PRUDENTIAL BANCORP INC OF PENNSYLVANIA
Form 10-Q
February 14, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2012
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 000-51214

Prudential Bancorp, Inc. of Pennsylvania
(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania	68-0593604
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1834 Oregon Avenue Philadelphia, Pennsylvania	19145 Zip Code
(Address of Principal Executive Offices)	

(215) 755-1500
(Registrant's Telephone Number, Including Area Code)

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 x No o

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).
x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or 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):

Large accelerated filer o Accelerated filer o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
o Yes x No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practical date: as of February 1, 2013, 10,023,495 shares were issued and outstanding.

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA

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PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31, 2012	September 30, 2012
	(Dollars in Thousands)	
ASSETS		
Cash and amounts due from depository institutions	$2,849	$ 3,001
Interest-bearing deposits	50,414	78,272
Total cash and cash equivalents	53,263	81,273
Investment and mortgage-backed securities available for sale (amortized cost—December 31, 2012, $64,863; September 30, 2012, $64,030)	66,462	65,975
Investment and mortgage-backed securities held to maturity (estimated fair value—December 31, 2012, $81,973; September 30, 2012, $66,401)	79,208	63,110
Loans receivable—net of allowance for loan losses (December 31, 2012, $2,081; September 30, 2012, $1,881)	273,971	260,684
Accrued interest receivable	1,898	1,661
Real estate owned	1,953	1,972
Federal Home Loan Bank stock—at cost	1,945	2,239
Office properties and equipment—net	1,633	1,688
Bank owned life insurance	6,972	6,919
Prepaid expenses and other assets	1,298	2,234
Deferred tax asset-net	2,568	2,749
TOTAL ASSETS	$491,171	$ 490,504
LIABILITIES AND STOCKHOLDERS’ EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-bearing	$3,279	$ 3,711
Interest-bearing	424,497	421,891
Total deposits	427,776	425,602
Advances from Federal Home Loan Bank	340	483
Accrued interest payable	25	2,382
Advances from borrowers for taxes and insurance	2,189	1,273
Accounts payable and accrued expenses	773	933
Total liabilities	431,103	430,673
STOCKHOLDERS’ EQUITY:		
Preferred stock, $.01 par value, 10,000,000 shares authorized, none issued	-	-
Common stock, $.01 par value, 40,000,000 shares authorized, issued 12,563,750; outstanding - 10,023,495 at December 31, 2012 and September 30, 2012	126	126
Additional paid-in capital	54,748	54,610
Unearned ESOP shares	(2,732)	(2,787)

Treasury stock, at cost: 2,540,255 shares at December 31, 2012 and September 30, 2012	(31,625)	(31,625)
Retained earnings	38,496	38,224
Accumulated other comprehensive income	1,055	1,283
Total stockholders' equity	60,068	59,831
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$491,171	$ 490,504

See notes to unaudited consolidated financial statements.

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PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 31,	
	2012	2011
	(Dollars in Thousands Except Per Share Amounts)	
INTEREST INCOME:		
Interest on loans	$ 3,253	$ 3,268
Interest on mortgage-backed securities	634	1,044
Interest and dividends on investments	476	646
Interest on interest-bearing deposits	34	25
Total interest income	4,397	4,983
INTEREST EXPENSE:		
Interest on deposits	1,220	1,513
Interest on borrowings	-	1
Total interest expense	1,220	1,514
NET INTEREST INCOME	3,177	3,469
PROVISION FOR LOAN LOSSES	-	150
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,177	3,319
NON-INTEREST INCOME:		
Gain on sale of mortgage-backed securities available for sale	16	-
Gain on sale of real estate owned	10	-
Fees and other service charges	97	117
Total other-than-temporary impairment losses	(20)	(144)
Portion of losses recognized in other comprehensive income, before taxes	6	107
Net impairment losses recognized in earnings	(14)	(37)
Other	115	93
Total non-interest income	224	173
NON-INTEREST EXPENSE:		
Salaries and employee benefits	1,458	1,519
Data processing	110	109
Professional services	184	220
Office occupancy	97	98

Depreciation	86	84
Payroll taxes	71	64
Director compensation	98	107
Real estate owned expenses	103	152
Federal Deposit Insurance Corporation insurance	162	162
Other	409	352
Total non-interest expense	2,778	2,867
INCOME BEFORE INCOME TAXES	623	625
INCOME TAXES:		
Current expense	53	411
Deferred expense (benefit)	298	(190)
Total income tax expense	351	221
NET INCOME	$ 272	$ 404
BASIC EARNINGS PER SHARE	$ 0.03	$ 0.04
DILUTED EARNINGS PER SHARE	$ 0.03	$ 0.04

See notes to unaudited consolidated financial statements.

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PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended December 31,	
	2012	2011
	(Dollars in Thousands)	
Net income	$272	$404
Unrealized holding loss on available-for-sale securities	(342)	(103)
Tax effect	116	35
Reclassification adjustment for net gains realized in net income	(16)	-
Tax effect	5	-
Reclassification adjustment for other than temporary impairment losses on debt securities	14	37
Tax effect	(5)	(13)
Total Other Comprehensive Loss	(228)	(44)
Comprehensive Income	$44	$360

See notes to unaudited consolidated financial statements

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PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	(Dollars in Thousands except per share amounts)						
BALANCE, OCTOBER 1, 2012	$126	$54,610	$(2,787)	$(31,625)	$38,224	$1,283	$59,831
Net income					272		272
Other comprehensive loss						(228)	(228)
Excess tax benefit from stock compensation		39					39
Stock option expense		55					55
Recognition and Retention Plan expense		64					64
ESOP shares committed to be released (5,655 shares)		(20)	55				35
BALANCE, December 31, 2012	$126	$54,748	$(2,732)	$(31,625)	$38,496	$1,055	$60,068

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	(Dollars in Thousands except per share amounts)						
BALANCE, OCTOBER 1, 2011	$126	$54,078	$(3,011)	$(31,625)	$35,631	$2,253	$57,452
Net income					404		404
Other comprehensive loss						(44)	(44)
Excess tax benefit from stock compensation		40					40
Stock option expense		55					55
Recognition and Retention Plan expense		64					64
ESOP shares committed to be released (5,655 shares)		(27)	56				29
BALANCE, December 31, 2011	$126	$54,210	$(2,955)	$(31,625)	$36,035	$2,209	$58,000

See notes to unaudited consolidated financial statements

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended December 31,	
	2012	2011
OPERATING ACTIVITIES:	(Dollars in Thousands)	
Net income	$ 272	$ 404
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	-	150
Depreciation	86	84
Net accretion of premiums and discounts	(48)	(115)
Net accretion of deferred loan fees and costs	(50)	(59)
Impairment charge on investment and mortgage-backed securities	14	37
Share-based compensation expense	158	159
Compensation expense of ESOP	35	29
Gain on sale of real estate owned	(10)	-
Gain on sale of mortgage-backed securities	(16)	-
Deferred income tax expense (benefit)	298	(190)
Changes in assets and liabilities which used cash:		
Accrued interest receivable	(237)	(1)
Prepaid expenses and other assets	903	330
Accrued interest payable	(2,357)	(2,379)
Accounts payable and accrued expenses	(160)	(1,117)
Net cash used in operating activities	(1,112)	(2,668)
INVESTING ACTIVITIES:		
Purchase of investment and mortgage-backed securities held to maturity	(21,467)	(14,976)
Purchase of investment and mortgage-backed securities available for sale	(5,991)	(5,936)
Loans originated or acquired	(22,295)	(15,533)
Principal collected on loans	8,822	16,656
Principal payments received on investment and mortgage-backed securities:		
Held-to-maturity	5,379	25,117
Available-for-sale	4,893	5,297
Proceeds from redemption of FHLB stock	294	144
Proceeds from sale of mortgage-backed securities	304	-
Proceeds from sale of real estate owned	208	-
Purchases of equipment	(31)	(119)
Net cash (used in) provided by investing activities	(29,884)	10,650
FINANCING ACTIVITIES:		
Net increase in demand deposits, NOW accounts, and savings accounts	4,976	7,372
Net decrease in certificates of deposit	(2,802)	(3,884)
Repayment of advances from Federal Home Loan Bank	(143)	(10)
Increase in advances from borrowers for taxes and insurance	916	661
Excess tax benefit related to stock compensation	39	27
Net cash provided by financing activities	2,986	4,166
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(28,010)	12,148

CASH AND CASH EQUIVALENTS—Beginning of period	81,273	53,829
CASH AND CASH EQUIVALENTS—End of period	$ 53,263	$ 65,977
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid on deposits and advances from Federal Home Loan Bank	$ 3,577	$ 3,893
Income taxes paid	$ -	$ 550
SUPPLEMENTAL DISCLOSURES OF NONCASH ITEMS:		
Real estate acquired in settlement of loans	$ 236	$ -

See notes to unaudited consolidated financial statements.

PRUDENTIAL BANCORP, INC. OF PENNSYLVANIA AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation –The accompanying unaudited consolidated financial statements were prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC") for interim information and therefore do not include all the information or footnotes necessary for a complete presentation of financial condition, results of operations, changes in equity and cash flows in conformity with accounting principles generally accepted in the United States of America ("GAAP"). However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the financial statements have been included. The results for the three months ended December 31, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2013, or any other period. These financial statements should be read in conjunction with the audited consolidated financial statements of Prudential Bancorp, Inc. of Pennsylvania (the "Company") and the accompanying notes thereto for the year ended September 30, 2012 included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

Use of Estimates in the Preparation of Financial Statements—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. The most significant estimates and assumptions in the Company's consolidated financial statements are recorded in the allowance for loan losses, deferred income taxes, other than temporary impairment, and the fair value measurement for financial instruments. Actual results could differ from those estimates.

Dividend Payable – Upon declaration of a dividend, a payable is established with a corresponding reduction to retained earnings at the declaration date. There was no dividend payable as of December 31, 2012.

Employee Stock Ownership Plan – The Company maintains an employee stock ownership plan ("ESOP") for substantially all of its full-time employees. The ESOP purchased 452,295 shares of the Company's common stock for an aggregate cost of approximately $4.5 million in fiscal 2005. Shares of the Company's common stock purchased by the ESOP are held in a suspense account until released for allocation to participants. Shares are allocated to each eligible participant based on the ratio of each such participant's compensation, as defined in the ESOP, to the total compensation of all eligible plan participants. As the unearned shares are released from the suspense account, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to equity as additional paid-in capital. As of December 31, 2012, the Company had allocated a total of 175,305 shares from the suspense account to participants. For the three months ended December 31, 2012, the Company recognized $35,000 in compensation expense.

Share-Based Compensation – The Company accounts for stock-based compensation issued to employees, and where appropriate, non-employees, at fair value. Under fair value provisions, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the appropriate vesting period using the straight-line method. The amount of stock-based compensation recognized at any date must at least equal the portion of the grant date fair value of the award that is vested at that date and as a result it may be necessary to recognize the expense using a ratable method. Determining the fair value of stock-based awards at the date of grant requires judgment, including estimating the expected term of the stock options and the expected volatility of the Company's stock. In addition, judgment is required in estimating the amount of stock-based awards that are expected to be forfeited. If actual results differ significantly from these estimates or different key assumptions were used, it could have a material effect on the Company’s consolidated financial statements.

Dividends with respect to non-vested share awards are held by the Company's Recognition and Retention Plan ("Plan") Trust (the "Trust") for the benefit of the recipients and are paid out proportionately by the Trust to the recipients of stock awards granted pursuant to the Plan as soon as practicable after the stock awards are earned.

Treasury Stock – Stock held in treasury by the Company is accounted for using the cost method, which treats stock held in treasury as a reduction to total stockholders' equity. The average cost per share of the approximately 2.5 million shares which have been repurchased by the Company was $12.45 for purchases through December 31, 2012. The repurchased shares are available for general corporate purposes. As of December 31, 2012, Prudential Mutual Holding Company ("the MHC") had purchased 568,000 shares at an average cost of $10.30 per share. As of December 31, 2012, 7,478,062 shares were owned by the MHC, 2,540,255 shares had been repurchased by the Company and were held as treasury stock with the remaining 2,545,433 shares owned by public shareholders.

Comprehensive Income — For the three months ended December 31, 2012 and 2011, the only components of comprehensive income were net income, unrealized holding gains, net of income tax expense, on available for sale securities and reclassifications related to realized gains on sale of securities recognized in earnings, net of tax and realized losses due to other than temporary impairment, net of tax. Reclassifications are made to avoid double counting in comprehensive income items which are displayed as part of net income for the period.

FHLB Stock – FHLB stock is classified as a restricted equity security because ownership is restricted and there is not an established market for its resale. FHLB stock is carried at cost and is evaluated for impairment when certain conditions warrant further consideration.

The Company is a member of the Federal Home Loan Bank of Pittsburgh and as such, is required to maintain a minimum investment in stock of the Federal Home Loan Bank that varies with the level of advances outstanding from the Federal Home Loan Bank. The stock is bought from and sold to the Federal Home Loan Bank based upon its $100 par value. The FHLB stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated for impairment by management. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the Federal Home Loan Bank as compared to the capital stock amount and the length of time this situation has persisted; (b) commitments by the Federal Home Loan Bank to make payments required by law or regulation and the level of such payments in relation to the operating performance; (c) the impact of legislative and regulatory changes o