

LAKELAND BANCORP INC
Form 10-Q
May 10, 2013
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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 March 31, 2013

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 000-17820

LAKELAND BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

22-2953275
(I.R.S. Employer
Identification No.)

250 Oak Ridge Road,

Oak Ridge, New Jersey
(Address of principal executive offices)

07438
(Zip Code)

(973) 697-2000
(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 and posted on its corporate Web site, if any, any Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or 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

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:

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

As of April 26, 2013 there were 29,864,460 outstanding shares of Common Stock, no par value.

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The Securities and Exchange Commission maintains a web site which contains reports, proxy and information statements and other information relating to registrants that file electronically at the address: [http:// www.sec.gov](http://www.sec.gov).

Table of Contents**Lakeland Bancorp, Inc. and Subsidiaries****CONSOLIDATED BALANCE SHEETS**

	March 31, 2013 (unaudited)	December 31, 2012
	(dollars in thousands except share and per share amounts)	
ASSETS:		
Cash	\$ 88,744	\$ 100,926
Interest-bearing deposits due from banks	8,322	6,619
Total cash and cash equivalents	97,066	107,545
Investment securities available for sale, at fair value	370,234	393,710
Investment securities held to maturity; fair value of \$98,827 at March 31, 2013 and \$99,784 at December 31, 2012	96,864	96,925
Federal Home Loan Bank Stock, at cost	5,381	5,382
Loans, net of deferred costs (fees)	2,170,743	2,146,843
Less: allowance for loan and lease losses	29,623	28,931
Net loans	2,141,120	2,117,912
Premises and equipment, net	32,722	33,280
Accrued interest receivable	7,743	7,643
Goodwill	87,111	87,111
Bank owned life insurance	46,456	46,143
Other assets	23,272	23,052
TOTAL ASSETS	\$ 2,907,969	\$ 2,918,703
LIABILITIES		
Deposits:		
Noninterest bearing	\$ 521,045	\$ 498,066
Savings and interest-bearing transaction accounts	1,566,421	1,569,139
Time deposits under \$100 thousand	184,356	188,278
Time deposits \$100 thousand and over	116,853	115,514
Total deposits	2,388,675	2,370,997
Federal funds purchased and securities sold under agreements to repurchase	94,315	117,289
Other borrowings	75,000	85,000
Subordinated debentures	51,548	51,548
Other liabilities	14,554	13,002
TOTAL LIABILITIES	2,624,092	2,637,836
STOCKHOLDERS EQUITY		
Common stock, no par value; authorized shares, 40,000,000; issued 29,941,967 shares at March 31, 2013 and December 31, 2012	302,660	303,794
Accumulated deficit	(21,117)	(24,145)
Treasury stock, at cost, 82,685 shares at March 31, 2013 and 216,077 at December 31, 2012	(1,029)	(2,718)
Accumulated other comprehensive income	3,363	3,936
TOTAL STOCKHOLDERS EQUITY	283,877	280,867

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 2,907,969	\$ 2,918,703
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The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**Lakeland Bancorp, Inc. and Subsidiaries**

CONSOLIDATED STATEMENTS OF INCOME UNAUDITED

	For the Three Months Ended March 31,	
	2013	2012
	(In thousands, except per share data)	
INTEREST INCOME		
Loans, leases and fees	\$ 24,407	\$ 25,458
Federal funds sold and interest-bearing deposits with banks	13	6
Taxable investment securities and other	1,719	2,340
Tax-exempt investment securities	430	490
TOTAL INTEREST INCOME	26,569	28,294
INTEREST EXPENSE		
Deposits	1,662	2,256
Federal funds purchased and securities sold under agreements to repurchase	9	28
Other borrowings	962	2,064
TOTAL INTEREST EXPENSE	2,633	4,348
NET INTEREST INCOME	23,936	23,946
Provision for loan and lease losses	3,183	4,556
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	20,753	19,390
NONINTEREST INCOME		
Service charges on deposit accounts	2,522	2,447
Commissions and fees	1,213	980
Gains on investment securities	505	32
Income on bank owned life insurance	313	339
Other income	498	259
TOTAL NONINTEREST INCOME	5,051	4,057
NONINTEREST EXPENSE		
Salaries and employee benefits	9,953	9,435
Net occupancy expense	1,974	1,688
Furniture and equipment	1,405	1,083
Stationery, supplies and postage	370	336
Marketing expense	288	470
FDIC insurance expense	513	555
Legal expense	242	399
Expenses on other real estate owned and other repossessed assets	19	38
Long term debt prepayment fee	526	
Merger related expenses	631	
Other expenses	2,306	2,271
TOTAL NONINTEREST EXPENSE	18,227	16,275
Income before provision for income taxes	7,577	7,172
Income tax expense	2,469	2,201

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NET INCOME	\$	5,108	\$	4,971
Dividends on Preferred Stock and Accretion				620
Net Income Available to Common Stockholders	\$	5,108	\$	4,351
PER SHARE OF COMMON STOCK				
Basic earnings	\$	0.17	\$	0.16
Diluted earnings	\$	0.17	\$	0.16
Dividends	\$	0.07	\$	0.06

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

Table of Contents**Lakeland Bancorp, Inc. and Subsidiaries****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME UNAUDITED**

	For the Three Months Ended March 31,	
	2013	2012
	(in thousands)	
NET INCOME	\$ 5,108	\$ 4,971
OTHER COMPREHENSIVE INCOME, NET OF TAX:		
Unrealized securities gains (losses) during period	(251)	131
Less: reclassification for gains included in net income	328	21
Change in pension liability, net	6	5
Other Comprehensive Income (Loss)	(573)	115
TOTAL COMPREHENSIVE INCOME	\$ 4,535	\$ 5,086

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

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY - UNAUDITED

Three Months Ended March 31, 2013

	Common stock		Accumulated deficit (dollars in thousands)	Treasury Stock	Accumulated Other Comprehensive Income	Total
	Number of Shares	Amount				
BALANCE January 1, 2013	29,941,967	\$ 303,794	(\$ 24,145)	(\$ 2,718)	\$ 3,936	\$ 280,867
Net Income			5,108			5,108
Other comprehensive loss, net of tax					(573)	(573)
Stock based compensation		185				185
Issuance of restricted stock awards		(1,240)		1,240		
Issuance of stock to dividend reinvestment and stock purchase plan		(106)	(299)	449		44
Exercise of stock options, net of excess tax benefits		27				27
Cash dividends, common stock			(1,781)			(1,781)
BALANCE March 31, 2013 (UNAUDITED)	29,941,967	\$ 302,660	(\$ 21,117)	(\$ 1,029)	\$ 3,363	\$ 283,877

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

Table of Contents**Lakeland Bancorp, Inc. and Subsidiaries**

CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED

	For the Three Months Ended March 31,	
	2013	2012
	(dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 5,108	\$ 4,971
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premiums, discounts and deferred loan fees and costs	1,501	1,803
Depreciation and amortization	860	715
Provision for loan and lease losses	3,183	4,556
Gains on securities	(505)	(32)
Gains on sales of other real estate and other repossessed assets	(29)	(27)
Gains on sales of premises and equipment	(68)	
Stock-based compensation	185	178
Increase in other assets	(109)	(144)
Increase in other liabilities	1,558	1,555
NET CASH PROVIDED BY OPERATING ACTIVITIES	11,684	13,575
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from repayments on and maturity of securities:		
Available for sale	20,608	36,189
Held to maturity	2,543	8,030
Proceeds from sales of securities		
Available for sale	53,670	16,540
Purchase of securities:		
Available for sale	(52,239)	(36,483)
Held to maturity	(2,609)	(5,607)
Net decrease in Federal Home Loan Bank Stock	1	916
Net increase in loans and leases	(27,428)	(36,731)
Proceeds from sales of other real estate and repossessed assets	531	154
Capital expenditures	(696)	(1,906)
Proceeds from sales of bank premises and equipment	462	
NET CASH USED IN INVESTING ACTIVITIES	(5,157)	(18,898)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	17,678	38,475
(Decrease) increase in federal funds purchased and securities sold under agreements to repurchase	(22,974)	24,322
Proceeds from other borrowings		130,000
Repayments of other borrowings	(10,000)	(150,000)
Redemption of preferred stock and common stock warrant		(21,800)
Excess tax benefits	27	18
Issuance of stock to dividend reinvestment and stock purchase plan	44	77
Dividends paid	(1,781)	(1,506)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(17,006)	19,586
Net increase (decrease) in cash and cash equivalents	(10,479)	14,263
Cash and cash equivalents, beginning of period	107,545	72,558

CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 97,066	\$ 86,821
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The accompanying notes are an integral part of these consolidated financial statements.

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Notes to Consolidated Financial Statements (Unaudited)

Note 1. Significant Accounting Policies

Basis of Presentation.

This quarterly report presents the consolidated financial statements of Lakeland Bancorp, Inc. (the Company) and its subsidiary, Lakeland Bank (Lakeland). The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America (U.S. GAAP) and predominant practices within the banking industry.

The Company's unaudited interim financial statements reflect all adjustments, such as normal recurring accruals that are, in the opinion of management, necessary for the fair presentation of the results of the interim periods. The results of operations for the quarter presented do not necessarily indicate the results that the Company will achieve for all of 2013. You should read these interim financial statements in conjunction with the audited consolidated financial statements and accompanying notes that are presented in the Lakeland Bancorp, Inc. Annual Report on Form 10-K for the year ended December 31, 2012.

The financial information in this quarterly report has been prepared in accordance with the Company's customary accounting practices. Certain information and footnote disclosures required under U.S. GAAP have been condensed or omitted, as permitted by rules and regulations of the Securities and Exchange Commission.

All weighted average, actual share and per share information set forth in this Quarterly Report on Form 10-Q have been adjusted retroactively for the effects of the stock dividends.

Certain reclassifications have been made to prior period financial statements to conform to the 2013 presentation.

Note 2. Stock-Based Compensation

Share-based compensation expense of \$185,000 and \$178,000 was recognized for the three months ended March 31, 2013 and 2012, respectively. As of March 31, 2013, there was unrecognized compensation cost of \$2.0 million related to unvested restricted stock; that cost is expected to be recognized over a weighted average period of approximately 3.1 years. Unrecognized compensation expense related to unvested stock options was approximately \$20,000 as of March 31, 2013 and is expected to be recognized over a period of 1.2 years.

In the first three months of 2013, the Company granted 99,182 shares of restricted stock at a grant date fair value of \$9.82 per share under the Company's 2009 equity compensation program. These shares vest over a five year period. Compensation expense on these shares is expected to average approximately \$195,000 per year for the next five years. In the first three months of 2012, the Company granted 91,269 shares of restricted stock at a grant date fair value of \$9.50 per share under the 2009 program. Compensation expense on these shares is expected to average approximately \$173,000 per year over a five year period.

There were no grants of stock options in the first three months of 2013 and 2012.

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Option activity under the Company's stock option plans is as follows:

	Number of shares	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding, January 1, 2013	475,697	\$ 12.31		\$ 53,853
Issued				
Exercised				
Forfeited	(3,757)	12.91		
Outstanding, March 31, 2013	471,940	\$ 12.31	2.28	\$ 44,753
Options exercisable at March 31, 2013	460,914	\$ 12.41	2.16	\$ 26,791

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of the first three months of 2013 and the exercise price, multiplied by the number of in-the-money options).

There were no options exercised in the first three months of 2013 and 2012.

Information regarding the Company's restricted stock (all unvested) and changes during the three months ended March 31, 2013 is as follows:

	Number of shares	Weighted average price
Outstanding, January 1, 2013	222,556	\$ 9.15
Granted	99,182	9.82
Vested	(64,680)	8.59
Forfeited	(1,909)	9.18
Outstanding, March 31, 2013	255,149	\$ 9.55

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Note 3. Comprehensive Income

The components of other comprehensive income are as follows:

For the quarter ended:	March 31, 2013			March 31, 2012		
	Before tax amount	Tax Benefit (Expense) (in thousands)	Net of tax amount	Before tax amount	Tax Benefit (Expense) (in thousands)	Net of tax amount
Net unrealized gains on available for sale securities						
Net unrealized holding gains (losses) arising during period	(\$ 414)	\$ 163	(\$ 251)	\$ 194	(\$ 63)	\$ 131
Less reclassification adjustment for net gains arising during the period	505	(177)	328	32	(11)	21
Net unrealized gains (losses)	(\$ 919)	\$ 340	(\$ 579)	\$ 162	(\$ 52)	\$ 110
Change in minimum pension liability	8	(2)	6	8	(3)	5
Other comprehensive income (loss), net	(\$ 911)	\$ 338	(\$ 573)	\$ 170	(\$ 55)	\$ 115

The following table shows the changes in the balances of each of the components of other comprehensive income for the periods presented:

Changes in Accumulated Other Comprehensive Income by Component (a)

	For the Three Months Ended			For the Three Months Ended		
	March 31, 2013			March 31, 2012		
	Unrealized Gains and Losses on Available-for-sale Securities	Pension Items	Total	Unrealized Gains and Losses on Available-for-sale Securities	Pension Items	Total
Beginning Balance	\$ 4,553	(\$ 617)	\$ 3,936	\$ 3,506	(\$ 635)	\$ 2,871
Other comprehensive income (loss) before classifications	(251)	6	(245)	131	5	136
Amounts reclassified from accumulated other comprehensive income	328	0	328	21	0	21
Net current period other comprehensive income (loss)	(579)	6	(573)	110	5	115
Ending balance	\$ 3,974	(\$ 611)	\$ 3,363	\$ 3,616	(\$ 630)	\$ 2,986

(a) All amounts are net of tax.

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Note 4. Statement of Cash Flow Information, Supplemental Information

	For the Three Months Ended March 31,	
	2013	2012
	(in thousands)	
Supplemental schedule of noncash investing and financing activities:		
Cash paid during the period for income taxes	\$ 99	\$ 517
Cash paid during the period for interest	2,676	4,406
Transfer of loans and leases into other repossess		