

FIRST BANCTRUST CORP

Form 10-Q

May 12, 2008

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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 March 31, 2008
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 0-32535

FIRST BANCTRUST CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

37-1406661

(IRS Employer Identification No.)

101 South Central Avenue

Paris, Illinois

(Address of principal executive offices)

61944

(Zip Code)

217-465-6381

(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 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 Non-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

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

As of May 8, 2008, the Registrant had outstanding 2,185,839 shares of common stock.

First BancTrust Corporation
Form 10-Q Quarterly Report

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First BancTrust Corporation
Condensed Consolidated Balance Sheets
(in thousands of dollars except share data)

	March 31, 2008	December 31, 2007
	(unaudited)	
Assets		
Cash and due from banks	\$ 8,174	\$ 7,630
Interest-bearing demand deposits	10,533	2,709
Cash and cash equivalents	18,707	10,339
Available-for-sale securities	45,407	48,629
Held-to-maturity securities (fair value of \$5,208 and \$5,284)	5,224	5,331
Loans held for sale, net of unrealized loss of \$0	212	394
Loans, net of allowance for loan losses of \$2,301 and \$2,091	242,701	234,855
Premises and equipment	11,996	10,510
Federal Home Loan Bank stock	3,749	3,749
Foreclosed assets held for sale, net	550	554
Interest receivable	2,777	3,511
Deferred income taxes	973	1,201
Loan servicing rights, net of valuation allowance of \$10 and \$0	301	293
Cash surrender value of life insurance	5,528	5,476
Goodwill	541	541
Core deposit intangibles	644	667
Other assets	574	825
Total assets	\$ 339,884	\$ 326,875
Liabilities and Stockholders Equity		
Deposits		
Demand	\$ 22,279	\$ 19,274
Savings, NOW and money market	73,207	66,571
Time	136,491	129,760
Brokered time	20,896	16,534
Total deposits	252,873	232,139
Short term borrowings	1,115	3,715
Federal Home Loan Bank advances	49,300	55,800
Junior subordinated debentures	6,186	6,186
Pass through payments received on loans sold	320	85
Advances from borrowers for taxes and insurance	409	132
Interest payable	1,078	916
Other	1,462	1,401
Total liabilities	312,743	300,374

Commitments and Contingent Liabilities**Stockholders Equity**

Preferred stock, \$.01 par value; 1,000,000 shares authorized and unissued		
Common stock, \$.01 par value, 5,000,000 shares authorized; 3,041,750 shares issued; 2,185,839 and 2,195,839 shares outstanding	30	30
Additional paid-in capital	15,183	15,135
Retained earnings	20,424	20,219
Unearned employee stock ownership plan shares - 30,484 and 38,086 shares	(176)	(220)
Accumulated other comprehensive income (loss)	25	(425)
Treasury stock, at cost - 855,911 and 845,911 shares	(8,345)	(8,238)
Total stockholders equity	27,141	26,501
Total liabilities and stockholders equity	\$ 339,884	\$ 326,875

See Notes to Unaudited Condensed Consolidated Financial Statements.

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First BancTrust Corporation
Condensed Consolidated Statements of Income
(in thousands of dollars except share data)
(unaudited)

Three Months Ended March 31	2008	2007
Interest and Dividend Income		
Loans		
Taxable	\$ 4,204	\$ 3,440
Tax exempt	14	14
Securities		
Taxable	584	627
Tax exempt	38	119
Dividends on Federal Home Loan Bank stock		35
Deposits with financial institutions and other	64	88
Total interest and dividend income	4,904	4,323
Interest Expense		
Deposits	2,100	1,955
Federal Home Loan Bank advances and other debt	627	444
Total interest expense	2,727	2,399
Net Interest Income	2,177	1,924
Provision for loan losses	209	132
Net Interest Income After Provision for Loan Losses	1,968	1,792
Noninterest Income		
Customer service fees	277	265
Other service charges and fees	245	221
Net gains on loan sales	98	60
Net realized gains on sales of available-for-sale securities	53	
Loan servicing fees	107	103
Brokerage fees	24	15
Abstract and title fees	88	81
Increase in cash surrender value of life insurance	61	55
Other	51	50
Total noninterest income	1,004	850
Noninterest Expense		

