

PMC CAPITAL INC  
Form 10-Q  
August 14, 2002

**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 **June 30, 2002**

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 811-3780

**PMC CAPITAL, INC.**

(Exact name of registrant as specified in its charter)

FLORIDA

59-2338439

(State or other jurisdiction  
of incorporation or organization)

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

18111 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

As of August 7, 2002, Registrant had outstanding 11,853,516 shares of Common Stock, par value \$.01 per share.

**TABLE OF CONTENTS**

PART I Financial Information

ITEM I. Financial Statements

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED STATEMENTS OF INCOME

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

PART II Other Information

ITEM 4. Submission of Matters to a Vote of Security Holders

ITEM 6. Exhibits and Reports on Form 8-K

Signatures

EX-99.1 Certification of Chief Executive Officer

EX-99.2 Certification of Chief Financial Officer

---

**Table of Contents**

**PMC CAPITAL, INC. AND SUBSIDIARIES**

INDEX

	<b><u>PAGE NO.</u></b>
<b>PART I. <u>Financial Information</u></b>	
Item 1. Financial Statements	
Consolidated Balance Sheets -	2
June 30, 2002 ( <i>Unaudited</i> ) and December 31, 2001.	
Consolidated Statements of Income ( <i>Unaudited</i> ) -	3
Three and Six Months Ended June 30, 2002 and 2001	
Consolidated Statements of Cash Flows ( <i>Unaudited</i> ) -	4
Six Months Ended June 30, 2002 and 2001	
Notes to Consolidated Financial Statements ( <i>Unaudited</i> )	5
Item 2. Management's Discussion and Analysis of	17
Financial Condition and Results of Operations	
Item 3. Quantitative and Qualitative Disclosures about Market Risk	35
<b>PART II. <u>Other Information</u></b>	
Item 4. Submission of Matters to a Vote of Security Holders	36
Item 6. Exhibits and Reports on Form 8-K	36

---

**Table of Contents**

**PART I**

**Financial Information**

**ITEM I.**

**Financial Statements**

**1**

---

**Table of Contents**

**PMC CAPITAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share and per share data)

	<u>June 30, 2002</u>	<u>December 31, 2001</u>
<b>ASSETS</b>		
<b>Investments at value:</b>		
Loans receivable, net	\$ 67,193	\$ 107,392
Cash equivalents	48,606	16,989
Retained interests in transferred assets	40,138	33,537
Assets acquired in liquidation	2,629	329
Mortgage-backed security of affiliate	1,489	1,701
Investment in unconsolidated subsidiaries	265	67
Restricted investments	110	95
	<u>160,430</u>	<u>160,110</u>
Total investments at value		
<b>Other assets:</b>		
Deferred charges, deposits and other assets	807	873
Due from affiliates	648	607
Cash	259	329
Accrued interest receivable	256	462
Property and equipment, net	128	133
Receivable for loans sold		184
	<u>2,098</u>	<u>2,588</u>
Total other assets		
<b>Total assets</b>	<b>\$ 162,528</b>	<b>\$ 162,698</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Liabilities:</b>		
Notes and debentures payable	\$ 76,310	\$ 76,310
Dividends payable	1,959	2,434
Accrued interest payable	1,164	1,193
Borrower advances	1,055	798
Accounts payable	719	753
Due to affiliates	305	189
Other liabilities	882	1,113
	<u>82,394</u>	<u>82,790</u>
<b>Total liabilities</b>		
<i>Commitments and contingencies</i>		
<b>Cumulative preferred stock of subsidiary</b>	<b>7,000</b>	<b>7,000</b>
<b>Shareholders equity:</b>		
Common stock, authorized 30,000,000 shares of \$0.01 par value, 11,853,516 shares issued and outstanding at June 30, 2002 and December 31, 2001	119	119
Additional paid-in capital	71,508	71,508
Undistributed (dividends in excess of) earnings	80	(340)
Net unrealized appreciation (depreciation) on investments	1,427	1,621

Edgar Filing: PMC CAPITAL INC - Form 10-Q

	73,134	72,908
<i>Total liabilities and shareholders equity</i>	\$ 162,528	\$ 162,698
Net asset value per common share	\$ 6.17	\$ 6.15

