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FRANKLIN CREDIT MANAGEMENT CORP/DE/

Form 10QSB

August 15, 2001

FRANKLIN CREDIT MANAGEMENT CORPORATION AND SUBSIDIARIES

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

FORM 10-QSB

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

For the quarterly period ended June 30, 2001

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

For the transition period from _____ to _____

Commission file number 0-17771

FRANKLIN CREDIT MANAGEMENT CORPORATION
(Exact name of small business issuer as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

75-2243266

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

Six Harrison Street
New York, New York 10013
(212) 925-8745

(Address of principal executive offices, including zip code, and telephone
number, including area code)

Check whether the issuer (1) filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act of 1934 during the past 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 .

Check whether the registrant filed all documents and reports required
to be filed by Section 12, 13 or 15(d) of the Exchange Act after the
distribution of securities under a plan confirmed by a court. Yes X No .

As of August 14, 2001 the issuer had 5,916,527 of shares of Common Stock, par
value \$0.01 per share, outstanding.

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FRANKLIN CREDIT MANAGEMENT CORPORATION

FORM 10-QSB

June 30, 2001

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CONSOLIDATED BALANCE SHEETS JUNE 30, 2001 AND DECEMBER 31, 2000

ASSETS	6/30/2001 Unaudited	12/31/2000
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CASH AND CASH EQUIVALENTS	\$ 8,884,143	\$ 7,212,346
RESTRICTED CASH	648,414	932,574
NOTES RECEIVABLE:		
Principal	308,498,428	255,055,677
Purchase discount	(25,620,928)	(23,392,400)
Allowance for loan losses	(28,052,057)	(24,086,322)
	-----	-----
NET NOTES RECEIVABLE	254,825,443	207,576,955
LOANS HELD FOR SALE	16,947,152	8,670,691
ACCRUED INTEREST RECEIVABLE	4,074,611	3,396,405
OTHER REAL ESTATE OWNED	4,242,922	5,290,053
OTHER RECEIVABLES	2,490,056	1,934,443
DEFERRED TAX ASSET	2,117,086	3,481,002
OTHER ASSETS	1,846,994	1,442,687
BUILDING, FURNITURE AND FIXTURES - Net	980,841	868,471
DEFERRED FINANCING COSTS- Net	2,970,816	2,429,661
TOTAL ASSETS	\$ 300,028,478	\$ 243,235,288
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 3,231,908	\$ 2,932,611
Financing agreements	2,440,355	2,021,334
Notes payable	287,361,586	231,050,485
203(k) rehabilitation escrows payable	-	2,186
Subordinated debentures	48,524	72,525
Notes payable, affiliates and stockholders	64,730	146,835
Deferred tax liability	2,197,145	3,561,061
	-----	-----
TOTAL LIABILITIES	295,344,248	239,787,037
	-----	-----
STOCKHOLDERS' EQUITY		
Common stock, \$.01 par value, 10,000,000 authorized shares; issued and outstanding:		
5,916,527 and 5,916,527	59,167	59,167
Additional paid-in capital	6,985,968	6,985,968
Accumulated deficit	(2,360,905)	(3,596,884)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	4,684,230	3,448,251
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 300,028,478	\$ 243,235,288
	=====	=====

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CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2001 AND 2000

	Three Months Ended		Six Months Ended	
	30-Jun-01	30-Jun-00	30-Jun-01	30-Jun-00
REVENUES:				
Interest Income	\$6,627,907	\$4,737,847	\$12,734,080	\$9,633,548
Purchase discount earned	1,025,345	904,095	1,971,080	1,885,608
Gain on sale of portfolios	417,463	500,000	879,127	575,756
Gain on sale of originated loans	125,800	35,668	192,220	84,854
Gain on sale of other real estate owned	695,336	87,608	846,610	174,795
Rental Income	85,780	168,001	196,767	355,781
Other	352,087	236,537	674,858	457,872
	9,329,717	6,669,756	17,494,742	13,168,214
OPERATING EXPENSES:				
Interest expense	4,806,002	4,366,994	10,122,134	8,787,794
Collection, general and administrative	2,610,519	1,931,040	4,891,669	3,959,064
Provision for loan losses	462,440	156,556	689,963	171,706
Amortization of deferred financing costs	278,046	159,558	466,894	282,693
Depreciation	48,778	31,683	88,104	63,852
	8,205,785	6,645,831	16,258,763	13,265,109
OPERATING INCOME (LOSS)	1,123,932	23,925	1,235,979	(96,895)
GAIN (LOSS) INCOME BEFORE PROVISION FOR INCOME TAXES	1,123,932	23,925	1,235,979	(96,895)
BENEFIT (PROVISION) FOR INCOME TAXES	0	0	0	0
NET INCOME (LOSS)	\$1,123,932	\$23,925	\$1,235,979	\$(96,895)
NET INCOME (LOSS) PER COMMON SHARE:				
Basic	0.19	0.00	0.21	(0.02)
Dilutive	0.19	0.00	0.21	(0.02)
WEIGHTED AVERAGE NUMBER OF SHARES	5,916,527	5,916,527	5,916,527	5,916,527

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OUTSTANDING

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited) JUNE 30, 2001

	Common Stock		Additional Paid-In	Retained Earnings	
	Shares	Amount	Capital	(Deficit)	Total
Balance, December 31, 1999	5,916,527	\$59,167	\$6,985,968	\$ (4,167,547)	\$2,745,740
Net Income				570,663	570,663
Balance, December 31, 2000	5,916,527	\$59,167	\$6,985,968	\$ (3,596,884)	\$3,448,251
Net Income				1,235,979	1,235,979
Balance, June 30, 2001	5,916,527	\$59,167	\$6,985,968	\$ (2,360,905)	\$4,684,230

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) SIX MONTHS ENDED JUNE 30, 2001 AND 2000

	30-Jun01	30-Jun-00
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$1,235,979	\$ (96,895)
Adjustments to reconcile net income (loss) to Net cash provided (used) by operating activities:		
Depreciation	88,104	63,852
Amortization	466,894	282,693