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Salaries and employee benefits	1,300	1,291
Net occupancy expense	208	209
Equipment expense	274	267
Data processing fees	174	168
Professional fees	86	103
Foreclosed assets expense, net	26	4
Marketing expense	51	59
Printing and office supplies	42	39
Amortization of loan servicing rights	43	45
Impairment of loan servicing rights	10	
Other expenses	276	279
Total noninterest expense	2,490	2,464
Income Before Income Tax	482	178
Provision for Income Taxes	146	11
Net Income	\$ 336	\$ 167
Basic Earnings Per Share	\$ 0.16	\$ 0.08
Diluted Earnings Per Share	\$ 0.16	\$ 0.07
Dividends Per Share	\$ 0.06	\$ 0.06

See Notes to Unaudited Condensed Consolidated Financial Statements.

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First BancTrust Corporation
Condensed Consolidated Statements of Cash Flows
(in thousands of dollars)
(unaudited)

Three Months Ended March 31	2008	2007
Operating Activities		
Net income	\$ 336	\$ 167
Items not requiring (providing) cash		
Depreciation and amortization	218	207
Provision for loan losses	209	132
Gain on foreclosed assets, net	(4)	(1)
Amortization (accretion) of premiums and discounts on securities, net	(3)	16
Amortization of loan servicing rights	43	45
Impairment of loan servicing rights	10	
Deferred income taxes	(57)	(146)
Amortization of intangible assets	23	24
Net realized gains on available-for-sale securities	(53)	
Net gains on loan sales	(98)	(60)
Compensation expense related to ESOP and incentive plan	92	134
Loans originated for sale	(6,448)	(3,037)
Proceeds from sales of loans originated for sale	6,667	3,564
Changes in		
Interest receivable	734	288
Cash surrender value of life insurance	(52)	(46)
Other assets	251	(23)
Interest payable	162	(533)
Other liabilities	61	(240)
Net cash provided by operating activities	2,091	491
Investing Activities		
Purchases of available-for-sale securities	(3,114)	(73)
Proceeds from maturities of available-for-sale securities	4,458	2,096
Proceeds from sales of available-for-sale securities	2,669	
Purchases of held-to-maturity securities		(989)
Proceeds from maturities of held-to-maturity securities	107	91
Net change in loans	(8,074)	(8,970)
Proceeds from sales of foreclosed assets	26	28
Purchases of premises and equipment	(1,703)	(19)
Net cash used in investing activities	(5,631)	(7,836)

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Three Months Ended March 31	2008	2007
Financing Activities		
Net increase in demand deposits, money market, NOW and savings accounts	\$ 9,641	\$ 2,080
Net increase (decrease) in time and brokered time deposits	11,093	(20,951)
Net increase (decrease) in short-term borrowings	(2,600)	225
Proceeds from Federal Home Bank advances	5,000	7,500
Repayment of Federal Home Loan Bank advances	(11,500)	
Net change in pass through payments received on loans sold	235	(90)
Net change in advances from borrowers for taxes and insurance	277	237
Purchase of treasury stock	(107)	(300)
Dividends paid	(131)	(139)
Net cash provided by (used in) financing activities	11,908	(11,438)
Increase (decrease) in Cash and Cash Equivalents	8,368	(18,783)
Cash and Cash Equivalents, Beginning of Year	10,339	28,791
Cash and Cash Equivalents, End of Year	\$ 18,707	\$ 10,008
Supplemental Cash Flows Information		
Interest paid (net of capitalized interest)	\$ 2,565	\$ 2,932
Income taxes paid (net of refunds)	\$ 10	\$ 13
Real estate and other property acquired in settlement of loans	\$ 19	\$ 114

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First BancTrust Corporation
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain disclosures required by accounting principles generally accepted in the United States of America are not included herein. These interim statements should be read in conjunction with the audited consolidated financial statements and notes thereto, included in the Company's Form 10-K filed with the Securities and Exchange Commission.

Interim statements are subject to possible adjustments in connection with the annual audit of the Company for the year ended December 31, 2008. In the opinion of management of the Company, the accompanying unaudited interim condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial position and consolidated results of operations for the periods presented. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet of the Company as of December 31, 2007 has been derived from the audited consolidated balance sheet of the Company as of that date.

Note 2 Newly Adopted Accounting Pronouncements

Effective January 1, 2008, the Company adopted Statement of Financial Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the year.

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying balance sheet.

