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LITCHFIELD FINANCIAL CORP /MA

FORM 10-Q
(Quarterly Report)

Filed 11/15/99 for the Period Ending 09/30/99

Address	430 MAIN STREET WILLIAMSTOWN, MA 01267
Telephone	4134581000
CIK	0000882515
SIC Code	6162 - Mortgage Bankers and Loan Correspondents
Fiscal Year	12/31

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FORM 10-Q
(Quarterly Report)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended SEPTEMBER 30, 1999

Commission File Number: 0-19822

LITCHFIELD FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

MASSACHUSETTS	04-3023928
state or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

430 MAIN STREET, WILLIAMSTOWN, MA	01267
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (413) 458-1000

(Former name, former address and former fiscal year,
if changed since last report)

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

As of November 1, 1999, there were 6,984,601 shares of common stock of Litchfield Financial Corporation outstanding.

FORM 10-Q

LITCHFIELD FINANCIAL CORPORATION
FORM 10-Q

QUARTER ENDED SEPTEMBER 30, 1999

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

LITCHFIELD FINANCIAL CORPORATION
Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	September 30, 1999 (unaudited)	December 31, 1998
ASSETS		
Cash and cash equivalents.....................	$ 37,107	$ 10,537
Restricted cash..............................	18,494	27,898
Loans held for sale, net......................	3,391	19,750
Other loans, net	508,504	191,292
Retained interests in loan sales, net	6,167	28,883
Other...	30,420	15,522
Total assets............................	$604,083	$293,882
LIABILITIES, COMMITMENTS AND STOCKHOLDERS' EQUITY		
Liabilities:		
Lines of credit............................	$329,415	$ 49,021
Accounts payable and other liabilities......	6,683	9,812
Dealer/developer reserves...................	10,752	9,979
Deferred income taxes.......................	8,501	8,388
Long-term notes............................	133,882	134,588
Total liabilities.......................	489,233	211,788
Commitments:		
Litchfield Obligated Mandatorily Redeemable Preferred Securities of Trust Subsidiary Holding Debentures of Litchfield.......................	26,200	--
Stockholders' equity:		
Preferred stock, $.01 par value; authorized 1,000,000 shares, none issued and outstanding..	--	--
Common stock, $.01 par value; authorized 12,000,000 shares, 6,984,601 shares issued and outstanding in 1999 and 6,886,329 shares issued and outstanding in 1998.................	70	69
Additional paid in capital..................	59,647	58,040
Accumulated other comprehensive income......	200	1,250
Retained earnings..........................	28,733	22,735
Total stockholders' equity..............	88,650	82,094
Total liabilities, commitments and stockholders' equity....................	$604,083	$293,882

See accompanying notes to unaudited consolidated financial statements.

LITCHFIELD FINANCIAL CORPORATION
Consolidated Statements of Income
(In thousands, except share and per share amounts)

Unaudited

	Three Months Ended September 30, 1999	1998
Revenues:		
Interest and fees on loans..................	$ 9,493	$ 6,819
Gain on sale of loans........................	987	2,906
Servicing and other income..................	509	740
	10,989	10,465
Expenses:		
Interest expense............................	5,824	3,423
Salaries and employee benefits..............	1,748	1,277
Other operating expenses....................	1,302	906
Provision for loan losses...................	605	360
	9,479	5,966
Income before income taxes and distributions on preferred securities...........................	1,510	4,499
Provision for income taxes.....................	582	1,732
Distributions on preferred securities (net of tax benefit of $262)..............................	418	--
Income before extraordinary item................	510	2,767
Extraordinary item (net of tax benefit of $48)..	--	(77)
Net income....................................	$ 510	$ 2,690
Basic per common share amounts:		
Income before extraordinary item	$ .07	$ .40
Extraordinary item	--	(.01)
Net income..................................	$ .07	$ .39
Basic weighted average number of shares.........	6,984,158	6,835,775
Diluted per common share amounts:		
Income before extraordinary item	$ .07	$ .39
Extraordinary item	--	(.01)
Net income..................................	$ .07	$ .38
Diluted weighted average number of shares.......	7,302,008	7,158,882

See accompanying notes to unaudited consolidated financial statements.

LITCHFIELD FINANCIAL CORPORATION
Consolidated Statements of Income
(In thousands, except share and per share amounts)
Unaudited

	Nine Months Ended September 30, 1999	1998
Revenues:		
Interest and fees on loans..................	$25,857	$18,107
Gain on sale of loans.......................	7,866	8,585
Servicing and other income..................	1,613	1,699
	35,336	28,391
Expenses:		
Interest expense............................	15,176	10,115
Salaries and employee benefits..............	4,452	3,557
Other operating expenses....................	3,341	2,775
Provision for loan losses...................	1,605	1,170
	24,574	17,617
Income before income taxes and distributions on preferred securities...........................	10,762	10,774

Provision for income taxes.....................	4,144	4,148
Distributions on preferred securities (net of tax benefit of $390)..............................	623	--
Income before extraordinary item................	5,995	6,626
Extraordinary item (net of tax benefit of $48)..	--	(77)
Net income.....................................	$ 5,995	$ 6,549
Basic per common share amounts:		
Income before extraordinary item	$ .87	$ 1.09
Extraordinary item	--	(.01)
Net income..................................	$ .87	$ 1.08
Basic weighted average number of shares.........	6,926,644	6,083,183
Diluted per common share amounts:		
Income before extraordinary item	$ .83	$ 1.03
Extraordinary item	--	(.01)
Net income..................................	$ .83	$ 1.02
Diluted weighted average number of shares.......	7,227,287	6,432,422

See accompanying notes to unaudited consolidated financial statements.

LITCHFIELD FINANCIAL CORPORATION
Consolidated Statement of Stockholders' Equity
(In thousands, except share amounts)
Unaudited

	Common Stock	Additional Paid In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, December 31, 1998......	$69	$58,040	$1,250	$22,735	$82,094
Issuance of 102,818 shares of common stock.................	1	1,684	---	---	1,685
Retirement of 4,546 shares of treasury stock................	---	(77)	---	---	(77)
Other comprehensive loss, net of tax.......................	---	---	(1,050)	---	(1,050)
Tax benefit from stock options exercised..........	---	---	---	7	7
Preferred stock dividends paid by majority owned subsidiary.	---	---	---	(4)	(4)
Net income...........	---	---	---	5,995	5,995
Balance, September 30, 1999......	$70	$59,647	$ 200	$28,733	$88,650

See accompanying notes to unaudited consolidated financial statements.

LITCHFIELD FINANCIAL CORPORATION
Consolidated Statements of Comprehensive Income
(In thousands)
Unaudited

	Three Months Ended September 30, 1999	Three Months Ended September 30, 1998
Net income......................................	$ 510	$2,690

Unrealized (loss) gain on retained interests in loan sales, net of tax (benefit) expense of ($1,973) and $14 for 1999 and 1998, respectively	(3,152)	22
Comprehensive (loss) income	($ 2,642)	$2,712
	=======	======

	Nine Months Ended September 30, 1999	1998
Net income	$5,995	$6,549
Unrealized (loss) gain on retained interests in loan sales, net of tax (benefit) expense of ($657) and $126 for 1999 and 1998, respectively	(1,050)	202
Comprehensive income	$4,945	$6,751
	======	======

See accompanying notes to unaudited consolidated financial statements.

LITCHFIELD FINANCIAL CORPORATION
Consolidated Statements of Cash Flows
(In thousands)
Unaudited

	Nine Months Ended September 30, 1999	1998
Cash flows from operating activities:		
Net income	$ 5,995	$ 6,549
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of loans	(7,866)	(8,585)
Amortization and depreciation	1,056	735
Amortization of retained interests in loan sales	5,463	4,569
Provision for loan losses	1,605	1,170
Deferred income taxes	113	1,830
Net changes in operating assets and liabilities:		
Restricted cash	9,404	(5,445)
Loans held for sale	(76,370)	6,748
Retained interests in loan sales	3,549	(1,903)
Dealer/developer reserves	773	(627)
Net change in other assets and liabilities	(6,053)	(1,652)
	-------	-------
Net cash (used in) provided by operating activities	(62,331)	3,389
	-------	-------
Cash flows from investing activities:		
Net originations, purchases and principal payments on other loans	(95,145)	(128,624)
Other loans sold	31,609	58,822
Collections on retained interests in loan sales	4,592	5,863
Capital expenditures and other assets	(2,150)	(1,296)
Investments in affiliates	(6,990)	(306)
	------	-----
Net cash used in investing activities	(68,084)	(65,541)
	-------	-------
Cash flows from financing activities:		
Net borrowings on lines of credit	129,887	42,163
Payments on term note	--	(5,210)
Retirement of long-term notes	(706)	(291)
Proceeds from issuance of preferred securities	26,200	--
Purchase and retirement of treasury stock	(77)	--
Net proceeds from issuance of common stock	1,685	20,927
Payment of preferred stock dividend	(4)	--
	----	----
Net cash provided by financing activities	156,985	57,589
	-------	------
Net increase (decrease) in cash and cash equivalents	26,570	(4,563)
Cash and cash equivalents, beginning of period	10,537	19,295

Cash and cash equivalents, end of period.........	$37,107	$14,732
Supplemental Schedule on Noncash Financing and Investing Activities:		
Exchange of loans for retained interests in loan sales......................................	$ 1,717	$ 692
Transfers from loans to real estate acquired through foreclosure....................	$ 3,105	$ 1,374
Noncash Activities:		
Increase in other loans relating to loan sale call options...............................	$167,225	$ --
Increase in lines of credit relating to loan sale call options...........................	$150,507	$ --
Supplemental Cash Flow Information:		
Interest paid...............................	$ 14,563	$ 9,948
Income taxes paid...........................	$ 4,473	$ 1,419

See accompanying notes to unaudited consolidated financial statements.

FORM 10-Q
LITCHFIELD FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

A. Basis of Presentation

The accompanying unaudited consolidated interim financial statements as of September 30, 1999 and for the three and nine month periods ended September 30, 1999 and 1998, have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 1999, are not necessarily indicative of the results expected for the year ending December 31, 1999. For further information, refer to the consolidated financial statements and notes thereto included in Litchfield Financial Corporation's annual report on Form 10-K for the year ended December 31, 1998.

In June 1998, the Financial Accounting Standards Board ("FASB")issued Statement of Financial Accounting Standards No. 133 ("Statement No. 133"), "Accounting for Derivative Instruments and Hedging Activities." Statement No. 133, as amended by Statement No. 137 issued in June 1999, is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000, with early adoption permitted as of the beginning of any quarter after the date of issuance. Statement No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivatives embedded in other contracts and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. The provisions of Statement No. 133 can not be applied retroactively to financial statements of prior periods.

The Company plans to adopt Statement No. 133 in the fiscal quarter beginning January 1, 2001. At the date of initial application, the Company must recognize any freestanding derivative instruments in the balance sheet as either assets or liabilities and measure them at fair value. The Company shall also recognize offsetting gains and losses on hedged assets, liabilities, and firm commitments by adjusting their carrying amounts at that date as a cumulative effect of a change in accounting principal. Whether such transition adjustment is reported in net income, other comprehensive income, or allocated between both is based on the hedging relationships, if any, that existed for that derivative instrument and were the basis for accounting prior to the application of Statement No. 133. The Company is evaluating the effect that the implementation of Statement No. 133 will have on its results of operations and financial position.

On August 23, 1999, the Company acquired approximately 53% of American Growth Finance, Inc. ("AGF"), headquartered in Dallas, Texas. AGF is an accounts receivable factoring company targeting service providers to Fortune 1000 companies. In addition to its Dallas headquarters, AGF has business development offices in Orlando and Tampa, Florida, and Nashville, Tennessee. During the fiscal year 1999, the Company provided AGF with a revolving secured line of credit. The Company accounted for this acquisition by the purchase method. The total purchase price was $1,650,000. The Company has the right to acquire up to 100% of AGF through 2001. Goodwill of $545,000 resulting from the purchase is being amortized on a straight-line basis over a period of 20 years. The results of operations of AGF have been included in the Company's income statement from August 23, 1999.

B. Gain on Sale of Loans and Retained Interests in Loan Sales

Gains on sales of loans are based on the difference between the allocated cost basis of the assets sold and the proceeds received, which includes the fair value of any assets or liabilities that are newly created as a result of the transaction. The previous carrying amount is allocated between the assets sold and any retained interests based on their relative fair values at the date of transfer. Retained interests in transferred assets

consist primarily of subordinate portions of the principal balance of transferred assets and interest only strips, which are initially recorded at fair value.

The Company estimates fair value using discounted cash flow analysis, since quoted market prices are not readily available. The Company's analysis incorporates estimates that market participants would be expected to use in their estimates of future cash flows, including assumptions about interest rates, defaults and prepayment rates. Estimates made are based on, among other things, the Company's past experience with similar types of financial assets. The interest rates paid to investors range from 6.0% to 9.0%. The prepayment rates were 17.5% for Land Loan sales and 18.0% for VOI Loan sales. For the Hypothecation Loan sales, the prepayment rates for the underlying collateral used were 17.5% for Land Loans and 18.0% for VOI Loans. The Company estimates default rates to be 1.9% on Land Loans, 3.0% on VOI Loans and 0.5% on Hypothecation Loans. In valuing its retained interests in loan sales, the Company selects discount rates commensurate with the duration and risks embedded in the particular assets. Specifically, the Company uses discount rates ranging from the investor pass-through rates (for restricted cash) to the Baa corporate bond rate plus 325 basis points (for interest only strips and retained principal certificates) to estimate the fair value of its retained interests.

There is no servicing asset or liability arising from loan sales, because the Company estimates that the benefits of servicing approximate the costs to meet its servicing responsibilities.

On a quarterly basis, the Company assesses the carrying value of retained interests in loans sold by comparing actual and assumed interest, prepayment and default rates on a disaggregated basis reflecting factors such as origination dates and types of loans. The Company adjusts the carrying value of retained interests accordingly.

Since its inception, the Company has sold $627,692,000 of loans at face value ($492,960,000 through December 31, 1998). The principal amount remaining on the loans sold was $67,432,000 at September 30, 1999 and $238,132,000 at December 31, 1998. The Company guarantees, through replacement or repayment, loans in default up to a specified percentage of loans sold. Dealer/developer guaranteed loans are secured by repurchase or replacement guarantees in addition to, in most instances, dealer/developer reserves.

