

INDEPENDENT BANK CORP

Form 10-Q

May 07, 2013

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-Q

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013

Commission File Number: 1-9047

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Independent Bank Corp.

(Exact name of registrant as specified in its charter)

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Massachusetts

04-2870273

(State or other jurisdiction of  
incorporation or organization)

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

Office Address: 2036 Washington Street, Hanover Massachusetts 02339

Mailing Address: 288 Union Street, Rockland, Massachusetts 02370

(Address of principal executive offices, including zip code)

(781) 878-6100

(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 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

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

As of May 1, 2013, there were 22,882,079 shares of the issuer's common stock outstanding, par value \$0.01 per share.

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## PART 1. FINANCIAL INFORMATION

## Item 1. Financial Statements

## INDEPENDENT BANK CORP.

## CONSOLIDATED BALANCE SHEETS

(Unaudited—Dollars in thousands)

	March 31, 2013	December 31, 2012
Assets		
Cash and due from banks	\$70,434	\$98,144
Interest earning deposits with banks	129,406	117,330
Securities		
Securities available for sale	335,693	329,286
Securities held to maturity (fair value \$215,410 and \$185,824)	209,090	178,318
Total securities	544,783	507,604
Loans held for sale (at fair value)	36,790	48,187
Loans		
Commercial and industrial	702,486	687,511
Commercial real estate	2,123,778	2,122,153
Commercial construction	211,984	188,768
Small business	77,220	78,594
Residential real estate	547,649	604,668
Residential construction	7,764	8,213
Home equity—1st position	481,935	487,246
Home equity—2nd position	310,695	314,903
Other consumer	23,967	26,955
Total loans	4,487,478	4,519,011
Less: allowance for loan losses	(51,906)	(51,834)
Net loans	4,435,572	4,467,177
Federal Home Loan Bank stock	38,674	41,767
Bank premises and equipment, net	55,160	55,227
Goodwill	150,391	150,391
Identifiable intangible assets	11,225	11,753
Cash surrender value of life insurance policies	98,100	97,261
Other real estate owned & other foreclosed assets	11,821	12,150
Other assets	138,764	149,994
Total assets	\$5,721,120	\$5,756,985
Liabilities and Stockholders' Equity		
Deposits		
Demand deposits	\$1,199,623	\$1,248,394
Savings and interest checking accounts	1,711,477	1,691,187
Money market	872,044	853,971
Time certificates of deposit of \$100,000 and over	339,666	317,438
Other time certificates of deposits	428,600	435,687
Total deposits	4,551,410	4,546,677
Borrowings		
Federal Home Loan Bank and other borrowings	267,091	283,569
Wholesale repurchase agreements	50,000	50,000



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Customer repurchase agreements	129,618	153,359
Junior subordinated debentures	74,073	74,127
Subordinated debentures	30,000	30,000
Total borrowings	550,782	591,055
Other liabilities	81,353	89,933
Total liabilities	5,183,545	5,227,665
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$.01 par value. authorized: 1,000,000 shares, outstanding: none	—	—
Common stock, \$.01 par value. authorized: 75,000,000 shares, Issued and outstanding: 22,871,347 shares at March 31, 2013 and 22,774,009 shares at December 31, 2012 (includes 295,690 and 264,124 shares of unvested participating 226 restricted stock awards, respectively)		225
Shares held in rabbi trust at cost 174,325 shares at March 31, 2013 and 179,814 shares at December 31, 2012	(3,198	) (3,179
Deferred compensation obligation	3,198	3,179
Additional paid in capital	270,927	269,950
Retained earnings	270,891	263,671
Accumulated other comprehensive loss, net of tax	(4,469	) (4,526
Total stockholders' equity	537,575	529,320
Total liabilities and stockholders' equity	\$5,721,120	\$5,756,985

The accompanying notes are an integral part of these consolidated financial statements.

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INDEPENDENT BANK CORP.  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited—Dollars in thousands, except per share data)

	Three Months Ended	
	March 31	
	2013	2012
Interest income		
Interest on loans	\$46,978	\$43,077
Taxable interest and dividends on securities	3,529	4,527
Nontaxable interest and dividends on securities	11	29
Interest on loans held for sale	268	130
Interest on federal funds sold	34	33
Total interest and dividend income	50,820	47,796
Interest expense		
Interest on deposits	2,665	2,739
Interest on borrowings	3,293	3,204
Total interest expense	5,958	5,943
Net interest income	44,862	41,853
Provision for loan losses	1,300	1,600
Net interest income after provision for loan losses	43,562	40,253
Noninterest income		
Deposit account fees	4,217	3,889
Interchange and ATM fees	2,328	2,368
Investment management	3,884	3,563
Mortgage banking income	2,281	1,330
Increase in cash surrender value of life insurance policies	746	713
Loan level derivative income	532	328
Other noninterest income	1,736	1,718
Total noninterest income	15,724	13,909
Noninterest expenses		
Salaries and employee benefits	22,715	21,436
Occupancy and equipment expenses	5,249	4,300
Advertising expense	1,172	738
Data processing & facilities management	1,184	1,175
FDIC assessment	821	749
Consulting expense	710	626
Merger and acquisition expenses	1,345	—
Legal fees	503	647
Debit card expense	670	559
Software maintenance	681	476
Telecommunications	655	618
Other noninterest expenses	7,215	6,034
Total noninterest expenses	42,920	37,358
Income before income taxes	16,366	16,804
Provision for income taxes	4,114	4,621
Net income	\$12,252	\$12,183
Basic earnings per share	0.54	0.57
Diluted earnings per share	0.54	0.56
Weighted average common shares (basic)	22,823,753	21,561,006

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Common shares equivalents	46,040	24,481
Weighted average common shares (diluted)	22,869,793	21,585,487
Cash dividends declared per common share	0.22	0.21

The accompanying notes are an integral part of these consolidated financial statements.

