

Edgar Filing: FRIEDMAN BILLINGS RAMSEY GROUP INC - Form 8-K/A

FRIEDMAN BILLINGS RAMSEY GROUP INC

Form 8-K/A

May 15, 2003

FORM 8-K/A
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

Date of Report (date of earliest event reported): May 15, 2003

Friedman, Billings, Ramsey Group, Inc.
(Exact name of Registrant as specified in its charter)

Virginia	32-0045263	0-50230
(State or other jurisdiction of Identification No.)	(I.R.S. Employer incorporation or organization)	(Commission File Number)

1001 Nineteenth Street
North Arlington, VA 22209
(Address of principal executive offices) (Zip code)

(703) 312-9500
(Registrant's telephone number including area code)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

FRIEDMAN, BILLINGS, RAMSEY GROUP, INC.

By: /s/ Kurt R. Harrington

Kurt R. Harrington
Chief Financial Officer

Date: May 15, 2003

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS

This Form 8-K/A amends the current report on Form 8-K dated March 31, 2003 to include Item 7, Financial Statements, Pro Forma Financial Information, and

Edgar Filing: FRIEDMAN BILLINGS RAMSEY GROUP INC - Form 8-K/A

Exhibits.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

- A. Unaudited Condensed Pro Forma Consolidated Statements of Operations for the three months ended March 31, 2003;
- B. Unaudited Condensed Pro Forma Consolidated Statements of Operations for the year ended December 31, 2002; and
- C. Notes to Unaudited Condensed Pro Forma Consolidated Financial Statements.

UNAUDITED PRO FORMA CONSOLIDATED CONDENSED FINANCIAL INFORMATION

On March 31, 2003, Friedman, Billings, Ramsey Group, Inc. ("FBR Group") and FBR Asset Investment Corporation ("FBR Asset"), completed their previously announced merger pursuant to the Agreement and Plan of Merger among the companies and certain of their subsidiaries dated as of November 14, 2002 (the "merger"). The combined company assumed the name Friedman, Billings, Ramsey Group, Inc.

The following unaudited condensed pro forma consolidated financial statements are prepared in accordance with SEC Regulation S-X - Article 11, "Pro Forma Financial Information," and are presented to illustrate the effects of the merger on the historical operating results of FBR Group and FBR Asset. The unaudited pro forma statements of operations are presented for the three months ended March 31, 2003 and the year ended December 31, 2002, assuming the acquisition had occurred on January 1, 2002. The pro forma statements of operations for the three months ended March 31, 2003 and year ended December 31, 2002 combine the historical statements of earnings of FBR Group and FBR Asset for the three months ended March 31, 2003 and the year ended December 31, 2002, respectively, on a consolidated basis.

The unaudited condensed pro forma consolidated financial statements have been derived from, and should be read in conjunction with, the historical consolidated financial statements, including the notes thereto, of each of FBR Group and FBR Asset. FBR Group's Annual Report on Form 10-K for the year ended December 31, 2002 includes the December 31, 2002 financial statements of both FBR Group and FBR Asset.

The unaudited condensed pro forma consolidated financial statements are presented for informational purposes only and are not necessarily indicative of the results of operations of FBR Group that would have occurred had the merger been consummated as of January 1, 2002. In addition, the unaudited condensed pro forma consolidated financial statements are not necessarily indicative of the future operating results of FBR Group.

A.

UNAUDITED CONDENSED PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2003 (Dollars in thousands, except per share amounts)

	Historical		P
	FBR Group	FBR Asset	Adjustment

Edgar Filing: FRIEDMAN BILLINGS RAMSEY GROUP INC - Form 8-K/A

Revenues:	-----	-----	-----
Investment banking:			
Underwriting (Note 1a)	\$ 8,788	\$ -	\$ 353
Corporate finance	5,719	-	-
Investment gains	3,232	-	-
Institutional brokerage:			
Principal transactions	3,751	-	-
Agency commissions	7,537	-	-
Asset management:			
Base management fees (Note 1d)	7,691	-	(2,762)
Incentive allocations and fees (Note 1d)	5,579	-	(5,617)
Net investment income (loss) (Note 1e)	2,685	9,599	(2,860)
Technology sector net investment and incentive loss	(437)	-	-
Dividends and other (Note 1f)	1,507	388	(353)
Interest (Note 1g)	3,487	51,913	(3,417)
Total revenues	49,539	61,900	(14,656)
Interest expense (Note 1h)	1,646	21,355	(429)
Net revenues	47,893	40,545	(14,227)
Expenses:			
Compensation and benefits	24,804	-	-
Business development and professional services	5,879	3,335	-
Clearing and brokerage fees	1,232	-	-
Occupancy and equipment	2,199	-	-
Communications	2,209	-	-
Other operating expenses (Note 1j)	3,004	8,379	(8,379)
Total expenses	39,327	11,714	(8,379)
Net income (loss) before taxes and extraordinary gain	8,566	28,831	(5,848)
Income tax provision (Note 1k)	2,843	146	(2,989)
Net income (loss) before extraordinary gain	\$ 5,723	\$ 28,685	\$ (2,859)
	=====	=====	=====
Basic earnings per share before extraordinary gain	\$ 0.12	\$ 1.10	
	=====	=====	

