

Regional Management Corp.  
Form 10-Q  
August 07, 2014  
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**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, 2014**

**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)**

<b>Delaware</b> <b>(State or other jurisdiction of</b>	<b>57-0847115</b>
<b>incorporation or organization)</b>	<b>(I.R.S. Employer</b>
<b>509 West Butler Road</b>	<b>Identification No.)</b>
<b>Greenville, South Carolina</b>	<b>29607</b>
<b>(Address of principal executive offices)</b>	<b>(Zip Code)</b>
<b>(864) 422-8011</b>	
<b>(Registrant's telephone number, including area code)</b>	

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 checked="" type="checkbox"/>
Non-accelerated filer <input 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 6, 2014, the registrant had outstanding 12,713,573 shares of Common Stock, \$0.10 par value.

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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)**

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
<b>Assets</b>		
Cash	\$ 3,562	\$ 4,121
Gross finance receivables	622,854	658,176
Less unearned finance charges, insurance premiums, and commissions	(104,879)	(113,492)
Finance receivables	517,975	544,684
Allowance for credit losses	(34,584)	(30,089)
Net finance receivables	483,391	514,595
Property and equipment, net of accumulated depreciation	7,929	7,100
Repossessed assets at net realizable value	615	548
Goodwill	716	716
Intangible assets, net	1,068	1,386
Other assets	6,714	5,422
<b>Total assets</b>	<b>\$ 503,995</b>	<b>\$ 533,888</b>
<b>Liabilities and Stockholders Equity</b>		
<b>Liabilities:</b>		
Deferred tax liability, net	\$ 847	\$ 2,653
Accounts payable and accrued expenses	6,718	7,312
Senior revolving credit facility	324,570	362,750
<b>Total liabilities</b>	<b>332,135</b>	<b>372,715</b>
<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, 2014 and December 31, 2013		
Common stock, \$0.10 par value, 1,000,000,000 shares authorized, 12,701,821 and 12,652,197 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	1,270	1,265
Additional paid-in-capital	83,975	83,317

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Retained earnings	86,615	76,591
Total stockholders' equity	171,860	161,173
<b>Total liabilities and stockholders' equity</b>	<b>\$ 503,995</b>	<b>\$ 533,888</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)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Revenue</b>				
Interest and fee income	\$ 42,959	\$ 34,920	\$ 87,037	\$ 68,966
Insurance income, net	2,481	2,772	5,776	5,736
Other income	1,997	1,490	4,205	3,080
<b>Total revenue</b>	<b>47,437</b>	<b>39,182</b>	<b>97,018</b>	<b>77,782</b>
<b>Expenses</b>				
Provision for credit losses	13,620	8,405	30,564	16,476
General and administrative expenses				
Personnel	13,068	9,882	24,242	20,105
Occupancy	3,713	2,697	7,133	5,213
Marketing	1,750	1,347	2,732	1,852
Other	4,667	3,413	8,990	6,855
Interest expense	3,556	3,241	7,319	6,322
<b>Total expenses</b>	<b>40,374</b>	<b>28,985</b>	<b>80,980</b>	<b>56,823</b>
<b>Income before income taxes</b>	<b>7,063</b>	<b>10,197</b>	<b>16,038</b>	<b>20,959</b>
Income taxes	2,649	3,793	6,014	7,791
<b>Net income</b>	<b>\$ 4,414</b>	<b>\$ 6,404</b>	<b>\$ 10,024</b>	<b>\$ 13,168</b>
<b>Net income per common share:</b>				
Basic	\$ 0.35	\$ 0.51	\$ 0.79	\$ 1.05
Diluted	\$ 0.34	\$ 0.50	\$ 0.77	\$ 1.03
<b>Weighted average common shares outstanding:</b>				
Basic	12,691,227	12,584,942	12,673,177	12,543,888
Diluted	12,915,673	12,881,117	12,957,976	12,831,040

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, 2012	1,249	80,158	47,797	129,204
Issuance of stock awards	2	867		869
Proceeds from exercise of stock options	14	859		873
Excess tax benefit from exercise of stock options		731		731
Stock option expense		702		702
Net income			28,794	28,794
Balance, December 31, 2013	1,265	83,317	76,591	161,173
Issuance of stock awards	3	82		85
Proceeds from exercise of stock options	2	88		90
Excess tax benefit from exercise of stock options		100		100
Stock option expense		388		388
Net income			10,024	10,024
Balance, June 30, 2014	\$ 1,270	\$ 83,975	\$ 86,615	\$ 171,860

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>2014</b>	<b>2013</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 10,024	\$ 13,168
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Provision for credit losses	30,564	16,476
Depreciation and amortization	2,034	1,662
Accretion of discounts on purchased receivables	(58)	(330)
Amortization of stock compensation expense	473	358
Fair value adjustments on interest rate caps		1
Deferred income taxes, net	(1,806)	1,333
<b>Changes in operating assets and liabilities:</b>		
Increase in other assets	(1,656)	(1,247)
Decrease in other liabilities	(593)	(817)
<b>Net cash provided by operating activities</b>	<b>38,982</b>	<b>30,604</b>
<b>Cash flows from investing activities:</b>		
Net repayment (originations) of finance receivables	698	(36,806)
Purchase of property and equipment	(2,246)	(2,834)
Payment for business combination, net of cash		(575)
Increase in restricted cash		(562)
<b>Net cash used in investing activities</b>	<b>(1,548)</b>	<b>(40,777)</b>
<b>Cash flows from financing activities:</b>		
Net advances (payments) on senior revolving credit facility	(38,180)	9,900
Payments for debt issuance costs	(3)	(1,038)
Proceeds from exercise of stock options	90	536
Excess tax benefits from exercise of stock options	100	408
<b>Net cash provided by (used in) financing activities</b>	<b>(37,993)</b>	<b>9,806</b>
<b>Net change in cash</b>	<b>(559)</b>	<b>(367)</b>
<b>Cash:</b>		
Beginning	4,121	3,298

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Ending	\$ 3,562	\$ 2,931
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 7,022	\$ 6,048
Cash payments for income taxes	\$ 8,034	\$ 6,666

See accompanying notes to consolidated financial statements.

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**Regional Management Corp. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**June 30, 2014 and 2013**

**(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, we, us, and our ) have been prepared in accordance with the instructions to the Quarterly Report on Form 10-Q adopted by the Securities and Exchange Commission (SEC ) 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 Quarterly Report on 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, 2013 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, and related credit insurance. As of June 30, 2014, the Company operated branches in 293 locations in the states of Alabama (49 branches), Georgia (3 branches), North Carolina (31 branches), New Mexico (13 branches), Oklahoma (27 branches), South Carolina (70 branches), Tennessee (21 branches), and Texas (79 branches) 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 12 new branches during the three months ended June 30, 2014.

**Seasonality:** Our loan volume and corresponding finance receivables follow seasonal trends. Demand for our loans is typically highest during the third and fourth quarter, largely due to customers borrowing money for back-to-school and holiday spending. Loan demand has generally been the lowest during the first quarter, largely due to the timing of income tax refunds. 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. The accounting and reporting policies of the Company are in accordance with GAAP and conform to general practices within the consumer finance industry.

**Principles of consolidation:** The consolidated financial statements include the accounts of the Company 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.

**Use of estimates:** The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and disclosure of contingent assets and liabilities for the periods indicated in the financial statements. 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 the allocation of the purchase price to assets acquired in business combinations.

**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.

**Table of Contents****Note 3. Revision of Financial Statements**

The Company has made immaterial revisions to its previously-filed financial statements included in this Quarterly Report on Form 10-Q to reflect revisions in the proper period. For details on the revision, see Part II, Item 6, Note 2.

Revision of Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

The effect of the immaterial revisions in the consolidated financial statements for the periods indicated are as follows:

	<b>Consolidated Statements of Income</b>					
	<b>Period Ended June 30, 2013</b>					
	<b>Three Months Ended June 30, 2013</b>			<b>Six Months Ended June 30, 2013</b>		
	<b>As Reported (1)</b>	<b>Revised</b>	<b>Change</b>	<b>As Reported (1)</b>	<b>Revised</b>	<b>Change</b>
Insurance income, net	\$ 2,973	\$ 2,772	\$ (201)	\$ 5,906	\$ 5,736	\$ (170)
Total revenue	39,383	39,182	(201)	77,952	77,782	(170)
Personnel	9,787	9,882	95	19,820	20,105	285
Other	3,341	3,413	72	6,707	6,855	148
Total expenses	28,818	28,985	167	56,390	56,823	433
Income before income taxes	10,565	10,197	(368)	21,562	20,959	(603)
Income taxes	3,909	3,793	(116)	7,978	7,791	(187)
Net income	\$ 6,656	\$ 6,404	\$ (252)	\$ 13,584	\$ 13,168	\$ (416)
Net income per common share:						
Basic	\$ 0.53	\$ 0.51	\$ (0.02)	\$ 1.08	\$ 1.05	\$ (0.03)
Diluted	\$ 0.52	\$ 0.50	\$ (0.02)	\$ 1.06	\$ 1.03	\$ (0.03)

	<b>Consolidated Statements of Cash Flows</b>		
	<b>Six Months Ended June 30, 2013</b>		
	<b>As Reported</b>	<b>Revised</b>	<b>Change (1)</b>
Net income	\$ 13,584	\$ 13,168	\$ (416)
Accretion of discounts on purchased receivables	(787)	(330)	457
Increase in other assets	(2,342)	(1,247)	1,095
Decrease in other liabilities	(1,166)	(817)	349
Net cash provided by operating activities	29,119	30,604	1,485
Net repayment (originations) of finance receivables	(36,359)	(36,806)	(447)
Net cash used in investing activities	(40,330)	(40,777)	(447)
Payments for debt issuance cost		(1,038)	(1,038)
Net cash provided by (used in) financing activities	10,844	9,806	(1,038)

(1) Includes the change due to the revision as well as certain prior period amounts that have been reclassified to conform to the current presentation. Such reclassifications had no impact on previously reported net income or stockholders' equity.

**Note 4. Finance Receivables, Allowance for Credit Losses, and Credit Quality Information**

Finance receivables consisted of the following:

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Small installment loans	\$ 275,456	\$ 288,979
Large installment loans	42,996	43,311
Automobile purchase loans	171,777	181,126
Retail purchase loans	27,746	31,268
Finance receivables	\$ 517,975	\$ 544,684

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Changes in the allowance for credit losses for the periods indicated are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Balance at beginning of period	\$ 34,325	\$ 24,630	\$ 30,089	\$ 23,616
Provision for credit losses	13,620	8,405	30,564	16,476
Finance receivables charged-off	(13,789)	(7,675)	(26,886)	(15,031)
Recoveries	428	259	817	558
<b>Balance at end of period</b>	<b>\$ 34,584</b>	<b>\$ 25,619</b>	<b>\$ 34,584</b>	<b>\$ 25,619</b>

The following is a reconciliation of the allowance for credit losses by product for the periods indicated:

	Balance April 1, 2014	Provision	Charge-Offs	Recoveries	Allowance as Percentage of Finance Receivable		
					Balance June 30, 2014	Finance Receivables June 30, 2014	Balance June 30, 2014
Small installment	\$ 18,482	\$ 10,640	\$ (10,045)	\$ 227	\$ 19,304	\$ 275,456	7.0%
Large installment	2,150	314	(566)	88	1,986	42,996	4.6%
Automobile purchase	11,883	2,117	(2,529)	84	11,555	171,777	6.7%
Retail purchase	1,810	549	(649)	29	1,739	27,746	6.3%
<b>Total</b>	<b>\$ 34,325</b>	<b>\$ 13,620</b>	<b>\$ (13,789)</b>	<b>\$ 428</b>	<b>\$ 34,584</b>	<b>\$ 517,975</b>	<b>6.7%</b>

	Balance April 1, 2013	Provision	Charge-Offs	Recoveries	Allowance as Percentage of Finance Receivable		
					Balance June 30, 2013	Finance Receivables June 30, 2013	Balance June 30, 2013
Small installment	\$ 10,966	\$ 5,791	\$ (4,573)	\$ 115	\$ 12,299	\$ 206,915	5.9%
Large installment	3,151	(3)	(607)	90	2,631	44,143	6.0%
Automobile purchase	9,214	1,861	(1,951)	50	9,174	180,349	5.1%
Retail purchase	1,299	756	(544)	4	1,515	30,941	4.9%
<b>Total</b>	<b>\$ 24,630</b>	<b>\$ 8,405</b>	<b>\$ (7,675)</b>	<b>\$ 259</b>	<b>\$ 25,619</b>	<b>\$ 462,348</b>	<b>5.5%</b>

	Balance January 1, 2014	Provision	Charge-Offs	Recoveries	Allowance as Percentage of Finance Receivable		
					Balance June 30, 2014	Finance Receivables June 30, 2014	Balance June 30, 2014

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Small installment	\$ 15,370	\$ 22,276	\$ (18,783)	\$ 441	\$ 19,304	\$ 275,456	7.0%
Large installment	2,233	643	(1,066)	176	1,986	42,996	4.6%
Automobile purchase	10,827	6,262	(5,680)	146	11,555	171,777	6.7%
Retail purchase	1,659	1,383	(1,357)	54	1,739	27,746	6.3%
<b>Total</b>	<b>\$ 30,089</b>	<b>\$ 30,564</b>	<b>\$ (26,886)</b>	<b>\$ 817</b>	<b>\$ 34,584</b>	<b>\$ 517,975</b>	<b>6.7%</b>

	<b>Balance January 1, 2013</b>	<b>Provision</b>	<b>Charge-Offs</b>	<b>Recoveries</b>	<b>Balance June 30, 2013</b>	<b>Finance Receivables June 30, 2013</b>	<b>Allowance as Percentage of Finance Receivables June 30, 2013</b>
Small installment	\$ 11,369	\$ 9,352	\$ (8,676)	\$ 254	\$ 12,299	\$ 206,915	5.9%
Large installment	2,753	1,080	(1,371)	169	2,631	44,143	6.0%
Automobile purchase	8,424	4,644	(4,010)	116	9,174	180,349	5.1%
Retail purchase	1,070	1,400	(974)	19	1,515	30,941	4.9%
<b>Total</b>	<b>\$ 23,616</b>	<b>\$ 16,476</b>	<b>\$ (15,031)</b>	<b>\$ 558</b>	<b>\$ 25,619</b>	<b>\$ 462,348</b>	<b>5.5%</b>



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Finance receivables associated with customers in bankruptcy as a percentage of total finance receivables were 1.3% as of June 30, 2014 and December 31, 2013. The following is a summary of the finance receivables associated with customers in bankruptcy as of the periods indicated:

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Small installment	\$ 1,434	\$ 1,498
Large installment	1,505	1,677
Automobile purchase	3,819	3,706
Retail purchase	160	143
<b>Total</b>	<b>\$ 6,918</b>	<b>\$ 7,024</b>

The contractual delinquency of the finance receivable portfolio by component for the periods indicated are as follows:

	<b>June 30, 2014</b>									
	<b>Small Installment</b>		<b>Large Installment</b>		<b>Automobile Purchase</b>		<b>Retail Purchase</b>		<b>Total</b>	
	\$	%	\$	%	\$	%	\$	%	\$	%
Current	\$ 221,408	80.3%	\$ 32,878	76.4%	\$ 118,721	69.1%	\$ 22,784	82.1%	\$ 395,791	76.4%
1 to 29 days delinquent	34,326	12.5%	7,681	17.9%	42,075	24.5%	3,717	13.4%	87,799	17.0%
<b>Delinquent accounts</b>										
30 to 59 days	7,660	2.8%	1,081	2.5%	5,744	3.3%	499	1.8%	14,984	2.9%
60 to 89 days	3,901	1.4%	421	1.0%	2,195	1.3%	255	0.9%	6,772	1.3%
90 days and over	8,161	3.0%	935	2.2%	3,042	1.8%	491	1.8%	12,629	2.4%
<b>Total delinquency</b>	<b>\$ 19,722</b>	<b>7.2%</b>	<b>\$ 2,437</b>	<b>5.7%</b>	<b>\$ 10,981</b>	<b>6.4%</b>	<b>\$ 1,245</b>	<b>4.5%</b>	<b>\$ 34,385</b>	<b>6.6%</b>
<b>Total finance receivables</b>	<b>\$ 275,456</b>	<b>100.0%</b>	<b>\$ 42,996</b>	<b>100.0%</b>	<b>\$ 171,777</b>	<b>100.0%</b>	<b>\$ 27,746</b>	<b>100.0%</b>	<b>\$ 517,975</b>	<b>100.0%</b>
<b>Finance receivables in nonaccrual status</b>	<b>\$ 8,161</b>	<b>3.0%</b>	<b>\$ 935</b>	<b>2.2%</b>	<b>\$ 3,042</b>	<b>1.8%</b>	<b>\$ 491</b>	<b>1.8%</b>	<b>\$ 12,629</b>	<b>2.4%</b>

