

LAKELAND BANCORP INC
Form 10-Q
November 08, 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 September 30, 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)

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

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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 October 30, 2013 there were 35,832,759 outstanding shares of Common Stock, no par value.

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LAKELAND BANCORP, INC.

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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).

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	September 30, 2013 (unaudited) (dollars in thousands except share and per share amounts)	December 31, 2012
ASSETS:		
Cash	\$ 130,035	\$ 100,926
Interest-bearing deposits due from banks	15,219	6,619
Total cash and cash equivalents	145,254	107,545
Investment securities available for sale, at fair value	418,562	393,710
Investment securities held to maturity; fair value of \$96,196 at September 30, 2013 and \$99,784 at December 31, 2012	96,702	96,925
Federal Home Loan Bank Stock, at cost	5,965	5,382
Loans held for sale	901	
Loans, net of deferred costs (fees)	2,427,684	2,146,843
Less: allowance for loan and lease losses	29,757	28,931
Net loans	2,397,927	2,117,912
Premises and equipment, net	37,351	33,280
Accrued interest receivable	8,173	7,643
Goodwill	110,381	87,111
Other identifiable intangible assets	2,548	
Bank owned life insurance	55,534	46,143
Other assets	20,002	23,052
TOTAL ASSETS	\$ 3,299,300	\$ 2,918,703
LIABILITIES		
Deposits:		
Noninterest bearing	\$ 623,562	\$ 498,066
Savings and interest-bearing transaction accounts	1,770,299	1,569,139
Time deposits under \$100 thousand	190,996	188,278
Time deposits \$100 thousand and over	123,597	115,514
Total deposits	2,708,454	2,370,997
Federal funds purchased and securities sold under agreements to repurchase	110,525	117,289
Other borrowings	75,000	85,000
Subordinated debentures	42,548	51,548
Other liabilities	15,248	13,002
TOTAL LIABILITIES	2,951,775	2,637,836
STOCKHOLDERS EQUITY		
Common stock, no par value; authorized shares, 70,000,000; issued 35,823,147 shares at September 30, 2013 and 29,941,967 shares at December 31, 2012	362,549	303,794
Accumulated deficit	(13,192)	(24,145)
Treasury stock, at cost, 0 shares at September 30, 2013 and 216,077 at December 31, 2012		(2,718)
Accumulated other comprehensive (loss) gain	(1,832)	3,936

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TOTAL STOCKHOLDERS EQUITY	347,525	280,867
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 3,299,300	\$ 2,918,703

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

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CONSOLIDATED STATEMENTS OF INCOME UNAUDITED

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands, except per share data)			
INTEREST INCOME				
Loans, leases and fees	\$ 27,350	\$ 24,929	\$ 77,122	\$ 75,659
Federal funds sold and interest-bearing deposits with banks	27	17	57	29
Taxable investment securities and other	2,017	2,121	5,544	6,668
Tax-exempt investment securities	461	428	1,331	1,371
TOTAL INTEREST INCOME	29,855	27,495	84,054	83,727
INTEREST EXPENSE				
Deposits	1,518	2,026	4,740	6,421
Federal funds purchased and securities sold under agreements to repurchase	14	12	36	68
Other borrowings	836	1,802	2,709	5,889
TOTAL INTEREST EXPENSE	2,368	3,840	7,485	12,378
NET INTEREST INCOME	27,487	23,655	76,569	71,349
Provision for loan and lease losses	1,879	3,350	7,656	11,783
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	25,608	20,305	68,913	59,566
NONINTEREST INCOME				
Service charges on deposit accounts	2,838	2,757	8,052	7,914
Commissions and fees	1,139	1,162	3,495	3,401
Gains on sales of investment securities			506	273
Gain on debt extinguishment			1,197	
Income on bank owned life insurance	383	357	1,036	1,035
Other income	285	364	1,203	845
TOTAL NONINTEREST INCOME	4,645	4,640	15,489	13,468
NONINTEREST EXPENSE				
Salaries and employee benefits	11,019	9,578	31,105	28,578
Net occupancy expense	2,060	1,807	5,921	5,131
Furniture and equipment	1,582	1,205	4,492	3,427
Stationery, supplies and postage	348	388	1,086	1,079
Marketing expense	715	718	1,438	1,646
FDIC insurance expense	436	519	1,505	1,620
Legal expense	406	135	934	880
Expenses on other real estate owned and other repossessed assets	(2)	13	15	89
Long term debt prepayment fee			526	
Merger related expenses	744		2,827	
Core deposit intangible amortization	123		164	
Other expenses	2,976	2,605	8,014	7,263
TOTAL NONINTEREST EXPENSE	20,407	16,968	58,027	49,713

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Income before provision for income taxes	9,846	7,977	26,375	23,321
Income tax expense	3,229	2,488	8,747	7,408
NET INCOME	\$ 6,617	\$ 5,489	\$ 17,628	\$ 15,913
Dividends on Preferred Stock and Accretion				620
Net Income Available to Common Stockholders	\$ 6,617	\$ 5,489	\$ 17,628	\$ 15,293
PER SHARE OF COMMON STOCK				
Basic earnings	\$ 0.18	\$ 0.20	\$ 0.54	\$ 0.56
Diluted earnings	\$ 0.18	\$ 0.20	\$ 0.54	\$ 0.56
Dividends	\$ 0.07	\$ 0.06	\$ 0.21	\$ 0.18

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

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Lakeland Bancorp, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME UNAUDITED

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)		(in thousands)	
NET INCOME	\$ 6,617	\$ 5,489	\$ 17,628	\$ 15,913
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Unrealized securities gains (losses) during period	1,118	1,220	(5,454)	2,174
Reclassification for gains included in net income	0	0	(329)	(177)
Change in pension liability, net	5	5	15	15
Other Comprehensive Income (Loss)	1,123	1,225	(5,768)	2,012
TOTAL COMPREHENSIVE INCOME (LOSS)	\$ 7,740	\$ 6,714	\$ 11,860	\$ 17,925

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

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY UNAUDITED

Nine Months Ended September 30, 2013

	Common stock		Accumulated deficit (dollars in thousands)	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
	Number of Shares	Amount				
BALANCE January 1, 2013	29,941,967	\$ 303,794	(\$ 24,145)	(\$ 2,718)	\$ 3,936	\$ 280,867
Net Income			17,628			17,628
Other comprehensive loss, net of tax					(5,768)	(5,768)
Stock based compensation		669				669
Issuance of restricted stock awards		(1,301)		1,301		
Issuance of stock for acquisition	5,794,079	57,419				57,419
Issuance of stock options for acquisition		1,603				1,603
Issuance of stock to dividend reinvestment and stock purchase plan	27,270	108	(901)	938		145
Exercise of stock options, net of excess tax benefits	59,831	257		479		736
Cash dividends, common stock			(5,774)			(5,774)
BALANCE September 30, 2013 (UNAUDITED)	35,823,147	\$ 362,549	(\$ 13,192)	\$	(\$ 1,832)	\$ 347,525

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED

	For the Nine Months Ended September 30,	
	2013	2012
	(dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 17,628	\$ 15,913
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premiums, discounts and deferred loan fees and costs	3,695	4,616
Depreciation and amortization	2,770	2,229
Provision for loan and lease losses	7,656	11,783
Loans originated for sale	(27,125)	
Proceeds from sales of loans	29,368	
Gains on securities	(506)	(273)
Gain on early debt extinguishment	(1,197)	
Gains on sales of loans held for sale	(612)	
Gains on leases		(365)
Gains on sales of other real estate and other repossessed assets	(277)	(240)
Gains on sales of premises and equipment	(68)	(2)
Stock-based compensation	669	559
Decrease in other assets	7,837	1,131
Increase in other liabilities	468	2,171
NET CASH PROVIDED BY OPERATING ACTIVITIES	40,306	37,522
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash acquired in acquisition	74,316	
Proceeds from repayments on and maturity of securities:		
Available for sale	55,913	87,327
Held to maturity	20,397	24,640
Proceeds from sales of securities		
Available for sale	53,670	53,718
Purchase of securities:		
Available for sale	(144,004)	(97,545)
Held to maturity	(11,768)	(49,066)
Net (increase) decrease in Federal Home Loan Bank Stock	(90)	2,484
Net increase in loans and leases	(47,537)	(35,403)
Proceeds from sales of other real estate and repossessed assets	1,751	1,299
Capital expenditures	(1,986)	(7,549)
Proceeds from sales of bank premises and equipment	462	2
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	1,124	(20,093)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	25,739	91,455
Decrease in federal funds purchased and securities sold under agreements to repurchase	(6,764)	(17,550)
Proceeds from other borrowings		280,000
Repayments of other borrowings	(10,000)	(340,000)
Early extinguishment of subordinated debentures	(7,803)	
Redemption of preferred stock and common stock warrant		(21,800)
Proceeds from issuance of common stock, net of expenses		25,021
Excess tax benefits	27	18

