICES, INC.

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS

GENERAL

The consolidated financial statements are unaudited and reflect all adjustments (consisting only of normal recurring accruals) which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods. Certain reclassifications have been made to prior year amounts to conform with current year presentation.

The results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

The consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993.

CHANGE IN ACCOUNTING PRINCIPLE

Effective at the beginning of 1994, the Registrant adopted the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (FAS 115). The adoption of FAS 115 had no material effect on the Registrant's consolidated financial statements.

INVESTMENTS

The Registrant's investment portfolio consists of both debt and equity securities. While it is the Registrant's intention to hold its debt securities until maturity and its equity securities long-term, the Registrant may sell certain of these securities in response to market conditions or business requirements. Therefore, upon adoption of FAS 115, effective January 1, 1994, the Registrant classified all of its investment portfolio as available for sale. Following the reclassification, the carrying amount of all debt securities then classified as available for sale was adjusted to fair value, and the resulting unrealized gain of \$16.5 million, net of applicable income taxes, was recorded as an increase to the securities valuation adjustment component of stockholder's equity. At January 1, 1994 and March 31, 1994, the Registrant's consolidated stockholder's equity included net unrealized investment portfolio gains of \$48.5 million and \$28.4 million, net of applicable taxes, respectively.

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PART I. FINANCIAL INFORMATION (CONTINUED)

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

RESULTS OF OPERATIONS - FOR THE THREE MONTHS ENDED MARCH 31, 1994 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 1993.

Income before income taxes for the three months ended March 31, 1994 was \$61.9 million compared to \$54.9 million for the three months ended March 31, 1993, an increase of \$7.0 million (12.8%). The increase resulted primarily from: (i) an increase in the level of receivables outstanding as average finance receivables

were \$5.438 billion for the first three months of 1994 compared to \$5.125 billion during the first three months of 1993 and (ii) a decrease in the cost of borrowed funds to 6.44% for the first three months of 1994 from 7.21% for the like period in 1993. This increase in income was partially offset by a decrease in yields on finance receivables. Due to declines in the cost of borrowed funds in all of the countries in which the Registrant operates, the Registrant has lowered the rate of interest it charges customers on finance receivables. As a result, interest income as a percent of average finance receivables (on an annualized basis) was 18.48% for the first three months of 1994 compared to 19.21% for the like period in 1993.

Revenues for the three months ended March 31, 1994 were \$327.6 million compared to \$327.1 million for the three months ended March 31, 1993. Although total revenues were relatively unchanged, revenues for the first three months of 1994 reflect an increase of approximately \$16.7 million due to the higher level of receivables outstanding described above, largely offset by: (i) a decrease of approximately \$9.7 million from the aforementioned decline in yields on finance receivables and (ii) a reduction in non-related insurance operation revenues due to a decrease in premiums earned.

FINANCIAL CONDITION

The Registrant utilizes a broad base of financial sources for its liquidity and capital requirements. Cash is provided from both operations and several different sources of borrowings, including unsecured borrowings under bank lines of credit, the issuance of commercial paper and sales of medium- and long-term debt in the U.S. and foreign financial markets.

During the first three months of 1994, the Registrant had \$128.1 million of interest rate exchange agreements go into effect. These agreements, which have a weighted average original term of 4.7 years and expire through 1999, had the effect of fixing the rate of interest at approximately 6.1% on \$128.1 million of variable rate borrowings at March 31, 1994.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Because the business of the Registrant involves the collection of numerous accounts, the validity of liens, accident and other damage or loss claims under many types of insurance, and compliance with state and federal consumer laws, the Registrant and its subsidiaries are plaintiffs and defendants in numerous legal proceedings, including individual and class action proceedings which seek compensatory, treble or punitive damages in substantial amounts. It is the opinion of the Registrant's management, based upon the advice of its counsel, that the aggregate liability from pending or threatened litigation will not have a material effect on the Registrant's net income or financial condition.

ITEM 2. CHANGES IN SECURITIES

Omitted in accordance with General Instruction H(2)(b).

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Omitted in accordance with General Instruction H(2)(b).

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

Omitted in accordance with General Instruction H(2)(b).

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibit 12
Statement of Computation of Number of Times Fixed Charges

EXHIBIT 12

AVCO FINANCIAL SERVICES, INC.

STATEMENT OF COMPUTATION OF NUMBER OF TIMES
FIXED CHARGES EARNEDTHREE MONTHS ENDED MARCH 31, 1994
(Thousands of dollars)

<TABLE>	<C>
<S>	
Income	
Income before income taxes	\$ 61,886

Fixed charges to be added back to income -	
Interest and debt expense	76,612
Rentals (one-third of all rent and related costs charged to income)	3,190

Total fixed charges	79,802

Income before income taxes and fixed charges	\$141,688
	=====
Ratio	
Number of times fixed charges covered by income before income taxes and fixed charges	1.8
	===
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