

CENTRUE FINANCIAL CORP

Form 10-Q

August 11, 2006

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

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 June 30, 2006.**

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
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)

303 Fountains Parkway, Fairview Heights, Illinois

62208

(Address of Principal Executive Offices)

(Zip Code)

(618) 624-1323

(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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes No

As of August 11, 2006, there were 2,232,889 issued and outstanding shares of the Issuer's common stock.

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CENTRUE FINANCIAL CORPORATION AND SUBSIDIARIES**

	June 30, 2006	December 31, 2005
	(dollars in thousands)	
Assets		
Cash and due from banks	\$ 11,534	\$ 13,566
Interest bearing due from banks and other	3,322	4,692
Cash and cash equivalents	14,856	18,258
Certificates of Deposit	50	50
Investment Securities available-for-sale, at fair value	121,175	125,190
Loans, net of allowance for loan losses of \$4,294 and \$4,486	435,183	428,468
Loans held for sale	3,132	8,373
Premises and equipment	22,678	22,579
Goodwill	14,362	14,362
Life insurance contracts	9,647	9,465
Non-marketable equity securities	5,065	5,059
Accrued interest receivable	3,376	3,248
Intangible assets	1,779	1,922
Real estate held for sale	38	1,709
Other assets	3,162	2,840
Total Assets	\$ 634,503	\$ 641,523
Liabilities		
Deposits:		
Noninterest bearing	\$ 65,526	\$ 67,982
Interest bearing	396,752	439,934
Total Deposits	462,278	507,916
Short-term borrowings	65,112	27,014
Long-term borrowings	60,053	58,723
Other liabilities	3,790	4,767
Total Liabilities	591,233	598,420
Stockholders Equity		
Preferred stock, \$.01 par value	500,000 shares authorized and unissued	
Common stock, \$.01 par value	5,500,000 authorized; 4,200,300 shares issued and outstanding	
	42	42
Additional paid-in capital	30,895	30,460
Retained income, partially restricted	49,023	47,403

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Accumulated other comprehensive (loss)	(2,586)	(1,657)
Treasury stock, (1,967,411 and 1,937,361 shares), at cost	(34,104)	(33,145)
Total Stockholders' Equity	43,270	43,103
Total Liabilities and Stockholders' Equity	\$ 634,503	\$ 641,523

See the accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
	(dollars in thousands, except per share data)			
Interest and dividend income:				
Loans	\$ 7,206	\$ 6,687	\$ 14,286	\$ 12,872
Investments	1,281	1,229	2,573	2,396
Deposits with banks and other	8	15	15	23
FHLB stock dividends	37	56	76	105
Total interest and dividend income	8,532	7,987	16,950	15,396
Interest expense:				
Deposits	2,771	2,155	5,543	4,100
Long-term borrowings	979	866	1,699	1,589
Short-term borrowings	438	69	670	125
Total interest expense	4,188	3,090	7,912	5,814
Net interest income	4,344	4,897	9,038	9,582
Provision for loan losses	75	251	150	501
Net interest income after provision for loan losses	4,269	4,646	8,888	9,081
Noninterest income:				
Fee income	1,632	1,330	2,799	2,429
Net gain on sale of securities			4	183
Net gain (loss) on sale of real estate held for sale	181	(8)	157	(6)
Net gain on sale of loans	324	158	431	289
Increase in cash surrender value of life Insurance contracts	90	87	182	178
Other	100	140	397	198
Total noninterest income	2,327	1,707	3,970	3,271
Noninterest expense:				
Compensation and benefits	2,736	2,688	5,868	5,024
Occupancy, net	483	391	946	778
Furniture and equipment	262	803	544	1,133
Advertising	110	80	200	160
Data processing	462	160	806	318
Telephone and postage	220	153	372	324
Amortization of intangibles	71	72	143	133
Legal and professional fees	191	319	353	461
Other	773	791	1,436	1,450

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Total noninterest expense	5,308	5,457	10,668	9,781
Income before income taxes	1,288	896	2,190	2,571
Income tax expense	350	176	570	664
Net income	\$ 938	\$ 720	\$ 1,620	\$ 1,907
Other comprehensive income:				
Change in unrealized gains or losses on available for sale securities, net of related income taxes	\$ (688)	\$ 577	\$ (927)	\$ (323)
Less: reclassification adjustment for gains included in net income net of related income taxes			2	131
Other comprehensive income (loss)	(688)	577	(929)	(454)
Comprehensive income	\$ 250	\$ 1,297	\$ 691	\$ 1,453
Basic earnings per share	\$ 0.42	\$ 0.30	\$ 0.73	\$ 0.80
Diluted earnings per share	0.42	0.30	0.72	0.80
Dividends per share				
See the accompanying notes to consolidated financial statements.				

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

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	Six Months Ended	
	June 30	
	2006	2005
	(dollars in thousands)	
Operating activities:		
Net income	\$ 1,620	\$ 1,907
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	150	501
Depreciation and amortization	374	1,145
Net amortization on investments	80	111
Amortization of intangibles	143	133
Deferred income taxes	(160)	2,159
Origination of loans held for sale	(18,428)	(14,017)
Proceeds from sales of loans held for sale	19,308	14,015
Gain on sale of loans	(431)	(289)
(Gain) on sale of securities	(4)	(183)
(Gain) loss on sale of real estate held for sale	(157)	6
Compensation expense for restricted stock	386	103
Increase in cash surrender value of life insurance Contracts	(182)	(178)
Federal Home Loan Bank stock dividends	(6)	(120)
Changes in:		
Accrued interest receivable	(128)	(197)
Other assets and other liabilities, net	(659)	456
Net cash provided by operating activities	1,906	5,552
Investing activities:		
Proceeds from maturities of certificates of deposit		99
Purchases of available for sale securities	(2,012)	(9,786)
Proceeds from sales of available for sale securities	2,475	9,015
Proceeds from maturities of available for sale securities	2,067	7,383
Proceeds from sales of real estate held for sale	1,828	1,612
Acquisitions, net		357
Net (increase) decrease in loans	(2,073)	5,776
Purchases of bank premises and equipment	(473)	(2,200)
Net cash provided by investing activities	1,812	12,256
Financing activities:		
Net (decrease) in deposits	(45,638)	(9,612)
Net change in short-term borrowings	38,098	(1,610)
Proceeds from long-term borrowings	5,000	21,405
Repayments of long-term borrowings	(3,670)	(13,742)
Proceeds from exercise of stock options	357	62
Dividends paid		

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Purchase of treasury stock	(1,267)	(2,003)
Net cash used in financing activities	(7,120)	(5,500)
Net increase (decrease) in cash and cash equivalents	(3,402)	12,308
Cash and cash equivalents beginning of period	18,258	13,286
Cash and cash equivalents end of period	\$ 14,856	\$ 25,594

See the accompanying notes to consolidated financial statements.

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

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	Six Months Ended	
	June 30	
	2006	2005
Supplemental disclosure of cash flow information		
Interest paid	\$ 8,734	\$ 4,787
Income taxes paid	290	525
Real estate acquired in settlement of loans		195
Loans held for sale, transferred to loan portfolio at fair market value	4,792	
Acquisitions, net:		
Assets acquired:		
Investments		\$ (6,561)
Loans, net		(12,608)
Loans held for sale		(5,047)
Interest receivable		(109)
Premises and equipment		(2,428)
Goodwill		(1,034)
Intangibles		(424)
Real Estate held for sale		(155)
Non-marketable securities		(639)
Other assets		(108)
Liabilities assumed:		
Deposits		27,757
Other liabilities		56
Treasury Stock issued		1,657
Cash received, net of cash paid		\$ 357

See the accompanying notes to consolidated financial statements.

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CENTRUE FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
June 30, 2006

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, 2005 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 and six-month periods ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. 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, 2005.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Centrue Bank, an Illinois chartered commercial bank (the Bank). All material intercompany transactions and balances are eliminated. The Company is a financial holding company that engages in its business through its subsidiaries, 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 2005 amounts have been reclassified where appropriate to conform to the consolidated financial statement presentation used in 2006.

Effective January 1, 2006, the Company adopted Financial Accounting Standards Board Statement No. 123 (revised 2004), Share-Based Payment SFAS 123R which amends SFAS 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. The Company adopted SFAS 123R using the modified retrospective method. The modified retrospective method requires that compensation cost be recognized beginning with the effective date based on the requirements of SFAS 123R for all share-based payments granted after the effective date and based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123R. The modified retrospective method also allows companies to adjust prior year financials based on the amounts previously reported under the SFAS 123 pro forma disclosures for all prior periods for which SFAS 123 was effective. See Note 6 for a more detailed description of the Company's adoption of SFAS 123R.

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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.

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
	(dollars in thousands, except share and per share data)			
Basic:				
Net income	\$ 938	\$ 720	\$ 1,620	\$ 1,907
Average common shares outstanding	2,222,405	2,379,121	2,227,133	2,369,233
Net income per common share basic	\$.42	\$ 0.30	\$ 0.73	\$ 0.80
Diluted:				
Net income	\$ 938	\$ 720	\$ 1,620	\$ 1,907
Average common shares outstanding	2,222,405	2,379,121	2,227,133	2,369,233
Dilutive potential due to stock options	7,297	5,784	8,407	7,414
Average common shares outstanding	2,229,702	2,384,905	2,235,540	2,376,647
Net income per common share Diluted	\$ 0.42	\$ 0.30	\$ 0.72	\$ 0.80

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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 June 30, 2006 (in thousands):

	Years Ending June 30,	Certificates		
		of Deposit	Long-term Borrowings (1)	Total
2007		\$ 146,588	\$ 28,041	\$ 174,629
2008		48,496	21,149	69,645
2009		7,292	10,156	17,448
2010		5,341	165	5,506
2011		4,563	174	4,737
thereafter			368	368
Total		\$ 212,280	\$ 60,053	\$ 272,333
Financial instruments whose contract amounts represent credit risk:				
Commitment to extend credit				\$ 56,528
Standby letters of credit				1,372
Total				\$ 330,233

(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 two fixed rate callable advances of \$5 million each that mature in years 2008 and 2016 which are callable within the next 12 months and a variable rate, pre-payable

advance of
\$20 million
maturing in
fiscal year 2008.
Trust preferred
debentures of
\$10 million
mature in both
2032 and 2034,
but are callable
in 2007 and
2009.

Note 4 Investments

Continuous gross unrealized losses of investments in debt and equity securities as of June 30, 2006 (in thousands) which are classified as temporary were as follows: