

Regional Management Corp.  
Form 10-Q  
August 09, 2013  
[Table of Contents](#)

**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 June 30, 2013

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)

Edgar Filing: Regional Management Corp. - Form 10-Q

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>57-0847115</b> (I.R.S. Employer Identification No.)
<b>509 West Butler Road</b>  <b>Greenville, South Carolina</b> (Address of principal executive offices)	<b>29607</b> (Zip Code)
<b>(864) 422-8011</b>  (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, 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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 August 8, 2013, the registrant had outstanding 12,584,942 shares of Common Stock, \$0.10 par value.

**Table of Contents**

	Page No.
<b>PART I. <u>FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Consolidated Balance Sheets dated June 30, 2013 and December 31, 2012</u>	3
<u>Consolidated Statements of Income for the Three and Six Months Ended June 30, 2013 and 2012</u>	4
<u>Consolidated Statements of Stockholders' Equity for the Year Ended December 31, 2012 and the Six Months Ended June 30, 2013</u>	5
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2013 and 2012</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	30
Item 4. <u>Controls and Procedures</u>	30
<b>PART II. <u>OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	31
Item 1A. <u>Risk Factors</u>	31
Item 6. <u>Exhibits</u>	31
<b><u>SIGNATURE</u></b>	32
<b><u>EXHIBIT INDEX</u></b>	33

**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)

	June 30, 2013	December 31, 2012
<b>Assets</b>		
Cash	\$ 2,931	\$ 3,298
Gross finance receivables	552,283	529,583
Less unearned finance charges, insurance premiums, and commissions	(91,841)	(92,024)
Finance receivables	460,442	437,559
Allowance for credit losses	(25,619)	(23,616)
Net finance receivables	434,823	413,943
Property and equipment, net of accumulated depreciation	6,991	5,111
Repossessed assets at net realizable value	822	711
Goodwill	716	363
Intangible assets, net	1,537	1,815
Other assets	12,124	9,750
<b>Total assets</b>	<b>\$ 459,944</b>	<b>\$ 434,991</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities:</b>		
Deferred tax liability, net	\$ 7,280	\$ 5,947
Accounts payable and accrued expenses	4,930	6,096
Senior revolving credit facility	302,279	292,379
Total liabilities	314,489	304,422
<b>Commitments and Contingencies</b>		
<b>Stockholders' equity:</b>		
Preferred stock, \$0.10 par value, 100,000,000 shares authorized, no shares issued and outstanding at June 30, 2013 and December 31, 2012		
Common stock, \$0.10 par value, 1,000,000,000 shares authorized, 12,584,942 shares issued and outstanding at June 30, 2013; 1,000,000,000 shares authorized, 12,486,727 shares issued and outstanding at December 31, 2012	1,258	1,249
Additional paid-in-capital	81,451	80,158
Retained earnings	62,746	49,162
Total stockholders' equity	145,455	130,569
<b>Total liabilities and stockholders' equity</b>	<b>\$ 459,944</b>	<b>\$ 434,991</b>

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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Revenue</b>				
Interest and fee income	\$ 34,920	\$ 28,175	\$ 68,966	\$ 55,244
Insurance income, net	2,973	2,680	5,906	5,316
Other income	1,490	1,161	3,080	2,996
<b>Total revenue</b>	<b>39,383</b>	<b>32,016</b>	<b>77,952</b>	<b>63,556</b>
<b>Expenses</b>				
Provision for credit losses	8,405	5,908	16,476	11,535
General and administrative expenses				
Personnel	9,787	8,273	19,820	16,270
Occupancy	2,697	2,086	5,213	3,980
Advertising	1,347	632	1,852	1,225
Other	3,341	2,268	6,707	4,576
Consulting and advisory fees				1,451
Interest expense				
Senior revolving credit facility and other debt	3,241	2,341	6,322	4,851
Mezzanine debt-related parties				1,030
<b>Total interest expense</b>	<b>3,241</b>	<b>2,341</b>	<b>6,322</b>	<b>5,881</b>
<b>Total expenses</b>	<b>28,818</b>	<b>21,508</b>	<b>56,390</b>	<b>44,918</b>
<b>Income before income taxes</b>	<b>10,565</b>	<b>10,508</b>	<b>21,562</b>	<b>18,638</b>
Income taxes	3,909	3,888	7,978	6,896
<b>Net income</b>	<b>\$ 6,656</b>	<b>\$ 6,620</b>	<b>\$ 13,584</b>	<b>\$ 11,742</b>
<b>Net income per common share:</b>				
Basic	\$ 0.53	\$ 0.53	\$ 1.08	\$ 1.08
Diluted	\$ 0.52	\$ 0.52	\$ 1.06	\$ 1.05
<b>Weighted average common shares outstanding:</b>				
Basic	12,584,942	12,452,112	12,543,888	10,894,419
Diluted	12,881,117	12,735,088	12,831,040	11,175,792

See accompanying notes to consolidated financial statements.



**Table of Contents****Regional Management Corp. and Subsidiaries****Consolidated Statements of Stockholders Equity**

(\$ in thousands)

(Unaudited)

	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Total</b>
Balance, December 31, 2011	\$ 934	\$ 28,150	\$ 23,795	\$ 52,879
Sale of common stock	315	46,935		47,250
Underwriting discount and offering expense		(7,469)		(7,469)
Reclassification of temporary equity		12,000		12,000
Stock option expense		542		542
Net income			25,367	25,367
Balance, December 31, 2012	1,249	80,158	49,162	130,569
Proceeds from exercise of stock options	9	935		944
Stock option expense		358		358
Net income			13,584	13,584
Balance, June 30, 2013	\$ 1,258	\$ 81,451	\$ 62,746	\$ 145,455

See accompanying notes to consolidated financial statements.



**Table of Contents****Regional Management Corp. and Subsidiaries****Consolidated Statements of Cash Flows**

(\$ in thousands)

(Unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 13,584	\$ 11,742
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	16,476	11,535
Depreciation and amortization	1,662	1,252
Accretion of discounts on purchased receivables	(787)	(285)
Amortization of stock compensation expense	358	165
Fair value adjustment on interest rate caps	1	23
Deferred income taxes, net	1,333	4,076
Changes in operating assets and liabilities:		
Decrease (increase) in other assets	(2,342)	759
Decrease in other liabilities	(1,166)	(765)
<b>Net cash provided by operating activities</b>	<b>29,119</b>	<b>28,502</b>
<b>Cash flows from investing activities:</b>		
Net origination of finance receivables	(36,359)	(22,925)
Payment for business combination, net of cash	(575)	(28,388)
Purchase of finance receivables		(320)
Increase in restricted cash	(562)	
Purchase of property and equipment	(2,834)	(1,116)
<b>Net cash used in investing activities</b>	<b>(40,330)</b>	<b>(52,749)</b>
<b>Cash flows from financing activities:</b>		
Increase in cash overdraft		5
Issuance of other notes payable, net		1,018
Proceeds from exercise of stock options	536	
Excess tax benefits from exercise of stock options	408	
Net advances on senior revolving credit facility	9,900	6,722
Net proceeds from issuance of common stock		39,781
Repayment of mezzanine debt		(25,814)
<b>Net cash provided by financing activities</b>	<b>10,844</b>	<b>21,712</b>
<b>Net change in cash</b>	<b>(367)</b>	<b>(2,535)</b>
Cash:		
Beginning	3,298	4,849
Ending	\$ 2,931	\$ 2,314

Supplemental Disclosure of Cash Flow Information

Edgar Filing: Regional Management Corp. - Form 10-Q

Cash payments for interest		
Paid to third parties	\$ 6,048	\$ 4,763
Paid to related parties	\$	\$ 1,152
Cash payments for income taxes	\$ 6,666	\$ 5,430

See accompanying notes to consolidated financial statements.

---

**Table of Contents**

**Regional Management Corp. and Subsidiaries**

**Notes to Financial Statements**

**June 30, 2013 and 2012**

**(\$ 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 ) have been prepared in accordance with the instructions to Form 10-Q 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 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, 2012 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, related credit insurance, and ancillary products and services. As of June 30, 2013, the Company operates offices in 263 locations in the states of Alabama (49 offices), Georgia (3 offices), North Carolina (29 offices), New Mexico (4 offices), Oklahoma (21 offices), South Carolina (70 offices), Tennessee (21 offices), and Texas (66 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 or acquired 42 new offices during the six months ended June 30, 2013.

**Seasonality:** Our loan volume and corresponding finance receivables follow seasonal trends. Demand for our loans is typically highest during the fourth quarter, largely due to customers borrowing money for 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, our loan volume typically grows from customer loan activity. 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 Regional Management Corp. 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 accounting principles generally accepted in the United States of America and conform to general practices within the consumer finance industry.

**Use of estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 reporting period. 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 allocation of the purchase price to assets acquired in business combinations.

## Edgar Filing: Regional Management Corp. - Form 10-Q

**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.

- 7 -

**Table of Contents****Note 3. Finance Receivables, Allowance for Credit losses and Credit Quality Information**

Finance receivables consisted of the following:

	June 30, 2013	December 31, 2012
Small installment loans	\$ 206,650	\$ 188,221
Large installment loans	44,369	52,498
Automobile purchase loans	178,865	166,889
Retail purchase loans	30,558	29,951
<b>Finance receivables</b>	<b>\$ 460,442</b>	<b>\$ 437,559</b>

Changes in the allowance for credit losses for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Balance at beginning of period	\$ 24,630	\$ 19,860	\$ 23,616	\$ 19,300
Provision for credit losses	8,405	5,908	16,476	11,535
Finance receivables charged off	(7,676)	(5,210)	(15,032)	(10,452)
Recoveries	260	222	559	397
<b>Balance at end of period</b>	<b>\$ 25,619</b>	<b>\$ 20,780</b>	<b>\$ 25,619</b>	<b>\$ 20,780</b>

The following is a reconciliation of the allowance for credit losses by product for the three months ended June 30, 2013 and 2012:

					Balance	Finance Receivables	Allowance as Percentage of Finance Receivables
	Balance April 1, 2013	Provision	Charge-Offs	Recoveries	June 30, 2013	June 30, 2013	June 30, 2013
Small installment	\$ 10,966	\$ 5,791	\$ (4,573)	\$ 115	\$ 12,299	\$ 206,650	6.0%
Large installment	3,151	21	(638)	97	2,631	44,369	5.9%
Automobile purchase	9,214	1,837	(1,921)	44	9,174	178,865	5.1%
Retail purchase	1,299	756	(544)	4	1,515	30,558	5.0%
<b>Total</b>	<b>\$ 24,630</b>	<b>\$ 8,405</b>	<b>\$ (7,676)</b>	<b>\$ 260</b>	<b>\$ 25,619</b>	<b>\$ 460,442</b>	<b>5.6%</b>

