

Regional Management Corp.
Form 10-Q
May 01, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2018

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 | 57-0847115 |
| incorporation or organization) | (I.R.S. Employer |
| 979 Batesville Road, Suite B | Identification No.) |
| Greer, South Carolina | 29651 |
| (Address of principal executive offices) | (Zip Code) |
| (864) 448-7000 | |
| (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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 April 30, 2018, the registrant had outstanding 11,748,378 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 par value amounts)**

| | March 31, 2018 | December 31, 2017 |
|---|-----------------------|--------------------------|
| | (Unaudited) | |
| Assets | | |
| Cash | \$ 3,247 | \$ 5,230 |
| Gross finance receivables | 1,056,425 | 1,066,650 |
| Unearned finance charges and insurance premiums | (251,469) | (249,187) |
| Finance receivables | 804,956 | 817,463 |
| Allowance for credit losses | (47,750) | (48,910) |
| Net finance receivables | 757,206 | 768,553 |
| Restricted cash | 19,064 | 16,787 |
| Property and equipment | 12,214 | 12,294 |
| Intangible assets | 10,922 | 10,607 |
| Other assets | 12,156 | 16,012 |
| Total assets | \$ 814,809 | \$ 829,483 |
| Liabilities and Stockholders Equity | | |
| Liabilities: | | |
| Long-term debt | \$ 550,377 | \$ 571,496 |
| Unamortized debt issuance costs | (4,512) | (4,950) |
| Net long-term debt | 545,865 | 566,546 |
| Accounts payable and accrued expenses | 15,994 | 18,565 |
| Deferred tax liability | 3,999 | 4,961 |
| Total liabilities | 565,858 | 590,072 |
| Commitments and Contingencies (Note 9) | | |
| Stockholders equity: | | |
| Preferred stock (\$0.10 par value, 100,000 shares authorized, no shares issued or outstanding) | | |
| Common stock (\$0.10 par value, 1,000,000 shares authorized, 13,294 shares issued and 11,748 shares outstanding at March 31, 2018 and | 1,329 | 1,321 |

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13,205 shares issued and 11,659 shares outstanding at December 31, 2017)

| | | |
|---|-------------------|-------------------|
| Additional paid-in-capital | 95,272 | 94,384 |
| Retained earnings | 177,396 | 168,752 |
| Treasury stock (1,546 shares at March 31, 2018 and December 31, 2017) | (25,046) | (25,046) |
| Total stockholders' equity | 248,951 | 239,411 |
| Total liabilities and stockholders' equity | \$ 814,809 | \$ 829,483 |

The following table presents the assets and liabilities of our consolidated variable interest entities:

| | | |
|---------------------------------------|-------------------|-------------------|
| Assets | | |
| Cash | \$ 70 | \$ 70 |
| Finance receivables | 153,747 | 137,239 |
| Allowance for credit losses | (7,784) | (7,129) |
| Restricted cash | 12,403 | 10,734 |
| Other assets | 171 | 119 |
| Total assets | \$ 158,607 | \$ 141,033 |
| Liabilities | | |
| Net long-term debt | \$ 131,716 | \$ 116,658 |
| Accounts payable and accrued expenses | 12 | 53 |
| Total liabilities | \$ 131,728 | \$ 116,711 |

See accompanying notes to consolidated financial statements.

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

| | Three Months Ended March 31, | |
|--|---|-----------------|
| | 2018 | 2017 |
| Revenue | | |
| Interest and fee income | \$ 66,151 | \$ 59,255 |
| Insurance income, net | 3,389 | 3,805 |
| Other income | 3,085 | 2,760 |
| Total revenue | 72,625 | 65,820 |
| Expenses | | |
| Provision for credit losses | 19,515 | 19,134 |
| Personnel | 21,228 | 18,168 |
| Occupancy | 5,618 | 5,285 |
| Marketing | 1,453 | 1,205 |
| Other | 6,293 | 6,796 |
| Total general and administrative expenses | 34,592 | 31,454 |
| Interest expense | 7,177 | 5,213 |
| Income before income taxes | 11,341 | 10,019 |
| Income taxes | 2,697 | 2,385 |
| Net income | \$ 8,644 | \$ 7,634 |
| Net income per common share: | | |
| Basic | \$ 0.74 | \$ 0.66 |
| Diluted | \$ 0.72 | \$ 0.65 |
| Weighted average shares outstanding: | | |
| Basic | 11,618 | 11,494 |
| Diluted | 12,030 | 11,715 |

See accompanying notes to consolidated financial statements.

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

| | Common Stock | | Additional | Retained | Treasury | Total |
|---|---------------------|---------------|------------------------|-----------------|-----------------|--------------|
| | Shares | Amount | Paid-in-Capital | Earnings | Stock | |
| Balance, December 31, 2016 | 12,996 | \$ 1,300 | \$ 92,432 | \$ 138,789 | \$ (25,046) | \$ 207,475 |
| Issuance of restricted stock awards | 74 | 7 | (7) | | | |
| Exercise of stock options | 289 | 29 | 305 | | | 334 |
| Shares withheld related to net share settlement | (154) | (15) | (2,006) | | | (2,021) |
| Share-based compensation | | | 3,660 | | | 3,660 |
| Net income | | | | 29,963 | | 29,963 |
| Balance, December 31, 2017 | 13,205 | \$ 1,321 | \$ 94,384 | \$ 168,752 | \$ (25,046) | \$ 239,411 |
| Issuance of restricted stock awards | 68 | 7 | (7) | | | |
| Exercise of stock options | 60 | 6 | | | | 6 |
| Shares withheld related to net share settlement | (39) | (5) | (313) | | | (318) |
| Share-based compensation | | | 1,208 | | | 1,208 |
| Net income | | | | 8,644 | | 8,644 |
| Balance, March 31, 2018 | 13,294 | \$ 1,329 | \$ 95,272 | \$ 177,396 | \$ (25,046) | \$ 248,951 |

See accompanying notes to consolidated financial statements.

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

| | Three Months Ended March 31, | |
|--|---|-----------------|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net income | \$ 8,644 | \$ 7,634 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for credit losses | 19,515 | 19,134 |
| Depreciation and amortization | 2,024 | 1,603 |
| Loss on disposal of property and equipment | 8 | 12 |
| Share-based compensation | 1,585 | 822 |
| Fair value adjustment on interest rate caps | (121) | 35 |
| Deferred income taxes, net | (962) | (692) |
| Changes in operating assets and liabilities: | | |
| Decrease in other assets | 3,975 | 298 |
| Decrease in accounts payable and accrued expenses | (2,874) | (20) |
| Net cash provided by operating activities | 31,794 | 28,826 |
| Cash flows from investing activities: | | |
| Net repayments (originations) of finance receivables | (8,168) | 3,387 |
| Purchases of intangible assets | (814) | (1,049) |
| Purchases of property and equipment | (844) | (1,545) |
| Proceeds from disposal of property and equipment | | 558 |
| Net cash provided by (used in) investing activities | (9,826) | 1,351 |
| Cash flows from financing activities: | | |
| Net payments on senior revolving credit facility | (35,924) | (22,056) |
| Payments on amortizing loan | (10,765) | (6,628) |
| Net advances on revolving warehouse credit facility | 25,570 | |
| Payments for debt issuance costs | (58) | (195) |
| Taxes paid related to net share settlement of equity awards | (497) | (1,647) |
| Net cash used in financing activities | (21,674) | (30,526) |
| Net change in cash and restricted cash | 294 | (349) |
| Cash and restricted cash at beginning of period | 22,017 | 12,743 |

| | | |
|---|-----------|-----------|
| Cash and restricted cash at end of period | \$ 22,311 | \$ 12,394 |
|---|-----------|-----------|

Supplemental cash flow information