On September 28, 1999, in anticipation of the merger with Textron Finacial Corporation, a Delaware corporation, and its wholly-owned subsidiary, Lighthouse Acquisition Corporation, a Massachusetts corporation (collectively "Textron"), the Company discontinued new loan sales that resulted in gain on sale accounting. The Company completed certain previously committed loan sale transactions as loan sales, but structured other transactions as financings.

In September 1999 the Company obtained call options to repurchase certain previously sold loans amounting to $149,458,000. These call options grant the Company effective control over the sold loans, as defined under FASB Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." As a consequence, the Company has recognized these loans on its balance sheet under Other Loans at their fair values along with the corresponding liabilities included as secured borrowings under Lines of Credit as of the effective date of the call options. Any difference between the fair value and the par value have been recognized as a premium or discount on the purchase price and has been accounted for accordingly.

In October and November 1999, the Company also obtained call options to repurchase certain other previously sold loans amounting to $45,539,000. During the fourth quarter of 1999, the Company will account for these loans in the same manner as stated above.

The Company's exposure to loss on loans sold in the event of non-performance by the consumer, the dealer/developer on its guarantee, and the determination that the collateral is of no value was $10,692,000 at September 30, 1999 ($12,750,000 at December 31, 1998). Such amounts have not been discounted. The Company repurchased $518,000 and $57,000 of loans under the recourse provisions of loan sales during the three months ended September 30, 1999 and 1998, respectively. Loans repurchased during the nine months ended September 30, 1999 and 1998 were $921,000 and $201,000, respectively, and $491,000 during the year ended December 31, 1998. In addition, when the Company sells loans through securitization programs, the Company commits either to replace or repurchase any loans that do not conform to the requirements thereof in the operative loan sale documents. As of September 30, 1999, $17,005,000 of the Company's cash was restricted as credit enhancements in connection with certain securitization programs. To date, the Company has participated $17,628,000 of A&D and Other Loans ($10,505,000 through December 31, 1998).

The Company's Serviced Portfolio is geographically diversified with collateral and consumers located in 48 and 50 states, respectively. The Serviced Portfolio consists of the principal amount of loans serviced by or on behalf of the Company, except loans participated without

recourse to the Company. At September 30, 1999, 12.4% and 12.3% of the Serviced Portfolio by collateral location was located in Florida and Texas, respectively, and 14.5% and 11.8% of the Serviced Portfolio by borrower location were located in Florida and Texas, respectively. At December 31, 1998, 14.7%, 10.3% and 10.2% of the Serviced Portfolio by collateral location were located in Texas, Florida and California, respectively, and 16.1% and 14.4% of the Serviced Portfolio by borrower location were located in Florida and Texas, respectively. At September 30, 1999, no other state accounted for more than 10.0% of the total by either collateral or borrower location.

C. Allowance for Loan Losses and Estimated Recourse Obligations

An analysis of the total allowances for all loan losses and recourse obligations follows:

(Dollars in thousands)	September 30, 1999	December 31, 1998
Allowance for losses on loans held for sale	$ 50	$ 549
Allowance for losses on other loans	6,281	2,477
Estimated recourse obligations on retained interests in loan sales	1,140	3,681
	$7,471	$6,707

D. Debt

The Company finances a portion of its liquidity needs with secured lines of credit with sixteen participating institutions. Interest rates on the lines of credit range from the Commercial Paper rates plus 1.66% to the prime rate plus 1.00%. The Company is not required to maintain compensating balances or forward sales commitments under the terms of these lines of credit.

The lines of credit mature as follows:

(Dollars in thousands)

Date	Amount
March 2000	25,000
April 2000	5,000
May 2001	5,000
June 2001	150,000
April 2002	80,000
July 2002	10,393
September 2002	6,474
October 2002	40,000
August 2004	12,601
September 2006	35,625
February 2013	50,000
	$420,093

Financial data relating to the Company's secured lines of credit is as follows:

(Dollars in thousands)	September 30, 1999	December 31, 1998	31,
Lines of credit available	$420,093	$116,000	
Borrowings outstanding at end of period	$329,415	$49,021	
Weighted average interest rate at end of period	7.3%	7.6%	
Maximum borrowings outstanding at any month end	$329,415	$73,666	
Average amount outstanding during the period	$68,859	$37,485	
Weighted average interest rate during the period (determined by dividing interest expense by average borrowings)	7.4%	7.9%	

As of September 30, 1999 and December 31, 1998, the Company had no unsecured lines of credit.

The Company has a revolving line of credit and sale facility as part of an asset backed commercial paper facility with a multi-seller commercial paper issuer ("Conduit A"). In June 1998, the Company amended the facility to increase the facility to $150,000,000, subject to certain terms and conditions. The facility matures in June 2001.

In connection with the facility, the Company formed a wholly-owned subsidiary, Litchfield Mortgage Securities Corporation 1994, to purchase loans from the Company. In October 1998, Litchfield Mortgage Securities Corporation 1994 was merged with and into Litchfield Mortgage Securities Company 1994, LLC ("LMSC"). LMSC either pledges the loans on a revolving line of credit with Conduit A or sells the loans to Conduit A. Conduit A issues commercial paper or other indebtedness to fund the purchase or pledge of loans from LMSC. Conduit A is not affiliated with the Company or its affiliates. As of September 30, 1999 and December 31, 1998, the outstanding balance of the sold or pledged loans securing this facility was $93,068,000 and $137,532,000, respectively. Outstanding borrowings at September 30, 1999 were $85,414,000. There were no outstanding borrowings under the line of credit at December 31, 1998. Interest is payable on the line of credit at an interest rate based on certain commercial paper rates.

In March 1997, the Company closed an additional revolving line of credit and sale facility of $25,000,000 with another multi-seller of commercial paper conduit ("Conduit B"). The facility, which matures in March 2000, is subject to certain terms and conditions, credit enhancement requirements and loan eligibility criteria. The outstanding aggregate balance of the loans pledged and sold under the facility at any time cannot exceed $25,000,000.

In connection with the facility, the Company formed a wholly-owned subsidiary, Litchfield Capital Corporation 1996, to purchase loans from the Company. In October 1998, Litchfield Capital Corporation 1996, was merged with and into Litchfield Capital Company 1996, LLC ("LCC"). LCC either pledges the loans on a revolving line of credit with Conduit B or sells the loans to Conduit B. Conduit B issues commercial paper or other indebtedness to fund the purchase or pledge of loans from LCC. Conduit B is not affiliated with the Company or its affiliates. As of September 30, 1999 and December 31, 1998, the outstanding aggregate balance of the loans sold or pledged under the facility was $12,769,000 and $10,632,000, respectively. There were no outstanding borrowings under the line of credit as of September 30, 1999 or December 31, 1998. Interest is payable on the line of credit at an interest rate based on certain commercial paper rates.

The Company also finances a portion of its liquidity with long-term debt. The following table shows the total long-term debt outstanding at September 30, 1999 and December 31, 1998:

(Dollars in thousands)	September 30, 1999	December 31, 1998
9.3% Notes...............	$ 20,000	$ 20,000
8.45% Notes due 2002.....	51,232	51,282
8.875% Notes due 2003....	14,460	15,066
8.25% Notes due 2003.....	10,000	10,000
9.25% Notes due 2003.....	20,000	20,000
10% Notes due 2004.......	18,190	18,240
	$133,882	$134,588

The 9.3% Notes require principal reductions of $7,500,000, $6,000,000, $6,000,000 and $500,000 in March 2001, 2002, 2003 and 2004, respectively. Interest is payable semiannually in arrears.

The Company shall have the option to redeem all or any portion of the long-term notes at predetermined redemption prices. The earliest call date of each issuance is as follows:

9.3% Notes.........................	April 1998
8.45% Notes due 2002..............	November 1999
8.875% Notes due 2003.............	June 1996
8.25% Notes due 2003..............	November 2000
9.25% Notes due 2003..............	December 2000
10% Notes due 2004................	April 1998

E. Commitments

On April 14, 1999, the Company, Litchfield Capital Trust I ("Trust I") and Litchfield Capital Trust II, subsidiaries of the Company and statutory business trusts created under the Business Trust Act of the State of Delaware (collectively, the "Trusts"), filed a Registration Statement on Form S-3, as amended, with the Securities and Exchange Commission relating to the registration of $100,000,000 in aggregate principal amount of (i) trust preferred securities of the Trusts, (ii) junior subordinated debentures of the Company, and (iii) guarantee of preferred securities of the Trusts by the Company. In connection with this offering, the Trusts will sell the preferred securities to the public and common securities to the Company, use the proceeds from those sales to buy an equivalent principal amount of junior subordinated debentures issued by the Company and distribute the interest payments it receives on the junior subordinated debentures to the holders of preferred and common securities.

On May 19, 1999, Trust I issued 2,500,000 of 10% Series A Trust Preferred Securities ("Series A Preferred Securities") to the public for $25,000,000 and used the proceeds to buy an equivalent amount of 10% Series A Junior Subordinated Debentures due 2029 ("Series A Debentures") from the Company. On June 8, 1999, the underwriters exercised their option to purchase an additional 120,000 10% Series A Preferred Securities for $1,200,000 and the proceeds were also used to buy an equivalent amount of Series A Debentures from the company. The sole assets of the Trust I are the Series A Debentures. The Company owns all the securities of Trust I that possess general voting rights. The Trust's obligation under the Series A Preferred Securities are fully and unconditionally guaranteed by the Company. Trust I will redeem all of the outstanding Series A Preferred Securities when the Series A Debentures are paid at maturity on June 30, 2029, or otherwise become due. The Company will have the right to redeem 100% of the principal plus accrued interest and unpaid interest on or after June 30, 2004. Interest is

paid on the Series A Debentures quarterly, with corresponding quarterly distributions to the holders of the Series A Preferred Securities.

F. Derivative Financial Instruments Held for Purposes Other than Trading

The Company entered into two interest rate swap agreements to manage its basis exposures. The swap agreements involve the payment of interest to the counterparty at the prime rate on a notional amount of $110,000,000 and the receipt of interest at the commercial paper rate plus a spread of 277 basis points on a notional amount of $80,000,000 and the LIBOR rate plus a spread of 267 basis points on notional amount of $30,000,000. The swap agreements expire in June 2000. There is no exchange of the notional amounts upon which the interest payments are based.

The differential to be paid or received as interest rates change is accrued and recognized as an adjustment to interest income from the excess servicing asset. The related amount receivable from or payable to the counterparty is included in other assets or other liabilities. The fair values of the swap agreements are not recognized in the financial statements. The Company intends to keep the contracts in effect until they mature in June 2000.

The Company entered into an interest rate cap agreement with a bank in order to manage its exposure to certain increases in interest rates. The interest rate cap entitles the Company to receive payments, based on an amortizing notional amount, when commercial paper rates exceed 8.0%. If payments were to be received as a result of the cap agreement, they would be accrued as a reduction of interest expense. The notional amount outstanding at September 30, 1999 was $3,201,000. This agreement expires in July 2005.

The Company does not use interest rate swap agreements or other derivative instruments for speculation. The Company is exposed to credit loss in the event of non-performance by the swap counterparty or the cap provider.

G. Subsequent Events

On September 22, 1999, the Company signed a definitive merger agreement, (the "Merger") with Textron Financial Corporation, a Delaware corporation, and its wholly-owned subsidiary, Lighthouse Acquisition Corporation, a Massachusetts corporation (collectively, "Textron"). Pursuant to the merger and subject to the conditions stated therein, Textron was to, as soon as practicable thereafter, commence an offer to purchase all of the issued and outstanding shares of common stock, par value $.01 per share (the "Shares"), of the Company at a price of $24.50 per share.

On September 29, 1999, Textron filed a Tender Offer Statement on Schedule 14D-1 (as amended by Amendment No. 1 thereto filed on October 12, 1999, Amendment No. 2 thereto filed on October 29, 1999, and the Final Amendment thereto filed on November 9, 1999) to purchase the Shares.

As of October 27, 1999, the close of the tender period, holders of approximately 96.7% of the common stock of the Company had tendered their shares. As a result, on November 4, 1999, the Company became a wholly-owned subsidiary of Textron and each outstanding Share was canceled, extinguished and converted into the right to receive $24.50 per Share in cash, without interest thereon, less any applicable holding taxes.

On November 3, 1999, Textron requested that the Nasdaq delist Shares from NASDAQ. On November 9, 1999, Textron filed a Form 15 to deregister the Shares with the Securities and Exchange Commission as soon as practicable.

In November 1999, the Company repaid all of its then outstanding lines of credit of $494,452,000 and $14,460,000 of its long-term debt as the result of merger. In addition, the Company has called an additional $89,422,000 of long-term debt in accordance with the terms of the agreements which it expects to redeem over the next three months.

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

Forward-looking Statements

Except for the historical information contained or incorporated by reference in this Form 10-Q, the matters discussed or incorporated by reference herein are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the risk factors set forth under "Risk Factors" as well as the following: general economic and business conditions; industry trends; changes in business strategy or development plans; availability and quality of management; and availability, terms and deployment of capital. Special attention should be paid to such forward-looking statements including, but not limited to, statements relating to (i) the Company's ability to execute its growth strategies and to realize its growth objectives and (ii) the Company's ability to obtain sufficient resources to finance its working capital needs and provide for its known obligations. Refer to the Company's annual report on Form 10-K for the year ended 1998 for a complete list of factors as discussed under "Risk Factors".

Overview

Litchfield Financial Corporation (the "Company") is a diversified finance company that provides financing to creditworthy borrowers for assets not typically financed by banks. The Company provides this financing by making loans to businesses secured by consumer receivables or other assets and by purchasing loans and tax lien certificates.

The Company purchases consumer loans (the "Purchased Loans") consisting primarily of loans to purchasers of rural and vacation properties ("Land Loans") and vacation ownership interests popularly known as timeshare interests ("VOI Loans"). The Company also provides financing to rural land dealers, timeshare resort developers and other finance companies secured by receivables ("Hypothecation Loans") and to dealers and developers for the acquisition and development of rural land and timeshare resorts ("A&D Loans"). In addition, the Company purchases other loans, such as consumer home equity loans, mortgages and construction loans and tax lien certificates, and provides financing to other businesses secured by receivables or other assets ("Other Loans").

The Company extends Hypothecation Loans to land dealers, resort developers and other finance companies secured by receivables. Hypothecation Loans typically have advance rates of 75% to 90% of the current balance of the pledged receivables and variable interest rates based on the prime rate plus 1.5% to 4%.

