

PMC COMMERCIAL TRUST /TX
Form 10-Q
May 10, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One):

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

For the quarterly period ended March 31, 2013

OR

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 1-13610

PMC COMMERCIAL TRUST

(Exact name of registrant as specified in its charter)

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TEXAS
(State or other jurisdiction of incorporation or organization)

17950 Preston Road, Suite 600, Dallas, TX 75252
(Address of principal executive offices)

75-6446078
(I.R.S. Employer Identification No.)

(972) 349-3200
(Registrant's telephone number)

Indicate by check mark whether the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. YES NO

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 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. (Check one):

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 Exchange Act Rule 12b-2). YES NO

As of May 1, 2013, the Registrant had outstanding 10,596,220 Common Shares of Beneficial Interest, par value \$0.01 per share.

Table of Contents**PMC COMMERCIAL TRUST AND SUBSIDIARIES****INDEX**

	PAGE NO.
<u>PART I. Financial Information</u>	
Item 1.	
<u>Financial Statements</u>	
<u>Consolidated Balance Sheets (Unaudited) March 31, 2013 and December 31, 2012</u>	2
<u>Consolidated Statements of Income (Loss) (Unaudited) Three Months Ended March 31, 2013 and 2012</u>	3
<u>Consolidated Statements of Comprehensive Income (Loss) (Unaudited) Three Months Ended March 31, 2013 and 2012</u>	4
<u>Consolidated Statements of Equity (Unaudited) Three Months Ended March 31, 2013 and 2012</u>	5
<u>Consolidated Statements of Cash Flows (Unaudited) Three Months Ended March 31, 2013 and 2012</u>	6
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	7
Item 2.	19
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
Item 3.	34
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	
Item 4.	38
<u>Controls and Procedures</u>	
<u>PART II. Other Information</u>	
Item 1.	39
<u>Legal Proceedings</u>	
Item 1A.	39
<u>Risk Factors</u>	
Item 2.	39
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	
Item 3.	39
<u>Defaults upon Senior Securities</u>	
Item 4.	39
<u>Mine Safety Disclosures</u>	
Item 5.	39
<u>Other Information</u>	
Item 6.	40
<u>Exhibits</u>	

Table of Contents

PART I

Financial Information

ITEM 1.

Financial Statements

Table of Contents**PMC COMMERCIAL TRUST AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS***(In thousands, except share data)*

	March 31, 2013	December 31, 2012
	<i>(Unaudited)</i>	
ASSETS		
Loans receivable, net:		
Commercial mortgage loans receivable	\$ 121,122	\$ 125,515
SBIC commercial mortgage loans receivable	51,133	47,153
SBA 7(a) loans receivable, subject to secured borrowings	37,522	38,349
SBA 7(a) loans receivable	30,894	27,974
Loans receivable, net	240,671	238,991
Cash and cash equivalents	8,073	1,230
Real estate owned	630	739
Other assets	7,080	6,747
Total assets	\$ 256,454	\$ 247,707
LIABILITIES AND EQUITY		
Liabilities:		
Debt:		
Secured borrowings - government guaranteed loans	\$ 40,093	\$ 41,008
Junior subordinated notes	27,070	27,070
SBIC debentures payable	23,190	17,190
Revolving credit facility	15,200	11,900
Debt	105,553	97,168
Borrower advances	6,371	5,942
Accounts payable and accrued expenses	3,899	4,078
Dividends payable	1,347	1,293
Total liabilities	117,170	108,481
<i>Commitments and contingencies</i>		
Beneficiaries equity:		
Common shares of beneficial interest; authorized 100,000,000 shares of \$0.01 par value; 11,132,549 and 11,125,883 shares issued at March 31, 2013 and December 31, 2012, respectively; 10,596,220 and 10,589,554 shares outstanding at March 31, 2013 and December 31, 2012, respectively	111	111
Additional paid-in capital	153,097	153,072
Net unrealized appreciation of retained interests in transferred assets	292	278
Cumulative net income	175,261	173,917
Cumulative dividends	(185,476)	(184,151)
Beneficiaries equity before treasury stock	143,285	143,227
Less: Treasury stock; at cost, 536,329 shares at March 31, 2013 and December 31, 2012	(4,901)	(4,901)
Total beneficiaries equity	138,384	138,326