Available-for-Sale Securities

The fair value of available-for-sale securities are determined by various valuation methodologies. Where quoted market prices are available in an active market, securities are classified within Level 1. Level 1 securities include exchange traded equities. If quoted market prices are not available, then fair values are estimated using pricing models or quoted prices of securities with similar characteristics. Level 2 securities include Obligations of U.S. government corporations and agencies, Obligations of states and political subdivisions, mortgage-backed securities, and collateralized mortgage obligations. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include certain municipal securities and other less liquid securities.

The following table presents the Company's assets that are measured at fair value on a recurring basis and the level within the FAS 157 hierarchy in which the fair value measurements fall as of March 31, 2008 (in thousands):

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities	\$ 45,407	\$ 8	\$ 44,481	\$ 918

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The change in fair value of assets measured using significant unobservable (Level 3) inputs on a recurring basis is summarized as follows (in thousands):

	Available-for-sale Securities
Balance, December 31, 2007	\$ 916
Total realized and unrealized gains and losses	
Included in net income	2
Included in other comprehensive income	
Purchases, issuances and settlements	
Transfers in and/or out of Level 3	

Balance March 31, 2008	\$ 918
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Total gains or losses for the period included in net income attributable to the change in unrealized gains or losses related to assets and liabilities still held at reporting date	\$
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Gains and losses (realized and unrealized) included in net income for the period above are reported in interest income as follows:

Total gains included in net income for the period above	\$ 2
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Change in unrealized gains or losses relating to assets still held at reporting date	\$
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The Company may be required, from time to time, to measure certain other financial assets and liabilities on a nonrecurring basis. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis in the first three months of 2008 that were still held on the balance sheet at March 31, 2008, the following table provides the level of valuation assumptions used to determine each adjustment and the fair value of the assets at March 31, 2008 (in thousands).

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	Fair Value	Carrying value at March 31, 2008		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 4,337	\$	\$	\$ 4,337
Loan servicing rights	293			293

Impaired Loans

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment in accordance with the provisions of Financial Accounting Standard No. 114 (FAS 114) Accounting by Creditors for Impairment of a Loan. Allowable methods for estimating fair value include using the fair value of the collateral or collateral dependent loans or, where a loan is determined not to be collateral dependent, using the discounted cash flow method.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of the impairment is utilized. This method requires reviewing an independent appraisal of the collateral and applying a discount factor to the value based on management's estimation process.

Loan Servicing Rights

Loan servicing rights do not trade in an active, open market with readily observable prices. Accordingly, fair value is determined using an independent valuation. Due to the nature of the valuation inputs, loan servicing rights are classified within Level 3 of the hierarchy.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (FAS 159), The Fair Value Option for Financial Assets and Financial Liabilities Including amendment of FASB Statement No. 115. FAS 159 allows companies to report selected financial assets and liabilities at fair value. The changes in fair value are recognized in earnings and the assets and liabilities measured under this methodology are required to be displayed separately in the balance sheet. The main intent of FAS 159 is to mitigate the difficulty in determining reported earnings caused by a mixed-attribute model (that is, reporting some assets at fair value and others using a different valuation method such as amortized cost). The project is separated into two phases. This first phase addresses the creation of a fair value option for financial assets and liabilities. A second phase will address creating a fair value option for selected non-financial items. FAS 159 is effective for all financial statements issued for fiscal years beginning after November 15, 2007. The Company has not elected the fair value option for any financial assets or liabilities at March 31, 2008.

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Note 3 Debt Covenants

The Company has a line of credit with LaSalle Bank NA. The line of credit has various debt covenants. One of the debt covenants requires the Bank subsidiary to have the ratio of nonperforming loans to Bank capital of not more than ten percent. The Bank violated this covenant as of March 31, 2008 as the ratio was 16.1%. The Company has received a waiver of this covenant.

