

FRANKLIN CREDIT MANAGEMENT CORP/DE/
Form 8-K
July 15, 2004

=====

UNITED STATES
SECURITIES EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

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

DATE OF REPORT (date of earliest event reported): June 30, 2004

FRANKLIN CREDIT MANAGEMENT CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation)	0-17771 (Commission file number)	75-2243266 (I.R.S. ID)
---	-------------------------------------	---------------------------

Six Harrison Street New York, New York (Address of principal executive offices)	10013 (Zip code)
---	---------------------

Registrant's telephone number, including area code: (212) 925-8745

=====

Statements contained herein that are not historical fact may be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are subject to a variety of risks and uncertainties. There are a number of important factors that could cause actual results to differ materially from those projected or suggested in forward-looking statements made by the Company. These factors include, but are not limited to: (i) unanticipated changes in the U.S. economy, including changes in business conditions such as interest rates, and changes in the level of growth in the finance and housing markets; (ii) the status of relations between the Company and its sole Senior Debt Lender and the Senior Debt Lender's willingness to extend additional credit to the Company; (iii) the availability for purchases of additional loans; (iv) the status of relations between the Company and its sources for loan purchases; (v) unanticipated difficulties in collections under loans in the Company's portfolio; and (vi) other risks detailed from time to time in the Company's SEC reports. Additional factors that would cause actual results to differ materially

Edgar Filing: FRANKLIN CREDIT MANAGEMENT CORP/DE/ - Form 8-K

from those projected or suggested in any forward-looking statements are contained in the Company's filings with the Securities and Exchange Commission, including, but not limited to, those factors discussed under the caption "Real Estate Risk" in the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, which the Company urges investors to consider. The Company undertakes no obligation to publicly release the revisions to such forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrences of unanticipated events, except as otherwise required by securities and other applicable laws. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to release publicly the results on any events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Item 2. Acquisition or Disposition of Assets

On June 30, 2004, Franklin Credit Management Corporation (the "Company"), through five wholly owned subsidiaries, consummated the acquisition of a mixed pool of \$310,431,219 in face amount of performing, sub-performing and nonperforming mortgage loans and related servicing rights, secured by single family residences, from Bank One, N.A., a national banking association, as seller (the "Seller"). The loans acquired pursuant to the Mortgage Loan Purchase and Sale Agreement with Seller include \$245,973,970 face amount of first mortgage loans and \$64,457,249 face amount of second mortgage loans. The purchase price was \$275,141,492. The amount of such consideration was agreed to as a result of arms'-length negotiations between the Company and the Seller and was determined through competitive bidding.

The purchase price was funded by five term loan facilities (the "Senior Debt") totaling \$277,964,322 made available by Sky Financial Bank, an Ohio corporation (the "Bank") pursuant to five Term Loan and Security Agreements. The Senior Debt has a maturity of three years and is amortized over a 20 year term and bears interest at the FHLB rate of Cincinnati (initially 4.79%) plus 350 basis points adjusted monthly. In addition, a .8674% finance fee and bank legal fee of \$10,000 were included in the initial principal balance of the Senior Debt. As collateral for the Senior Debt the Company pledged all of the loans acquired to the Bank.

The foregoing description is qualified in its entirety by reference to the full text of the Mortgage Loan Purchase and Sale Agreement, dated as of June 30, 2004, by and between the Company and the Seller, which is filed herewith as Exhibit 2.1, and the Term Loan and Security Agreements between each of FCMC B1 2004A Corp., FCMC B-1 2004B Corp., FCMC B-1 2004C Corp., FCMC B-1 2004D Corp., and FCMC B-1 2004 E Corp. (each a wholly owned subsidiary of the Company) and the Bank.

2

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

(a) Financial Statements of Assets Acquired
N/A

(b) Pro Forma Financial Information

Franklin Credit Management Corporation

Pro Forma Financial Information- Narrative Format

Edgar Filing: FRANKLIN CREDIT MANAGEMENT CORP/DE/ - Form 8-K

The unaudited pro forma condensed consolidated balance sheet of Franklin Credit Management Corporation. (the "Company") as of March 31, 2004 has been prepared as if the Company's acquisition of the assets had been consummated on March 31, 2004. The unaudited pro forma condensed consolidated income statements for the year ended December 31, 2003 and the three months ended March 31, 2004 are presented as if the Company's acquisition of the assets occurred on January 1, 2004 and the effect was carried forward through the year and the three month period for the year ended March 31, 2004.

The pro forma consolidated financial statements do not purport to represent what the Company's financial position or results of operations would have been assuming the completion of this acquisition had occurred on January 1, 2004 and for the period indicated, nor do they purport to project the Company's financial position or results of operations at any future date or for any future period. These pro forma consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004.

Pro forma and pro forma as adjusted amounts are calculated assuming additional borrowing at the Company's actual blended average interest rate (4.79%) for the period covered.

