

FIDELITY D & D BANCORP INC
Form 10-Q
May 07, 2014
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, 2014

OR

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: 333-90273

FIDELITY D & D BANCORP, INC.

STATE OF INCORPORATION: IRS EMPLOYER IDENTIFICATION NO:

PENNSYLVANIA

23-3017653

Address of principal executive offices:

BLAKELY & DRINKER ST.

DUNMORE, PENNSYLVANIA 18512

TELEPHONE:

570-342-8281

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 subjected 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 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

(Do not check if a 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

The number of outstanding shares of Common Stock of Fidelity D & D Bancorp, Inc. on April 30, 2014, the latest practicable date, was 2,411,667 shares.

FIDELITY D & D BANCORP, INC.

Form 10-Q March 31, 2014

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PART I – Financial Information

Item 1: Financial Statements

Fidelity D & D Bancorp, Inc. and Subsidiary
Consolidated Balance Sheets
(Unaudited)

(dollars in thousands)	March 31, 2014	December 31, 2013
Assets:		
Cash and due from banks	\$ 15,462	\$ 13,197
Interest-bearing deposits with financial institutions	16,637	21
Total cash and cash equivalents	32,099	13,218
Available-for-sale securities	102,213	97,246
Held-to-maturity securities (fair value of \$0 in 2014, \$195 in 2013)	-	177
Federal Home Loan Bank stock	2,176	2,640
Loans and leases, net (allowance for loan losses of \$8,899 in 2014; \$8,928 in 2013)	474,665	469,216
Loans held-for-sale (fair value \$458 in 2014, \$937 in 2013)	451	917
Foreclosed assets held-for-sale	2,511	2,086
Bank premises and equipment, net	14,410	13,602
Cash surrender value of bank owned life insurance	10,485	10,402
Accrued interest receivable	2,030	2,068
Other assets	13,389	12,253
Total assets	\$ 654,429	\$ 623,825
Liabilities:		
Deposits:		
Interest-bearing	\$ 422,670	\$ 406,779
Non-interest-bearing	132,096	122,919
Total deposits	554,766	529,698
Accrued interest payable and other liabilities	3,487	3,425
Short-term borrowings	12,327	8,642
Long-term debt	16,000	16,000
Total liabilities	586,580	557,765
Shareholders' equity:		
Preferred stock authorized 5,000,000 shares with no par value; none issued	-	-
Capital stock, no par value (10,000,000 shares authorized; shares issued and outstanding; 2,411,667 in 2014; and		

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2,391,617 in 2013)	25,703	25,302
Retained earnings	40,373	39,519
Accumulated other comprehensive income	1,773	1,239
Total shareholders' equity	67,849	66,060
Total liabilities and shareholders' equity	\$ 654,429	\$ 623,825

See notes to unaudited consolidated financial statements

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Fidelity D & D Bancorp, Inc. and Subsidiary
Consolidated Statements of Income

(Unaudited)

(dollars in thousands except per share data)

	Three months ended	
	March 31, 2014	March 31, 2013
Interest income:		
Loans and leases:		
Taxable	\$ 5,276	\$ 5,370
Nontaxable	131	99
Interest-bearing deposits with financial institutions	7	12
Investment securities:		
U.S. government agency and corporations	245	179
States and political subdivisions (nontaxable)	321	290
Other securities	22	18
Total interest income	6,002	5,968
Interest expense:		
Deposits	489	515
Securities sold under repurchase agreements	8	9
Other short-term borrowings and other	-	1
Long-term debt	210	210
Total interest expense	707	735
Net interest income	5,295	5,233
Provision for loan losses	300	550
Net interest income after provision for loan losses	4,995	4,683
Other income:		
Service charges on deposit accounts	423	452
Interchange fees	305	272
Fees from trust fiduciary activities	164	149
Fees from financial services	139	155
Service charges on loans	117	234
Fees and other revenue	171	102
Earnings on bank-owned life insurance	83	81
Gain on sale, recovery, or disposal of:		
Loans	128	504
Investment securities	207	119
Premises and equipment	1	-
Impairment losses on investment securities:		
Other-than-temporary impairment on investment securities	-	(61)
Non-credit-related losses on investment securities not expected to be sold (recognized in other comprehensive income (loss))	-	61
Net impairment losses on investment securities	-	-
Total other income	1,738	2,068
Other expenses:		
Salaries and employee benefits	2,476	2,474

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Premises and equipment	917	854
Advertising and marketing	332	252
Professional services	318	249
FDIC assessment	99	126
Loan collection	47	195
Other real estate owned	65	123
Office supplies and postage	107	102
Automated transaction processing	151	125
Other	273	380
Total other expenses	4,785	4,880
Income before income taxes	1,948	1,871
Provision for income taxes	492	477
Net income	\$ 1,456	\$ 1,394
Per share data:		
Net income - basic	\$ 0.61	\$ 0.60
Net income - diluted	\$ 0.61	\$ 0.60
Dividends	\$ 0.25	\$ 0.25

See notes to unaudited consolidated financial statements

Fidelity D & D Bancorp, Inc. and Subsidiary Consolidated Statements of Comprehensive Income (Unaudited) (dollars in thousands)	Three months ended March 31,	
	2014	2013
Net income	\$ 1,456	\$ 1,394
Other comprehensive income, before tax:		
Unrealized holding gain (loss) on available-for-sale securities	1,015	(417)
Reclassification adjustment for net gains realized in income	(207)	(119)
Net unrealized gain (loss)	808	(536)
Tax effect	(274)	182
Unrealized gain (loss), net of tax	534	(354)
Non-credit-related impairment loss on investment securities not expected to be sold	-	(39)
Reclassification adjustment for net gains realized in income	-	-
Net non-credit-related impairment loss on investment securities	-	(39)
Tax effect	-	13
Non-credit-related impairment loss on investment securities, net of tax	-	(26)
Other comprehensive income (loss), net of tax	534	(380)
Total comprehensive income, net of tax	\$ 1,990	\$ 1,014

See notes to unaudited consolidated financial statements

Fidelity D & D Bancorp, Inc. and Subsidiary
 Consolidated Statements of Changes in Shareholders' Equity
 For the three months ended March 31, 2014 and 2013
 (Unaudited)

(dollars in thousands)	Capital stock		Retained	Accumulated other comprehensive	Total
	Shares	Amount	earnings	income (loss)	
Balance, December 31, 2012	2,323,248	\$ 23,711	\$ 34,999	\$ 236	\$ 58,946
Net income			1,394		1,394
Other comprehensive loss				(380)	(380)
Issuance of common stock through Employee Stock Purchase Plan	4,256	78			78
Issuance of common stock through Dividend Reinvestment Plan	15,131	298			298
Stock-based compensation expense		29			29
Cash dividends declared			(586)		(586)
Balance, March 31, 2013	2,342,635	\$ 24,116	\$ 35,807	\$ (144)	\$ 59,779
Balance, December 31, 2013	2,391,617	\$ 25,302	\$ 39,519	\$ 1,239	\$ 66,060
Net income			1,456		1,456
Other comprehensive income				534	534
Issuance of common stock through Employee Stock Purchase Plan	4,373	80			80
Issuance of common stock through Dividend Reinvestment Plan	10,427	249			249
Issuance of common stock from vested restricted share grants through stock compensation plans	5,250				
Stock-based compensation expense		72			72
Cash dividends declared			(602)		(602)
Balance, March 31, 2014	2,411,667	\$ 25,703	\$ 40,373	\$ 1,773	\$ 67,849

See notes to unaudited consolidated financial statements

Fidelity D & D Bancorp, Inc. and Subsidiary
Consolidated Statements of Cash Flows

