MAIN STREET TRUST INC
Form 10-Q
May 09, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 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 March 31, 2007

Commission File Number: **0-30031**

MAIN STREET TRUST, INC.

(Exact name of Registrant as specified in its charter)

Illinois	**37-1338484**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
100 West University, Champaign, Illinois	**61820**
(Address of principal executive offices)	(Zip Code)

(217) 351-6500

(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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer x Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes o No x

Indicate the number of shares outstanding of the registrant s common stock, as of May 2, 2007:

Main Street Trust, Inc. Common Stock 10,039,138

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MAIN STREET TRUST, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2007 and December 31, 2006

(Unaudited, in thousands, except share data)

	March 31, 2007	**December 31, 2006**
ASSETS		
Cash and due from banks	$ 45,764	$ 48,608
Federal funds sold and interest bearing deposits	3,066	12,777
Cash and cash equivalents	48,830	61,385
Investments in debt and equity securities:		
Available-for-sale, at fair value	320,137	318,575
Held-to-maturity, at cost (fair value of $61,871 and $69,037 at March 31, 2007 and December 31, 2006, respectively)	62,458	69,893
Non-marketable equity securities	13,847	14,227
Total investments in debt and equity securities	396,442	402,695
Loans, net of allowance for loan losses of $13,731 and $14,437 at March 31, 2007 and December 31, 2006, respectively	995,353	987,485
Mortgage loans held for sale	1,690	1,116
Premises and equipment	23,655	22,447
Goodwill	20,736	20,736
Core deposit intangibles	3,481	3,698
Accrued interest receivable	11,674	9,663
Other assets	27,178	27,376
Total assets	$ 1,529,039	$ 1,536,601
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	$ 215,226	$ 225,325
Interest bearing	1,027,549	1,008,162
Total deposits	1,242,775	1,233,487
Federal funds purchased and repurchase agreements	95,056	108,323
Federal Home Loan Bank advances and other borrowings	18,023	24,477
Accrued interest payable	4,849	5,187
Other liabilities	14,829	14,772
Total liabilities	1,375,532	1,386,246
Commitments and financial instruments (See Note 6)		
Shareholders equity:		
Preferred stock, no par value; 2,000,000 shares authorized		
Common stock, $0.01 par value; 15,000,000 shares authorized; 11,219,319 shares issued	112	112
Paid in capital	56,294	56,089
Retained earnings	131,693	129,539
Accumulated other comprehensive loss	(842)	(1,155)
	187,257	184,585
Less: treasury stock, at cost, 1,180,181 and 1,196,950 shares at March 31, 2007 and December 31, 2006, respectively	(33,750)	(34,230)

Total shareholders equity	153,507	150,355
Total liabilities and shareholders equity	$ 1,529,039	$ 1,536,601

See accompanying notes to unaudited consolidated financial statements.

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MAIN STREET TRUST, INC. AND SUBSIDIARIES

Consolidated Statements of Income

For the Three Months Ended March 31, 2007 and 2006

(Unaudited, in thousands, except share data)

	2007	2006
Interest income:		
Loans and fees on loans	$ 18,004	$ 16,795
Investments in debt and equity securities		
Taxable	4,362	4,106
Tax-exempt	241	330
Federal funds sold and interest bearing deposits	248	297
Total interest income	22,855	21,528
Interest expense:		
Deposits	9,262	7,418
Federal funds purchased and repurchase agreements	1,293	1,151
Federal Home Loan Bank advances and other borrowings	287	681
Total interest expense	10,842	9,250
Net interest income	12,013	12,278
Provision for loan losses	600	450
Net interest income after provision for loan losses	11,413	11,828
Non-interest income:		
Trust and brokerage fees	2,158	1,915
Remittance processing	2,279	1,765
Service charges on deposit accounts	564	685
Securities transactions, net	(231)	267
Gain on sales of mortgage loans, net	102	126
Other	771	761
Total non-interest income	5,643	5,519
Non-interest expense:		
Salaries and employee benefits	5,995	5,921
Occupancy	794	792
Equipment	681	615
Data processing	909	738
Office supplies	301	296
Service charges from correspondent banks	78	64
Amortization of core deposit intangibles	217	218
Other	1,367	1,401
Total non-interest expense	10,342	10,045
Income before income taxes	6,714	7,302
Income taxes	1,940	2,612
Net income	$ 4,774	$ 4,690
Per share data:		
Basic earnings per share	$ 0.48	$ 0.46
Weighted average shares of common stock outstanding	10,029,580	10,141,775
Diluted earnings per share	$ 0.47	$ 0.46