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Noncontrolling interests cumulative preferred stock of subsidiary	900	900
Total equity	139,284	139,226
Total liabilities and equity	\$ 256,454	\$ 247,707

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

PMC COMMERCIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(In thousands, except per share data)

	Three Months Ended	
	March 31,	
	2013	2012
	<i>(Unaudited)</i>	
Revenues:		
Interest income	\$ 3,471	\$ 3,398
Premium income	820	113
Other income	224	276
Total revenues	4,515	3,787
Expenses:		
Salaries and related benefits	1,019	1,144
Interest	812	883
General and administrative	642	460
Provision for loan losses, net	242	475
Strategic alternatives		850
Total expenses	2,715	3,812
Income (loss) before income tax benefit (provision) and discontinued operations	1,800	(25)
Income tax benefit (provision)	(282)	19
Income (loss) from continuing operations	1,518	(6)
Discontinued operations	(174)	(149)
Net income (loss)	\$ 1,344	\$ (155)
Weighted average shares outstanding:		
Basic	10,591	10,576
Diluted	10,591	10,576
Basic and diluted earnings (loss) per share:		
Income (loss) from continuing operations	\$ 0.14	\$
Discontinued operations	(0.02)	(0.01)
Net income (loss)	\$ 0.12	\$ (0.01)

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**PMC COMMERCIAL TRUST AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)***(In thousands)*

	Three Months Ended	
	March 31,	
	2013	2012
	<i>(Unaudited)</i>	
Net income (loss)	\$ 1,344	\$ (155)
Change in unrealized appreciation of retained interests in transferred assets:		
Net unrealized appreciation (depreciation) arising during period	37	(9)
Net realized gains included in net income	(23)	(36)
Change in unrealized appreciation of retained interests in transferred assets	14	(45)
Comprehensive income (loss)	\$ 1,358	\$ (200)

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

PMC COMMERCIAL TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

(In thousands, except share and per share data)

	Three Months Ended March 31, 2012								
	<i>(Unaudited)</i>								
	Common Shares of Beneficial Interest Outstanding	Par Value	Additional Paid-in Capital	Net Unrealized Appreciation of Retained Interests in Transferred Assets	Cumulative Net Income	Cumulative Dividends	Treasury Stock	Cumulative Preferred Stock of Subsidiary	Total Equity
Balances, January 1, 2012	10,574,554	\$ 111	\$ 152,934	\$ 394	\$ 176,096	\$ (177,798)	\$ (4,901)	\$ 900	\$ 147,736
Net unrealized depreciation				(45)					(45)
Share-based compensation expense	10,000		40						40
Dividends (\$0.16 per share)						(1,694)			(1,694)
Net loss					(155)				(155)
Balances, March 31, 2012	10,584,554	\$ 111	\$ 152,974	\$ 349	\$ 175,941	\$ (179,492)	\$ (4,901)	\$ 900	\$ 145,882

	Three Months Ended March 31, 2013								
	<i>(Unaudited)</i>								
	Common Shares of Beneficial Interest Outstanding	Par Value	Additional Paid-in Capital	Net Unrealized Appreciation of Retained Interests in Transferred Assets	Cumulative Net Income	Cumulative Dividends	Treasury Stock	Cumulative Preferred Stock of Subsidiary	Total Equity
Balances, January 1, 2013	10,589,554	\$ 111	\$ 153,072	\$ 278	\$ 173,917	\$ (184,151)	\$ (4,901)	\$ 900	\$ 139,226
Net unrealized appreciation				14					14
Share-based compensation expense	6,666		25						25
Dividends (\$0.125 per share)						(1,325)			(1,325)
Net income					1,344				1,344

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**Balances, March 31,
2013**

10,596,220 \$ 111 \$ 153,097 \$ 292 \$ 175,261 \$ (185,476) \$ (4,901) \$ 900 \$ 139,284

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**PMC COMMERCIAL TRUST AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS***(In thousands)*