3

FRANKLIN CREDIT MANAGEMENT CORPORATION

 UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2004

ASSETS -----	Actual -----	Pro Forma -----
CASH AND CASH EQUIVALENTS	\$ 15,328,894	\$
RESTRICTED CASH	428,927	
NOTES RECEIVABLE:		
Principal	459,382,163	310,431,219
Purchase discount	(26,291,095)	(9,697,785)
Allowance for loan losses	(50,789,815)	(28,640,697)
	-----	-----
Net notes receivable	382,301,253	272,092,737
ORIGINATED LOANS HELD FOR SALE	40,271,957	
ORIGINATED LOANS HELD FOR INVESTMENT	6,238,882	
ACCRUED INTEREST RECEIVABLE	4,251,059	2,545,799
OTHER REAL ESTATE OWNED	13,293,284	
OTHER RECEIVABLES	2,827,073	502,956

Edgar Filing: FRANKLIN CREDIT MANAGEMENT CORP/DE/ - Form 8-K

MARKETABLE SECURITIES	202,071	
DEFERRED TAX ASSET	482,569	
OTHER ASSETS	3,997,414	411,739
BUILDING, FURNITURE AND FIXTURES - Net	1,212,811	
DEFERRED FINANCING COSTS- Net	4,185,813	2,411,091
	-----	-----
TOTAL ASSETS	\$ 475,022,007	\$ 277,964,322
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 4,677,179	
Financing agreements	29,685,759	
Notes payable	416,824,117	277,964,322
Income tax liability:		
Current	265,565	
Deferred	1,856,732	
	-----	-----
TOTAL LIABILITIES	453,309,352	277,964,322
	-----	-----
COMMITMENTS AND CONTENGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, \$.01 par value, 10,000,000		
authorized shares; issued and outstanding: 5,916,527	59,167	
Additional paid-in capital	6,985,968	
Retained earnings	14,667,520	

TOTAL STOCKHOLDERS' EQUITY	21,712,655	

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 475,022,007	\$ 277,964,322
	=====	=====

4

FRANKLIN CREDIT MANAGEMENT CORPORATION
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF INCOME

	2004 Actual	Three months ended March 31, Pro Forma	
REVENUES:			
Interest income	\$10,636,341	\$ 6,232,622	\$
Purchase discount earned	1,341,397	677,629	

Edgar Filing: FRANKLIN CREDIT MANAGEMENT CORP/DE/ - Form 8-K

Gain on sale of notes receivable	844,902	
Gain on sale of originated loans held for sale	892,955	
Gain on sale of other real estate owned	231,246	
Rental income	12,075	
Prepayment penalties and other income	1,100,849	
	15,059,765	6,910,251
OPERATING EXPENSES:		
Interest expense	5,313,075	3,233,747
Collection, general and administrative	4,446,182	1,217,884
Provision for loan losses	895,876	
Amortization of deferred financing costs	592,901	130,775
Depreciation	113,382	
	11,361,416	4,582,406
INCOME BEFORE PROVISION FOR INCOME TAXES	3,698,349	2,327,845
PROVISION FOR INCOME TAXES	1,665,000	1,047,530
NET INCOME	\$ 2,033,349	\$ 1,280,315
NET INCOME PER COMMON SHARE:		
Basic	\$ 0.34	\$ 0.22
Diluted	\$ 0.30	\$ 0.19
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:		
Basic	5,916,527	5,916,527
Diluted	6,690,627	6,690,627

5

FRANKLIN CREDIT MANAGEMENT CORPORATION
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF INCOME YEAR 2003

	2004 Actual	Pro For
REVENUES:		
Interest income	\$42,699,710	\$22,263,
Purchase discount earned	5,154,601	2,549,

Edgar Filing: FRANKLIN CREDIT MANAGEMENT CORP/DE/ - Form 8-K

Gain on sale of notes receivable	1,118,239	
Gain on sale of originated loans held for sale	3,236,616	
Gain on sale of other real estate owned	1,027,130	
Rental income	113,255	
Prepayment penalties and other income	4,217,008	
	57,566,559	24,813,

OPERATING EXPENSES:		
Interest expense	21,672,993	12,069,
Collection, general and administrative	17,864,786	5,132,
Provision for loan losses	3,164,103	
Amortization of deferred financing costs	1,979,208	462,
Depreciation	505,012	
	45,186,102	17,664,

INCOME BEFORE PROVISION FOR INCOME TAXES	12,380,457	7,148,
PROVISION FOR INCOME TAXES	5,695,000	3,216,

NET INCOME	\$ 6,685,457	\$ 3,931,
=====		
NET INCOME PER COMMON SHARE:		
Basic	\$ 1.13	\$ 0
=====		
Diluted	\$ 1.02	\$ 0
=====		
WEIGHTED AVERAGE NUMBER OF COMMON SHARES		
OUTSTANDING:		
Basic	5,916,527	5,916,
=====		
Diluted	6,536,639	6,536,
=====		

6

FRANKLIN CREDIT MANAGEMENT CORPORATION
 UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS

	Three Month	
	2004	Pro
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 2,033,349	\$ 1
Adjustments to reconcile net income to net cash		

Edgar Filing: FRANKLIN CREDIT MANAGEMENT CORP/DE/ - Form 8-K

(used in) provided by operating activities:		
Gain on sale of notes receivable	(844,902)	
Gain on sale of other real estate owned	(231,246)	
Depreciation	113,382	
Amortization of deferred financing costs	592,901	
Origination of mortgage loans held for sale	(33,358,278)	
Proceeds from the sale of and principal collections on loans held for sale-net of gain	19,746,182	
Purchase discount earned	(1,341,397)	
Provision for loan losses	895,876	
Changes in operating assets and liabilities:		
Accrued interest receivable	81,360	(2)
Other receivables	66,662	
Deferred tax asset	198,829	
Other assets	(277,251)	
Current tax liability	265,565	
Deferred tax liability	545,643	
Accounts payable and accrued expenses	(302,627)	5
	-----	-----
Net cash (used in) provided by operating activities	(11,815,952)	2
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) in restricted cash	(15,484)	
Purchase of notes receivable	(38,432,630)	(275)
Principal collections on notes receivable and loans held for investment	44,438,122	12
Acquisition and loan fees	(449,595)	(2)
Proceeds from sale of other real estate owned	4,955,454	
Proceeds from sale of notes receivable	6,556,853	
Purchase of building, furniture and fixtures	(73,481)	
	-----	-----
Net cash provided by (used in) investing activities	16,979,239	(265)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	49,771,473	277
Principal payments of notes payable	(60,395,200)	(13)
Proceeds from financing agreements	34,052,232	
Payments on financing agreements	(27,681,774)	
	-----	-----
Net cash (used in) provided by financing activities	(4,253,269)	264
	-----	-----
NET CHANGE IN CASH AND CASH EQUIVALENTS	910,018	1
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	10,576,610	10
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 11,486,628	\$ 12
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash payments for interest	\$ 5,436,345	\$ 3
	=====	=====
Cash payments for taxes	\$ 636,800	\$ 1
	=====	=====

Edgar Filing: FRANKLIN CREDIT MANAGEMENT CORP/DE/ - Form 8-K

FRANKLIN CREDIT MANAGEMENT CORPORATION
 UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS AS OF DECEMBER 31, 2003

	For The Year 2003	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 6,685,457	\$
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Gain on sale of notes receivable	(1,118,239)	
Gain on sale of other real estate owned	(1,027,130)	
Depreciation	505,012	
Amortization of deferred financing costs	1,979,208	
Origination of mortgage loans held for sale	(97,143,554)	
Proceeds from the sale of and principal collections on loans held for sale-net of gain	80,810,221	
Purchase discount earned	(5,154,601)	
Provision for loan losses	3,164,103	
Changes in operating assets and liabilities:		
Accrued interest receivable	(174,804)	
Other receivables	(634,192)	
Deferred tax asset	(293,631)	
Other assets	(1,087,834)	
Current tax liability		
Deferred tax liability	527,974	
Accounts payable and accrued expenses	1,161,249	
	-----	-----
Net cash (used in) provided by operating activities	(11,800,761)	
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in restricted cash	(219,440)	
Purchase of notes receivable	(213,638,801)	(2)
Principal collections on notes receivable and loans held for investment	156,924,859	
Investment in marketable securities	(203,771)	
Acquisition and loan fees	(2,564,246)	
Proceeds from sale of other real estate owned	16,407,503	
Proceeds from sale of notes receivable	15,648,149	
Purchase of building, furniture and fixtures	(650,858)	
	-----	-----
Net cash provided by (used in) investing activities	(28,296,605)	(2)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	226,367,253	2
Principal payments of notes payable	(194,185,553)	(
Proceeds from financing agreements	101,322,968	
Payments on financing agreements	(89,565,036)	
	-----	-----
Net cash (used in) provided by financing activities	43,939,632	2
	-----	-----

Edgar Filing: FRANKLIN CREDIT MANAGEMENT CORP/DE/ - Form 8-K

NET CHANGE IN CASH AND CASH EQUIVALENTS	3,842,266	
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	10,576,610	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 14,418,876	\$ =====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash payments for interest	\$ 21,204,660	\$ =====
Cash payments for taxes	\$ 5,713,700	\$ =====

8

(c) Exhibits.

The following exhibits are filed as part of this report:

- 2.1 Mortgage Loan Purchase and Sale Agreement, dated as of June 30, 2004 by and between Franklin Credit Management Corporation and Bank One, Inc.

9

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 hereunto duly authorized.

FRANKLIN CREDIT MANAGEMENT CORPORATION

By: /s/ Thomas J. Axon

Thomas J. Axon
Chairman and Chief Executive Officer

July 15, 2004

10

Exhibits Index

Edgar Filing: FRANKLIN CREDIT MANAGEMENT CORP/DE/ - Form 8-K

- 2.1 Mortgage Loan Purchase and Sale Agreement, dated as of June 30, 2004 by and between Franklin Credit Management Corporation and Bank One, Inc.