

FRANKLIN CREDIT MANAGEMENT CORP/DE/
Form 10QSB/A
May 17, 2001

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

FORM 10-QSB/A

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

For the quarterly period ended March 31, 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 May 15, 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

March 31, 2001

C O N T E N T S

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FRANKLIN CREDIT MANAGEMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
MARCH 31, 2001 (UNAUDITED) AND DECEMBER 31, 2000

ASSETS	3/31/01 UNAUDITED	1
CASH AND CASH EQUIVALENTS	\$ 8,741,972	\$ 7
RESTRICTED CASH	930,245	
NOTES RECEIVABLE:		
Principal	251,970,828	255
Purchase discount	(23,400,311)	(23
Allowance for loan losses	(23,151,616)	(24
	-----	-----
NET NOTES RECEIVABLE	205,418,901	207

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LOANS HELD FOR SALE	11,760,582	8
ACCRUED INTEREST RECEIVABLE	3,303,730	3
OTHER REAL ESTATE OWNED	5,424,552	5
OTHER RECEIVABLES	1,542,257	1
DEFERRED TAX ASSET	3,481,002	3
OTHER ASSETS	1,726,734	1
BUILDING, FURNITURE AND FIXTURES - Net	898,699	
DEFERRED FINANCING COSTS- Net	2,474,191	2
	-----	-----
TOTAL ASSETS	\$ 245,702,865	\$ 243
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 3,156,009	\$ 2
Financing agreements	3,143,579	2
Notes payable	232,119,614	231
203(k) rehabilitation escrows payable		
Subordinated debentures	60,655	
Notes payable, affiliates and stockholders	101,650	
Deferred tax liability	3,561,061	3
	-----	-----
TOTAL LIABILITIES	242,142,568	239
	-----	-----
STOCKHOLDERS' EQUITY		
Common stock, \$.01 par value, 10,000,000 authorized shares; issued and outstanding: 5,916,527 and 5,916,527	59,167	
Additional paid-in capital	6,985,968	6
Accumulated deficit	(3,484,838)	(3
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	3,560,297	3
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 245,702,865	\$ 243
	=====	=====

See notes to consolidated financial statements.

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	31-Mar-01	31-Mar-00
REVENUES:		
Interest income	\$ 6,106,173	\$ 4,895,700
Purchase discount earned	945,735	981,513
Gain on sale of notes receivable	461,664	75,756
Gain on sale of notes originated	66,419	49,645
Gain on sale of other real estate owned	151,275	87,187
Rental income	110,987	187,780
Other	322,771	220,877
	-----	-----
	8,165,024	6,498,458
	-----	-----
OPERATING EXPENSES:		
Interest expense	5,316,132	4,420,800
Collection, general and administrative	2,281,149	2,028,024
Provision for loan losses	227,523	15,150
Amortization of deferred financing costs	188,848	123,135
Depreciation	39,326	32,169
	-----	-----
	8,052,978	6,619,278
	-----	-----
NET INCOME (LOSS)	\$ 112,046	\$ (120,820)
	-----	-----
NET INCOME (LOSS) PER COMMON SHARE:		
Basic	\$ 0.02	\$ (0.02)
	=====	=====
Dilutive	\$ 0.02	\$ (0.02)
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES		
OUTSTANDING	5,916,527	5,916,527
	=====	=====

See notes to consolidated financial statements.

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FRANKLIN CREDIT MANAGEMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2001 (UNAUDITED) AND YEAR ENDED DECEMBER 31, 2000

	COMMON STOCK		ADDITIONAL	ACCUMULATED
	SHARES	AMOUNT	PAID-IN CAPITAL	DEFICIT
BALANCE, DECEMBER 31, 1999	5,916,527	\$ 59,167	\$ 6,985,968	\$ (4,299,395)
Net income	-----	-----	-----	570,663

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BALANCE, DECEMBER 31, 2000	5,916,527	\$ 59,167	\$ 6,985,968	\$ (3,596,884)
Net income	-----	-----	-----	112,046
BALANCE, MARCH 31, 2001 (UNAUDITED)	5,916,527	\$ 59,167	\$ 6,985,968	\$ (3,484,838)
	=====	=====	=====	=====

See notes to consolidated financial statements.