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	December 31, 2013									
	Small Installment		Large Installment		Automobile Purchase		Retail Purchase		Total	
	\$	%	\$	%	\$	%	\$	%	\$	%
Current	\$ 227,916	78.8%	\$ 32,513	75.1%	\$ 122,313	67.5%	\$ 24,829	79.4%	\$ 407,571	74.9%
1 to 29 days delinquent	35,425	12.3%	7,788	18.0%	45,841	25.3%	4,249	13.6%	93,303	17.1%
Delinquent accounts										
30 to 59 days	8,030	2.8%	1,220	2.8%	7,089	4.0%	749	2.4%	17,088	3.1%
60 to 89 days	5,600	1.9%	530	1.2%	2,721	1.5%	416	1.3%	9,267	1.7%
90 days and over	12,008	4.2%	1,260	2.9%	3,162	1.7%	1,025	3.3%	17,455	3.2%
Total delinquency	\$ 25,638	8.9%	\$ 3,010	6.9%	\$ 12,972	7.2%	\$ 2,190	7.0%	\$ 43,810	8.0%
Total finance receivables	\$ 288,979	100.0%	\$ 43,311	100.0%	\$ 181,126	100.0%	\$ 31,268	100.0%	\$ 544,684	100.0%
Finance receivables in nonaccrual status										
	\$ 12,008	4.2%	\$ 1,260	2.9%	\$ 3,162	1.7%	\$ 1,025	3.3%	\$ 17,455	3.2%

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Following is a summary of finance receivables evaluated for impairment for the periods indicated:

	<b>June 30, 2014</b>				
	<b>Small Installment</b>	<b>Large Installment</b>	<b>Automobile Purchase</b>	<b>Retail Purchase</b>	<b>Total</b>
Accounts 180 or more days past due, excluding accounts of customers in bankruptcy	\$ 1,259	\$ 164	\$ 512	\$ 99	\$ 2,034
Customers in Chapter 13 bankruptcy	1,434	1,505	3,819	160	6,918
<b>Total impaired accounts specifically evaluated</b>	<b>\$ 2,693</b>	<b>\$ 1,669</b>	<b>\$ 4,331</b>	<b>\$ 259</b>	<b>\$ 8,952</b>
Finance receivables evaluated collectively	272,763	41,327	167,446	27,487	509,023
<b>Finance receivables outstanding</b>	<b>\$ 275,456</b>	<b>\$ 42,996</b>	<b>\$ 171,777</b>	<b>\$ 27,746</b>	<b>\$ 517,975</b>
Accounts in bankruptcy in nonaccrual status	\$ 506	\$ 327	\$ 990	\$ 59	\$ 1,882
<b>Amount of the specific reserve for impaired accounts</b>	<b>\$ 1,726</b>	<b>\$ 636</b>	<b>\$ 1,901</b>	<b>\$ 146</b>	<b>\$ 4,409</b>
Average impaired accounts	\$ 2,974	\$ 1,828	\$ 4,303	\$ 311	\$ 9,416
<b>Amount of the general component of the reserve</b>	<b>\$ 17,578</b>	<b>\$ 1,350</b>	<b>\$ 9,654</b>	<b>\$ 1,593</b>	<b>\$ 30,175</b>

  

	<b>December 31, 2013</b>				
	<b>Small Installment</b>	<b>Large Installment</b>	<b>Automobile Purchase</b>	<b>Retail Purchase</b>	<b>Total</b>
Accounts 180 or more days past due, excluding accounts of customers in bankruptcy	\$ 846	\$ 173	\$ 398	\$ 146	\$ 1,563
Customers in Chapter 13 bankruptcy	1,498	1,677	3,706	143	7,024
<b>Total impaired accounts specifically evaluated</b>	<b>\$ 2,344</b>	<b>\$ 1,850</b>	<b>\$ 4,104</b>	<b>\$ 289</b>	<b>\$ 8,587</b>
Finance receivables evaluated collectively	286,635	41,461	177,022	30,979	536,097
<b>Finance receivables outstanding</b>	<b>\$ 288,979</b>	<b>\$ 43,311</b>	<b>\$ 181,126</b>	<b>\$ 31,268</b>	<b>\$ 544,684</b>
Accounts in bankruptcy in nonaccrual status	\$ 667	\$ 426	\$ 804	\$ 58	\$ 1,955
<b>Amount of the specific reserve for impaired accounts</b>	<b>\$ 1,246</b>	<b>\$ 756</b>	<b>\$ 1,565</b>	<b>\$ 180</b>	<b>\$ 3,747</b>
Average impaired accounts	\$ 2,079	\$ 1,935	\$ 3,831	\$ 273	\$ 8,118
<b>Amount of the general component of the reserve</b>	<b>\$ 14,124</b>	<b>\$ 1,477</b>	<b>\$ 9,262</b>	<b>\$ 1,479</b>	<b>\$ 26,342</b>

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

**Note 5. Debt**

The Company's senior revolving credit facility contains restrictive covenants. At June 30, 2014, the Company was in compliance with all debt covenants. As of June 30, 2014, the Company had \$175,430 of unused capacity on the credit facility. Advances on this agreement are at 85% of eligible finance receivables and are subject to adjustment at certain credit quality levels (83% as of June 30, 2014).

**Note 6. 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 fair value:

**Finance receivables:** Finance receivables are originated at prevailing market rates. The Company's finance receivable portfolio turns approximately 1.4 times per year. The portfolio turnover is calculated by dividing cash payments, renewals, and charge-offs by the average finance receivables. Management believes that the carrying value approximates the fair value of its finance receivable portfolio.

**Repossessed assets:** Repossessed assets are valued at the lower of the receivable balance on the finance receivable prior to repossession or estimated net realizable value. The Company estimates net realizable value at the projected cash value upon liquidation, less costs to sell the related collateral.

**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, May 2013, and November 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, 2014. The Company also considered its creditworthiness in its determination of fair value.

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

	June 30, 2014		December 31, 2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Assets</b>				
Level 1 inputs				
Cash	\$ 3,562	\$ 3,562	\$ 4,121	\$ 4,121
Restricted cash	1,900	1,900	1,900	1,900
Level 3 inputs				
Net finance receivables	483,391	483,391	514,595	514,595
Repossessed assets	615	615	548	548
<b>Liabilities</b>				
Level 3 inputs				
Senior revolving credit facility	324,570	324,570	362,750	362,750

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 7. Income Taxes**

The Company 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.

**Note 8. Earnings Per Share**

The following schedule reconciles the computation of basic and diluted earnings per share for the periods indicated:

	Three months ended			Six months ended June 30, 2014		
	June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014
	Net Income	Shares	Per Share	Net Income	Shares	Per Share
<b>Basic earnings per share</b>						
Income available to common stockholders	\$ 4,414	12,691,227	\$ 0.35	\$ 10,024	12,673,177	\$ 0.79

<b>Effect of dilutive securities</b>							
Options to purchase common stock		224,446				284,799	
<b>Diluted earnings per share</b>							
Income available to common stockholders plus assumed exercise of options to purchase common stock	\$ 4,414	12,915,673	\$ 0.34	\$ 10,024	12,957,976	\$ 0.77	

Options to purchase 404,531 shares of common stock at \$15.00 to \$33.93 per share were outstanding during the three and six months ended June 30, 2014, but were not included in the computation of diluted earnings per share because they were anti-dilutive.

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	Three months ended			Six months ended June 30, 2013		
	June 30, 2013			June 30, 2013		
	Net Income	Shares	Per Share	Net Income	Shares	Per Share
<b>Basic earnings per share</b>						
Income available to common stockholders	\$ 6,404	12,584,942	\$ 0.51	\$ 13,168	12,543,888	\$ 1.05
<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	\$ 6,404	12,881,117	\$ 0.50	\$ 13,168	12,831,040	\$ 1.03

**Note 9. Benefit Plans**

**Paid time off policy:** The Company modernized its Paid Time Off (PTO) policy effective February 1, 2014. The new policy terms are more consistent with industry practices on the amount of PTO, eligible service requirements, cashout policy, and the use of potential PTO days. The policy change had accounting implications. Under the legacy policy, employees earned PTO in one year and then were able to use the PTO in the following year. That type of policy created a PTO liability under compensated absences accounting literature. Under the new policy, PTO is earned and used in the same calendar year, eliminating a PTO liability at the end of each year (with the exception of carryover PTO granted in extenuating circumstances). In the transition to the new policy, employees were given the opportunity to forfeit earned and unused PTO days under the legacy policy in exchange for additional PTO days and other benefits under the new policy or to remain on the old policy. As a result, effective January 31, 2014, based upon employee elections in January 2014, the PTO liability for certain employees was eliminated, and beginning February 1, 2014, such employees began accruing PTO under the new policy. The effect of the policy change was reflected in the period the change was implemented. Thus, in the first quarter of 2014, this change in policy resulted in a reversal of \$1.4 million of personnel expense.

**Health insurance plan:** As of May 1, 2014, the Company no longer offers a minimum essential coverage insurance plan for newly-hired hourly employees and hourly employees not participating in the Company's major medical health plan.

**Stock compensation plans:** The Company previously adopted 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. As of June 30, 2014, there were 464,884 and 447,790 shares available for grant under the 2011 Stock Plan and 2007 Stock Plan, respectively. However, the Company no longer intends to grant awards under the 2007 Stock Plan.

The Company recognizes compensation expense in the financial statements for all stock-based payments based upon the fair value. Amounts recognized in the financial statements with respect to stock-based compensation are provided in the following table.

	<b>Three Months Ended June 30, 2014</b>		<b>Six Months Ended June 30, 2013</b>	
Stock-based compensation expense				
Stock options	\$ 187	\$ 179	\$ 388	\$ 358
Restricted stock	85		85	
Total stock-based compensation expense	\$ 272	\$ 179	\$ 473	\$ 358



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The following table summarizes stock option activity during the six months ended June 30, 2014 (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, 2014	866	\$ 10.70		
Granted				
Exercised	(16)	5.46		
Forfeited				
Options outstanding at June 30, 2014	850	\$ 10.80	5.2	\$ 4,584
Options exercisable at June 30, 2014	578	\$ 7.72	3.8	\$ 4,507
Available for grant at June 30, 2014	913			

Stock options granted under the 2007 Stock Plan vest 20% at the date of grant and 20% on the anniversary date of the grant each year thereafter for four years. Options granted under the 2011 Stock Plan vest 20% on the anniversary date of the grant each year for five years. In addition, these options vest and become exercisable in full under certain circumstances following 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 ten years of the grant.

As of June 30, 2014, unrecognized stock-based compensation expense to be recognized over future periods approximated \$2,398. This expense is expected to be recognized over the remaining weighted average vesting period of 3.3 years. The total intrinsic values of options exercised were \$316 and \$1,423 for the six months ended June 30, 2014 and 2013, respectively. The total income tax benefit recognized in the income statement for the stock-based compensation arrangements was \$72 and \$70, for the three months ended June 30, 2014 and 2013 and \$150 and \$140 for the six months ended June 30, 2014 and 2013, respectively.

The fair value of option grants are 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. No stock options were granted in the three months ended June 30, 2014 and 2013 or in the six months ended June 30, 2014.

	Six Months Ended June 30, 2013
Expected volatility	48.49%
Expected dividends	0.00%
Expected term (in years)	10.00

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Risk-free rate	1.76%
Vesting period (in years)	5

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 (nine to ten years) over which options are exercisable.

***Restricted stock:***

The following table summarizes restricted stock activity during the six months ended June 30, 2014 (shares in thousands):

	Shares	Weighted Average Grant Date Fair Value
Non-vested restricted stock, beginning of the year		\$
Granted	33	15.34
Vested		
Forfeited		
Non-vested restricted stock, end of the period	33	\$ 15.34

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On April 30, 2014, the Company granted 33,244 shares of restricted common stock, with a grant date fair value of \$15.34, to its non-employee directors. The awards will be fully vested upon the earlier of the first anniversary of the grant date or the completion of the directors' annual service to the Company. Compensation expense related to restricted stock is based on the number of shares expected to vest and the fair market value of the common stock on the grant date. As of June 30, 2014, unrecognized stock-based compensation expense to be recognized over future periods approximated \$425. This expense is expected to be recognized over the remaining vesting period of 10 months.

### **Note 10. Commitments and Contingencies**

On May 30, 2014, a securities class action lawsuit was filed in the United States District Court for the Southern District of New York against the Company and certain of its current and former directors, executive officers, and shareholders. The complaint alleges violations of the federal securities laws and seeks unspecified compensatory damages and other relief on behalf of a purported class of purchasers of the Company's securities in the September 2013 and December 2013 secondary public offerings. The Company expects that lead plaintiffs will be appointed and will file an amended complaint later this year, after which the Company has two months to respond. The Company believes that the claims against it are without merit and intends to defend against the litigation vigorously.

In the normal course of business, the Company has been named as a defendant in legal actions, including arbitrations, class actions and other litigation arising in connection with its activities. Some of the actual or threatened legal actions include claims for compensatory and punitive damages or claims for indeterminate amounts of damages. While the Company will continue to identify legal actions where the Company believes a material loss to be reasonably possible and reasonably estimable, there can be no assurance that material losses will not be incurred from claims that we have not yet been notified of or are not yet determined to be probable or reasonably possible and reasonable to estimate.

The Company contests liability and the amount of damages, as appropriate, in each pending matter. Where available information indicates that it is probable that a liability had been incurred and the Company can reasonably estimate the amount of that loss, we accrue the estimated loss by a charge to net income. In many actions, however, it is inherently difficult to determine whether any loss is probable or even reasonably possible or to estimate the amount of loss. In addition, even where a loss is reasonably possible or an exposure to loss exists in excess of the liability already accrued, it is not always possible to reasonably estimate the size of the possible loss or range of loss.

For certain legal actions, we cannot reasonably estimate such losses, particularly for actions that are in their early stages of development or where plaintiffs seek indeterminate damages. Numerous issues may need to be resolved, including through lengthy discovery and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the actions in question, before a loss or additional loss or range of loss or additional loss can be reasonably estimated for any given action.

For certain other legal actions, the Company can estimate reasonably possible losses, additional losses, ranges of loss or ranges of additional loss in excess of amounts accrued, but the Company does not believe, based on current knowledge and after consultation with counsel, that such losses will have a material adverse effect on the consolidated financial statements.

The Company expenses legal costs as they are incurred.

### **Note 11. Restricted Assets**

RMC Reinsurance, Ltd. is a wholly-owned insurance subsidiary of the Company. RMC Reinsurance, Ltd. is required to maintain cash reserves for a letter of credit 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 at June 30, 2014 and December 31, 2013.

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**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. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions, and expectations disclosed in the forward-looking statements that we make. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, 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, 2013 (which was filed with the SEC on March 17, 2014). 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 of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2013.

**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 293 locations in the states of South Carolina, Texas, North Carolina, Tennessee, Alabama, Oklahoma, New Mexico, and Georgia as of June 30, 2014. 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:

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*Small Installment Loans* As of June 30, 2014, we had approximately 262,600 small installment loans outstanding, representing \$275.5 million in finance receivables.

*Large Installment Loans* As of June 30, 2014, we had approximately 11,600 large installment loans outstanding, representing \$43.0 million in finance receivables.

*Automobile Purchase Loans* As of June 30, 2014, we had approximately 18,600 automobile purchase loans outstanding, representing \$171.8 million in finance receivables.

*Retail Purchase Loans* As of June 30, 2014, we had approximately 27,700 retail purchase loans outstanding, representing \$27.7 million in finance receivables.

*Insurance Products* We offer our customers optional payment protection insurance products 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 small installment loans and automobile purchase loans have historically been the largest component. We offer retail purchase loans and automobile purchase loans through online credit application networks. In addition to interest and fee income from loans, we derive revenue from optional insurance products purchased by customers of our direct loan products.

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**Revision of Financial Statements.** The Company has made immaterial revisions to its previously-filed financial statements included in this Quarterly Report on Form 10-Q to reflect revisions in the proper period. For details on the revision, see Part II, Item 6, Note 2. Revision of Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

**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. We originated or purchased approximately 120,900, 172,900, and 57,300 new loan accounts during 2012, 2013, and the first six months of 2014, respectively. Average finance receivables grew 32.2% from \$361.1 million in 2012 to \$477.4 million in 2013. Average finance receivables grew 16.8% from \$443.9 million in the first six months of 2013 to \$518.5 million in the first six months of 2014. 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 51, 43, and 29 new branches in 2012, 2013, and the first six months of 2014, respectively. We believe we have the opportunity to add as many as 800 additional branches over time in the states where it is currently 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. Our product mix also varies to some extent by state, and 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 \$39.2 million provision for credit losses during 2013 (or 8.2% of average finance receivables) and a \$30.6 million provision for credit losses during the first six months of 2014 (or annualized 11.8% of average finance receivables). The quality of our asset portfolio is the result of our ability to enforce sound underwriting standards, maintain diligent servicing and collection of the portfolio, 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 (in thousands):

	As of June 30, 2014			As of December 31, 2013		
	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
Small installment loans	\$ 275,456	\$ 19,304	7.0%	\$ 288,979	\$ 15,370	5.3%
Large installment loans	42,996	1,986	4.6%	43,311	2,233	5.2%

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Automobile purchase loans	171,777	11,555	6.7%	181,126	10,827	6.0%
Retail purchase loans	27,746	1,739	6.3%	31,268	1,659	5.3%
<b>Total</b>	<b>\$ 517,975</b>	<b>\$ 34,584</b>	<b>6.7%</b>	<b>\$ 544,684</b>	<b>\$ 30,089</b>	<b>5.5%</b>

The allowance for credit losses uses the net charge-off rate for the most recent six months (small installment loans), ten months (large installment loans), twelve months (automobile purchase loans), and eleven months (retail purchase loans) as a percentage of the most recent month-end balance of loans as a key data point in estimating the allowance. We believe that the primary underlying factors driving the provision for credit losses for each of these loan types are the general economic conditions in the areas in which we conduct business and the effectiveness of our collection efforts. 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 more days past due) to identify trends that might require an increased allowance, and we modify the allowance 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. Our interest rate caps matured unused on March 4, 2014. We are evaluating interest rate management options and in 2014 intend to enter into an interest rate management transaction or arrangement to replace the matured unused interest rate caps.



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**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 44.4% in the first six months of 2014, compared to 43.7% in the same period of 2013. The increase is primarily due to increased personnel and occupancy costs from opening 30 branches since June 30, 2013, costs from implementation of a new loan management system, and increased health care and consulting costs. Those increases were partially offset by a change in our Paid Time Off ( PTO ) policy.

We modernized our PTO policy effective February 1, 2014. The new policy terms are more consistent with industry practices on the amount of PTO, eligible service requirements, cashout policy, and the use of partial PTO days. The policy change had accounting implications. Under the legacy policy, employees earned PTO in one year and then were able to use the PTO in the following year. That type of policy created a PTO liability under compensated absences accounting literature. Under the new policy, PTO is earned and used in the same calendar year, eliminating a PTO liability at the end of each year (with the exception of carryover PTO granted in extenuating circumstances). In the transition to the new policy, employees were given the opportunity to forfeit earned and unused PTO days under the legacy policy in exchange for additional PTO days and other benefits under the new policy or to remain on the old policy. As a result, effective January 31, 2014, based upon employee elections in January 2014, the PTO liability for certain employees was eliminated, and beginning February 1, 2014, such employees began accruing PTO under the new policy. The effect of the policy change was reflected in the period the change was implemented. Thus, in the first quarter of 2014, this change in policy resulted in a reversal of \$1.4 million of personnel expense.

**Quarterly Information and Seasonality**

Our loan volume and corresponding finance receivables follow seasonal trends. Demand for our loans is typically highest during the third and fourth quarter, largely due to customers borrowing money for back-to-school and 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. 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.

**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. If the account is charged off, the interest accrual is reversed as a reduction of interest and fee income.

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 truth in lending disclosure we make to our customers.

**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 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 automobile 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 prepaid 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, 2014, 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, 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

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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, marketing, 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.

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

Our marketing 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 marketing by branches. These costs are expensed as incurred.

Other expenses consist primarily of various other expenses, including legal, audit, consulting, office supplies, credit bureau charges, and postage.

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. We expect compliance costs to increase due to the regulatory environment in the consumer finance industry. 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, 2013.

***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. Interest expense also includes costs attributable to unused line fees.

***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 (in thousands) and as a percentage of total revenue (unaudited):

	Three Months Ended June 30, 2014		2013	
	Amount	% of Revenue	Amount	% of Revenue
<b>Revenue</b>				
Interest and fee income	\$ 42,959	90.6%	\$ 34,920	89.1%
Insurance income, net	2,481	5.2%	2,772	7.1%
Other income	1,997	4.2%	1,490	3.8%
<b>Total revenue</b>	<b>47,437</b>	<b>100.0%</b>	<b>39,182</b>	<b>100.0%</b>
<b>Expenses</b>				
Provision for credit losses	13,620	28.7%	8,405	21.5%
General and administrative expenses				
Personnel	13,068	27.6%	9,882	25.2%
Occupancy	3,713	7.8%	2,697	6.9%
Marketing	1,750	3.7%	1,347	3.4%
Other	4,667	9.8%	3,413	8.7%
Interest expense	3,556	7.5%	3,241	8.3%
<b>Total expenses</b>	<b>40,374</b>	<b>85.1%</b>	<b>28,985</b>	<b>74.0%</b>
Income before income taxes	7,063	14.9%	10,197	26.0%
Income taxes	2,649	5.6%	3,793	9.7%
<b>Net income</b>	<b>\$ 4,414</b>	<b>9.3%</b>	<b>\$ 6,404</b>	<b>16.3%</b>

	Six Months Ended June 30, 2014		2013	
	Amount	% of Revenue	Amount	% of Revenue
<b>Revenue</b>				
Interest and fee income	\$ 87,037	89.7%	\$ 68,966	88.6%
Insurance income, net	5,776	6.0%	5,736	7.4%
Other income	4,205	4.3%	3,080	4.0%
<b>Total revenue</b>	<b>97,018</b>	<b>100.0%</b>	<b>77,782</b>	<b>100.0%</b>

Expenses

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Provision for credit losses	30,564	31.5%	16,476	21.2%
General and administrative expenses				
Personnel	24,242	25.0%	20,105	25.9%
Occupancy	7,133	7.4%	5,213	6.7%
Marketing	2,732	2.8%	1,852	2.4%
Other	8,990	9.3%	6,855	8.8%
Interest expense	7,319	7.5%	6,322	8.1%
Total expenses	80,980	83.5%	56,823	73.1%
Income before income taxes	16,038	16.5%	20,959	26.9%
Income taxes	6,014	6.2%	7,791	10.0%
Net income	\$ 10,024	10.3%	\$ 13,168	16.9%

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

**Components of Increase in Interest and Fee Income  
Three Months Ended June 30, 2014  
Compared to Three Months Ended June 30, 2013  
Increase (Decrease)**

	<b>Volume</b>	<b>Rate</b>	<b>Net</b>
Small installment loans	\$ 8,005	\$ 1,120	\$ 9,125
Large installment loans	(188)	(262)	(450)
Automobile purchase loans	(248)	(334)	(582)
Retail purchase loans	(88)	34	(54)
<b>Total increase in interest and fee income</b>	<b>\$ 7,481</b>	<b>\$ 558</b>	<b>\$ 8,039</b>

**Loans Originated (1)**

**Three Months Ended June 30,  
2014                      2013**

Small installment loans	\$ 198,047	\$ 160,291
Large installment loans	17,065	16,845
Automobile purchase loans	23,049	32,648
Retail purchase loans	7,360	8,202
<b>Total finance receivables</b>	<b>\$ 245,521</b>	<b>\$ 217,986</b>

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

	<b>Three Months Ended June 30,</b>		<b>2013</b>	
	<b>2014</b>	<b>Percentage of</b>	<b>2013</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	\$ 13,361	10.5%	\$ 7,416	6.6%

	<b>Amount</b>	<b>Percentage of Total Revenue</b>	<b>Amount</b>	<b>Percentage of Total Revenue</b>
Provision for credit losses	\$ 13,620	28.7%	\$ 8,405	21.5%
General and administrative expenses	\$ 23,198	48.9%	\$ 17,339	44.3%

