

GERMAN AMERICAN BANCORP, INC.

Form 10-Q

November 07, 2007

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 September 30, 2007

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 0-11244

German American Bancorp, Inc
(Exact name of registrant as specified in its charter)

Indiana
(State or other jurisdiction of
incorporation or organization)

35-1547518
(I.R.S. Employer
Identification No.)

711 Main Street, Jasper, Indiana 47546
(Address of Principal Executive Offices and Zip Code)

Registrant's telephone number, including area code: (812) 482-1314

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer:

Large Accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
YES ☐ NO ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

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Class
Common Stock, no par value

Outstanding at November 1, 2007
11,029,484

CAUTION REGARDING FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

Information included in or incorporated by reference in this Quarterly Report on Form 10-Q, our other filings with the Securities and Exchange Commission (the “SEC”) and our press releases or other public statements, contains or may contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Please refer to a discussion of our forward-looking statements and associated risks in Item 2 of Part I of this Report (“Management’s Discussion and Analysis of Financial Condition and Results of Operations”) at the conclusion of that Item 2 under the heading “Forward-Looking Statements and Associated Risks.”

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

GERMAN AMERICAN BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited, dollars in thousands except per share data)

	September 30, 2007	December 31, 2006
ASSETS		
Cash and Due from Banks	\$ 20,951	\$ 23,960
Federal Funds Sold and Other Short-term Investments	17,473	5,735
Cash and Cash Equivalents	38,424	29,695
Interest-bearing Time Deposits with Banks	100	200
Securities Available-for-Sale, at Fair Value	145,490	179,222
Securities Held-to-Maturity, at Cost (Fair value of \$4,505 and \$6,192 on September 30, 2007 and December 31, 2006, respectively)	4,464	6,135
Loans Held-for-Sale	4,562	1,601
Loans	868,086	798,635
Less: Unearned Income	(3,096)	(2,376)
Allowance for Loan Losses	(8,055)	(7,129)
Loans, Net	856,935	789,130
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost	10,621	10,621
Premises, Furniture and Equipment, Net	23,211	23,245
Other Real Estate	1,393	845
Goodwill	9,655	9,655
Intangible Assets	4,254	4,924
Company Owned Life Insurance	22,300	21,710
Accrued Interest Receivable and Other Assets	14,183	16,441
TOTAL ASSETS	\$ 1,135,592	\$ 1,093,424
LIABILITIES		
Non-interest-bearing Demand Deposits	\$ 132,624	\$ 137,671
Interest-bearing Demand, Savings, and Money Market Accounts	328,847	329,690
Time Deposits	446,138	400,257
Total Deposits	907,609	867,618
FHLB Advances and Other Borrowings	119,189	119,889
Accrued Interest Payable and Other Liabilities	14,102	13,526
TOTAL LIABILITIES	1,040,900	1,001,033
SHAREHOLDERS' EQUITY		
Preferred Stock, \$10 par value; 500,000 shares authorized, no shares issued	—	—
	11,029	11,008

Common Stock, no par value, \$1 stated value; 20,000,000 shares authorized			
Additional Paid-in Capital	68,350		68,216
Retained Earnings	15,450		13,450
Accumulated Other Comprehensive Loss	(137)		(283)
TOTAL SHAREHOLDERS' EQUITY	94,692		92,391
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,135,592	\$	1,093,424
End of period shares issued and outstanding	11,029,484		11,008,562

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME
(unaudited, dollars in thousands except per share data)

	Three Months Ended September 30,	
	2007	2006
INTEREST INCOME		
Interest and Fees on Loans	\$ 16,585	\$ 13,799
Interest on Federal Funds Sold and Other Short-term Investments	145	105
Interest and Dividends on Securities:		
Taxable	1,694	1,998
Non-taxable	214	472
TOTAL INTEREST INCOME	18,638	16,374
INTEREST EXPENSE		
Interest on Deposits	7,326	5,586
Interest on FHLB Advances and Other Borrowings	1,581	1,679
TOTAL INTEREST EXPENSE	8,907	7,265
NET INTEREST INCOME	9,731	9,109
Provision for Loan Losses	941	290
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,790	8,819
NON-INTEREST INCOME		
Trust and Investment Product Fees	653	564
Service Charges on Deposit Accounts	1,122	1,101
Insurance Revenues	1,349	1,116
Other Operating Income	605	603
Net Gains on Sales of Loans and Related Assets	226	83
Net Gain on Securities	—	951
TOTAL NON-INTEREST INCOME	3,955	4,418
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	5,395	5,403
Occupancy Expense	810	700
Furniture and Equipment Expense	519	581
Data Processing Fees	338	451
Professional Fees	257	541
Advertising and Promotion	250	201
Supplies	160	162
Other Operating Expenses	1,342	1,272
TOTAL NON-INTEREST EXPENSE	9,071	9,311
Income before Income Taxes	3,674	3,926
Income Tax Expense	1,166	1,194
NET INCOME	\$ 2,508	\$ 2,732