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FRANKLIN CREDIT MANAGEMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
MARCH 31, 2001 AND MARCH 31, 2000

	31-MAR-01	31-MAR-00
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	\$ 112,046	\$ (120,820)
Adjustments to reconcile income (loss) to net cash used in operating activities:		
Gain on sale of notes receivable	(461,664)	(75,756)
Gain on sale of other real estate owned	(151,275)	(87,187)
Depreciation	39,326	32,169
Amortization of deferred financing costs	188,848	123,135
Purchase discount earned	(945,735)	(981,513)
Provision for loan losses	227,523	15,150
Changes in assets and liabilities:		
Decrease in accrued interest receivable	92,675	6,050
(Increase) in other receivables	392,186	908,924
Increase in other assets	(284,047)	(489,115)
(Increase)/Decrease in loans held for sale	(3,089,891)	(594,451)
Decrease in accounts payable and accrued expenses	223,398	(96,159)
(Decrease) in notes payable, affiliates and stockholders	(45,185)	(22,730)
Net cash used in operating activities	(3,701,795)	(1,382,303)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease /(Increase) in restricted cash	2,329	(816,408)
Purchase of notes receivable	(20,599,376)	(17,101,605)
Principal collections on notes receivable	12,337,562	12,233,654
Joint venture participation	--	--
Acquisition and loan fees	(306,544)	(243,775)
Proceeds from sale of other real estate owned	2,459,342	2,110,270
Proceeds from sale of notes receivable	9,234,214	170,937
Purchase of building, furniture and fixtures	(75,610)	(11,908)
Net cash used in provided by investing activities	3,051,917	(3,658,835)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	21,077,552	17,717,506
Principal payments of notes payable	(20,008,423)	(10,972,242)

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Proceeds from financing agreements	4,028,249	1,595,582
Payments on financing agreements	(2,906,004)	(1,437,387)
Principal payments of subordinated debentures	(11,870)	(22,200)
	-----	-----
Net cash provided by (used in) financing activities	2,179,504	6,881,259
	-----	-----
NET INCREASE (DECREASE) IN CASH	1,529,626	1,840,121
CASH, BEGINNING OF PERIOD	7,212,346	6,015,567
	-----	-----
CASH, END OF PERIOD	8,741,972	7,855,688
	=====	=====

See notes to consolidated financial statements.

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1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS - Franklin Credit Management Corporation (the "Company"), incorporated under the laws of the State of Delaware, acquires performing, nonperforming, nonconforming and subperforming 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.

A summary of the Company's significant accounting policies follows. 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 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 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 operation for the three months ended March 31, 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.

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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 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 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 collectible 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

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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 uncollectible principal. Subsequently, increases to the allowance are made through a provision for loan losses charged to expense and the allowance is

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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 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

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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

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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 December 31, 2000, the Company had approximately \$5.6 million of net operating loss carry forwards that have been partially applied to March 31, 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 practicable 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:

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- 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

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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.

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 subperforming 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, liquidating 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).

31-Mar-01 31-Mar-01
Unaudited

CONSOLIDATED REVENUE

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Portfolio asset acquisition and resolution assets	\$7,782,278	\$6,340,238
Mortgage banking assets	382,746	158,220
	-----	-----
Consolidated Revenue	\$8,165,024	\$6,498,458
	=====	=====
 CONSOLIDATED NET INCOME (LOSS)		
Portfolio asset acquisition and resolution asset	\$ 137,991	\$ (83,367)
Mortgage banking assets	(25,945)	(37,453)
	-----	-----
Consolidated Net Income (Loss)	\$ 112,046	\$ (120,820)
	=====	=====

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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 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 three months ended March 31, 2001, the Company purchased loans with an aggregate face value of \$24.3 million for an aggregate purchase price of \$20.6 million or 85%, compared with the purchase during the three months ended March 31, 2000 of 810 loans with an aggregate face value of \$20.9 million at an aggregate purchase price of \$17.7 million or 85% of aggregate face value. The purchases during the three months ended March 31, 2001 included, 300 loans in twelve bulk portfolio's consisting primarily of first and second mortgages, with an aggregate face value of \$17.4 million at an aggregate purchase price of \$14.6 million or 84% of the face value, and 195 loans in 37 flow purchase transactions consisting primarily of first and second mortgages with an aggregate face value of \$6.8 million at an aggregate purchase price of \$5.9 million or 90.7% of 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 loans will result in increases in the level of interest income and purchase discount income during future periods. Payment streams are generated once the loans are incorporated into the Company's loan tracking system.

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Management intends to continue to expand the Company's earning asset base through the acquisition of additional portfolios 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

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FCCM 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.

