NEW CENTURY FINANCIAL CORP
Form 424B4
October 10, 2001

QuickLinks -- Click here to rapidly navigate through this document

PROSPECTUS

This filing is made pursuant to Rule 424(b)(4)
under the Securities Act of 1933 in connection with
Registration No. 333-66108 and
Registration No. 333-71286

3,500,000 Shares

New Century Financial Corporation

Common Stock

We are selling 3,200,000 shares of our common stock and certain stockholders are selling 300,000 shares of our common stock. We will not receive any of the proceeds from the shares sold by the selling stockholders. Our common stock is traded on the Nasdaq National Market under the symbol "NCEN." On October 9, 2001, the last reported sale price of our common stock was $11.54.

Investing in our common stock involves a high degree of risk. You should carefully consider the information under the heading "Risk Factors" beginning on page 7 of this prospectus before buying shares of our common stock.

	Per Share	Total
Public offering price	$ 11.00	$ 38,500,000
Underwriting discounts and commissions	$ 0.66	$ 2,310,000
Proceeds, before expenses, to us	$ 10.34	$ 33,088,000
Proceeds to selling stockholders	$ 10.34	$ 3,102,000

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We have granted the underwriters an option for a period of 30 days to purchase up to 525,000 additional shares of our common stock at the public offering price to cover over-allotments, if any.

We expect the shares of our common stock will be ready for delivery to purchasers on or about October 15, 2001.

FRIEDMAN BILLINGS RAMSEY

JEFFERIES & COMPANY, INC.

ADVEST, INC.

The date of this prospectus is October 10, 2001.

[Description of Map]

Map of the United States showing the locations of New Century's headquarters, Regional/Processing Centers and states with branch offices. The following text appears above the map: "New Century currently originates loans through 65 Retail Sales Offices operating in 26 states and 36 Wholesale Sales Offices, including 5 Regional Operations Centers, operating in 27 states. New Century is approved to offer mortgage products in all 50 states."

You should rely only on information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We and the selling stockholders are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

Our name and logo and the names of products and services offered by us are our trademarks, trade names, or service marks. Each trademark, trade name or service mark of another company appearing in this prospectus belongs to its holder, and does not belong to us.

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

This prospectus contains or incorporates by reference certain forward-looking statements and we intend that such forward-looking statements be subject to the safe harbor provisions of the federal securities laws. When used, statements which are not historical in nature, including those containing words such as "anticipate," "estimate," "should," "expect," "believe," "intend," and similar expressions are intended to identify forward-looking statements. Statements regarding the following subjects are forward-looking by their nature:

- our business strategy;

- our understanding of our competition;

- market trends;
- assumptions regarding the early retirement of our residual financing;
- projected sources and uses of funds from operations;
- potential liability with respect to legal proceedings; and
- use of the proceeds of this offering.

These forward-looking statements are subject to various risks and uncertainties, including those relating to:

- our access to funding sources and our ability to renew, replace or add to our existing credit facilities on terms comparable to the current terms;
- initiation of a margin call under our warehouse, aggregation or residual financing agreements;
- assumptions underlying our residual values and loan loss allowances;
- an increase in the prepayment speed or default rate of our borrowers;
- the effect of changes in interest rates;
- the condition of the secondary markets for our products;
- the negative impact of economic slowdowns or recessions;
- management's ability to manage our growth and planned expansion;
- the effect of the competitive pressures from other lenders or suppliers of credit in our market;
- our ability to reduce the number of loans sold at a discount;
- our ability to expand origination volume while reducing overhead; and
- the impact of new state or federal legislation or court decisions restricting the activities of lenders or suppliers of credit in our market.

Other risks, uncertainties and factors, including those discussed under "Risk Factors" in this prospectus, could cause our actual results to differ materially from those projected in any forward-looking statements we make. We are not obligated to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

You should rely only on the information contained in or incorporated by reference into this prospectus. Neither we nor the underwriters have authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The information in this prospectus is current as of the date of this prospectus. Our business, financial condition, results of operations and business prospects may have changed since that date.

PROSPECTUS SUMMARY

This summary contains basic information about us and this offering. Because it is a summary, it does not contain all of the information that you should consider before investing in us. You should read the entire prospectus carefully, including the section entitled "Risk Factors" and our financial statements and the accompanying notes, before making an investment decision. All references to "we," "us," "our" or the "Company" mean New Century Financial Corporation, New Century Mortgage Corporation and other consolidated and unconsolidated subsidiaries of such companies. Unless otherwise specified in this prospectus, all information in this prospectus assumes no exercise of the underwriters' over-allotment option.

Our Company

We are a leading nationwide specialty mortgage banking company that originates, purchases and sells residential mortgage loans secured primarily by first mortgages on single-family residences. We offer mortgage products focused on the needs of borrowers who generally do not satisfy the credit, documentation or other underwriting standards prescribed by conventional mortgage lenders and loan buyers, such as Fannie Mae or Freddie Mac. We originate and purchase loans on the basis of the borrower's ability to repay the mortgage loan, the borrower's historical pattern of debt repayment and the amount of equity in the borrower's property (as measured by the borrower's loan-to-value ratio, or LTV). We have been originating and purchasing these types of loans since 1996 and believe we have developed a comprehensive and sophisticated process for credit evaluation and risk-based pricing allowing us to effectively manage the potentially higher credit risks associated with this segment of the mortgage industry.

We originate and purchase approximately 75% of our loans through our wholesale network of 7,200 independent mortgage brokers, and we originate the remainder through our retail network of 65 branch offices located in 26 states and our anyloan.com website. We are authorized to do business in all 50 states and regularly originate and purchase loans throughout the country. In 2000 and the first six months of 2001, we originated $4.2 billion and $2.4 billion of loans, respectively. In the second quarter of 2001, we originated record loan production of $1.4 billion, a 24.6% increase over the second quarter of 2000. In addition, 90.8% of our loans were rated by us as "B" or better and had an average LTV of 79.3% during the first six months of 2001. Borrower demand after June 30, 2001, as evidenced by new loan submissions, continues to remain high. Since our inception, we have originated in excess of $17 billion in various types of fixed- and adjustable-rate mortgage loans.

