

CENTRUE FINANCIAL CORP

Form 10-Q

May 13, 2005

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

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**FORM 10-Q**

(Mark One)

☒ **Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended March 31, 2005.**

or

☐ **Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_.**

Commission File Number **1-15025**

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**CENTRUE FINANCIAL CORPORATION**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**

**36-3846489**

(State or Other Jurisdiction of Incorporation  
or Organization)

(I.R.S. Employer Identification Number)

**310 South Schuyler Avenue, Kankakee, Illinois**

**60901**

(Address of Principal Executive Offices)

(Zip Code)

**(815) 937-4440**

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(Registrant's telephone number, including area code)

Check whether the Issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).  
Yes ☐ No ☒

As of May 11, 2005, there were 2,437,260 issued and outstanding shares of the Issuer's common stock.

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CENTRUE FINANCIAL CORPORATION

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CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)  
CENTRUE FINANCIAL CORPORATION AND SUBSIDIARY

	<b>March 31 2005</b>	<b>December 31 2004</b>
	(dollars in thousands)	
Assets		
Cash and due from banks	\$ 10,912	\$ 10,760
Interest bearing due from banks and other	3,828	2,526
Cash and cash equivalents	14,740	13,286
Certificates of Deposit	50	149
Investment Securities available-for-sale, at fair value:	117,459	124,763
Loans, net of allowance for loan losses of (\$5,840 and \$5,475)	418,237	418,963
Loans held for sale	318	416
Premises and equipment	19,156	18,267
Goodwill	12,446	12,446
Life insurance contracts	9,201	9,110
Non-marketable equity securities	4,260	4,211
Accrued interest receivable	2,757	2,570
Intangible assets	1,713	1,774
Real estate held for sale	3,156	3,002
Other assets	3,624	2,896
Total Assets	\$ 607,117	\$ 611,853
Liabilities		
Deposits:		
Noninterest bearing	\$ 58,627	\$ 53,919
Interest bearing	407,213	441,858
Total Deposits	465,840	495,777
Short-term borrowings	32,174	14,188
Long-term borrowings	61,990	55,473
Other liabilities	3,801	3,239
Total Liabilities	563,805	568,677
Stockholders' Equity		
Preferred stock, \$.01 par value 500,000 shares authorized and unissued		

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Common stock, \$.01 par value    5,500,000 authorized; 4,200,300 shares issued	42	42
Additional paid-in capital	29,024	28,998
Retained income, partially restricted	45,162	43,925
Accumulated other comprehensive income (loss)	(1,003)	27
Unearned restricted stock (20,400 and 26,400 shares)	(492)	(512)
Treasury stock, (1,822,799 and 1,819,634 shares), at cost	(29,421)	(29,304)
 Total Stockholders' Equity	 43,312	 43,176
 Total Liabilities and Stockholders' Equity	 \$ 607,117	 \$ 611,853

See notes to the accompanying consolidated financial statements

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CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)  
CENTRUE FINANCIAL CORPORATION AND SUBSIDIARY

	<b>Three Months Ended March 31</b>	
	<b>2005</b>	<b>2004</b>
	(dollars in thousands)	
Interest income:		
Loans	\$ 6,185	\$ 6,293
Investments		
Taxable	994	861
Tax-exempt	173	79
Deposits with banks and other	8	75
FHLB stock dividends	49	57
Total interest and dividend income	7,409	7,365
Interest expense:		
Deposits	1,927	2,099
Short-term borrowings	55	
Long-term borrowings	742	693
Total interest expense	2,724	2,792
Net interest income	4,685	4,573
Provision for loan losses	250	300
Net interest income after provision for loan losses	4,435	4,273
Noninterest income:		
Fee income	1,099	892
Net gain on sale of securities	183	89
Net gain (loss) on sale of real estate held for sale	1	(7)
Net gain on sale of loans	131	106
Increase in cash surrender value of life insurance	91	100
Other	60	69
Total noninterest income	1,565	1,249
Noninterest expense:		
Compensation and benefits	2,287	2,263
Occupancy, net	387	394
Furniture and equipment	329	335
Advertising	80	64
Data processing	158	163
Telephone and postage	171	129
Amortization of intangibles	61	46
Legal and professional fees	142	236
Other	660	679
Total noninterest expense	4,275	4,309