Edgar Filing: FRIEDMAN BILLINGS RAMSEY GROUP INC - Form 8-K/A

Diluted earnings per share before extraordinary gain	\$ 0.12	\$ 1.10
	=====	=====
	=====	=====

Weighted average shares outstanding:

Basic (Note 11)	47,047	26,154	85,972
	=====	=====	=====
	=====	=====	=====
Diluted (Note 11)	48,547	26,179	86,063
	=====	=====	=====
	=====	=====	=====

B.

UNAUDITED CONDENSED PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2002 (Dollars in thousands, except per share amounts)

	Historical		P
	FBR	FB	Adjustments
Revenues:	-----	-----	-----
Investment banking:			
Underwriting (Note 1a)	\$ 76,556	\$ -	\$ (8,089)
Corporate finance (Note 1b)	58,595	-	3,550
Investment gains	8,725	-	-
Institutional brokerage:			
Principal transactions (Note 1c)	27,512	-	(949)
Agency commissions	35,672	-	-
Asset management:			
Base management fees (Note 1d)	28,956	-	(8,642)
Incentive allocations and fees (Note 1d)	14,258	-	(13,769)
Net investment income (loss) (Note 1e)	16,276	28,423	(20,913)
Technology sector net investment and incentive loss	(5,622)	-	-
Dividends and other (Note 1f)	1,921	9,758	(6,742)
Interest (Note 1g)	5,354	176,205	(19,220)
Total revenues	268,203	214,386	(74,774)
Interest expense (Note 1h)	2,073	67,558	(9,899)
Net revenues	266,130	146,828	(64,875)

Expenses:

Edgar Filing: FRIEDMAN BILLINGS RAMSEY GROUP INC - Form 8-K/A

Compensation and benefits (Note 1i)	147,072	-	(2,174)
Business development and professional services (Note 1i)	30,589	4,858	(906)
Clearing and brokerage fees	5,353	-	-
Occupancy and equipment	8,838	-	-
Communications	8,185	-	-
Other operating expenses (Note 1j)	10,652	22,411	(22,411)
Total expenses	210,689	27,269	(25,491)
Net income (loss) before taxes and extraordinary gain	55,441	119,559	(39,384)
Income tax provision (Note 1k)	3,035	2,489	(5,524)
Net income (loss) before extraordinary gain	\$ 52,406	\$ 117,070	\$ (33,860)
Basic earnings per share before extraordinary gain	\$ 1.14	\$ 5.73	
Diluted earnings per share before extraordinary gain	\$ 1.08	\$ 5.72	
Weighted average shares outstanding:			
Basic (Note 1l)	46,098	20,432	65,783
Diluted (Note 1l)	48,442	20,455	65,867

C.

Notes to Unaudited Condensed Pro Forma Consolidated Financial Statements (Dollars in thousands)

(1) The following is a summary of the unaudited condensed pro forma consolidated statements of operations adjustments to effect the merger.

(a) Underwriting -- These balances in the unaudited condensed pro forma consolidated statements of operations reflect adjustments to (1) eliminate FBR Group's revenue generated from FBR Asset's secondary offerings of \$10,930 for the year ended December 31, 2002, and (2) reclassify to underwriting revenue amounts paid by FBR Group to FBR Asset in connection with investment banking transactions pursuant to a fee sharing agreement between the companies of \$353 and \$2,841, respectively, for the three months ended March 31, 2003 and year ended December 31, 2002. See Note 1(f) (2).

(b) Corporate finance -- These balances in the unaudited condensed pro forma consolidated statements of operations reflect adjustments to reclassify to corporate finance revenue amounts paid by FBR Group to FBR

Edgar Filing: FRIEDMAN BILLINGS RAMSEY GROUP INC - Form 8-K/A

Asset in connection with investment banking transactions pursuant to a fee sharing agreement between the companies of \$3,550 for the year ended December 31, 2002. See Note 1(f)(2).

(c) Principal transactions -- These balances in the unaudited condensed pro forma consolidated statements of operations reflect adjustments to eliminate FBR Group's broker-dealer trading gains generated from transactions involving FBR Asset common stock of \$949 for the year ended December 31, 2002.

(d) Base management fees and incentive allocations and fees -- These balances in the unaudited condensed pro forma consolidated statements of operations reflect adjustments to eliminate FBR Group's base management and incentive fees earned pursuant to its management agreement with FBR Asset of \$8,379 and \$22,411, respectively, for the three months ended March 31, 2003 and year ended December 31, 2002.

(e) Net investment income (loss) -- These balances in the unaudited condensed pro forma consolidated statements of operations reflect adjustments to eliminate FBR Group's income derived from its equity investment in FBR Asset of \$2,860 and \$20,913, respectively, for the three months ended March 31, 2003 and year ended December 31, 2002.

(f) Dividends and other -- These balances in the unaudited condensed pro forma consolidated statements of operations reflect adjustments to (1) eliminate FBR Group's dividend income earned from its broker-dealer trading inventory holdings of FBR Asset of \$351 for the year ended December 31, 2002, and (2) reclassify to underwriting revenue and corporate finance revenue amounts paid by FBR Group to FBR Asset in connection with investment banking transactions pursuant to a fee sharing agreement between the companies of \$353 and \$6,391, respectively, for the three months ended March 31, 2003 and year ended December 31, 2002. See Notes 1(a) and 1(b).

(g) Interest -- These balances in the unaudited condensed pro forma consolidated statements of operations reflect adjustments to record amortization of premiums created in purchase accounting due to the new cost basis of FBR Asset's mortgage-backed securities at the time of the merger of \$3,417 and \$19,220, respectively, for the three months ended March 31, 2003 and year ended December 31, 2002.

The adjustments discussed above to record amortization of premiums established on FBR Asset's mortgage-backed securities have been prepared in accordance with SEC Regulation S-X -- Article 11. These adjustments, however, do not correspond to the mortgage-backed securities balances during the historical periods, but are reflective of amortization that would be recorded in the future considering the March 31, 2003 value of FBR Asset's mortgage-backed securities portfolio. In purchase accounting, the March 31, 2003 unrealized gain on these FBR Asset securities contained in other comprehensive income was eliminated and a new cost basis established. In this case, the unrealized gain creates a premium that will be amortized over the remaining lives of the applicable March 31, 2003 mortgage-backed securities. The adjustments in the pro forma financial statements reflect the amortization of this premium created in purchase accounting calculated based on the application of the effective interest method for recognizing interest income and includes management's assumptions with respect to prepayment speeds as of March 31, 2003 as required by SFAS No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases." The total additional premium established based on the March 31, 2003 balance sheet is \$46,850 and based upon prepayment speeds as of March 31, 2003 substantially all would be amortized over approximately three and a half years.

Edgar Filing: FRIEDMAN BILLINGS RAMSEY GROUP INC - Form 8-K/A

(h) Interest expense -- These balances in the unaudited condensed pro forma consolidated statements of operations reflect interest adjustments created in purchase accounting related to FBR Asset's interest rate swaps as of March 31, 2003 of \$429 and \$9,889, respectively, for the three months ended March 31, 2003 and year ended December 31, 2002.

These interest rate swaps are cash flow hedges of the debt recorded on the balance sheet used to finance the mortgage-backed securities and convert a portion of the variable interest rate borrowings to a fixed interest rate. In purchase accounting, the March 31, 2003 unrealized loss on these FBR Asset derivatives of approximately \$10,481 contained in other comprehensive income was eliminated. In this case, the unrealized loss created a credit balance (i.e., a day-one value of the derivatives) which is recorded as a liability on the balance sheet. The day-one value of the interest rate swaps recorded as a liability reestablishes the market rate of interest on the derivatives and reduces the fixed rate of interest expense over the remaining lives of the derivatives, which range from four months to sixteen months. These adjustments are based upon the fair value of the instruments and market rates as of March 31, 2003 using the effective interest method.

(i) Compensation and benefits and business development and professional services -- These balances in the unaudited condensed pro forma consolidated statements of operations reflect adjustments to eliminate FBR Group's expenses incurred as a result of FBR Asset's secondary equity offerings.

(j) Other operating expenses -- These balances in the unaudited condensed pro forma consolidated statements of operations reflect adjustments to eliminate base management and incentive fees payable by FBR Asset to FBR Group. See Note 1(d).

(k) Income tax provision (benefit) -- These balances in the unaudited condensed pro forma consolidated statements of operations reflect adjustments to present the tax provision of the combined entity's taxable REIT subsidiaries based on the effective tax rate of these subsidiaries during the period.

(l) Basic and diluted weighted average shares outstanding -- These balances in the unaudited condensed pro forma consolidated statements of operations reflect the conversion of historical FBR Asset shares not owned by FBR Group based on the 3.65 exchange ratio.