We have recently experienced significant improvements in our operating performance resulting in large part from reduced costs, increased loan volume, lower interest rates and improved market conditions for the sale of our loans. Total revenues for the three months and six months ended June 30, 2001 were $64.8 million and $112.7 million, respectively, representing an increase of 80.3% and 17.1% over the same periods of 2000. Net earnings for the three months and six months ended June 30, 2001 were $9.9 million and $8.0 million, respectively, as compared to losses of $8.6 million and $1.3 million for the respective comparative periods in 2000. During the first six months of 2001, we reduced outstanding residual financing from $176.8 million, or 48.9% of the carrying value of the residual interests, to $119.6 million, or 36.9% of the carrying value of the residual interests, using cash flow from operations and residual interests. We expect to fully repay our outstanding residual financing prior to December 31, 2002.

We believe our primary strengths and competitive advantages include our:

- management depth and experience in different economic cycles;
- cash flow positive business model;
- significant cash flows from our residual interests;
- seasoned relationships with prominent secondary market investors;

implementation of advanced technology for credit evaluation;

award-winning wholesale e-commerce website; and

high quality customer service.

Recent Operational Highlights

In late 1998, the market for our loans and the availability of capital and financing to mortgage lenders in our industry declined dramatically. During late 1999 and 2000, there were also significant changes in the general level of interest rates and other economic conditions that adversely affected our business. In response to these events, we implemented several strategic initiatives that have reduced our risk profile and significantly improved our recent operating performance and financial results. These initiatives have allowed us to achieve our goal of positive cash flow from operations for the last two consecutive quarters. The key initiatives include:

Transition to Cash Flow Positive Loan Sales Strategy. During the second quarter of 2000, we changed our loan sales strategy to optimize cash revenues and liquidity. This strategy helps to protect us against the potential volatility of the securitization market and reduces the risks inherent in retaining significant residual interests in securitizations. For the three months ended June 30, 2001, all of our revenues were cash revenues.

Restructured and Reduced Debt. In March 2001, we restructured nearly all of our residual financing, which eliminated our exposure to margin calls on that debt. In addition, during 2001, we repaid $57.2 million in residual financing and extended the maturity of our subordinated debt to December 31, 2003, which allowed us to more closely match our payment obligations with the projected cash flows from our residual interests.

Reduction of Loan Acquisition Costs. We have substantially reduced our loan acquisition costs by reducing personnel and other expenses and improving operational efficiencies. Our loan acquisition costs were 2.37% of loan production for the quarter ended June 30, 2001, down from 2.87% for the quarter ended June 30, 2000.

Sale of Servicing Rights. In 2001, we sold the servicing rights on substantially all of our servicing portfolio to Ocwen Federal Bank FSB, one of the country's highest-rated special servicers, and entered into a sub-servicing arrangement whereby Ocwen will service all of our loans. This transaction allowed us to repay debt, eliminate additional servicing advance obligations, increase our liquidity and reallocate working capital to further support our loan origination activities.

Improved Underwriting Controls. We have implemented a process designed to monitor and adjust our underwriting guidelines to originate loans that are more widely accepted by loan buyers. We have also taken steps to further reduce documentation errors, better identify borrower misrepresentations and reduce early payment default with the goal of decreasing the number of loans we sell at a discount.

Growth and Operating Strategies

The following are our growth and operating strategies:

Increase Loan Originations. We plan to pursue expansion into new geographic markets. Our wholesale division can expand quickly into new markets with limited investment in infrastructure. For retail expansion, we will continue our practice of reviewing demographic information about potential markets and opening branches in markets that we conclude can support a retail branch. We will also continue to deploy new marketing and technology initiatives and expand our product line and sales personnel in an effort to increase our existing market penetration.

Develop Strategic Alliance Program. We have begun to develop a strategic alliance program to provide our products to customers of banks, thrifts and other financial institutions and mortgage companies who do not offer such products. We have recently hired a team of individuals with extensive experience developing such alliances.

Emphasize Cash Flow Positive Operations. We plan to continue to focus our secondary marketing on sales strategies that will optimize liquidity and cash flow. We also intend to sell retained servicing rights and utilize securitization structures that generate cash in excess of loan acquisition costs.

Reduce Residual Financing. We expect to reduce residual financing to below $100 million by year-end 2001 and to fully repay all outstanding residual financing no later than year-end 2002. This will enable us to retain all cash flow from the residual interests and reduce interest expense. Other than temporary financing to facilitate our securitization structures, we currently do not intend to incur any additional residual financing.

Increase Loan Holding Period and Loan Pool Size. We plan on increasing the size of pools that we offer for sale in order to realize higher whole loan sale prices on those pools of loans. Additionally, we plan to increase the number of days we hold the loans prior to sale, thereby realizing an increase in the net interest income on these loans.

Reduce Loans Sold at Discount. We are devoting significant efforts to reduce the losses that result from loans we sell at a discount to par value. We have appointed a corporate level Chief Credit Officer, improved the analytics used in evaluating discount loans and eliminated products resulting in disproportionately high levels of discount loans.

Further Reduce Loan Acquisition Costs. We continue to focus our efforts on reducing our loan acquisition cost by improving efficiencies and increasing loan origination volume. Our goal is to achieve a loan acquisition cost of 2.25% by the fourth quarter of 2001 and 2.0% by the end of 2003.

General Information

Our executive offices are located at 18400 Von Karman Avenue, Suite 1000, Irvine, California 92612 and our telephone number is (949) 440-7030. Our Internet address is www.ncen.com. The information contained in our website, in www.anyloan.com, or in any websites linked by our websites, is not a part of this prospectus and you should not rely on such information in deciding whether to invest in our company. Unless otherwise indicated, all information in this prospectus assumes that the underwriters have not exercised their over-allotment option.