					Balance	Finance Receivables	Allowance as Percentage of Finance Receivables
	Balance April 1, 2012	Provision	Charge-Offs	Recoveries	June 30, 2012	June 30, 2012	June 30, 2012
Small installment	\$ 8,147	\$ 4,296	\$ (2,983)	\$ 91	\$ 9,551	\$ 120,675	7.9%
Large installment	3,490	519	(812)	96	3,293	53,604	6.1%

Edgar Filing: Regional Management Corp. - Form 10-Q

Automobile purchase	7,756	985	(1,325)	35	7,451	150,292	5.0%
Retail purchase	467	108	(90)		485	20,840	2.3%
<b>Total</b>	<b>\$ 19,860</b>	<b>\$ 5,908</b>	<b>\$ (5,210)</b>	<b>\$ 222</b>	<b>\$ 20,780</b>	<b>\$ 345,411</b>	<b>6.0%</b>

- 8 -

**Table of Contents**

The following is a reconciliation of the allowance for credit losses by product for the six months ended June 30, 2013 and 2012:

	Balance January 1, 2013	Provision	Charge-Offs	Recoveries	Balance June 30, 2013	Finance Receivables June 30, 2013	Allowance as Percentage of Finance Receivables June 30, 2013
Small installment	\$ 11,369	\$ 9,362	\$ (8,675)	\$ 243	\$ 12,299	\$ 206,650	6.0%
Large installment	2,753	1,115	(1,423)	186	2,631	44,369	5.9%
Automobile purchase	8,424	4,598	(3,959)	111	9,174	178,865	5.1%
Retail purchase	1,070	1,401	(975)	19	1,515	30,558	5.0%
<b>Total</b>	<b>\$ 23,616</b>	<b>\$ 16,476</b>	<b>\$ (15,032)</b>	<b>\$ 559</b>	<b>\$ 25,619</b>	<b>\$ 460,442</b>	<b>5.6%</b>

	Balance January 1, 2012	Provision	Charge-Offs	Recoveries	Balance June 30, 2012	Finance Receivables June 30, 2012	Allowance as Percentage of Finance Receivables June 30, 2012
Small installment	\$ 8,838	\$ 6,746	\$ (6,246)	\$ 213	\$ 9,551	\$ 120,675	7.9%
Large installment	2,448	2,009	(1,285)	121	3,293	53,604	6.1%
Automobile purchase	7,618	2,532	(2,761)	62	7,451	150,292	5.0%
Retail purchase	396	248	(160)	1	485	20,840	2.3%
<b>Total</b>	<b>\$ 19,300</b>	<b>\$ 11,535</b>	<b>\$ (10,452)</b>	<b>\$ 397</b>	<b>\$ 20,780</b>	<b>\$ 345,411</b>	<b>6.0%</b>

Following is a summary of the finance receivables associated with customers in bankruptcy as of the periods indicated:

	Finance Receivables in Bankruptcy as of June 30, 2013	December 31, 2012
Small installment	\$ 690	\$ 420
Large installment	1,601	1,696
Automobile purchase	3,199	3,071
Retail purchase	94	71
<b>Total</b>	<b>\$ 5,584</b>	<b>\$ 5,258</b>

The following is an assessment of the credit quality of finance receivables at June 30, 2013 and December 31, 2012. The contractual delinquency of the finance receivable portfolio by component at June 30, 2013 and December 31, 2012 was:

Small Installment		Large Installment		Automobile Purchase		Retail Purchase		Total	
\$	%	\$	%	\$	%	\$	%	\$	%

Edgar Filing: Regional Management Corp. - Form 10-Q

Current	\$ 165,076	79.9%	\$ 32,321	72.9%	\$ 125,085	69.9%	\$ 24,249	79.4%	\$ 346,731	75.3%
1 to 29 days delinquent	28,095	13.6%	8,526	19.2%	43,781	24.5%	4,478	14.6%	84,880	18.4%
<b>Delinquent accounts</b>										
30 to 59 days	4,914	2.4%	1,405	3.2%	5,502	3.1%	692	2.3%	12,513	2.7%
60 to 89 days	2,694	1.3%	645	1.4%	2,017	1.1%	427	1.4%	5,783	1.3%
90 days and over	5,871	2.8%	1,472	3.3%	2,480	1.4%	712	2.3%	10,535	2.3%
<b>Total delinquency</b>	<b>\$ 13,479</b>	<b>6.5%</b>	<b>\$ 3,522</b>	<b>7.9%</b>	<b>\$ 9,999</b>	<b>5.6%</b>	<b>\$ 1,831</b>	<b>6.0%</b>	<b>\$ 28,831</b>	<b>6.3%</b>
<b>Total finance receivables</b>	<b>\$ 206,650</b>	<b>100.0%</b>	<b>\$ 44,369</b>	<b>100.0%</b>	<b>\$ 178,865</b>	<b>100.0%</b>	<b>\$ 30,558</b>	<b>100.0%</b>	<b>\$ 460,442</b>	<b>100.0%</b>
<b>Finance receivables in nonaccrual status</b>	<b>\$ 5,871</b>	<b>2.8%</b>	<b>\$ 1,472</b>	<b>3.3%</b>	<b>\$ 2,480</b>	<b>1.4%</b>	<b>\$ 712</b>	<b>2.3%</b>	<b>\$ 10,535</b>	<b>2.3%</b>

- 9 -



**Table of Contents**

	December 31, 2012									
	Small Installment		Large Installment		Automobile Purchase		Retail Purchase		Total	
	\$	%	\$	%	\$	%	\$	%	\$	%
Current	\$ 149,232	79.3%	\$ 38,191	72.7%	\$ 116,513	69.9%	\$ 23,864	79.7%	\$ 327,800	74.9%
1 to 29 days delinquent	25,285	13.4%	10,122	19.3%	40,456	24.2%	4,361	14.6%	80,224	18.3%
<b>Delinquent accounts</b>										
30 to 59 days	4,514	2.4%	1,718	3.3%	5,403	3.2%	751	2.5%	12,386	2.9%
60 to 89 days	2,996	1.6%	785	1.5%	1,935	1.2%	333	1.1%	6,049	1.4%
90 days and over	6,194	3.3%	1,682	3.2%	2,582	1.5%	642	2.1%	11,100	2.5%
<b>Total delinquency</b>	<b>\$ 13,704</b>	<b>7.3%</b>	<b>\$ 4,185</b>	<b>8.0%</b>	<b>\$ 9,920</b>	<b>5.9%</b>	<b>\$ 1,726</b>	<b>5.7%</b>	<b>\$ 29,535</b>	<b>6.8%</b>
<b>Total finance receivables</b>	<b>\$ 188,221</b>	<b>100.0%</b>	<b>\$ 52,498</b>	<b>100.0%</b>	<b>\$ 166,889</b>	<b>100.0%</b>	<b>\$ 29,951</b>	<b>100.0%</b>	<b>\$ 437,559</b>	<b>100.0%</b>
<b>Finance receivables in nonaccrual status</b>	<b>\$ 6,194</b>	<b>3.3%</b>	<b>\$ 1,682</b>	<b>3.2%</b>	<b>\$ 2,582</b>	<b>1.5%</b>	<b>\$ 642</b>	<b>2.1%</b>	<b>\$ 11,100</b>	<b>2.5%</b>

Following is a summary of finance receivables evaluated for impairment at June 30, 2013 and December 31, 2012:

	June 30, 2013				
	Small Installment	Large Installment	Automobile Purchase	Retail Purchase	Total
Accounts 180 or more days past due, excluding accounts of customers in bankruptcy	\$ 1,321	\$ 299	\$ 468	\$ 131	\$ 2,219
Customers in Chapter 13 bankruptcy	690	1,601	3,199	94	5,584
<b>Total impaired accounts specifically evaluated</b>	<b>\$ 2,011</b>	<b>\$ 1,900</b>	<b>\$ 3,667</b>	<b>\$ 225</b>	<b>\$ 7,803</b>
Finance receivables evaluated collectively	204,639	42,469	175,198	30,333	452,639
<b>Finance receivables outstanding</b>	<b>\$ 206,650</b>	<b>\$ 44,369</b>	<b>\$ 178,865</b>	<b>\$ 30,558</b>	<b>\$ 460,442</b>
Accounts in bankruptcy in nonaccrual status	\$ 183	\$ 400	\$ 589	\$ 33	\$ 1,205
<b>Amount of the specific reserve for impaired accounts</b>	<b>\$ 1,543</b>	<b>\$ 853</b>	<b>\$ 1,568</b>	<b>\$ 159</b>	<b>\$ 4,123</b>
Average impaired accounts	\$ 1,761	\$ 1,959	\$ 3,604	\$ 235	\$ 7,559
<b>Amount of the general component of the reserve</b>	<b>\$ 10,756</b>	<b>\$ 1,778</b>	<b>\$ 7,606</b>	<b>\$ 1,356</b>	<b>\$ 21,496</b>

	December 31, 2012				
	Small Installment	Large Installment	Automobile Purchase	Retail Purchase	Total
Accounts 180 or more days past due, excluding accounts of customers in bankruptcy	\$ 725	\$ 251	\$ 357	\$ 83	\$ 1,416
Customers in Chapter 13 bankruptcy	420	1,696	3,071	71	5,258
<b>Total impaired accounts specifically evaluated</b>	<b>\$ 1,145</b>	<b>\$ 1,947</b>	<b>\$ 3,428</b>	<b>\$ 154</b>	<b>\$ 6,674</b>

Edgar Filing: Regional Management Corp. - Form 10-Q

Finance receivables evaluated collectively	187,076	50,551	163,461	29,797	430,885
Finance receivables outstanding	\$ 188,221	\$ 52,498	\$ 166,889	\$ 29,951	\$ 437,559
Accounts in bankruptcy in nonaccrual status	\$ 97	\$ 463	\$ 858	\$ 33	\$ 1,451
Amount of the specific reserve for impaired accounts	\$ 854	\$ 802	\$ 1,405	\$ 109	\$ 3,170
Average impaired accounts	\$ 1,192	\$ 1,775	\$ 2,909	\$ 108	\$ 5,984
Amount of the general component of the reserve	\$ 10,515	\$ 1,951	\$ 7,019	\$ 961	\$ 20,446

It is not practical to compute the amount of interest earned on impaired loans.

- 10 -

**Table of Contents****Note 4. Debt**

The Company's senior revolving credit facility contains restrictive covenants. At June 30, 2013, the Company was in compliance with all debt covenants. On May 13, 2013, the Company signed an amendment to its senior revolving credit facility which increased the availability to \$500 million, with a maturity date of May 2016. The accordion feature was also increased from \$75 million to \$100 million. Borrowings under the facility bear interest, payable monthly, at rates equal to LIBOR of a maturity the Company elects between one month and six months, with a LIBOR floor of 1.00%, plus an applicable margin (which was 3.00% as of June 30, 2013) based on its leverage ratio. Alternatively, the Company may pay interest at a rate based on the prime rate plus an applicable margin (which was 2.00% as of June 30, 2013). The Company also pays an unused line fee of 50 basis points per annum, which declines to 37.5 basis points at certain usage levels, payable monthly.

