

MICROFINANCIAL INC
Form 10-Q
August 14, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

Commission File No. 1-14771

MICROFINANCIAL INCORPORATED
(Exact name of registrant as specified in its charter)

Massachusetts
(State or other jurisdiction of
incorporation or organization)
16 New England Executive Park, Suite 200, Burlington, MA 01803
(Address of principal executive offices)
(781) 994-4800
(Registrant's telephone number, including area code)

04-2962824
(I.R.S. Employer
Identification No.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(b) of the Securities and 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 (§ 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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (check one).

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Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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 July 31, 2014, 14,433,154 shares of the registrant's common stock were outstanding.

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MICROFINANCIAL INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(Unaudited)

	June 30, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	\$ 2,124	\$ 2,246
Restricted cash	1,771	1,107
Net investment in leases:		
Receivables due in installments	216,804	214,628
Estimated residual value	22,620	23,070
Initial direct costs	2,082	1,732
Less:		
Advance lease payments and deposits	(2,986)	(3,010)
Unearned income	(58,398)	(58,772)
Allowance for credit losses	(14,483)	(15,379)
Net investment in leases	165,639	162,269
Investment in service contracts, net	2,565	2,058
Investment in rental contracts, net	1,086	1,059
Property and equipment, net	1,775	1,333
Other assets	2,887	2,980
Total assets	\$ 177,847	\$ 173,052
LIABILITIES AND STOCKHOLDERS EQUITY		
Revolving line of credit	\$ 80,243	\$ 72,566
Accounts payable	3,725	2,993
Dividends payable	67	63
Other liabilities	1,826	2,272
Deferred income taxes	1,042	6,678
Total liabilities	86,903	84,572
Commitments and contingencies (Note H)		
Stockholders equity:		
Preferred stock, \$.01 par value; 5,000,000 shares authorized; no shares issued at June 30, 2014, and December 31, 2013		
Common stock, \$.01 par value; 25,000,000 shares authorized; 14,417,185 and 14,435,498 shares issued and outstanding at June 30, 2014, and December 31, 2013,	144	144

respectively

Additional paid-in capital	47,383	47,475
Retained earnings	43,417	40,861
Total stockholders' equity	90,944	88,480
Total liabilities and stockholders' equity	\$ 177,847	\$ 173,052

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

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MICROFINANCIAL INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except share and per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Income on financing leases	\$ 10,134	\$ 10,359	\$ 20,287	\$ 20,563
Rental income	2,769	2,682	5,485	5,185
Income on service contracts	364	214	695	390
Loss and damage waiver fees	1,556	1,446	3,083	2,887
Service fees and other	975	973	1,946	1,944
Total revenues	15,798	15,674	31,496	30,969
Expenses:				
Selling, general and administrative	5,048	4,841	9,868	9,503
Provision for credit losses	4,391	4,743	9,425	9,624
Depreciation and amortization	1,391	1,310	2,865	2,615
Interest	693	660	1,361	1,330
Total expenses	11,523	11,554	23,519	23,072
Income before provision for income taxes	4,275	4,120	7,977	7,897
Provision for income taxes	1,787	1,654	3,377	3,165
Net income	\$ 2,488	\$ 2,466	\$ 4,600	\$ 4,732
Net income per common share basic	\$ 0.17	\$ 0.17	\$ 0.32	\$ 0.33
Net income per common share diluted	\$ 0.17	\$ 0.17	\$ 0.31	\$ 0.32
Weighted-average shares:				
Basic	14,417,185	14,478,802	14,425,715	14,487,061
Diluted	14,716,626	14,773,434	14,733,928	14,782,523

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

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(Unaudited)

	Common Stock		Additional	Retained	Total
	Shares	Amount	Paid-in	Earnings	Stockholders
			Capital		Equity
Balance at December 31, 2012	14,470,219	\$ 145	\$ 47,500	\$ 34,747	\$ 82,392
Stock issued for director compensation	45,792		361		361
Stock-based compensation			232		232
Shares issued upon vesting of restricted stock units	16,640				
Repurchase of common stock	(97,153)	(1)	(707)		(708)
Excess tax benefits from share-based compensation			89		89
Common stock dividends (\$0.25 per share)				(3,649)	(3,649)
Net income				9,763	9,763
Balance at December 31, 2013	14,435,498	144	47,475	40,861	88,480
Stock issued for director compensation	25,310		226		226
Stock-based compensation			144		144
Shares issued upon vesting of restricted stock units	22,929				
Repurchase of common stock	(66,552)		(536)		(536)
Excess tax benefits from share-based compensation			74		74
Common stock dividends (\$0.14 per share)				(2,044)	(2,044)
Net income				4,600	4,600
Balance at June 30, 2014	14,417,185	\$ 144	\$ 47,383	\$ 43,417	\$ 90,944

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

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MICROFINANCIAL INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Cash received from customers	\$ 69,772	\$ 63,873
Cash paid to suppliers and employees	(12,561)	(12,106)
Cash paid for income taxes	(8,910)	(5,656)
Excess tax benefits from share-based compensation	(74)	
Interest paid	(1,212)	(1,198)
Net cash provided by operating activities	47,015	44,913
Cash flows from investing activities:		
Investment in lease and service contracts	(49,738)	(43,857)
Investment in direct costs	(1,182)	(718)
Investment in property and equipment	(728)	(225)
Net cash used in investing activities	(51,648)	(44,800)
Cash flows from financing activities:		
Proceeds from revolving line of credit	77,713	67,198
Repayment of revolving line of credit	(70,036)	(66,260)
(Increase) decrease in restricted cash	(664)	878
Repurchase of common stock	(536)	(708)
Excess tax benefits from share-based compensation	74	
Payment of dividends	(2,040)	(1,749)
Net cash provided by (used in) financing activities	4,511	(641)
Net change in cash and cash equivalents	(122)	(528)
Cash and cash equivalents, beginning of period	2,246	3,557
Cash and cash equivalents, end of period	\$ 2,124	\$ 3,029
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 4,600	\$ 4,732
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of unearned income, net of initial direct costs	(20,287)	(20,563)

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Depreciation and amortization	2,865	2,615
Provision for credit losses	9,425	9,624
Recovery of equipment cost and residual value	55,299	51,216
Stock-based compensation expense	144	118
Excess tax benefits from share-based compensation	(74)	
Decrease in deferred income taxes liability	(5,636)	(2,272)
Changes in assets and liabilities:		
Decrease (increase) in other assets	167	(45)
Increase (decrease) in accounts payable	958	(402)
Increase (decrease) in other liabilities	(446)	108
Decrease in income taxes payable		(218)