

FS Bancorp, Inc.
Form 10-Q
August 14, 2013
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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 ended June 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: 333-177125

FS BANCORP, INC.

(Exact name of registrant as specified in its charter)

Washington

(State or other jurisdiction of incorporation or organization)

45-4585178

(IRS Employer Identification No.)

6920 220th Street SW, Mountlake Terrace, Washington 98043

(Address of principal executive offices; Zip Code)

(425) 771-5299

(Registrant's telephone number, including area code)

None

(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 (§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 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.

Large accelerated filer

Accelerated filer

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

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 August 9, 2013, there were 3,240,125 outstanding shares of the registrant's common stock.

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As used in this report, the terms "we," "our," and "us," and "Company" refer to FS Bancorp, Inc. and its consolidated subsidiary, unless the context indicates otherwise. When we refer to "Bank" in this report, we are referring to 1st Security Bank of Washington, the wholly owned subsidiary of FS Bancorp, Inc.

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Item 1. Financial Statements
 FS BANCORP, INC. AND SUBSIDIARY
 CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data) (Unaudited)

	June 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	\$2,296	\$4,003
Interest-bearing deposits at other financial institutions	14,117	5,410
Securities available-for-sale, at fair value	44,186	43,313
Federal Home Loan Bank stock, at cost	1,733	1,765
Loans held for sale	13,146	8,870
Loans receivable, net	280,411	274,949
Accrued interest receivable	1,292	1,223
Premises and equipment, net	13,525	12,663
Other real estate owned ("OREO")	1,805	2,127
Deferred tax asset	1,349	1,927
Other assets	5,002	2,780
TOTAL ASSETS	\$378,862	\$359,030
LIABILITIES		
Deposits		
Interest-bearing accounts	\$263,808	\$254,784
Noninterest-bearing accounts	37,105	34,165
Total deposits	300,913	288,949
Borrowings	13,664	6,840
Other liabilities	3,206	3,344
Total liabilities	317,783	299,133
COMMITMENTS AND CONTINGENCIES (NOTE 9)		
STOCKHOLDERS' EQUITY		
Preferred stock, \$.01 par value; 5,000,000 shares authorized; None issued or outstanding	—	—
Common stock, \$.01 par value; 45,000,000 shares authorized; 3,240,125 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	32	32
Additional paid-in capital	29,979	29,894
Retained earnings	33,917	31,746
Accumulated other comprehensive income (loss)	(609)	) 597
Unearned shares - Employee Stock Ownership Plan ("ESOP")	(2,240)	) (2,372)
Total stockholders' equity	61,079	59,897
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$378,862	\$359,030

See accompanying notes to these consolidated financial statements.

Table of ContentsFS BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except earnings per share data) (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
INTEREST INCOME				
Loans receivable	\$5,233	\$4,341	\$10,171	\$8,475
Interest and dividends on investment securities and cash and cash equivalents	203	163	440	328
Total interest income	5,436	4,504	10,611	8,803
INTEREST EXPENSE				
Deposits	464	569	936	1,172
Borrowings	48	44	87	90
Total interest expense	512	613	1,023	1,262
NET INTEREST INCOME	4,924	3,891	9,588	7,541
PROVISION FOR LOAN LOSSES	600	550	1,200	1,065
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,324	3,341	8,388	6,476
NONINTEREST INCOME				
Service charges and fee income	494	505	948	995
Gain on sale of loans	2,228	445	3,779	551
Gain on sale of investment securities	96	94	264	106
Other noninterest income	113	78	203	193
Total noninterest income	2,931	1,122	5,194	1,845
NONINTEREST EXPENSE				
Salaries and benefits	3,135	1,864	5,612	3,561
Operations	759	624	1,517	1,131
Occupancy	385	314	702	603
Data processing	266	275	532	508
OREO fair value write-downs, net of loss on sales	117	216	195	646
OREO expenses	16	64	38	98
Loan costs	345	198	645	337
Professional and board fees	333	166	563	303
FDIC insurance	67	56	123	119
Marketing and advertising	158	67	243	120
Impairment (recovery) on mortgage servicing rights	22	(2	) (100	) (3
Total noninterest expense	5,603	3,842	10,070	7,423
INCOME BEFORE PROVISION FOR INCOME TAX	1,652	621	3,512	898
PROVISION FOR INCOME TAX	566	—	1,191	—
NET INCOME	\$1,086	\$621	\$2,321	\$898
Basic earnings per share	\$0.36	n/a ⁽¹⁾	\$0.77	n/a ⁽¹⁾
Diluted earnings per share	\$0.36	n/a ⁽¹⁾	\$0.77	n/a ⁽¹⁾