(Unaudited)	Three months ended	
	2014	2013
(dollars in thousands)		
Cash flows from operating activities:		
Net income	\$ 1,456	\$ 1,394
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	767	853
Provision for loan losses	300	550
Deferred income tax (benefit) expense	(16)	387
Stock-based compensation expense	72	29
Proceeds from sale of loans held-for-sale	7,065	27,951
Originations of loans held-for-sale	(6,563)	(18,573)
Earnings on bank-owned life insurance	(83)	(81)
Net gain from sales of loans	(128)	(504)
Net gain from sales of investment securities	(207)	(111)
Net (gain) loss on sale and write-down of foreclosed assets held-for-sale	(48)	44
Change in:		
Accrued interest receivable	38	(8)
Other assets	(530)	(1,594)
Accrued interest payable and other liabilities	(535)	512
Net cash provided by operating activities	1,588	10,849
Cash flows from investing activities:		
Held-to-maturity securities:		
Proceeds from sales	187	-
Proceeds from maturities, calls and principal pay-downs	3	16
Available-for-sale securities:		
Proceeds from sales	2,751	756
Proceeds from maturities, calls and principal pay-downs	3,580	9,182
Purchases	(10,612)	(9,558)
Decrease FHLB stock	464	386
Net increase in loans and leases	(7,892)	(17,844)
Acquisition of bank premises and equipment	(433)	(111)
Proceeds from sale of foreclosed assets held-for-sale	766	76
Net cash used by investing activities	(11,186)	(17,097)
Cash flows from financing activities:		
Net increase (decrease) in deposits	25,067	(195)
Net increase in short-term borrowings	3,685	5,537
Proceeds from employee stock purchase plan participants	80	78
Dividends paid, net of dividends reinvested	(395)	(367)

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Proceeds from dividend reinvestment plan participants	42	79
Net cash provided by financing activities	28,479	5,132
Net increase (decrease) in cash and cash equivalents	18,881	(1,116)
Cash and cash equivalents, beginning	13,218	21,846
Cash and cash equivalents, ending	\$ 32,099	\$ 20,730

See notes to unaudited consolidated financial statements

FIDELITY D & D BANCORP, INC.

Notes to Consolidated Financial Statements

(Unaudited)

1. Nature of operations and critical accounting policies

Nature of operations

Fidelity Deposit and Discount Bank (the Bank) is a commercial bank chartered in the Commonwealth of Pennsylvania and a wholly-owned subsidiary of Fidelity D & D Bancorp, Inc. (the Company or collectively, the Company). Having commenced operations in 1903, the Bank is committed to provide superior customer service, while offering a full range of banking products and financial and trust services to both our consumer and commercial customers from our main office located in Dunmore and other branches located throughout Lackawanna and Luzerne counties.

Principles of consolidation

The accompanying unaudited consolidated financial statements of the Company and the Bank have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to this Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnote disclosures required by GAAP for complete financial statements. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of the financial condition and results of operations for the periods have been included. All significant inter-company balances and transactions have been eliminated in consolidation.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates. For additional information and disclosures required under GAAP, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Management is responsible for the fairness, integrity and objectivity of the unaudited financial statements included in this report. Management prepared the unaudited financial statements in accordance with GAAP. In meeting its responsibility for the financial statements, management depends on the Company's accounting systems and related internal controls. These systems and controls are designed to provide reasonable but not absolute assurance that the financial records accurately reflect the transactions of the Company, the Company's assets are safeguarded and that the financial statements present fairly the financial condition and results of operations of the Company.

In the opinion of management, the consolidated balance sheets as of March 31, 2014 and December 31, 2013 and the related consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the three months ended March 31, 2014 and 2013 present fairly the financial condition and results of operations of the Company. All material adjustments required for a fair presentation have been made. These adjustments are of a normal recurring nature. Certain reclassifications have been made to the 2013 financial statements to conform to the 2014

presentation.

In preparing these consolidated financial statements, the Company evaluated the events and transactions that occurred after March 31, 2014 through the date these consolidated financial statements were issued.

This Quarterly Report on Form 10-Q should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2013, and the notes included therein, included within the Company's Annual Report filed on Form 10-K.

Critical accounting policies

The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect many of the reported amounts and disclosures. Actual results could differ from these estimates.

A material estimate that is particularly susceptible to significant change relates to the determination of the allowance for loan losses. Management believes that the allowance for loan losses at March 31, 2014 is adequate and reasonable. Given the subjective nature of identifying and valuing loan losses, it is likely that well-informed individuals could make different assumptions and could, therefore, calculate a materially different allowance value. While management uses available information to recognize losses on loans, changes in economic conditions may necessitate revisions in the future. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize adjustments to the allowance based on their judgment of information available to them at the time of their examination.

