

PMC COMMERCIAL TRUST /TX

Form 10-Q

May 10, 2010

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One);

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

For the quarterly period ended March 31, 2010

OR

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

For the transition period from _____ to _____.

Commission File Number 1-13610

PMC COMMERCIAL TRUST

(Exact name of registrant as specified in its charter)

TEXAS

75-6446078

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer Identification No.)

17950 Preston Road, Suite 600, Dallas, TX 75252

(972) 349-3200

(Address of principal executive offices)

(Registrant's telephone number)

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2). YES NO

As of May 4, 2010, the Registrant had outstanding 10,548,354 Common Shares of Beneficial Interest, par value \$.01 per share.

**PMC COMMERCIAL TRUST AND SUBSIDIARIES
INDEX**

PAGE NO.

PART I. Financial Information

Item 1. Financial Statements

Consolidated Balance Sheets (Unaudited) -
March 31, 2010 and December 31, 2009 2

Consolidated Statements of Income (Unaudited) -
Three Months Ended March 31, 2010 and 2009 3

Consolidated Statements of Comprehensive Income (Unaudited) -
Three Months Ended March 31, 2010 and 2009 4

Consolidated Statements of Equity (Unaudited)
Three Months Ended March 31, 2010 and 2009 5

Consolidated Statements of Cash Flows (Unaudited) -
Three Months Ended March 31, 2010 and 2009 6

Notes to Consolidated Financial Statements (Unaudited) 7

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 19

Item 3. Quantitative and Qualitative Disclosures About Market Risk 35

Item 4. Controls and Procedures 39

PART II. Other Information

Item 1. Legal Proceedings 40

Item 1A. Risk Factors 40

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 40

Item 3. Defaults upon Senior Securities 40

Item 4. Reserved 40

Item 5. Other Information 40

Item 6. Exhibits 40

Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

Exhibit 32.2

Table of Contents

PART I
Financial Information
ITEM 1.
Financial Statements

1

Table of Contents

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

	March 31, 2010	December 31, 2009
	<i>(Unaudited)</i>	
ASSETS		
Loans receivable, net	\$ 232,852	\$ 196,642
Cash and cash equivalents	6,223	7,838
Restricted cash and cash equivalents	5,703	1,365
Retained interests in transferred assets	910	12,527
Real estate owned	891	5,479
Other assets	4,454	4,392
Total assets	\$ 251,033	\$ 228,243
LIABILITIES AND EQUITY		
Liabilities:		
Junior subordinated notes	\$ 27,070	\$ 27,070
Structured notes payable	26,789	8,291
Revolving credit facility	22,200	23,000
Debentures payable	8,174	8,173
Secured borrowings government guaranteed loans	6,809	
Borrower advances	3,234	2,368
Accounts payable and accrued expenses	1,987	2,364
Dividends payable	1,710	1,731
Deferred income	686	686
Redeemable preferred stock of subsidiary		1,975
Other liabilities	133	127
Total liabilities	98,792	75,785
 <i>Commitments and contingencies</i>		
Beneficiaries equity:		
Common shares of beneficial interest; authorized 100,000,000 shares of \$0.01 par value; 11,084,683 shares issued at March 31, 2010 and December 31, 2009, 10,548,354 shares outstanding at March 31, 2010 and December 31, 2009	111	111
Additional paid-in capital	152,635	152,611
Net unrealized appreciation of retained interests in transferred assets	28	325
Cumulative net income	169,430	167,686
Cumulative dividends	(165,962)	(164,274)

Edgar Filing: PMC COMMERCIAL TRUST /TX - Form 10-Q

	156,242	156,459
Less: Treasury stock; at cost, 536,329 shares at March 31, 2010 and December 31, 2009	(4,901)	(4,901)
Total beneficiaries equity	151,341	151,558
Noncontrolling interests cumulative preferred stock of subsidiary	900	900
Total equity	152,241	152,458
Total liabilities and equity	\$ 251,033	\$ 228,243

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

Table of Contents

PMC COMMERCIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	Three Months Ended	
	March 31,	
	2010	2009
	<i>(Unaudited)</i>	
Revenues:		
Interest income	\$ 3,217	\$ 2,851
Income from retained interests in transferred assets	41	916
Other income	197	224
Total revenues	3,455	3,991
Expenses:		
Interest	989	806
Salaries and related benefits	941	921
General and administrative	568	443
Permanent impairments on retained interests in transferred assets		60
Provision for (reduction of) loan losses, net	(202)	147
Total expenses	2,296	2,377
Income before income tax benefit (provision) and discontinued operations	1,159	1,614
Income tax benefit (provision)	108	(18)
Income from continuing operations	1,267	1,596
Discontinued operations	11	30
Net income	\$ 1,278	\$ 1,626
Weighted average shares outstanding:		
Basic	10,548	10,650
Diluted	10,548	10,650
Basic and diluted earnings per share:		
Income from continuing operations	\$ 0.12	\$ 0.15

Discontinued operations

Net income \$ 0.12 \$ 0.15

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

Table of Contents

PMC COMMERCIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Three Months Ended March 31,	
	2010	2009
	<i>(Unaudited)</i>	
Net income	\$ 1,278	\$ 1,626
Change in unrealized appreciation of retained interests in transferred assets:		
Net unrealized appreciation (depreciation) arising during period	(29)	102
Net realized gains included in net income	(3)	(15)
	(32)	87
Comprehensive income	\$ 1,246	\$ 1,713

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

Table of Contents

PMC COMMERCIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(In thousands, except share and per share data)