	Three Months Ended March 31, 2013 2012 (Unaudited)	
Cash flows from operating activities:		
Net income (loss)	\$ 1,344	\$ (155)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Impairment losses	109	18
Deferred income taxes	28	(160)
Provision for loan losses, net	242	475
Unrealized premium adjustment	222	544
Amortization and accretion, net	(82)	(31)
Share-based compensation	25	40
Capitalized loan origination costs	(70)	(76)
Loans funded, held for sale	(8,145)	(4,941)
Proceeds from sale of guaranteed loans	7,206	1,258
Principal collected on loans	180	155
Loan fees remitted, net	(6)	(13)
Change in operating assets and liabilities:		
Other assets	(159)	(146)
Borrower advances	429	(178)
Accounts payable and accrued expenses	(236)	70
Other liabilities	16	43
Net cash provided by (used in) operating activities	1,103	(3,097)
Cash flows from investing activities:		
Loans funded	(7,277)	(5,790)
Principal collected on loans	5,290	7,584
Principal collected on retained interests in transferred assets	24	29
Purchase of furniture and equipment		(7)
Release of restricted cash and cash equivalents		2,233
Net cash provided by (used in) investing activities	(1,963)	4,049
Cash flows from financing activities:		
Proceeds from (repayment of) revolving credit facility, net	3,300	(2,100)
Payment of principal on structured notes payable		(5,264)
Proceeds from issuance of SBIC debentures	6,000	
Proceeds from secured borrowings government guaranteed loans		4,989
Payment of principal on secured borrowings government guaranteed loans	(180)	(155)
Payment of borrowing costs	(146)	
Payment of dividends	(1,271)	(1,670)
Net cash provided by (used in) financing activities	7,703	(4,200)
Net increase (decrease) in cash and cash equivalents	6,843	(3,248)
Cash and cash equivalents, beginning of year	1,230	6,502

Cash and cash equivalents, end of period	\$ 8,073	\$ 3,254
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The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**PMC COMMERCIAL TRUST AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)***Note 1. Basis of Presentation:**

The accompanying interim financial statements of PMC Commercial Trust (PMC Commercial or together with its wholly-owned subsidiaries, we, us or our) have not been audited by independent accountants. These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statement presentation. In the opinion of management, the financial statements include all normal recurring adjustments necessary for a fair statement of the results for the interim period. All material intercompany balances and transactions have been eliminated. The results for the three months ended March 31, 2013 are not necessarily indicative of future financial results. Therefore, these financial statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect (1) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and (2) the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Our most sensitive estimates involve the valuation of our real estate owned and determination of loan loss reserves.

Note 2. Loans Receivable, net:

Loans receivable, net, consisted of the following:

	March 31, 2013	December 31, 2012
	<i>(In thousands)</i>	
Commercial mortgage loans	\$ 124,102	\$ 128,401
SBIC commercial mortgage loans	51,613	47,621
SBA 7(a) loans, subject to secured borrowings	37,095	37,909
SBA 7(a) loans	31,211	28,196
Total loans receivable	244,021	242,127
Adjusted by:		
Deferred capitalized costs, net	304	277
Loan loss reserves	(3,654)	(3,413)
Loans receivable, net	\$ 240,671	\$ 238,991

Commercial mortgage loans

Represents the loans held by the parent company, PMC Commercial Trust.

SBIC commercial mortgage loans

Represents loans of our licensed Small Business Investment Company (SBIC) subsidiaries.

SBA 7(a) loans, subject to secured borrowings

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Represents the government guaranteed portion of loans which were sold with the proceeds received from the sale reflected as secured borrowings government guaranteed loans (a liability on our consolidated balance sheet). There is no credit risk associated with these loans since the SBA has guaranteed payment of the principal; therefore, no loan loss reserves are recorded on the \$37.1 million and \$37.9 million, respectively of government guaranteed portions of these SBA 7(a) loans included in loans receivable at March 31, 2013 and December 31, 2012.

SBA 7(a) loans

Represents the non-government guaranteed retained portion of loans originated under the SBA 7(a) program and the government guaranteed portion of loans that have not yet been fully funded or sold. The balance is net of retained loan discounts of \$2.3 million and \$2.1 million at March 31, 2013 and December 31, 2012, respectively.

Table of Contents**PMC COMMERCIAL TRUST AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)**Concentration Risks*

We have certain concentrations of investments. Substantially all of our revenue is generated from loans collateralized by hospitality properties. At both March 31, 2013 and December 31, 2012, our loans were 94% concentrated in the hospitality industry. Any economic factors that negatively impact the hospitality industry, including recessions, depressed commercial real estate markets, travel restrictions, gasoline prices, bankruptcies or other political or geopolitical events, could have a material adverse effect on our financial condition and results of operations.

At March 31, 2013 and December 31, 2012, 14% and 15%, respectively, of our loans were collateralized by properties in Texas. No other state had a concentration of 10% or greater of our loans receivable at March 31, 2013 or December 31, 2012. A decline in economic conditions in any state in which we have a concentration of investments could have a material adverse effect on our financial condition and results of operations.

We have not loaned more than 10% of our assets to any single borrower; however, we have an affiliated group of obligors representing approximately 5% of our loans receivable at both March 31, 2013 and December 31, 2012. Any decline in the financial status of this group could have a material adverse effect on our financial condition and results of operations.

Aging

The following tables represent an aging of our Loans Receivable Subject to Credit Risk (loans receivable less SBA 7(a) loans, subject to secured borrowings as the SBA has guaranteed payment of the principal). Balances are prior to loan loss reserves and deferred capitalized costs, net.

Category	March 31, 2013		Commercial		SBA 7(a)	
	Totals		Mortgage Loans		Loans	
			<i>(Dollars in thousands)</i>			
Current (1)	\$ 201,280	97.3%	\$ 170,770	97.2%	\$ 30,510	97.8%
Between 30 and 59 days delinquent	2,393	1.2%	1,904	1.1%	489	1.5%
Between 60 and 89 days delinquent						
Over 89 days delinquent (2)	3,253	1.5%	3,041	1.7%	212	0.7%
	\$ 206,926	100.0%	\$ 175,715	100.0%	\$ 31,211	100.0%

(1) Includes \$8.5 million of loans classified as troubled debt restructurings which were current at March 31, 2013 based on revised note terms.

(2) Loans are classified as troubled debt restructurings. We are currently in the process of foreclosing on the collateral underlying these loans three limited service hospitality properties.

Table of Contents**PMC COMMERCIAL TRUST AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)*

December 31, 2012

Category	Totals		Commercial		SBA 7(a)	
			Mortgage Loans		Loans	
<i>(Dollars in thousands)</i>						
Current (1)	\$ 198,282	97.1%	\$ 170,429	96.8%	\$ 27,853	98.8%
Between 30 and 59 days delinquent (2)	2,824	1.4%	2,482	1.4%	342	1.2%
Between 60 and 89 days delinquent	1				1	
Over 89 days delinquent (3)	3,111	1.5%	3,111	1.8%		
	\$ 204,218	100.0%	\$ 176,022	100.0%	\$ 28,196	100.0%

- (1) Includes \$7.6 million of loans classified as troubled debt restructurings which were current at December 31, 2012 based on revised note terms.
- (2) Includes \$2.3 million of loans classified as troubled debt restructurings. We are currently in the process of foreclosing on the collateral underlying an SBA 7(a) Program loan a limited service hospitality property with a principal balance of \$211,000.
- (3) Loans are classified as troubled debt restructurings. We are currently in the process of foreclosing on the collateral underlying these loans two limited service hospitality properties.

Loan Loss Reserves

Management closely monitors our loans which require evaluation for loan loss reserves based on specific identification metrics which are classified into three categories: Doubtful, Substandard and Other Assets Especially Mentioned (OAEM) (together Specific Identification Loans). Loans classified as Doubtful are generally loans which are not complying with their contractual terms, the collection of the balance of the principal is considered impaired and on which the fair value of the collateral is less than the remaining unamortized principal balance. These loans are typically placed on non-accrual status and are generally in the foreclosure process. Loans classified as Substandard are generally those loans that are either not complying or had previously not complied with their contractual terms and have other credit weaknesses which may make payment default or principal exposure likely but not yet certain. Loans classified as OAEM are generally loans for which the credit quality of the borrowers has temporarily deteriorated. Typically the borrowers are current on their payments; however, they may be delinquent on their property taxes, insurance, or franchise fees or may be under agreements which provide for interest only payments during a short period of time.

Management has classified our Loans Receivable Subject to Credit Risk as follows (balances represent our investment in