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Exercise of stock options	709	
Issuance of stock to dividend reinvestment and stock purchase plan	145	141
Dividends paid	(5,774)	(4,221)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(3,721)	13,064
Net increase in cash and cash equivalents	37,709	30,493
Cash and cash equivalents, beginning of period	107,545	72,558
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 145,254	\$ 103,051

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.

On May 31, 2013, the Company completed its acquisition of Somerset Hills Bancorp (Somerset Hills). For more information, see Note 14 below.

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 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 \$669,000 and \$559,000 was recognized for the nine months ended September 30, 2013 and 2012, respectively. As of September 30, 2013, there was unrecognized compensation cost of \$1.6 million related to unvested restricted stock; that cost is expected to be recognized over a weighted average period of approximately 2.9 years. Unrecognized compensation expense related to unvested stock options was approximately \$138,000 as of September 30, 2013 and is expected to be recognized over a period of 2.5 years.

In the first nine months of 2013, the Company granted 104,182 shares of restricted stock at an average grant date fair value of \$9.88 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 \$206,000 per year for the next five years. In the first nine 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.

On May 31, 2013, the Company granted options to purchase 50,000 shares to two new non-employee directors of the Company at an exercise price of \$9.91 per share under the 2009 program. Each director's options are exercisable in five equal installments beginning at the date of grant and continuing on the next four anniversaries of the grant date. The fair value of these options were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

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Risk-free interest rates	1.55%
Expected dividend yield	2.82%
Expected volatility	45.45%
Expected lives (years)	7.00
Weighted average fair value of options granted	\$ 3.48

There were no grants of stock options in the first nine months of 2012.

The Company also assumed the outstanding options granted under Somerset Hills stock option plans at the time of merger. Based on the conversion ratio in the merger, the Company assumed options to purchase 376,372 shares of Lakeland stock in these plans at a weighted average exercise price of \$6.65.

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	426,372	7.03		
Exercised	(98,895)	7.18		
Forfeited	(7,826)	12.93		
Outstanding, September 30, 2013	795,348	\$ 10.11	2.88	\$ 1,504,444
Options exercisable at				
September 30, 2013	749,835	\$ 10.14	2.49	\$ 1,434,088

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 nine months of 2013 and the exercise price, multiplied by the number of in-the-money options).

The aggregate intrinsic value of stock options exercised during the nine months ended September 30, 2013 was \$391,000. Exercise of stock options during the first nine months of 2013 resulted in cash receipts of \$709,000.

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Information regarding the Company's restricted stock (all unvested) and changes during the nine months ended September 30, 2013 is as follows:

	Number of shares	Weighted average price
Outstanding, January 1, 2013	222,556	\$ 9.15
Granted	104,182	9.88
Vested	(65,782)	8.60
Forfeited	(2,711)	9.26
Outstanding, September 30, 2013	258,245	\$ 9.58

Note 3. Comprehensive Income

The components of other comprehensive income are as follows:

For the quarter ended:	September 30, 2013			September 30, 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 arising during period	\$ 1,765	(\$ 647)	\$ 1,118	\$ 1,933	(\$ 713)	\$ 1,220
Reclassification adjustment for net gains arising during the period						
Net unrealized gains	\$ 1,765	(\$ 647)	\$ 1,118	\$ 1,933	(\$ 713)	\$ 1,220
Change in minimum pension liability	8	(3)	5	8	(3)	5
Other comprehensive income, net	\$ 1,773	(\$ 650)	\$ 1,123	\$ 1,941	(\$ 716)	\$ 1,225
For the nine months ended:	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 (losses) on available for sale securities						
Net unrealized holding gains (losses) arising during period	(\$ 8,635)	\$ 3,181	(\$ 5,454)	\$ 3,441	(\$ 1,267)	\$ 2,174
Reclassification adjustment for net gains arising during the period	(506)	177	(329)	(273)	96	(177)
Net unrealized gains (losses)	(\$ 9,141)	\$ 3,358	(\$ 5,783)	\$ 3,168	(\$ 1,171)	\$ 1,997
Change in minimum pension liability	23	(8)	15	23	(8)	15
Other comprehensive income (loss), net	(\$ 9,118)	\$ 3,350	(\$ 5,768)	\$ 3,191	(\$ 1,179)	\$ 2,012

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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		
	September 30, 2013			September 30, 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	(\$ 2,348)	(\$ 607)	(\$ 2,955)	\$ 4,283	(\$ 625)	\$ 3,658
	(in thousands)					
Other comprehensive income before classifications	1,118	5	1,123	1,220	5	1,225
Amounts reclassified from accumulated other comprehensive income						
Net current period other comprehensive income	1,118	5	1,123	1,220	5	1,225
Ending balance	(\$ 1,230)	(\$ 602)	(\$ 1,832)	\$ 5,503	(\$ 620)	\$ 4,883

(a) All amounts are net of tax.

Changes in Accumulated Other Comprehensive Income by Component (a)

	For the Nine Months Ended			For the Nine Months Ended		
	September 30, 2013			September 30, 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
	(in thousands)					
Other comprehensive income (loss) before classifications	(5,454)	15	(5,439)	2,174	15	2,189
Amounts reclassified from accumulated other comprehensive income	(329)		(329)	(177)		(177)
Net current period other comprehensive income (loss)	(5,783)	15	(5,768)	1,997	15	2,012
Ending balance	(\$ 1,230)	(\$ 602)	(\$ 1,832)	\$ 5,503	(\$ 620)	\$ 4,883

(a) All amounts are net of tax.

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	For the Nine Months Ended	
	September 30,	
	2013	2012
	(in thousands)	
Supplemental schedule of noncash investing and financing activities:		
Cash paid during the period for income taxes	\$ 8,497	\$ 6,467
Cash paid during the period for interest	7,750	12,504
Transfer of loans and leases into other repossessed assets and other real estate owned	3,098	651

Note 5. Earnings Per Share

The following schedule shows the Company's earnings per share for the periods presented:

(In thousands, except per share data)	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net income available to common shareholders	\$ 6,617	\$ 5,489	\$ 17,628	\$ 15,293
Less: earnings allocated to participating securities	48	49	125	134
Net income allocated to common shareholders	\$ 6,569	\$ 5,440	\$ 17,503	\$ 15,159
Weighted average number of common shares outstanding - basic	35,512	27,550	32,223	26,998
Share-based plans	224	92	131	67
Weighted average number of common shares - diluted	35,736	27,642	32,354	27,065
Basic earnings per share	\$ 0.18	\$ 0.20	\$ 0.54	\$ 0.56
Diluted earnings per share	\$ 0.18	\$ 0.20	\$ 0.54	\$ 0.56

Options to purchase 461,366 shares of common stock at a weighted average price of \$12.41 per share were outstanding and were not included in the computation of diluted earnings per share for the quarter ended September 30, 2013 because the exercise price was greater than the average market price. Options to purchase 569,222 shares of common stock at a weighted average price of \$12.79 were outstanding and were not included in the computation of diluted earnings per share for the quarter ended September 30, 2012 because the exercise price was greater than the average market price.

Options to purchase 490,307 shares of common stock at a weighted average price of \$12.29 per share were outstanding and were not included in the computation of diluted earnings per share for the nine months ended September 30, 2013 because the exercise price was greater than the average market price. Options to purchase 569,222 shares of common stock at a weighted average price of \$12.79 were outstanding and were not included in the computation of diluted earnings per share for the nine months ended Septe