

Regional Management Corp.
Form 10-Q
May 08, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period ended

Commission File Number: 001-35477

Regional Management Corp.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

57-0847115
(I.R.S. Employer
Identification No.)

509 West Butler Road
Greenville, South Carolina
(Address of principal executive offices)
(864) 422-8011

29607
(Zip Code)

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 5, 2014, the registrant had outstanding 12,701,821 shares of Common Stock, \$0.10 par value.

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Regional Management Corp. and Subsidiaries****Consolidated Balance Sheets****(in thousands, except per share amounts)****(Unaudited)**

| | March 31, 2014 | December 31, 2013 |
|--|-----------------------|--------------------------|
| Assets | | |
| Cash | \$ 6,265 | \$ 4,121 |
| Gross finance receivables | 601,514 | 658,176 |
| Less unearned finance charges, insurance premiums, and commissions | (99,780) | (113,492) |
| Finance receivables | 501,734 | 544,684 |
| Allowance for credit losses | (34,325) | (30,089) |
| Net finance receivables | 467,409 | 514,595 |
| Property and equipment, net of accumulated depreciation | 7,370 | 7,100 |
| Repossessed assets at net realizable value | 806 | 548 |
| Goodwill | 716 | 716 |
| Intangible assets, net | 1,219 | 1,386 |
| Other assets | 4,826 | 5,422 |
| Total assets | \$ 488,611 | \$ 533,888 |
| Liabilities and Stockholders Equity | | |
| Liabilities: | | |
| Deferred tax liability, net | \$ 1,802 | \$ 2,653 |
| Accounts payable and accrued expenses | 9,320 | 7,312 |
| Senior revolving credit facility | 310,315 | 362,750 |
| Total liabilities | 321,437 | 372,715 |
| Commitments and Contingencies | | |
| Stockholders equity: | | |
| Preferred stock, \$0.10 par value, 100,000,000 shares authorized, no shares issued and outstanding at March 31, 2014 and December 31, 2013 | | |
| Common stock, \$0.10 par value, 1,000,000,000 shares authorized, 12,668,577 and 12,652,197 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively | 1,267 | 1,265 |

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| | | |
|---|-------------------|-------------------|
| Additional paid-in-capital | 83,706 | 83,317 |
| Retained earnings | 82,201 | 76,591 |
| Total stockholders' equity | 167,174 | 161,173 |
| Total liabilities and stockholders' equity | \$ 488,611 | \$ 533,888 |

See accompanying notes to consolidated financial statements.

Table of Contents**Regional Management Corp. and Subsidiaries****Consolidated Statements of Income****(in thousands, except per share amounts)****(Unaudited)**

| | Three Months Ended March 31, | |
|---|---|-----------------|
| | 2014 | 2013 |
| Revenue | | |
| Interest and fee income | \$ 44,078 | \$ 34,046 |
| Insurance income, net | 3,295 | 2,964 |
| Other income | 2,208 | 1,590 |
| Total revenue | 49,581 | 38,600 |
| Expenses | | |
| Provision for credit losses | 16,945 | 8,071 |
| General and administrative expenses | | |
| Personnel | 11,174 | 10,223 |
| Occupancy | 3,420 | 2,516 |
| Marketing | 982 | 505 |
| Other | 4,322 | 3,442 |
| Interest expense | 3,763 | 3,081 |
| Total expenses | 40,606 | 27,838 |
| Income before income taxes | 8,975 | 10,762 |
| Income taxes | 3,365 | 3,998 |
| Net income | \$ 5,610 | \$ 6,764 |
| Net income per common share: | | |
| Basic | \$ 0.44 | \$ 0.54 |
| Diluted | \$ 0.43 | \$ 0.53 |
| Weighted average common shares outstanding: | | |
| Basic | 12,654,927 | 12,502,378 |
| Diluted | 13,005,639 | 12,780,508 |

See accompanying notes to consolidated financial statements.

