

GERMAN AMERICAN BANCORP, INC.
Form 10-Q
August 06, 2010

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 June 30, 2010

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 001-15877

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 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 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:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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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.

Class	Outstanding at August 2, 2010
Common Stock, no par value	11,104,918

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 the discussions of our forward-looking statements and associated risks in our annual report on Form 10-K for the year ended December 31, 2009, in Item 1, "Business – Forward-Looking Statements and Associated Risks" and our discussion of risk factors in Item 1A, "Risk Factors" of that annual report on Form 10-K, as updated from time to time in our subsequent SEC filings, including by Item 1A of Part II of this Report and by 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 share and per share data)

	June 30, 2010	December 31, 2009
ASSETS		
Cash and Due from Banks	\$ 17,110	\$ 16,052
Federal Funds Sold and Other Short-term Investments	19,399	12,002
Cash and Cash Equivalents	36,509	28,054
Securities Available-for-Sale, at Fair Value	298,555	250,940
Securities Held-to-Maturity, at Cost (Fair value of \$1,899 and \$2,801 on June 30, 2010 and December 31, 2009, respectively)	1,886	2,774
Loans Held-for-Sale	10,768	5,706
Loans	914,667	879,475
Less: Unearned Income	(1,729)	(1,653)
Allowance for Loan Losses	(10,813)	(11,016)
Loans, Net	902,125	866,806
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost	10,621	10,621
Premises, Furniture and Equipment, Net	26,182	22,153
Other Real Estate	1,822	2,363
Goodwill	9,835	9,655
Intangible Assets	3,056	2,618
Company Owned Life Insurance	24,400	24,008
Accrued Interest Receivable and Other Assets	15,169	17,267
TOTAL ASSETS	\$ 1,340,928	\$ 1,242,965
LIABILITIES		
Non-interest-bearing Demand Deposits	\$ 166,922	\$ 155,268
Interest-bearing Demand, Savings, and Money Market Accounts	522,438	484,699
Time Deposits	360,496	329,676
Total Deposits	1,049,856	969,643
FHLB Advances and Other Borrowings	157,861	148,121
Accrued Interest Payable and Other Liabilities	13,054	11,652
TOTAL LIABILITIES	1,220,771	1,129,416
SHAREHOLDERS' EQUITY		
Preferred Stock, \$10 par value; 500,000 shares authorized, no shares issued	—	—
Common Stock, no par value, \$1 stated value; 20,000,000 shares authorized	11,105	11,077
Additional Paid-in Capital	69,020	68,816
Retained Earnings	32,595	29,041
Accumulated Other Comprehensive Income, Net of Tax	7,437	4,615

TOTAL SHAREHOLDERS' EQUITY	120,157	113,549
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,340,928	\$ 1,242,965
End of period shares issued and outstanding	11,104,918	11,077,382

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME

(unaudited, dollars in thousands except share and per share data)

	Three Months Ended June 30,	
	2010	2009
INTEREST INCOME		
Interest and Fees on Loans	\$ 13,194	\$ 13,473
Interest on Federal Funds Sold and Other Short-term Investments	27	22
Interest and Dividends on Securities:		
Taxable	2,462	2,151
Non-taxable	258	277
TOTAL INTEREST INCOME	15,941	15,923
INTEREST EXPENSE		
Interest on Deposits	2,686	3,335
Interest on FHLB Advances and Other Borrowings	1,340	1,471
TOTAL INTEREST EXPENSE	4,026	4,806
NET INTEREST INCOME	11,915	11,117
Provision for Loan Losses	1,000	1,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,915	10,117
NON-INTEREST INCOME		
Trust and Investment Product Fees	395	457
Service Charges on Deposit Accounts	1,075	1,080
Insurance Revenues	1,083	1,290
Company Owned Life Insurance	186	200
Other Operating Income	553	368
Net Gains on Sales of Loans	499	461
Net Gain (Loss) on Securities	—	(34)
TOTAL NON-INTEREST INCOME	3,791	3,822
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	5,288	5,515
Occupancy Expense	835	816
Furniture and Equipment Expense	600	654
FDIC Premiums	336	885
Data Processing Fees	365	344
Professional Fees	524	405
Advertising and Promotion	273	199
Supplies	246	142
Intangible Amortization	247	221
Other Operating Expenses	1,188	1,052
TOTAL NON-INTEREST EXPENSE	9,902	10,233
Income before Income Taxes	4,804	3,706
Income Tax Expense	1,396	942

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NET INCOME	\$	3,408	\$	2,764
COMPREHENSIVE INCOME	\$	5,331	\$	2,092
Earnings Per Share and Diluted Earnings Per Share	\$	0.31	\$	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 share and per share data)

	Six Months Ended June 30,	
	2010	2009
INTEREST INCOME		
Interest and Fees on Loans	\$ 26,033	\$ 26,867
Interest on Federal Funds Sold and Other Short-term Investments	36	39
Interest and Dividends on Securities:		
Taxable	4,927	4,341
Non-taxable	528	533
TOTAL INTEREST INCOME	31,524	31,780
INTEREST EXPENSE		
Interest on Deposits	5,298	7,340
Interest on FHLB Advances and Other Borrowings	2,662	2,682
TOTAL INTEREST EXPENSE	7,960	10,022
NET INTEREST INCOME	23,564	21,758
Provision for Loan Losses	2,500	1,750
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	21,064	20,008
NON-INTEREST INCOME		
Trust and Investment Product Fees	786	847
Service Charges on Deposit Accounts	2,021	2,140
Insurance Revenues	2,769	2,777
Company Owned Life Insurance	388	438
Other Operating Income	1,589	872
Net Gains on Sales of Loans	817	1,026
Net Gain (Loss) on Securities	—	(34)
TOTAL NON-INTEREST INCOME	8,370	8,066
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	10,837	11,129
Occupancy Expense	1,722	1,683
Furniture and Equipment Expense	1,252	1,316
FDIC Premiums	688	1,220
Data Processing Fees	724	701
Professional Fees	1,045	1,012
Advertising and Promotion	542	487
Supplies	441	277
Intangible Amortization	465	442
Other Operating Expenses	2,452	2,047
TOTAL NON-INTEREST EXPENSE	20,168	20,314
Income before Income Taxes	9,266	7,760
Income Tax Expense	2,607	2,054

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NET INCOME	\$	6,659	\$	5,706
COMPREHENSIVE INCOME	\$	9,481	\$	6,397
Earnings Per Share and Diluted Earnings Per Share	\$	0.60	\$	0.52
Dividends Per Share	\$	0.28	\$	0.28

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 6,659	\$ 5,706
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Net (Accretion) Amortization on Securities	278	(170)
Depreciation and Amortization	1,812	1,797
Loans Originated for Sale	(40,891)	(79,937)
Proceeds from Sales of Loans Held-for-Sale	36,646	71,754
Loss in Investment in Limited Partnership	33	78
Provision for Loan Losses	2,500	1,750
Gain on Sale of Loans, net	(817)	(1,026)
Loss (Gain) on Sales of Other Real Estate and Repossessed Assets	(237)	314
Loss (Gain) on Disposition and Impairment of Premises and Equipment	(55)	11
Other-than-temporary Impairment on Securities	—	34
Increase in Cash Surrender Value of Company Owned Life Insurance	(392)	(444)
Equity Based Compensation	200	235
Change in Assets and Liabilities:		
Interest Receivable and Other Assets	2,218	3,431
Interest Payable and Other Liabilities	(202)	(1,844)
Net Cash from Operating Activities	7,752	1,689
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Maturities of Securities Available-for-Sale	25,873	19,191
Proceeds from Sales of Securities Available-for-Sale	—	379
Purchase of Securities Available-for-Sale	(69,406)	(41,729)
Proceeds from Maturities of Securities Held-to-Maturity	889	309
Purchase of Loans	(175)	(20,666)
Proceeds from Sales of Loans	3,711	12,938
Loans Made to Customers, net of Payments Received	472	373
Proceeds from Sales of Other Real Estate	1,889	322
Property and Equipment Expenditures	(652)	(1,275)
Proceeds from Sales of Property and Equipment	491	4
Acquire Bank Branches	855	—
Acquire Insurance Customer List	—	(386)
Net Cash from Investing Activities	(36,053)	(30,540)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in Deposits	30,090	14,028
Change in Short-term Borrowings	10,535	(3,050)
Advances in Long-term Debt	—	19,250
Repayments of Long-term Debt	(796)	(33)
Issuance of Common Stock	32	5
Dividends Paid	(3,105)	(3,094)
Net Cash from Financing Activities	36,756	27,106