**Note 5. Disclosure about fair value of financial instruments:** The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

**Finance receivables:** Finance receivables are originated either at prevailing market rates or at statutory limits. The Company's finance receivable portfolio turns approximately 1.3 times per year from cash payments and renewals. Management believes that the carrying value approximates the fair value of its finance receivable portfolio.

**Interest rate caps:** The fair value of the interest rate caps is the estimated amount the Company would receive to terminate the cap agreements at the reporting date, taking into account current interest rates and the creditworthiness of the counterparty for assets and creditworthiness of the Company for liabilities.

**Debt:** The Company refinanced its senior revolving credit facility in January 2012, and further amended the senior revolving credit facility in July 2012, March 2013, and May 2013. As a result of the refinancing, the Company believes that the fair value of this variable rate debt approximates its carrying value at June 30, 2013. The Company also considered its creditworthiness in its determination of fair value.

The carrying amount and estimated fair values of the Company's financial instruments summarized by level are as follows:

	June 30, 2013		December 31, 2012	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Assets</b>				
Level 1 inputs				
Cash	\$ 2,931	\$ 2,931	\$ 3,298	\$ 3,298
Restricted cash	1,900	1,900	1,338	1,338
Level 2 inputs				
Interest rate caps			1	1
Level 3 inputs				
Net finance receivables	434,823	434,823	413,943	413,943
Repossessed assets	822	822	711	711
<b>Liabilities</b>				
Level 3 inputs				
Senior revolving credit facility	302,279	302,279	292,379	292,379

Certain of the Company's assets carried at fair value are classified and disclosed in one of the following three categories:

Level 1 Quoted market prices in active markets for identical assets or liabilities.

Level 2 Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Company performs an analysis of the assets and liabilities that are carried at fair value. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

**Note 6. Income Taxes**

Regional Management Corp. and its subsidiaries file a consolidated federal income tax return. The Company files consolidated or separate state income tax returns as permitted by individual states in which it operates.

- 11 -

**Table of Contents****Note 7. Earnings Per Share**

The following schedule reconciles the computation of basic and diluted earnings per share for the three months ended June 30, 2013 and 2012:

	Three Months Ended June 30, 2013			Six Months Ended June 30, 2013		
	Net Income	Shares	Per Share	Net Income	Shares	Per Share
<b>Basic earnings per share</b>						
Income available to common stockholders	\$ 6,656	12,584,942	\$ 0.53	\$ 13,584	12,543,888	\$ 1.08
<b>Effect of dilutive securities</b>						
Options to purchase common stock		296,175			287,152	
<b>Diluted earnings per share</b>						
Income available to common stockholders plus assumed exercise of options to purchase common stock	\$ 6,656	12,881,117	\$ 0.52	\$ 13,584	12,831,040	\$ 1.06
	Three Months Ended June 30, 2012			Six Months Ended June 30, 2012		
	Net Income	Shares	Per Share	Net Income	Shares	Per Share
<b>Basic earnings per share</b>						
Income available to common stockholders	\$ 6,620	12,452,112	\$ 0.53	\$ 11,742	10,894,419	\$ 1.08
<b>Effect of dilutive securities</b>						
Options to purchase common stock		282,976			281,373	
<b>Diluted earnings per share</b>						
Income available to common stockholders plus assumed exercise of options to purchase common stock	\$ 6,620	12,735,088	\$ 0.52	\$ 11,742	11,175,792	\$ 1.05

Options to purchase 100,000 shares of common stock at \$16.73 per share were outstanding during the three months ended June 30, 2013, but were not included in the computation of diluted earnings per share because they were anti-dilutive.

**Note 8. Stock-Based Compensation**

**Stock compensation plans:** The Company has the 2007 Management Incentive Plan (the 2007 Stock Plan ) and the 2011 Stock Incentive Plan (the 2011 Stock Plan ). Under these plans, 1,987,412 shares of authorized common stock have been reserved for issuance pursuant to grants approved by the Company's Board of Directors (the Board ). All grants are made at 100% of the fair value at the date of grant. Options granted under the 2007 Stock Plan vest at 20% at the date of grant and 20% on the anniversary date of the grant each year thereafter for 4 years. Options granted under the 2011 Stock Plan vest at 20% each year for 5 years. In addition, these options vest and become exercisable in full upon the occurrence of a Change of Control (as defined in the Option Award Agreements). Participants who are awarded options must exercise their options within a maximum of 10 years of the grant. At June 30, 2013, there were 987,790 shares available for grant under the 2007 Stock Plan and 2011 Stock Plan, collectively.

The Company recognizes compensation expense in the financial statements for all stock-based payments granted based upon the fair value.

There were no option grants during the three months ended June 30, 2013 or June 30, 2012. The fair value of option grants is estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions for option grants during the six months ended June 30, 2013 and 2012:

**The Six Months Ended  
June 30,  
2013                      2012**

Edgar Filing: Regional Management Corp. - Form 10-Q

Expected volatility	48.49%	48.49%
Expected dividends	0.00%	0.00%
Expected term (in years)	10.00	10.00
Risk-free rate	1.76%	2.20%
Vesting period (in years)	5	5

- 12 -

**Table of Contents**

Expected volatility is based on the historic volatility of a publicly traded company in the same industry. The risk free interest rate is based on the U.S. Treasury yield at the date the Board approved the option awards for the period (9 to 10 years) over which options are exercisable.

The Company recorded stock-based compensation expense in the amount of \$179 and \$142 for the three months ended June 30, 2013 and 2012 and \$358 and \$165 for the six months ended June 30, 2013 and 2012, respectively. As of June 30, 2013, unrecognized stock-based compensation expense to be recognized over future periods approximated \$2,834. This amount will be recognized as expense over a period of 4.0 years. The total income tax benefit recognized in the income statement for the stock-based compensation arrangements was \$69.8 and \$64.3, for the three months ended June 30, 2013 and 2012 and \$139.6 and \$73.3 for the six months ended June 30, 2013 and 2012, respectively.

A summary of the status of the Company's stock option plan is presented below (shares in thousands):

	Number of Shares	Weighted Average Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2013	887	\$ 8.66		
Granted	100	16.73		
Exercised	(98)	5.46		
Forfeited				
Options outstanding at June 30, 2013	889	\$ 9.92	6.0	\$ 13,403
Options exercisable at June 30, 2013	561	\$ 6.64	4.2	\$ 10,296
Available for grant at June 30, 2013	988			

At June 30, 2013, the options have a weighted-average remaining contractual life of 6.0 years.

The intrinsic value was calculated by applying the Company's own market value for June 30, 2013. The total intrinsic value of options exercised was \$1,423 for the six months ended June 30, 2013.

Information on the activity of options for the six months ended June 30, 2013 follows (shares in thousands):

	Shares	2013 Weighted Average Grant Date Fair Value
Non-vested options at January 1, 2013	285	\$ 15.00
Granted	100	16.73
Vested	(57)	15.00
Forfeited		
Non-vested options at June 30, 2013	328	\$ 15.53

**Note 9. Commitments and Contingencies**

The Company is a defendant in various pending or threatened lawsuits. These matters are subject to various legal proceedings in the ordinary course of business. Each of these matters is subject to various uncertainties and some of them may have an unfavorable outcome to the Company. The Company has established accruals for the matters that are probable and reasonably estimable. The Company is not party to any

## Edgar Filing: Regional Management Corp. - Form 10-Q

legal proceedings that management believes would have a material adverse effect on the Company's consolidated financial statements.

### **Note 10. Restricted Assets**

RMC Reinsurance, Ltd. is a wholly-owned life insurance subsidiary of the Company. RMC Reinsurance is required to maintain cash reserves against life insurance policies ceded to it, as determined by the ceding company. In April 2013, the letter of credit was increased to \$1,900 in favor of the ceding company. The letter of credit is secured by a cash deposit of \$1,900. The cash securing the letter of credit is presented as restricted cash in the other asset category in the accompanying balance sheets, which totaled \$1,900 and \$1,338 at June 30, 2013 and December 31, 2012, respectively.

- 13 -



**Table of Contents****Note 11: Business Combination**

The following table sets forth the business combination activity for the six months ended June 30, 2013 and 2012.

	2013	2012
Branches purchased	2	23
Branches merged into existing offices		4
Net new offices	2	19
Tangible assets:		
Net finance receivables	\$ 211	\$ 25,334
Property and equipment	11	161
Other		408
Intangible assets:		
Customer list		2,485
Goodwill	353	
<b>Total Purchase Price</b>	<b>\$ 575</b>	<b>\$ 28,388</b>

The Company evaluates each acquisition to determine if it meets the definition of a business combination. The Company accounts for a transaction as a business combination if it meets the definition, which typically occurs when it assumes the lease, retains the location as a new branch, and offers employment to the existing employees; all other transactions are accounted for as a purchase of assets.

For transactions accounted for as business combination, the purchase price for assets acquired is allocated to the estimated fair value of the tangible and intangible assets acquired. The remainder is allocated to goodwill.

The Company records acquired finance receivables at fair value which is determined using discounted cash flow methodologies. Property and equipment are valued at the mutually agreed upon purchase price, which management believes approximates fair value.

On April 5, 2013, the Company purchased the assets of two branches in a business combination with a consumer loan company in the state of Georgia for a cash purchase price of \$575. The Company offered employment to the existing employees of such locations. This acquisition was completed in order to expand the Company's operations into the state of Georgia. All of the goodwill recognized is expected to be deductible for income tax purposes. On January 20, 2012, the Company purchased the assets of two affiliated consumer loan companies in a business combination for a cash purchase price of \$28,388. The Company offered employment to the existing employees of these companies. This acquisition was completed in order to expand the Company's operations into the state of Alabama.

The results of all business combinations have been included in the Company's Consolidated Financial Statements since the respective acquisition dates. The pro forma impact of these purchases as though they had been acquired at the beginning of the periods presented would not have a material effect on the results of operations as reported.

**Note 12: Subsequent Events**

On August 7, 2013, the Company filed a resale shelf registration statement on Form S-3 with the Securities and Exchange Commission in order to register currently issued and outstanding shares of our common stock held by certain pre-IPO stockholders (the Selling Stockholders). The Company is neither selling nor offering any shares under the registration statement, and it will not receive any proceeds from sales by the Selling Stockholders. The registration statement was filed following the exercise by the Selling Stockholders of their registration rights under the amended and restated shareholders agreement to which the Company and the Selling Stockholders are parties. After the registration statement has been declared effective by the SEC, up to 7,263,599 shares, in the aggregate, of the Company's common stock may be offered to the public by the Selling Stockholders.