Another material estimate is the calculation of fair values of the Company's investment securities. Fair values of investment securities are determined by pricing provided by a third-party vendor, who is a provider of financial market data, analytics and related services to financial institutions. Based on experience, management is aware that estimated fair values of investment securities tend to vary among valuation services. Accordingly, when selling investment securities, price quotes may be obtained from more than one source. The majority of the Company's investment securities are classified as available-for-sale (AFS). AFS securities are carried at fair value on the consolidated balance sheets, with unrealized gains and losses, net of income tax, reported separately within shareholders' equity as a component of accumulated other comprehensive income (loss) (OCI).

The fair value of residential mortgage loans, classified as held-for-sale (HFS), is obtained from the Federal National Mortgage Association (FNMA) or the Federal Home Loan Bank (FHLB). Generally, the market to which the Company sells residential mortgages it originates for sale is restricted and price quotes from other sources are not typically obtained. On occasion, the Company may transfer loans from the loan portfolio to loans HFS. Under these circumstances, pricing may be obtained from other entities and the loans are transferred at the lower of cost or market value and simultaneously sold. As of March 31, 2014 and December 31, 2013, loans classified as HFS consisted of residential mortgage loans.

Financing of automobiles, provided to customers under lease arrangements of varying terms, are accounted for as direct finance leases. Interest income on automobile direct finance leasing is determined using the interest method. Generally, the interest method is used to arrive at a level effective yield over the life of the lease.

Foreclosed assets held-for-sale includes other real estate acquired through foreclosure (ORE) and may, from time-to-time, include repossessed assets such as automobiles. ORE is carried at the lower of cost (principal balance at date of foreclosure) or fair value less estimated cost to sell. Any write-downs at the date of foreclosure or within a reasonable period of time after foreclosure are charged to the allowance for loan losses. Expenses incurred to maintain ORE properties, subsequent write downs to the asset's fair value, any rental income received and gains or losses on disposal are included as components of other real estate owned expense in the consolidated statements of income.

For purposes of the consolidated statements of cash flows, cash and cash equivalents includes cash on hand, amounts due from banks and interest-bearing deposits with financial institutions. For each of the three months ended March 31, 2014 and 2013, the Company paid interest of \$0.7 million. The Company was not required to pay income taxes in the first quarters of 2014 and 2013. Transfers from loans to foreclosed assets held-for-sale amounted to \$1.2 million and \$0.8 million during the three months ended March 31, 2014 and 2013, respectively. During the same respective periods, transfers from loans to loans HFS amounted to \$0 and \$1.0 million and from loans to bank premises and equipment amounted to \$1.0 million and \$0. Expenditures for construction in process, a component of other assets in the consolidated balance sheets, are included in acquisition of bank premises and equipment.

2. New Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board (FASB) issued an accounting standard update (ASU 2014-04) related to; Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40) Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The update applies to all creditors who obtain physical possession of residential real estate property collateralizing a consumer mortgage loan in satisfaction of a receivable. The amendments in this update clarify when an in-substance repossession or foreclosure occurs and requires disclosure of both (1) the amount of foreclosed residential real estate property held by a creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in the update are effective for public business entities for fiscal years, and interim periods within those fiscal years,

beginning after December 15, 2014. Early adoption is permitted. The Company is currently analyzing the impact of the updated guidance on its financial statements.

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3. Accumulated other comprehensive income (loss)

The following tables illustrate the changes in accumulated other comprehensive income (loss) by component and the details about the components of accumulated other comprehensive income (loss) as of and for the periods indicated:

As of and for the three months ended March 31, 2014

(dollars in thousands)	Unrealized gains on available-for- sale securities	Non-credit-related impairment losses on investment securities	Total
Beginning balance	\$ 1,239	\$ -	\$ 1,239
Other comprehensive income before reclassifications	671	-	671
Amounts reclassified from accumulated other comprehensive income	(137)	-	(137)
Net current-period other comprehensive income	534	-	534
Ending balance	\$ 1,773	\$ -	\$ 1,773

As of and for the three months ended March 31, 2013

(dollars in thousands)	Unrealized gains on available-for- sale securities	Non-credit-related impairment losses on investment securities	Total
Beginning balance	\$ 1,905	\$ (1,669)	\$ 236
Other comprehensive loss before reclassifications	(275)	(26)	