The Company also purchases Land Loans and VOI Loans. Land Loans are typically secured by one to twenty acre rural parcels. Land Loans are secured by property located in 39 states, predominantly in the southern United States. VOI Loans typically finance consumer purchases of ownership interests in fully furnished vacation properties. VOI Loans are secured by property located in 18 states, predominantly in California and Florida. The Company requires most dealers or developers from whom it buys loans to guarantee repayment or replacement of any loan in default. Ordinarily, the Company retains a percentage of the purchase price as a reserve until the loan is repaid.

The Company also makes A&D Loans to land dealers and resort developers for the acquisition and development of rural land and timeshare resorts in order to finance additional receivables generated by the A&D Loans. At the time the Company makes A&D Loans, it typically receives an exclusive right to purchase or finance the related consumer receivables generated by the sale of the subdivided land or timeshare interests. A&D Loans typically have loan to value ratios of 60% to 80% and variable interest rates based on the prime rate plus 2% to 4%.

The principal sources of the Company's revenues are interest and fees on loans, gains on sales of loans and servicing and other income. Gains on sales of loans are based on the difference between the allocated cost basis of the assets sold and the proceeds received, which includes the fair value of any assets or liabilities that are newly created as a result of the transaction. Because a significant portion of the Company's revenues is comprised of gains realized upon sales of loans, the timing of such sales has a significant effect on the Company's results of operations.

On September 22, 1999, the Company signed a definitive merger agreement, (the "Merger") with Textron Financial Corporation, a Delaware corporation, and its wholly-owned subsidiary, Lighthouse Acquisition Corporation, a Massachusetts corporation (collectively, "Textron"). Pursuant to the merger and subject to the conditions stated therein, Textron was to, as soon as practicable thereafter, commence an offer to purchase all of the issued and outstanding shares of common stock, par value $.01 per share (the "Shares"), of the Company at a price of $24.50 per share.

On September 29, 1999, Textron filed a Tender Offer Statement on Schedule 14D-1 (as amended by Amendment No. 1 thereto filed on October 12, 1999, Amendment No. 2 thereto filed on October 29, 1999, and the Final Amendment thereto filed on November 9, 1999) to purchase the Shares.

As of October 27, 1999, the close of the tender period, holders of approximately 96.7% of the common stock of the Company had tendered their shares. As a result, on November 4, 1999, the Company became a wholly-owned subsidiary of Textron and each outstanding Share was canceled, extinguished, and converted into the right to receive $24.50 per Share in cash, without interest thereon, less any applicable holding taxes.

On November 3, 1999, Textron requested that the NASD delist Shares from NASDAQ. On November 9, 1999, Textron filed a Form 15 to deregister the Shares with the Securities and Exchange Commission as soon as practicable.

Results of Operations

The following table sets forth the percentage relationship to revenues, unless otherwise indicated, of certain items included in the Company's statements of income.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
Revenues				
Interest and fees on loans......	86.4%	65.1%	73.2%	63.8%
Gain on sale of loans...........	9.0	27.8	22.2	30.2
Servicing and other income......	4.6	7.1	4.6	6.0
	100.0	100.0	100.0	100.0

Expenses				
Interest expense	53.0	32.7	42.9	35.6
Salaries and employee benefits	15.9	12.2	12.6	12.5
Other operating expenses	11.9	8.7	9.5	9.8
Provision for loan losses	5.5	3.4	4.5	4.1
	86.3	57.0	69.5	62.0
Income before income taxes and distributions on preferred securities	13.7	43.0	30.5	38.0
Provision for income taxes	5.3	16.6	11.7	14.6
Distributions on preferred securities, net	3.8	--	1.8	--
Income before extraordinary item	4.6	26.4	17.0	23.4
Extraordinary item, net	--	(0.7)	--	(0.3)
Net income	4.6%	25.7%	17.0%	23.1%

Revenues increased 5.0% and 24.5% to $10,989,000 and $35,336,000 for the three and nine months ended September 30, 1999, from $10,465,000 and $28,391,000 for the same periods in 1998. Net income for the three and nine months ended September 30, 1999 decreased 81.0% and 8.5% to $510,000 and $5,995,000 compared to $2,690,000 and $6,549,000 for the same periods in 1998. Net income as a percentage of revenues was 4.6% and 17.0% for the three and nine months ended September 30, 1999 compared to 25.7% and 23.1% for the three and nine months ended September 30, 1998. Loan purchases and originations grew 29.8% and 31.9% to $121,777,000 and $338,741,000 for the three and nine months ended September 30, 1999 from $93,784,000 and $256,861,000 for the same periods in 1998. The average Serviced Portfolio increased 43.3% to $517,565,000 at September 30, 1999 from $361,181,000 at September 30, 1998.

Interest and fees on loans increased 39.2% and 42.8% to $9,493,000 and $25,857,000 for the three and nine months ended September 30, 1999 from $6,819,000 and $18,107,000 for the same periods in 1998, primarily as the result of the higher average balance of other loans during the 1999 period, which was only partially offset by a decrease in the average rate. The average rate earned on the Serviced Portfolio decreased to 11.4% at September 30, 1999 from 12.0% at September 30, 1998, primarily due to the effect of the growth in Hypothecation Loans as a percentage of the portfolio. Hypothecation Loan yields are usually less than Land Loan or VOI Loan yields, but servicing costs and loan losses are generally less as well.

Gain on the sale of loans decreased 66.0% and 8.4% to $987,000 and $7,866,000 for the three and nine months ended September 30, 1999 from $2,906,000 and $8,585,000 in the same periods in 1998. The volume of loans sold decreased 58.6% to $14,266,000 for the three months ended September 30, 1999 from $34,474,000 during the three months ended September 30, 1998. The volume of loans sold increased 30.4% to $134,732,000 for the nine months ended September 30, 1999 from $103,356,000 during the nine months ended September 30, 1998. The change in the gain on sale of loans was not proportionate to the change in the volume of loans sold primarily due to variations in the mix of loans sold. The yield on Hypothecation and Other loan sales is generally lower than the yield on Land and VOI loan sales. In addition, approximately $17,508,000 of loan sales in the nine months ended September 30, 1999 consisted of loans that were repurchased from certain facilities due to clean up calls and other factors that made it more economical to repurchase and resell the loans. As a result of the repurchase, there was recapture of unamortized gain, which reduced the overall yield on these loan sales.

In the third quarter of 1999, $50,000,000 of loans were placed with an investor. The terms of the agreement permitted the Company to buy back these loans at the option of the Company. Since the terms of the agreement gave the Company a call option, the transaction was accounted for as a secured borrowing and no gain was recognized on this transaction. The loans are included in the Other Loans section of the balance sheet and the liability resulting from the proceeds received is included in the Lines of Credit.

On September 28, 1999, in anticipation of its merger with Textron, the Company discontinued new loan sales that resulted in gain on sale accounting. The Company completed certain previously committed loan sale transactions, but structured other transactions as financings.

In September 1999, the Company obtained call option to repurchase certain previously sold loans amounting to $149,458,000. These call optio9ns grant the Company effective control over the sold loans, as defined under FASB Statement of Financial Accounting Standards No. 125, "accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." As a consequence, the Company has recognized these loans on its balance sheet under Other Loans at their fair values along with the corresponding liabilities included as secured borrowings under Lines of Credit as of the effective date of the call options. Any difference between the fair value and the par value has been recognized as a premium or discount on the purchase price and has been accounted for accordingly.

In October and November 1999, the Company also obtained call options to repurchase certain other previously sold loans amounting to $45,539,000. During the fourth quarter of 1999, the Company will account for these loans in the same manner as stated above.

Servicing and other income decreased 31.2% and 5.1% to $509,000 and $1,613,000 for the three and nine months ended September 30, 1999, respectively from $740,000 and $1,829,000 for the same periods in 1998. The decrease was largely due to a significant repayment fee from an A&D Loan realized in the third quarter of 1998. Loans serviced for others decreased 71.0% to $67,432,000 as of September 30, 1999 from

$232,272,000 at September 30, 1998 as the result of recognizing certain sold loans on the balance sheet as of September 30, 1999. Servicing income remained relatively constant due to an increase in Hypothecation Loans serviced for others and a decrease in the average servicing fee per loan.

Interest expense increased 70.1% and 50.0% to $5,824,000 and $15,176,000 during the three and nine months ended September 30, 1999 from $3,423,000 and $10,115,000 for the same periods in 1998. The increase in interest expense primarily reflects an increase in average borrowings which was only partially offset by lower rates. During the three and nine months ended September 30, 1999, borrowings averaged $363,709,000 and $341,524,000 at an average rate of 8.2% and 8.3% respectively, as compared to $142,225,000 and $140,577,000 at an average rate of 8.8% for both periods in 1998. Interest expense includes the amortization of deferred debt issuance costs.

Salaries and employee benefits increased 36.9% and 25.2% to $1,748,000 and $4,452,000 for the three and nine months ended September 30, 1999 from $1,277,000 and $3,557,000 for the same periods in 1998 because of an increase in the number of employees in 1999, primarily related to bringing customer service and collections in house, and to a lesser extent, an increase in salaries. Personnel costs as a percentage of revenues increased to 15.9% and 12.6% for the three and nine months ended September 30, 1999 compared to 12.2% and 12.5% for the same periods in 1998. Also, as a percentage of the average Serviced Portfolio, personnel costs remained relatively constant at 1.3% and 1.2% for the three and nine months ended September 30, 1999 compared to 1.3% for both periods in 1998.

Other operating expenses increased 43.7% and 20.4% to $1,302,000 and $3,341,000 for the three and nine months ended September 30, 1999 from $906,000 and $2,775,000 for the same periods in 1998. Other operating expenses increased due to the growth in the Serviced Portfolio that was only partially offset by the decrease in third party servicing expenses related to bringing customer service and collections in-house. As a percentage of revenues, other operating expenses increased to 11.8% and decreased slightly to 9.5% for the three and nine months ended September 30, 1999, respectively, compared to 8.7% and 9.8% for the corresponding periods in 1998. As a percentage of the average Serviced Portfolio, other operating expenses remained relatively constant at 0.9% for both the three and nine months ended September 30, 1999 compared to 0.9% and 1.0% for the same periods in 1998.

During the three and nine months ended September 30, 1999, the provision for loan losses increased 68.1% and 37.2% to $605,000 and $1,605,000 from $360,000 and $1,170,000 for the same periods in 1998 primarily due to the growth of the Serviced Portfolio.

Liquidity and Capital Resources

The Company's business requires continued access to short and long-term sources of debt financing and equity capital. The Company's principal cash requirements arise from loan originations, repayment of debt on maturity and payments of operating and interest expenses. The Company's primary sources of liquidity will be its parent company, Textron.

In November 1999, as a result of the merger, the Company repaid all of its thn outstanding lines of credit of $494,452,000 and $14,460,000 of its long-term debt. In addition, during the next three months, the Company intends to redeem an additional $89,422,000 of long-term debt.

In May 1999, Litchfield Capital Trust I issued 2,500,000 shares of 10% Series A Trust Preferred Securities ("Series A Preferred Securities") at $10 per share. The proceeds of the offering were $25,000,000 and were used to buy an equivalent amount of 10% Series A Junior Subordinated Debentures ("Series A Debentures") due 2029 issued by the Company. In connection with the underwriters' option to purchase additional shares to cover over-allotments, Litchfield Capital Trust I issued an additional 120,000 10% Series A Preferred Securities in June 1999. The proceeds of these shares totaled $1,200,000 and were also used to buy an equivalent amount of Series A Debentures issued by the Company. The Company will have the right to redeem 100% of the principal and accrued interest and unpaid interest on or after June 30, 2004, or otherwise become due. Interest is paid on the Series A Debentures quarterly, with corresponding quarterly distributions to the holders of the Series A Preferred Securities.

The Company entered into two interest rate swap agreements. The swap agreements involve the payment of interest to the counterparty at the prime rate on a notional amount of $110,000,000 and the receipt of interest at the commercial paper rate plus a spread and the LIBOR rate plus a spread on notional amounts of $80,000,000 and $30,000,000, respectively. The swap agreements expire in June 2000. There is no exchange of the notional amounts upon which interest payments are based.

The Company entered into an interest rate cap agreement with a bank in order to manage its exposure to certain increases in interest rates. The interest rate cap entitles the Company to receive an amount, based on an amortizing notional amount, which at September 30, 1999 was $3,201,000, when commercial paper rates exceed 8%. This agreement expires in July 2005.

Historically, the Company has not required major capital expenditures to support its operations.

Acquisitions

In the third quarter of 1998, the Company acquired 25% of Land Finance Company ("Land Finance") a broker specializing in the land business, located in Atlanta, Georgia. At the time of the transaction, the Company received the right to acquire additional shares of Land Finance at future dates. On April 1, 1999, the Company acquired the remaining 75% of Land Finance that it did not already own. All of Land Finance's employees became employees of the Company as of that date. The Company has accounted for this acquisition by the purchase method. The total purchase price was $275,000 consisting of the issuance of 9,092 shares of common stock with a fair value of $155,000 and $120,000 of

expenses and assumed liabilities. Goodwill of $225,000 resulting from the purchase is being amortized on a straight-line basis over a period of 10 years. The results of operation of Land Finance have been included in the Company's income statement beginning April 1, 1999.

On June 17, 1999, the Company acquired 100% of Ironwood Acceptance Company, L.L.C., ("Ironwood LLC"), located in Scottsdale, Arizona. Ironwood LLC purchases, services and liquidates tax lien certificates. During the fiscal years 1997 and 1998, the Company provided Ironwood LLC with a Hypothecation Loan for the purchase of tax lien certificates. All of Ironwood LLC's employees became employees of the Company following the acquisition. The Company has accounted for this acquisition by the purchase method. The total purchase price was $15,833,000, consisting of the issuance of 91,665 shares of common stock with a fair value of $1,519,000 and $13,523,000 of expenses and assumed liabilities. Goodwill of $3,255,000 resulting from the purchase is being amortized on a straight-line basis over a period of 20 years. The results of operations of Ironwood have been included in the Company's income statement from June 17, 1999.

On August 23, 1999, the Company acquired approximately 53% of American Growth Finance, Inc. ("AGF"), headquartered in Dallas, Texas. AGF is an accounts receivable factoring company targeting service providers to Fortune 1000 companies. In addition to its Dallas headquarters, AGF has business development offices in Orlando and Tampa, Florida, and Nashville, Tennessee. During the fiscal year 1999, the Company provided AGF with a revolving secured line of credit. The Company accounted for this acquisition by the purchase method. The total purchase price was $1,650,000. The Company has the right to acquire up to 100% of AGF through 2001. Goodwill of $545,000 resulting from the purchase is being amortized on a straight-line basis over a period of 20 years. The results of operations of AGF have been included in the Company's income statement from August 23, 1999.

