

PARKE BANCORP, INC.
Form 10-Q
May 15, 2008
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: March 31, 2008

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

For the transition period from _____ to _____

Commission File No. **000-51338**

PARKE BANCORP, INC.
(Exact name of registrant as specified in its charter)

New Jersey
(State or other jurisdiction of
incorporation or organization)

65-1241959
(I.R.S. Employer Identification No.)

601 Delsea Drive, Washington Township, New Jersey
(Address of principal executive offices)

08080
(Zip Code)

856-256-2500
(Registrant's telephone number, including area code)

N/A
(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.

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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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

APPLICABLE ONLY TO CORPORATE ISSUERS

As of May 13, 2008, there were issued and outstanding 3,727,818 shares of the registrant's common stock.

PARKE BANCORP, INC.

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2008

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Parke Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

	March 31, 2008	December 31, 2007
	(Amounts in thousands, except per share data)	
Assets		
Cash and due from banks	\$ 6,549	\$ 4,624
Federal funds sold and cash equivalents	19,608	4,554
Total cash and cash equivalents	26,157	9,178
Investment securities available for sale, at fair value	36,133	29,782
Investment securities held to maturity, at amortized cost (fair value 2008 - \$2,487; 2007 - \$2,410)	2,462	2,456
Total investment securities	38,595	32,238
Restricted stock, at cost	1,697	1,473
Loans	434,126	408,389
Less: allowance for loan losses	(6,079)	(5,706)
Total net loans	428,047	402,683
Bank owned life insurance	4,862	4,815
Bank premises and equipment, net	3,177	3,217
Accrued interest receivable	2,763	2,633
Other assets	4,652	4,558
Total assets	\$ 509,950	\$ 460,795

(Continued)

Parke Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

	March 31, 2008	December 31, 2007
	(Amounts in thousands, except per share data)	
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing demand	\$ 19,283	\$ 17,869
Interest-bearing	403,854	361,611
Total deposits	423,137	379,480
Federal Home Loan Bank borrowings		
	26,887	21,919
Other borrowed funds	5,000	5,000
Subordinated debentures	13,403	13,403
Accrued interest payable	2,045	1,991
Other accrued liabilities	2,242	2,585
Total liabilities	472,714	424,378
Commitments and Contingencies (Note 1)		
Shareholders' Equity		
Preferred stock,		
1,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock,		
\$.10 par value, 10,000,000 shares authorized; 3,844,722 and 3,307,569 shares issued at March 31, 2008 and December 31, 2007, respectively	383	331
Additional paid-in capital	34,232	26,798
Retained earnings	5,925	11,897
Treasury stock (126,570 shares at March 31, 2008 and 110,061 shares at December 31, 2007), at cost	(1,819)	(1,819)
Accumulated other comprehensive loss	(1,485)	(790)
Total shareholders' equity	37,236	36,417
Total liabilities and shareholders' equity	\$ 509,950	\$ 460,795

See Notes to Consolidated Financial Statements.

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Diluted	\$ 0.31	\$ 0.31
Weighted Average Shares Outstanding:		
Basic	3,699,969	3,609,547
Diluted	4,134,750	4,122,659

See Notes to Consolidated Financial Statements.

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Parke Bancorp, Inc. and Subsidiaries
Consolidated Statements of Shareholders' Equity
For the Three Months Ended March 31, 2008 and 2007
(Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
	(Amounts in thousands)					
Balance, December 31, 2006	\$288	\$21,153	\$10,848	\$(420)	\$(1,160)	\$30,709
Stock options and warrants exercised	5	407	—	—	—	412
Stock compensation	—	8	—	—	—	8
10% common stock dividend	29	4,770	(4,799)	—	—	—
Comprehensive income						
Net income	—	—	1,277	—	—	1,277
Change in net unrealized loss on securities available for sale, net of tax	—	—	—	62	—	62
Pension liability adjustments, net of tax	—	—	—	5	—	5
Total comprehensive income						1,344
Balance, March 31, 2007	\$322	\$26,338	\$7,326	\$(353)	\$(1,160)	\$32,473
Balance, December 31, 2007	\$331	\$26,798	\$11,897	\$(790)	\$(1,819)	\$36,417
Stock options and warrants exercised	4	203	—	—	—	207
Stock compensation	—	8	—	—	—	8
15% common stock dividend	48	7,223	(7,271)	—	—	—
Comprehensive income						
Net income	—	—	1,299	—	—	1,299
Change in net unrealized loss on securities available for sale, net of tax	—	—	—	(703)	—	(703)
Pension liability adjustments, net of tax	—	—	—	8	—	8
Total comprehensive income						604
Balance, March 31, 2008	\$383	\$34,232	\$5,925	\$(1,485)	\$(1,819)	\$37,236

