

INDEPENDENT BANK CORP

Form 10-Q

November 05, 2010

Table of Contents

**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, 2010
Commission File Number: 1-9047
Independent Bank Corp.
(Exact name of registrant as specified in its charter)**

Massachusetts 04-2870273
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) 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
(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

As of November 1, 2010, there were 21,203,622 shares of the issuer's common stock outstanding, par value \$0.01 per share

Table of Contents**INDEX**

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (unaudited)</u>	
<u>Consolidated Balance Sheets</u>	
<u>September 30, 2010 and December 31, 2009</u>	4
<u>Consolidated Statements of Income</u>	
<u>Three and nine months ended September 30, 2010 and 2009</u>	5
<u>Consolidated Statements of Stockholders' Equity</u>	
<u>Nine months ended September 30, 2010 and 2009</u>	6
<u>Consolidated Statements of Cash Flows</u>	
<u>Nine months ended September 30, 2010 and 2009</u>	7
<u>Notes to Consolidated Financial Statements</u>	
<u>September 30, 2010</u>	
<u>Note 1 Basis of Presentation</u>	8
<u>Note 2 Recent Accounting Standards</u>	8
<u>Note 3 Securities</u>	9
<u>Note 4 Earnings Per Share</u>	14
<u>Note 5 Stock Based Compensation</u>	15
<u>Note 6 Derivatives and Hedging Activities</u>	16
<u>Note 7 Fair Value Measurements</u>	21
<u>Note 8 Comprehensive Income</u>	29
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
<u>Table 1 Troubled Debt Restructured Loans</u>	42
<u>Table 2 Summary of Delinquency Information</u>	43
<u>Table 3 Nonperforming Assets / Loans</u>	44
<u>Table 4 Potential Problem Commercial Loans</u>	45
<u>Table 5 Interest Income Recognized/Collected on Nonaccrual/Troubled Debt Restructured Loans</u>	45
<u>Table 6 Summary of Changes in the Allowance for Loan Losses</u>	47
<u>Table 7 Summary of Allocation of the Allowance for Loan Losses</u>	48
<u>Table 8 Average Balance, Interest Earned/Paid & Average Yields</u>	
<u>Three Months Ended September 30, 2010 and 2009</u>	53
<u>Table 9 Average Balance, Interest Earned/Paid & Average Yields</u>	
<u>Nine Months Ended September 30, 2010 and 2009</u>	54
<u>Table 10 Volume Rate Analysis</u>	55
<u>Table 11 Non-Interest Income</u>	56
<u>Table 12 Non-Interest Expense</u>	58
<u>Table 13 New Markets Tax Credit Recognition Schedule</u>	59
<u>Table 14 Return on Average Equity and Assets</u>	59
<u>Table 15 Interest Rate Sensitivity</u>	62
<u>Table 16 Company and Bank's Capital Amounts and Ratios</u>	63
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	65
<u>Item 4. Controls and Procedures</u>	65
<u>Item 4T. Controls and Procedures</u>	65
<u>PART II. OTHER INFORMATION</u>	65

<u>Item 1. Legal Proceedings</u>	65
<u>Item 1A. Risk Factors</u>	66
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	66
<u>Item 3. Defaults Upon Senior Securities</u>	66

Table of Contents

	PAGE
<u>Item 5. Other Information</u>	66
<u>Item 6. Exhibits</u>	66
<u>Signatures</u>	69
<u>Exhibit 31.1 - Certification 302</u>	
<u>Exhibit 31.2 - Certification 302</u>	
<u>Exhibit 32.1 - Certification 906</u>	
<u>Exhibit 32.2 - Certification 906</u>	

Table of Contents**PART 1. FINANCIAL INFORMATION****Item 1. Financial Statements****INDEPENDENT BANK CORP.
CONSOLIDATED BALANCE SHEETS**

(Unaudited Dollars in Thousands, Except Share and Per Share Amounts)