Credit Quality and Allowances for Loan Losses

The Company maintains allowances for loan losses and recourse obligations on retained interests in loan sales at levels which, in the opinion of management, provide adequately for current and estimated future losses on such assets. Past-due loans (loans 31 days or more past due which are not covered by dealer/developer reserves or guarantees) as a percentage of the Serviced Portfolio as of September 30, 1999, increased to 1.09% from .95% at December 31, 1998. Management evaluates the adequacy of the allowances on a quarterly basis by examining current delinquencies, the characteristics of the accounts, the value of the underlying collateral, and general economic conditions and trends. Management also evaluates the extent to which dealer/developer reserves and guarantees can be expected to absorb loan losses. When the Company does not receive guarantees on loan portfolios purchased, it adjusts its purchase price to reflect anticipated losses and its required yield. This purchase adjustment is recorded as an increase in the allowance for loan losses and is used only for the respective portfolio. A provision for loan losses is recorded in an amount deemed sufficient by management to maintain the allowances at adequate levels. Total allowances for loan losses and recourse obligations on retained interests in loan sales increased to $7,471,000 at September 30, 1999 compared to $6,707,000 at December 31, 1998. The allowance ratio (the allowances for loan losses divided by the amount of the Serviced Portfolio) at September 30, 1999 decreased to 1.30% compared to 1.44% at December 31, 1998.

As part of the Company's financing of Purchased Loans, arrangements are entered into with dealers and resort developers, whereby reserves are established to protect the Company from potential losses associated with such loans. As part of the Company's agreement with the dealers and resort developers, a portion of the amount payable to each dealer and resort developer for a Purchased Loan is retained by the Company and is available to the Company to absorb loan losses for those loans. The Company negotiates the amount of the reserves with the dealers and developers based upon various criteria, two of which are the financial strength of the dealer or developer and credit risk associated with the loans being purchased. Dealer/developer reserves amounted to $10,384,000 and $9,979,000 at September 30, 1999 and December 31, 1998, respectively. The Company generally returns any excess reserves to the dealer/developer on a quarterly basis as the related loans are repaid by borrowers.

Year 2000 Compliance

Many currently installed computer systems and software products are coded to accept only two-digit entries in the date code field and cannot distinguish 21st century dates from 20th century dates. As a result, many companies' software and computer systems may need to be upgraded or replaced in order to comply with "Year 2000" requirements.

State of Readiness. The Year 2000 readiness process consists of the following phases: (i) identification of all IT Systems and non-IT Systems; (ii) assessment of repair or replacement requirements; (iii) repair or replacement;
(iv) testing; (v) implementation; and (vi) creation of contingency plans in the event of Year 2000 failures. The Company has evaluated the Year 2000 readiness of the information technology systems used in its operations ("IT Systems") and it non-IT Systems, such as building security, voice mail and other systems.

The Company has tested all computing equipment and deemed it to be Year 2000 ready. All non-computing equipment and computer systems are deemed Year 2000 ready based on manufacturer's warranty. Until September 30, 1999, the Company used a third party servicer to perform some functions, such as receipt and posting of loan payments and other loan related activity. The third party servicer has represented to the Company that its systems are Year 2000 compliant. Effective October 1, 1999, the Company began performing substantially all such functions and its system is Year 2000 compliant.

In addition, the Company relies upon various vendors, governmental agencies, utility companies, telecommunication service companies, delivery service companies and other service providers who are outside of its control. There is no assurance that such parties will not suffer a Year 2000 business disruption, which could have a material adverse effect on the Company's financial condition and results of operations. The Company has inquired as to the Year 2000 readiness of vendors and customers with whom the Company has material relationships. As a result

of information provided to the Company, the Company believes any material business partners are Year 2000 compliant.

Costs. To date, the Company has not incurred any material expenditures in connection with identifying or evaluating Year 2000 compliance issues. Most of its expenses have related to the opportunity cost of time spent by employees of the Company evaluating Year 2000 compliance matters generally. At this time, the Company does not possess all the information necessary to estimate the potential impact of Year 2000 compliance issues relating to its vendors, its customers and other parties. Such impact, including the effect of a Year 2000 business disruption, could have a material adverse effect on the Company's financial condition and results of operations.

Contingency Plan. The Company has developed a comprehensive disaster recovery plan which will be activated if a Year 2000 issue arises.

Inflation

Inflation has not had a significant effect on the Company's operating results to date.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Exposure to Market Risk

The Company performs an interest rate sensitivity analysis to identify the potential interest rate exposures. Specific interest rate risks analyzed include asset/liability mismatches, basis risk, risk caused by floors and caps, duration mismatches and re-pricing lag in response to changes in a base index.

A simulated earnings model is used to identify the impact of specific interest rate movements on earnings per share for the next 12 months. The model incorporates management's expectations about future origination levels, origination mix, amortization rates, prepayment speeds, timing of loan sales, timing of capital issues, extensions and/or increases in lines of credit, pricing of originations and cost of debt and lines of credit.

The Company's objective in managing the interest rate exposures is to maintain, at a reasonable level, the impact on earnings per share of an immediate and sustained change of 100 basis points in interest rates in either direction. The Company periodically reviews the interest rate risk and various options such as capital structuring, product pricing, hedging and spread analysis to manage the interest rate risk at reasonable levels.

As of September 30, 1999, the Company had the following estimated sensitivity profile:

Interest rate changes (in basis points)	100	(100)
Impact on earnings per share	($0.08)	$0.16
Impact on interest income and pre-tax earnings	($860,000)	$1,851,000

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

On September 22, 1999, the Company entered into an Agreement and Plan of Merger with a subsidiary of Textron, Inc. Pursuant to the merger agreement, all of the outstanding shares of the Company's Common Stock were purchased at a price of $24.50 per share. Refer to Schedule 14D-9 filed by the Company on September 29, 1999 for further information.

Item 6. Exhibits and Reports on Form 8-K

The following exhibits are filed herewith:

10.204 Amendment No. 5 to the Second Amended and Restated Loan and Security Agreement dated May 28, 1997, among BankBoston, N.A, Sovereign Bank and the Company.

11.1 Statement re: computation of earnings per share

27.1 Financial Data Schedule

Reports on Form 8-K

Form 8-K filed August 24, 1999 regarding the acquisition of 53% of the outstanding shares of American Growth Finance.

Form 8-K filed September 24, 1999 regarding the merger agreement between Textron Financial Corporation and the Company.

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.

LITCHFIELD FINANCIAL CORPORATION

DATE: November 12, 1999 *\/s/ Richard A. Stratton*

RICHARD A. STRATTON
Chief Executive Officer,
President and Director

DATE: November 12, 1999 *\/s/ Ronald E. Rabidou*

RONALD E. RABIDOU
Chief Financial Officer, Executive
Vice President and Treasurer

AMENDMENT NO. 5 TO
SECOND AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

THIS AMENDMENT NO. 5 (the "Amendment") to the Second Amended and Restated Loan and Security Agreement dated May 28, 1997, as amended by prior Amendments dated as of October 1, 1998, January 1, 1999, May 1, 1999 and June 1, 1999 (collectively, the "Agreement") is dated as of September 1, 1999, and is among BANKBOSTON, N.A., a national banking association with its head office at 100 Federal Street, Boston, Massachusetts 02110 and with a place of business in Providence, Rhode Island as agent (the "Agent"); various financial institutions as are or may become parties hereto including without limitation, SOVEREIGN BANK ("Sovereign") (collectively, the "Lenders"); and LITCHFIELD FINANCIAL CORPORATION with its principal place of business at 430 Main Street, Williamstown, Massachusetts (the "Borrower").