**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes that appear elsewhere in this Quarterly Report on Form 10-Q. These discussions contain forward-looking statements reflecting our current expectations that involve risks and uncertainties. These forward-looking statements include, but are not limited to, statements concerning our strategy, future operations, future financial position, future revenues, projected costs, expectations regarding demand and acceptance for our financial products, growth opportunities and trends in the market in which we operate, prospects, and plans and objectives of management. The words anticipates, believes, estimates, expects, intends, may, plans, projects, will, would, and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Actual results or events could differ materially from the plans, intentions, and expectations disclosed in the forward-looking statements that we make, and you therefore should not place undue reliance on our forward-looking statements. These forward-looking statements involve risks and uncertainties, including, without limitation, the risks set forth in our filings with the Securities and Exchange Commission (the SEC), including our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (which was filed with the Securities and Exchange Commission on March 18, 2013). The forward-looking information we have provided in this Quarterly Report on Form 10-Q pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995 should be evaluated in the context of these factors. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to update or revise such statements, except as required by the federal securities laws.*

The following discussion should be read in conjunction with, and is qualified in its entirety by reference to, our unaudited consolidated financial statements contained elsewhere in this report, as well as our audited consolidated financial statements, including the notes thereto, and the Risk Factors and Management's Discussion and Analysis contained in our Annual Report on Form 10-K for the year ended December 31, 2012.

**Overview**

We are a diversified specialty consumer finance company providing a broad array of loan products primarily to customers with limited access to consumer credit from banks, thrifts, credit card companies, and other traditional lenders. We began operations in 1987 with four branches in South Carolina and have expanded our branch network to 263 locations in the states of South Carolina, Texas, North Carolina, Tennessee, Alabama, Oklahoma, New Mexico, and Georgia as of June 30, 2013. Most of our loan products are secured, and each is structured on a fixed rate, fixed term basis with fully amortizing equal monthly installment payments, repayable at any time without penalty. Our loans are sourced through our multiple channel platform, including in our branches, through direct mail campaigns, independent and franchise automobile dealerships, online credit application networks, retailers, and our consumer website. We operate an integrated branch model in which nearly all loans, regardless of origination channel, are serviced through our branch network, providing us with frequent in-person contact with our customers, which we believe improves our credit performance and customer loyalty. Our goal is to consistently and soundly grow our finance receivables and manage our portfolio risk while providing our customers with attractive and easy-to-understand loan products that serve their varied financial needs.

Our diversified product offerings include:

*Small Installment Loans* As of June 30, 2013, we had approximately 202,000 small installment loans outstanding, representing \$206.7 million in finance receivables.

*Large Installment Loans* As of June 30, 2013, we had approximately 14,000 large installment loans outstanding, representing \$44.4 million in finance receivables.

*Automobile Purchase Loans* As of June 30, 2013, we had approximately 19,000 automobile purchase loans outstanding, representing \$178.9 million in finance receivables.

*Retail Purchase Loans* As of June 30, 2013, we had approximately 30,000 retail purchase loans outstanding, representing \$30.6 million in finance receivables.

## Edgar Filing: Regional Management Corp. - Form 10-Q

*Insurance Products* We offer our customers optional payment protection insurance options relating to many of our loan products. Our primary sources of revenue are interest and fee income from our loan products, of which interest and fees relating to installment loans and automobile purchase loans have historically been the largest component. In 2009, we introduced retail purchase loans and expanded our automobile purchase loans to offer loans through online credit application networks. In addition to interest and fee income from loans, we derive revenue from insurance products sold to customers of our direct loan products.

- 15 -

**Table of Contents****Factors Affecting Our Results of Operations**

Our business is driven by several factors affecting our revenues, costs, and results of operations, including the following:

**Growth in Loan Portfolio.** The revenue that we derive from interest and fees from our loan products is largely driven by the amount of loans that we originate. Average finance receivables grew 36.3% from \$264.0 million in 2011 to \$359.7 million in 2012. Average finance receivables grew 36.1% from \$324.8 in the first six months of 2012 to \$442.1 million in the first six months of 2013. We originated or purchased 67,300, 120,900, and 68,800 new loans during 2011, 2012, and the first six months of 2013, respectively. We source our loans through our branches and our direct mail program, as well as through automobile dealerships and retailers that partner with us. Our loans are made almost exclusively in geographic markets served by our network of branches. Increasing the number of branches we operate allows us to increase the number of loans that we are able to service. We opened or acquired 36, 51, and 42 new branches in 2011, 2012, and the first six months of 2013, respectively. We have the opportunity to add as many as 800 additional branches over time in the states in which it is favorable for us to conduct business, and we have plans to continue to grow our branch network.

**Product Mix.** We offer a number of different loan products, including small installment loans, large installment loans, automobile purchase loans, and retail purchase loans. We charge different interest rates and fees and are exposed to different credit risks with respect to the various types of loans we offer. For example, in recent years, we have sought to increase our product diversification by growing our automobile purchase and retail purchase loans, which have lower interest rates and fees than our small installment loans but also have lower charge-off rates. Our product mix also varies to some extent by state. For example, small installment loans make up a smaller percentage of our loan portfolio in North Carolina than in the other states in which we operate because customers find the rate structure in North Carolina to be more favorable for larger loans. Small installment loans make up a larger percentage of our loan portfolio in Texas than our other loan products because customers find the rate structure in Texas to be more favorable for small installment loans. However, we expect to continue to diversify our product mix in the future.

**Asset Quality.** Our results of operations are highly dependent upon the quality of our asset portfolio. We recorded a \$27.8 million provision for credit losses during 2012 (or 7.7% as a percentage of average finance receivables) and a \$16.5 million provision for credit losses during the first six months of 2013 (or 7.5% as a percentage of average finance receivables (annualized)). The quality of our asset portfolio is the result of our ability to enforce sound underwriting standards, maintain diligent portfolio oversight, and respond to changing economic conditions as we grow our loan portfolio.

**Allowance for Credit Losses.** We evaluate losses in each of our four categories of loans in establishing the allowance for credit losses. The following table sets forth our allowance for credit losses compared to the related finance receivables as of June 30, 2013 and December 31, 2012:

	As of June 30, 2013			As of December 31, 2012		
	Finance Receivables	Allowance for Credit Losses	Allowance as Percentage of Related Finance Receivables	Finance Receivables	Allowance for Credit Losses	Allowance as Percentage of Related Finance Receivables
(Dollars in thousands)						
Small installment loans	\$ 206,650	\$ 12,299	6.0%	\$ 188,221	\$ 11,369	6.0%
Large installment loans	44,369	2,631	5.9%	52,498	2,753	5.2%
Automobile purchase loans	178,865	9,174	5.1%	166,889	8,424	5.0%
Retail purchase loans	30,558	1,515	5.0%	29,951	1,070	3.6%
<b>Total</b>	<b>\$ 460,442</b>	<b>\$ 25,619</b>	<b>5.6%</b>	<b>\$ 437,559</b>	<b>\$ 23,616</b>	<b>5.4%</b>

The allowance for small installment loans uses the most recent 8 months of net charge-offs as a percentage of the average of the most recent month-end balance of loans as a key data point in estimating the allowance. The allowance for each other loan type is based on the most recent 12 months of net charge-offs as a percentage of the average of the most recent month-end balance of loans as a key data point for estimating the allowance. We believe that the primary underlying factor driving the provision for credit losses for each of these loan types is the same: general economic conditions in the areas in which we conduct business. In addition, gasoline prices and the market for repossessed automobiles at auction are additional underlying factors that we believe influence the provision for credit losses for automobile purchase loans and, to a lesser extent, large installment loans. We monitor these factors, the monthly trend of delinquencies, and the slow file (which consists of all loans one or

## Edgar Filing: Regional Management Corp. - Form 10-Q

more days past due) to identify trends that might require an increased provision, and we modify the provision for credit losses accordingly.

**Interest Rates.** Our costs of funds are affected by changes in interest rates, and the interest rate that we pay on our senior revolving credit facility is a floating rate. Although we have purchased interest rate caps to protect a notional amount of \$150.0 million of our outstanding senior revolving credit facility should the three-month LIBOR exceed 6.0%, our cost of funding will increase if LIBOR increases.

- 16 -

## **Table of Contents**

**Efficiency Ratio.** One of our key operating metrics is our efficiency ratio, which is calculated by dividing the sum of general and administrative expenses by total revenue. Our efficiency ratio was 43.1% in the first six months of 2013, compared to 41.0% in the same period of 2012. The increase in the ratio in 2013 is primarily due to the decline in our total yield, and, to a lesser extent, due to the cost of additional new branches in their ramp up period.

### **Components of Results of Operations**

**Interest and Fee Income.** Our interest and fee income consists primarily of interest earned on outstanding loans. We cease accruing interest on a loan when the customer is contractually past due 90 days. Interest accrual resumes when the customer makes at least one full payment and the account is less than 90 days contractually past due.

Loan fees are additional charges to the customer, such as loan origination fees, acquisition fees, and maintenance fees, as permitted by state law. The fees may or may not be refundable to the customer in the event of an early payoff, depending on state law. Fees are accreted to income over the life of the loan on the constant yield method and are included in the customer's truth in lending disclosure.

**Insurance Income.** Our insurance income consists of revenue from the sale of various optional credit insurance products and other payment protection options offered to customers who obtain loans directly from us. We do not sell insurance to non-borrowers. The type and terms of our optional credit insurance products vary from state to state based on applicable laws and regulations. We offer optional credit life insurance, credit accident and health insurance, and involuntary unemployment insurance. We require property insurance on any personal property securing loans and offer customers the option of providing proof of such insurance purchased from a third party (such as homeowners or renters insurance) in lieu of purchasing property insurance from us. We also require proof of liability and collision insurance for any vehicles securing loans, and we obtain property insurance on behalf of customers who permit their other insurance coverage to lapse.

We issue insurance certificates as agents on behalf of an unaffiliated insurance company and then remit to the unaffiliated insurance company the premiums we collect (net of refunds on paid out or renewed loans). The unaffiliated insurance company cedes life insurance premiums to our wholly-owned insurance subsidiary, RMC Reinsurance, Ltd. ([RMC Reinsurance](#)), as written and non-life premiums as earned. As of June 30, 2013, we had pledged a \$1.9 million letter of credit to the unaffiliated insurance company to secure payment of life insurance claims. We maintain a cash reserve for life insurance claims in an amount determined by the unaffiliated insurance company. The unaffiliated insurance company maintains the reserves for non-life claims.

**Other Income.** Our other income consists primarily of late charges assessed on customers who fail to make a payment within a specified number of days following the due date of the payment (except in North Carolina, which does not permit late charges on direct consumer loans). Other income also includes fees for extending the due date of a loan and returned check charges. Due date extensions are only available to a customer once every thirteen months, are available only to customers who are current on their loans, and must be approved by personnel at our headquarters.