(1): Earnings per share calculations are not available (n/a) as the Company completed its stock conversion and became a public company on July 9, 2012.

See accompanying notes to these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands) (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net Income	\$ 1,086	\$ 621	\$ 2,321	\$ 898
Other comprehensive gain (loss), net of tax:				
Unrealized gain (loss) on securities available-for-sale:				
Unrealized holding gain (loss) arising during period	(1,298	) 337	(1,256	) 343
Reclassification adjustment for realized losses included in net income	(96	) (94	) (264	) (106
Income tax benefit related to realized and unrealized gain (loss)	474	—	314	—
Other comprehensive gain (loss), net of tax	(920	) 243	(1,206	) 237
COMPREHENSIVE INCOME	\$ 166	\$ 864	\$ 1,115	\$ 1,135

See accompanying notes to these consolidated financial statements.

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FS BANCORP, INC. AND SUBSIDIARY
 CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 (Dollars in thousands, except share data) (Unaudited)

	Common Stock		Additional	Retained Earnings	Accumulated Other	Unearned	Total Equity
	Shares	Amount	Paid-in Capital		Comprehensive Income (Loss)	ESOP Shares	
BALANCE, January 1, 2012	—	\$—	\$—	\$26,451	\$316	\$—	\$26,767
Net income	—	—	—	898	—	—	898
Other comprehensive income	—	—	—	—	237	—	237
BALANCE, June 30, 2012	—	\$—	\$—	\$27,349	\$553	\$—	\$27,902
BALANCE, January 1, 2013	3,240,125	\$32	\$29,894	\$31,746	\$597	\$(2,372)	\$59,897
Net income	—	—	—	2,321	—	—	2,321
Dividends paid (\$0.05 per share)	—	—	—	(150)	—	—	(150)
Other comprehensive loss, net of tax	—	—	—	—	(1,206)	—	(1,206)
ESOP shares allocated	—	—	85	—	—	132	217
BALANCE, June 30, 2013	3,240,125	\$32	\$29,979	\$33,917	\$(609)	\$(2,240)	\$61,079

See accompanying notes to these consolidated financial statements.

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FS BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) (Unaudited)

	Six Months Ended	
	June 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$2,321	\$898
Adjustments to reconcile net income to net cash from operating activities		
Provision for loan losses	1,200	1,065
Depreciation, amortization and accretion	513	756
ESOP compensation expense for allocated shares	217	—
Provision for deferred income taxes	981	296
Valuation allowance on deferred income taxes	—	(296)
Gain on sale of loans held for sale	(3,779)	(551)
Origination of loans held for sale	(132,168)	(35,134)
Proceeds from sale of loans held for sale	133,978	31,440
Gain on sale of investment securities	(264)	(106)
Loss on sale of other real estate owned	—	52
Recovery of loss on mortgage servicing rights	(100)	(3)
Impairment loss on other real estate owned	195	594
Changes in operating assets and liabilities		
Accrued interest receivable	(69)	(109)
Other assets	(1,368)	(115)
Other liabilities	(52)	(142)
Net cash from (used by) operating activities	1,605	(1,355)
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in securities available-for-sale:		
Proceeds from sale of investment securities	8,786	2,432
Maturities, prepayments, and calls	1,676	5,741
Purchases	(13,083)	(19,083)
Loan originations and principal collections, net	(9,496)	(30,147)
Proceeds from sale of other real estate owned	163	1,966
Purchase of premises and equipment	(1,289)	(1,723)
Net cash used by investing activities	(13,243)	(40,814)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	11,964	60,952
Proceeds from borrowings	76,454	12,900
Repayments of borrowings	(69,630)	(17,700)
Dividends paid	(150)	—
Net cash from financing activities	18,638	56,152
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,000	13,983
CASH AND CASH EQUIVALENTS, beginning of period	6,787	19,253
CASH AND CASH EQUIVALENTS, end of period	\$13,787	\$33,236
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	\$1,017	\$1,269