Net Change in Cash and Cash Equivalents	8,455	(1,745)
Cash and Cash Equivalents at Beginning of Year	28,054	44,992
Cash and Cash Equivalents at End of Period	\$ 36,509	\$ 43,247
Cash Paid During the Period for		
Interest	\$ 7,858	\$ 10,721
Income Taxes	2,678	2,270
Supplemental Non Cash Disclosures(1)		
Loans Transferred to Other Real Estate	\$ 1,112	\$ 1,266

(1) See Note 11 for non-cash transactions included in the acquisition of bank branches.

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010
(unaudited, dollars in thousands except share and 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. Certain prior year amounts have been reclassified to conform with current classifications. 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, 2009 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 June 30,	
	2010	2009
Earnings per Share:		
Net Income	\$ 3,408	\$ 2,764
Weighted Average Shares Outstanding	11,103,095	11,073,081
Earnings per Share	\$ 0.31	\$ 0.25
Diluted Earnings per Share:		
Net Income	\$ 3,408	\$ 2,764
Weighted Average Shares Outstanding	11,103,095	11,073,081
Potentially Dilutive Shares, Net	5,065	494
Diluted Weighted Average Shares Outstanding	11,108,160	11,073,575
Diluted Earnings per Share	\$ 0.31	\$ 0.25

Stock options for 99,275 and 138,003 shares of common stock were not considered in computing diluted earnings per share for the quarters ended June 30, 2010 and 2009, respectively, because they were anti-dilutive.

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

	Six Months Ended June 30,	
	2010	2009
Earnings per Share:		
Net Income	\$ 6,659	\$ 5,706

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Weighted Average Shares Outstanding	11,092,447	11,055,111
Earnings per Share	\$ 0.60	\$ 0.52

Diluted Earnings per Share:

Net Income	\$ 6,659	\$ 5,706
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Weighted Average Shares Outstanding	11,092,447	11,055,111
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Potentially Dilutive Shares, Net	4,896	—
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Diluted Weighted Average Shares Outstanding	11,097,343	11,055,111
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Diluted Earnings per Share	\$ 0.60	\$ 0.52
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Stock options for 99,275 and 169,433 shares of common stock were not considered in computing diluted earnings per share for the six months ended June 30, 2010 and 2009, respectively, because they were anti-dilutive.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010
(unaudited, dollars in thousands except share and per share data)

Note 3 – Securities

The amortized cost, unrealized gross gains and losses recognized in accumulated other comprehensive income (loss), and fair value of Securities Available-for-Sale at June 30, 2010 and December 31, 2009, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale:				
June 30, 2010				
U.S. Treasury and Agency Securities	\$ —	\$ —	\$ —	\$ —
Obligations of State and Political Subdivisions	21,204	1,121	(23)	22,302
Mortgage-backed Securities - Residential	263,151	10,755	(137)	273,769
Equity Securities	2,818	—	(334)	2,484
Total	\$ 287,173	\$ 11,876	\$ (494)	\$ 298,555
December 31, 2009				
U.S. Treasury and Agency Securities	\$ 5,000	\$ —	(30)	\$ 4,970
Obligations of State and Political Subdivisions	21,511	931	(64)	22,378
Mortgage-backed Securities - Residential	214,591	7,065	(404)	221,252
Equity Securities	2,818	13	(491)	2,340
Total	\$ 243,920	\$ 8,009	\$ (989)	\$ 250,940

Equity securities that do not have readily determinable fair values are included in the above totals, are carried at historical cost and are evaluated for impairment on a periodic basis. All mortgage-backed securities in the above table are residential mortgage-backed securities and guaranteed by government sponsored entities.

The carrying amount, unrecognized gains and losses and fair value of Securities Held-to-Maturity at June 30, 2010 and December 31, 2009, were as follows:

	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Securities Held-to-Maturity:				
June 30, 2010				