Table of Contents**Regional Management Corp. and Subsidiaries****Consolidated Statements of Stockholders Equity****(in thousands)****(Unaudited)**

| | Common Stock | Additional Paid-in-Capital | Retained Earnings | Total |
|---|-------------------------|---------------------------------------|------------------------------|--------------|
| Balance, December 31, 2012 | 1,249 | 80,158 | 47,797 | 129,204 |
| Issuance of stock awards | 2 | 867 | | 869 |
| Proceeds from exercise of stock options | 14 | 859 | | 873 |
| Excess tax benefit from exercise of stock options | | 731 | | 731 |
| Stock option expense | | 702 | | 702 |
| Net income | | | 28,794 | 28,794 |
| Balance, December 31, 2013 | 1,265 | 83,317 | 76,591 | 161,173 |
| Proceeds from exercise of stock options | 2 | 88 | | 90 |
| Excess tax benefit from exercise of stock options | | 100 | | 100 |
| Stock option expense | | 201 | | 201 |
| Net income | | | 5,610 | 5,610 |
| Balance, March 31, 2014 | \$ 1,267 | \$ 83,706 | \$ 82,201 | \$ 167,174 |

See accompanying notes to consolidated financial statements.

Table of Contents**Regional Management Corp. and Subsidiaries****Consolidated Statements of Cash Flows****(in thousands)****(Unaudited)**

| | Three Months Ended March 31, | |
|--|---|-----------------|
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net income | \$ 5,610 | \$ 6,764 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for credit losses | 16,945 | 8,071 |
| Depreciation and amortization | 1,001 | 730 |
| Accretion of discounts on purchased receivables | (35) | (7) |
| Amortization of stock compensation expense | 201 | 179 |
| Deferred income taxes, net | (851) | (211) |
| Changes in operating assets and liabilities: | | |
| Decrease in other assets | 185 | 2,730 |
| Increase (decrease) in other liabilities | 2,008 | (1,487) |
| Net cash provided by operating activities | 25,064 | 16,769 |
| Cash flows from investing activities: | | |
| Net repayment of finance receivables | 30,276 | 81 |
| Purchase of property and equipment | (950) | (943) |
| Net cash provided by (used in) investing activities | 29,326 | (862) |
| Cash flows from financing activities: | | |
| Net payments on senior revolving credit facility | (52,435) | (19,342) |
| Payments for debt issuance costs | (1) | (18) |
| Proceeds from exercise of stock options | 90 | 536 |
| Excess tax benefits from exercise of stock options | 100 | 408 |
| Net advances on other notes payable | | 68 |
| Net cash used in financing activities | (52,246) | (18,348) |
| Net change in cash | 2,144 | (2,441) |
| Cash: | | |
| Beginning | 4,121 | 3,298 |
| Ending | \$ 6,265 | \$ 857 |

Supplemental Disclosure of Cash Flow Information

| | | |
|--------------------------------|----------|----------|
| Cash payments for interest | \$ 3,612 | \$ 2,965 |
| Cash payments for income taxes | \$ 604 | \$ 473 |

See accompanying notes to consolidated financial statements.

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Regional Management Corp. and Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2014 and 2013

(in thousands, except per share amounts)

(Unaudited)

Note 1. Basis of Presentation

Basis of presentation: The consolidated financial statements of Regional Management Corp. (the Company, we, us, and our) have been prepared in accordance with the instructions to the Quarterly Report on Form 10-Q adopted by the Securities and Exchange Commission (SEC) and generally accepted accounting principles in the United States of America (GAAP) for interim financial information, and, accordingly, do not include all information and note disclosures required by GAAP for complete financial statements. The interim financial statements in this Quarterly Report on Form 10-Q have not been audited by an independent registered public accounting firm in accordance with standards of the Public Company Accounting Oversight Board (U.S.), but in the opinion of management include all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of the Company's financial position, results of operations, and cash flows in accordance with GAAP. These consolidated financial statements should be read in conjunction with our current Annual Report on Form 10-K for the year ended December 31, 2013 and filed with the SEC.

Note 2. Nature of Business and Significant Accounting Policies

Nature of business: The Company was incorporated and began operations in 1987. The Company is engaged in the consumer finance business, offering small installment loans, large installment loans, automobile purchase loans, retail purchase loans, and related credit insurance. As of March 31, 2014, the Company operated offices in 281 locations in the states of Alabama (49 offices), Georgia (3 offices), North Carolina (29 offices), New Mexico (8 offices), Oklahoma (27 offices), South Carolina (70 offices), Tennessee (21 offices), and Texas (74 offices) under the names Regional Finance, RMC Financial Services, Anchor Finance, Superior Financial Services, First Community Credit, AutoCredit Source, RMC Retail, and Sun Finance. The Company opened 17 new offices during the three months ended March 31, 2014.