Recent Developments

In September 2001, we completed a securitization of $526 million of fixed- and adjustable-rate mortgage loans underwritten by Salomon Smith Barney. The security offered four classes of certificates totaling approximately $522 million. Approximately 70 percent of the mortgage loans are insured to a 60 percent loan-to-value ratio by a lender-paid PMI policy issued by MGIC. Credit enhancement was provided in the form of an over-collateralization account of 0.75% that was fully funded at closing. The transaction was accompanied by a companion NIM transaction that allowed us to receive net cash proceeds comparable to the cash proceeds we were receiving in whole loan sales during the same period.

In July 2001, we raised gross proceeds of approximately $15 million through a private placement of 1,442,308 shares of our common stock at $10.40 per share. Friedman, Billings, Ramsey & Co., Inc. served as placement agent for this transaction. Net proceeds to us totaled approximately $14.15 million. Effective as of August 20, 2001, we registered for resale the shares sold in the private placement on a Form S-3 filed with the Securities and Exchange Commission, and agreed to maintain the effectiveness of the registration for up to two years, subject to customary exceptions.

3

In May 2001, CDC Mortgage Capital joined our U.S. Bank syndicated warehouse line as a $70 million participant. In addition, in July 2001, we entered into a $200 million repurchase agreement with CDC Mortgage Capital. The agreement allows for both funding of loan originations and aggregation of loans for up to 6 months pending their sale or securitization. The addition of this facility brings our total warehouse and aggregation credit facilities to $1.4 billion.

The Offering

Common stock offered by us	3,200,000 shares(1)
Common stock offered by the selling stockholders	300,000 shares
Common stock outstanding after the offering	19,916,764 shares(1)(2)
Use of proceeds	For general corporate purposes, including increasing our capital base to support expansion of our credit facilities and to finance additional growth. We also intend to use the proceeds to (i) open additional offices, (ii) hire additional sales staff, (iii) fund possible acquisitions of other mortgage companies and (iv) for other general corporate purposes.
Nasdaq National Market symbol	NCEN

(1) Assumes no exercise of the underwriters' over-allotment option.

(2) The common stock to be outstanding after the offering is based on 16,716,764 shares of common stock outstanding as of August 15, 2001, which includes the 1,442,308 shares issued in July 2001 through a private placement and excludes:

- 4,124,400 shares of common stock issuable on the conversion of preferred stock;
- 2,022,227 shares of common stock issuable on the exercise of outstanding stock options;
- 50,000 shares of common stock issuable on the exercise of warrants;
- 1,846,229 shares of common stock available for issuance under our employee stock purchase plan; and
- 677,256 shares of common stock available for issuance under our 1995 stock option plan.

4

Summary Consolidated Financial Data

You should read this summary financial data along with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our audited and unaudited financial statements and notes thereto that are included elsewhere herein.

	For the Year Ended December 31,			For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	1998	1999	2000	2000	2001	2000	2001

	For the Year Ended December 31,			For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	(in thousands, except per share data)						
Revenues:							
Gain (loss) on sale of loans	$ 105,060	$ 121,672	$ 14,952	$ 21,205	$ 58,679	$ (1,605)	$ 38,129
Interest income	47,655	61,457	67,351	36,212	22,975	17,771	13,717
Servicing income	9,072	23,428	30,093	15,555	9,504	7,746	2,998
Residual interest income	14,620	27,385	49,867	22,805	20,684	11,481	9,530
Other income			1,653	540	907	540	420
Total revenues	176,407	233,942	163,916	96,317	112,749	35,933	64,794
Operating expenses	124,099	167,056	200,697	98,260	98,585	50,593	47,435
Earnings (loss) before income taxes (benefit)	52,308	66,886	(36,781)	(1,943)	14,164	(14,660)	17,359
Income taxes (benefit)	21,193	27,377	(13,756)	(613)	6,123	(6,057)	7,466
Net earnings (loss)	$ 31,115	$ 39,509	$ (23,025)	$ (1,330)	$ 8,041	$ (8,603)	$ 9,893
Basic earnings (loss) per share[(1)]	$ 2.19	$ 2.59	$ (1.76)	$ (0.19)	$ 0.44	$ (0.63)	$ 0.61
Diluted earnings (loss) per share[(1)]	$ 2.03	$ 2.11	$ (1.76)	$ (0.19)	$ 0.41	$ (0.63)	$ 0.51

	As of December 31,			As of June 30,	
	1998	1999	2000	2000	2001
	(in thousands)				
Loans receivable held for sale, net	$ 356,975	$ 442,653	$ 400,089	$ 526,218	$ 588,305
Residual interests in securitizations	205,395	364,689	361,646	393,906	324,551
Total assets	624,727	863,709	837,161	985,499	960,926
Borrowings under warehouse lines of credit	191,931	234,778	201,705	245,363	275,045
Borrowings under aggregation lines of credit	153,912	193,948	202,741	259,041	304,119
Residual financing	122,298	177,493	176,806	205,291	119,641
Subordinated debt		20,000	40,000	35,000	40,000
Other liabilities	41,973	64,527	63,760	66,938	65,046
Total stockholders' equity	$ 114,613	$ 172,963	$ 152,149	$ 173,866	$ 157,075

(1) See footnote 6 to the unaudited financial statements and footnote 19 to the audited financial statements included in this prospectus for basic and diluted weighted average number of shares outstanding.

	For the Year Ended December 31,			For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	1998	1999	2000	2000	2001	2000	2001
	(dollars in thousands)						
Loan origination and purchase activities:							