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Purchase discount earned	(1,971,080)	(1,885,608)
Gain on Sale of OREO	(846,610)	(174,795)
Provision for loan loss	689,963	171,706
(Increase) decrease in:		
Accrued interest receivable	(678,206)	59,320
Loans held for sale	(8,276,461)	(1,408,952)
Other receivables	(555,613)	1,708,203
Other assets	(404,306)	(184,698)
Increase (decrease) in:		
Accounts payable and accrued expenses	299,298	(569,378)
203(k) rehabilitation escrow	(2,186)	(0)
Due to affiliates	(82,106)	(46,402)
	-----	-----
Net cash used by operating activities	(10,036,330)	(2,080,954)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and loan fees	(1,235,402)	(325,038)
Acquisition of notes receivable	(91,330,701)	(23,104,622)
Proceeds from sale of REO	5,063,710	3,367,479
Proceeds from the sale of notes	14,620,531	235,937
Reclassification of notes receivable for foreclosures	(686,777)	179,427
Acquisition of furniture & equipment	(212,776)	(11,366)
Principal collection on notes receivable	28,499,265	21,308,400
(Increase) decrease in restricted cash	284,160	(837,347)
	-----	-----
Net cash (used by) from investing activities	(44,997,990)	812,870
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on debenture notes payable	(24,001)	(235,928)
Payments on financing agreements	(11,147,878)	(2,974,751)
Proceeds from financing agreements	11,566,895	3,012,575
Proceeds from notes payable	97,117,724	23,287,331
Payments on notes payable	(40,806,623)	(21,761,704)
	-----	-----
Net cash provided by financing activities	56,706,117	1,327,523
	-----	-----
NET INCREASE IN CASH	1,671,797	59,439
CASH, BEGINNING OF PERIOD	7,212,346	6,015,567
CASH, ENDED	\$8,884,143	\$6,075,006
	=====	=====

FRANKLIN CREDIT MANAGEMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTER ENDING JUNE 30, 2001

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

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Nature of Business - Franklin Credit Management Corporation (the "Company"), incorporated under the laws of the State of Delaware, acquires performing, subperforming, nonperforming, nonconforming and notes receivable and promissory notes from financial institutions, and mortgage and finance companies. The Company services and collects such notes receivable through enforcement of terms of original note, modification of original note terms and, if necessary, liquidation of the underlying collateral.

In January 1997, a wholly owned subsidiary was formed, to originate or purchase, sub prime residential mortgage loans to individuals whose credit histories, income and other factors cause them to be classified as nonconforming borrowers.

Summary of the Company's significant accounting policies. Basis of Consolidation - The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant Intercompany accounts and transactions have been eliminated in consolidation.

Condensed Consolidated Financial Statements - Certain information and footnote disclosure normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (hereafter "generally accepted accounting principles") have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the financial statement and footnotes thereto included in the Company's annual form 10-KSB for the year ended December 31, 2000 as filed with the Securities and Exchange Commission (the "SEC"). The results of operations for the six months ended June 30, 2001 are not necessarily indicative of operating results for the year ending December 31, 2001.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include all cash accounts, with the exception of restricted cash, and money market funds. The Company maintains amounts due from banks, which at times may exceed federally insured limits. The Company has not experienced any losses from such concentrations.

Notes Receivable and Income Recognition - The notes receivable portfolio consists primarily of secured real estate mortgage loans purchased from financial institutions, and mortgage and finance companies. Such notes receivable are generally performing, and in some cases nonperforming or underperforming at the time of purchase and, accordingly, are usually purchased at a discount from the principal balance remaining. Notes receivable are stated at the amount of unpaid principal, reduced by purchase discount and an allowance for loan losses. The Company has the ability and intent to hold its notes until maturity, payoff or liquidation of collateral. Impaired notes are measured based on the present value of expected future cash flows discounted at the note's effective interest rate or, as a practical expedient, at the observable market price of the note receivable or the fair value of the collateral if the note is collateral dependent. A note receivable is impaired when it is probable the Company will be unable to collect all contractual principal and

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interest payments due in accordance with the terms of the note agreement.

In general, interest on the notes receivable is calculated based on contractual interest rates applied to daily balances of the principal amount outstanding using the simple-interest method. Accrual of interest on notes receivable, including impaired notes receivable, is discontinued when management believes, after considering economic and business conditions and collection efforts, that the borrowers' financial condition is such that collection of interest is doubtful. When interest accrual is discontinued, all unpaid accrued interest is reversed. Subsequent recognition of income occurs only to the extent payment is received subject to management's assessment of the collectibility of the remaining interest and principal. A nonaccrual note is restored to an accrual status when it is no longer delinquent and collectibility of interest and principal is no longer in doubt and past due interest is recognized at that time.

Loan purchase discount is amortized to income using the interest method over the period to maturity. The interest method recognizes income by applying the effective yield on the net investment in the loans to the projected cash flows of the loans. Discounts are amortized if the projected payments are probable of collection and the timing of such collections is reasonably estimable. The projection of cash flows for purposes of amortizing purchase loan discount is a material estimate, which could change significantly, in the near term. Changes in the projected payments are accounted for as a change in estimate and the periodic amortization is prospectively adjusted over the remaining life of the loans. Should projected payments not exceed the carrying value of the loan, the periodic amortization is suspended and either the loan is written down or an allowance for uncollectibility is recognized.

Allowance for Loan Losses - The allowance for loan losses, a material estimate which could change significantly in the near-term, is initially established by an allocation of the purchase loan discount based on the management's assessment of the portion of purchase discount that represents uncollectable principal. Subsequently, increases to the allowance are made through a provision for loan losses charged to expense and the allowance is maintained at a level that management considers adequate to absorb potential losses in the loan portfolio.

Management's judgment in determining the adequacy of the allowance is based on the evaluation of individual loans within the portfolios, the known and inherent risk characteristics and size of the note receivable portfolio, the assessment of current economic and real estate market conditions, estimates of the current value of underlying collateral, past loan loss experience and other relevant factors. Notes receivable, including impaired notes receivable, are charged against the allowance for loan losses when management believes that the collectibility of principal is unlikely based on a note-by-note review. Any subsequent recoveries are credited to the allowance for loan losses when received. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties, when considered necessary.

The Company's real estate notes receivable are collateralized by real estate located throughout the United States with a concentration in the Northeast. Accordingly, the collateral value of a substantial portion of the Company's real estate notes receivable and real estate acquired through foreclosure is susceptible to changes in market conditions.

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on notes

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receivable, future additions to the allowance or write-downs may be necessary based on changes in economic conditions.