  

	<b>Amount</b>	<b>Growth Rate</b>	<b>Amount</b>	<b>Growth Rate</b>
Same store finance receivables at period-end/growth rate	\$ 457,944	2.5%	\$ 416,889	22.6%
Same store revenue during period/growth rate	\$ 42,908	11.6%	\$ 36,311	17.4%
Number of branches in calculation	232		194	

**Components of Increase in Interest and Fee Income  
Six Months Ended June 30, 2014  
Compared to Six Months Ended June 30, 2013  
Increase (Decrease)**

	<b>Volume</b>	<b>Rate</b>	<b>Net</b>
Small installment loans	\$ 17,867	\$ 1,790	\$ 19,657
Large installment loans	(657)	(300)	(957)
Automobile purchase loans	107	(660)	(553)
Retail purchase loans	(100)	24	(76)
<b>Total increase in interest and fee income</b>	<b>\$ 17,217</b>	<b>\$ 854</b>	<b>\$ 18,071</b>

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	<b>Loans Originated (1)</b>	
	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Small installment loans	\$ 326,291	\$ 262,001
Large installment loans	30,648	29,353
Automobile purchase loans	46,745	67,582
Retail purchase loans	15,907	17,125
<b>Total finance receivables</b>	<b>\$ 419,591</b>	<b>\$ 376,061</b>

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

	<b>Six Months Ended June 30,</b>			
	<b>2014</b>	<b>2013</b>		
	<b>Percentage of</b>	<b>Percentage of</b>		
	<b>Average</b>	<b>Average</b>		
	<b>Finance</b>	<b>Finance</b>		
	<b>Receivables</b>	<b>Receivables</b>		
	<b>(Annualized)</b>	<b>(Annualized)</b>		
	<b>Amount</b>	<b>Amount</b>		
Net charge-offs as a percentage of average finance receivables	\$ 26,069	10.1%	\$ 14,473	6.5%

	<b>Percentage of</b>		<b>Percentage of</b>	
	<b>Total Revenue</b>	<b>Total Revenue</b>		
	<b>Amount</b>	<b>Amount</b>		
Provision for credit losses	\$ 30,564	31.5%	\$ 16,476	21.2%
General and administrative expenses	\$ 43,097	44.4%	\$ 34,024	43.7%

	<b>As of June 30,</b>			
	<b>2014</b>	<b>2013</b>		
	<b>Finance</b>	<b>Percentage of</b>	<b>Finance</b>	<b>Percentage of</b>
	<b>Receivables</b>	<b>Total</b>	<b>Receivables</b>	<b>Total</b>
Small installment loans	\$ 275,456	53.1%	\$ 206,915	44.8%
Large installment loans	42,996	8.3%	44,143	9.5%
Automobile purchase loans	171,777	33.2%	180,349	39.0%
Retail purchase loans	27,746	5.4%	30,941	6.7%
<b>Total finance receivables</b>	<b>\$ 517,975</b>	<b>100.0%</b>	<b>\$ 462,348</b>	<b>100.0%</b>
Number of branches at period end	293		263	
Average finance receivables per branch	\$ 1,768		\$ 1,758	



	<b>June 30, 2014</b>		<b>December 31, 2013</b>		<b>June 30, 2013</b>	
	<b>Amount</b>	<b>Percentage of Total Finance Receivables</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	\$ 34,584	6.7%	\$ 30,089	5.5%	\$ 25,619	5.5%
Delinquent accounts:						
30 to 59 days	\$ 14,984	2.9%	\$ 17,088	3.1%	\$ 12,512	2.6%
60 to 89 days	6,772	1.3%	9,267	1.7%	5,783	1.3%
90 to 119 days	4,435	0.9%	6,842	1.3%	3,377	0.7%
120 to 149 days	3,206	0.6%	5,108	0.9%	2,598	0.6%
150 to 179 days	2,155	0.4%	3,409	0.6%	1,797	0.4%
180 days and over	2,833	0.5%	2,096	0.4%	2,763	0.6%
<b>Total contractual delinquency</b>	<b>\$ 34,385</b>	<b>6.6%</b>	<b>\$ 43,810</b>	<b>8.0%</b>	<b>\$ 28,830</b>	<b>6.2%</b>

**Table of Contents****Comparison of June 30, 2014, Versus June 30, 2013**

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 \$68.5 million, or 33.1%, to \$275.5 million at June 30, 2014, from \$206.9 million at June 30, 2013. The growth in receivables at the branches opened in 2013 and the first 6 months of 2014 contributed to the growth in overall small installment loans outstanding. In addition, our direct mail campaigns drove significant loan growth in existing and new branches.

*Large Installment Loans* Large installment loans outstanding decreased by \$1.1 million, or 2.6%, to \$43.0 million at June 30, 2014, from \$44.1 million at June 30, 2013. In 2013, we increased our internal small installment loan limit from \$2,000 to \$2,500 in some states in order to achieve consistency with our enterprise-wide limit, which caused a shift of some loans in those states from the large installment loan category to the small installment loan category.

*Automobile Purchase Loans* Automobile purchase loans outstanding decreased by \$8.6 million, or 4.8%, to \$171.8 million at June 30, 2014, from \$180.3 million at June 30, 2013. This decrease is due to our strategic decision to deploy a greater proportion of capital to the higher-yielding small installment loan category rather than to the highly competitive indirect automobile loan category.

*Retail Purchase Loans* Retail purchase loans outstanding decreased \$3.2 million, or 10.3%, to \$27.7 million at June 30, 2014, from \$30.9 million at June 30, 2013. The decrease in retail purchase loans outstanding resulted from our strategic decision to maintain balances in retail purchase loans and improve the total finance receivable portfolio yield.

**Comparison of the Three Months Ended June 30, 2014, Versus the Three Months Ended June 30, 2013**

***Net Income and Revenue.*** Net income decreased \$2.0 million, or 31.1%, to \$4.4 million during the three months ended June 30, 2014, from \$6.4 million during the prior year period. The decrease was primarily due to increased provision for credit losses. Total revenues increased \$8.3 million during the three months ended June 30, 2014, a 21.1% increase over the prior year period. The increase in revenues is attributable to strong loan growth in existing branches, combined with the opening of 30 additional branches since June 30, 2013.

***Interest and Fee Income.*** Interest and fee income increased \$8.0 million, or 23.0%, to \$43.0 million during the three months ended June 30, 2014, from \$34.9 million during the prior year period. The increase in interest and fee income was due primarily to a 13.6% increase in average finance receivables since June 30, 2013, coupled with an increase in the average yield on loans from 31.3% to 33.9% and partially due to statutory increases in allowable interest and fees in North Carolina and Texas. The following table sets forth the average finance receivables balance and average yield for each of our loan product categories (in thousands):

**Three Months Ended June 30,**

	2014		2013	
	Average Finance Receivables	Average Yield (Annualized)	Average Finance Receivables	Average Yield (Annualized)
Small installment loans	\$ 262,159	46.0%	\$ 192,154	43.8%
Large installment loans	42,380	27.3%	44,830	29.8%
Automobile purchase loans	173,676	19.8%	178,418	20.6%
Retail purchase loans	28,810	18.4%	30,832	17.9%
Total interest and fee yield	\$ 507,025	33.9%	\$ 446,234	31.3%

**Insurance Income.** Insurance income decreased \$291,000, or 10.5%, to \$2.5 million during the three months ended June 30, 2014 from \$2.8 million during the prior year period. Additionally, annualized insurance income as a percentage of average finance receivables decreased from 2.5% to 2.0%. The decline is primarily attributable to the increase in loans originated through our direct mail campaigns where we do not have the opportunity to discuss our insurance offerings with the customer and from increased claims expense.

**Other Income.** Other income increased \$507,000, or 34.0%, to \$2.0 million during the three months ended June 30, 2014 from \$1.5 million during the prior year period. The largest component of other income is late charges, which increased \$542,000, or 45.7%, to \$1.7 million during the three months ended June 30, 2014 from \$1.2 million during the prior year period. The increase in late charges was due primarily to the implementation of a late fee as part of the modernization of North Carolina's consumer finance law, a 13.6% increase in average finance receivables, and an increase in average delinquent accounts.

