FIDELITY D & D BANCORP INC
Form 10-Q
August 12, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

o 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. x YES o 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). o YES o 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 o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

The number of outstanding shares of Common Stock of Fidelity D & D Bancorp, Inc. at July 31, 2009, the latest practicable date, was 2,082,657 shares.

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PART I Financial Information

Item 1: Financial Statements

FIDELITY D & D BANCORP, INC. AND SUBSIDIARY

Consolidated Balance Sheets

	June 30, 2009 (unaudited)	December 31, 2008 (audited)
Assets:		
Cash and due from banks	$ 10,959,880	$ 12,335,905
Federal funds sold	4,538,000	
Interest-bearing deposits with financial institutions	71,693	435,242
Total cash and cash equivalents	15,569,573	12,771,147
Available-for-sale securities	76,476,415	83,278,132
Held-to-maturity securities	842,679	909,447
Federal Home Loan Bank Stock	4,781,100	4,781,100
Loans and leases, net (allowance for loan losses of $5,215,736 in 2009; $4,745,234 in 2008)	419,928,399	436,207,460
Loans available-for-sale (fair value $2,307,950 in 2009; $85,312 in 2008)	2,287,993	84,000
Bank premises and equipment, net	15,544,799	16,056,362
Cash surrender value of bank owned life insurance	8,962,081	8,807,784
Other assets	12,613,873	8,929,917
Accrued interest receivable	2,248,236	2,443,141
Foreclosed assets held-for-sale	1,199,060	1,450,507
Total assets	$ 560,454,208	$ 575,718,997
Liabilities:		
Deposits:		
Interest-bearing	$ 384,370,177	$ 361,869,281
Non-interest-bearing	69,503,187	71,442,651
Total deposits	453,873,364	433,311,932
Accrued interest payable and other liabilities	6,577,952	3,316,710
Short-term borrowings	8,880,343	38,129,704
Long-term debt	42,000,000	52,000,000
Total liabilities	511,331,659	526,758,346
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; 2,082,657 in 2009; and 2,075,182 shares issued and 2,062,927 shares outstanding in 2008)	19,567,860	19,410,306

Treasury stock, at cost (no shares in 2009; 12,255 shares in 2008)				(351,665)
Retained earnings		39,067,674		38,126,250
Accumulated other comprehensive loss		(9,512,985)		(8,224,240)
Total shareholders equity		49,122,549		48,960,651
Total liabilities and shareholders equity	$	560,454,208	$	575,718,997

See notes to consolidated financial statements

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FIDELITY D & D BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Income

(unaudited)

	Three months ended		Six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Interest income:				
Loans and leases:				
Taxable	$ 6,356,864	$ 6,775,180	$ 12,917,612	$ 13,584,314
Nontaxable	113,488	85,330	228,262	163,406
Interest-bearing deposits with financial institutions	337	696	448	1,802
Investment securities:				
U.S. government agency and corporations	550,457	1,284,136	1,317,828	2,537,317
States and political subdivisions (nontaxable)	270,334	155,102	468,909	299,232
Other securities	157,458	305,658	342,508	680,694
Federal funds sold	6,575	6,964	7,359	91,133
Total interest income	7,455,513	8,613,066	15,282,926	17,357,898
Interest expense:				
Deposits	2,138,133	2,831,400	4,329,905	6,065,136
Securities sold under repurchase agreements	8,081	13,443	16,555	80,596
Other short-term borrowings and other	405	48,849	26,545	113,671
Long-term debt	568,325	776,210	1,344,532	1,608,495
Total interest expense	2,714,944	3,669,902	5,717,537	7,867,898
Net interest income	4,740,569	4,943,164	9,565,389	9,490,000
Provision for loan losses	300,000	125,000	725,000	125,000
Net interest income after provision for loan losses	4,440,569	4,818,164	8,840,389	9,365,000
Other income:				
Service charges on deposit accounts	648,228	737,330	1,280,648	1,500,599
Fees and other service charges	472,313	461,809	979,489	892,638
Gain (loss) on sale or disposal of:				
Loans	327,785	59,590	818,326	151,196
Investment securities		7,519		8,653
Premises and equipment	(4,378)	(984)	(6,624)	(984)
Foreclosed assets held-for-sale	14,891	405	25,887	9,109
Impairment losses on investment securities:				
Other-than-temporary impairment on investment securities	(570)		(326,095)	
Non-credit related losses on investment securities not expected to be sold (recognized in other comprehensive income/(loss))				
Net impairment losses on investment securities recognized in earnings	(570)		(326,095)	

Total other income		1,458,269		1,265,669		2,771,631		2,561,211
Other expenses:								
Salaries and employee benefits		2,422,656		2,472,302		4,992,349		4,889,848
Premises and equipment		904,893		781,469		1,811,315		1,572,109
Advertising		135,992		168,348		278,393		336,704
Other		1,275,293		1,022,421		2,318,719		2,038,628
Total other expenses		4,738,834		4,444,540		9,400,776		8,837,289
Income before provision for income taxes		1,160,004		1,639,293		2,211,244		3,088,922
Provision for income taxes		247,851		435,347		474,033		796,029
Net income	$	912,153	$	1,203,946	$	1,737,211	$	2,292,893
Per share data:								
Net income - basic	$	0.44	$	0.59	$	0.84	$	1.11
Net income - diluted	$	0.44	$	0.59	$	0.84	$	1.11
Dividends	$	0.25	$	0.25	$	0.50	$	0.50

See notes to consolidated financial statements

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FIDELITY D & D BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Shareholders Equity

