

PMC COMMERCIAL TRUST /TX

Form 10-Q

May 12, 2008

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, 2008**

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 (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 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

Indicate by check mark whether the Registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). YES NO

As of May 6, 2008, the Registrant had outstanding 10,765,033 Common Shares of Beneficial Interest, par value \$.01 per share.

**PMC COMMERCIAL TRUST AND SUBSIDIARIES
INDEX**

| | PAGE NO. |
|--|-----------------|
| <u>PART I. Financial Information</u> | |
| <u>Item 1. Financial Statements</u> | |
| <u>Consolidated Balance Sheets (Unaudited)</u> <u>March 31, 2008 and December 31, 2007</u> | 2 |
| <u>Consolidated Statements of Income (Unaudited)</u> <u>Three Months Ended March 31, 2008 and 2007</u> | 3 |
| <u>Consolidated Statements of Comprehensive Income (Unaudited)</u> <u>Three Months Ended March 31, 2008 and 2007</u> | 4 |
| <u>Consolidated Statements of Beneficiaries' Equity (Unaudited)</u> <u>Three Months Ended March 31, 2008 and 2007</u> | 5 |
| <u>Consolidated Statements of Cash Flows (Unaudited)</u> <u>Three Months Ended March 31, 2008 and 2007</u> | 6 |
| <u>Notes to Consolidated Financial Statements (Unaudited)</u> | 7 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 19 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 31 |
| <u>Item 4. Controls and Procedures</u> | 35 |
| <u>PART II. Other Information</u> | |
| <u>Item 1. Legal Proceedings</u> | 36 |
| <u>Item 1A. Risk Factors</u> | 36 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 36 |
| <u>Item 3. Defaults upon Senior Securities</u> | 36 |
| <u>Item 4. Submission of Matters to a Vote of Security Holders</u> | 36 |
| <u>Item 5. Other Information</u> | 36 |
| <u>Item 6. Exhibits</u> | 37 |
| <u>Section 302 Officer Certification - Chief Executive Officer</u> | |
| <u>Section 302 Officer Certification - Chief Financial Officer</u> | |
| <u>Section 906 Officer Certification - Chief Executive Officer</u> | |

Section 906 Officer Certification - Chief Financial Officer

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, | December |
|--|--------------------|-------------------|
| | 2008 | 31, |
| | <i>(Unaudited)</i> | |
| | 2007 | |
| ASSETS | | |
| Loans receivable, net | \$ 172,262 | \$ 165,969 |
| Retained interests in transferred assets | 47,862 | 48,616 |
| Cash and cash equivalents | 5,631 | 11,485 |
| Restricted investments | 2,420 | 1,236 |
| Mortgage-backed security of affiliate | 511 | 536 |
| Deferred tax asset, net | 203 | 185 |
| Other assets | 3,328 | 3,393 |
| Total assets | \$ 232,217 | \$ 231,420 |
| LIABILITIES AND BENEFICIARIES EQUITY | | |
| Liabilities: | | |
| Junior subordinated notes | \$ 27,070 | \$ 27,070 |
| Credit facilities | 25,450 | 23,950 |
| Debentures payable | 8,166 | 8,165 |
| Redeemable preferred stock of subsidiary | 3,795 | 3,768 |
| Borrower advances | 2,920 | 3,066 |
| Dividends payable | 2,215 | 3,293 |
| Deferred gains on property sales | 1,854 | 2,192 |
| Accounts payable and accrued expenses | 1,484 | 1,933 |
| Other liabilities | 592 | 729 |
| Total liabilities | 73,546 | 74,166 |
| <i>Commitments and contingencies</i> | | |
| Cumulative preferred stock of subsidiary | 900 | 900 |
| Beneficiaries equity: | | |
| Common shares of beneficial interest; authorized 100,000,000 shares of \$0.01 par value; 11,051,383 shares issued at March 31, 2008 and December 31, 2007, 10,765,033 shares outstanding at March 31, 2008 and December 31, 2007 | 111 | 111 |
| Additional paid-in capital | 152,356 | 152,331 |
| Net unrealized appreciation of retained interests in transferred assets | 2,107 | 1,945 |
| Cumulative net income | 154,502 | 151,119 |

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

| | | |
|---|------------|------------|
| Cumulative dividends | (148,074) | (145,921) |
| | 161,002 | 159,585 |
| Less: Treasury stock; at cost, 286,350 shares at March 31, 2008 and December 31, 2007 | (3,231) | (3,231) |
| Total beneficiaries equity | 157,771 | 156,354 |
| Total liabilities and beneficiaries equity | \$ 232,217 | \$ 231,420 |

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

2

Table of Contents

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

| | Three Months Ended | |
|--|---------------------------|-----------------|
| | March 31, | |
| | 2008 | 2007 |
| | <i>(Unaudited)</i> | |
| Revenues: | | |
| Interest income | \$ 3,766 | \$ 4,056 |
| Income from retained interests in transferred assets | 1,919 | 1,901 |
| Other income | 737 | 741 |
| | | |
| Total revenues | 6,422 | 6,698 |
| | | |
| Expenses: | | |
| Salaries and related benefits | 1,239 | 1,167 |
| Interest | 1,211 | 1,325 |
| General and administrative | 469 | 716 |
| Permanent impairments on retained interests in transferred assets | 281 | 24 |
| Provision for loan losses, net | 73 | 65 |
| Provision for loss on rent and related receivables | | 239 |
| | | |
| Total expenses | 3,273 | 3,536 |
| | | |
| Income before income tax provision, minority interest and discontinued operations | 3,149 | 3,162 |
| Income tax provision | (82) | (142) |
| Minority interest (preferred stock dividend of subsidiary) | (22) | (22) |
| | | |
| Income from continuing operations | 3,045 | 2,998 |
| | | |
| Discontinued operations: | | |
| Gains on sales of real estate | 338 | 27 |
| Impairment losses | | (233) |
| Net earnings | | 29 |
| | 338 | (177) |
| | | |
| Net income | \$ 3,383 | \$ 2,821 |

Weighted average shares outstanding:

| | | |
|---------|--------|--------|
| Basic | 10,765 | 10,754 |
| Diluted | 10,765 | 10,767 |

Basic and diluted earnings per share:

| | | |
|-----------------------------------|---------|---------|
| Income from continuing operations | \$ 0.28 | \$ 0.28 |
| Discontinued operations | 0.03 | (0.02) |
| Net income | \$ 0.31 | \$ 0.26 |

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, | |
| | 2008 | 2007 |
| | <i>(Unaudited)</i> | |
| Net income | \$ 3,383 | \$ 2,821 |
| Change in unrealized appreciation of retained interests in transferred assets: | | |
| Net unrealized appreciation arising during period | 222 | 179 |
| Net realized gains included in net income | (60) | (110) |
| | 162 | 69 |
| Comprehensive income | \$ 3,545 | \$ 2,890 |

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

Table of Contents

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

Three Months Ended March 31, 2007

(Unaudited)

| | Common | | Net Unrealized Appreciation of Retained Interests | | | Cumulative | | Total |
|----------------------------------|-------------|--------|--|-------------|------------|--------------|------------|---------------|
| | Shares of | | Additional | in | Net | Cumulative | Treasury | Beneficiaries |
| | Beneficial | Par | Paid-in | Transferred | Income | Dividends | Stock | Equity |
| | Interest | Value | Capital | Assets | | | | |
| | Outstanding | | | | | | | |
| Balances, | | | | | | | | |
| January 1, 2007 | 10,753,803 | \$ 110 | \$ 152,178 | \$ 3,256 | \$ 137,984 | \$ (133,006) | \$ (3,231) | \$ 157,291 |
| Net unrealized appreciation | | | | 69 | | | | 69 |
| Share-based compensation expense | | | 20 | | | | | 20 |
| Dividends (\$0.30 per share) | | | | | | (3,226) | | (3,226) |
| Net income | | | | | 2,821 | | | 2,821 |
| Balances, | | | | | | | | |
| March 31, 2007 | 10,753,803 | \$ 110 | \$ 152,198 | \$ 3,325 | \$ 140,805 | \$ (136,232) | \$ (3,231) | \$ 156,975 |

Three Months Ended March 31, 2008

(Unaudited)

| | Common | | Net Unrealized Appreciation of Retained Interests | | | Cumulative | | Total |
|----------------------------------|-------------|--------|--|-------------|------------|--------------|------------|----------------|
| | Shares of | | Additional | in | Net | Cumulative | Treasury | Beneficiaries' |
| | Beneficial | Par | Paid-in | Transferred | Income | Dividends | Stock | Equity |
| | Interest | Value | Capital | Assets | | | | |
| | Outstanding | | | | | | | |
| Balances, | | | | | | | | |
| January 1, 2008 | 10,765,033 | \$ 111 | \$ 152,331 | \$ 1,945 | \$ 151,119 | \$ (145,921) | \$ (3,231) | \$ 156,354 |
| Net unrealized appreciation | | | | 162 | | | | 162 |
| Share-based compensation expense | | | 25 | | | | | 25 |
| | | | | | | (2,153) | | (2,153) |

Dividends (\$0.20
per share)
Net income

3,383

3,383

Balances,

March 31, 2008 10,765,033 \$ 111 \$ 152,356 \$ 2,107 \$ 154,502 \$ (148,074) \$ (3,231) \$ 157,771

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

5

Table of Contents

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

| | Three Months Ended | |
|---|---------------------------|--------------|
| | March 31, | |
| | 2008 | 2007 |
| | <i>(Unaudited)</i> | |
| Cash flows from operating activities: | | |
| Net income | \$ 3,383 | \$ 2,821 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 7 | 46 |
| Permanent impairments on retained interests in transferred assets | 281 | 24 |
| Gains on sales of real estate | (338) | (27) |
| Deferred income taxes | (18) | (9) |
| Provision for loan losses, net | 73 | 65 |
| Provision for losses on rent and related receivables | | 239 |
| Impairment losses | | 233 |
| Premium income adjustment | (12) | 41 |
| Amortization and accretion, net | (33) | (39) |
| Share-based compensation | 25 | 20 |
| Capitalized loan origination costs | (46) | (37) |
| Loans funded, held for sale | (1,338) | (968) |
| Proceeds from sale of guaranteed loans | 1,016 | 2,045 |
| Loan fees collected, net | 91 | 103 |
| Change in operating assets and liabilities: | | |
| Due to/from affiliates, net | (63) | (736) |
| Other assets | 83 | (5) |
| Borrower advances | (146) | 340 |
| Accounts payable and accrued expenses | (449) | (505) |
| Other liabilities | (41) | 216 |
| Net cash provided by operating activities | 2,475 | 3,867 |
| Cash flows from investing activities: | | |
| Loans funded | (15,798) | (9,584) |
| Principal collected on loans receivable | 9,684 | 15,284 |
| Principal collected on retained interests in transferred assets | 660 | 1,227 |
| Proceeds from sale of asset acquired in liquidation, net | | 58 |
| Principal collected on mortgage-backed security of affiliate | 40 | 70 |
| Investment in retained interests in transferred assets | | (253) |
| Investment in restricted investments, net | (1,184) | (1,711) |
| Purchase of furniture, fixtures and equipment | | (4) |
| Net cash provided by (used in) investing activities | (6,598) | 5,087 |
| Cash flows from financing activities: | | |

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

| | | |
|---|-----------------|-----------------|
| Proceeds from credit facilities, net | 1,500 | 600 |
| Payment of principal on mortgage notes | | (35) |
| Payment of dividends | (3,231) | (4,303) |
| Net cash used in financing activities | (1,731) | (3,738) |
| Net increase (decrease) in cash and cash equivalents | (5,854) | 5,216 |
| Cash and cash equivalents, beginning of year | 11,485 | 3,739 |
| Cash and cash equivalents, end of period | \$ 5,631 | \$ 8,955 |

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

6

Table of Contents

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

Note 1. Basis of Presentation:

The accompanying consolidated balance sheet of PMC Commercial Trust (PMC Commercial or together with its wholly-owned subsidiaries, we, us or our) as of March 31, 2008 and the consolidated statements of income, comprehensive income, beneficiaries' equity and cash flows for the three months ended March 31, 2008 and 2007 have not been audited by independent accountants. In the opinion of management, the financial statements reflect all adjustments necessary to fairly present our financial position at March 31, 2008 and results of operations for the three months ended March 31, 2008 and 2007. These adjustments are of a normal recurring nature. All material intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported net income or total beneficiaries' equity.

Certain notes and other information have been omitted from the interim financial statements presented in this Quarterly Report on Form 10-Q. 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, 2007. 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.

The results for the three months ended March 31, 2008 are not necessarily indicative of future financial results.

Note 2. Loans Receivable, net:

Loans receivable, net, consisted of the following:

| | March 31, 2008 | December 31, 2007 |
|--|-----------------------|-------------------------|
| | <i>(In thousands)</i> | |
| SBIC commercial mortgage loans (1) | \$ 34,596 | \$ 30,723 |
| SBA 7(a) Guaranteed Loan Program loans | 10,938 | 10,480 |
| Conduit facility loans (2) | 42,081 | 46,961 |
| Other commercial mortgage loans | 85,248 | 78,259 |
| Total loans receivable | 172,863 | 166,423 |
| Less: | | |
| Deferred commitment fees, net | (486) | (412) |
| Loan loss reserves | (115) | (42) |
| Loans receivable, net | \$ 172,262 | \$ 165,969 |

(1) *Originated by our Small Business Investment Company (SBIC) subsidiaries.*

(2)

These loans served as collateral for our conduit facility. The conduit facility matured on May 2, 2008.

Table of Contents

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

The activity in our loan loss reserves was as follows:

| | Three Months Ended March 31, | |
|-------------------------------------|---------------------------------|-------|
| | 2008 | 2007 |
| | <i>(In thousands)</i> | |
| Balance, beginning of year | \$ 42 | \$ 63 |
| Provision for loan losses | 73 | 71 |
| Reduction of loan losses | | (6) |
| Principal balances written-off, net | | (46) |
| Balance, end of period | \$ 115 | \$ 82 |

Impaired loans are defined by generally accepted accounting principles as loans for which it is probable that the lender will be unable to collect all amounts due according to the original contractual terms of the loan. Information on those loans considered to be impaired loans was as follows:

| | March 31, 2008 | December 31, 2007 |
|---|-----------------------|-------------------------|
| | <i>(In thousands)</i> | |
| Impaired loans requiring reserves | \$ 180 | \$ 22 |
| Impaired loans expected to be fully recoverable | 1,922 | |