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**Provision for Credit Losses.** Our provision for credit losses increased \$5.2 million, or 62.0%, to \$13.6 million during the three months ended June 30, 2014 from \$8.4 million during the prior year period. The increase in the provision was primarily due to an increase in net charge-offs that resulted from previously elevated contractual delinquencies. Annualized net loans charged-off were 10.5% and 6.6% of average finance receivables for the three month period ended June 30, 2014 and 2013, respectively. The higher delinquency level and resulting higher net charge-offs were primarily the result of elevated accounts per employee which caused challenges in servicing the growth in accounts. The net charge-off rate is expected to improve over the second half of the year now that accounts per employee have been reduced and delinquencies, as of June 30, 2014, are more aligned with historical levels.

**General and Administrative Expenses.** Our general and administrative expenses, comprising expenses for personnel, occupancy, marketing, and other expenses, increased \$5.9 million, or 33.8%, to \$23.2 million during the three months ended June 30, 2014 from \$17.3 million during the prior year period. This increase was primarily the result of adding 30 branches to our network since June 30, 2013, \$0.6 million in costs related to the implementation of a new loan management system, and increased health care and consulting costs. Our efficiency ratio (general and administrative expenses as a percentage of revenue) increased to 48.9% during the three months ended June 30, 2014 from 44.3% during the prior year period. We expect the new loan management system costs, during the three months ended September 30, 2014, to be dilutive to earnings by \$0.03 to \$0.04 per diluted share.

**Personnel.** The largest component of general and administrative expenses is personnel expense, which increased \$3.2 million, or 32.2%, to \$13.1 million during the three months ended June 30, 2014 from \$9.9 million in the prior year period. This increase is primarily attributable to additional hiring for new branches opened, to maintaining an appropriate level of accounts per employee, and to increased insurance costs to meet the Affordable Care Act requirements. At June 30, 2013, we had 263 branches; whereas, at June 30, 2014 we had 293 branches. We expect personnel costs to increase in order to maintain the appropriate accounts per employee level and to build our administrative infrastructure.

**Occupancy.** Occupancy expenses increased \$1.0 million, or 37.7%, to \$3.7 million during the three months ended June 30, 2014 from \$2.7 million during the prior year period. The increase in occupancy expenses is the result of 30 additional branches since June 30, 2013, and telecommunications upgrades. Additionally, we frequently experience increases in rent as we renew existing leases.

**Marketing.** Marketing expenses increased \$403,000, or 29.9%, to \$1.8 million during the three months ended June 30, 2014 from \$1.3 million during the prior year period. The increase was due to the increases in our direct mail campaigns consistent with our 2014 marketing plan.

**Other Expenses.** Other expenses increased \$1.3 million, or 36.7%, to \$4.7 million during the three months ended June 30, 2014 from \$3.4 million during the prior year period. The increase was primarily due to \$0.4 million of expenses related to the implementation of a new loan management system and other legal, compliance and human resources consulting costs associated with being a growing public company.

**Interest Expense.** Interest expense on the senior revolving credit facility and other debt increased \$315,000, or 9.7%, to \$3.6 million during the three months ended June 30, 2014 from \$3.2 million during the prior year period. 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 1 basis point to 4.53% for the three months ended June 30, 2014 from 4.52% for the prior year period. The difference was due primarily to an increase in unused line fees.

**Income Taxes.** Income taxes decreased \$1.1 million, or 30.2%, to \$2.6 million during the three months ended June 30, 2014 from \$3.8 million during the prior year period. The decrease in income taxes was due to a decrease in net income

before taxes. The effective tax rate increased 30 basis points to 37.5% during the three months ended June 30, 2014 from 37.2% during the prior year period. The increase in the effective tax rate was primarily due to the expiration of the Work Opportunity Tax Credit.

**Comparison of the Six Months Ended June 30, 2014, Versus the Six Months Ended June 30, 2013**

***Net Income and Revenue.*** Net income decreased \$3.1 million, or 23.9%, to \$10.0 million during the six months ended June 30, 2014, from \$13.2 million during the prior year period. The decrease was primarily due to increased provision for credit losses. Total revenues increased \$19.2 million during the six months ended June 30, 2014, a 24.7% increase over the prior year period. The increase in revenues is attributable to strong loan growth in existing branches, combined with the opening or acquisition of 30 additional branches since June 30, 2013.

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**Interest and Fee Income.** Interest and fee income increased \$18.1 million, or 26.2%, to \$87.0 million during the six months ended June 30, 2014, from \$69.0 million during the prior year period. The increase in interest and fee income was due primarily to a 16.8% increase in average finance receivables since June 30, 2013, coupled with an increase in the average yield on loans from 31.1% to 33.6% and statutory increases in allowable interest and fees in North Carolina and Texas. The following table sets forth the average finance receivables balance and average yield for each of our loan product categories (in thousands):

	Six Months Ended June 30,			
	2014		2013	
	Average Finance Receivables	Average Yield (Annualized)	Average Finance Receivables	Average Yield (Annualized)
Small installment loans	\$ 270,389	45.3%	\$ 191,266	43.5%
Large installment loans	42,583	26.9%	47,052	28.4%
Automobile purchase loans	175,915	19.7%	174,860	20.5%
Retail purchase loans	29,635	18.1%	30,756	17.9%
<b>Total interest and fee yield</b>	<b>\$ 518,522</b>	<b>33.6%</b>	<b>\$ 443,934</b>	<b>31.1%</b>

**Insurance Income.** Insurance income increased \$40,000, or 0.7%, to \$5.8 million during the six months ended June 30, 2014 from \$5.7 million during the prior year period. The increase in insurance income was due primarily to a 16.8% increase in average finance receivables. However, annualized insurance income as a percentage of average finance receivables decreased from 2.6% to 2.2%. The decline is primarily attributable to the increase in loans originated through our direct mail campaigns where we do not have the opportunity to discuss our insurance offerings with the customer.

**Other Income.** Other income increased \$1.1 million, or 36.5%, to \$4.2 million during the six months ended June 30, 2014 from \$3.1 million during the prior year period. The largest component of other income is late charges, which increased \$1.2 million, or 46.8%, to \$3.6 million during the six months ended June 30, 2014 from \$2.5 million during the prior year period. The increase in late charges was due primarily to the implementation of a late fee as part of the modernization of North Carolina's consumer finance law, a 16.8% increase in average finance receivables, and an increase in average delinquent accounts.

**Provision for Credit Losses.** Our provision for credit losses increased \$14.1 million, or 85.5%, to \$30.6 million during the six months ended June 30, 2014 from \$16.5 million during the prior year period. The increase in the provision was primarily due to an increase in net charge-offs that resulted from previously elevated contractual delinquencies. Annualized net loans charged-off were 10.1% and 6.5% of average finance receivables for the six month period ended June 30, 2014 and 2013, respectively. The higher delinquency level and resulting higher net charge-offs were primarily the result of elevated accounts per employee which caused challenges in servicing the growth in accounts. The net charge-off rate is expected to improve over the second half of the year now that accounts per employee have been reduced and delinquencies, as of June 30, 2014, are more aligned with historical levels.

**General and Administrative Expenses.** Our general and administrative expenses, comprising expenses for personnel, occupancy, marketing, and other expenses, increased \$9.1 million, or 26.7%, to \$43.1 million during the six months ended June 30, 2014 from \$34.0 million during the prior year period. This increase was primarily the result of adding 30 branches to our network since June 30, 2013, \$0.8 million of costs related to the implementation of a new loan management system, and increased health care and consulting costs. These increases were partially offset by a \$1.4

million liability reversal due to a change in our PTO policy. Our efficiency ratio (general and administrative expenses as a percentage of revenue) increased to 44.4% during the six months ended June 30, 2014 from 43.7% during the prior year period.

**Personnel.** The largest component of general and administrative expenses is personnel expense, which increased \$4.1 million, or 20.6%, to \$24.2 million during the six months ended June 30, 2014 from \$20.1 million in the prior year period. This increase is primarily attributable to additional hiring for new branches opened, to maintaining an appropriate level of accounts per employee, and to increased insurance costs to meet the Affordable Care Act requirements. These increases were partially offset by a \$1.4 million liability reversal due to a change in our PTO policy. At June 30, 2013, we had 263 branches; whereas, at June 30, 2014 we had 293 branches. We expect personnel costs to increase in order to maintain the appropriate accounts per employee level and to build our administrative infrastructure.

**Occupancy.** Occupancy expenses increased \$1.9 million, or 36.8%, to \$7.1 million during the six months ended June 30, 2014 from \$5.2 million during the prior year period. The increase in occupancy expenses is the result of 30 additional branches since June 30, 2013, and telecommunications upgrades. Additionally, we frequently experience increases in rent as we renew existing leases.

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**Marketing.** Marketing expenses increased \$880,000, or 47.5%, to \$2.7 million during the six months ended June 30, 2014 from \$1.9 million during the prior year period. The increase was due to the increases in our direct mail campaigns consistent with our 2014 marketing plan.

**Other Expenses.** Other expenses increased \$2.1 million, or 31.1%, to \$9.0 million during the six months ended June 30, 2014 from \$6.9 million during the prior year period. The increase was primarily due to \$0.4 million of expenses related to the implementation of a new loan management system and other legal, compliance and human resource consulting costs associated with being a growing public company.

**Interest Expense.** Interest expense on the senior revolving credit facility and other debt increased \$1.0 million, or 15.8%, to \$7.3 million during the six months ended June 30, 2014 from \$6.3 million during the prior year period. 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 6 basis points to 4.45% for the six months ended June 30, 2014 from 4.39% for the prior year period. The difference was due primarily to an increase in unused line fees.

**Income Taxes.** Income taxes decreased \$1.8 million, or 22.8%, to \$6.0 million during the six months ended June 30, 2014 from \$7.8 million during the prior year period. The decrease in income taxes was due to a decrease in net income before taxes. The effective tax rate increased 30 basis points to 37.5% during the six months ended June 30, 2014 from 37.2% during the prior year period. The increase in the effective tax rate was primarily due to the expiration of the Work Opportunity Tax Credit.

## **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 expand our branch network in future years, we will incur approximately \$3.0 million to \$6.0 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 Ltd., 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, 2014, these reserve requirements totaled \$1.9 million. Additionally, we had a reserve for life insurance claims on our balance sheet of \$215,000, as determined by the third party, unrelated ceding company.

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

**Operating Activities.** Net cash provided by operating activities increased by \$8.4 million, or 27.4%, to \$39.0 million during the six months ended June 30, 2014 from \$30.6 million during the prior year period. The increase was primarily due to higher net income, before provision for credit losses, due to growth in the business.

**Investing Activities.** Investing activities consist of finance receivables originated and purchased, the purchase of furniture and equipment for new and existing branches, and the net change in restricted cash. Net cash used in investing activities for the six months ended June 30, 2014 was \$1.5 million compared to net cash used in investing activities of \$40.8 million for the prior year period, a net decrease of \$39.2 million in net cash used in investing activities. The decrease was primarily from a decline in finance receivables in the six months ended June 30, 2014



versus growth in finance receivables in the prior year period. We issued lower yielding, higher acceptance rate direct mailings in the six months ended June 30, 2013, driving small installment loan growth in that period. In addition, we targeted steady balances in the first half of 2014 in the automobile and retail purchase loan categories to increase the total finance receivable portfolio yield.

**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, 2014, net cash used in financing activities was \$38.0 million, resulting in an increase in net cash used in financing activities of \$47.8 million from the prior year period. The increase in net cash used in financing activities was primarily a result of an increase in net payments on the senior revolving credit facility due to increased cash available from repayments of finance receivables.

***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, May 2013, and November 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 subject to adjustment at certain credit quality levels (83% as of June 30, 2014), and matures in May 2016. The facility has an accordion provision that allows for the expansion of the facility to \$600.0 million. Borrowings under

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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 (which was 3.25% as of June 30, 2014) plus an applicable margin (which was 2.0% as of June 30, 2014). We also pay an unused line fee of 0.50% per annum, payable monthly. This fee decreases to 0.375% when the average outstanding balance exceeds \$375.0 million. 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 \$324.6 million at June 30, 2014. At June 30, 2014, we were in compliance with our debt covenants. A year or more in advance of the May 2016 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.

We believe that cash flow from operations and borrowings under our senior revolving credit facility will be adequate to fund the expected cost of opening or acquiring new branches, including funding initial operating losses of new branches and funding finance receivables originated by those branches and our other branches for the next twelve months and for the foreseeable future. From time to time, we have needed and obtained, and expect that we will continue to need on a periodic basis, an increase in the borrowing limits under our senior revolving credit facility. We have successfully obtained such increases in the past and anticipate that we will be able to do so in the future as the need arises; however, there can be no assurance that this additional funding will be available (or available on reasonable terms) if and when needed. See Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 for a discussion of risks related to our amended and restated senior revolving credit facility, including refinancing risk.

We had 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 matured unused on March 4, 2014. We are evaluating interest rate management options and in 2014 intend to enter into an interest rate management transaction or arrangement to replace the matured unused interest rate caps.

**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 were no outstanding borrowings under this line of credit at June 30, 2014.

## **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 was 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 (GAAP) and conform to general practices within the consumer finance industry. The preparation of these financial statements requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and disclosure of contingent assets and liabilities for the periods indicated in the financial statements. 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 charges and insurance premiums and commissions. Net finance receivables are equal to the total amount due from the customer, net of unearned finance charges, insurance premiums and commissions, and the allowance for credit losses.

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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 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 general economic condition in the areas in which conduct business, the number of customers filing for bankruptcy protection, the prices paid for vehicles at automobile auctions, and the effectiveness of our collection efforts. Management considers each of these factors in establishing the allowance for credit losses.

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 categories of loans.

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. 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 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 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 statutory methods, which in many cases is the sum-of-the-years-digits method. The difference between income recognized under the constant yield method and the statutory 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. If the account is charged off, the interest income is reversed as a reduction of interest and fee income.

We recognize income on credit life insurance using the constant yield method over the terms of the policies. We recognize income on credit accident and health insurance using the average of the sum-of-the-years-digits and the straight-line methods over the terms of the policies. We recognize income on credit-related property and automobile insurance, and on credit involuntary unemployment insurance using the straight-line method over the terms of the policies. Rebates are computed using statutory methods, which in many cases is the sum-of-the-years-digits method, and any difference between the GAAP method and the statutory method is recognized in income at the time of rebate.

We defer fees charged to automobile dealers and accrete them to income using the constant yield method for indirect loans and the straight-line method for direct loans over the lives of the respective loans.

Charges for late fees are recognized as income when collected.

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***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, automobile insurance, and involuntary unemployment insurance.

***Stock-Based Compensation.***

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 126,500 shares were granted to officers in 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 2012, our stock was not publicly-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.***

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 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, 2014, 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.



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**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 1.4 times per year from cash payments, renewals, and charge-offs of loans. Because 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, 2014, our outstanding debt under our senior revolving credit facility was \$324.6 million and interest on borrowings under this facility was approximately 4.45% for the six months ended June 30, 2014, including amortization of debt issuance costs and an unused line fee. 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, 2014, 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 \$811,000 of increased interest expense on an annual basis.

We 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 matured unused on March 4, 2014. We are evaluating interest rate management options and in 2014 intend to enter into an interest rate management transaction or arrangement to replace the matured unused interest rate caps.

**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, 2014. 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, 2014, 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.

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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

On May 30, 2014, a securities class action lawsuit was filed in the United States District Court for the Southern District of New York against the Company and certain of its current and former directors, executive officers, and shareholders. The complaint alleges violations of the federal securities laws and seeks unspecified compensatory damages and other relief on behalf of a purported class of purchasers of the Company's securities in the September 2013 and December 2013 secondary public offerings. The Company expects that lead plaintiffs will be appointed and will file an amended complaint later this year, after which the Company has two months to respond. The Company believes that the claims against it are without merit and intends to defend against the litigation vigorously.

We are also 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, 2013. 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, 2013 (which was filed with the SEC on March 17, 2014), 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.

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**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 7, 2014

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

(Principal Financial Officer and Duly Authorized Officer)

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

<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Incorporated by Reference</b>			<b>Filed Herewith</b>
		<b>Form</b>	<b>File No.</b>	<b>Exhibit Filing Date</b>	
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, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013; (ii) the Consolidated Statements of Income for the three and six months ended June 30, 2014 and 2013; (iii) the Consolidated Statements of Stockholders Equity for the six months ended June 30, 2014 and the year ended December 31, 2013; (iv) the Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013; and (v) the Notes to the Consolidated Financial Statements.				X