	For the Year Ended December 31,			For the Six Months Ended June 30,		For the Three Months Ended June 30,	
Wholesale originations	$2,382,784	$2,894,517	$3,041,761	$1,502,510	$1,911,189	$793,172	$1,103,236
Retail originations	942,072	1,185,747	1,110,596	564,327	499,263	317,204	280,684
Total loan originations and purchases	$3,324,856	$4,080,264	$4,152,357	$2,066,837	$2,410,452	$1,110,376	$1,383,920
Average principal balance per loan	$96	$102	$108	$103	$130	$106	$133
Percent of loans secured by first mortgages	97.2%	96.7%	95.3%	94.7%	98.6%	93.7%	99.0%
Weighted average initial loan-to-value ratio	78.2	78.8	78.6	79.0	78.3	79.2	78.6
Originations by product type:							
ARMs	$1,920,686	$2,610,475	$3,052,481	$1,502,190	$1,957,688	$806,933	$1,141,740
Fixed-rate mortgages	1,404,170	1,469,789	1,099,876	564,647	452,764	303,443	242,180
Weighted average interest rate:							
Fixed-rate mortgages	10.0%	10.2%	11.0%	10.9%	10.3%	11.1%	10.0%
ARMs	9.7	9.8	10.4	10.4	9.7	10.5	9.6
Margin-ARMs	6.1	6.2	6.2	6.1	6.5	6.1	6.6
Loan sales:							
Loans sold through whole loan transactions	$1,477,225	$1,033,006	$3,133,205	$1,320,462	$1,839,416	$823,686	$885,587
Loans sold through securitizations	2,265,700	3,017,658	1,029,477	644,454	380,242	214,774	380,242
Loans acquired to securitize	(544,704)	(61,312)					
Net loan sales	$3,198,221	$3,989,352	$4,162,682	$1,964,916	$2,219,658	$1,038,460	$1,265,829

6

RISK FACTORS

You should carefully consider the risks described below before making a decision to buy our common stock. If any of the following risks actually occurs, our business could be harmed. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment. When determining whether to buy our common stock you should also refer to the other information in this prospectus, including our financial statements and the related notes.

If we are unable to maintain adequate financing sources, our earnings and financial position will suffer and jeopardize our ability to continue operations.

We require substantial cash to support our operating activities and growth plans, which is provided primarily by $1.4 billion in short-term warehouse and aggregation credit facilities to fund loan originations and purchases pending the pooling and sale of such loans. We also have residual financing agreements that provide us with financing secured by residual interests we have retained in certain securitization transactions and securitization transactions involving net interest margin securities, or NIMs. If we cannot maintain or replace these facilities on comparable terms and conditions, we may incur substantially higher interest expense that would reduce our profitability.

During volatile times in the capital markets, access to warehouse, aggregation and residual financing has been severely constricted. If we are unable to maintain adequate financing or other sources of capital are not available, we would be forced to suspend or curtail our operations, which would have a material adverse effect on our results of operations, financial condition and business prospects.

A change in the assumptions we use to determine the value of our residual interests could adversely affect our financial position.

As of June 30, 2001, the value of our residual interests from securitization transactions on our balance sheet was $324.6 million. The value of these residuals is a function of the delinquency, loss, prepayment and discount rate assumptions we use to determine their value. During 2000, we changed these assumptions to reflect trends in actual pool performance, prepayment experience and the interest rate environment. As a result of these changes, we recorded reductions in the value of our residuals by $67.0 million. The reductions consisted of the following components:

$25.6 million resulted from changes to the prepayment and loss assumptions used in the valuation of the residual interests;

$14.5 million resulted from our change in the discount rate on our residuals from 12% to 13% and on our NIM bonds from 14% to 15%; and

$26.9 million resulted from the exercise by Salomon Smith Barney, Inc. of the call provision for our 1998-NC5 security in December 2000. We do not have any other residual interests that have a call provision similar to 1998-NC5.

If our actual experience differs materially from the revised assumptions we used to determine the value of our residual interests, future cash flows and earnings could be negatively affected.

Our warehouse and aggregation financing is subject to margin calls based on the lender's opinion of the value of our loan collateral. An unanticipated large margin call could adversely affect our liquidity.

The amount of financing we receive under our warehouse and aggregation financing agreements depends in large part on the lender's valuation of the mortgage loans that secure the financings. Each such credit facility provides the lender the right, under certain circumstances, to reevaluate the loan collateral that secures our outstanding borrowings at any time. In the event the lender determines that the value of the loan collateral has decreased, it has the right to initiate a margin call. A margin call would require us to provide the lender with additional collateral or to repay a portion of the outstanding borrowings. Any such margin call could have a material adverse effect on our results of operations, financial condition and business prospects.

Our operations could be hurt by an economic slowdown or recession particularly if it results in a decline in the real estate market.

The risks associated with our business are more acute during periods of economic slowdown or recession because these periods may be accompanied by decreased demand for consumer credit and declining real estate values. Declining real estate values reduce the ability of borrowers to use home equity to support borrowings because they negatively affect loan-to-value ratios of the home equity collateral. In addition, because we make a substantial number of loans to credit-impaired borrowers, the actual rates of delinquencies, foreclosures and losses on these loans could be higher during economic slowdowns. Any sustained period of increased delinquencies, foreclosures or losses could adversely affect our ability to sell loans, the prices we receive for our loans, or the value of our residual interests in securitizations, which could have a material adverse effect on our results of operations, financial condition and business prospects.

High delinquencies or losses on the mortgage loans in our securitizations may decrease our cash flows or impair our ability to sell or securitize loans in the future.

Loans we make to lower credit grade borrowers, including credit-impaired borrowers, entail a higher risk of delinquency and higher losses than loans we make to borrowers with better credit. Virtually all of our loans are made to borrowers who do not qualify for loans from conventional mortgage lenders. No assurance can be given that our underwriting criteria or methods will afford adequate protection against the higher risks associated with loans made to lower credit grade borrowers. We continue to be subject to risks of default and foreclosure following the sale of loans through securitization. To the extent such losses are greater than expected, the cash flows we receive through residual interests would be reduced. Increased delinquencies or losses may also reduce our ability to sell or securitize loans in the future. Any such reduction in our cash flows or impairment in our performance could have a material adverse effect on our results of operations, financial condition and business prospects.

Our earnings may decrease because of increases or decreases in interest rates.