Preliminary Statement

Pursuant to the terms of the Agreement, BankBoston, N.A., Fleet Bank-NH and KeyBank National Association as Lenders have provided to the Borrower a revolving credit facility in the original principal amount of up to $70,000,000. The Borrower has requested that the definition of the "Borrowing Base" (and certain other definitions related thereto) be amended to increase the availability under the facility to $80,000,000. Sovereign has agreed to become a Lender and to advance funds, subject to the terms and conditions of the Agreement, in an amount up to $10,000,000. This Amendment is intended to modify and amend the Agreement in certain particulars to accomplish the foregoing. Capitalized terms not otherwise defined herein shall have the meaning of such terms in the Agreement.

Agreement

It is, therefore, agreed:

The definition of "Loans" in the Preliminary Statement of the Agreement, and Section 1.15(a) of the Agreement, are each hereby amended by deleting "$70,000,000" and replacing the same with "$80,000,000." A corresponding change shall be made to each document or agreement in which the aggregate amount of the revolving credit facilities available to the Borrower is described including, without limitation, (i) the Second Amended and Restated Collateral Assignment of Contracts dated May 28, 1997; (ii) the Agency Agreement; (iii) the Custodial Agreement; and (iv) the Collateral Account Agreement, each of which being dated May 28, 1997.

The following sections of the Agreement are hereby amended by increasing the maximum amount which may be advanced against various forms of Collateral in accordance with the following table:

Section	Loan Collateral Type	From	To
1.4	Acquisition & Development	$14,000,000	$16,000,000
1.8	Healthcare	$14,000,000	$16,000,000
1.9	Home Equity	$11,200,000	$12,800,000
1.11	Specialty Finance	$ 7,000,000	$ 8,000,000
1.13	Tax Certificate	$14,000,000	$16,000,000

New Section 1.53(b) is hereby added to the Agreement as follows:
"1.53(b) Sovereign Note shall have the meaning provided in Section 2.1 herein."

Section 1.55 of the Agreement is hereby amended by deleting "$70,000,000" therefrom and replacing the same with "$80,000,000."
Section 2.1 of the Agreement is hereby deleted and replaced with the following:
2.1 The Notes. Prior to or simultaneously with the execution of this Agreement, (a) Borrower has executed a Revolving Line of Credit Promissory Note payable to BankBoston in the original principal amount of up to $30,000,000 (the "BankBoston Note"), (b) Borrower has executed a Revolving Line of Credit Promissory Note payable to Fleet in the original principal amount of up to $20,000,000 (the "Fleet Note"), (c) Borrower has executed a Revolving Line of Credit Promissory Note payable to KeyBank in the original principal amount of up to $20,000,000 (the "KeyBank Note"); and (d) Borrower is executing a Revolving Line of Credit Promissory Note payable to Sovereign in the original principal amount of $10,000,000 (the "Sovereign Note" and, collectively with the BankBoston Note, the Fleet Note and the KeyBank Note, the "Notes").

Exhibit 1.16 to the Agreement is hereby replaced with Exhibit 1.16 as annexed hereto.
From and after the date hereof, Sovereign shall be deemed to be a "Lender" and be entitled to all of the benefits and subject to all of the obligations of a Lender as may be set forth in the Agreement and any documents ancillary thereto.
Except as expressly modified above, the Agreement is hereby restated and reaffirmed by the parties in all particulars.
This Amendment No. 5 may be executed in multiple counterparts, each being deemed an original and this being one of the counterparts but all of which shall constitute one and the same instrument.
Signed as a sealed instrument.

..... BORROWER:
..... LITCHFIELD FINANCIAL CORPORATION

..... By: /s/ Heather A. Sica

..... Name: Heather A. Sica
..... Title: Executive Vice President

..... AGENT:
..... BANKBOSTON, N.A.

..... By:/s/ Thomas J. Morris

..... Name: Thomas J. Morris
..... Title: Director

.....

LENDERS:
..... BANKBOSTON, N.A.

..... By: /s/ Thomas J. Morris

..... Name: Thomas J. Morris
..... Title: Director

..... FLEET BANK-NH

..... By: /s/ David Canedy

..... Name: David Canedy
..... Title: Vice President

..... KEYBANK NATIONAL ASSOCIATION

..... By: /s/ John W. Kingston

..... Name: John W. Kingston
..... Title: Vice President

..... SOVEREIGN BANK

..... By: /s/ Steven J. Issa

..... Name: Steven J. Issa
..... Title: Senior Vice President

Litchfield Financial Corporation
Computation of Earnings Per Share

	Three Months Ended September 30, 1999	Three Months Ended September 30, 1998	Nine Months Ended September 30, 1999	Nine Months Ended September 30, 1998
Basic:				
Weighted average number of common shares outstanding........	6,984,158	6,835,775	6,926,644	6,083,183
Net income....................	$510,000	$2,690,000	$5,995,000	$6,549,000
Net income per common share...	$ .07	$ .39	$ .87	$ 1.08
Diluted:				
Weighted average number of common shares outstanding........	6,984,158	6,835,775	6,926,644	6,083,183
Weighted average number of common stock equivalents outstanding:				
Stock options...............	317,850	323,106	300,643	349,238
Weighted average common and common equivalent shares outstanding.................	7,302,008	7,158,882	7,227,286	6,432,422
Net income....................	$510,000	$2,690,000	$5,995,000	$6,549,000
Net income per common share...	$ .07	$ .38	$ .83	$ 1.02

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS	9 MOS
FISCAL YEAR END	DEC 31 1999	DEC 31 1999
PERIOD END	SEP 30 1999	SEP 30 1999
CASH	55,601	55,601
SECURITIES	6,167	6,167
RECEIVABLES	511,895	511,895
ALLOWANCES	7,471	7,471
INVENTORY	0	0
CURRENT ASSETS	0	0
PP&E	0	0
DEPRECIATION	0	0
TOTAL ASSETS	604,083	604,083
CURRENT LIABILITIES	0	0
BONDS	133,882	133,882
COMMON	70	70
PREFERRED MANDATORY	0	0
PREFERRED	26,200	26,200
OTHER SE	88,580	88,580
TOTAL LIABILITY AND EQUITY	604,083	604,083
SALES	0	0
TOTAL REVENUES	10,989	35,336
CGS	0	0
TOTAL COSTS	0	0
OTHER EXPENSES	0	0
LOSS PROVISION	605	1,605
INTEREST EXPENSE	5,824	15,176
INCOME PRETAX	1,510	10,762
INCOME TAX	582	4,144
INCOME CONTINUING	510	5,995
DISCONTINUED	0	0
EXTRAORDINARY	0	0
CHANGES	0	0
NET INCOME	510	5,995
EPS BASIC	.07	.87
EPS DILUTED	.07	.83

End of Filing

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