

FIRST BUSINESS FINANCIAL SERVICES, INC.

Form 10-Q

October 25, 2013

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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 quarterly period ended September 30, 2013

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 001-34095

FIRST BUSINESS FINANCIAL SERVICES, INC.

(Exact name of registrant as specified in its charter)

Wisconsin

39-1576570

(State or other jurisdiction of incorporation or organization)

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

401 Charmany Drive Madison, WI

53719

(Address of Principal Executive Offices)

(Zip Code)

(608) 238-8008

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a 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

The number of shares outstanding of the registrant's sole class of common stock, par value \$0.01 per share, on October 17, 2013 was 3,939,010 shares.

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## PART I. Financial Information

## Item 1. Financial Statements

## First Business Financial Services, Inc.

## Consolidated Balance Sheets

|   | September 30,<br>2013<br>(unaudited) | December 31,<br>2012 |
|---|--------------------------------------|----------------------|
|   | (In Thousands, Except Share Data)    |                      |
| Assets  |                                      |                      |
| Cash and due from banks   | \$22,662                             | \$21,626             |
| Short-term investments  | 73,452                               | 63,960               |
| Cash and cash equivalents   | 96,114                               | 85,586               |
| Securities available-for-sale, at fair value  | 186,242                              | 200,596              |
| Loans and leases receivable, net of allowance for loan and lease losses of \$15,185 and \$15,400, respectively  | 941,160                              | 896,560              |
| Leasehold improvements and equipment, net   | 1,182                                | 968                  |
| Foreclosed properties   | 595                                  | 1,574                |
| Cash surrender value of bank-owned life insurance   | 22,906                               | 22,272               |
| Investment in Federal Home Loan Bank stock, at cost   | 1,255                                | 1,144                |
| Accrued interest receivable and other assets  | 15,485                               | 17,408               |
| Total assets  | \$1,264,939                          | \$1,226,108          |
| Liabilities and Stockholders' Equity  |                                      |                      |
| Deposits  |                                      |                      |
| Federal Home Loan Bank and other borrowings   | \$1,128,331                          | \$1,092,254          |
| Junior subordinated notes   | 11,936                               | 12,405               |
| Accrued interest payable and other liabilities  | 10,315                               | 10,315               |
| Total liabilities   | 8,258                                | 11,595               |
| Commitments and contingencies   | 1,158,840                            | 1,126,569            |
| Stockholders' equity:   |                                      |                      |
| Preferred stock, \$0.01 par value, 2,500,000 shares authorized, none issued or outstanding  | —                                    | —                    |
| Common stock, \$0.01 par value, 25,000,000 shares authorized, 4,088,100 and 4,011,370 shares issued, 3,938,423 and 3,916,667 shares outstanding at September 30, 2013 and December 31, 2012, respectively | 41                                   | 40                   |
| Additional paid-in capital  | 55,228                               | 53,504               |
| Retained earnings   | 53,936                               | 45,599               |
| Accumulated other comprehensive income  | 29                                   | 2,183                |
| Treasury stock (149,677 and 94,703 shares at September 30, 2013 and December 31, 2012, respectively), at cost   | (3,135                               | ) (1,787             |
| Total stockholders' equity  | 106,099                              | 99,539               |
| Total liabilities and stockholders' equity  | \$1,264,939                          | \$1,226,108          |

See accompanying Notes to Unaudited Consolidated Financial Statements.

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First Business Financial Services, Inc.

Consolidated Statements of Income (Unaudited)

|  | For the Three Months Ended |      | For the Nine Months Ended |      |
|--|----------------------------|------|---------------------------|------|
|  | September 30,              |      | September 30,             |      |
|  | 2013                       | 2012 | 2013                      | 2012 |

(In Thousands, Except Per Share Data)

|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Interest income:  |           |           |           |           |
| Loans and leases  | \$ 12,669 | \$ 13,095 | \$ 37,405 | \$ 38,859 |
| Securities income   | 841       | 890       | 2,460     | 2,575     |
| Short-term investments  | 76        | 47        | 182       | 174       |
| Total interest income   | 13,586    | 14,032    | 40,047    | 41,608    |
| Interest expense:   |           |           |           |           |
| Deposits  | 2,398     | 3,102     | 7,450     | 10,178    |
| Notes payable and other borrowings                            | 209       | 735       | 645       | 2,145     |
| Junior subordinated notes                                     | 280       | 280       | 831       | 835       |
| Total interest expense  | 2,887     | 4,117     | 8,926     | 13,158    |
| Net interest income   | 10,699    | 9,915     | 31,121    | 28,450    |
| Provision for loan and lease losses                           | 109       | 850       | 243       | 3,399     |
| Net interest income after provision for loan and lease losses | 10,590    | 9,065     | 30,878    | 25,051    |
| Non-interest income:  |           |           |           |           |