

First Internet Bancorp
Form 10-Q
November 04, 2013

**UNITED STATES
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 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 **001-35750**

First Internet Bancorp

(Exact Name of Registrant as Specified in Its Charter)

Indiana

(State or Other Jurisdiction of
Incorporation or Organization)

20-3489991

(I.R.S. Employer
Identification No.)

8888 Keystone Crossing, Suite 1700

Indianapolis, Indiana

(Address of Principal Executive Offices)

46240

(Zip Code)

(317) 532-7900

(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, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes No

Edgar Filing: First Internet Bancorp - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer

Non-accelerated Filer (Do not check if a smaller reporting company)

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

As of November 1, 2013, the registrant had 2,861,326 shares of common stock issued and outstanding.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain “forward-looking statements” within the meaning of the federal securities laws. These statements are not historical facts, rather statements based on First Internet Bancorp’s (“we,” “our,” “us” or the “Company”) current expectations regarding its business strategies, intended results and future performance. Forward-looking statements are generally preceded by terms such as “expects,” “believes,” “anticipates,” “intends” and similar expressions. Such statements are subject to certain risks and uncertainties including: failures or interruptions in our information systems; growth in our commercial lending activities; declines in market values of our investments; technological obsolescence; our possible need for additional capital resources in the future; competition; loss of key members of management; fluctuations in interest rates; inadequate allowance for loan losses; risks relating to consumer lending; our dependence on capital distributions from the First Internet Bank of Indiana (the “Bank”); our ability to maintain growth in our mortgage lending business; a decline in the mortgage loan markets or real estate markets; risks associated with the regulation of financial institutions; and changes in regulatory capital requirements. Additional factors that may affect our results include those discussed in this report under the heading “Risk Factors” and in other reports filed with the Securities and Exchange Commission (the “SEC”). The Company cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The factors listed above could affect the Company’s financial performance and could cause the Company’s actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

Except as required by law, the Company does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

(i)

PART I

ITEM 1. FINANCIAL STATEMENTS

First Internet Bancorp
Condensed Consolidated Balance Sheets
(Dollar amounts in thousands except shares)

	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and due from banks	\$ 2,048	\$ 2,881
Interest-bearing demand deposits	24,281	29,632
Total cash and cash equivalents	26,329	32,513
Interest-bearing time deposits	2,500	
Securities available for sale - at fair value (amortized cost of \$219,220 and \$153,896)	216,662	156,693
Loans held for sale (includes \$16,514 and \$0 at fair value, respectively)	18,309	63,234
Loans receivable - net of allowance for loan losses of \$5,459 and \$5,833	434,167	352,328
Accrued interest receivable	2,810	2,196
Federal Home Loan Bank of Indianapolis stock	2,943	2,943
Cash surrender value of life insurance	11,835	11,539
Premises and equipment, net	6,742	793
Goodwill	4,687	4,687
Other real estate owned	5,381	3,666
Other assets	6,153	5,775
Total assets	\$ 738,518	\$ 636,367
Liabilities and Shareholders' Equity		
Liabilities		
Non-interest bearing deposits	\$ 14,541	\$ 13,187
Interest-bearing deposits	622,112	517,504
Total deposits	636,653	530,691
Advances from Federal Home Loan Bank	31,767	40,686
Subordinated debt	2,767	
Accrued interest payable	81	120
Accrued expenses and other liabilities	5,376	3,520
Total liabilities	676,644	575,017
Shareholders' Equity		
Preferred stock, no par value; 4,913,779 shares authorized; issued and outstanding - none		
Voting common stock, no par value; 45,000,000 shares authorized; 2,861,326 and 2,815,094 shares issued and outstanding, respectively	42,037	41,508
Nonvoting common stock, no par value; 86,221 shares authorized; issued and outstanding - none		
Retained earnings	21,500	18,024
Accumulated other comprehensive income (loss)	(1,663)	1,818
Total shareholders' equity	61,874	61,350
Total liabilities and shareholders' equity	\$ 738,518	\$ 636,367

Edgar Filing: First Internet Bancorp - Form 10-Q
See Notes to Condensed Consolidated Financial Statements

First Internet Bancorp
Condensed Consolidated Statements of Income Unaudited
(Dollar amounts in thousands except shares and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Interest Income				
Loans	\$ 5,170	\$ 4,951	\$ 15,073	\$ 14,464
Securities taxable	825	656	2,211	2,514
Securities non-taxable	447	424	1,146	1,269
Total interest income	6,442	6,031	18,430	18,247
Interest Expense				
Deposits	1,758	1,828	5,042	5,475
Other borrowed funds	329	342	904	1,019
Total interest expense	2,087	2,170	5,946	6,494
Net Interest Income	4,355	3,861	12,484	11,753
Provision (Credit) for Loan Losses	(57)	974	101	2,108
Net Interest Income After Provision (Credit) for Loan Losses	4,412	2,887	12,383	9,645
Noninterest Income				
Service charges and fees	177	162	515	523
Mortgage banking activities	1,299	3,206	7,767	6,991
Other-than-temporary impairment				
Total loss related to other-than-temporarily impaired securities		(1,125)	(129)	(1,329)
Portion of loss recognized in other comprehensive income (loss)		1,013	80	1,125
Other-than-temporary impairment loss recognized in net income		(112)	(49)	(204)
Gain (loss) on sale of securities	97		(69)	49
Gain (loss) on asset disposals	(34)	113	(121)	(37)
Other	102	100	304	290
Total noninterest income	1,641	3,469	8,347	7,612
Noninterest Expense				
Salaries and employee benefits	2,512	2,161	7,737	6,066
Marketing, advertising, and promotion	562	278	1,389	1,010
Professional services	577	438	1,791	1,037
Data processing	247	214	693	682
Loan expenses	209	381	574	869
Net occupancy expenses	534	315	1,468	1,092
Deposit insurance premium	85	122	313	341
Other	414	200	1,263	687
Total noninterest expense	5,140	4,109	15,228	11,784
Income Before Income Taxes	913	2,247	5,502	5,473
Income Tax Provision	186	621	1,575	1,421
Net Income	\$ 727	\$ 1,626	\$ 3,927	\$ 4,052
Income Per Share of Common Stock				
Basic	\$ 0.25	\$ 0.57	\$ 1.36	\$ 1.41
Diluted	0.25	0.57	1.36	1.41

Edgar Filing: First Internet Bancorp - Form 10-Q

Weighted-Average Number of Common
Shares Outstanding

Basic	2,890,369	2,870,680	2,888,274	2,867,769
Diluted	2,903,816	2,870,680	2,889,039	2,867,769
Dividends Declared Per Share	\$ 0.06	\$	\$ 0.16	\$

See Notes to Condensed Consolidated Financial Statements

First Internet Bancorp
Condensed Consolidated Statements of Comprehensive Income **Unaudited**
(Dollar amounts in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	\$ 727	\$ 1,626	\$ 3,927	\$ 4,052
Other comprehensive income (loss)				
Net unrealized holding gains (losses) on securities available for sale	(21)	2,242	(5,344)	2,959
Reclassification adjustment for (gains) losses realized	(97)		69	(49)
Net unrealized holding losses on securities available for sale for which an other-than-temporary impairment has been recognized in income		(1,125)	(129)	(1,329)
Reclassification adjustment for other-than-temporary impairment loss recognized in income		112	49	204
Other comprehensive income (loss) before tax	(118)	1,229	(5,355)	1,785
Income tax (provision) benefit	41	(430)	1,874	(625)
Other comprehensive income (loss) - net of tax	(77)	799	(3,481)	1,160
Comprehensive income	\$ 650	\$ 2,425	\$ 446	\$ 5,212

See Notes to Condensed Consolidated Financial Statements

First Internet Bancorp
Consolidated Statements of Shareholders' Equity - Unaudited
Nine Months Ended September 30, 2013

(Dollar amounts in thousands except per share data)

	Voting and Nonvoting Common Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
Balance, January 1, 2013	\$ 41,508	\$ 1,818	\$ 18,024	\$ 61,350
Net income			3,927	3,927
Other comprehensive loss		(3,481)		(3,481)
Cash dividends declared (\$0.16 per share)			(451)	(451)
Recognition of the fair value of share-based compensation	167			167
Issuance of common stock warrants	255			255
Issuance of directors' deferred stock rights	107			107
Balance, September 30, 2013	\$ 42,037	\$ (1,663)	\$ 21,500	\$ 61,874

First Internet Bancorp
Condensed Consolidated Statements of Cash Flows Unaudited
(Dollar amounts in thousands)

	Nine Months Ended September	
	30,	
	2013	2012
Operating Activities		
Net income	\$ 3,927	\$ 4,052
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	486	229
Amortization	1,288	1,828
Loss from disposal of fixed assets	16	1
Gain from real estate owned		(127)
Increase in cash surrender value of life insurance	(296)	(281)
Provision for loan losses	101	2,108
Stock compensation expense	274	60
Loss on other-than-temporary impairment of security	49	204
Loss (Gain) from sale of available-for-sale securities	69	(49)
Loans originated for sale	(606,768)	(523,761)
Proceeds from sale of loans	659,441	520,353
Gain on loans sold	(7,748)	(6,991)
Changes in assets and liabilities		
Accrued interest receivable	(614)	(134)
Other assets	289	779
Accrued expenses and other liabilities	1,760	887
Net cash provided by (used in) operating activities	52,274	(842)
Investing Activities		
Net change in loans	(29,105)	(11,920)
Net change in interest bearing deposits	(2,500)	
Loans purchased	(53,342)	(9,737)
Life insurance purchased		(3,000)
Proceeds from liquidation of real estate owned		1,365
Maturities of securities available for sale	27,319	33,351
Proceeds from sale of securities available for sale	41,680	3,477
Purchase of securities available for sale	(135,627)	(59,002)
Purchase of premises and equipment	(6,563)	(290)
Net cash used in investing activities	(158,138)	(45,756)
Financing Activities		
Net increase in deposits	105,962	35,994
Cash dividends paid	(282)	
Proceeds from issuance of subordinated debt and related warrants	3,000	
Proceeds from FHLB advances	13,000	
Repayment of FHLB advances	(22,000)	
Net cash provided by financing activities	99,680	35,994
Net Increase in Cash and Cash Equivalents	(6,184)	(10,604)
Cash and Cash Equivalents, Beginning of Period	32,513	34,778
Cash and Cash Equivalents, End of Period	\$ 26,329	\$ 24,174
Supplemental Disclosures of Cash Flows Information		
Cash paid during the period for interest	\$ 5,985	\$ 6,516

Edgar Filing: First Internet Bancorp - Form 10-Q

Cash paid during the period for taxes	723	735
Loans transferred to real estate owned	507	280
Dividends declared, not paid	169	

See Notes to Condensed Consolidated Financial Statements

First Internet Bancorp

Notes to Condensed Consolidated Financial Statements Unaudited
(Dollar amounts in thousands except shares and per share data)

Note 1: Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the SEC. Accordingly, they do not include all of the information or footnotes necessary for a complete presentation of financial condition, results of operations, or cash flows in accordance with U.S. generally accepted accounting principles (“GAAP”). In our opinion, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation have been included. The results of operations for the three and nine months ended September 30, 2013 are not necessarily indicative of the results expected for the year ending December 31, 2013 or any other period. The September 30, 2013 condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the First Internet Bancorp Annual Report on Form 10-K for the year ended December 31, 2012.

The preparation of the condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates, judgments, or assumptions that could have a material effect on the carrying value of certain assets and liabilities. These estimates, judgments, and assumptions affect the amounts reported in the condensed consolidated financial statements and the disclosures provided. The determination of the allowance for loan losses, valuations and impairments of investment securities, and the accounting for income tax expense are highly dependent upon management’s estimates, judgments, and assumptions where changes in any of these could have a significant impact on the financial statements.

The condensed consolidated financial statements include the accounts of First Internet Bancorp (“Company”), its wholly-owned subsidiary, First Internet Bank of Indiana (“Bank”), and the Bank’s wholly-owned subsidiary, JKH Realty Services, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on net income.

On June 21, 2013, the Company completed a three-for-two (3:2) split of its common stock by the payment of a stock dividend of one-half of one share on each outstanding share of common stock. Except as otherwise indicated, all of the share and per-share information referenced throughout this report has been adjusted to reflect this stock split.

Note 2: Earnings Per Share

Earnings per share of common stock are based on the weighted-average number of basic shares and dilutive shares outstanding during the period.

The following is a reconciliation of the weighted-average common shares for the basic and diluted earnings per share computations for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,	
	2013	2012
Basic earnings per share		
Net income available to common shareholders	\$ 727	\$ 1,626
Weighted-average common shares	2,890,369	2,870,680
Basic earnings per common share	\$ 0.25	\$ 0.57
Diluted earnings per share		
Net income applicable to diluted earnings per share	\$ 727	\$ 1,626
Weighted-average common shares	2,890,369	2,870,680
Dilutive effect of warrants	13,447	
Dilutive effect of equity compensation		
Weighted-average common and incremental shares	2,903,816	2,870,680
Diluted earnings per common share	\$ 0.25	\$ 0.57

Number of shares and warrants excluded from the calculation of diluted earnings per share as the exercise prices were greater than the average market price of the Company's common stock during the period

	Nine Months Ended September 30,	
	2013	2012
Basic earnings per share		
Net income available to common shareholders	\$ 3,927	\$ 4,052
Weighted-average common shares	2,888,274	2,867,769
Basic earnings per common share	\$ 1.36	\$ 1.41
Diluted earnings per share		
Net income applicable to diluted earnings per share	\$ 3,927	\$ 4,052
Weighted-average common shares	2,888,274	2,867,769
Dilutive effect of warrants	765	
Dilutive effect of equity compensation		
Weighted-average common and incremental shares	2,889,039	2,867,769
Diluted earnings per common share	\$ 1.36	\$ 1.41

Number of shares and warrants excluded from the calculation of diluted earnings per share as the exercise prices were greater than the average market price of the Company's common stock during the period

Note 3: Securities

Securities at September 30, 2013 and December 31, 2012 are as follows:

	September 30, 2013			Fair
	Amortized	Gross Unrealized	Losses	Value
	Cost	Gains		
Securities available for sale				
U.S. government-sponsored enterprises	\$ 58,077	\$ 529	\$ (1,395)	\$ 57,211
Municipals	47,328	1,269	(897)	47,700
Mortgage-backed and asset-backed securities	77,885	940	(1,215)	
government-sponsored enterprises				