During the three months ending March 31, 2001, Tribeca originated 61 loans and \$4,844,160 in mortgages, compared to 24 loans and \$1,623,197 in mortgages during the three months ending March 31, 2000. During the three months ending March 31, 2001, Tribeca incurred an operating loss of \$25,945 as compared to a loss of \$37,453 during the three months ending March 31, 2000. This decrease in loss reflected increased loan originations and loan sales during the three months ending March 31, 2001, which generated additional fee and gain on sale income, as compared to the three months ending March 31, 2000. As of March 31, 2001, Tribeca had approximately \$12.8 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 2001, from 8.5% to 8.00% and 7.50% on April 1 and April 20th respectively, decreased the benchmark rate for the cost of funds on Senior Debt used to fund loan portfolio acquisitions and will directly increase net income. The weighted average interest rate on senior debt as of March 31, 2001 and March 31, 2000 was 8.82% and 9.5%, respectively. As of March 31, 2001, the Company's senior debt was comprised of one hundred eight loans outstanding with an aggregate principal balance of \$232,119,614. Additionally the Company has financing agreements, which had an outstanding balance of \$3,143,579 at March 31, 2001.

The majority of the loans purchased by the Company bear interest at a fixed rate while the Senior Debt incurred to finance its purchase during the three month ended March 31, 2001, at a fixed rate of 8.75%. Consequently, changes in market interest rate conditions cause directly corresponding changes in interest income. The Company and its Senior Debt Lender agreed to a variable base rate on Senior Debt of prime with a premium of between 0% and 2.00% over

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prime on all Senior Debt for the 12-month period April 1, 2001 through March 31, 2002. Management believes that any future increases in the prime rate would negatively impact the net income of the Company while decreases may be expected to positively impact such net income.

INFLATION. The impact of inflation on the Company's operations during the three months ending March 31, 2001, and 2000 was immaterial.

RESULTS OF OPERATIONS

THE THREE MONTHS ENDING MARCH 31, 2001 COMPARED TO THE THREE MONTHS ENDING MARCH 31, 2000.

Total revenue, comprised of interest income, purchase discount earned, gains recognized on the bulk sale of notes, gain on sale of notes originated, gain on sale of OREO, rental income and other income, increased by \$1,666,566 or 26%, to \$8,165,024 during the three months ending March 31, 2001 from \$6,498,458 during the three months ending March 31, 2000.

Interest income increased by \$1,210,473 or 25%, to \$6,106,173 during the three months ending March 31, 2001 from \$4,895,700 during the three month ending March 31, 2000. The Company

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recognizes interest income on notes included in its portfolio based upon three factors: (i) interest on performing notes, (ii) interest received 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 \$116 million in high yielding performing notes acquired by the Company between April 2000 through the three months ending March 31, 2001, which was only partially offset by collections, prepayments, and loan sales.

Purchase discount earned decreased by \$35,778 or 4%, to \$945,735 during the three months ending March 31, 2001 from \$981,513 during the three months ending March 31, 2000. This decrease reflected the increased proportion of the Company's loan purchases comprised of performing loans where there is less discount income available to be earned due to higher prices paid at time of acquisition, and the maturation of the Company's older portfolios.

The Company consummated three bulk sales of loans for an aggregate face value of \$10,689,232 during the three months ending March 31, 2001, for a gain of \$461,664 as compared to the sale of one loan during the three months ending March 31, 2000 for a gain of \$ 75,756.

Gain on sale of loans originated increased by \$16,774 or 34% to \$66,419 during the three months ending March 31, 2001, as compared to \$49,645 during the three months ending March 31, 2000. This increase reflected an increase in the number of Tribeca loans originated and sold at higher margins during the three months ending March 31, 2001, as compared to the three months ending March 31, 2000. Tribeca closed 61 and 24 loans during the three months ending March 31, 2001 and March 31, 2000.

Gain on sale of OREO increased by \$64,088 or 74% to \$151,275 during the three months ending March 31, 2001 from \$87,187 during the three months ending March 31, 2000. This increase resulted primarily from an increased number of quality rental OREO properties sold at a profit during the three months ending March 31, 2001 as compared to the three months ending March 31, 2000. The Company sold 26 and 40 OREO properties during the three months ending March 31, 2001 and March 31, 2000, respectively.

Rental income decreased by \$76,793 or 41% to \$110,987 during the three

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months ending March 31, 2001, as compared to \$187,780 during the three months ending March 31, 2000. This decrease reflected a decrease in the number of properties rented, due to the sale of certain OREO properties where the Company felt it was more advantageous to sell than rent. The Company had thirty-seven and sixty-four rental properties at March 31, 2001, and March 31, 2000 respectively.

Other income increased by \$101,894 or 46%, to \$322,771 during the three months ending March 31, 2001 from \$220,877 during the three months ending March 31, 2000. This increase primarily reflected the increase in prepayment penalties, late charges, and modification fees resulting from the increase in size of the Company's portfolio and loan fees associated with Tribeca loans sold.

Total operating expenses increased by \$1,433,700 or 22% to \$8,052,978 during the three months ending March 31, 2001, from \$6,619,278 during the three months ending March 31, 2000. Total operating expenses includes interest expense, collection, general and administrative expenses, provisions for loan losses, amortization of deferred financing cost and depreciation expense.

Interest expense increased by \$895,332 or 20%, to \$5,316,132 during the three months ending March 31, 2001, from \$4,420,800 during the three months ending March 31, 2000, as a result of increases in total debt. Total debt increased by \$42,324,009 or 22%, to \$235,425,498 as of March 31, 2001 as

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compared with \$193,101,489 as of March 31, 2000. Total debt includes Senior Debt, debentures, financing agreements and loans from affiliates.

Collection, general and administrative expenses increased by \$253,125 or 12%, to \$2,281,150 during the three months ending March 31, 2001 from \$2,028,024 during the three months ending March 31, 2000. Collection, general and administrative expense consists primarily of personnel expense, OREO related expense, litigation expense, and miscellaneous collection expense.

Personnel expenses increased by \$233,373 or 26% to \$1,131,828 during the three months ending March 31, 2001 from \$898,455 during the three months ending March 31, 2000. This increase resulted largely from increases in staffing and the experience level of personnel in the Company's core business. OREO related expenses decreased by \$162,357 or 42% to \$227,399 during the three months ending March 31, 2001 from \$389,756 during the three months ending March 31, 2000. This decrease resulted primarily from a reduction in the number of days on market for new OREO properties which would result in a decrease in the expenses associated with carrying these assets. All other collection expenses increased by \$182,109 or 25% during the three months ending March 31, 2001 to \$921,923 from \$739,813 during the three months ending March 31, 2000. This increase resulted primarily from increased travel for marketing, increased audit and tax preparation fees, and additional rent associated with additional office space at 6 Harrison Street.

Provisions for loan losses increased by \$212,373 to \$227,523 during the three months ending March 31, 2001 from \$15,150 during the three months ending March 31, 2000. This increase was primarily due to reserve increases in specific portfolios, where there is no longer purchase discount available to increase reserves. Provisions 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 \$65,713 or 53%, to

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\$188,848 during the three months ending March 31, 2001 from \$123,135 during the three months ending March 31, 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. On March 31, 2001 and March 31, 2000, deferred financing costs, as a percentage of Senior Debt outstanding was 1.06% and 1.08%, respectively.

Depreciation expense increased \$7,157 or 22%, to \$39,326 during the three months ending March 31, 2001, from \$32,169 during the three months ending March 31, 2000. This increase resulted from the purchase of computer equipment, and the renovations of additional office space for the Company's subsidiary Tribeca Lending.

Net income increased by \$232,867 to a gain of \$112,046 during the three months ending March 31, 2001 from a loss of \$120,821 during the three months ending March 31, 2000 as a result of the factors described above.

LIQUIDITY AND CAPITAL RESOURCES

GENERAL. During the three months ending March 31, 2001, the Company purchased 495 loans with an aggregate face value of \$24.1 million at an aggregate purchase price of \$21.0 million or 87% of the face value. During the three months ending March 31, 2000 the Company purchased 810 loans with an aggregate face value of \$20.9 million at an aggregate purchase price of \$17.7 million or 85% of aggregate

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face value. The Company's portfolio acquisitions were below expectations during the three months ending March 31, 2001 due to market conditions, although they exceeded the Company's historical first quarter purchases. The Company's pace of acquisitions has historically increased during the last three-quarters of the year.

The Company's portfolio of notes receivable at March 31, 2001, had a face value of \$252 million and included net notes receivable of approximately \$205 million. The Company's portfolio of notes receivable at March 31, 2000, had a face value of \$213 million and included net notes receivable of approximately \$171 million. Net notes receivable are stated at the amount of unpaid principal, reduced by 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 economically advantageous, sale.

During the three months ending March 31, 2001, the Company used cash in the amount of \$3,701,795 in its operating activities primarily for interest expense, overhead, and litigation expense incidental to its ordinary collection activities and for the foreclosure and improvement of OREO. The Company used \$3,051,917 in its investing activities, which primarily reflected the use of \$20,599,376 million for the purchase of notes receivable offset by principal collections its notes receivable and proceeds from sales of loans and OREO. The amount of cash used in operating and investing activities was offset by \$2,179,504 of net cash provided by financing activities, primarily for the repayment of Senior Debt. The above activities resulted in a net increase in cash at March 31, 2001 over December 31, 2000 of \$1,529,626.

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 at March 31, 2001 and 2000, the Company held OREO recorded on the financial statements at \$5.4 million and \$5.8 million, respectively. OREO is recorded on the financial statements of the

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Company at the lower of cost or net realizable value. The Company estimates, based on third party appraisals and broker price opinions, that the OREO inventory held at March 31, 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 \$5.8 million based on market analyses of the individual properties less the estimated closing costs. 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 FROM OPERATING AND INVESTING ACTIVITIES

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 collections on notes receivable and gain on sale of notes and OREO properties.

At March 31, 2001, the Company had unrestricted cash, cash equivalents and marketable securities of \$8.7 million. A portion of the Company's available funds may be applied to fund acquisitions of companies or assets of companies in complementary or related fields. Although the Company from time to time engages in discussions and negotiations, it currently has no agreements with respect to any particular acquisition.

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CASH FLOW FROM FINANCING ACTIVITIES

SENIOR DEBT. As of March 31, 2001, the Company owed an aggregate of \$232.1 million to the Senior Debt Lender under 108 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 fixed rates between 0% and 2.00% over the base rate of 8.75%. The accelerated payment provisions of the Senior Debt are generally of two types: the first requires that all collections from 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.

In February 2001, the Company negotiated with its Senior Debt Lender a modification to provisions of the Senior Debt, pursuant to which the Senior Debt Lender has provided the Company with a cash advance of \$825,000 per month for the year. Management believes that this modification may reduce irregular periods of cash flow shortages arising from operations. 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

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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.

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 \$930,245 and \$932,574 on March 31, 2001 and December 31, 2000, respectively.

Total Senior Debt availability was approximately \$300 million at March 31, 2001, of which approximately \$232 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 \$3 million of Senior Debt that it had syndicated to other banks as of such date as outstanding for purposes of determining availability under the Senior Debt. As a result, the Company has approximately \$71 million available to purchase additional portfolios of notes receivable and OREO.

In April 2001, the Company's Senior Debt agreement was amended to provide that the interest rate on new Senior Debt incurred to finance portfolio acquisitions between April 1, 2001 and March 31, 2002 will be at prime plus a premium of between 0% and 2.00% over prime, for the 12-month period April 1, 2001 thru March 31, 2002. Under this new agreement our new cost of funds is 7.83%, as compared to 8.82%.

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The Company's Senior debt Lender has provided Tribeca with a warehouse financing agreement of \$2 million. At March 31, 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 March 31, 2001 and December 31, 2000, \$60,655 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.

FINANCING AGREEMENTS. The Company has a financing agreement 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 March 31, 2001 and December 31, 2000, were \$187,287 and \$117,600, respectively. Advances made under the financing agreement 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. The Company uses when available, OREO sales proceeds to pay down financing agreements to help reduce interest expense.

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 March 31, 2001 and December 31, 2000 \$123,712 and \$127,014 respectively, were outstanding on the financing agreement.

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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 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.

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- ITEM 2. CHANGES IN SECURITIES
None
- ITEM 3. DEFAULTS UPON SENIOR SECURITIES
None
- ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
None
- ITEM 5. OTHER INFORMATION
None
- ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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- (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, 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. |
| (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, and incorporated herein by reference to, 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 |

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Home Gold Financial Inc. f/k/a Emergent Mortgage Corp. Previously filed with, and incorporated herein by reference to, 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, and incorporated herein by reference to, 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, and incorporated herein by reference to, 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. Filed with the Commission with form 10ksb on March 31,2001.
- 11 Earnings per Share. Filed herewith.

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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.

May 15, 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	Chief Executive Officer	May 15, 2001

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Seth Cohen
(Principal executive officer)

JOSEPH CAIAZZO

Joseph Caiazzo
(Secretary)

Senior Vice President,
Chief Operating Officer,
Secretary and Director

May 15, 2001

KIMBERLEY SHAW

Kimberley Shaw
(Principal financial and accounting officer)

Vice President,
Chief Financial Officer

May 15, 2001