Weighted average shares of common stock and dilutive potential common shares outstanding	10,191,282	10,264,692

See accompanying notes to unaudited consolidated financial statements.

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MAIN STREET TRUST, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the Three Months Ended March 31, 2007 and 2006

(Unaudited, in thousands)

	2007	**2006**
Net income	$ 4,774	$ 4,690
Other comprehensive income (loss), before tax:		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during period, net of tax of $117 and ($373), for March 31, 2007 and 2006, respectively	175	(561)
Less: reclassification adjustment for losses (gains) included in net income, net of tax of $93 and ($107), for March 31, 2007 and 2006, respectively	138	(160)
Other comprehensive income (loss)	313	(721)
Comprehensive income	$ 5,087	$ 3,969

See accompanying notes to unaudited consolidated financial statements.

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MAIN STREET TRUST, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Three Months Ending March 31, 2007 and 2006

(Unaudited, in thousands)

	2007	2006
Cash flows from operating activities:		
Net income	$ 4,774	$ 4,690
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization fixed assets	687	639
Amortization of bond premiums and accretion of discounts, net	56	137
Amortization of core deposit intangibles	217	218
Provision for loan losses	600	450
Securities transactions, net	231	(267)
Undistributed (gain) loss from non-marketable equity securities	(81)	226
Gain on sales of mortgage loans, net	(102)	(126)
Proceeds from sales of mortgage loans originated for sale	9,252	11,580
Mortgage loans originated for sale	(9,724)	(11,489)
Gains on sales of other real estate, net	(153)	(3)
Stock based compensation plan expense	123	157
Other, net	(2,403)	(3,723)
Net cash provided by operating activities	3,477	2,489
Cash flows from investing activities:		
Net (increase) decrease in loans	(8,468)	40,358
Proceeds from maturities and calls of investments in debt securities:		
Held-to-maturity	8,014	1,683
Available-for-sale	17,380	1,670
Proceeds from sales of investments:		
Available-for-sale	248	2,493
Purchases of investments in debt and equity securities:		
Held-to-maturity	(2,199)	(11,116)
Available-for-sale	(18,944)	(31,916)
Other equity securities	(151)	(500)
Principal paydowns from mortgage-backed securities:		
Held-to-maturity	1,595	1,055
Available-for-sale	469	1,537
Return of principal on other equity securities	157	675
Purchases of premises and equipment	(1,895)	(433)
Proceeds from sales of other real estate	249	54
Net cash (used in) provided by investing activities	(3,545)	5,560
Cash flows from financing activities:		
Net increase (decrease) in deposits	9,288	(23,247)
Net decrease in federal funds purchased and repurchase agreements	(13,267)	(3,106)
Payments on Federal Home Loan Bank advances and other borrowings	(6,454)	(19,620)
Cash dividends paid	(2,506)	(2,334)
Excess tax benefit- stock based compensation plan	82	
MSTI stock transactions, net	370	(455)
Net cash used in financing activities	(12,487)	(48,762)
Net decrease in cash and cash equivalents	(12,555)	(40,713)
Cash and cash equivalents at beginning of year	61,385	94,066
Cash and cash equivalents at end of period	$ 48,830	$ 53,353

See accompanying notes to unaudited consolidated financial statements.

MAIN STREET TRUST, INC. AND SUBSIDIARIES

Supplemental Disclosure of Cash Flow Information

For the Three Months Ending March 31, 2007 and 2006

(Unaudited, in thousands)

	2007	2006
Cash paid during the year for:		
Interest	$ 11,180	$ 9,397
Income taxes	1,069	575
Real estate acquired through or in lieu of foreclosure		555
Dividends declared not paid	2,510	2,331

See accompanying notes to unaudited consolidated financial statements.

