FIDELITY SOUTHERN CORP
Form 10-Q
August 09, 2013

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 quarter ended June 30, 2013
Commission file number 001-34981

Fidelity Southern Corporation
(Exact name of registrant as specified in its charter)

Georgia (State or other jurisdiction of incorporation or organization)	58-1416811 (I.R.S. Employer Identification No.)
3490 Piedmont Road, Suite 1550, Atlanta GA	30305
(Address of principal executive offices)	(Zip Code)

(404) 639-6500
(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 ý 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 ý 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 definitions of "large accelerated filer" "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ý	Non-accelerated filer o (Do not check if smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of July 31, 2013 (the most recent practicable date), the Registrant had outstanding approximately 20,998,703 shares of Common Stock.

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FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
Report on Form 10-Q
June 30, 2013

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PART I - FINANCIAL INFORMATION
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FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	(Unaudited) June 30, 2013	December 31, 2012
	($ in thousands)	
Assets		
Cash and due from banks	$156,064	$45,507
Interest-bearing deposits with banks	1,744	2,331
Federal funds sold	1,029	1,182
Cash and cash equivalents	158,837	49,020
Investment securities available-for-sale (amortized cost of $161,385 and $148,648 at June 30, 2013 and December 31, 2012, respectively)	163,764	154,367
Investment securities held-to-maturity (fair value of $5,393 and $6,723 at June 30, 2013 and December 31, 2012, respectively)	4,978	6,162
Investment in FHLB stock	8,594	7,330
Loans held-for-sale (loans at fair value: $299,114 at June 30, 2013; $253,108 at December 31, 2012)	355,017	304,094
Loans (non-covered: $1,706,887 and $1,700,143; covered: $69,085 and $76,888, at June 30, 2013 and December 31, 2012, respectively)	1,775,972	1,777,031
Allowance for loan losses	(33,309)	(33,982)
Loans, net of allowance for loan losses	1,742,663	1,743,049
FDIC indemnification asset	16,542	20,074
Premises and equipment, net	41,843	37,669
Other real estate, net (non-covered: $28,342 and $22,159; covered: $12,540 and $17,597, at June 30, 2013 and December 31, 2012, respectively)	40,882	39,756
Accrued interest receivable	7,723	7,995
Bank owned life insurance	33,276	32,693
Deferred tax asset, net	22,401	21,145
Servicing rights	44,734	30,244
Other assets	33,979	23,693
Total assets	$2,675,233	$2,477,291
Liabilities		
Deposits:		
Noninterest-bearing demand deposits	$433,565	$383,559
Interest-bearing deposits:		
Demand and money market	653,172	638,582
Savings	313,716	329,223
Time deposits, $100,000 and over	363,421	346,743
Other time deposits	303,990	314,675
Brokered deposits	87,183	56,942
Total deposits	2,155,047	2,069,724
FHLB short-term borrowings	115,000	88,500
Other short-term borrowings	18,641	37,160
Subordinated debt	67,527	67,527
Other long-term debt	10,000	—
Accrued interest payable	1,944	2,093

Other liabilities	33,972	19,399
Total liabilities	2,402,131	2,284,403
Shareholders' equity		
Preferred stock, no par value. Authorized 10,000,000; 48,200 shares issued and outstanding, net of discount.	47,785	47,344
Common stock, no par value. Authorized 50,000,000; issued and outstanding 20,962,228 and 14,780,175 at June 30, 2013 and December 31, 2012.	153,107	82,499
Accumulated other comprehensive gain, net of tax	1,475	3,545
Retained earnings	70,735	59,500
Total shareholders' equity	273,102	192,888
Total liabilities and shareholders' equity	$2,675,233	$2,477,291

See accompanying notes to consolidated financial statements

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FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	($ in thousands, except per share data)			
Interest income				
Loans, including fees	$22,949	$22,902	$46,893	$45,640
Investment securities	910	1,189	1,938	2,695
Federal funds sold and bank deposits	15	4	18	22
Total interest income	23,874	24,095	48,849	48,357
Interest expense				
Deposits	2,600	2,658	5,227	5,665
Short-term borrowings	263	253	667	427
Subordinated debt	868	1,132	1,735	2,271
Other long-term debt	10	152	12	439
Total interest expense	3,741	4,195	7,641	8,802
Net interest income	20,133	19,900	41,208	39,555
Provision for loan losses	570	950	4,046	4,700
Net interest income after provision for loan losses	19,563	18,950	37,162	34,855
Noninterest income				
Service charges on deposit accounts	1,020	1,180	1,969	2,313
Other fees and charges	975	852	1,862	1,636
Mortgage banking activities	20,158	10,840	37,953	22,924
Indirect lending activities	2,781	1,610	4,427	2,773
SBA lending activities	1,417	1,269	2,501	2,122
Bank owned life insurance	326	332	639	654
Securities gains	1	—	1	303
Other	1,562	951	3,935	1,964
Total noninterest income	28,240	17,034	53,287	34,689
Noninterest expense				
Salaries and employee benefits	14,278	11,076	28,560	22,096
Commissions	7,979	4,249	14,369	8,078
Furniture and equipment	950	994	1,948	1,971
Net occupancy	1,341	1,280	2,750	2,490
Communication	805	641	1,565	1,260
Professional and other services	2,271	2,081	4,517	4,222
Cost of operation of other real estate	886	1,702	3,089	3,439
FDIC insurance premiums	527	474	1,053	945
Other	4,122	3,572	7,832	6,918
Total noninterest expense	33,159	26,069	65,683	51,419
Income before income tax expense	14,644	9,915	24,766	18,125
Income tax expense	5,211	3,511	8,842	6,405
Net income	9,433	6,404	15,924	11,720
Preferred stock dividends and discount accretion	(823)	(823)	(1,646)	(1,646)
Net income available to common equity	$8,610	$5,581	$14,278	$10,074

Earnings per share:				
Basic earnings per share	$0.53	$0.38	$0.91	$0.69
Diluted earnings per share	$0.47	$0.34	$0.81	$0.62
Net income	$9,433	$6,404	$15,924	$11,720
Other comprehensive (loss)/gain, net of tax	(1,901)	581	(2,070)	172
Comprehensive income	$7,532	$6,985	$13,854	$11,892
Weighted average common shares outstanding-basic	16,365,977	14,737,688	15,706,132	14,675,388
Weighted average common shares outstanding-diluted	18,394,301	16,541,945	17,700,225	16,357,169

See accompanying notes to consolidated financial statements

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FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30, 2013	2012
	(in thousands)	
Operating activities		
Net income	$15,924	$11,720
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	4,046	4,700
Depreciation and amortization of premises and equipment	1,489	1,216
Other amortization	4,022	2,160
Impairment of other real estate	1,796	2,085
Share-based compensation	575	338
Gain on loan sales	(18,368)	(7,407)
Net gain on sale of other real estate	(2,329)	(627)
Net increase in cash value of bank owned life insurance	(583)	(601)
Gain on investment security sales	(1)	(303)
Net increase in deferred income taxes	(1,256)	(2,429)
Change in assets and liabilities which provided (used) cash:		
Net increase from loans originated for resell	(15,530)	(61,657)
Net decrease in FDIC indemnification asset	3,532	2,298
Accrued interest receivable	272	583
Other assets	(28,798)	(9,815)
Accrued interest payable	(149)	(304)
Other liabilities	15,842	3,017
Net cash used in operating activities	(19,516)	(55,026)
Investing activities		
Purchases of investment securities available-for-sale	(37,542)	(14,090)
Proceeds from sales of investment securities available-for-sale	—	25,688
Maturities and calls of investment securities held-to-maturity	1,184	1,793
Maturities and calls of investment securities available-for-sale	24,806	75,729
Purchase of investment in FHLB stock	(5,355)	(992)
Redemption of investment in FHLB stock	4,091	—
Net increase in loans	(21,279)	(95,537)
Purchases of premises and equipment	(5,663)	(5,570)
Cash received in excess of cash paid for acquisitions	—	29,717
Net cash (used in) provided by investing activities	(39,758)	16,738
Financing activities		
Net increase in demand deposits, money market accounts, and savings accounts	49,089	67,542
Net increase (decrease) in time deposits	36,234	(98,241)
Net increase in borrowings	17,981	50,637
Common stock dividends paid, in lieu of fractional shares	(8)	(7)
Proceeds from the issuance of common stock	67,000	611
Preferred stock dividends paid	(1,205)	(1,205)
Net cash provided by financing activities	169,091	19,337
Net increase (decrease) in cash and cash equivalents	109,817	(18,951)
Cash and cash equivalents, beginning of period	49,020	57,284
Cash and cash equivalents, end of period	$158,837	$38,333

Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$7,790	$9,106
Income taxes	$5,000	$5,152
Non-cash transfers to other real estate	$17,618	$12,180
Accretion on preferred stock	$441	$441

See accompanying notes to consolidated financial statements.

FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
June 30, 2013

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Fidelity Southern Corporation and its wholly owned subsidiaries. Fidelity Southern Corporation (“FSC”) owns 100% of Fidelity Bank (the “Bank”) and LionMark Insurance Company, an insurance agency offering consumer credit related insurance products. FSC also owns five subsidiaries established to issue trust preferred securities, which entities are not consolidated for financial reporting purposes in accordance with current accounting guidance, as FSC is not the primary beneficiary. The “Company”, as used herein, includes FSC and its subsidiaries, unless the context otherwise requires.

These unaudited consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles followed within the financial services industry for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required for complete financial statements.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the periods covered by the statements of income. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of mortgage loans held-for-sale, the calculations of and the amortization of capitalized servicing rights, the valuation of deferred income taxes, intangible assets, and the valuation of real estate or other assets acquired in connection with foreclosures or in satisfaction of loans. In addition, the actual lives of certain amortizable assets and income items are estimates subject to change. The Company principally operates in one business segment, which is community banking.

In the opinion of management, all adjustments considered necessary for a fair presentation of the financial position and results of operations for the interim periods have been included. All such adjustments are normal recurring accruals. Certain previously reported amounts have been reclassified to conform to current presentation. These reclassifications had no impact on previously reported net income, or shareholders’ equity or cash flows. The Company’s significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in our 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission. There were no new accounting policies or changes to existing policies adopted in the first six months of 2013, which had a significant effect on the results of operations or statement of financial condition. For interim reporting purposes, the Company follows the same basic accounting policies and considers each interim period as an integral part of an annual period.

Operating results for the three and six month period ended June 30, 2013, are not necessarily indicative of the results that may be expected for the year ended December 31, 2013. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K and Annual Report to Shareholders for the year ended December 31, 2012.

2. FDIC INDEMNIFICATION ASSET

Certain loans and other real estate acquired in the FDIC-assisted transactions of Decatur First Bank ("Decatur First") and Security Exchange Bank ("Security Exchange") (collectively referred to as "covered assets") are covered by Loss Share Agreements (“Loss Share Agreements”) between the Bank and the FDIC which affords the Bank significant protection against future losses. Under the Loss Share Agreements, the FDIC has agreed to reimburse us for 80% of all losses incurred in connection with those covered assets for a period of five years for commercial loans and other real estate and with the Loss Share Agreements for Decatur First, the FDIC has agreed to reimburse us for 80% of all losses incurred in connection with those covered assets for a period of 10 years for residential mortgage loans. There were no residential mortgage loans included in the Loss Share Agreement for Security Exchange.

The reimbursable losses from the FDIC are based on the acquisition book value of the covered assets, the contractual balance of acquired unfunded commitments, and certain future net direct costs incurred in the collection and settlement process. The amount that the Bank realizes on these assets could differ materially from the carrying value that will be reflected in any financial statements, based upon the timing and amount of collections and recoveries on the covered assets in future periods. Because the FDIC will reimburse the Bank for 80% of losses incurred on the covered assets, an indemnification asset (FDIC indemnification asset) was recorded at fair value at the acquisition date. The Loss Share Agreements on the acquisition date reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties. This asset is adjusted quarterly based on improvements in cash flow projections, additional expected losses and remittances received. The carrying value of the indemnification asset at June 30, 2013 was $16.5 million compared to $20.1 million at December 31, 2012.

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The Loss Share Agreements continue to be measured on the same basis as the related indemnified loans. Deterioration in credit quality of the loans (recorded as an adjustment to the Allowance for Loan Losses) or declines in the fair value of other real estate owned would immediately increase the basis of the indemnification asset, with the offset recorded through the Consolidated Statements of Comprehensive Income. Improvements in the credit quality or expected loan cash flows (reflected as an adjustment to yield and accreted into income over the remaining life of the loan) result in a decrease in the fair value of the FDIC indemnification asset, with the decrease being amortized into income over the same period or the life of the loss share agreements, whichever is shorter. Initial fair value accounting incorporates into the fair value of the indemnification asset an element of the time value of money, which is accreted back into income over the life of the loss share agreements. A summary of activity for the FDIC indemnification asset for the six-months ended June 30, 2013 is presented below:

	June 30, 2013 (in thousands)
Indemnification asset	
Balance at January 1, 2013	$20,074
Adjustments:	
Accretion income, FDIC indemnification asset	256
Additional estimated covered losses	948
Loss share remittances	(4,736)
Balance at June 30, 2013	$16,542

3. EARNINGS PER SHARE

Basic earnings per share ("EPS"), is computed by dividing net income to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if our potential common stock, which consists of dilutive stock options and a common stock warrant, were issued. As required for entities with complex capital structures, a dual presentation of basic and diluted EPS is included on the face of the Consolidated Statements of Comprehensive Income, and a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation is provided in this note. Earnings per share were calculated as follows:

	Three Months Ended June 30,	
	2013	2012
	($ in thousands, except per share data)	
Net income	$ 9,433	$ 6,404
Less dividends on preferred stock and accretion of discount	(823)	(823)
Net income available to common equity	$ 8,610	$ 5,581
Average common shares outstanding	16,135,805	13,780,917
Effect of stock dividends	230,172	956,771
Average common shares outstanding – basic	16,365,977	14,737,688
Dilutive stock options and warrant	1,999,797	1,687,125
Effect of stock dividends	28,527	117,132
Average common shares outstanding – dilutive	18,394,301	16,541,945
Earnings per share – basic	$ 0.53	$ 0.38
Earnings per share – dilutive	$ 0.47	$ 0.34

	Six Months Ended June 30,	
	2013	2012
	($ in thousands, except per share data)	
Net income	$ 15,924	$ 11,720
Less dividends on preferred stock and accretion of discount	(1,646)	(1,646)
Net income available to common equity	$ 14,278	$ 10,074
Average common shares outstanding	15,485,240	13,722,662
Effect of stock dividends	220,892	952,726

Average common shares outstanding – basic	15,706,132	14,675,388
Dilutive stock options and warrant	1,966,047	1,572,599
Effect of stock dividends	28,046	109,182
Average common shares outstanding – dilutive	17,700,225	16,357,169
Earnings per share – basic	$ 0.91	$ 0.69
Earnings per share – dilutive	$ 0.81	$ 0.62

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Average number of shares for the three and six month periods ended June 30, 2013 and 2012 includes participating securities related to unvested restricted stock awards. For the three and six months ended June 30, 2013, there were no anti-dilutive common stock options. For the three and six months ended June 30, 2012, there were 116,905 common stock options with an average exercise price of $8.08. These shares would have been included in the calculation of dilutive earnings per share except that to do so would have an anti-dilutive impact on earnings per share.

4. CONTINGENCIES

Due to the nature of their activities, the Company and its subsidiaries are at times engaged in various legal proceedings that arise in the course of normal business, some of which were outstanding as of June 30, 2013. While it is difficult to predict or determine the outcome of these proceedings, it is the opinion of management, after consultation with its legal counsel, that the ultimate liabilities, if any, will not have a material adverse impact on the Company's consolidated results of operations, financial position, or cash flows.

5. SHARE-BASED COMPENSATION

The Fidelity Southern Corporation Equity Incentive Plan (the "2006 Incentive Plan"), as amended, permits the grant of stock options, stock appreciation rights, restricted stock and other incentive awards ("Incentive Awards"). Pursuant to an amendment to the Plan adopted by the shareholders on April 26, 2012, the maximum number of shares of the Company's common stock that may be issued under the 2006 Incentive Plan is 5,000,000 shares, all of which may be stock options. Generally, no award shall be exercisable or become vested or payable more than 10 years after the date of grant. Options granted under the 2006 Incentive Plan have four year terms and become fully exercisable at the end of three years of continued employment. Incentive awards available under the 2006 Incentive Plan totaled 3,752,747 shares at June 30, 2013.

On December 21, 2012, the Compensation Committee approved a grant of 200,000 share options, including options to two officers to each purchase 25,000 shares of common stock. However, in July 2013, the Company subsequently determined that these options with respect to the 50,000 shares of common stock were not validly granted pursuant to the 2006 Incentive Plan because they exceeded the limit on the number of stock options that may be granted to any individual participant within a calendar year. Accordingly, the attempted grant of these excess stock options was ineffective, and therefore, were never granted under the 2006 Incentive Plan. Had the grant of excess options been effective, the aggregate grant date fair value of the excess stock options would have been $441,000.

A summary of option activity as of June 30, 2013, and changes during the six month period then ended is presented below:

	Number of share options	Weighted Average Exercise Price