Our profitability may be directly affected by changes in interest rates. First, these changes may reduce the spread we earn between the interest we receive on our loans and our funding costs. Second, a substantial and sustained increase in interest rates could adversely affect borrower demand for our products. Third, during periods of rising interest rates, the value and profitability of our loans may be negatively affected from the date of origination or purchase until the date we sell or securitize the loan. Fourth, our adjustable-rate mortgage loans have periodic and lifetime interest rate caps above which the interest rate on the loans may not rise. In the event of general interest rate increases, the rate of interest on these mortgage loans could be limited, while the rate payable on the senior certificates representing interests in a securitization trust into which these loans are sold may be uncapped. This would reduce the amount of cash we receive over the life of our residual interests, and require us to reduce the carrying value of our residual interests. Fifth, a significant decrease in interest rates could increase the rate at which loans are prepaid, which also could require us to reduce the carrying value of our residual interests. If prepayments are greater than expected, the cash we receive over the life of our residual interests would be reduced. Any such change in interest rates could have a material adverse effect on our results of operations, financial condition and business prospects.

In the event of a default on our subordinated debt, the collateral securing the debt may not provide near-term cash sufficient to repay the debt.

In addition to financing that is secured by our loans and residual interests, we have also borrowed $40 million in subordinated debt from U.S. Bank. This debt is secured by a subordinated lien on the collateral that is pledged under our warehouse credit facility with U.S. Bank as well as by certain rights to our residual interests. Unlike our warehouse, aggregation and residual financing borrowings, which are secured by assets that we believe would cover the borrowings in the event of a default, we may not

have a source of funds to repay the subordinated debt in the event of a default. We intend to rely primarily on cash flows from our residual interests to repay this debt on or before its December 31, 2003 maturity. It would be more difficult for us to repay this subordinated debt when due if our residual cash flows fall significantly short of projections and we are required to use cash flows from operations. Our inability to repay the subordinated debt when due would have a material adverse effect on our results of operations, financial condition and business prospects.

Our inability to realize cash proceeds from loan sales and securitizations in excess of the loan acquisition cost could adversely affect our financial position.

The net cash proceeds received from loan sales consist of the premiums we receive on sales of loans in excess of the outstanding principal balance, plus the cash proceeds we receive from securitization, minus the discounts on loans that we have to sell for less than the outstanding principal balance. If we are unable to originate loans at a cost lower than the cash proceeds realized from loan sales, our results of operations, financial condition and business prospects could be materially adversely affected.

An interruption or reduction in the securitization and whole loan markets would hurt our financial position.

We are dependent on the securitization market for the sale of our loans because we securitize loans directly and many of our whole loan buyers purchase our loans with the intention to securitize. The securitization market is dependent upon a number of factors, including general economic conditions, conditions in the securities market generally and conditions in the asset-backed securities market specifically. In addition, poor performance of our previously securitized loans could harm our access to the securitization market. Accordingly, a decline in the securitization market or a change in the market's demand for our loans could have a material adverse effect on our results of operations, financial condition and business prospects.

Our business is dependent upon conditions in California where we conduct a significant amount of our business.

For the six months ended June 30, 2001, approximately 44% of the mortgage loans we originated or purchased were secured by property in California. An overall decline in the economy or the residential real estate market, or the occurrence of a natural disaster, such as an earthquake, or a major terrorist attack in California could adversely affect the value of the mortgaged properties in California and increase the risk of delinquency, foreclosure, bankruptcy, or loss on mortgage loans in our portfolio. This would negatively affect our ability to purchase, originate and securitize mortgage loans, which could have a material adverse effect on our business, financial condition, liquidity and results of operations.

California is currently experiencing an energy crisis. As a result, energy costs, including natural gas and electricity, may increase significantly in the future. There may also be limitations in the amount of energy resulting in power "blackouts" during short periods of time. Therefore, because our headquarters, a substantial number of our branch offices and some of the independent brokers in our wholesale network are based in California, our operations may be disrupted and operating expenses may increase in the future. Any such disruption or increase in expenses could be material and could adversely affect our loan originations, margins and our profitability. To date, we have not experienced material increases in our overall operating expenses. However, if the power outages associated with the energy crisis continue or become more severe, we could experience material disruptions or cost increases in the future, which could have a material adverse effect on our results of operations, financial condition and business prospects.

Many of our competitors are larger and have greater financial resources than we do, which could make it difficult for us to compete successfully, and we could face new competitors.

We face intense competition in the business of originating, purchasing and selling mortgage loans. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. In addition, certain government-sponsored entities, such as Fannie Mae and Freddie Mac, are beginning to purchase some categories of non-prime loans, which may cause new competitors to enter our market and reduce our profit margins.

Certain large finance companies and conforming mortgage originators also originate non-prime mortgage loans to customers similar to the borrowers we serve. Competitors with lower costs of capital have a competitive advantage over us. In addition, establishing a wholesale lending operation such as ours requires a relatively small commitment of capital and human resources. This low barrier to entry permits new competitors to enter our markets quickly and compete with our wholesale lending business, which could have a material adverse effect on our results of operations, financial condition and business prospects.

Changes in the volume and cost of loans originated by our wholesale division may decrease our loan production and decrease our earnings.

We depend primarily on independent mortgage brokers and, to a lesser extent, on correspondent lenders for the origination and purchase of our wholesale mortgage loans, which constitute the majority of our loan production. These independent mortgage brokers have relationships with multiple lenders and are not obligated by contract or otherwise to do business with us. We compete with these lenders for the independent brokers' business on pricing, service, loan fees, costs and other factors. Competition from other lenders and purchasers of mortgage loans could negatively affect the volume and pricing of our wholesale loans, which could have a material adverse effect on our results of operations, financial condition and business prospects.

A decline in the quality of servicing of the loans that we have recently transferred could lower the value of our residual interests and our ability to sell or securitize loans.

We recently transferred our servicing portfolio to Ocwen Federal Bank FSB. There is a risk that the transfer of servicing to a third party could result in reduced collections and increases in delinquencies due to, among other things, borrower confusion, data integrity problems, system integration issues and poor customer service. A third-party servicing agent may not have the incentive to manage the servicing process in our best interests. Poor servicing and collections could adversely affect the value of our residual interests and our ability to sell or securitize loans, which could have a material adverse effect on our results of operations, financial condition and business prospects.

We may be required to repurchase mortgage loans or indemnify investors if we breach representations and warranties, which would hurt our earnings.