Three Months Ended March 31, 2009										
Net										
Unrealized										
Appreciation										
of										
Retained										
Interests										
Common				Additional	in	Cumulative				Cumulative
Shares of										Preferred
Beneficial										Stock
Interest	Par	Paid-in	Transferred	Net	Cumulative	Treasury	of	Total		
Outstanding	Value	Capital	Assets	Income	Dividends	Stock	Subsidiary	Equity		
Balances, January 1, 2009	10,694,788	\$ 111	\$ 152,460	\$ 620	\$ 160,925	\$ (156,829)	\$ (3,825)	\$ 900	\$ 154,362	
Net unrealized appreciation			87						87	
Treasury shares, net	(107,826)						(690)		(690)	
Share-based compensation expense			20						20	
Dividends (\$0.225 per share)						(2,382)			(2,382)	
Net income				1,626					1,626	
Balances, March 31, 2009	10,586,962	\$ 111	\$ 152,480	\$ 707	\$ 162,551	\$ (159,211)	\$ (4,515)	\$ 900	\$ 153,023	

Three Months Ended March 31, 2010										
Net										
Unrealized										
Appreciation										
of										
Retained										
Interests										
Common				Additional	in	Cumulative				Cumulative
Shares of										Preferred
Beneficial										Stock
Interest	Par	Paid-in	Transferred	Net	Cumulative	Treasury	of	Total		
Outstanding	Value	Capital	Assets	Income	Dividends	Stock	Subsidiary	Equity		
	10,548,354	\$ 111	\$ 152,611	\$ 325	\$ 167,686	\$ (164,274)	\$ (4,901)	\$ 900	\$ 152,458	

**Balances,
January 1,
2010**

Cumulative effect adjustment		(265)	466		201
Net unrealized depreciation		(32)			(32)
Share-based compensation expense	24				24
Dividends (\$0.16 per share)				(1,688)	(1,688)
Net income			1,278		1,278

**Balances,
March 31,
2010**

10,548,354	\$ 111	\$ 152,635	\$ 28	\$ 169,430	\$ (165,962)	\$ (4,901)	\$ 900	\$ 152,241
------------	--------	------------	-------	------------	--------------	------------	--------	------------

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

Table of Contents

PMC COMMERCIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended	
	March 31,	
	2010	2009
	<i>(Unaudited)</i>	
Cash flows from operating activities:		
Net income	\$ 1,278	\$ 1,626
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	6	7
Permanent impairments on retained interests in transferred assets		60
Gains on sales of real estate	(76)	(30)
Deferred income taxes	(210)	(8)
Provision for (reduction of) loan losses, net	(202)	147
Premium income adjustment	190	33
Amortization and accretion, net	(34)	11
Share-based compensation	24	20
Capitalized loan origination costs	(77)	(57)
Loans funded, held for sale	(9,401)	(2,713)
Proceeds from sale of guaranteed loans		783
Principal collected on loans	10	
Loan fees collected (remitted), net	3	(14)
Change in operating assets and liabilities:		
Other assets	25	137
Borrower advances	866	(757)
Accounts payable and accrued expenses	(309)	(47)
Other liabilities	(13)	(8)
Net cash used in operating activities	(7,920)	(810)
Cash flows from investing activities:		
Loans funded	(1,421)	(823)
Principal collected on loans	5,013	1,829
Principal collected on retained interests in transferred assets	52	103
Principal collected on mortgage-backed security of affiliate		11
Investment in retained interests in transferred assets		(135)
Proceeds from sale of real estate owned	2,264	
Investment in restricted cash and cash equivalents, net	(941)	(156)
Net cash provided by investing activities	4,967	829
Cash flows from financing activities:		
Purchase of treasury shares		(690)
Proceeds from (repayment of) revolving credit facility, net	(800)	4,300
Payment of principal on structured notes payable	(772)	(86)

Edgar Filing: PMC COMMERCIAL TRUST /TX - Form 10-Q

Proceeds from secured borrowings government guaranteed loans	6,629	
Payment of principal on secured borrowings government guaranteed loans	(10)	
Redemption of redeemable preferred stock of subsidiary	(2,000)	
Payment of dividends	(1,709)	(3,905)
Net cash provided by (used in) financing activities	1,338	(381)
Net decrease in cash and cash equivalents	(1,615)	(362)
Cash and cash equivalents, beginning of year	7,838	10,606
Cash and cash equivalents, end of period	\$ 6,223	\$ 10,244

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

Table of Contents

PMC COMMERCIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation:

The accompanying interim financial statements of PMC Commercial Trust (PMC Commercial or together with its wholly-owned subsidiaries, we, us or our) have not been audited by independent accountants. These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statement presentation. In the opinion of management, the financial statements reflect all adjustments necessary to present a fair statement of our financial position at March 31, 2010 and results of operations for the three months ended March 31, 2010 and 2009. These adjustments are of a normal recurring nature. All material intercompany balances and transactions have been eliminated. The results for the three months ended March 31, 2010 are not necessarily indicative of future financial results. Therefore, these financial statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009.

Certain prior period amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported consolidated net income or cash flows.

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

At December 31, 2009, we had two off-balance sheet securitizations: PMC Joint Venture, L.P. 2000 (the 2000 Joint Venture) and PMC Capital L.P. 1998-1 (the 1998 Partnership). Due to a change in accounting rules, these qualified special purpose entities were consolidated beginning January 1, 2010. We used the unpaid principal balance method to recognize the assets and liabilities of these securitizations. The following table summarizes the assets and liabilities of the 2000 Joint Venture and the 1998 Partnership (which represents a non-cash transaction) which were previously included as retained interests in transferred assets (Retained Interests):

January 1,