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INDEPENDENT BANK CORP.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited—Dollars in thousands)

	Three Months Ended	
	March 31	
	2013	2012
Net income	\$12,252	\$12,183
Other comprehensive income (loss), net of tax		
Unrealized losses on securities		
Change in fair value of securities available for sale	(777	) (161
Less: net security losses (gains) reclassified into earnings	—	—
Net change in fair value of securities available for sale	(777	) (161
Unrealized gains (losses) on cash flow hedges		
Change in fair value of cash flow hedges	(3	) 31
Less: net cash flow hedge losses reclassified into earnings	836	765
Net change in fair value of cash flow hedges	833	796
Amortization of certain costs included in net periodic retirement costs	1	23
Total other comprehensive income	57	658
Total comprehensive income	\$12,309	\$12,841
The accompanying notes are an integral part of these consolidated financial statements		

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INDEPENDENT BANK CORP.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(Unaudited—Dollars in thousands, except per share data)

	Common Stock Outstanding	Common Stock	Value of Shares Held in Rabbi Trust at Cost	Deferred Compensation Obligation	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2012	22,774,009	\$225	\$ (3,179 )	\$ 3,179	\$269,950	\$263,671	\$ (4,526 )	\$529,320
Net income	—	—	—	—	—	12,252	—	12,252
Other comprehensive income	—	—	—	—	—	—	57	57
Common dividend declared (\$0.22 per share)	—	—	—	—	—	(5,032 )	—	(5,032 )
Proceeds from exercise of stock options	17,450	—	—	—	451	—	—	451
Tax benefit related to equity award activity	—	—	—	—	166	—	—	166
Equity based compensation	—	—	—	—	760	—	—	760
Restricted stock awards issued, net of awards surrendered	79,636	1	—	—	(508 )	—	—	(507 )
Shares issued under direct stock purchase plan	252	—	—	—	8	—	—	8
Deferred compensation obligation	—	—	(19 )	19	—	—	—	—
Tax benefit related to deferred compensation distributions	—	—	—	—	100	—	—	100
Balance at March 31, 2013	22,871,347	\$226	\$ (3,198 )	\$ 3,198	\$270,927	\$270,891	\$ (4,469 )	\$537,575
Balance at December 31, 2011	21,499,768	\$213	\$ (2,980 )	\$ 2,980	\$233,878	\$239,452	\$ (4,486 )	\$469,057
Net income	—	—	—	—	—	12,183	—	12,183
Other comprehensive	—	—	—	—	—	—	658	658

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income									
Common dividend declared (\$0.21 per share)	—	—	—	—	—	(4,538 )	—	(4,538 )	
Proceeds from exercise of stock options	20,377	—	—	—	439	—	—	439	
Tax benefit related to equity award activity	—	—	—	—	69	—	—	69	
Equity based compensation	—	—	—	—	853	—	—	853	
Restricted stock awards issued, net of awards surrendered	77,965	—	—	—	(229 )	—	—	(229 )	
Shares issued under direct stock purchase plan	10,175	—	—	—	285	—	—	285	
Deferred compensation obligation	—	—	(16 )	16	—	—	—	—	
Tax benefit related to deferred compensation distributions	—	—	—	—	86	—	—	86	
Balance March 31, 2012	21,608,285	\$213	\$ (2,996 )	\$ 2,996	\$235,381	\$247,097	\$ (3,828 )	\$478,863	

The accompanying condensed notes are an integral part of these unaudited consolidated financial statements

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INDEPENDENT BANK CORP.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited—Dollars in thousands)

	Three Months Ended March 31	
	2013	2012
Cash flow from operating activities		
Net Income	\$12,252	\$12,183
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	2,064	2,589
Provision for loan losses	1,300	1,600
Deferred income tax expense (benefit)	2	(9)
Loss (gain) on sale of fixed assets	28	(9)
Loss on sale of other real estate owned and foreclosed assets	198	95
Gain realized from early termination of hedging relationship	—	(22)
Realized gain on sale leaseback transaction	(258)	(258)
Stock based compensation	760	853
Increase in cash surrender value of life insurance policies	(746)	(713)
Change in fair value on loans held for sale	140	269
Net change in:		
Trading assets	—	(265)
Loans held for sale	11,257	(2,615)
Other assets	10,924	3,835
Other liabilities	(11,862)	(8,369)
Total adjustments	13,807	(3,019)
Net cash provided by operating activities	26,059	