**Provision for Credit Losses.** Provisions for credit losses are charged to income in amounts that we judge as sufficient to maintain an allowance for credit losses at an adequate level to provide for losses on the related finance receivables portfolio. Credit loss experience, contractual delinquency of finance receivables, the value of underlying collateral, and management's judgment are factors used in assessing the overall adequacy of the allowance and the resulting provision for credit losses. Our provision for credit losses fluctuates so that we maintain an adequate credit loss allowance that accurately reflects our estimates of losses in our loan portfolio. Therefore, changes in our charge-off rates may result in changes to our provision for credit losses. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions or portfolio performance.

**General and Administrative Expenses.** Our general and administrative expenses are comprised of four categories: personnel, occupancy, advertising, and other. We typically measure our general and administrative expenses as a percentage of total revenue, which we refer to as our efficiency ratio.

Our personnel expenses are the largest component of our general and administrative expenses and consist primarily of the salaries, bonuses, and benefits associated with all of our branch, field, and headquarters employees, and related payroll taxes. In 2012 and 2013, we granted awards of stock options to purchase an aggregate of 380,000 shares of our common stock to our executive officers and directors and stock options to purchase an aggregate of 30,000 shares to other employees, each pursuant to the Regional Management Corp. 2011 Stock Incentive Plan (the 2011 Stock Plan). These stock options have an exercise price of \$15.00-\$16.73 per share and vest in five equal annual installments beginning on the first anniversary of the grant date. Deferred stock-based compensation expense equal to the grant-date fair value of the stock options issued of \$3.8 million is being recognized as compensation expense over the vesting period.

## Edgar Filing: Regional Management Corp. - Form 10-Q

Our occupancy expenses consist primarily of the cost of renting our branches, all of which are leased, as well as the utility and other non-personnel costs associated with operating our branches.

- 17 -



**Table of Contents**

Our advertising expenses consist primarily of costs associated with our direct mail campaigns (including postage and costs associated with selecting recipients) and maintaining our web site, as well as telephone directory advertisements and some local advertising by branches. These costs are expensed as incurred.

Other expenses consist primarily of various other expenses, including legal, audit, office supplies, credit bureau charges, and postage. In addition, for a discussion regarding how risks and uncertainties associated with the current regulatory environment may impact our future expenses, net income, and overall financial condition, see Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Our general and administrative expenses have increased as a result of the additional legal, accounting, insurance, and other expenses associated with being a public company.

***Consulting and Advisory Fees.*** Consulting and advisory fees consisted of amounts payable to Palladium Equity Partners III, L.P. and Parallel 2005 Equity Fund, LP (which we sometimes refer to herein as our sponsors ) and certain former major stockholders, who were members of our management before our acquisition by the sponsors, pursuant to certain agreements that were terminated in connection with our initial public offering that closed in April 2012.

***Interest Expense.*** Our interest expense consists primarily of interest payable and amortization of debt issuance costs in respect of borrowings under our senior revolving credit facility and our mezzanine debt, which was repaid with the proceeds of our initial public offering. Interest expense also includes costs attributable to the interest rate caps we enter into to manage our interest rate risk and unused line fees. Changes in the fair value of the interest rate cap are reflected in interest expense for the senior revolving credit facility and other debt.

***Income Taxes.*** Income taxes consist primarily of state and federal income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. 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. The effects of future tax rate changes are recognized in the period when the enactment of new rates occurs.

**Table of Contents****Results of Operations**

The following tables summarize key components of our results of operations for the periods indicated, both in dollars and as a percentage of total revenue (unaudited):

	Three Months Ended June 30,		2012	
	2013	% of Revenue	2012	% of Revenue
	Amount	(Dollars in Thousands)	Amount	
<b>Revenue:</b>				
Interest and fee income	\$ 34,920	88.7%	\$ 28,175	88.0%
Insurance income, net	2,973	7.5%	2,680	8.4%
Other income	1,490	3.8%	1,161	3.6%
<b>Total revenue</b>	<b>39,383</b>	<b>100.0%</b>	<b>32,016</b>	<b>100.0%</b>
<b>Expenses:</b>				
Provision for credit losses	8,405	21.3%	5,908	18.5%
General and administrative expenses				
Personnel	9,787	24.9%	8,273	25.8%
Occupancy	2,697	6.8%	2,086	6.5%
Advertising	1,347	3.4%	632	2.0%
Other	3,341	8.5%	2,268	7.1%
Consulting and advisory fees				
Interest expense				
Senior revolving credit facility and other debt	3,241	8.2%	2,341	7.3%
Mezzanine debt-related parties				
<b>Total interest expense</b>	<b>3,241</b>	<b>8.2%</b>	<b>2,341</b>	<b>7.3%</b>
<b>Total expenses</b>	<b>28,818</b>	<b>73.1%</b>	<b>21,508</b>	<b>67.2%</b>
<b>Income before income taxes</b>	<b>10,565</b>	<b>26.8%</b>	<b>10,508</b>	<b>32.8%</b>
Income taxes	3,909	9.9%	3,888	12.2%
<b>Net income</b>	<b>\$ 6,656</b>	<b>16.9%</b>	<b>\$ 6,620</b>	<b>20.7%</b>

**Table of Contents**

	Six Months Ended June 30,			
	2013	% of Revenue (Dollars in Thousands)	2012	% of Revenue
<b>Revenue:</b>				
Interest and fee income	\$ 68,966	88.5%	\$ 55,244	86.9%
Insurance income, net	5,906	7.6%	5,316	8.4%
Other income	3,080	4.0%	2,996	4.7%
<b>Total revenue</b>	<b>77,952</b>	<b>100.0%</b>	<b>63,556</b>	<b>100.0%</b>
<b>Expenses:</b>				
Provision for credit losses	16,476	21.1%	11,535	18.1%
General and administrative expenses				
Personnel	19,820	25.4%	16,270	25.6%
Occupancy	5,213	6.7%	3,980	6.3%
Advertising	1,852	2.4%	1,225	1.9%
Other	6,707	8.6%	4,576	7.2%
Consulting and advisory fees			1,451	2.3%
Interest expense				
Senior revolving credit facility and other debt	6,322	8.1%	4,851	7.6%
Mezzanine debt-related parties			1,030	1.6%
<b>Total interest expense</b>	<b>6,322</b>	<b>8.1%</b>	<b>5,881</b>	<b>9.3%</b>
<b>Total expenses</b>	<b>56,390</b>	<b>72.2%</b>	<b>44,918</b>	<b>70.7%</b>
<b>Income before income taxes</b>	<b>21,562</b>	<b>27.7%</b>	<b>18,638</b>	<b>29.3%</b>
Income taxes	7,978	10.2%	6,896	11.0%
<b>Net income</b>	<b>\$ 13,584</b>	<b>17.4%</b>	<b>\$ 11,742</b>	<b>18.5%</b>

Table of Contents**Regional Management Corp. and Subsidiaries****Selected Financial Data****(Unaudited)****(\$ in thousands)**

	<b>Components of Increase in Interest Income</b>		
	<b>Three Months Ended June 30, 2013</b>		
	<b>Compared to Three Months Ended June 30, 2012</b>		
	<b>Increase (Decrease)</b>		
	<b>Volume</b>	<b>Rate</b>	<b>Net</b>
Small installment loans	\$ 8,834	\$ (2,202)	\$ 6,632
Large installment loans	(850)	(600)	(1,450)
Automobile purchase loans	1,736	(746)	990
Retail purchase loans	573		573
<b>Total increase in interest and fee income</b>	<b>\$ 10,293</b>	<b>\$ (3,548)</b>	<b>\$ 6,745</b>

	<b>Three Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
Total Yield	35.5%	38.9%
Average net finance receivables	\$ 444,347	\$ 329,260

**Loans Originated (1)**

	<b>Three Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
Small installment loans	\$ 160,291	\$ 98,925
Large installment loans	14,621	20,423
Automobile purchase loans	34,872	35,404
Retail purchase loans	8,202	10,171
<b>Total finance receivables</b>	<b>\$ 217,986</b>	<b>\$ 164,923</b>

(1) Represents gross balance of loan originations, including unearned finance charges

	<b>Three Months Ended June 30,</b>		<b>Three Months Ended June 30,</b>	
	<b>2013</b>	<b>Percentage of</b>	<b>2012</b>	<b>Percentage of</b>
	<b>Amount</b>	<b>Average Finance</b>	<b>Amount</b>	<b>Average Finance</b>
		<b>Receivables</b>		<b>Receivables</b>
		<b>(Annualized)</b>		<b>(Annualized)</b>
Net charge-offs as a percentage of average finance receivables	\$ 7,416	6.7%	\$ 4,988	6.1%

Edgar Filing: Regional Management Corp. - Form 10-Q

	Amount	Percentage of Total Revenue	Amount	Percentage of Total Revenue
Provision for credit losses	\$ 8,405	21.3%	\$ 5,908	18.5%
General and administrative expenses	\$ 17,172	43.6%	\$ 13,259	41.4%

	Amount	Growth Rate	Amount	Growth Rate
Same store finance receivables at period-end/Growth rate	\$ 413,975	22.4%	\$ 291,233	16.3%
Same store revenue growth rate		17.2%		10.8%
Number of branches in calculation	193		146	

**Components of Increase in Interest Income  
Six Months Ended June 30, 2013  
Compared to Six Months Ended June 30, 2012**

	Increase (Decrease)		
	Volume	Rate	Net
Small installment loans	\$ 16,440	\$ (4,302)	\$ 12,138
Large installment loans	(1,016)	(1,026)	(2,042)
Automobile purchase loans	3,618	(1,341)	2,277
Retail purchase loans	1,380	(31)	1,349
<b>Total increase in interest and fee income</b>	<b>\$ 20,422</b>	<b>\$ (6,700)</b>	<b>\$ 13,722</b>

**Table of Contents**

	<b>Loans Originated (1)</b>	
	<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
Small installment loans	\$ 262,001	\$ 155,736
Large installment loans	29,357	32,940
Automobile purchase loans	67,578	65,544
Retail purchase loans	17,125	16,904
<b>Total finance receivables</b>	<b>\$ 376,061</b>	<b>\$ 271,124</b>

(1) Represents gross balance of loan originations, including unearned finance charges

	<b>Six Months Ended June 30,</b>			
	<b>2013</b>		<b>2012</b>	
	<b>Amount</b>	<b>Percentage of Average Finance Receivables (Annualized)</b>	<b>Amount</b>	<b>Percentage of Average Finance Receivables (Annualized)</b>
Net charge-offs as a percentage of average finance receivables	\$ 14,473	6.5%	\$ 10,055	6.2%
	<b>Amount</b>	<b>Percentage of Total Revenue</b>	<b>Amount</b>	<b>Percentage of Total Revenue</b>
Provision for credit losses	\$ 16,476	21.1%	\$ 11,535	18.1%
General and administrative expenses	\$ 33,592	43.1%	\$ 26,051	41.0%

	<b>Finance Receivables</b>	
	<b>As of June 30,</b>	
	<b>2013</b>	<b>2012</b>
Small installment loans	\$ 206,650	\$ 120,675
Large installment loans	44,369	53,604
Automobile purchase loans	178,865	150,292
Retail purchase loans	30,558	20,840
<b>Total finance receivables</b>	<b>\$ 460,442</b>	<b>\$ 345,411</b>
Number of branches at period end	263	206
Finance receivables per branch	\$ 1,751	\$ 1,677

	<b>As of June 30,</b>			
	<b>2013</b>		<b>2012</b>	
	<b>Amount</b>	<b>Percentage of Total Finance Receivables</b>	<b>Amount</b>	<b>Percentage of Total Finance Receivables</b>
Allowance for credit losses	\$ 25,619	5.6%	\$ 20,780	6.0%
Over 30 days contractually delinquent	\$ 28,831	6.3%	\$ 21,071	6.1%
Over 90 days contractually delinquent	\$ 10,535	2.3%	\$ 7,063	2.0%

Edgar Filing: Regional Management Corp. - Form 10-Q

Over 180 days contractually delinquent	\$ 2,763	0.6%	\$ 1,880	0.5%
--	----------	------	----------	------

- 22 -

**Table of Contents****Comparison of June 30, 2013, Versus June 30, 2012**

The following is a discussion of the changes by product type:

*Small Installment Loans* Small installment loans (loans with an original principal balance of \$2,500 or less) outstanding increased by \$86.0 million, or 71.2%, to \$206.7 million at June 30, 2013, from \$120.7 million at June 30, 2012. Our direct mail campaigns drove significant loan growth in existing and new branches. In addition, the growth in receivables at the new branches opened in 2012 contributed to the growth in overall small installment loans outstanding.

*Large Installment Loans* Large installment loans outstanding decreased by \$9.2 million, or 17.2%, to \$44.4 million at June 30, 2013, from \$53.6 million at June 30, 2012. The decrease was due to the application of the Company's underwriting standards on large loans purchased in the prior year resulting in smaller renewals and originations than those loans originally purchased. In addition, an increase in the small installment loan limit from \$2,000 to \$2,500 in some states in order to be consistent with our overall limit is causing a shift from large to small installment loans.

*Automobile Purchase Loans* Automobile purchase loans outstanding increased by \$28.6 million, or 19.0%, to \$178.9 million at June 30, 2013, from \$150.3 million at June 30, 2012. The increase in automobile purchase loans outstanding was principally due to our increased emphasis on such loans, including our new initiatives relating to indirect lending through our AutoCredit Source branches. The addition in recent years of indirect lending at a lower interest rate has slightly lowered the overall yield of our automobile purchase loan category.

*Retail Purchase Loans* Retail purchase loans outstanding increased \$9.7 million, or 46.6%, to \$30.6 million at June 30, 2013, from \$20.8 million at June 30, 2012. The increase in retail purchase loans outstanding resulted from the additional relationships we established with new retailers, as well as an expansion of volume through our existing relationships.

**Comparison of the Three Months Ended June 30, 2013, Versus the Three Months Ended June 30, 2012**

*Net Income and Revenue.* Net income increased \$36,000 for the three months ended June 30, 2013, or 0.5%, to \$6.7 million, from \$6.6 million for the three month period ended June 30, 2012. Total revenues increased \$7.4 million during the quarter ended June 30, 2013, a 23.0% increase over the corresponding quarter in June 30, 2012. As of June 30, 2013 about 58% of our branches are less than 5 years old and are in the steepest part of the growth curve. Same-store revenue growth for the second quarter of 2013 was 17.2%. The increase in 2013 revenues and net income is attributable to strong loan growth in existing branches, combined with the opening or acquisition of 57 additional branches since June 30, 2012.

*Interest and Fee Income.* Interest and fee income increased \$6.7 million, or 23.9%, to \$34.9 million in the three months ended June 30, 2013, from \$28.1 million in the three months ended June 30, 2012. The increase in interest and fee income was due primarily to a 35.0% increase in average finance receivables during the year, offset by a decrease in the average yield on loans from 34.2% to 31.4%. The following table sets forth the portions of the increase in interest and fee income attributable to changes in the finance receivables balance and average yield for each of our products for the three months ended June 30, 2013, compared to the three months ended June 30, 2012 (dollars in thousands):

	Three Months Ended June 30, 2013 Compared to the Three Months Ended June 30, 2012		
	Increase (Decrease)		
	Volume	Rate	Net
Small installment loans	\$ 8,834	\$ (2,202)	\$ 6,632
Large installment loans	(850)	(600)	(1,450)
Automobile purchase loans	1,736	(746)	990
Retail purchase loans	573		573
<b>Total increase in interest and fee income</b>	<b>\$ 10,293</b>	<b>\$ (3,548)</b>	<b>\$ 6,745</b>



## Edgar Filing: Regional Management Corp. - Form 10-Q

**Insurance Income.** Insurance income increased \$293,000, or 10.9%, to \$3.0 million in the three months ended June 30, 2013 from \$2.7 million in the three months ended June 30, 2012. However, annualized insurance income as a percentage of average finance receivables decreased from 3.3% to 2.7%. The decline is primarily attributable to the increase in indirect automobile purchase and retail purchase loans where we do not have the opportunity to discuss our insurance offerings with the customer.

**Other Income.** Other income increased \$329,000, or 28.3%, to \$1.5 million in the three months ended June 30, 2013 from \$1.2 million in the same period of 2012. The largest component of other income is late charges, which increased \$214,000, or 22.0%, to \$1.2 million in the three months ended June 30, 2013 from \$1.0 million in the same period of 2012.

In 2012 we recognized \$45,000 of revenue from the preparation of income tax returns. The Company no longer provides these services.

**Table of Contents**

**Provision for Credit Losses.** Our provision for credit losses increased \$2.5 million, or 42.3%, to \$8.4 million in the three months ended June 30, 2013 from \$5.9 million in the comparable period of 2012. The increase in the provision was made in recognition of growth in the loan portfolio. Net loans charged-off were 6.7% and 6.1% (annualized) of average finance receivables for the three months ended June 30, 2013 and 2012, respectively.

**General and Administrative Expenses.** Our general and administrative expenses, comprising expenses for personnel, occupancy, advertising, and other expenses, increased \$3.9 million, or 29.5%, to \$17.2 million during the three months ended June 30, 2013 from \$13.3 million in the comparable period of 2012. This increase was primarily the result of adding 57 branches to our network since June 30, 2012. Our efficiency ratio (general and administrative expenses as a percentage of revenue) increased to 43.6% in 2013 from 41.4% in 2012. The increase in the ratio in 2013 is primarily due to the decline in our total yield and, to a lesser extent, due to the cost of additional new branches in their ramp up period.

**Personnel.** The largest component of general and administrative expenses is personnel expense, which increased \$1.5 million, or 18.3%, to \$9.8 million in the three months ended June 30, 2013 from \$8.3 million for the same period in 2012. This increase is primarily attributable to the number of new branches opened. At June 30, 2012, we had 206 branches; whereas, at June 30, 2013, we had 263 branches. However, personnel costs as a percentage of average finance receivables declined to 8.8% (annualized) in the three months ended June 30, 2013 from 10.1% (annualized) in the three months ended June 30, 2012. The Company has leveraged existing personnel as average finance receivables have increased.

**Occupancy.** Occupancy expenses increased \$611,000, or 29.3%, to \$2.7 million in the three months ended June 30, 2013 from \$2.1 million in the same period of 2012. The increase in occupancy expenses is the result of 57 additional branches at June 30, 2013, compared to June 30, 2012. Additionally, we frequently experience increases in rent as we renew existing leases.

**Advertising.** Advertising expenses increased \$715,000, or 113.1%, to \$1.3 million in the three months ended June 30, 2013 from \$632,000 in the same period of 2012. The increase was due to the increases in our direct mail campaigns consistent with our 2013 plan for additional off cycle mailings.

**Other Expenses.** Other expenses increased \$1.1 million, or 47.3%, to \$3.3 million in the three months ended June 30, 2013 from \$2.3 million in the same period of 2012. The increase was due primarily to costs associated with the addition of 57 new branches since June 30, 2012 and other costs associated with being a public company.

**Interest Expense.** Interest expense on the senior revolving credit facility and other debt increased \$900,000, or 38.4%, to \$3.2 million in the three months ended June 30, 2013 from \$2.3 million in the same period of 2012. This increase was due primarily to the increase in the average balance of our senior revolving credit facility. The average cost of our senior revolving credit facility increased by 5 basis points from 4.45% for the three months ended June 30, 2012 to 4.50% for the three months ended June 30, 2013.

**Income Taxes.** Income taxes increased \$21,000, or 0.5%, to \$3.9 million in the three months ended June 30, 2013 from \$3.9 million compared to the same period in 2012. The increase in income taxes was due to an increase in our net income before taxes.

**Comparison of the Six Months Ended June 30, 2013, Versus the Six Months Ended June 30, 2012**

**Net Income and Revenue.** Net income increased \$1.8 million for the six months ended June 30, 2013, or 15.7%, to \$13.6 million, from \$11.7 million for the six month period ended June 30, 2012. Total revenues increased \$14.4 million during the six months ended June 30, 2013, a 22.7% increase over the corresponding period in 2012. The increase in 2013 revenues and net income is attributable to strong loan growth in existing branches, combined with the opening or acquisition of 57 additional branches since June 30, 2012.

**Interest and Fee Income.** Interest and fee income increased \$13.7 million, or 24.8%, to \$69.0 million in the six months ended June 30, 2013, from \$55.2 million in the six months ended June 30, 2012. The increase in interest and fee income was due primarily to a 36.1% increase in average finance receivables during the year, offset by a decrease in the average yield on loans from 34.0% to 31.2%. The following table sets forth the portions of the increase in interest and fee income attributable to changes in the finance receivables balance and average yield for each of our products for the six months ended June 30, 2013, compared to the six months ended June 30, 2012 (dollars in thousands):

**Six Months Ended June 30, 2013  
Compared to the Three Months Ended June 30, 2012  
Increase (Decrease)**

Edgar Filing: Regional Management Corp. - Form 10-Q

	<b>Volume</b>	<b>Rate</b>	<b>Net</b>
Small installment loans	\$ 16,440	\$ (4,302)	\$ 12,138
Large installment loans	(1,016)	(1,026)	(2,042)
Automobile purchase loans	3,618	(1,341)	2,277
Retail purchase loans	1,380	(31)	1,349
<b>Total increase in interest and fee income</b>	<b>\$ 20,422</b>	<b>\$ (6,700)</b>	<b>\$ 13,722</b>

- 24 -

---

**Table of Contents**

**Insurance Income.** Insurance income increased \$590,000, or 11.1%, to \$5.9 million in the six months ended June 30, 2013 from \$5.3 million in the six months ended June 30, 2012. However, annualized insurance income as a percentage of average finance receivables decreased from 3.3% to 2.7%. The decline is primarily attributable to the increase in indirect automobile purchase and retail purchase loans where we do not have the opportunity to discuss our insurance offerings with the customer.

**Other Income.** Other income increased \$84,000, or 2.8%, to \$3.1 million in the six months ended June 30, 2013 from \$3.0 million in the same period of 2012. The largest component of other income is late charges, which increased \$475,000, or 23.9%, to \$2.5 million in the six months ended June 30, 2013 from \$2.0 million in the same period of 2012.

In 2012 we recognized \$345,000 of revenue from the preparation of income tax returns. The Company no longer provides these services.

**Provision for Credit Losses.** Our provision for credit losses increased \$4.9 million, or 42.8%, to \$16.5 million in the six months ended June 30, 2013 from \$11.5 million in the comparable period of 2012. The increase in the provision was made in recognition of growth in the loan portfolio. Net loans charged-off were 6.5% and 6.2% (annualized) of average finance receivables for the six months ended June 30, 2013 and 2012, respectively.

**General and Administrative Expenses.** Our general and administrative expenses, comprising expenses for personnel, occupancy, advertising, and other expenses, increased \$7.5 million, or 28.9%, to \$33.6 million during the six months ended June 30, 2013 from \$26.1 million in the comparable period of 2012. This increase was primarily the result of adding 57 branches to our network since June 30, 2012. Our efficiency ratio (general and administrative expenses as a percentage of revenue) increased to 43.1% in 2013 from 41.0% in 2012. The increase in the ratio in 2013 is primarily due to the decline in our total yield and, to a lesser extent, due to the cost of additional new branches in their ramp up period.

**Personnel.** The largest component of general and administrative expenses is personnel expense, which increased \$3.6 million, or 21.8%, to \$19.8 million in the six months ended June 30, 2013 from \$16.3 million for the same period in 2012. This increase is primarily attributable to the number of new branches opened. At June 30, 2012, we had 206 branches; whereas, at June 30, 2013, we had 263 branches. However, personnel costs as a percentage of average finance receivables declined to 9.0% (annualized) for the six months ended June 30, 2013 from 10.0% (annualized) in the six months ended June 30, 2012. The Company has leveraged existing personnel as average finance receivables have increased.

**Occupancy.** Occupancy expenses increased \$1.2 million, or 31.0%, to \$5.2 million in the six months ended June 30, 2013 from \$4.0 million in the same period of 2012. The increase in occupancy expenses is the result of 57 additional branches at June 30, 2013, compared to June 30, 2012. Additionally, we frequently experience increases in rent as we renew existing leases.

**Advertising.** Advertising expenses increased \$627,000, or 51.2%, to \$1.9 million in the six months ended June 30, 2013 from \$1.2 million in the same period of 2012. The increase was due to the increases in our direct mail campaigns consistent with our 2013 plan for additional off cycle mailings.

**Other Expenses.** Other expenses increased \$2.1 million, or 46.6%, to \$6.7 million in the six months ended June 30, 2013 from \$4.6 million in the same period of 2012. The increase was due primarily to costs associated with the addition of 57 new branches since June 30, 2012 and other costs associated with being a public company.

**Interest Expense.** Interest expense on the senior revolving credit facility and other debt increased \$1.5 million, or 30.3%, to \$6.3 million in the six months ended June 30, 2013 from \$4.9 million in the same period of 2012. This increase was due primarily to the increase in the average balance of our senior revolving credit facility. The average cost of our senior revolving credit facility decreased by 33 basis points from 4.74% for the six months ended June 30, 2012 to 4.41% for the six months ended June 30, 2013. The primary difference was the mix between our LIBOR-based portion of the loan and the prime interest rate portion of the loan.

**Consulting and Advisory Fees.** The consulting and advisory fees paid to related parties terminated with the closing of the initial public offering.

**Income Taxes.** Income taxes increased \$1.1 million, or 15.7%, to \$8.0 million in the six months ended June 30, 2013 from \$6.9 million compared to the same period in 2012. The increase in income taxes was due to an increase in our net income before taxes.

---

## **Table of Contents**

### **Quarterly Information and Seasonality**

Our loan volume and corresponding finance receivables follow seasonal trends. Demand for our loans is typically highest during the fourth quarter, largely due to customers borrowing money for holiday spending. With the exception of automobile purchase loans, 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, our loan volume typically grows from customer loan activity. 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.

### **Liquidity and Capital Resources**

Our primary cash needs relate to the funding of our lending activities and, to a lesser extent, capital expenditures relating to expanding and maintaining our branch locations. In connection with our plans to open at least as many branches in future years as we have opened in recent years, we will incur approximately \$2.5 million to \$3.0 million of capital expenditures annually. We have historically financed, and plan to continue to finance, our short-term and long-term operating liquidity and capital needs through a combination of cash flows from operations and borrowings under our senior revolving credit facility.

As a holding company, almost all of the funds generated from our operations are earned by our operating subsidiaries. In addition, our wholly-owned subsidiary, RMC Reinsurance, is required to maintain cash reserves against life insurance policies ceded to it, as determined by the ceding company, and has also purchased a cash-collateralized letter of credit in favor of the ceding company. As of June 30, 2013, these reserve requirements totaled \$1.9 million. Additionally, we had a reserve for life insurance claims on our balance sheet of \$208,000, as determined by the third party, unrelated ceding company.

#### ***Cash Flow.***

**Operating Activities.** Net cash provided by operating activities increased by \$617,000, or 2.2%, to \$29.1 million in the first six months of 2013 from \$28.5 million in the first six months of 2012. The increase was primarily due to higher profitability due to growth in the business.

**Investing Activities.** Investing activities consist of finance receivables originated and purchased, net change in restricted cash, and the purchase of furniture and equipment for new and existing branches. Net cash used in investing activities for the first six months of 2013 was \$40.3 million compared to \$52.7 million in the first six months of 2012, a net decrease of \$12.4 million. The decrease is due primarily to the prior year payment for a business combination of \$28.4 million.

**Financing Activities.** Financing activities consist of borrowings and payments on our outstanding indebtedness and issuance of common stock. During the six months ended June 30, 2012, net cash provided by financing activities was \$21.7 million. During the first six months of 2013, net cash provided by financing activities was \$10.8 million, resulting in a decrease in net cash provided by financing activities of \$10.9 million. The decrease in net cash provided by financing activities was primarily the result of a decrease in proceeds from the issuance of common stock, net of repayment of mezzanine debt.

#### ***Financing Arrangements.***

**Senior Revolving Credit Facility.** We entered into an amended and restated senior revolving credit facility with a syndicate of banks in January 2012, which was subsequently amended in July 2012, March 2013, and May 2013. The amended and restated senior revolving credit facility provides for up to \$500.0 million in availability, with a borrowing base of 85% of eligible finance receivables, and matures in May 2016. The facility has an accordion provision that allows for the expansion of the facility to \$600 million. Borrowings under the facility bear interest, payable monthly, at rates equal to LIBOR of a maturity we elect between one month and six months, with a LIBOR floor of 1.00%, plus an applicable margin based on our leverage ratio. Alternatively, we may pay interest at a rate based on the prime rate plus an applicable margin (which was 2.0% as of June 30, 2013). We also pay an unused line fee of 0.50% per annum, payable monthly. This fee decreases to 0.375% at certain usage levels. The senior revolving credit facility is collateralized by certain of our assets, including substantially all of our finance receivables and equity interests of substantially all of our subsidiaries. The credit agreement contains certain restrictive covenants, including maintenance of specified interest coverage and debt ratios, restrictions on distributions, limitations on other indebtedness, maintenance of a minimum allowance for credit losses, and certain other restrictions.

Our outstanding debt under the senior revolving credit facility was \$302.3 million at June 30, 2013. At June 30, 2013, we were in material compliance with our debt covenants. See Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, for a discussion of risks related to our amended and restated senior revolving credit facility, including refinancing risk. A

## Edgar Filing: Regional Management Corp. - Form 10-Q

year or more in advance of the maturity date of our amended and restated senior revolving credit facility, we intend to extend its maturity date or take other appropriate action to address repayment upon maturity.

- 26 -

## **Table of Contents**

We have entered into interest rate caps to manage interest rate risk associated with a notional amount of \$150.0 million of our LIBOR-based borrowings. The interest rate caps have a strike rate of six percent and a maturity of March 4, 2014. When three-month LIBOR exceeds six percent, the counterparty reimburses us for the excess over six percent; no payment is required by us or the counterparty when three-month LIBOR is below six percent.

**Mezzanine Debt.** In August 2010, we entered into a \$25.8 million mezzanine loan from a sponsor and three individual stockholders. Our mezzanine debt was repaid in full from the proceeds of our initial public offering, which closed in April 2012.

**Other Financing Arrangements.** We have a \$1.5 million line of credit with a commercial bank to facilitate our cash management program, which is secured by a mortgage on our headquarters. The interest rate is prime plus 0.25%, with a minimum of 5.00%, and interest is payable monthly. The line of credit matures on January 18, 2015. There are no significant restrictive covenants associated with this line of credit. There was no amount outstanding under this line of credit at June 30, 2013.

## **Off Balance Sheet Arrangements**

We are not a party to any off balance sheet arrangements.

## **Impact of Inflation**

Our results of operations and financial condition are presented based on historical cost, except for the interest rate cap which is carried at fair value. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on our results of operations and financial condition have been immaterial.

## **Critical Accounting Policies**

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The preparation of these financial statements requires estimates and judgments 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 reporting period. Management bases estimates on historical experience and other assumptions it believes to be reasonable under the circumstances and evaluates these estimates on an on-going basis. Actual results may differ from these estimates under different assumptions or conditions.

We set forth below those material accounting policies that we believe are the most critical to an investor's understanding of our financial results and condition and that involve a higher degree of complexity and management judgment.

### ***Credit Losses.***

Finance receivables are equal to the total amount due from the customer, net of unearned finance and insurance charges. Net finance receivables are equal to the total amount due from the customer, net of unearned finance and insurance charges and allowance for credit losses.

Provisions for credit losses are charged to income in amounts sufficient to maintain an adequate allowance for credit losses on our related finance receivables portfolio. Credit loss experience, contractual delinquency of finance receivables, the value of underlying collateral, and management's judgment are factors used in assessing the overall adequacy of the allowance and the resulting provision for credit losses.