When we sell loans, we are required to make customary representations and warranties about such loans to the loan purchaser. Our whole loan sale agreements require us to repurchase or substitute loans in the event we breach a representation or warranty given to the loan purchaser or make a misrepresentation during the mortgage loan origination process. In addition, we may be required to repurchase loans as a result of borrower fraud or in the event of early payment default on a mortgage loan. Likewise, we are required to repurchase or substitute loans if we breach a representation or warranty in connection with our securitizations. The remedies available to a purchaser of mortgage loans are generally broader than those available to us against the originating broker or correspondent. Further, if a purchaser enforces its remedies against us, we may not be able to enforce the remedies we have against the sellers. The repurchased loans typically can only be financed at a steep discount to their repurchase price, if at all. They are also typically sold at a significant discount to the unpaid principal balance. Significant repurchase activity could negatively affect our cash flow and results of operations.

New legislation could restrict our ability to make mortgage loans, which could adversely impact our earnings.

Several states and cities are considering or have passed laws, regulations or ordinances aimed at curbing predatory lending practices. The federal government is also considering legislative and regulatory proposals in this regard. In general, these proposals involve lowering the existing federal Homeownership and Equity Protection Act thresholds for defining a "high-cost" loan, and establishing enhanced protections and remedies for borrowers who receive such loans. However, many of these laws and rules extend beyond curbing predatory lending practices to restrict commonly accepted lending activities, including some of our activities. For example, some of these laws and rules prohibit any form of prepayment charge or severely restrict a borrower's ability to finance the points and fees charged in connection with his or her loan. Passage of these laws and rules could reduce our loan origination volume. In addition, for reputational reasons and because of the enhanced risk, many whole loan buyers elect not to purchase any loan labeled as a "high cost" loan under any local, state or federal law or regulation. Accordingly, these laws and rules could severely constrict the secondary market for a significant portion of our loan production. This would effectively preclude us from continuing to originate loans that fit within the newly defined thresholds and would have a material adverse effect on our results of operations, financial condition and business prospects.

If many of our borrowers become subject to the Soldiers' and Sailors' Civil Relief Act of 1940, our cash flows from our residual securities may be adversely affected.

Under the Soldiers' and Sailors' Civil Relief Act of 1940, a borrower who enters military service after the origination of his or her mortgage loan generally may not be charged interest above an annual rate of 6% during the period of the borrower's active duty status. The Act also applies to a borrower who was on reserve status and is called to active duty after origination of the mortgage loan. A significant military mobilization in response to the September 11, 2001 terrorist attacks against the United States could increase the number of the borrowers in our securitized pools who are subject to this Act and thereby reduce the interest payments collected from those borrowers. To the extent the number of borrowers who are subject to this Act is significant, the cash flows we receive through residual interests would be reduced, which would cause us to reduce the carrying value of our residual interests. Any such reduction in our cash flows or impairment in our performance could have a material adverse effect on our results of operations, financial condition and business prospects.

A recent federal circuit court decision regarding the legality of yield spread premiums could increase litigation against us and other mortgage lenders.

In June 2001, the Eleventh Circuit Court of Appeals issued a decision in *Culpepper v. Irwin Mortgage Corp.* in which the court revisited the legality of certain payments that lenders commonly make to mortgage brokers, often referred to as yield spread premiums, under the federal Real Estate Settlement Procedures Act. In 1999, the Department of Housing and Urban Development issued a policy statement taking the position that lender payments to mortgage brokers, including yield spread premiums, are not *per se* illegal. The *Culpepper* decision apparently treats a much wider category of these payments as illegal. We and other mortgage lenders now face inconsistent judicial decisions about such payments. If the *Culpepper* decision is not overturned or otherwise superseded by law or regulation, there could be a substantial increase in litigation regarding lender payments to brokers. Since July 2001, we have been served with two yield spread premium class actions, which are further described in "Business Legal Proceedings." The costs of a significant increase in litigation could have a material adverse effect on our results of operations, financial condition and business prospects.

We are exposed to risk of environmental liabilities with respect to properties to which we take title.

In the course of our business, we may foreclose and take title to residential properties, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation, and clean-up

costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our business, financial condition, liquidity and results of operations could be materially and adversely affected.

Our charter and bylaws and Delaware law contain provisions that could discourage a takeover.

Our amended and restated certificate of incorporation and our amended and restated bylaws include various provisions that could delay, defer or prevent a takeover attempt that may be in the best interest of our stockholders. These provisions include the existence of a classified board of directors, the ability of our board of directors to issue additional shares of our preferred stock up to 7,460,000 shares without any further stockholder approval and requirements that (i) our stockholders give advance notice with respect to certain proposals they may wish to present for a stockholder vote, (ii) our stockholders act only at annual or special meetings and (iii) two-thirds of all directors approve a change in the number of directors on our board of directors. Issuance of our preferred stock could also discourage bids for the common stock at a premium as well as create a depressive effect on the market price of our common stock. In addition, provisions in our 1998 transaction with U.S. Bancorp that provide U.S. Bancorp with certain preemptive rights and anti-dilutive adjustments to its shares may discourage takeover attempts by third parties.

We are also subject to Section 203 of the Delaware General Corporation Law which, subject to certain exceptions, prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that the stockholder became an interested stockholder. The preceding provisions of our charter and bylaws, as well as Section 203 of the Delaware

General Corporation Law, could discourage potential acquisition proposals, delay or prevent a change of control and prevent changes in our management.

The concentrated ownership of our voting stock by a small group of our stockholders may have an adverse effect on your ability to influence the direction we will take.

Upon completion of the offering, a small group of our stockholders, comprised of our management team and directors, U.S. Bancorp and Brookhaven Capital, will beneficially own an aggregate of approximately 70% of the total voting power of our voting stock. These stockholders, if they were to act in concert, would have majority control and would have the ability to control the approval of certain fundamental corporate transactions (including mergers, consolidations and sale of assets) and to elect all of the members of our board of directors, whether or not their actions are in the best interests of our other stockholders.

Various factors may cause the market price of our common stock to become volatile, which could adversely affect our ability to access the capital markets in the future.

The market price of our common stock may experience fluctuations that are unrelated to our operating performance. In particular, the price of our common stock may be affected by general market price movements as well as developments specifically related to the consumer finance industry and the financial services sector. These could include, among other things, interest rate movements, quarterly variations or changes in financial estimates by securities analysts, or a significant reduction in the price of the stock of another participant in the consumer finance industry. This volatility may make it difficult for us to access the capital markets through additional secondary offerings of our common stock, regardless of our financial performance.

USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of 3,200,000 shares of common stock, based on the offering price of $11.00 per share, will be $32.5 million, after deducting the underwriting discounts and commissions and estimated offering expenses. We will not receive any proceeds from the sale of shares from any selling stockholders.

The primary purpose of the offering is to increase our capital base to support expansion of our credit facilities and finance additional growth. We also intend to use the proceeds from the offering for other general corporate purposes, including to:

- open additional offices;
- hire additional sales staff; and
- fund possible acquisitions of other mortgage companies.

The amounts and timing of these expenditures will vary significantly depending on a number of factors, including, but not limited to, the amount of cash generated from our operations. We may find it necessary or advisable to use portions of the balance of the net proceeds for other purposes, and we will have broad discretion in the application of the balance of the net proceeds. Pending these uses, we intend to reduce the level of outstanding revolving borrowings, invest the net proceeds in United States government securities and other short-term, investment grade, interest-bearing instruments. We currently have no commitments or agreements and are not involved in any negotiation with respect to any acquisitions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources" for additional information regarding our sources and uses of capital.

CAPITALIZATION

The following table sets forth as of June 30, 2001 our capitalization on an actual basis, on a pro forma basis to give effect to the sale of 1,442,308 shares in a private placement completed in July 2001 and on a pro forma as adjusted basis to give effect to the sale by us of 3,200,000 shares of common stock in this offering at the offering price of $11.00 per share. You should read this information together with the "Selected Consolidated Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and related notes contained elsewhere in this prospectus.

As of June 30, 2001

	Actual	**Pro Forma**	**Pro Forma As Adjusted**
	(in thousands)		
Long Term Debt:			
Residual financing due December 31, 2001	$111,308	$111,308	$ 111,308
Subordinated debt due December 31, 2003	40,000	40,000	

management, administrative and office compensation, related costs and benefits; and

utilities, insurance, property depreciation, bad debt, professional fees, rent, amortization, advertising promotion, travel and miscellaneous other expenses.

The Company's net sales increased 9% to $15,214,000 for the nine months ended December 31, 2001, from $13,945,000 for the nine months ended December 31, 2000. The Company's operating income decreased 3% to $1,400,000 for the first nine months of fiscal 2002 from $1,450,000 for the first nine months of fiscal 2001. Cost of goods sold increased to 65% of net sales for the nine months ended December 31, 2001 from 62% of net sales for the nine months ended December 31, 2000. Selling, general and administrative expenses decreased to 25% of net sales for the nine months ended December 31, 2001 from 27% of net sales for the nine months ended December 31, 2000. The primary reasons for these changes are discussed below.

The results of operations of the Company are dependent upon the results of operations of each of its subsidiaries operating in the Company's individual business segments. Set forth below is a discussion of the results of operations of each of these segments.

Waste Management Services Segment

Net sales in the Company's Waste Management Services Segment, which operates through Bio Waste Systems, Inc. and Medical Waste Systems, Inc. (collectively, "Bio Systems"), increased 9% to $4,724,000 for the third quarter of fiscal 2002 from $4,346,000 for the third quarter of fiscal 2001. Bio Systems' net sales increased 9% to $13,989,000 for the nine months ended December 31, 2001, from $12,815,000 during the same period in fiscal 2001. The sales growth is primarily due to securing new hospital contracts for Bio Systems' core business of providing "sharps" (including sharp-edged medical waste such as scalpels, syringes, and needles) disposal services which utilize cost effective reusable containers. Bio Systems added nine new hospital contracts in the third quarter of fiscal 2002, and added a total of 13 new hospital contracts in the first nine months of fiscal 2002. In fiscal 2001, Bio Systems expanded its disposal services to include certain laboratory waste and surgical fluid waste. Net sales for laboratory and surgical fluid waste increased $37,000 to $246,000 in the third quarter of fiscal 2002. Net sales for laboratory and surgical fluid waste increased $141,000 to $700,000 for the nine months ended December 31, 2001. Bio Systems intends to continue to actively pursue the laboratory and surgical fluid waste disposal market, although the market is relatively small compared to Bio Systems' core business of sharps disposal. Bio Systems has also expanded its disposal services at hospitals and healthcare related facilities to include other regulated medical waste ("redbag services"). For the third quarter of fiscal 2002, net sales in the redbag services segment increased $172,000 to $351,000. For the nine months ended December 31, 2001, net sales in the redbag segment increased $400,000 to $922,000.

Bio Systems' cost of goods sold for the third quarter of fiscal 2002 was 69% of its net sales as compared to 64% for the third quarter of fiscal 2001, and for the nine months ending December 31, 2001 was 68% compared to 64% during the same period last year. The increases were primarily due to increases in outsourced waste disposal expenses, which increased $156,000 to $427,000 for the third quarter of fiscal 2002 and increased $470,000 to $1,187,000 during the nine months ended December 31, 2001. The increase in outsourced waste disposal expenses are due to several factors. First, Bio Systems' sharps disposal capacity at its Farmingdale facility is currently restricted under its solid waste processing permit. Further, non-sharps waste collected in Bio Systems' laboratory, surgical fluid and redbag waste services cannot currently be disposed at Bio Systems' facility. Bio Systems has applied to the appropriate agencies for additional permitted sharps disposal capacity and, although expects to receive approval during the first quarter of fiscal 2003. Selling, general and administrative expenses for the third quarter of fiscal 2002 decreased to 20% of net sales from 22% of net sales in the same period last year. For the nine months ended December 31, 2001, selling, general and administrative expenses decreased to 20% of net sales as compared to 22% during the same period last year.

For the third quarter of fiscal 2002, operating income decreased 21% to $404,000 from $514,000 for the same period last year. For the nine months ending December 31, 2001, operating income decreased 4% to $1,522,000 from $1,583,000 for the same period last year. These results reflect higher costs related to outsourcing of waste disposal and sharps container hardware installation.