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MAIN STREET TRUST, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements for Main Street Trust, Inc., have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary for fair presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the audited consolidated financial statements and related notes as of and for the year ended December 31, 2006, and schedules in the Main Street Trust, Inc. s Form 10-K filed on March 16, 2007.

In the opinion of management, the consolidated financial statements of Main Street Trust, Inc. and its subsidiaries, as of March 31, 2007 and for the three-month periods ended March 31, 2007 and 2006, include all adjustments necessary for a fair presentation of the results of those periods. All such adjustments are of a normal recurring nature.

Results of operations for the three-month period ended March 31, 2007 are not necessarily indicative of the results which may be expected for the year ended December 31, 2007.

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks and federal funds sold and interest bearing deposits. Generally, federal funds are sold for one-day periods.

Certain amounts in the 2006 consolidated financial statements have been reclassified to conform with the 2007 presentation. Such reclassifications have no effect on previously reported net income or shareholders equity.

Note 2. Company Information/Business Combination

Main Street Trust, Inc. (the Company), an Illinois corporation, is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company was incorporated on August 12, 1999, and is the parent company of Main Street Bank & Trust (the Bank) and FirsTech, Inc. (FirsTech), a remittance processing company. On June 14, 2001, the Company was certified by the Board of Governors of the Federal Reserve System as a financial holding company. This designation allows the Company to engage in a wider range of nonbanking activities, including greater authority to engage in securities and insurance activities. However, the Company has no current plans to do so.

On September 21, 2006, the Company announced its intent to merge with First Busey Corporation in Urbana, Illinois. If the proposed merger is completed, the combined company is expected to operate under the name First Busey Corporation and would list its common stock on the NASDAQ Global Select Market and trade under the symbol BUSE. Under terms of the merger agreement, Main Street shareholders will receive shares of First Busey common stock, using a fixed exchange ratio of 1.55 shares of First Busey common stock for each share of Main Street common stock. As of March 31, 2007, First Busey Corporation had consolidated assets of $2.511 billion, consolidated total deposits of $2.042 billion and consolidated stockholders equity of $187.608 million. At separate special meetings of their respective shareholders on February 28, 2007, a majority of the shareholders of Main Street and First Busey voted to approve the merger. The merger is still subject to regulatory approval and other customary closing conditions. The transaction is expected to be completed during the second quarter of 2007. Following the merger of the two holding companies, it will be their intent to merge their Illinois-based banking subsidiaries, Busey Bank and Main Street Bank & Trust. The two banks will be merged under Busey Bank s state charter, and the bank name will remain Busey Bank.

Note 3. Income per Share

Net income per common share has been computed as follows:

	Three Months Ended March 31, 2007	2006
Net Income	$ 4,774,000	$ 4,690,000
Shares:		
Weighted average common shares outstanding	10,029,580	10,141,775
Dilutive effect of outstanding options, as determined by the application of the treasury stock method	161,702	122,917
Weighted average common shares oustanding, as adjusted	10,191,282	10,264,692
Basic earnings per share	$ 0.48	$ 0.46
Diluted earnings per share	$ 0.47	$ 0.46

Note 4. Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes

The provision for income taxes was computed based on financial statement income. In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN 48), which became effective for the Company on January 1, 2007. The Interpretation prescribes recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being recognized upon ultimate settlement. The adoption of FIN 48 at the beginning of 2007 by the Company did not result in any adjustment.

Note 5: Stock Option Plans

At March 31, 2007, the Company had one share-based compensation plan. Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), *Share-Based Payment*, using the modified-prospective-transition method. Under that transition method, compensation cost recognized includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R).