Our loans within each loan product are homogenous and it is not possible to evaluate individual loans. We evaluate losses in each of the four categories of loans in establishing the allowance for credit losses.

In making an evaluation about the portfolio, we consider the trend of contractual delinquencies and the slow file. The slow file consists of all loans that are one or more days past due. We use the number of accounts in the slow file, rather than the dollar amount, to prevent masking delinquencies of smaller loans compared to larger loans. We evaluate delinquencies and the slow file by each state and by supervision district within states to identify trends requiring investigation. Historically, loss rates have been affected by several factors, including the unemployment rates in the areas in which we operate, the number of customers filing for bankruptcy protection, and the prices paid for vehicles at automobile auctions. Management considers each of these factors in establishing the allowance for credit losses.

## Edgar Filing: Regional Management Corp. - Form 10-Q

We evaluate the loans of customers in Chapter 13 bankruptcy for impairment as troubled debt restructurings. We have adopted the policy of aggregating loans with similar risk characteristics for purposes of computing the amount of impairment. In connection with the adoption of this practice, we compute the estimated impairment on our Chapter 13 bankrupt loans in the aggregate by discounting the projected cash flows at the original contract rates on the loan using the terms imposed by the bankruptcy court. We applied this method in the aggregate to each of our four classes of loans.

- 27 -



## **Table of Contents**

Our policy for the accounts of customers in bankruptcy is to charge off the balance of accounts in a confirmed bankruptcy under Chapter 7 of the bankruptcy code. For customers in a Chapter 13 bankruptcy plan, the bankruptcy court reduces the post-petition interest rate we can charge, as it does for most creditors. Additionally, if the bankruptcy court converts a portion of a loan to an unsecured claim, our policy is to charge off the portion of the unsecured balance that we deem uncollectible at the time the bankruptcy plan is confirmed. Once the customer is in a confirmed Chapter 13 bankruptcy plan, we receive payments with respect to the remaining amount of the loan at the reduced interest rate from the bankruptcy trustee. We do not believe that accounts in a confirmed Chapter 13 plan have a higher level of risk than non-bankrupt accounts. If a customer fails to comply with the terms of the bankruptcy order, we will petition the trustee to have the customer dismissed from bankruptcy. Upon dismissal, we restore the account to the original terms and pursue collection through our normal collection activities.

We fully reserve for all loans at the date that the loan is contractually delinquent 180 days. We initiate repossession proceedings on certain loans when an account is seriously delinquent, we have exhausted other means of collection, and, in the opinion of management, the customer is unlikely to make further payments. We sell substantially all repossessed vehicles through public sales conducted by independent automobile auction organizations, after the required post-possession waiting period. Losses on the sale of repossessed collateral are charged to the allowance for credit losses.

### ***Income Recognition.***

Interest income is recognized using the interest (actuarial) method, or constant yield method. Therefore, we recognize revenue from interest at an equal rate over the term of the loan. Unearned finance charges on pre-compute contracts are rebated to customers utilizing the Rule of 78s method. The difference between income recognized under the constant yield method and the Rule of 78s method is recognized as an adjustment to interest income at the time of rebate. Accrual of interest income on finance receivables is suspended when no payment has been received for 90 days or more on a contractual basis. The accrual of income is not resumed until one or more full contractual monthly payments are received and the account is less than 90 days contractually delinquent. Interest income is suspended on finance receivables for which collateral has been repossessed.

We recognize income on credit insurance products using the constant yield method over the life of the related loan. Rebates are computed using the Rule of 78s method, and any difference between the constant yield method and the Rule of 78s is recognized in income at the time of rebate.

We charge a fee to automobile dealers for each loan we purchase from that dealer. We defer this fee and accrete it to income using a method that approximates the constant yield method over the life of the loan.

Charges for late fees are recognized as income when collected.

***Insurance Operations.*** Insurance operations include revenue and expense from the sale of optional insurance products to our customers. These optional products include credit life insurance, credit accident and health insurance, property insurance, and involuntary unemployment insurance. The premiums and commissions we receive are deferred and amortized to income over the life of the insurance policy using the constant yield method.

### ***Stock-Based Compensation.***

We have a stock option plan for certain members of management. We did not grant any options in 2009, 2010, or 2011. Upon the closing of the initial public offering in 2012, we granted options to purchase an aggregate of 310,000 shares of our common stock to certain of our officers and directors. An additional 100,000 shares were granted to one of our officers in January 2013. We measure compensation cost for stock-based awards made under this plan at estimated fair value and recognize compensation expense over the service period for awards expected to vest. All grants are made at 100% of fair value at the date of the grant.

The fair value of stock options is determined using the Black-Scholes valuation model. The Black-Scholes model requires the input of highly subjective assumptions, including expected volatility, risk-free interest rate, and expected life, changes to which can materially affect the fair value estimate. In addition, the estimation of stock-based awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised.

Prior to our initial public offering in March 2012, our stock was not publically traded. We used the performance of the common stock of a publicly traded company whose business is comparable to ours to estimate the volatility of our stock. The risk-free rate is based on the U.S. Treasury yield at the date our Board approved the option awards for the period over which the options are exercisable.

### ***Income Taxes.***

## Edgar Filing: Regional Management Corp. - Form 10-Q

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be

- 28 -

**Table of Contents**

ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. As of June 30, 2013, we had not taken any tax position that exceeds the amount described above.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the consolidated statements of income.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. 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. The effects of future tax rate changes are recognized in the period when the enactment of new rates occurs.

**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*****Interest Rate Risk***

Interest rate risk arises from the possibility that changes in interest rates will affect our results of operations and financial condition. We originate finance receivables at either prevailing market rates or at statutory limits. Subject to statutory limits, our ability to react to changes in prevailing market rates is dependent upon the speed at which our customers pay off or renew loans in our existing loan portfolio, which allows us to originate new loans at prevailing market rates. Our loan portfolio turns over approximately 1.3 times per year from cash payments and renewals of loans. As our automobile purchase loans and retail purchase loans have longer maturities and typically are not refinanced prior to maturity, the rate of turnover of the loan portfolio may change as these loans change as a percentage of our portfolio.

We also are exposed to changes in interest rates as a result of our borrowing activities, which include a senior revolving credit facility with a group of banks used to maintain liquidity and fund the Company's business operations. The nature and amount of our debt may vary as a result of future business requirements, market conditions, and other factors. At June 30, 2013, our outstanding debt under our senior revolving credit facility was \$302.3 million and interest on borrowings under this facility was approximately 4.41% for the six months ended June 30, 2013, including amortization of debt issuance costs, an unused line fee, and adjustments to fair value of the Company's interest rate cap. Because the LIBOR interest rates are currently below the 1.00% floor provided for in our senior revolving credit facility, an increase of 100 basis points in the LIBOR interest rate would result in an increase of less than 100 basis points to our borrowing costs. Based on a LIBOR rate of 25 basis points and the outstanding balance at June 30, 2013, an increase of 100 basis points in the LIBOR would result in an increase of 25 basis points to our borrowing costs and would result in \$756,000 of increased interest expense on an annual basis.

We have entered into interest rate caps to manage interest rate risk associated with a notional \$150.0 million of our LIBOR-based borrowings. The interest rate caps are based on the three-month LIBOR contract, reimburse us for the difference when three-month LIBOR exceeds six percent, and have a maturity of March 4, 2014. The carrying value of the interest rate caps are adjusted to fair value. For the three months ended June 30, 2013 and 2012, we recorded an unfavorable fair value adjustment of \$566 and \$23,000, respectively, as an increase in interest expense.

**ITEM 4. CONTROLS AND PROCEDURES*****Evaluation of Disclosure Controls and Procedures***

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2013. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of June 30, 2013, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

***Changes in Internal Control***

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

We are involved in various legal proceedings and related actions that have arisen in the ordinary course of our business that have not been fully adjudicated. Our management does not believe that these matters, when ultimately concluded and determined, will have a material adverse effect on our financial condition, liquidity, or results of operations.

**ITEM 1A. RISK FACTORS**

There have been no material changes to our Risk Factors from those included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012. In addition to the other information set forth in this report and in our other reports and statements that we file with the SEC, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (which was filed with the SEC on March 18, 2013), which could materially affect our business, financial condition, and/or future operating results. The risks described in our Annual Report on Form 10-K and Quarterly Reports on Form 10-Q are not the only risks facing our company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially and adversely affect the Company's business, financial condition, and/or operating results.

**ITEM 6. EXHIBITS**

The exhibits listed in the accompanying exhibit index are filed as part of this Quarterly Report on Form 10-Q.

**Table of Contents**

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**REGIONAL MANAGEMENT CORP.**

Date: August 9, 2013

By: /s/ Donald E. Thomas  
Donald E. Thomas, Executive Vice President and Chief Financial Officer

(Principal Financial Officer and Duly Authorized Officer)

- 32 -

**Table of Contents****EXHIBIT INDEX**

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	File No.	Exhibit Filing Date	
10.1	Joinder, Extension and Third Amendment to the Fourth Amended and Restated Loan and Security Agreement, dated as of May 13, 2013, by and among the lenders named therein, Bank of America, N.A., as the agent, and Regional Management Corp., Regional Finance Corporation of South Carolina, Regional Finance Corporation of Georgia, Regional Finance Corporation of Texas, Regional Finance Corporation of North Carolina, Regional Finance Corporation of Alabama, Regional Finance Corporation of Tennessee, Regional Finance Company of New Mexico, LLC, Regional Finance Company of Oklahoma, LLC, Regional Finance Company of Missouri, LLC, Regional Finance Company of Georgia, LLC, RMC Financial Services of Florida, LLC, Regional Finance Company of Louisiana, LLC, Regional Finance Company of Mississippi, LLC, Regional Finance Company of Kentucky, LLC, and Regional Finance Company of Virginia, LLC as borrowers.	8-K	001-35477	10.1 May 14, 2013	
31.1	Rule 13a-14(a) / 15(d)-14(a) Certification of Principal Executive Officer				X
31.2	Rule 13a-14(a) / 15(d)-14(a) Certification of Principal Financial Officer				X
32.1	Section 1350 Certifications				X
101+	The following materials from our Quarterly Report on Form 10-Q for the three and six months ended June 30, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012; (ii) the Consolidated Statements of Income for the three and six months ended June 30, 2013 and June 30, 2012; (iii) the Consolidated Statements of Stockholders' Equity for the year ended December 31, 2012 and the six months ended June 30, 2013; (iv) the Consolidated Statements of Cash Flows for the six months ended June 30, 2013 and June 30, 2012; and (v) the Notes to the Condensed Consolidated Financial Statements.				X

+ The XBRL-related information has been furnished electronically herewith. This exhibit, regardless of whether it is an exhibit to a document incorporated by reference into any of our filings and except to the extent specifically stated otherwise, is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.