For the six months ended June 30, 2009 and 2008

	Capital stock Shares	Capital stock Amount	Treasury stock Shares	Treasury stock Amount	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, December 31, 2007	2,072,929	$ 19,223,363		$	$ 36,564,157	$ (596,226)	$ 55,191,294
Total comprehensive income:							
Net income					2,292,893		2,292,893
Change in net unrealized holding losses on available-for-sale securities, net of reclassification adjustment and tax effects						(3,531,356)	(3,531,356)
Change in cash flow hedge intrinsic value						97,818	97,818
Comprehensive income							(1,140,645)
Issuance of common stock through Employee Stock Purchase Plan	2,253	57,891					57,891
Stock-based compensation expense		126,738					126,738
Purchase of treasury stock			(5,000)	(145,605)			(145,605)
Cash dividends declared					(1,037,590)		(1,037,590)
Balance, June 30, 2008 (unaudited)	2,075,182	$ 19,407,992	(5,000)	$ (145,605)	$ 37,819,460	$ (4,029,764)	$ 53,052,083
Balance, December 31, 2008	2,075,182	$ 19,410,306	(12,255)	$ (351,665)	$ 38,126,250	$ (8,224,240)	$ 48,960,651
Cumulative effect of change in accounting principle, adoption of FSP FAS 115-2 and 124-2					350,720	(350,720)	
Total comprehensive income:							
Net income					1,737,211		1,737,211
Change in net unrealized holding losses on available-for-sale securities, net of reclassification adjustment and tax effects						(603,309)	(603,309)
Change in cash flow hedge intrinsic value						(334,716)	(334,716)
Comprehensive income							799,186
Issuance of common stock through Employee Stock Purchase Plan	1,701	40,569					40,569
Dividends reinvested through Dividend Reinvestment Plan	5,774	112,477	14,755	408,170	(112,329)		408,318
Stock-based compensation expense		4,508					4,508
Purchase of treasury stock			(2,500)	(56,505)			(56,505)
Cash dividends declared					(1,034,178)		(1,034,178)

Balance, June 30, 2009 (unaudited)	2,082,657	$	19,567,860	$		$	39,067,674	$	(9,512,985)	$	49,122,549

See notes to consolidated financial statements

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FIDELITY DEPOSIT & DISCOUNT BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

(unaudited)

	Six months ended June 30, 2009	2008
Cash flows from operating activities:		
Net income	$ 1,737,211	$ 2,292,893
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	609,143	296,817
Provision for loan losses	725,000	125,000
Deferred income tax expense	133,518	240,736
Stock-based compensation expense	4,508	126,738
Loss from investment in limited partnership	40,200	40,200
Proceeds from sale of loans available-for-sale	74,147,662	37,691,085
Originations of loans available-for-sale	(64,393,533)	(6,626,744)
Increase in cash surrender value of life insurance	(154,297)	(156,934)
Net gain on sale of loans	(818,326)	(151,196)
Net gain on sale of investment securities		(8,653)
Net gain on sale of foreclosed assets held for sale	(25,887)	(9,109)
Loss on disposal of equipment	6,624	984
Other-than-temporary impairment on securities	326,095	
Change in:		
Accrued interest receivable	74,687	(174,221)
Other assets	(1,339,119)	(1,881,674)
Accrued interest payable and other liabilities	629,634	1,170,971
Net cash provided by operating activities	11,703,120	32,976,893
Cash flows from investing activities:		
Held-to-maturity securities:		
Proceeds from maturities, calls and principal pay-downs	66,727	87,104
Available-for-sale securities:		
Proceeds from sales		12,889,251
Proceeds from maturities, calls and principal pay-downs	29,835,486	26,121,600
Purchases	(23,752,046)	(50,247,929)
Net decrease in FHLB stock		(1,055,400)
Net decrease (increase) in loans and leases	4,282,109	(24,092,055)
Acquisition of bank premises and equipment	(415,925)	(2,104,991)
Proceeds from sale of foreclosed assets held-for-sale	408,680	62,090
Net cash provided by (used in) investing activities	10,425,031	(38,340,330)
Cash flows from financing activities:		
Net increase in deposits	20,561,432	22,525,504
Net decrease in short-term borrowings	(29,249,361)	(9,982,018)
Repayments of long-term debt	(10,000,000)	(423,095)
Purchase of treasury stock	(56,505)	(145,605)
Proceeds from employee stock purchase plan	40,569	57,891
Dividends paid, net of dividends reinvested	(625,860)	(1,037,590)

Net cash (used in) provided by financing activities		(19,329,725)		10,995,087
Net increase in cash and cash equivalents		2,798,426		5,631,650
Cash and cash equivalents, beginning		12,771,147		10,408,816
Cash and cash equivalents, ending	$	15,569,573	$	16,040,466

See notes to consolidated financial statements

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FIDELITY D & D BANCORP, INC.

Notes to Consolidated Financial Statements

(unaudited)

1. Nature of operations and critical accounting policies

Nature of operations

The 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 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 10-01 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, 2008.

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 June 30, 2009 and December 31, 2008 and the related consolidated statements of income for the three- and six-month periods ended June 30, 2009 and 2008 and changes in shareholders equity and cash flows for the six months ended June 30, 2009 and 2008 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.

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, 2008, 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 June 30, 2009 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 and / or collateral values 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. Except for the Company s investment in corporate bonds, consisting of preferred term securities, fair values on the other investment securities are determined by prices provided by a third-party vendor, who is a provider of financial market data, analytics