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Income before income taxes	1,725	1,213
Income tax expense	488	368
Net income	\$ 1,237	\$ 845
Other comprehensive income (loss):		
Change in unrealized gains on available for sale securities, net of related income taxes	(899)	313
Less: reclassification adjustment for gains included in net income net of related income taxes	131	59
Other comprehensive income (loss)	(1,030)	254
Comprehensive income	\$ 207	\$ 1,099
Basic earnings per share	\$ 0.52	\$ 0.33
Diluted earnings per share	\$ 0.52	\$ 0.33
Dividends per share	\$	\$ .075

See notes to the accompanying consolidated financial statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
CENTRUE FINANCIAL CORPORATION AND SUBSIDIARY

	<b>Three Months Ended March 31</b>	
	<b>2005</b>	<b>2004</b>
	(dollars in thousands)	
Operating activities		
Net income	1,237	\$ 845
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	250	300
Depreciation and amortization	429	381
Net amortization on investments	62	(37)
Amortization of intangibles	61	46
Deferred income taxes	(74)	828
Origination of loans held for sale	(6,162)	(5,985)
Proceeds from sales of loans held for sale	6,391	5,024
Gain on sale of loans	(131)	(106)
Gain on sale of securities, net	(183)	(89)
(Gain) loss on sale of real estate held for sale	(1)	7
Compensation expense for restricted stock	20	98
Increase in cash surrender value of life insurance	(91)	(100)
Federal Home Loan Bank stock dividends	(49)	(53)
Changes in:		
Accrued interest receivable	(187)	(125)
Other assets and other liabilities, net	496	1,104
Net cash provided by operating activities	2,068	2,138
Investing activities		
Purchases of available for sale securities	(9,786)	(28,289)
Proceeds from sales of available for sale securities	11,014	3,948
Proceeds from maturities of available for sale securities	4,578	6,580
Proceeds from maturities of held-to-maturity securities		210
Proceeds from maturities of certificates of deposit	99	
Proceeds from sales of real estate held for sale	42	197
Purchase of Parish Bank and Trust Company		38
Net decrease in loans	281	7,494
Purchases of bank premises and equipment	(1,318)	(249)
Net cash provided by (used) in investing activities	4,910	(10,071)
Financing activities		
Net decrease in deposits	(29,936)	(5,375)
Net change in short term borrowings	17,986	
Proceeds of long-term borrowings	19,905	
Repayments of long-term borrowings	(13,388)	(12,488)
Proceeds from exercise of stock options	61	94
Dividends paid		(195)



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Purchase of treasury stock	(152)	(89)
Net cash used by financing activities	(5,524)	(18,053)
Net increase (decrease) in cash and cash equivalents	1,454	(25,986)
Cash and cash equivalents    beginning of year	13,286	45,605
Cash and cash equivalents    end of period	\$ 14,740	\$ 19,619

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
CENTRUE FINANCIAL CORPORATION AND SUBSIDIARY

	<b>Three Months Ended March 31</b>	
	<b>2005</b>	<b>2004</b>
	(dollars in thousands)	
Supplemental disclosure of cash flow information		
Interest paid	\$ 2,584	\$ 2,602
Income taxes paid		
Real estate acquired in settlement of loans	195	519
Acquisition of Parish Bank and Trust Company:		
Cash paid		\$ 4,400
Cost incurred		123
Total cost		\$ 4,523
Assets acquired:		
Cash and cash equivalents		\$ (4,561)
Certificates of Deposit		(298)
Investments		(8,616)
Nonmarketable equity securities		(85)
Loans, net		(7,342)
Interest receivable		(104)
Premises and equipment		(269)
Goodwill		(1,013)
Intangibles		(774)
Other assets		(72)
Liabilities assumed:		
Non-interest bearing deposits		5,462
Interest-bearing deposits		13,062
Other liabilities		87
Net assets acquired		\$ (4,523)
Cash acquired, net of cash paid		\$ 38

See notes to the accompanying consolidated financial statements

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CENTRUE FINANCIAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2005

Note 1 Basis of Presentation

The consolidated financial statements of Centrue Financial Corporation (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The December 31, 2004 balance sheet has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Operating results for the three-month period ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. For further information, refer to the consolidated financial statements and footnotes thereto included in the annual report for the Company on Form 10-K for the year ended December 31, 2004.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Centrue Bank (the Bank), an Illinois chartered commercial bank. All material intercompany transactions and balances are eliminated. The Company is a financial holding company that engages in its business through its sole subsidiary, in a single significant business segment.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of mortgage servicing rights, goodwill, and real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for loan losses and the valuation of real estate acquired by foreclosure, management obtains independent appraisals for significant properties.

Certain 2004 amounts have been reclassified where appropriate to conform to the consolidated financial statement presentation used in 2005.

The Company has a stock-based employee compensation plan, which is described more fully in the Company's annual report on Form 10-K for the year ended December 31, 2004. The Company accounts for this plan under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the grant date. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standard (SFAS) No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation:



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	<b>Three Months Ended March 31</b>	
	<b>2005</b>	<b>2004</b>
	(dollars in thousands, except per share data)	
Net income, as reported	\$ 1,237	\$ 845
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	49	39
Pro forma net income	\$ 1,188	\$ 806
Earnings per share:		
Basic as reported	\$ 0.52	\$ 0.33
Basic pro forma	0.50	0.31
Diluted as reported	0.52	0.33
Diluted pro forma	0.50	0.31

There have been no options granted during the first quarter of 2005. The fair value of options granted in the first quarter of 2004 have been estimated using the Black-Scholes option-pricing model with the following weighted average assumptions.

	<b>Three Months Ended March 31, 2004</b>
Number of options granted	5,500
Risk-free interest rate	4.06%
Expected life, in years	10
Expected volatility	21.99%
Expected dividend yield	1.25%
Estimated weighted average fair value per option	\$ 9.36

**Note 2 Earnings Per Share**

Basic earnings per share of common stock have been determined by dividing net income for the period by the average number of shares of common stock outstanding. Diluted earnings per share of common stock have been determined by dividing net income for the period by the average number of shares of common stock and common stock equivalents outstanding. Average unearned restricted stock shares have been excluded from common shares outstanding for both basic and diluted earnings per share. Common stock equivalents assume exercise of stock options, and the purchase of treasury stock with the option proceeds at the average market price for the period (when dilutive). The Company has an incentive stock option plan for the benefit of directors, officers and employees. Diluted earnings per share have been determined considering the stock options granted, net of stock options which have been exercised.

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	<b>Three Months Ended March 31</b>	
	<b>2005</b>	<b>2004</b>
	(Dollars in thousands, except per share data)	
Basic		
Net Income	\$ 1,237	\$ 845
Average common shares outstanding	2,359,235	2,580,331
Net income per common share basic	\$ 0.52	\$ 0.33
Diluted		
Net Income	\$ 1,237	\$ 845
Average common shares outstanding	2,359,235	2,580,331
Dilutive potential due to stock options	10,014	9,678
Average common shares outstanding	2,369,249	2,590,009
Net income per common share diluted	\$ 0.52	\$ 0.33

**Note 3 Liquidity and Capital Resources**

The Company maintains a certain level of cash and other liquid assets to fund normal volumes of loan commitments, deposit withdrawals and other obligations. The following table summarizes significant contractual obligations and other commitments at March 31, 2005 (in thousands):

	<b>Time</b>	<b>Long-term</b>	
<b>Years Ended December 31,</b>	<b>Deposits</b>	<b>Borrowings</b>	<b>Total</b>
		<b>(1)</b>	
2005	\$ 142,836	\$ 30,239	\$ 173,075
2006	54,661	9,341	64,002
2007	17,036	11,449	28,485
2008	10,776	156	10,932
2009	4,544	10,165	14,709
thereafter	1,899	640	2,539

Total	\$ 231,752	\$	61,990	\$ 293,742
Financial instruments whose contract amounts represent credit risk:				
Commitment to originate loans				\$ 13,359
Commitments to extend credit				61,295
Standby letters of credit				9,227
Total				\$ 377,623

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- (1) Fixed rate callable borrowings are included in the period of their modified duration rather than in the period in which they are due. Borrowings include fixed rate callable advances of \$5 million and \$2 million maturing in years 2008 and 2011 which are callable in 2005 and variable rate prepayable advances of \$20 million maturing in 2006. Trust preferred debentures of \$10 million mature in both 2032 and 2034, but are callable in 2007 and 2009.

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## Note 4 Investments

Continuous gross unrealized losses of investments in debt and equity securities as of March 31, 2005 (in thousands) which are classified as temporary were as follows:

Description of Securities	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing greater than 12 months		Total	
	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
U.S. government agencies	\$ 64,392	\$ 1,008	\$	\$	\$ 64,392	\$ 1,008
Municipals	13,031	338	8,155	267	21,186	605
Mortgage backed securities	5,048	62	4,142	25	9,190	87
Corporate			1,951	120	1,951	120