The Main Street Trust, Inc. 2000 Stock Incentive Plan (the Plan), which is shareholder-approved, permits the grant of options for up to 2,205,000 shares of the Company s common stock. The Board of Directors, or a committee appointed by the Board, may issue options that constitute incentive stock options to officers and employees and nonqualified options to directors, officers, employees, consultants and advisors of the Company and its related corporations (provided that such consultants and advisors render bona fide services not in connection with the offer and sale of securities in a capital-raising transaction). Restricted stock and stock appreciation rights (SARs) may also be granted. SARs may be granted separately or in tandem with or by reference to an option granted prior to or simultaneously with the grant of such rights, to such eligible directors, officers, employees, consultants and advisors as may be selected by the Board of Directors. The Plan is intended to provide a means whereby directors, officers, employees, consultants and advisors of the Company and its related corporations may sustain a sense of proprietorship and personal involvement in the continued development and financial success of the Company and its related corporations, and to encourage them to remain with and devote their best efforts to the business of the Company and its related corporations, thereby advancing the interests of the Company and its shareholders. Grants under the Plan to date have been nonqualified options granted to directors and officers. Options granted under the Plan have an exercise price equal to market value of the underlying common stock on the grant date. Existing director options granted prior to 2003 are fully vested and exercisable on the date granted while director options granted in or after 2003 vest ratably over a one-year period from the date granted. Existing officer options vest ratably over a three-year period from the date granted. All outstanding options have a 10 year contractual life. Dividends are not paid on unexercised options.

With the proposed merger of First Busey and Main Street Trust, Inc., the Compensation Committee decided to defer equity grants until some time after the completion of the merger. If the merger is not expected to be completed in 2007, the Compensation Committee will reconsider the granting of options in 2007. Also, if the proposed merger is completed, all current outstanding options become immediately and fully exercisable at the time of the merger.

The Company uses the Black-Scholes option pricing model to estimate the fair value of stock-based awards with the following weighted-average assumptions for the indicated period:

	Three Months Ended March 31, 2006
Number of options granted	150,500
Risk-free interest rate	4.59% - 4.65%
Expected life, in years	6.50 - 8.00
Expected volatility	14.28%
Expected dividend yield	3.06%

Expected volatilities are based on historical volatility of the Company s stock. The Company uses historical data to estimate option exercises and terminations (turnover percentage) within the valuation model. The expected term of options granted is derived from the output of the options valuation model which uses historical data and represents the period of time that options granted are expected to be outstanding. Expected turnover percentage and expected term are estimated separately for directors and officers. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury Strips as of the grant date.

A summary of option activity under the Plan as of March 31, 2007, and changes since January 1, 2007 is presented below:

Options	**Shares**	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Life**	**Aggregate Intrinsic Value ($000)**
Outstanding as of January 1, 2007	845,381	$ 24.76		
Granted				
Exercised	(16,769)	22.12		
Forfeited or expired				
Outstanding at March 31, 2007	828,612	$ 24.82	6.2	$ 6,781
Vested at March 31, 2007	731,507	$ 24.13	5.9	$ 6,485
Exercisable as of March 31, 2007	731,507	$ 24.13	5.9	$ 6,485

The weighted-average grant-date fair value of options granted during the first three months of 2006 was $4.79. The total intrinsic value of options exercised during the first three months of 2007 and 2006, was $210,000 and $63,000, respectively. The fair value of nonvested shares is determined based on the market price of the Company s shares on the grant date.

A summary of the status of the Company s nonvested shares as of March 31, 2007, and changes since January 1, 2007 is presented below:

Nonvested shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2007	122,622	$ 29.97
Granted		
Vested	(25,517)	30.02
Forfeited		
Nonvested at March 31, 2007	97,105	$ 29.96

As of March 31, 2007, there was $453,000 of total unrecognized compensation cost related to nonvested stock option compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 1.6 years or upon vesting on the merger date. The weighted average grant date fair value of shares vested during the three month periods ended March 31, 2007 and 2006, was $4.86 and $4.78, respectively.

Note 6. Commitments and Financial Instruments

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the consolidated balance sheets. The contractual amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Management does not anticipate any significant losses as a result of these transactions.

The following table summarizes these financial instruments and commitments (in thousands) at March 31, 2007 and 2006:

	March 31, 2007	2006
Financial instruments whose contract amounts represent credit risk:		