Other Real Estate Owned - Other real estate owned consisting of properties acquired through, or in lieu of, foreclosure or other proceedings are held for sale and are carried at the lower of cost or fair value less estimated costs of disposal. Any write-down to fair value, less cost to sell, at the time of acquisition is charged to the allowance for loan losses.

Subsequent write-downs are charged to operations based upon management's continuing assessment of the fair value of the underlying collateral. Property is evaluated regularly to ensure that the recorded amount is supported by current fair values and valuation allowances are recorded as necessary to reduce the carrying amount to fair value less estimated cost to dispose. Revenue and expenses from the operation of other real estate owned and changes in the valuation allowance are included in operations. Costs relating to the development and improvement of the property are capitalized, subject to the limit of fair value of the collateral, while costs relating to holding the property are expensed. Gains or losses are included in operations upon disposal.

Building, Furniture and Fixtures - Building, furniture and fixtures are recorded at cost net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years. Gains and losses on dispositions are recognized upon realization. Maintenance and repairs are expensed as incurred.

Deferred Financing Costs - Debt financing costs, which include loan origination fees incurred by the Company in connection with obtaining financing, are deferred and are amortized based on the principal reduction of the related loan.

Mortgage Servicing Rights - The Company allocates the total cost of the mortgage loans purchased or originated, proportionately, to the mortgage servicing rights and the loans based on the relative fair value. The servicing rights capitalized are amortized in proportion to and over the period of, estimated net servicing income including prepayment assumptions based upon the characteristics of the underlying loans. Capitalized servicing rights are periodically assessed for impairment based on the fair value of the rights with any impairment recognized through a valuation allowance.

Retirement Plan - The Company has a defined contribution retirement plan (the "Plan") covering all full-time employees who have completed one month of service. Contributions to the Plan are made in the form of payroll deductions based on employees' pretax wages. Currently, the Company offers a company match of 50% of the first 3% of the employees' contribution.

Income Taxes - The Company recognizes income taxes under an asset and liability method. Under this method, deferred tax assets are recognized for deductible temporary differences and operating loss or tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the financial statement carrying amounts of existing assets and liabilities and their respective basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance when management determines that it is more likely than not that, some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment. As of

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December 31, 2000, the Company had approximately \$5.6 million of net operating loss carry forwards that have been partially applied to June 30, 2001 income.

Fair Value of Financial Instruments - Statement of Financial Accounting Standards No. 107, Disclosures About Fair Value of Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet for which it is practical to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Statement No. 107 excludes certain financial instruments and all nonfinancial assets and liabilities from its disclosure requirements. Accordingly, the aggregate fair value amounts do not represent the underlying value of the Company.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

- a. Cash, Restricted Cash, Accrued Interest Receivable, Other Receivable and Accrued Interest Payable - The carrying values reported in the balance sheet are a reasonable estimate of fair value.
- b. Notes Receivable - Fair value of the net note receivable portfolio is estimated by discounting the future cash flows using the interest method. The carrying amounts of the notes receivable approximate fair value.
- c. Short-Term Borrowings - The carrying amounts of the financing agreement and other short-term borrowings approximate their fair value.
- d. Long-Term Debt - Fair value of the Company's long-term debt (including notes payable, subordinated debentures and notes payable, affiliate) is estimated using discounted cash flow analysis based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The carrying amounts reported in the balance sheet approximate their fair value.

Comprehensive Income - SFAS No. 130, Reporting Comprehensive Income defines comprehensive income as the change in equity of a business enterprise during a period from transactions and other events and circumstances, excluding those resulting from investments by and distributions to stockholders. The Company had no items of other comprehensive income in 2001 and 2000; therefore net income (loss) was the same as its comprehensive income (loss).

Recent Pronouncements - Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, is effective for all fiscal years beginning after June 15, 2000. SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The Company adopted SFAS 133 effective January 1, 2001. The adoption of SFAS 133 did not have a significant impact on the financial position, results of operations, or cash flows of the Company.

Comparative Balance- Certain prior balances have been reclassified to conform with current period presentation.

BUSINESS SEGMENTS

The Company has two reportable operating segments: (i) portfolio asset acquisition and resolution; and (ii) mortgage banking. The portfolio asset acquisition and resolution segment acquires performing, nonperforming, nonconforming and sub performing notes receivable and promissory notes from financial institutions, mortgage and finance companies, and services and collects such notes receivable through enforcement of terms of original note, modification of original note terms and, if necessary, liquidation of the underlying collateral. The mortgage-banking segment originates or purchases, sub prime residential mortgage loans for individuals whose credit histories, income and other factors cause them to be classified as nonconforming borrowers.

The Company's management evaluates the performance of each segment based on profit or loss from operations before unusual and extraordinary items and income taxes. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 1).

MORTGAGE BANKING

	30-Jun-01 Unaudited	30-Jun-00 Unaudited
CONSOLIDATED REVENUE		
Portfolio asset acquisition and resolution	\$ 16,587,373	\$ 12,844,790
Mortgage banking	907,369	323,424
	-----	-----
Consolidated Revenue	\$ 17,494,742	\$ 13,168,214
	=====	=====
CONSOLIDATED NET INCOME (LOSS)		
Portfolio asset acquisition and resolution asset	\$ 1,176,439	\$ 7,395
Mortgage banking assets	59,540	(104,290)
	-----	-----
Consolidated Net Income (Loss)	\$ 1,235,979	\$ (96,895)
	=====	=====

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

Forward-Looking Statements. When used in this report, press releases and elsewhere by the Company from time to time, the words "believes", "anticipates", and "expects" and similar expressions are intended to identify forward-looking statements that involve certain risks and uncertainties. Additionally, certain statements contained in this discussion and the Form

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10-QSB may be deemed forward-looking statements that involve a number of risks and uncertainties. Among the factors that could cause actual results to differ materially are the following: unanticipated changes in the U.S. economy, business conditions and interest rates and the level of growth in the finance and housing markets, the availability for purchase of additional loans and the quality of such additional loans, the status of relations between the Company and its Senior Debt Lender, the status of relations between the Company and its sources for loan purchases, unanticipated difficulties in collections under loans in the Company's portfolio, prepayments of notes in the Company's portfolio and other risks detailed from time to time in the Company's SEC reports. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date thereof. 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.

Loan and OREO Acquisitions. During the six months ended June 30, 2001, the Company purchased 2,406 loans consisting primarily of first and second mortgages, with an aggregate face value of \$105 million at an aggregate purchase price of \$92 million or 88% of the face value, compared with the purchase during the six months ended June 30, 2000 of 1,115 loans with an aggregate face value of \$27.6 million at an aggregate purchase price of \$23.1 million or 86% of aggregate face value. Acquisition of these portfolios was fully funded through Senior Debt in the amount equal to the purchase price plus a 1% loan origination fee.

The Company believes these acquisitions of high yielding coupon loans will result in increases in the level of interest income during future periods. Payments streams are generated once the loans are incorporated into the Company's loan tracking system.

Management intends to continue to expand the Company's earning asset base through the acquisition of additional loans including performing first and second mortgages at a positive interest rate spread based upon the Company's cost of funds. The Company believes that its current infrastructure is adequate to service additional loans without any material increases in collection, general and administrative expenses excluding personnel expenses. There can be no assurance the Company will be able to acquire any additional loans on favorable terms or at all.

Single-Family Residential Lending. In January 1997, the Company formed a wholly owned subsidiary, Tribeca Lending Corp. ("Tribeca"), to originate primarily sub prime residential mortgage loans made to individuals whose credit histories, income and other factors cause them to be classified as non-conforming borrowers. Management believes that lower credit quality borrowers present an opportunity for the Company to earn superior returns for the risks assumed. Tribeca provides first and second mortgages that are originated on a retail basis through marketing efforts that include utilization of the FCMC database. Tribeca is currently licensed as a mortgage banker in Alabama, California, Colorado, Connecticut, District of Columbia, Florida, Georgia, Kentucky, Illinois, Maryland, Massachusetts, Michigan, Missouri, New York, New Jersey, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, Texas, Virginia, Washington State, and West Virginia and is a Department of Housing and Urban Development FHA Title I and Title II approved lender. Tribeca originated loans are typically expected to be sold in the secondary market through whole-loan, servicing-released sales. Tribeca anticipates holding certain of its mortgages in its portfolio when it believes that the return from holding the mortgage, on a risk-adjusted basis, outweighs the return from selling the mortgage in the secondary market.

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During the six months ending June 30, 2001, Tribeca originated 159 mortgages with an aggregate initial principal amount of \$13,791,854 compared to 47 mortgages with an aggregate principal amount of \$2,639,466 in mortgages during the six months ending June 30, 2000. During the six months ending June 30, 2001, Tribeca realized an operating gain of \$59,540 compared to an operating loss of \$104,290 during the six months ended June 30, 2000. The increase in originations was achieved through the use of the FCMC database as a source of refinancing leads and thereby increase originations and reorganizing the operating branch by hiring more experienced management and personnel. As of June 30, 2001, Tribeca had approximately \$16.9 million face value of loans held for sale. Revenues and expenses related to such loans, other than periodic interest payments, and fee income are expected to be realized upon sale of such loans.

Cost of Funds. The decreases in the prime rate during the three months ending June 30, 2001, from 8.0% to 7.5% and 7.0% in April and May respectively and then once again in June to 6.75%, decreased the benchmark rate for the cost of funds on Senior Debt used to fund loan portfolio acquisitions directly increasing net income. The weighted average interest rate on borrowed funds for the Senior Debt based on the balances as of June 30, 2001 and June 30, 2000 were 6.98% and 9.3%, respectively. As of June 30, 2001, the Company had Senior Debt outstanding with an aggregate principal balance of \$287 million. Additionally, the Company has financing agreements with the Senior Debt Lender, which had an outstanding balance of \$2.4 million at June 30, 2001. The cost of funds on these financing agreements is prime plus 2%.

The majority of the loans purchased by the Company bear interest at a fixed rate, Senior Financing is at a variable rate adjusted with the prime rate. Consequently, changes in market interest rate conditions have caused direct corresponding changes in interest income. Management and its Senior Debt Lender have agreed to a variable rate on Senior Debt based on prime, for the 12-month period April 1, 2001 through March 31, 2002. Any increases, in the prime rate during this period will negatively impact the net income of the Company.

Inflation. Inflation had no impact on the Company's operations during the six months ended June 30, 2001 and 2000.

Three Months Ended June 30, 2001 Compared to Three Months Ended June 30, 2000.

Total revenue, which is comprised of interest income, purchase discount earned, gains on bulk sale of notes, gain on sale of notes receivable originated, gain on sale of OREO, rental income and other income, increased by \$2,659,961 or 40%, to \$9,329,717 during the three months ended June 30, 2001, from \$6,669,756 during the three months ended June 30, 2000.

Interest income on notes receivable increased by \$1,890,060 or 40%, to \$6,627,907 during the three months ended June 30, 2001 from \$4,737,847 during the three months ended June 30, 2000. The Company recognizes interest income on notes included in its portfolio based upon three factors: (i) interest on performing notes, (ii) interest received or committed with settlement payments on non-performing notes and (iii) the balance of settlements in excess of the carried face value. This increase resulted primarily from the \$190 million in high yielding performing notes acquired by the Company between July 2000 through June 2001, which was only partially offset by collections, prepayments, and loan sales.

Purchase discount earned increased by \$121,249 or 13%, to \$1,025,345 during the three months ended June 30, 2001, from \$904,095 during the three months ended June 30, 2000. This increase similarly reflected the growth in size

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of the Company's portfolio.

Gain on bulk sale of notes receivable decreased by \$82,537 or 17% to \$417,463 during the three months ended June 30, 2001 from \$ 500,000 during the three months ended June 30, 2000. The Company consummated two bulk sales totaling \$5.7 million during the three months ending June 30, 2001, as compared to the sale of one single \$1.0 re-performing loan for a large gain, during the three months ending June 30, 2001.

Gain on sale of notes originated by Tribeca increased by \$90,132 or 253% to \$125,800 during the three months ended June 30, 2001, from \$35,668 during the three months ended June 30, 2000. This increase reflected an increase in originations by Tribeca over time which resulted in a larger inventory available for sale during the three months ended June 30, 2001, compared to that available for sale during the three months ended June 30, 2000.

Gain on sale of OREO increased by \$607,728 or 694% to \$695,336 during the three months ended June 30, 2001 from \$87,608 during the three months ended June 30, 2000. This increase reflected increases in both the volume of OREO properties sold and the increased gain realized on the sales. The Company sold 51 and 33 OREO properties during the three months ended June 30, 2001 and June 30, 2000.