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Income taxes	\$210		\$—	
SUPPLEMENTARY DISCLOSURES OF NONCASH OPERATING, INVESTING AND FINANCING ACTIVITIES				
Change in unrealized gain (loss) on investment securities	\$(1,827	)	\$237	
Property taken in settlement of loans	\$(36	)	\$(921)
Transfer portfolio loans to loans held for sale	\$3,251		\$—	

See accompanying notes to these consolidated financial statements.

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FS BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – FS Bancorp, Inc. (the “Company”) was incorporated in September 2011 as the proposed holding company for 1st Security Bank of Washington (the “Bank”) in connection with the Bank's conversion from the mutual to stock form of ownership which was completed on July 9, 2012. The Bank is a community-based stock owned savings bank with seven branches in suburban communities in the greater Puget Sound area. The Bank provides loan and deposit services to customers who are predominantly small and middle-market businesses and individuals.

Financial Statement Presentation – The accompanying unaudited consolidated interim financial statements do not contain all necessary disclosures required by Generally Accepted Accounting Principles in the United States of America (“U.S. GAAP”) for complete financial statements and, therefore, should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission (“SEC”) on April 1, 2013. These unaudited financial statements include all normal and recurring adjustments that management believes are necessary in order to conform to U.S. GAAP and have been reflected as required by Article 10 of Regulation S-X as promulgated by the SEC. The results for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013 or any other future period. Amounts presented in the financial statements and footnote tables are rounded and presented in thousands of dollars. In the narrative footnote discussion amounts are rounded and presented in millions of dollars to one decimal point if the amounts are above \$1.0 million. Amounts below \$1.0 million are rounded and presented in dollars to the nearest thousands. Certain prior year amounts have been reclassified to conform to the 2013 presentation with no change to net income or equity previously reported. Earnings per share and share calculations prior to June 30, 2012 are not available as the Company completed its stock conversion and became a public company on July 9, 2012.

Conversion and Change in Corporate Form – On July 9, 2012, in accordance with a Plan of Conversion (the “Plan”) adopted by its Board of Directors and as approved by its depositors and borrower members, the Bank (i) converted from a mutual savings bank to a stock savings bank, and (ii) became the wholly-owned subsidiary of FS Bancorp, Inc., a bank holding company registered with the Board of Governors of the Federal Reserve System (“FRB”). In connection with the conversion, FS Bancorp, Inc. issued an aggregate of 3,240,125 shares of common stock at an offering price of \$10.00 per share for gross proceeds of \$32.4 million. From the proceeds, FS Bancorp, Inc. made a capital contribution of \$15.5 million to the Bank. The Bank intends to use this additional capital for future lending and investment activities and for general and other corporate purposes subject to regulatory limitations. The cost of conversion and the issuance of capital stock was approximately \$2.5 million, which was deducted from the proceeds of the offering.

Pursuant to the Plan, the Company's Board of Directors adopted an ESOP plan which purchased 8% of the common stock in the open market or 259,210 shares. As provided for in the Plan, the Bank also established a liquidation account in the amount of retained earnings as of December 31, 2011. The liquidation account will be maintained for the benefits of eligible savings account holders as of June 30, 2007 and supplemental eligible account holders as of March 31, 2012 who maintain deposit accounts at the Bank after the conversion. The conversion was accounted for as a change in corporate form with the historic basis of the Company's assets, liabilities, and equity unchanged as a result.

Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ

from these estimates. Material estimates that are particularly susceptible to change in the near term are allowances for loan losses, fair value of measurements, and the estimated realizability related to the deferred tax asset.

Principles of Consolidation – The consolidated financial statements include the accounts of FS Bancorp, Inc. and its wholly owned subsidiary, 1st Security Bank of Washington. All material intercompany accounts have been eliminated in consolidation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF S