

PROVIDENT FINANCIAL HOLDINGS INC  
Form 10-Q  
November 08, 2018  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q  
(Mark One)

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

For the quarterly period ended September 30, 2018

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 000-28304

PROVIDENT FINANCIAL HOLDINGS, INC.  
(Exact name of registrant as specified in its charter)

Delaware 33-0704889  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

3756 Central Avenue, Riverside, California 92506  
(Address of principal executive offices and zip code)

(951) 686-6060  
(Registrant's telephone number, including area code)

\_\_\_\_\_  
(Former name, former address and former fiscal year, if changed since last report)

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 every Interactive Data File required to be submitted 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 such files). Yes  No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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

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APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Title of class:</u>	<u>As of November 2, 2018</u>
Common stock, \$ 0.01 par value, per share	7,506,855 shares

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PROVIDENT FINANCIAL HOLDINGS, INC.

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PROVIDENT FINANCIAL HOLDINGS, INC.  
Condensed Consolidated Statements of Financial Condition  
(Unaudited)  
In Thousands, Except Share Information

	September 30, 2018	June 30, 2018
<b>Assets</b>		
Cash and cash equivalents	\$78,928	\$43,301
Investment securities – held to maturity, at cost	79,611	87,813
Investment securities – available for sale, at fair value	7,033	7,496
Loans held for investment, net of allowance for loan losses of \$7,155 and \$7,385, respectively; includes \$4,945 and \$5,234 at fair value, respectively	877,091	902,685
Loans held for sale, at fair value	78,794	96,298
Accrued interest receivable	3,350	3,212
Real estate owned, net	524	906
Federal Home Loan Bank ("FHLB") – San Francisco stock	8,199	8,199
Premises and equipment, net	8,779	8,696
Prepaid expenses and other assets	15,171	16,943
<b>Total assets</b>	<b>\$1,157,480</b>	<b>\$1,175,549</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities:</b>		
Non interest-bearing deposits	\$87,250	\$86,174
Interest-bearing deposits	814,862	821,424
Total deposits	902,112	907,598
<b>Borrowings</b>	<b>111,149</b>	<b>126,163</b>
Accounts payable, accrued interest and other liabilities	22,539	21,331
<b>Total liabilities</b>	<b>1,035,800</b>	<b>1,055,092</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' equity:</b>		
Preferred stock, \$.01 par value (2,000,000 shares authorized; none issued and outstanding)	—	—
Common stock, \$.01 par value (40,000,000 shares authorized; 18,048,115 and 18,033,115 shares issued; 7,500,860 and 7,421,426 shares outstanding, respectively)	181	181
Additional paid-in capital	95,795	94,957
Retained earnings	191,399	190,616
Treasury stock at cost (10,547,255 and 10,611,689 shares, respectively)	(165,884 )	(165,507 )
Accumulated other comprehensive income, net of tax	189	210
<b>Total stockholders' equity</b>	<b>121,680</b>	<b>120,457</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$1,157,480</b>	<b>\$1,175,549</b>



PROVIDENT FINANCIAL HOLDINGS, INC.  
Condensed Consolidated Statements of Operations  
(Unaudited)  
In Thousands, Except Per Share Information

	Quarter Ended September 30,	
	2018	2017
Interest income:		
Loans receivable, net	\$10,174	\$10,157
Investment securities	345	257
FHLB – San Francisco stock	143	141
Interest-earning deposits	338	190
Total interest income	11,000	10,745
Interest expense:		
Checking and money market deposits	108	103
Savings deposits	151	149
Time deposits	621	639
Borrowings	763	736
Total interest expense	1,643	1,627
Net interest income	9,357	9,118
(Recovery) provision for loan losses	(237 )	169
Net interest income, after (recovery) provision for loan losses	9,594	8,949
Non-interest income:		
Loan servicing and other fees	324	363
Gain on sale of loans, net	3,132	4,847
Deposit account fees	505	558
Gain (loss) on sale and operations of real estate owned acquired in the settlement of loans, net	1	(40 )
Card and processing fees	398	381
Other	189	243
Total non-interest income	4,549	6,352
Non-interest expense:		
Salaries and employee benefits	8,250	9,269
Premises and occupancy	1,345	1,314
Equipment	421	362
Professional expenses	447	520
Sales and marketing expenses	169	203
Deposit insurance premiums and regulatory assessments	165	184
Other <sup>(1)</sup>	907	3,882
Total non-interest expense	11,704	15,734
Income (loss) before income taxes	2,439	(433 )
Provision (benefit) for income taxes	616	(208 )
Net income (loss)	\$1,823	\$(225 )



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Basic earnings (loss) per share	\$0.25	\$(0.03 )
Diluted earnings (loss) per share	\$0.24	\$(0.03 )
Cash dividends per share	\$0.14	\$0.14

<sup>(1)</sup> Includes \$2.75 million of litigation settlement expense for the quarter ended September 30, 2017.

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PROVIDENT FINANCIAL HOLDINGS, INC.  
 Condensed Consolidated Statements of Comprehensive Income  
 (Unaudited)  
 In Thousands

	For the Quarters Ended September 30,	
	2018	2017
Net income (loss)	\$1,823	\$(225)
Change in unrealized holding (loss) gain on securities available for sale	(30 )	2
Reclassification of (gains) losses to net income	—	—
Other comprehensive (loss) income, before income taxes	(30 )	2
Income tax (benefit) provision	(9 )	1
Other comprehensive (loss) income	(21 )	1
Total comprehensive income (loss)	\$1,802	\$(224)

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

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PROVIDENT FINANCIAL HOLDINGS, INC.  
Condensed Consolidated Statements of Stockholders' Equity  
(Unaudited)  
In Thousands, Except Share Information

For the Quarters Ended September 30, 2018 and 2017:

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive	Total
	Shares	Amount				Income (Loss), Net of Tax	
Balance at June 30, 2018	7,421,426	\$ 181	\$ 94,957	\$ 190,616	\$(165,507)	\$ 210	\$ 120,457
Net income				1,823			1,823
Other comprehensive loss						(21 )	(21 )
Purchase of treasury stock <sup>(1)</sup>	(20,566 )				(377 )		(377 )
Exercise of stock options	15,000		153				153
Distribution of restricted stock	85,000						—
Amortization of restricted stock			364				364
Stock options expense			321				321
Cash dividends <sup>(2)</sup>				(1,040 )			(1,040 )
Balance at September 30, 2018	7,500,860	\$ 181	\$ 95,795	\$ 191,399	\$(165,884)	\$ 189	\$ 121,680

<sup>(1)</sup> Includes the repurchase of 20,566 shares of distributed restricted stock in settlement of employee withholding tax obligations.

<sup>(2)</sup> Cash dividends of \$0.14 per share were paid in the quarter ended September 30, 2018.

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive	Total
	Shares	Amount				Income, Net of Tax	
Balance at June 30, 2017	7,714,052	\$ 180	\$ 93,209	\$ 192,754	\$(158,142)	\$ 229	\$ 128,230
Net loss				(225 )			(225 )
Other comprehensive income						1	1
Purchase of treasury stock	(126,000 )				(2,450 )		(2,450 )
Exercise of stock options	21,500		177				177
Amortization of restricted stock			149				149
Forfeiture of restricted stock			17		(17 )		—
Stock options expense			117				117
Cash dividends <sup>(1)</sup>				(1,078 )			(1,078 )
	7,609,552	\$ 180	\$ 93,669	\$ 191,451	\$(160,609)	\$ 230	\$ 124,921

Balance at September 30,  
2017

(1) Cash dividends of \$0.14 per share were paid in the quarter ended September 30, 2017.

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

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PROVIDENT FINANCIAL HOLDINGS, INC.  
Condensed Consolidated Statements of Cash Flows  
(Unaudited - In Thousands)

	Three Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$1,823	\$(225 )
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	928	664
(Recovery) provision for loan losses	(237 )	169
Recovery of losses on real estate owned	—	(552 )
Gain on sale of loans, net	(3,132 )	(4,847 )
(Gain) loss on sale of real estate owned, net	(13 )	580
Stock-based compensation	685	266
Provision (benefit) for deferred income taxes	505	(930 )
Increase in accounts payable, accrued interest and other liabilities	2,446	1,039
Decrease in prepaid expenses and other assets	1,172	617
Loans originated for sale	(196,321)	(392,292)
Proceeds from sale of loans	215,761	386,799
Net cash provided by (used for) operating activities	23,617	(8,712 )
Cash flows from investing activities:		
Decrease (increase) in loans held for investment, net	25,927	(3,517 )
Maturity of investment securities held to maturity	200	—
Principal payments from investment securities held to maturity	7,915	5,570
Principal payments from investment securities available for sale	432	383
Purchase of investment securities held to maturity	(200 )	(10,102 )
Proceeds from sale of real estate owned	395	1,587
Purchase of premises and equipment	(307 )	(901 )
Net cash provided by (used for) investing activities	34,362	(6,980 )
Cash flows from financing activities:		
(Decrease) increase in deposits, net	(5,486 )	495
Repayments of short-term borrowings, net	(15,000 )	(5,000 )
Repayments of long-term borrowings	(14 )	(20 )
Exercise of stock options	153	177
Withholding taxes on stock based compensation	(588 )	(41 )
Cash dividends	(1,040 )	(1,078 )
Treasury stock purchases	(377 )	(2,450 )
Net cash used for financing activities	(22,352 )	(7,917 )
Net increase (decrease) in cash and cash equivalents	35,627	(23,609 )
Cash and cash equivalents at beginning of period	43,301	72,826
Cash and cash equivalents at end of period	\$78,928	\$49,217
Supplemental information:		
Cash paid for interest	\$1,623	\$1,606
Cash paid for income taxes	\$—	\$—
Transfer of loans held for sale to held for investment	\$724	\$521

Real estate acquired in the settlement of loans	\$—	\$—
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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PROVIDENT FINANCIAL HOLDINGS, INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

September 30, 2018

Note 1: Basis of Presentation

The unaudited interim condensed consolidated financial statements included herein reflect all adjustments which are, in the opinion of management, necessary to present a fair statement of the results of operations for the interim periods presented. All such adjustments are of a normal, recurring nature. The condensed consolidated statement of financial condition at June 30, 2018 is derived from the audited consolidated financial statements of Provident Financial Holdings, Inc. and its wholly-owned subsidiary, Provident Savings Bank, F.S.B. (the "Bank") (collectively, the "Corporation"). Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC") with respect to interim financial reporting. It is recommended that these unaudited interim condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation's Annual Report on Form 10-K for the year ended June 30, 2018. The results of operations for the quarter ended September 30, 2018 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2019.

Note 2: Accounting Standard Updates ("ASU")

There have been no accounting standard updates or changes in the status of their adoption that are significant to the Corporation as previously disclosed in Note 1 of the Corporation's Annual Report on Form 10-K for the year ended June 30, 2018, other than:

ASU 2014-09:

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, "Revenue from Contracts with Customers," which created FASB Accounting Standards Codification (ASC) Topic 606 ("ASC 606"). ASC 606 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASC 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASC 606 was effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2017. The Corporation adopted ASC 606 on July 1, 2018 using the modified retrospective approach. Therefore, the comparative information has not been adjusted and continues to be reported under superseded ASC 605. There was no cumulative effect adjustment as of July 1, 2018, and there were no material changes to the timing or amount of revenue recognized for the three months ended September 30, 2018; however, additional disclosures were incorporated in the footnotes upon adoption. The majority of the Company's revenue is comprised of interest income from financial assets, which is explicitly excluded from the scope of ASC 606. The Corporation elected to apply the practical expedient pursuant to ASC 606 and therefore does not disclose information about remaining performance obligations that have an original expected term of one year or less and allows the Corporation to expense costs related to obtaining a contract as incurred when the original amortization period would have been one year or less. See Note 12 for additional discussion.

ASU 2018-11

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." This ASU introduces a lessee model that brings most leases on the balance sheet and aligns many of the underlying principles of the new lessor model with those in the new revenue recognition standard, ASC 606, Revenue From Contracts With Customers. The new leases standard represents a wholesale change to lease accounting and will most likely result in significant implementation challenges during the transition period and beyond. This ASU will be effective for annual periods beginning after December 15, 2018 (i.e., calendar periods beginning on January 1, 2019), and interim periods therein, early adoption is permitted. In July 2018, the FASB issued ASU 2018-11, Leases, Targeted Improvements, which allows entities the option of initially applying the new leases standard at the adoption date (such as January 1, 2019, for calendar year-end public business entities) and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Corporation plans to adopt ASU 2018-11 on July 1, 2019. Management is currently assessing the impact of ASU 2016-02 on the Corporation's financial position and results of operations but does not believe that adoption of ASU 2018-11 will have a material impact on its consolidated financial statements.

ASU 2018-13

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, which modifies disclosure requirements on fair value measurements to improve their effectiveness. The guidance permits entities to consider materiality when evaluating fair value measurement disclosures and, among other modifications, requires certain new disclosures related to Level 3 fair value measurements. The guidance will be effective beginning January 1, 2020, with early adoption permitted. The guidance only affects disclosures in the notes to the consolidated financial statements and will not affect the Corporation's financial position or results of operations.

Note 3: Earnings (Loss) Per Share

Basic earnings (loss) per share ("EPS") excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the earnings of the entity.

As of September 30, 2018 and 2017, there were outstanding options to purchase 514,000 shares and 591,250 shares of the Corporation's common stock, respectively. Of those shares, as of September 30, 2018 and 2017, there were 20,000 shares and 591,250 shares, respectively, which were excluded from the diluted EPS computation as their effect was anti-dilutive. As of September 30, 2018, there were outstanding restricted stock awards of 13,500 shares which have a dilutive effect in the first quarter of fiscal 2019; and as of September 30, 2017, there were outstanding restricted stock awards of 109,000 shares with no dilutive effect in the first quarter of fiscal 2018.



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The following table provides the basic and diluted EPS computations for the quarters ended September 30, 2018 and 2017, respectively.

(In Thousands, Except Earnings Per Share)	For the	
	Quarters Ended	September 30,
	2018	2017
Numerator:		
Net income (loss) – numerator for basic earnings per share and diluted earnings per share - available to common stockholders	\$1,823	\$(225)