Seasonality: Our loan volume and corresponding finance receivables follow seasonal trends. Demand for our loans is typically highest during the third and fourth quarter, largely due to customers borrowing money for back-to-school and holiday spending. Loan demand has generally been the lowest during the first quarter, largely due to the timing of income tax refunds. During the remainder of the year, we typically experience loan growth from general operations. In addition, we typically generate higher loan volumes in the second half of the year from our direct mail campaigns, which are timed to coincide with seasonal consumer demand. Consequently, we experience significant seasonal fluctuations in our operating results and cash needs.

The following is a description of significant accounting policies used in preparing the financial statements.

Principles of consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The Company operates through a separate subsidiary in each state.

The accounting and reporting policies of the Company are in accordance with GAAP and conform to general practices within the consumer finance industry.

Use of estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and disclosure of contingent assets and liabilities for the periods indicated in the financial statements. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to change relate to the determination of the allowance for credit losses, fair value of stock based compensation, the valuation of deferred tax assets and liabilities, and the allocation of the purchase price to assets acquired in business combinations.

Reclassifications: Certain prior period amounts have been reclassified to conform to the current presentation. Such reclassifications had no impact on previously reported net income or stockholders' equity.

Table of Contents**Note 3. Revision of Financial Statements**

The Company has made immaterial revisions to its previously-filed financial statements included in this Quarterly Report on Form 10-Q to reflect revisions in the proper period. For details on the revision, see Part II, Item 6, Note 2.

Revision of Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

The effect of the immaterial revisions in the consolidated financial statements for the periods indicated are as follows:

| Consolidated Statements of Income | | | |
|--|-----------------|----------------|---------------|
| Three Months Ended March 31, 2013 | | | |
| As | | | |
| | Reported | Revised | Change |
| Insurance income, net | \$ 2,933 | \$ 2,964 | \$ 31 |
| Total revenue | 38,569 | 38,600 | 31 |
| Personnel | 10,033 | 10,223 | 190 |
| Other | 3,366 | 3,442 | 76 |
| Total expenses | 27,572 | 27,838 | 266 |
| Income before income taxes | 10,997 | 10,762 | (235) |
| Income taxes | 4,069 | 3,998 | (71) |
| Net income | \$ 6,928 | \$ 6,764 | \$ (164) |
| Net income per common share: | | | |
| Basic | \$ 0.55 | \$ 0.54 | \$ (0.01) |
| Diluted | \$ 0.54 | \$ 0.53 | \$ (0.01) |

| Consolidated Statements of Cash Flows | | | |
|---|--------------------|----------------|-------------------|
| Three Months Ended March 31, 2013 | | | |
| | As Reported | Revised | Change (1) |
| Net income | \$ 6,928 | \$ 6,764 | \$ (164) |
| Accretion of discounts on purchased receivables | | (7) | (7) |
| Decrease in other assets | 2,773 | 2,730 | (43) |
| Increase (decrease) in other liabilities | (1,709) | (1,487) | 222 |
| Net cash provided by operating activities | 16,761 | 16,769 | 8 |
| Net repayment of finance receivables | 71 | 81 | 10 |
| Net cash provided by (used in) investing activities | (872) | (862) | 10 |
| Payments for debt issuance costs | | (18) | (18) |
| Net cash used in financing activities | (18,330) | (18,348) | (18) |

- (1) Includes the change due to the revision as well as certain prior period amounts that have been reclassified to conform to the current presentation. Such reclassifications had no impact on previously reported net income or stockholders' equity.

Note 4. Finance Receivables, Allowance for Credit Losses, and Credit Quality Information

Finance receivables consisted of the following:

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| | March 31, 2014 | December 31, 2013 |
|-------------------------|-----------------------|--------------------------|
| Small installment loans | \$ 255,061 | \$ 288,979 |
| Large installment loans | 41,868 | 43,311 |