Note 4 Junior Subordinated Debentures

Capital securities of \$6.0 million were issued June 15, 2005 by a statutory business trust, FBTC Statutory Trust I (Trust). The Company owns 100% of the common equity of the trust, which is a wholly-owned subsidiary of the Company. The \$6.0 million in proceeds from the trust preferred issuance and an additional \$186,000 for the Company's investment in the common equity of the Trust, a total of \$6,186,000, was invested in the junior subordinated debentures of the Company. As required by FIN 46R, the Company has not consolidated the investment in the Trust. The Trust was formed with the purpose of issuing trust preferred securities and investing the proceeds from the sale of such trust preferred securities in the debentures. The debentures held by the Trust are the sole assets of the trust. Distributions of the trust preferred securities are payable at a variable rate of interest, which is equal to the interest rate being earned by the trust on the debentures, and are recorded as interest expense by the Company. The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures. The debentures are included as Tier I capital for regulatory capital purposes. On March 1, 2005, the Federal Reserve Board adopted a final rule that allows the continued limited inclusion of trust preferred securities in the calculation of Tier 1 capital for regulatory purposes. The final rule provides a five-year transition period, ending March 31, 2009, for application of the quantitative limits to have an impact on its calculation of Tier 1 capital for regulatory purposes or its classification as well-capitalized. The debentures issued are first redeemable, in whole or part, by the Company, on June 15, 2010, and mature on June 15, 2035. The funds were used for the acquisition of the common stock of Rantoul First Bank and for the repurchase of First BancTrust Corporation common stock. Interest is fixed at a rate of 5.80% for a period of five years, and then converts to a floating rate after June 15, 2010. Interest payments are made quarterly. Interest expense generated by the debentures for both of the three months ended March 31, 2008 and 2007 totaled \$90,000.

Note 5 Employee Stock Ownership Plan

The Company has an Employee Stock Ownership Plan (ESOP) for the benefit of its employees. The ESOP purchased required shares in the open market with funds borrowed from the Company. The ESOP expense was \$71,000 and \$89,000 for the three-month periods ended March 31, 2008 and 2007.

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Shares purchased by the ESOP are held in a suspense account and are allocated to ESOP participants based on a pro rata basis as debt service payments are made to the Company. The loan is secured by the shares purchased with the proceeds and will be repaid by the ESOP with funds from the Company's discretionary contributions to the ESOP and earnings on ESOP assets. Principal payments are scheduled to occur over an eight-year period.

Note 6 Earnings per Share

Basic earnings per share have been computed based upon the weighted average common shares outstanding for the three month periods ended March 31, 2008 and 2007. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

Earnings per share were computed as follows (dollar amounts in thousands except share data):

	Weighted	Per
	Average	Share
Item 9	<u>Notice of Dissolution of Group:</u>	
Not applicable.		

Item 10 Certification:

By signing below the undersigned certifies that, to the best of its knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of its knowledge and belief, each of the undersigned certifies that the information set forth in this statement is true, complete and correct.

Manulife Financial Corporation

By: /s/ Kenneth G. Pogrinn
Name: Kenneth G. Pogrinn
Title: Attorney in Fact*

Dated: February 7, 2008

MFC Global Investment Management (U.S.A.) Limited

By: /s/ Kenneth G. Pogrinn
Name: Kenneth G. Pogrinn
Title: Attorney in Fact**

Dated: February 7, 2008

MFC Global Investment Management (U.S.), LLC

By: /s/ Francis V. Knox Jr.
Name: Francis V. Knox Jr.
Title: Vice President and Chief Compliance Officer

Dated: February 7, 2008

* Signed pursuant to a Power of Attorney dated January 17, 2008 included as an Exhibit to Schedule 13G filed with the Securities and Exchange Commission by Manulife Financial Corporation on January 24, 2008.

** Signed pursuant to a Power of Attorney dated January 24, 2008 included as an Exhibit to Schedule 13G filed with the Securities and Exchange Commission by Manulife Financial Corporation on January 28, 2008.

EXHIBIT A

JOINT FILING AGREEMENT

Manulife Financial Corporation, MFC Global Investment Management (U.S.A.) Limited and MFC Global Investment Management (U.S.), LLC agree that the Schedule 13G (Amendment No. 1) to which this Agreement is attached, relating to the Common Stock of iRobot Corporation, is filed on behalf of each of them.

Manulife Financial Corporation

By: /s/ Kenneth G. Pogrinn
Name: Kenneth G. Pogrinn
Title: Attorney in Fact*

Dated: February 7, 2008

MFC Global Investment Management (U.S.A.) Limited

By: /s/ Kenneth G. Pogrinn
Name: Kenneth G. Pogrinn
Title: Attorney in Fact**

Dated: February 7, 2008

MFC Global Investment Management (U.S.), LLC

By: /s/ Francis V. Knox Jr.
Name: Francis V. Knox Jr.
Title: Vice President and Chief Compliance Officer

Dated: February 7, 2008

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