See Notes to Consolidated Financial Statements.

Parke Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	For the three months ended March 31, (Amounts in thousands)	
	2008	2007
Cash Flows from Operating Activities		
Net income	\$ 1,299	\$ 1,277
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	75	79
Provision for loan losses	360	500
Stock compensation	8	8
Bank owned life insurance	(47)	(44)
Supplemental executive retirement plan	82	65
Loss on write down of foreclosed asset	75	—
Net accretion of purchase premiums and discounts on securities	(30)	(11)
Changes in operating assets and liabilities:		
Decrease (increase) in accrued interest receivable and other assets	177	(468)
Decrease in accrued interest payable and other accrued liabilities	(371)	(347)
Net cash provided by operating activities	1,628	1,059
Cash Flows from Investing Activities		
Purchases of investment securities available for sale	(9,689)	(3,481)
Redemption (purchases) of restricted stock	(224)	114
Proceeds from maturities of investment securities available for sale	1,500	1,550
Principal payments on mortgage-backed securities	691	331
Net increase in loans	(25,724)	(46,512)
Purchases of bank premises and equipment	(35)	(8)
Net cash used in investing activities	(33,481)	(48,006)
Cash Flows from Financing Activities		
Proceeds from exercise of stock options and warrants	207	412
Net decrease in Federal Home Loan Bank short term borrowings	—	(100)
Proceeds from Federal Home Loan Bank advances	5,000	4,500
Payments of Federal Home Loan Bank advances	(32)	(6,929)
Net increase in noninterest-bearing deposits	1,414	9,303
Net increase in interest-bearing deposits	42,243	46,304
Net cash provided by financing activities	48,832	53,490
Increase in cash and cash equivalents	16,979	6,543
Cash and Cash Equivalents, January 1,	9,178	11,261
Cash and Cash Equivalents, March 31,	\$ 26,157	\$ 17,804

Supplemental Disclosure of Cash Flow Information:

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Cash paid during the year for:

Interest on deposits and borrowed funds

\$ 4,902

\$ 3,642

Income taxes

\$ 852

\$ 811

See Notes to Consolidated Financial Statements.

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NOTE 1. GENERAL

Business

Parke Bancorp, Inc. ("Parke Bancorp" or the "Company") is a bank holding company incorporated under the laws of the State of New Jersey in January 2005 for the sole purpose of becoming the holding company of Parke Bank (the "Bank").

The Bank is a commercial bank which commenced operations on January 28, 1999. The Bank is chartered by the New Jersey Department of Banking and insured by the Federal Deposit Insurance Corporation ("FDIC"). Parke Bancorp and the Bank maintain their principal offices at 601 Delsea Drive, Washington Township, New Jersey. The Bank also conducts business through offices in Northfield and Washington Township, New Jersey and Philadelphia, Pennsylvania and has a loan production office in Havertown, Pennsylvania.

Financial Statements

The accompanying financial statements as of March 31, 2008 and for the three month period ended March 31, 2008 and 2007 included herein have not been audited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted; therefore, these financial statements should be read in conjunction with the Company's audited financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as filed with the SEC. The accompanying financial statements reflect all adjustments, which are, in the opinion of management, necessary to present a fair statement of the results for the interim periods presented. Such adjustments are of a normal recurring nature. The results for the three months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008 or any other periods.

Basis of Financial Statement Presentation

The financial statements include the accounts of Parke Bancorp Inc. and its wholly owned subsidiaries, Parke Bank, Parke Capital Markets and Farm Folly, LLC. Parke Capital Trust I, Parke Capital Trust II and Parke Capital Trust III are wholly-owned subsidiaries but are not consolidated because they do not meet the consolidation requirements. All significant inter-company balances and transactions have been eliminated. Such statements have been prepared in accordance with GAAP and general practice within the banking industry.

Use of Estimates

The preparation of financial statements 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 revenues and expenses during the reporting period. Actual results could differ from such estimates. A material estimate that is particularly susceptible to a significant change in the near term is the determination of the allowance for loan losses.

PARKE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Investments

The Company has identified investment securities that will be held for indefinite periods of time, including securities that will be used as a part of the Bank's asset/liability management strategy and may be sold in response to changes in interest rates, prepayments and similar factors. These securities are classified as "available-for-sale" and are carried at fair value, with temporary unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss), net of the related income tax effect. Declines in the fair value of the individual available-for-sale securities below their cost that are other than temporary may result in write downs of the individual securities to their fair value and would be included in non-interest income in the consolidated statements of operations. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or that the Company would not have the intent and ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value. The unrealized losses that existed as of March 31, 2008 are primarily the result of market changes in interest rates since the securities were purchased. This factor, coupled with the fact the Company has both the intent and ability to hold securities for a period of time sufficient to allow for any anticipated recovery in fair value, substantiates that the unrealized losses in the available-for-sale portfolio are temporary. (See Note 8 "Fair Value Measurement").

Commitments

In the general course of business, there are various outstanding commitments to extend credit, such as letters of credit and un-advanced loan commitments, which are not reflected in the accompanying financial statements. Management does not anticipate any material losses as a result of these commitments.

Contingencies

The Company is from time to time a party to routine litigation in the normal course of its business. Management does not believe that the resolution of this litigation will have a material adverse effect on the financial condition or results of operations of the Company. However, the ultimate outcome of any such litigation, as with litigation generally, is inherently uncertain and it is possible that some litigation matters may be resolved adversely to the Company.

NOTE 2. EARNINGS PER SHARE

Basic earnings per share is computed by dividing income available to holders of common stock (the numerator) by the weighted average number of common shares outstanding (the denominator) during the period. Shares issued during the period are weighted for the portion of the period that they were outstanding. The weighted average number of common shares outstanding for the three months ended March 31, 2008 and 2007 was 3,699,969 and 3,609,547, respectively.

Diluted earnings per share are similar to the computation of basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive options and warrants outstanding had been exercised. The assumed conversion of dilutive options and warrants resulted in 434,781 and 513,112 additional shares for the three months ended March 31, 2008 and 2007, respectively.

PARKE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Both basic and diluted earnings per share calculations give retroactive effect to stock dividends declared, including the most recently completed 15% stock dividend that was effective April 18, 2008.

NOTE 3. STOCK COMPENSATION

Effective January 1, 2006, the Company adopted Financial Accounting Standards Board ("FASB") Statement No. 123 *Share-Based Payment* (Revised 2004) ("SFAS 123R") utilizing the modified prospective approach. Under the modified prospective transition method, the Company is required to recognize compensation cost for 1) all share-based payments granted prior to, but not vested as of, January 1, 2006 based on the grant date fair value estimated in accordance with the original provisions of SFAS 123; and 2) for all share-based payments granted on or after January 1, 2006 based on the grant date fair value estimated in accordance with SFAS 123R. In accordance with the modified prospective method, the Company did not restate prior period results.

Prior to January 1, 2006, the Company accounted for share-based payments under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by FASB Statement No. 123, *Accounting for Stock-Based Compensation*. The Company uses the Black-Scholes option pricing model to estimate the fair value of stock-based awards effective January 1, 2006. No options were granted in 2008 or 2007.

As of March 31, 2008 and December 31, 2007, there were 11,385 unvested options after adjusting for the stock dividend in April 2008. Compensation cost related to share-based payments amounted to \$8,262 during the first three months of 2008, which were related to options issued in 2006. As of March 31, 2008, there was approximately \$54,000 of total unrecognized compensation cost related to share-based payments which is expected to be recognized over a weighted average period of 1.50 years.

NOTE 4. REGULATORY RESTRICTIONS

The Bank is subject to various regulatory capital requirements of federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined).

PARKE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Parke Bank	Actual		Regulatory Guidelines				To Be Well-Capitalized		
	Amount	Ratio	Minimum Adequacy Amount	Ratio	Amount	Ratio			
As of March 31, 2008									
<u>(Amounts in thousands)</u>									
Total Risk Based Capital (to Risk Weighted Assets)	\$57,218	11.76	%	\$38,936	8	%	\$48,670	10	%
Tier I Capital (to Risk Weighted Assets)	\$51,139	10.51	%	\$19,468	4	%	\$29,202	6	%
Tier I Capital (to Average Assets)	\$51,139	10.46	%	\$19,549	4	%	\$24,437	5	%

Parke Bank	Actual		Regulatory Guidelines				To Be Well-Capitalized		
	Amount	Ratio	Minimum Adequacy Amount	Ratio	Amount	Ratio			
As of March 31, 2007									
<u>(Amounts in thousands)</u>									
Total Risk Based Capital (to Risk Weighted Assets)	\$55,583	12.39	%	\$35,885	8	%	\$44,856	10	%
Tier I Capital (to Risk Weighted Assets)	\$49,975	11.14	%	\$17,942	4	%	\$26,913	6	%
Tier I Capital (to Average Assets)	\$49,975	11.19	%	\$17,867	4	%	\$22,334	5	%

Management believes, as of March 31, 2008 and December 31, 2007, that the Bank met all capital adequacy requirements to which it was subject.

NOTE 5. SUBORDINATED DEBENTURES

On June 21, 2007, Parke Capital Trust III, a Delaware statutory business trust and a wholly-owned subsidiary of the Company, issued \$3.0 million of variable rate capital trust pass-through securities to investors. The variable interest rate re-prices quarterly at the three-month LIBOR plus 1.50% and was 4.30% at March 31, 2008. Parke Capital Trust III purchased \$3.1 million of variable rate junior subordinated deferrable interest debentures from the Company. The debentures are the sole asset of the Trust. The terms of the junior subordinated debentures are the same as the terms of the capital securities. The Company has also fully and unconditionally guaranteed the obligations of the Trust under the capital securities. The capital securities are redeemable by the Company on or after June 15, 2012, at par or earlier if the deduction of related interest for federal income taxes is prohibited, classification as Tier 1 Capital is no longer allowed, or certain other contingencies arise. The capital securities must be redeemed upon final maturity of the subordinated debentures on September 15, 2037. Proceeds of approximately \$3.0 million were retained at the Company for future use.

PARKE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE 6. INCOME TAXES

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, ("FIN 48"), on January 1, 2007. The Company files United States (US) federal income tax returns and state tax returns in New Jersey. Based upon the statute of limitations, the Company is no longer subject to US federal and state examinations by tax authorities for years before 2003. Based on the review of the tax returns filed for the years 2003 through 2006 and the deferred tax benefits accrued in the 2007 annual financial statements, management determined that all tax positions taken had a probability of greater than 50 percent of being sustained and that 100 percent of the benefits accrued were expected to be realized. Management has a high confidence level in the technical merits of the positions. It believes that the deductions taken and benefits accrued are based on widely understood administrative practices and procedures and are based on clear and unambiguous tax law. As a result of this evaluation, no liability has been recorded for unrecognized tax benefits.

NOTE 7. COMPREHENSIVE INCOME

The Company's comprehensive income is presented in the following table.

	For the three months ended March 31,	
	2008	2007
	(Amounts in thousands)	
Net income	\$ 1,299	\$ 1,277
Unrealized gains (losses) on securities (net of tax of \$468 and \$41)	(703)	62
Minimum pension liability (net of tax of \$27 and \$23)	8	5
	\$	