COMPREHENSIVE INCOME	\$	3,761	\$	3,850
Earnings Per Share and Diluted Earnings Per Share	\$	0.23	\$	0.25
Dividends Per Share	\$	0.14	\$	0.14

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME
(unaudited, dollars in thousands except per share data)

	Nine Months Ended September 30,	
	2007	2006
INTEREST INCOME		
Interest and Fees on Loans	\$ 47,498	\$ 38,994
Interest on Federal Funds Sold and Other Short-term Investments	349	367
Interest and Dividends on Securities:		
Taxable	5,346	5,668
Non-taxable	732	1,470
TOTAL INTEREST INCOME	53,925	46,499
INTEREST EXPENSE		
Interest on Deposits	20,581	15,136
Interest on FHLB Advances and Other Borrowings	4,744	4,480
TOTAL INTEREST EXPENSE	25,325	19,616
NET INTEREST INCOME	28,600	26,883
Provision for Loan Losses	3,244	634
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	25,356	26,249
NON-INTEREST INCOME		
Trust and Investment Product Fees	1,994	1,690
Service Charges on Deposit Accounts	3,154	2,976
Insurance Revenues	4,394	3,646
Other Operating Income	1,901	2,049
Net Gains on Sales of Loans and Related Assets	602	750
Net Gain on Securities	—	951
TOTAL NON-INTEREST INCOME	12,045	12,062
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	16,452	15,954
Occupancy Expense	2,351	2,034
Furniture and Equipment Expense	1,676	1,667
Data Processing Fees	1,037	1,269
Professional Fees	998	1,423
Advertising and Promotion	619	612
Supplies	449	428
Other Operating Expenses	4,346	3,963
TOTAL NON-INTEREST EXPENSE	27,928	27,350
Income before Income Taxes	9,473	10,961
Income Tax Expense	2,843	3,178
NET INCOME	\$ 6,630	\$ 7,783

COMPREHENSIVE INCOME	\$	6,776	\$	8,628
Earnings Per Share and Diluted Earnings Per Share	\$	0.60	\$	0.71
Dividends Per Share	\$	0.42	\$	0.42

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, dollars in thousands)

	Nine Months Ended September 30,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 6,630	\$ 7,783
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Net Accretion on Securities	(282)	(82)
Depreciation and Amortization	2,379	2,043
Amortization and Impairment of Mortgage Servicing Rights	—	271
Loans Originated for Sale	(48,157)	(43,203)
Proceeds from Sales of Loans Held-for-Sale	45,741	42,542
Loss in Investment in Limited Partnership	137	164
Provision for Loan Losses	3,244	634
Gain on Sale of Loans and Mortgage Servicing Rights, Net	(545)	(749)
Gain on Securities, Net	—	(951)
Gain on Sales of Other Real Estate and Repossessed Assets	(57)	(1)
Loss/(Gain) on Disposition and Impairment of Premises and Equipment	69	(13)
Increase in Cash Surrender Value of Company Owned Life Insurance	(590)	(529)
Equity Based Compensation	273	233
Change in Assets and Liabilities:		
Interest Receivable and Other Assets	2,051	1,271
Interest Payable and Other Liabilities	566	16
Net Cash from Operating Activities	11,459	9,429
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Maturity of Other Short-term Investments	100	—
Proceeds from Maturities of Securities Available-for-Sale	34,228	34,327
Proceeds from Sales of Securities Available-for-Sale	—	13,001
Purchase of Securities Available-for-Sale	—	(62,006)
Proceeds from Maturities of Securities Held-to-Maturity	1,673	2,558
Proceeds from Redemption of Federal Home Loan Bank Stock	—	2,541
Purchase of Loans	(19,194)	(16,474)
Proceeds from Sales of Loans	938	16,535
Loans Made to Customers, Net of Payments Received	(56,077)	(41,899)
Proceeds from Sale of Mortgage Servicing Rights	—	3,554
Proceeds from Sales of Other Real Estate	2,890	689
Property and Equipment Expenditures	(1,162)	(2,834)
Proceeds from Sales of Property and Equipment	50	291
Acquire Banking Entities	—	(4,111)
Net Cash from Investing Activities	(36,554)	(53,828)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in Deposits	40,035	30,053
Change in Short-term Borrowings	(22,941)	18,896
Advances of Long-term Debt	30,000	6,500

