

1ST SOURCE CORP
Form 10-Q
October 21, 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 September 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 0-6233

(Exact name of registrant as specified in its charter)

INDIANA
(State or other jurisdiction of
incorporation or organization)

35-1068133
(I.R.S. Employer Identification
No.)

100 North Michigan Street South Bend, IN 46614
(Address of principle executive offices) (Zip Code)

(574) 235-2000
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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,

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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. (Check one):

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input type="radio"/>

(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

Number of shares of common stock outstanding as of October 15, 2010 – 24,203,450 shares

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1st SOURCE CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited - Dollars in thousands)

	September 30, 2010	December 31, 2009
ASSETS		
Cash and due from banks	\$60,395	\$72,872
Federal funds sold and interest bearing deposits with other banks	79,082	141,166
Investment securities available-for-sale (amortized cost of \$848,409 and \$893,439 at September 30, 2010 and December 31, 2009, respectively)	874,514	901,638
Other investments	21,012	21,012
Trading account securities	125	125
Mortgages held for sale	114,947	26,649
Loans and leases - net of unearned discount		
Commercial and agricultural loans	535,874	546,222
Auto, light truck and environmental equipment	397,297	349,741
Medium and heavy duty truck	174,459	204,545
Aircraft financing	620,996	617,384
Construction equipment financing	304,035	313,300
Loans secured by real estate	979,442	952,223
Consumer loans	100,076	109,735
Total loans and leases	3,112,179	3,093,150
Reserve for loan and lease losses	(89,509)	(88,236)
Net loans and leases	3,022,670	3,004,914
Equipment owned under operating leases, net	84,430	97,004
Net premises and equipment	36,133	37,907
Goodwill and intangible assets	89,287	90,222
Accrued income and other assets	149,718	148,591
Total assets	\$4,532,313	\$4,542,100
LIABILITIES		
Deposits:		
Noninterest bearing	\$495,778	\$450,608
Interest bearing	3,070,416	3,201,856
Total deposits	3,566,194	3,652,464
Federal funds purchased and securities sold under agreements to repurchase	145,887	123,787
Other short-term borrowings	26,337	26,323
Long-term debt and mandatorily redeemable securities	34,987	19,761
Subordinated notes	89,692	89,692
Accrued expenses and other liabilities	72,893	59,753
Total liabilities	3,935,990	3,971,780
SHAREHOLDERS' EQUITY		
Preferred stock; no par value		

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Authorized 10,000,000 shares; issued 111,000 at September 30, 2010, and at December 31, 2009	105,917	104,930
Common stock; no par value		
Authorized 40,000,000 shares; issued 25,643,506 at September 30, 2010, and at December 31, 2009	350,278	350,269
Retained earnings	155,633	142,407
Cost of common stock in treasury (1,440,056 shares at September 30, 2010, and 1,532,483 shares at December 31, 2009)	(31,723)	(32,380)
Accumulated other comprehensive income	16,218	5,094
Total shareholders' equity	596,323	570,320
Total liabilities and shareholders' equity	\$4,532,313	\$4,542,100

The accompanying notes are a part of the consolidated financial statements.

1st SOURCE CORPORATION
CONSOLIDATED STATEMENTS
OF INCOME

(Unaudited - Dollars in thousands,
except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Interest income:				
Loans and leases	\$ 43,722	\$ 43,436	\$ 129,091	\$ 132,507
Investment securities, taxable	4,931	4,357	15,611	12,600
Investment securities, tax-exempt	1,369	1,651	4,258	5,046
Other	219	297	743	894
Total interest income	50,241	49,741	149,703	151,047
Interest expense:				
Deposits	10,790	15,460	34,768	49,662
Short-term borrowings	219	265	613	909
Subordinated notes	1,648	1,648	4,942	4,942
Long-term debt and mandatorily redeemable securities	400	322	1,045	853
Total interest expense	13,057	17,695	41,368	56,366
Net interest income	37,184	32,046	108,335	94,681
Provision for loan and lease losses	5,578	6,469	15,764	22,741
Net interest income after provision for loan and lease losses	31,606	25,577	92,571	71,940
Noninterest income:				
Trust fees	3,870	3,782	11,677	11,473
Service charges on deposit accounts	4,918	5,402	14,813	15,367
Mortgage banking income	2,549	965	3,751	6,874
Insurance commissions	1,180	1,022	3,706	3,614
Equipment rental income	6,495	6,347	19,912	18,896
Other income	2,656	2,022	8,357	6,613
Investment securities and other investment gains	1,083	716	2,059	673
Total noninterest income	22,751	20,256	64,275	63,510
Noninterest expense:				
Salaries and employee benefits	18,980	18,425	56,638	55,340
Net occupancy expense	2,200	2,221	6,626	7,095
Furniture and equipment expense	3,227	3,241	9,223	10,487
Depreciation - leased equipment	5,173	5,021	15,841	15,065
Professional fees	1,563	1,020	4,495	2,897
Supplies and communication	1,387	1,473	4,094	4,468
FDIC and other insurance	1,420	1,582	4,761	6,851
	845	655	2,292	1,934