	September 30, 2010	December 31, 2009
ASSETS		
CASH AND DUE FROM BANKS	\$ 54,207	\$ 66,723
INTEREST EARNING DEPOSITS WITH BANKS	222,392	55,182
FED FUNDS SOLD AND SHORT TERM INVESTMENTS SECURITIES	526	
Trading Assets	7,418	6,171
Securities Available for Sale	436,887	508,650
Securities Held to Maturity (fair value \$184,152 and \$93,438 at September 30, 2010 and December 31, 2009, respectively)	180,623	93,410
TOTAL SECURITIES	624,928	608,231
LOANS HELD FOR SALE (amortized cost \$21,093 at September 30, 2010)	21,321	13,466
LOANS		
Commercial and Industrial	438,873	373,531
Commercial Real Estate	1,641,356	1,614,474
Commercial Construction	144,109	175,312
Small Business	79,897	82,569
Residential Real Estate	503,471	555,306
Residential Construction	5,449	10,736
Home Equity	517,962	471,862
Consumer Other	76,926	111,725
TOTAL LOANS	3,408,043	3,395,515
Less: Allowance for Loan Losses	(45,619)	(42,361)
NET LOANS	3,362,424	3,353,154
FEDERAL HOME LOAN BANK STOCK	35,854	35,854
BANK PREMISES AND EQUIPMENT, NET	45,420	44,235
GOODWILL	129,617	129,348
IDENTIFIABLE INTANGIBLE ASSETS	12,805	14,382
BANK OWNED LIFE INSURANCE	81,824	79,252
OTHER REAL ESTATE OWNED	9,011	3,994
OTHER ASSETS	103,462	78,200
TOTAL ASSETS	\$4,703,791	\$4,482,021

LIABILITIES AND STOCKHOLDERS EQUITY		
DEPOSITS		
Demand Deposits	\$ 805,491	\$ 721,792
Savings and Interest Checking Accounts	1,314,273	1,073,990
Money Market	731,091	661,731
Time Certificates of Deposit Over \$100,000	247,731	304,621
Other Time Certificates of Deposits	518,572	613,160
TOTAL DEPOSITS	3,617,158	3,375,294
BORROWINGS		
Federal Home Loan Bank Borrowings	302,545	362,936
Federal Funds Purchased and Assets Sold Under Repurchase Agreements	180,326	190,452
Junior Subordinated Debentures	61,857	61,857
Subordinated Debentures	30,000	30,000
Other Borrowings	2,701	2,152
TOTAL BORROWINGS	577,429	647,397
OTHER LIABILITIES	83,543	46,681
TOTAL LIABILITIES	4,278,130	4,069,372
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY		
Common Stock, \$.01 par value. Authorized: 75,000,000		
Issued and Outstanding : 21,203,268 Shares at September 30, 2010 and 21,072,196 Shares at December 31, 2009 (Includes 221,615 and 136,775 share of unvested restricted stock awards, respectively)		
	210	209
Shares Held in Rabbi Trust at Cost 177,420 Shares in September 30, 2010 and 176,507 Shares at December 31, 2009	(2,632)	(2,482)
Deferred Compensation Obligation	2,632	2,482
Additional Paid in Capital	226,255	225,088
Retained Earnings	201,950	184,599
Accumulated Other Comprehensive (Loss)/Income, Net of Tax	(2,754)	2,753
TOTAL STOCKHOLDERS EQUITY	425,661	412,649
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$4,703,791	\$4,482,021

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

Table of Contents

INDEPENDENT BANK CORP.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited Dollars in Thousands, Except Share and Per Share Data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
INTEREST INCOME				
Interest on Loans	\$ 44,436	\$ 45,773	\$ 133,267	\$ 126,491
Interest on Loans Held for Sale	174	169	390	497
Taxable Interest and Dividends on Securities	5,679	7,426	18,277	21,802
Non-taxable Interest and Dividends on Securities	164	218	553	744
Interest on Federal Funds Sold and Short-Term Investments	135	4	267	272
TOTAL INTEREST AND DIVIDEND INCOME	50,588	53,590	152,754	149,806
INTEREST EXPENSE				
Interest on Deposits	4,801	7,446	16,225	24,293
Interest on Borrowings	4,590	5,236	13,955	15,517
TOTAL INTEREST EXPENSE	9,391	12,682	30,180	39,810
NET INTEREST INCOME	41,197	40,908	122,574	109,996
PROVISION FOR LOAN LOSSES	3,500	4,443	15,081	12,911
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	37,697	36,465	107,493	97,085
NON-INTEREST INCOME				
Service Charges on Deposit Accounts	4,441	4,613	13,177	12,518
Wealth Management	2,851	2,278	8,768	7,318
Mortgage Banking Income, Net	1,469	425	3,091	3,578
Bank Owned Life Insurance Income	901	713	2,353	2,126
Net Gain/(Loss) on Sales of Securities Available for Sale	(22)		458	1,355
Gain Resulting From Early Termination of Hedging Relationship				3,778
Other-Than-Temporary Impairment Losses on Available-for-Sale Debt Securities:				
Gross Gain/(Loss) on Write-Down of Certain Investments to Fair Value	207	(5,108)	325	(7,384)
	(214)	(33)	(594)	590

Edgar Filing: INDEPENDENT BANK CORP - Form 10-Q

Add/(Less): Portion of
Other-Than-Temporary Impairment
Recognized in Other Comprehensive
Income

Net Impairment Losses Recognized in
Earnings on Available-for Sale Debt
Securities

	(7)	(5,141)	(269)	(6,794)
Other Non-Interest Income	2,021	1,578	5,065	4,283

TOTAL NON-INTEREST INCOME	11,654	4,466	32,643	28,162
---------------------------	--------	-------	--------	--------

NON-INTEREST EXPENSE

Salaries and Employee Benefits	19,792	17,727	56,662	49,720
--------------------------------	--------	--------	--------	--------

Occupancy and Equipment Expenses	3,839	3,985	12,068	11,826
----------------------------------	-------	-------	--------	--------

Data Processing and Facilities

Management	1,404	1,580	4,195	4,600
------------	-------	-------	-------	-------

FDIC Assessment	1,352	1,267	3,944	5,655
-----------------	-------	-------	-------	-------

Legal	720	703	2,575	1,906
-------	-----	-----	-------	-------

Advertising Expense	469	232	1,699	1,427
---------------------	-----	-----	-------	-------

Telephone	513	779	1,591	1,820
-----------	-----	-----	-------	-------

Consulting Expense	803	474	1,600	1,416
--------------------	-----	-----	-------	-------

Software Maintenance	497	484	1,460	1,393
----------------------	-----	-----	-------	-------

Merger & Acquisition Expenses		41		12,423
-------------------------------	--	----	--	--------

Other Non-Interest Expense	5,151	5,032	17,264	14,981
----------------------------	-------	-------	--------	--------

TOTAL NON-INTEREST EXPENSE	34,540	32,304	103,058	107,167
----------------------------	--------	--------	---------	---------

INCOME BEFORE INCOME TAXES	14,811	8,627	37,078	18,080
----------------------------	--------	-------	--------	--------

PROVISION FOR INCOME TAXES	3,666	1,786	8,676	4,192
----------------------------	-------	-------	-------	-------

NET INCOME	\$ 11,145	\$ 6,841	\$ 28,402	\$ 13,888
------------	-----------	----------	-----------	-----------

PREFERRED STOCK DIVIDEND	\$	\$	\$	\$ 5,698
--------------------------	----	----	----	----------

NET INCOME AVAILABLE TO
COMMON SHAREHOLDERS

	\$ 11,145	\$ 6,841	\$ 28,402	\$ 8,190
--	-----------	----------	-----------	----------

BASIC EARNINGS PER SHARE	\$ 0.53	\$ 0.33	\$ 1.35	\$ 0.43
--------------------------	---------	---------	---------	---------

DILUTED EARNINGS PER SHARE	\$ 0.53	\$ 0.33	\$ 1.35	\$ 0.43
----------------------------	---------	---------	---------	---------

WEIGHTED AVERAGE COMMON
SHARES (BASIC)

	20,981,372	20,921,635	20,961,378	19,210,431
--	------------	------------	------------	------------

Common Share Equivalents	52,793	48,254	74,536	26,181
--------------------------	--------	--------	--------	--------

WEIGHTED AVERAGE COMMON
SHARES (DILUTED)

	21,034,165	20,969,889	21,035,914	19,236,612
--	------------	------------	------------	------------

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

Table of Contents**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY***(Unaudited Dollars in Thousands, Except Per Share Data)*

	Preferred Stock	Common Stock Outstanding	Common Stock	Shares Held in Rabbi Trust at Cost	Deferred Compensation Obligation	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	TOTAL
BALANCE DECEMBER 31, 2009	\$	21,072,196	\$ 209	\$ (2,482)	\$ 2,482	\$ 225,088	\$ 184,599	\$ 2,753	\$ 412,649
COMPREHENSIVE INCOME:									
Net Income							28,402		28,402
Change in Unrealized Gain on Securities Available For Sale, Net of Tax and Realized Gains/(Losses)								3,013	
Change in Fair Value of Cash Flow Hedges, Net of Tax and Realized Gains/(Losses)								(8,590)	
Amortization of Prior Service Cost, net of tax								70	
Other Comprehensive Loss								(5,507)	(5,507)
TOTAL COMPREHENSIVE INCOME COMMON DIVIDEND DECLARED (\$0.54 PER SHARE)							(11,443)		22,895
PROCEEDS FROM EXERCISE OF STOCK OPTIONS		27,229	1					392	393
TAX EXPENSE RELATED TO EQUITY AWARD ACTIVITY						70			70
						1,206			1,206

EQUITY BASED COMPENSATION RESTRICTED STOCK AWARDS GRANTED, NET OF AWARDS SURRENDERED		103,843				(109)		(109)	
DEFERRED COMPENSATION OBLIGATION			(150)	150					
BALANCE SEPTEMBER 30, 2010	\$	21,203,268	\$ 210	\$ (2,632)	\$ 2,632	\$ 226,255	\$ 201,950	\$ (2,754)	\$ 425,661
BALANCE DECEMBER 31, 2008	\$	16,301,405	\$ 163	\$ (2,267)	\$ 2,267	\$ 137,488	\$ 177,493	\$ (9,870)	\$ 305,274
CUMULATIVE EFFECT ACCOUNTING ADJUSTMENT, NET OF TAX (1) COMPREHENSIVE INCOME:									
Net Income						13,888		13,888	
Change in Unrealized Gain on Securities Available For Sale, Net of Tax and Realized Gains/(Losses)							10,988		
Change in Fair Value of Cash Flow Hedges, Net of Tax and Realized Gains							5,173		
Amortization of Prior Service Cost, net of tax							(195)		
Other Comprehensive Income							15,966		15,966
TOTAL COMPREHENSIVE INCOME									29,854
DIVIDENDS DECLARED:									

COMMON DECLARED (\$0.54 PER SHARE)						(10,521)		(10,521)	
PREFERRED DECLARED (2)						(5,698)		(5,698)	
COMMON STOCK ISSUED FOR ACQUISITION	4,624,948	46				84,452		84,498	
PROCEEDS FROM EXERCISE OF STOCK OPTIONS	19,768					260		260	
TAX EXPENSE RELATED TO EQUITY AWARD ACTIVITY						(4)		(4)	
EQUITY BASED COMPENSATION RESTRICTED STOCK AWARDS GRANTED, NET OF AWARDS SURRENDERED	122,600					532		532	
DEFERRED COMPENSATION OBLIGATION			(150)	150					
ISSUANCE OF PREFERRED STOCK AND STOCK WARRANTS	73,578					4,580		78,158	
REDEMPTION OF PREFERRED STOCK AND STOCK WARRANTS	(73,578)					(2,200)		(75,778)	
BALANCE SEPTEMBER 30, 2009	\$	21,068,721	\$ 209	\$ (2,417)	\$ 2,417	\$ 224,848	\$ 179,245	\$ 2,273	\$ 406,575

- (1) Represents reclassification of the non-credit related component of previously recorded Other-Than-Temporary impairment, pursuant to the provisions of the Investments-Debt and Equity Securities Topic of FASB ASC.
- (2) Excludes \$586 of cumulative preferred dividends not declared as of the quarter ended June 30, 2009 and \$196 of accretion of discount on preferred stock issuance, relating to the U.S. Treasury's Capital Purchase Program.
- The accompanying notes are an integral part of these unaudited consolidated financial statements.

Table of Contents

INDEPENDENT BANK CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited Dollars In Thousands)

	Nine Months Ended	
	September 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$28,402	\$13,888
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation and Amortization	4,757	4,191
Provision for Loan Losses	15,081	12,911
Deferred Income Tax Benefit/(Provision)	(5)	390
Net Gain on Sale of Investments	(458)	(1,355)
Loss on Write-Down of Investments in Securities Available for Sale	269	6,794
Loss on Sale of Fixed Assets	280	99
Gain on Sale of Other Real Estate Owned		