Rental income decreased by \$82,221 or 49% to \$85,780 during the three months ended June 30, 2001, from \$168,001 during the three months ended June 30, 2000. Rental income decreased due to the sale of several rental properties where it was more advantageous to sell than continue to hold for rent, during the three months ended June 30, 2001 as compared to the three months ended June 30, 2000. The Company had 30 and 68 rental properties during the three months ended June 30, 2001 and June 30, 2000.

Other income increased by \$115,550 or 49%, to \$352,087 during the three months ended June 30, 2001 from \$236,537 during the three months ended June 30, 2000. This increase reflected increases in prepayment penalties due to an increase in the rate of prepayments, and loan fees associated with Tribeca loans sold.

Total operating expenses increased by \$1,559,954 or 23% to \$8,205,785 during the three months ended June 30, 2001 from \$6,645,831 during the three months ended June 30, 2000. Total operating expenses includes interest expense, collection, general and administrative expenses, provisions for loan losses, amortization of deferred financing costs and depreciation expense.

Interest expense increased by \$439,008 or 10%, to \$4,806,002 during the three months ended June 30, 2001, from \$4,366,994 during the three months ended June 30, 2000. This increase resulted primarily from a 55% increase in debt, which was offset by reductions in costs funds due to three decreases in the prime rate. Costs of funds were 6.98% and 9.3% during the three months ended June 30, 2001 and June 30, 2000, respectively. Total debt increased by \$103 million or 55%, to \$290 million as of June 30, 2001, from \$187 million as of June 30, 2000. Total debt consists principally of Senior Debt, and also includes debentures, financing agreements and loans from affiliates.

Collection, general and administrative expenses increased by \$679,479 or 35% to \$2,610,519 during the three months ended June 30, 2001 from \$1,931,040 during the three months ended June 30, 2000. Collection, general and administrative expense consists primarily of personnel expense, and all other collection expenses including OREO related expense, litigation expense, and miscellaneous collection expense.

Personnel expenses increased by \$458,482 or 49% to \$1,398,916 during

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the three months ended June 30, 2001 from \$940,434 during the three months ended June 30, 2000. This increase resulted largely from increases in staffing and the experience level of personnel in the Company's core business. All other collection expenses increased by \$220,997 to \$1,211,603 during the three months ended June 30, 2001 from \$990,606 during the three months ended June 30, 2000. This increase resulted primarily from increased travel for marketing, increased legal fees due to the growth in the portfolio, and additional rent associated with new office space at 6 Harrison Street.

Provisions for loan loss increased by \$305,884 or 195% to \$462,440 due to the maturation of older portfolios where there is no longer purchase discount available to increase reserves.

Amortization of deferred financing costs increased by \$118,488 or 74% to \$278,046 during the three months ended June 30, 2001, from \$159,558 during the three months ended June 30, 2000. This increase resulted primarily from an increase in the number and dollar amount of assets sold, which sales generally accelerate the amortization of financing costs, prepayments, and increased collections due to the growth of the portfolio. On June 30, 2001 and June 30, 2000, deferred financing costs, as a percentage of Senior Debt outstanding was 1.03% and 1.06%, respectively

Depreciation expense increased by \$17,095 or 54%, to \$48,778 during the three months ended June 30, 2001, from \$31,683 during the three months ended June 30, 2000. This increase resulted from the purchase of computer equipment, and the renovations of office space for the Company's subsidiary Tribeca Lending.

Operating income increased by \$1,100,007 to \$1,123,932 during the three months ended June 30, 2001 from \$23,925 during the three months ended June 30, 2000.

During the three months ended June 30, 2001 and June 30, 2000, there was no provision for income tax due to a loss carry-forward.

Net income increased by \$1,100,007 to \$1,123,932 during the three months ended June 30, 2001 from \$23,925 during the three months ended June 30, 2000.

Six Months Ended June 30, 2001 Compared to Six Months Ended June 30, 2000.

Total revenue, increased by \$4,326,528 or 33%, to \$17,494,742 during the six months ended June 30, 2001, from \$13,168,214 during the six months ended June 30, 2000.

Interest income on notes receivable increased by \$3,100,532 or 32%, to \$12,734,080 during the six months ended June 30, 2001 from \$9,633,548 during the six months ended June 30, 2000. This increase resulted primarily from the \$190 million in high yielding performing notes acquired by the Company between July 2000 and June 2001, which was only partially offset by collections, prepayments, and loan sales.

Purchase discount earned increased by \$85,472 or 5%, to \$1,971,080 during the six months ended June 30, 2001 from \$1,885,608 during the six months ended June 30, 2000. This increase similarly reflected the growth in size of the portfolio. Purchase discount increased at a lower rate than the growth in the portfolio due to the maturation of the portfolio, and the purchase of performing assets for yield spread as opposed to purchase discount during the six months ended June 30, 2001.

Gain on sale of notes receivable increased by \$303,371 or 53% to \$

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879,127 during the six months ended June 30, 2001, from \$575,756 during the six months ended 2000. This increase reflected an increase in aggregate bulk sales during the six months ended June 30, 2001. The Company sold \$5.7 million in loans during the six months ended June 30, 2001, and \$1.4 million during the six months ended June 30, 2000.

Gain on sale of notes originated by Tribeca increased by \$107,366 or 127% to \$192,220 during the six months from \$ 84,854 during the six months ended June 30, 2000. This increase reflected an increase in the number of Tribeca loans originated and sold and higher margins on sales during the six months ending June 30, 2001, as compared to the six months ending June 30, 2000. Tribeca closed 159 and 61 loans during the six months ending June 30, 2001 and June 30, 2000.

Gain on sale of OREO increased by \$671,815 or 384% to \$846,610 during the six months ended June 30, 2001, from \$174,795 during the six months ended June 30, 2000. This increase reflected increases in both the volume of OREO properties sold and the increase gain realized on the sales during the six months ended June 30, 2001, as compared to the six months ended June 30, 2000. The Company sold 81 OREO properties during the six months ended June 30, 2001, and 74 OREO properties during the six months ended June 30, 2000.

Rental income decreased by \$159,014 or 45% to \$196,767 during the six months ended June 30, 2001, from \$355,781 during the six months ended June 30, 2000. This decrease reflected a decrease in the number of rental properties during the six months ended June 30, 2001 as compared to the six months ended June 30, 2000. The Company had 30 and 68 rental properties during the six months ended June 30, 2001 and June 30, 2000.

Other income increased by \$216,986 or 47%, to \$674,858 during the six months ended June 30, 2001 from \$457,872, during the six months ended June 30, 2000. This increase reflected increases in prepayment penalties, and late charges, resulting from the increase in size of the Company's portfolio and loan fees associated with Tribeca loans sold.

Total operating expenses increased by \$2,993,654 or 23%, to \$16,258,763 during the six months ended June 30, 2001, from \$13,265,109 during the six months ended June 30, 2000.

Interest expense increased by \$1,334,340 or 15%, to \$10,122,134 during the six months ended June 30, 2001 from \$8,787,794 during the six months ended June 30, 2000. This increase resulted primarily from the increase in Senior Debt reflecting the acquisition of \$190 million in notes receivables and was partially offset by decreases in costs of funds due to three decreases in the Prime Rate. Costs of funds were 6.98% and 9.3% during the six months ended June 30, 2001 and June 30, 2000. Total debt increased by \$103 million or 55%, to \$290 million as of June 30, 2001 from \$187 million as of June 30, 2000. Total debt includes Senior Debt, debentures, and financing agreements and loans from affiliates.

Collection, general and administrative expenses increased by \$932,605 or 24%, to \$4,891,669 during the six months ended June 30, 2001 from \$ 3,959,064 during the six months ended June 30, 2000.

Personnel expenses increased by \$691,854 or 38%, to \$2,530,744 during the six months ended June 30, 2001 from \$1,838,889 during the six months ended June 30, 2000. The increase reflected the staffing and the experience level of personnel in the Company's core business during the six months ended June 30, 2001. All other collection expenses increased by \$240,751 or 11% to \$2,360,925 during the six months ended June 30, 2001 from \$2,120,175 during the six months ended June 30, 2000. This increase resulted primarily from increased travel for

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marketing, increased legal fees due to the growth in the portfolio, and additional rent associated with new office space at 6 Harrison Street.

Provisions for loan losses increased by \$518,257 or 301% to \$689,963 during the six months ended June 30, 2001 from \$171,706 during the six months ended June 30, 2000. This was due to the maturation of older portfolios where there is no longer purchase discount available to increase reserves. Provision for loan losses are incurred as soon as the valuation of the asset diminishes and there is no unamortized discount remaining associated with that asset.

Amortization of deferred financing costs increased by \$184,201 or 65%, to \$466,894 during the six months ended June 30, 2001, from \$282,693 during the six months ended June 30, 2000. This increase resulted primarily from an increase in the number and dollar amount of assets sold, which sales generally accelerate the amortization of financing costs and increased collections due to the growth of the portfolio.

Depreciation expense increased by \$24,252 or 38%, to \$88,104 during six months ended June 30, 2001, from \$63,852 during the six months ended June 30, 2000.

Operating income increased by \$1,332,874 to a gain of \$1,235,979 during the six months ended June 30, 2001, from a loss of \$96,895 during the six months ended June 30, 2000.

During the six months ended June 30, 2001 or the six months ended June 30, 2000, there were no provisions for income taxes due to the operating loss carry-forward.

Net income increased by \$1,332,874 to gain of \$1,235,979 during the six months ended June 30, 2001 from a loss of \$96,895 during the six months ended June 30, 2000.

Liquidity and Capital Resources

General. During the six months ended June 30, 2001 the Company purchased 2,406 loans with an aggregate face value of \$105 million at an aggregate purchase price of \$92 million or 88% of face value. During the six months ended June 30, 2000 the Company purchased 1,115 loans in eleven portfolios with an aggregate face value of \$27.6 million at an aggregate purchase price of \$23.1 million or 84% of aggregate face value. The Company's portfolio acquisitions during the six months ended June 30, 2001 included a \$40.9 million purchase of loans from one source. This increase in acquisitions was due to increased marketing by the Company and lower cost of funds, which enabled the Company to be more competitive in the bidding process.

The Company's portfolio of notes receivable at June 30, 2001 had a face value of \$308 million and included net notes receivable of approximately \$255 as compared with a face value of \$207.3 million and net notes receivable of approximately \$167 million as of June 30, 2000. Net notes receivable are stated at the amount of unpaid principal, net of purchase discount and allowance for loan losses. The Company has the ability and intent to hold its notes until maturity, payoff or liquidation of collateral or, where deemed to be economically advantageous, sale.

During the six months ended June 30, 2001, the Company used cash in the amount of \$10,036,330 in its operating activities primarily for interest expense, and increased infrastructure in the Company's core business, litigation

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expense incidental to its ordinary collection activities and for the foreclosure and improvement of OREO. The Company used \$44,997,990 in its investing activities, primarily reflecting purchases of notes receivable which purchases were only partially offset by principal collections upon its notes receivable and proceeds from sales of loans and OREO. The amount of cash used in operating and investing activities was funded by \$56,706,117 of net cash provided by financing activities, including primarily, a net increase in Senior Debt of \$97,117,724 million. The above activities resulted in a net increase in cash at June 30, 2001 over December 31, 2000 of \$1,671,797.

In the ordinary course of its business, the Company accelerates and forecloses upon real estate securing non-performing notes receivable included in its portfolio. As a result of such foreclosures and selective direct purchases of OREO, at June 30, 2001 and 2000, the Company held OREO recorded on the financial statements at \$4.2 million and \$5.3 million, respectively. OREO is recorded on the financial statements of the Company at the lower of cost or fair market value. The Company estimates, based on third party appraisals and broker price opinions, that the OREO inventory held at June 30, 2001, in the aggregate, had a net realizable value (market value less estimated commissions and legal expenses associated with the disposition of the asset) of approximately \$4.7 million. There can be no assurance, however, that such estimate is substantially correct or that an amount approximating such amount would actually be realized upon liquidation of such OREO. The Company generally holds OREO as rental property or sells such OREO in the ordinary course of business when it is economically beneficial to do so.

Cash Flow

Substantially all of the assets of the Company are invested in its portfolios of notes receivable and OREO. Primary sources of the Company's cash flow for operating and investing activities are borrowings under its Senior Debt facilities, collections on notes receivable and gain on sale of notes and OREO properties.

At June 30, 2001, the Company had unrestricted cash, cash equivalents and marketable securities of \$9 million.

Management believes that sufficient cash flow from the collection of notes receivable will be available to repay the Company's secured obligations, and that sufficient additional cash flows will exist through collections of notes receivable, the bulk sale of performing loan portfolios, sales and rental of OREO, continued modifications to the secured debt credit agreements or additional borrowing, to repay the current liabilities arising from operations and to repay the long term indebtedness of the Company.

Financing Activities

Senior Debt. As of June 30, 2001, the Company owed an aggregate of \$287 million to the Lender of Senior Debt, under 138 loans.

The Senior Debt is collateralized by first liens on the respective loan portfolios for the purchase of which the debt was incurred and is guaranteed by the Company. The monthly payments on the Senior Debt have been, and the Company intends for such payments to continue to be, met by the collections from the respective loan portfolios. The loan agreements for the Senior Debt call for minimum interest and principal payments each month and accelerated payments based upon the collection of the notes receivable securing the debt during the preceding month. The Senior Debt accrues interest at variable rates between 0%, and 2.00% over the prime rate. The accelerated payment provisions of the Senior Debt are generally of two types: the first requires that all collections from

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notes receivable, other than a fixed monthly allowance for servicing operations, be applied to reduce the Senior Debt, and the second requires a further amount to be applied toward additional principal reduction from available cash after scheduled principal and interest payments have been made. As a result of the accelerated payment provisions, the Company is repaying the amounts due on the Senior Debt at a rate faster than the minimum scheduled payments. While the Senior Debt remains outstanding, these accelerated payment provisions may limit the cash flow that is available to the Company.

Certain of the Senior Debt credit agreements required establishment of restricted cash accounts, funded by an initial deposit at the loan closing and additional deposits based upon monthly collections up to a specified dollar limit. The restricted cash is maintained in an interest bearing account, held by the Company's Senior Debt Lender. Restricted cash may be accessed by the Senior Debt Lender only upon the Company's failure to meet the minimum monthly payment due if collections from notes receivable securing the loan are insufficient to satisfy the installment due. Historically, the Company has not called upon these reserves. The aggregate balance of restricted cash in such accounts was \$648,414 and \$1,225,318 on June 30, 2001 and June 30, 2000 respectively. The decrease in the balance of restricted cash at June 30, 2001, was due to funds used to place bid deposits on perspective new portfolio acquisitions. Such deposits are returned to restricted cash when the new acquisitions fund, by the Senior Debt Lender.

Total Senior Debt availability was approximately \$300 million at June 30, 2001, of which approximately \$287 million had been drawn down as of such date. Additionally the Senior Debt Lender has verbally informed the Company that it will not deem approximately \$4 million of Senior Debt that it had syndicated to other banks as of such date as outstanding for purposes of determining availability under of Senior Debt. As a result, the Company has approximately \$17 million available to purchase additional portfolios of notes receivable and OREO.

The Company's Senior Debt Lender has provided Tribeca with a warehouse financing agreement of \$2 million. At June 30, 2001, Tribeca had drawn down \$ 2 million on the line.

Harrison First Corporation 12% Debentures. In connection with the acquisition of a loan portfolio during 1995, the Company offered to investors \$800,000 of subordinated debentures of which \$555,000 were issued. As of June 30, 2001 and December 31, 2000, \$48,524 and \$72,525, respectively, of these debentures were outstanding. The Harrison 1st 12% Debentures bear interest at the rate of 12% per annum and were payable in quarterly installments. The principal was repaid over three years in ten equal quarterly installments of \$22,200 which payments commenced on September 30, 1997 with the remaining balloon payment of \$333,000 due June 30, 2000. On June 30, 2000 the Company made a balloon payment of \$232,952 funded through the incurrence of Senior Debt and agreed with the holders of \$97,048 of 12% Debentures to the extension of payment of such principal amount to December 31, 2001. The Harrison 1st 12% Debentures are secured by a lien on the Company's interest in certain notes receivable and are subordinated to the Senior Debt encumbering the loan portfolio.

OREO Line of Credit. The Company has a line of credit with the Senior Debt Lender permitting it to borrow a maximum of approximately \$1,500,000 at a rate equal to such lender's prime rate plus two percent per annum. Principal repayment of the lines is due six months from the date of each cash advance and interest is payable monthly. The total amounts outstanding under the financing agreements as of June 30, 2001 and December 31, 2000, were \$213,467 and \$117,600

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respectively. Advances made under the line of credit were used to satisfy senior lien positions and fund capital improvements in connection with foreclosures of certain real estate loans financed by the Company. Management believes the ultimate sale of these properties will satisfy the related outstanding financing agreements and accrued interest, as well as surpass the collectible value of the original secured notes receivable. Management has reached an agreement in principal with its Senior Debt Lender to increase the availability under this credit facility to cover additional properties foreclosed upon by the Company, which the Company may be required to hold as rental property to maximize its return.

Additionally, the Company has opened a financing agreement with a bank. The agreement provides the Company with the ability to borrow a maximum of \$150,000 at a rate equal to the bank's prime rate plus one percent per annum. As of June 30, 2001 and December 31, 2000 \$121,746 and \$127,014 respectively, were outstanding on the financing agreement.

Part II Other Information

Item 1. Legal Proceedings

Asset Purchase Agreement Dispute. On August 19, 1997, the Company commenced a civil action in the United States District Court for the Southern District of New York against Preferred Credit Corporation ("PCC") and certain individuals alleging fraud, breach of contract, and unjust enrichment in connection with the purchase by the Company of \$3.7 million in face value of notes receivable from PCC for \$1.8 million. Through the Complaint, the Company sought rescission of the asset purchase agreement or damages incurred in connection with the purchase.

By an order dated September 22, 1999, the Court dismissed one of the Company's fraud claims against PCC and all of the Company's claims against the individual Defendants. On October 22, 1998, PCC filed an answer and counterclaim alleging a breach of the purchase agreement and seeking its costs and fees incurred in connection with the proceeding.

Trial in this matter was held on the remaining claims during January 2000. At the conclusion of the trial, the Court orally ruled in favor of the Company and against PCC. On February 10, 2000, the Court entered judgment in favor of the Company and against PCC in the amount of \$1.7 million plus interest from May 7, 1997. With interest, the amount due under the judgment is approximately \$2 million as of February 10, 2000. The Company does not presently know if PCC has sufficient assets to satisfy the judgment however it has collected \$ 60,000 towards this receivable, as of December 31, 2000.