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Business development and marketing expense

Loan and lease collection and repossession expense	1,449	1,147	5,822	2,776
Other expense	1,566	1,785	4,777	5,646
Total noninterest expense	37,810	36,570	114,569	112,559
Income before income taxes	16,547	9,263	42,277	22,891
Income tax expense	5,344	2,530	13,600	3,624
Net income	11,203	6,733	28,677	19,267
Preferred stock dividends and discount accretion	(1,721)	(1,701)	(5,149)	(4,710)
Net income available to common shareholders	\$ 9,482	\$ 5,032	\$ 23,528	\$ 14,557
Per common share				
Basic net income per common share	\$ 0.39	\$ 0.21	\$ 0.96	\$ 0.60
Diluted net income per common share	\$ 0.39	\$ 0.21	\$ 0.96	\$ 0.60
Dividends	\$ 0.15	\$ 0.15	\$ 0.45	\$ 0.43
Basic weighted average common shares outstanding	24,247,236	24,164,884	24,247,468	24,166,887
Diluted weighted average common shares outstanding	24,253,883	24,212,042	24,254,026	24,215,542

The accompanying notes are a part of the consolidated financial statements.

1st SOURCE
CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS'
EQUITY

(Unaudited - Dollars in thousands, except
per share amounts)

	Total	Preferred Stock	Common Stock	Retained Earnings	Cost of Common Stock in Treasury	Accumulated Other Comprehensive Income (Loss), Net
Balance at January 1, 2009	\$ 453,664	\$ -	\$ 342,982	\$ 136,877	\$ (32,019)	\$ 5,824
Comprehensive Income, net of tax:						
Net Income	19,267	-	-	19,267	-	-
Change in unrealized appreciation of available-for-sale securities, net of tax	3,813	-	-	-	-	3,813
Total Comprehensive Income	23,080	-	-	-	-	-
Issuance of 83,402 common shares under stock based compensation awards, including related tax effects	1,663	-	-	725	938	-
Cost of 52,876 shares of common stock acquired for treasury	(862)				(862)	
Issuance of preferred stock	103,725	103,725	-	-	-	-
Preferred stock discount accretion	-	887		(887)		
Issuance of warrants to purchase common stock	7,275	-	7,275	-	-	-
Preferred stock dividend (paid and/or accrued)	(3,823)	-	-	(3,823)	-	-
Common stock dividend (\$0.43 per share)	(10,401)	-	-	(10,401)	-	-
Stock based compensation	9	-	9	-	-	-
Balance at September 30, 2009	\$ 574,330	\$ 104,612	\$ 350,266	\$ 141,758	\$ (31,943)	\$ 9,637

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Balance at January 1, 2010	\$ 570,320	\$ 104,930	\$ 350,269	\$ 142,407	\$ (32,380)	\$ 5,094
Comprehensive Income, net of tax:						
Net Income	28,677	-	-	28,677	-	-
Change in unrealized appreciation of available-for-sale securities, net of tax	11,124	-	-	-	-	11,124
Total Comprehensive Income	39,801	-	-	-	-	-
Issuance of 187,354 common shares under stock based compensation awards, including related tax effects	2,871	-	-	636	2,235	-
Cost of 94,927 shares of common stock acquired for treasury	(1,578)	-	-	-	(1,578)	-
Preferred stock discount accretion	-	987	-	(987)	-	-
Preferred stock dividend (paid and/or accrued)	(4,163)	-	-	(4,163)	-	-
Common stock dividend (\$0.45 per share)	(10,937)	-	-	(10,937)	-	-
Stock based compensation	9	-	9	-	-	-
Balance at September 30, 2010	\$ 596,323	\$ 105,917	\$ 350,278	\$ 155,633	\$ (31,723)	\$ 16,218

The accompanying notes are a part of the consolidated financial statements.

1st SOURCE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited - Dollars in thousands)

	Nine Months Ended September 30,	
	2010	2009
Operating activities:		
Net income	\$28,677	\$19,267
Adjustments to reconcile net income to net cash (used) provided by operating activities:		
Provision for loan and lease losses	15,764	22,741
Depreciation of premises and equipment	3,103	3,515
Depreciation of equipment owned and leased to others	15,841	15,065
Amortization of investment security premiums and accretion of discounts, net	1,232	4,477
Amortization of mortgage servicing rights	2,277	2,517
Mortgage servicing asset impairment (recovery)	821	(1,793)
Deferred income taxes	(3,800)	3,460
Investment securities and other investment gains	(2,059)	(673)
Originations/purchases of loans held for sale, net of principal collected	(299,298)	(512,286)
Proceeds from the sales of loans held for sale	215,678	522,780
Net gain on sale of loans held for sale	(4,678)	(3,170)
Change in trading account securities	-	(17)
Change in interest receivable	795	1,352
Change in interest payable	664	2,173
Change in other assets	(4,084)	(8,109)
Change in other liabilities	9,495	4,249
Other	616	