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Repayments of Long-term Debt	(8,522)	(6,196)
Issuance of Common Stock	—	18
Employee Stock Purchase Plan	(118)	(105)
Dividends Paid	(4,630)	(4,621)
Net Cash from Financing Activities	33,824	44,545
Net Change in Cash and Cash Equivalents	8,729	146
Cash and Cash Equivalents at Beginning of Year	29,695	32,931
Cash and Cash Equivalents at End of Period	\$ 38,424	\$ 33,077

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007
(unaudited, dollars in thousands except per share data)

Note 1 – Basis of Presentation

German American Bancorp, Inc. operates primarily in the banking industry. The accounting and reporting policies of German American Bancorp, Inc. and its subsidiaries conform to U.S. generally accepted accounting principles. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. All adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the periods reported have been included in the accompanying unaudited consolidated financial statements, and all such adjustments are of a normal recurring nature. It is suggested that these consolidated financial statements and notes be read in conjunction with the financial statements and notes thereto in the German American Bancorp, Inc. December 31, 2006 Annual Report on Form 10-K.

Note 2 – Per Share Data

The computations of Earnings per Share and Diluted Earnings per Share are as follows:

	Three Months Ended September 30,	
	2007	2006
Earnings per Share:		
Net Income	\$ 2,508	\$ 2,732
Weighted Average Shares Outstanding	11,008,562	10,994,686
Earnings per Share	\$ 0.23	\$ 0.25
Diluted Earnings per Share:		
Net Income	\$ 2,508	\$ 2,732
Weighted Average Shares Outstanding	11,008,562	10,994,686
Potentially Dilutive Shares, Net	17,315	13,416
Diluted Weighted Average Shares Outstanding	11,025,877	11,008,102
Diluted Earnings per Share	\$ 0.23	\$ 0.25

Stock options for 268,063 and 332,142 shares of common stock were not considered in computing diluted earnings per share for the quarter ended September 30, 2007 and 2006, respectively, because they were anti-dilutive.

The computations of Earnings per Share and Diluted Earnings per Share are as follows:

	Nine Months Ended September 30,	
	2007	2006
Earnings per Share:		
Net Income	\$ 6,630	\$ 7,783
Weighted Average Shares Outstanding	11,008,562	10,993,944

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Earnings per Share	\$	0.60	\$	0.71
Diluted Earnings per Share:				
Net Income	\$	6,630	\$	7,783
Weighted Average Shares Outstanding		11,008,562		10,993,944
Potentially Dilutive Shares, Net		14,131		8,164
Diluted Weighted Average Shares Outstanding		11,022,693		11,002,108
Diluted Earnings per Share	\$	0.60	\$	0.71

Stock options for 257,063 and 343,142 shares of common stock were not considered in computing diluted earnings per share for the nine months ended September 30, 2007 and 2006, respectively, because they were anti-dilutive.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007
(unaudited, dollars in thousands except per share data)

Note 3 – Securities

The fair values of Securities Available-for-Sale are as follows:

	September 30, 2007	December 31, 2006
U.S. Treasury Securities and Obligations of		
U.S. Government Corporations and Agencies	\$ 25,473	\$ 28,133
Obligations of State and Political Subdivisions	12,717	19,928
Asset-/Mortgage-backed Securities	100,092	123,859
Equity Securities	7,208	7,302
Total	\$ 145,490	\$ 179,222

Net unrealized gains on the securities available-for-sale portfolio totaled approximately \$126 at September 30, 2007 while net unrealized losses totaled approximately \$90 at December 31, 2006.

Securities are written down to fair value when a decline in fair value is not considered temporary. In estimating other-than-temporary losses, management considers the length of time and extent that fair value has been less than cost, the financial condition and near term prospects of the issuer, and the Company's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value. The Company had the intent and ability to hold these securities for the foreseeable future, and the decline in fair value was largely due to changes in market interest rates, therefore, the Company does not consider these securities to be other-than-temporarily impaired.

The total carrying values and fair values of Securities Held-to-Maturity are as follows:

	Carrying Value	Fair Value
September 30, 2007:		
Obligations of State and Political Subdivisions	\$ 4,464	\$ 4,505
December 31, 2006:		
Obligations of State and Political Subdivisions	\$ 6,135	\$ 6,192

Note 4 – Loans

Total loans, as presented on the balance sheet, are comprised of the following classifications:

	September 30, 2007	December 31, 2006
Commercial and Industrial Loans	\$ 454,219	\$ 402,285
Residential Mortgage Loans	119,266	114,687
Consumer Loans	131,927	132,791
Agricultural Loans	162,674	148,872
Total Loans	\$ 868,086	\$ 798,635

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Less: Unearned Income		(3,096)		(2,376)
Allowance for Loan Losses		(8,055)		(7,129)
Loans, Net	\$	856,935	\$	789,130

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GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007
(unaudited, dollars in thousands except per share data)

Note 5 – Allowance for Loan Losses

A summary of the activity in the Allowance for Loan Losses follows:

	September 30, 2007	September 30, 2006
Balance at January 1	\$ 7,129	\$ 9,265
Allowance of Acquired Affiliate	—	484
Provision for Loan Losses	3,244	634
Recoveries of Prior Loan Losses	330	284
Loan Losses Charged to the Allowance	(2,648)	(1,556)
Balance at September 30	\$ 8,055	\$ 9,111

Note 6 – Segment Information

The Company's operations include three primary segments: core banking, trust and investment advisory services, and insurance operations. The core banking segment involves attracting deposits from the general public and using such funds to originate consumer, commercial, commercial real estate, and residential mortgage loans, primarily in the Company's local markets. The core banking segment also involves the sale of residential mortgage loans in the secondary market. The trust and investment advisory services segment involves providing trust, investment advisory, and brokerage services to customers. The insurance segment offers a full range of personal and corporate property and casualty insurance products, primarily in the affiliate banks' local markets.

The core banking segment is comprised by the Company's banking subsidiary, German American Bancorp, which operates through six community banking affiliates with 30 retail banking offices. Net interest income from loans and investments funded by deposits and borrowings is the primary revenue for the core-banking segment. The trust and investment advisory services segment's revenues are comprised primarily of fees generated by German American Financial Advisors & Trust Company ("GAFA"). These fees are derived by providing trust, investment advisory, and brokerage services to its customers. The insurance segment consists of German American Insurance, Inc., which provides a full line of personal and corporate insurance products as agent under six distinctive insurance agency names from six offices; and German American Reinsurance Company, Ltd. ("GARC"), which reinsures credit insurance products sold by the Company's affiliate banks. Commissions derived from the sale of insurance products are the primary source of revenue for the insurance segment.

The following segment financial information has been derived from the internal financial statements of German American Bancorp, Inc., which are used by management to monitor and manage the financial performance of the Company. The accounting policies of the three segments are the same as those of the Company. The evaluation process for segments does not include holding company income and expense. Holding company amounts are the primary differences between segment amounts and consolidated totals, and are reflected in the column labeled "Other" below, along with amounts to eliminate transactions between segments.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007
(unaudited, dollars in thousands except per share data)

Note 6 – Segment Information (continued)**Three Months Ended
September 30, 2007**

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Net Interest Income	\$ 10,007	\$ 27	\$ 26	\$(329)	\$ 9,731
Net Gain on Sales of Loans and Related Assets	226	—	—	—	226
Net Gain / (Loss) on Securities	—	—	—	—	—
Trust and Investment Product Fees	1	677	—	(25)	653
Insurance Revenues	8	3	1,348	(10)	1,349
Noncash Item:					
Provision for Loan Losses	941	—	—	—	941
Provision for Income Taxes	1,361	74	38	(307)	1,166
Segment Profit / (Loss)	2,641	113	55	(301)	2,508
Segment Assets	1,123,650	2,290	9,700	(48)	1,135,592

**Three Months Ended
September 30, 2006**

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Net Interest Income					