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

**Table of Contents**

**PMC CAPITAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(In thousands, except per share data)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2002	2001	2002	2001
(Unaudited)				
<b>Investment income:</b>				
Interest	\$ 4,257	\$ 6,499	\$ 1,650	\$ 3,345
Income from retained interests in transferred assets	2,518	2,459	1,371	1,194
Premium income	271	345	139	235
Other investment income, net	507	342	184	179
	<u>7,553</u>	<u>9,645</u>	<u>3,344</u>	<u>4,953</u>
Total investment income				
Advisory fee income	955	859	506	466
Equity in income of unconsolidated subsidiaries, net	195	187	94	97
Other income, net	50	144	24	66
	<u>8,753</u>	<u>10,835</u>	<u>3,968</u>	<u>5,582</u>
Total income				
<b>Expenses:</b>				
Interest	2,377	2,797	1,192	1,417
Salaries and related benefits	1,964	2,222	952	1,154
General and administrative	427	471	216	257
Legal and accounting	196	179	96	93
Rent	168	163	89	82
Profit sharing plan	75	122	37	71
Small Business Administration fees	59	61	38	29
Directors and shareholders expense	40	32	30	24
	<u>5,306</u>	<u>6,047</u>	<u>2,650</u>	<u>3,127</u>
Total expenses				
Income from continuing operations	3,447	4,788	1,318	2,455
<b>Discontinued operations:</b>				
Loss from operations of assets held for sale	(107)		(97)	
	<u>3,340</u>	<u>4,788</u>	<u>1,221</u>	<u>2,455</u>
Net operating income				
<b>Realized and unrealized gain (loss) on investments:</b>				
Investments written-off	(465)	(1,019)	(309)	(729)
Sale of assets	1,463	2,732	1,463	2,732
Change in unrealized appreciation (depreciation) on investments	(194)	485	89	68
	<u>804</u>	<u>2,198</u>	<u>1,243</u>	<u>2,071</u>
Total realized and unrealized gain (loss) on investments				
<b>Net operating income and realized and unrealized gain (loss) on investments</b>	<b>\$ 4,144</b>	<b>\$ 6,986</b>	<b>\$ 2,464</b>	<b>\$ 4,526</b>



Edgar Filing: PMC CAPITAL INC - Form 10-Q

<i>Preferred dividends</i>	\$ 124	\$ 124	\$ 62	\$ 62
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<i>Basic weighted average common shares outstanding</i>	11,854	11,854	11,854	11,854
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<i>Diluted weighted average common shares outstanding</i>	11,856	11,855	11,855	11,854
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<i>Basic and diluted earnings per common share</i>	\$ 0.34	\$ 0.58	\$ 0.20	\$ 0.38
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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

**Table of Contents**

**PMC CAPITAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

	<b>Six Months Ended June 30,</b>	
	<b>2002</b>	<b>2001</b>
	<b>(Unaudited)</b>	
<b>Cash flows from operating activities:</b>		
Net operating income and realized and unrealized gain (loss) on investments	\$ 4,144	\$ 6,986
Adjustments to reconcile net operating income and realized and unrealized gain (loss) on investments to net cash provided by operating activities:		
Loans funded, held for sale	(3,834)	(5,329)
Proceeds from sale of guaranteed loans	3,443	4,886
Realized and unrealized (gain) loss on investments	(804)	(2,198)
Unrealized premium (income) expense, net	8	(15)
Depreciation and amortization	79	82
Accretion of loan discount and deferred fees	(85)	(48)
Equity in income of unconsolidated subsidiaries, net	(195)	(187)
Other operating assets and liabilities	142	1,344
	<b>2,898</b>	<b>5,521</b>
<b>Net cash provided by operating activities</b>		
<b>Cash flows from investing activities:</b>		
Loans funded	(15,634)	(43,149)
Principal collected	10,471	4,338
Proceeds from retained interests in transferred assets	2,928	1,318
Proceeds from mortgage-backed security of affiliate	206	108
Purchase of property and equipment and other assets	(150)	(33)
Investment in retained interests in transferred assets	(2,742)	(1,771)
Investment in restricted cash	(15)	(96)
Advances (to) from affiliates, net	75	(46)
	<b>(4,861)</b>	<b>(39,331)</b>
<b>Net cash used in investing activities</b>		
<b>Cash flows from financing activities:</b>		
Proceeds from structured loan sale transactions, net	37,901	44,511
Payment of dividends on common stock	(4,267)	(5,927)
Payment of dividends on preferred stock	(124)	(124)
	<b>33,510</b>	<b>38,460</b>
<b>Net cash provided by financing activities</b>		
<b>Net increase in cash and cash equivalents</b>	<b>31,547</b>	<b>4,650</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>17,318</b>	<b>21,909</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 48,865</b>	<b>\$ 26,559</b>
<b>Supplemental disclosures:</b>		
Interest paid	\$ 2,405	\$ 2,832
Reclassification from loans receivable to assets acquired in liquidation	\$ 2,848	\$ 217

Edgar Filing: PMC CAPITAL INC - Form 10-Q

Loans and interest receivable transferred to special purpose entities, net	\$ 4,435	\$ 4,215
--	----------	----------

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

**Table of Contents**

**PMC CAPITAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

**Note 1. Interim Financial Statements:**

The accompanying consolidated balance sheet of PMC Capital, Inc. ( PMC Capital ) and its wholly-owned regulated investment company subsidiaries (collectively, we , us or our ) as of June 30, 2002 and the consolidated statements of income for the three and six months ended June 30, 2002 and 2001 and cash flows for the six months ended June 30, 2002 and 2001 have not been audited by independent accountants. In the opinion of our management, the financial statements reflect all adjustments necessary to present fairly the financial position at June 30, 2002 and the results of operations for the three and six months ended June 30, 2002 and 2001. These adjustments are of a normal recurring nature.

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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2001.

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and (ii) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Our most sensitive estimates involve valuing and recording income on our retained interests in transferred assets and in determining loan loss reserves for loans receivable.

The results for the three and six months ended June 30, 2002 are not necessarily indicative of future financial results.

**Note 2. Reclassifications:**

Certain prior period amounts have been reclassified to conform to the current year presentation.

**Note 3. Business and Consolidation:**

**Business**

PMC Capital is a diversified closed-end management investment company that operates as a business development company und