Consumer Healthcare Products Segment

Net sales for the Consumer Healthcare Products Segment, which operates through Scherer Laboratories, Inc. ("Scherer Labs"), decreased 10% to $324,000 for the third quarter of fiscal 2002 from $362,000 during the same period in fiscal 2001. Scherer Labs' net sales increased 8% to $1,225,000 for the nine months ended December 31, 2001 from $1,130,000 for the nine months ended December 31, 2000. Increased sales are mostly the result of increased volume with existing customers.

As a result of the decreased cost of goods sold, Scherer Labs' operating income increased 30% to $127,000 for the third quarter of fiscal 2002 from $98,000 for the third quarter of fiscal 2001 and

increased 27% to $486,000 for the nine months ended December 31, 2001 from $383,000 for the nine months ended December 31, 2000.

Corporate

The Company's operating expenses in the Corporate Segment decreased to $56,000 for the quarter ended December 31, 2001 from $186,000 for the quarter ended December 31, 2000. For the nine months ended December 31, 2001, operating expenses in the Corporate Segment increased to $608,000 from $516,000 for the same period in fiscal 2001. Certain administrative, accounting, management oversight and payroll services are performed by the Company's corporate office. The Corporate operating expenses primarily include the salaries and wages of the personnel who perform these functions (including the Company's executive officers), rent expense, and professional accounting and legal fees. For the quarter ended December 31, 2001, the corporate office operating expense decrease is primarily due to a reduction of rent expense and the discontinuance of amortization of the Econometrics, Inc. amortization cost. The increase of corporate operating expenses for the nine months ended December 31, 2001, is primarily due to financial consulting and other professional fees and severance compensation that resulted from the closing of Scherer Labs' Texas office.

Other Income.

The Company's interest income for the third quarter of fiscal 2002 is primarily from its investments in government and corporate fixed income bonds. Of the $166,000 recorded, $10,000 represents interest accrued on MedicareFacts, LLC notes. In the third quarter of fiscal 2001, the $241,000 of interest income included $82,000 accrued on the debt instruments of its unconsolidated companies accounted for on the equity method. (See Note 4 of Notes to Condensed Consolidated Financial Statements included elsewhere herein.) In the third quarter of fiscal 2002 the Company recognized equity in net losses of unconsolidated companies of $1,000 as compared to $106,000 for the third quarter of fiscal 2001. The Company also recognized a $380,000 impairment charge in the quarter ended December 31, 2000, relating to a write down of an investment recorded under the cost method of accounting.

Liquidity and Capital Resources

The Company's cash and cash equivalents totaled $5,448,000 at December 31, 2001, an increase of $1,050,000 from $4,398,000 at March 31, 2001. Since March 31, 2001, the Company has made additional investments of $112,000 in Econometrics, Inc. in an attempt to keep that company viable. (See Note 4 of Notes to Condensed Consolidated Financial Statements included elsewhere herein). Also, since March 31, 2001, the Company invested $1,027,000 in additional marketable securities. The Company's working capital increased $777,000 at December 31, 2001, from $7,096,000 at March 31, 2001. This increase was primarily for the reasons described below.

Cash Flow from Operating Activities.

The Company's cash provided by operating activities from continuing operations totaled $3,245,000 for the first nine months of fiscal 2002, as compared to $2,891,000 for the first nine months of fiscal 2001. The increase is primarily due to increased sales of $1,269,000 at Bio Systems and Scherer Labs for the nine months ended December 31, 2001, a corresponding decrease in accounts receivable and collateralizing workers compensation requirements with letters of credit instead of using cash.

Cash Flows from Investing and Financing Activities.

The Company's investing activities used cash of $2,139,000 for the nine months ended December 31, 2001, as compared to a use of cash of $221,000 for the nine months ended December 31,

2000. During the nine months ended December 31, 2001, the Company increased its net investment in marketable securities by $1,027,000 and the Company made an additional cash investment of $112,000 in Econometrics, Inc. (see comments above). For the nine months ended December 31, 2001, the Company acquired new vehicles, factory machinery and equipment, office equipment and containers amounting to $870,000, versus $1,185,000 for the nine months ended December 31, 2000.

Cash used for financing activities was $56,000 for the nine months ended December 31, 2001, resulting from the Company paying off certain capital leases. For the nine months ended December 31, 2000, cash flow from financing activities was $295,000 caused by capital lease financing of new vehicles.

Management of the Company believes that its current cash on hand and its current and future cash flow is sufficient to maintain its operations on a short term and long term basis. The Company continues to evaluate its long-term options with regard to the use of its remaining cash on hand including possible acquisition opportunities and internal expansion.

Effects of Accounting Standards

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement No. 141, "Business Combinations," which established new accounting and reporting standards for business combinations and supersedes Accounting Principles Board (APB) Opinion No. 16. All business combinations initiated after June 30, 2001, must now be accounted for using the purchase method of accounting.

Also in June 2001, the FASB issued Statement No. 142, "Goodwill and Other Intangible Assets," which establishes new accounting and reporting standards for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17. It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for upon acquisition and on an ongoing basis. Goodwill and intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives, which are no longer limited to 40 years. The Company must adopt the provisions of Statement No.142 on April 1, 2002. The Company recorded amortization expense related to goodwill of $83,000 for the nine months ended December 31, 2001, and is expected to record $107,000 of goodwill amortization expense for the year ending March 31, 2002. The Company has not yet quantified the impact of adopting Statement No. 142 on its consolidated financial statements; however, the impact is not expected to be material upon adoption on April 1, 2002.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K.

None

13

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SCHERER HEALTHCARE, INC.
(Registrant)

Date: February 14, 2002

/s/ ROBERT P. SCHERER, JR.

Robert P. Scherer, Jr.
Chairman, Chief Executive Officer and President

Date: February 14, 2002

/s/ DONALD P. ZIMA

Donald P. Zima
Vice President and Chief Financial Officer

14

QuickLinks

As of June 30, 2001