Other Legal Actions. Since July, 1991, the Company has been a plaintiff in various actions ("Miramar Litigation") and party to settlements, with the former directors and officers of Miramar Resources, Inc. ("Miramar"), a company which the Company merged with in 1994, based upon allegations relating to certain premerger events. Information regarding the Miramar Litigation, as well as certain settlements (the "Schultz Settlements"), and the legal status of the Company's collection efforts is incorporated herein by reference to "Item 3. Legal Proceedings" included in the Company's Form 10-KSB for the year ended

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December 31, 1994, filed with the SEC on March 31, 1995 and included in the Company's 10-KSB for the year ended December 31, 1996, filed with the SEC on March 31, 1997.

During 1997 the Company initiated efforts to foreclose on its Deed of Trust on a 4,000-acre ranch owned by the parties to the original Shultz Settlement. Trial in this matter was held in November of 1999 and the Company obtained a judgment of \$600,000. In connection with this judgment, the parties entered into a Settlement Agreement pursuant to which certain additional collateral was provided to the Company to secure the payment of the judgment amount.

Item 2. Changes in Securities
None

Item 3. Defaults Upon Senior Securities
None

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

On May 23, 2001 at the Company's annual meeting the shareholders voted to ratify the amendment and increase of the Company's 1996 Incentive Plan, to elect nine directors to the Company's Board of Directors, and to ratify the appointment of Deloitte & Touche LLP as the Company's independent public auditors for the fiscal year ended December 31, 2001.

Amend the Company's 1996 Incentive Plan					
	For	Against	Abstain	Not Voting	Total
-----	-----	-----	-----	-----	-----
Amendment	3,280,752	1,980	3,425	2,631,370	5,917,527
-----	-----	-----	-----	-----	-----
Election of Directors					
Director	For	Against	Abstain	Not Voting	Total
Election of Directors	4,784,809	1,130	5,634	1,125,954	5,917,527
Independent Public					
Auditors	For	Against	Abstain	Not Voting	Total
-----	-----	-----	-----	-----	-----
Deloitte & Touche LLP	3,865,929	615	125	2,050,858	5,917,527

Item 5. Other Information

None

Item 6. Exhibits and Reports on form 8-K

None

(a)

EXHIBIT TABLE

Exhibit No.	Description
3(a)	Restated Certificate of Incorporation. Previously filed with, and incorporated herein by reference to, the Company's 10-KSB, filed with the Commission on December 31, 1994.
(b)	Bylaws of the Company. Previously filed with, and incorporated herein by reference to, the Company's Registration Statement on Form S-4, No. 33-81948, filed with the Commission on November 24, 1994.
4(a)	15% Convertible Subordinate Debentures. Previously filed with, the Company's Registration Statement on Form S-4, No. 33-81948, filed with the Commission on November 24, 1994.
(b)	Warrants associated with principal repayment of the 15% Convertible Subordinated Debentures. Previously filed with, the Company's Registration Statement on Form S-4, No. 33-81948, filed with the Commission on November 24, 1994.
10(d)	Employment Agreement dated December 4, 1996, between the Company and Joseph Caiazzo. Previously filed with, the Company's Form 10K-SB, filed with the Commission on March 31, 1997.
10(e)	Agreement dated March 29, 1997 between the Company and the Citizens Banking Company. Previously filed.
10(f)	Loan and Real Estate Purchase Agreement dated September 17, 1998 by and among Franklin credit Management Corporation and Home Gold Financial Inc. f/k/a Emergent Mortgage Corp. Previously filed with, the Company's Form 8K, filed with the Commission on September 30, 1998.
10(g)	Form of Subscription Agreement and Investor Representation, dated as of September 8, 1998 between the Company and certain subscribers. Previously filed.
10(h)	Loan Purchase Agreement dated December 31, 1998 between the Company and Thomas Axon, corporate General Partner. Previously filed with, the Company's Form 10K-SB, filed with the Commission on April 16, 1999.
10(i)	Promissory Note between Thomas J. Axon and the Company dated December 31, 1998. Filed with the Commission on December 31, 1998. Previously filed with, the Company's Form 10K-SB, filed with the Commission on April 16, 1999.
10(j)	Promissory Note between Steve Leftkowitz, board member, and the Company dated March 31, 1999. Filed with the Commission with form 10KSB on March 30, 2000.
10(l)	Employment Agreement dated July 17, 2000 between the Company and Seth Cohen. Previously filed with the Commission with form 10KSB on March 31, 2001.
11	Earnings per share. Filed here with.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

August 14, 2001

FRANKLIN CREDIT MANAGEMENT
CORPORATION

By: THOMAS J. AXON

Thomas J. Axon
Chairman of the Board

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
SETH COHEN ----- Seth Cohen Principal executive officer)	Chief Executive Officer and Director	August 14, 2001 -----
JOSEPH CAIAZZO ----- Joseph Caiazzo (Secretary)	Senior Vice President, Chief Operating Officer, Secretary and Director	August 14, 2001 -----
KIMBERLEY SHAW ----- Kimberley Shaw (Principal financial and accounting officer)	Vice President, Chief Financial Officer	August 14, 2001 -----

Exhibit 11.

Computation of earnings per share second quarter 2001.

No. of Shares Weight

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09/30/00 Common stock	5,916,527		
	-----	25%	1,479,132
	5,916,527		
12/31/00 Common stock	5,916,527		
	-----	25%	1,479,132
	5,916,527		
03/31/01 Common stock	5,916,527		
	-----	25%	1,479,132
	5,916,527		
06/30/01 Common stock	5,916,527		
	-----	25%	1,479,132
	5,916,527		
	23,266,108		
Weighted average number of shares			5,916,527
Earnings per Common share:			
Net Income	\$1,235,979		\$.21

Exhibit 11.

Computation of earnings per share second quarter 2000

	No. of Shares	Weight	
09/30/99 Common stock	5,916,527		
	-----	25%	1,479,132
	5,916,527		
12/31/99 Common stock	5,916,527		
	-----	25%	1,479,132
	5,916,527		
03/31/00 Common stock	5,916,527		
	-----	25%	1,479,132
	5,916,527		
06/30/00 Common stock	5,916,527		

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	-----	25%	1,479,132
	5,916,527		
	23,266,108		
Weighted average number of shares			5,916,527
Earnings per Common share:			
Net Income	\$ (96,895)		\$ (.02)