CENTRUE FINANCIAL CORP
Form 10-Q
May 12, 2006

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

þ **Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended March 31, 2006.

or

o **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 þ No o

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 o Accelerated filer o Non-accelerated filer þ

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

As of May 12, 2006, there were 2,232,189 issued and outstanding shares of the Issuer s common stock.

CENTRUE FINANCIAL CORPORATION

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. Consolidated Financial Statements (Unaudited)

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

CENTRUE FINANCIAL CORPORATION AND SUBSIDIARY

	March 31 2006	December 31 2005
	(dollars in thousands)	
Assets		
Cash and due from banks	$ 12,865	$ 13,566
Interest bearing due from banks and other	1,916	4,692
Cash and cash equivalents	14,781	18,258
Certificates of Deposit	50	50
Investment Securities available-for-sale, at fair value:	120,792	125,190
Loans, net of allowance for loan losses of ($4,433 and $4,486)	427,501	428,468
Loans held for sale	2,721	8,373
Premises and equipment	22,634	22,579
Goodwill	14,362	14,362
Life insurance contracts	9,557	9,465
Non-marketable equity securities	5,065	5,059
Accrued interest receivable	3,117	3,248
Intangible assets	1,850	1,922
Real estate held for sale	1,144	1,709
Other assets	2,729	2,840
Total Assets	$ 626,303	$ 641,523
Liabilities		
Deposits:		
Noninterest bearing	$ 67,291	$ 67,982
Interest bearing	425,625	439,934
Total Deposits	492,916	507,916
Short-term borrowings	31,037	27,014
Long-term borrowings	55,422	58,723
Other liabilities	3,993	4,767
Total Liabilities	583,368	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	42	42
Additional paid-in capital	31,002	30,806
Retained income, partially restricted	48,085	47,403
Accumulated other comprehensive loss	(1,898)	(1,657)
Unearned restricted stock (9,900 and 14,750 shares)	(302)	(346)

Treasury stock, (1,966,361 and 1,937,361 shares), at cost	(33,994)	(33,145)
Total Stockholders Equity	42,935	43,103
Total Liabilities and Stockholders Equity	$ 626,303	$ 641,523

See the accompanying notes to consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31	
	2006	**2005**
	(dollars in thousands)	
Interest income:		
Loans	$ 7,080	$ 6,185
Investments		
Taxable	1,122	994
Tax-exempt	170	173
Deposits with banks and other	7	8
FHLB stock dividends	39	49
Total interest and dividend income	8,418	7,409
Interest expense:		
Deposits	2,772	1,927
Short-term borrowings	232	55
Long-term borrowings	720	742
Total interest expense	3,724	2,724
Net interest income	4,694	4,685
Provision for loan losses	75	250
Net interest income after provision for loan losses	4,619	4,435
Noninterest income:		
Fee income	1,382	1,099
Net gain on sale of securities	4	183
Net gain (loss) on sale of real estate held for sale	(24)	1
Net gain on sale of loans	107	131
Increase in cash surrender value of life insurance	92	91
Other	82	60
Total noninterest income	1,643	1,565
Noninterest expense:		
Compensation and benefits	3,132	2,336
Occupancy, net	463	387
Furniture and equipment	282	329
Advertising	90	80
Data processing	344	158
Telephone and postage	152	171
Amortization of intangibles	72	61
Legal and professional fees	162	142
Other	663	660
Total noninterest expense	5,360	4,324

Income before income taxes	902	1,676
Income tax expense	220	488
Net income	$ 682	$ 1,188
Other comprehensive income (loss):		
Change in unrealized losses on available for sale securities, net of related income taxes	(239)	(899)
Less: reclassification adjustment for gains included in net income net of related income taxes	2	131
Other comprehensive loss	(241)	(1,030)
Comprehensive income	$ 441	$ 158
Basic earnings per share	$ 0.31	$ 0.50
Diluted earnings per share	$ 0.30	$ 0.50
Dividends per share	$	$

See notes to the accompanying consolidated financial statements

Table of Contents

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

	Three Months Ended March 31	
	2006	**2005**
	(dollars in thousands)	
Operating activities		
Net income	$ 682	$ 1,188
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	75	250
Depreciation and amortization	418	429
Net amortization on investments	26	62
Amortization of intangibles	72	61
Share based compensation expense	198	69
Deferred income taxes	(80)	(74)
Origination of loans held for sale	(7,225)	(6,162)
Proceeds from sales of loans held for sale	8,192	6,391
Gain on sale of loans	(107)	(131)
Gain on sale of securities, net	(4)	(183)
(Gain) loss on sale of real estate held for sale	24	(1)
Increase in cash surrender value of life insurance	(92)	(91)
Federal Home Loan Bank stock dividends	(6)	(49)
Changes in:		
Accrued interest receivable	131	(187)
Other assets and other liabilities, net	(459)	496
Net cash provided by operating activities	1,845	2,068
Investing activities		
Purchases of available for sale securities		(9,786)
Proceeds from sales of available for sale securities	2,475	11,014
Proceeds from maturities of available for sale securities	1,536	4,578
Proceeds from maturities of certificates of deposit		99
Proceeds from sales of real estate held for sale	541	42
Net decrease in loans	5,684	281
Purchases of bank premises and equipment	(473)	(1,318)
Net cash provided by investing activities	9,763	4,910
Financing activities		
Net (decrease) in deposits	(15,000)	(29,936)
Proceeds of long-term borrowings	19,000	19,705
Repayments of long-term borrowings	(22,301)	(13,388)
Net change in short term borrowings	4,023	18,186
Proceeds from exercise of stock options	348	61
Tax benefits from tax deductions in excess of compensation cost recognized	9	
Purchase of treasury stock	(1,164)	(152)

Net cash used in financing activities	(15,085)	(5,524)
Net increase (decrease) in cash and cash equivalents	(3,477)	1,454
Cash and cash equivalents beginning of year	18,258	13,286
Cash and cash equivalents end of period	$ 14,781	$ 14,740

Table of Contents

	Three Months Ended March 31	
	2006	2005
	(dollars in thousands)	
Supplemental disclosure of cash flow information		
Interest paid	$ 4,036	$ 2,584
Income taxes paid		
Real estate acquired in settlement of loans		195

See the accompanying notes to consolidated financial statements.

6

Table of Contents

CENTRUE FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
March 31, 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-month period ended March 31, 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 (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, deferred taxes, real estate held for sale and the valuation of stock compensation plans. 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

Table of Contents

for which SFAS 123 was effective. See Note 6 for a more detailed description of the Company s adoption of SFAS 123R.

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 March 31	
	2006	**2005**
	(Dollars in thousands)	
Basic		
Net income	$ 682	$ 1,188
Average common shares outstanding	2,233,548	2,359,235
Net income per common share basic	$ 0.31	$ 0.50
Diluted		
Net income	$ 682	$ 1,188
Average common shares outstanding	2,233,548	2,359,235
Dilutive potential due to stock options	9,297	10,014
Average common shares outstanding	2,242,845	2,369,249
Net income per common share diluted	$ 0.30	$ 0.50

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, 2006 (in thousands):

Table of Contents

Years Ended December 31,	Time Deposits	Long-term Borrowings (1)	Total
2006	$ 114,134	$ 13,041	$ 127,175
2007	97,003	31,449	128,452
2008	14,585	156	14,741
2009	5,304	10,165	15,469
2010	5,843	173	6,016
thereafter	1,140	438	1,578
Total	$ 238,009	$ 55,422	$ 293,431

Financial instruments whose contract amounts represent credit risk:	
Commitment to originate loans	$ 1,423
Commitments to extend credit	53,334
Standby letters of credit	3,717
Total	$ 351,905

(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 fiscal year 2008 and 2011 which are callable in 2006 and variable rate prepayable advances of $20 million maturing in

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

Note 4 Investments With Other Than Temporary Impairment

Continuous gross unrealized losses of investments in debt and equity securities as of March 31, 2006 (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	$ 26,125	$ 575	$ 49,648	$ 1,369	$ 75,773	$ 1,944
Municipals	2,339	28	18,811	614	21,150	642
Mortgage backed securities	5,093	70	6,279	262	11,372	332
Corporate Bonds			1,943	113	1,943	113
Total temporarily impaired securities	$ 33,557	$ 673	$ 76,681	$ 2,358	$ 110,238	$ 3,031

The unrealized losses on investment securities that have been in a continuous loss position for more than 12 consecutive months are generally due to changes in interest rates and, as such, are considered to be temporary, by the Company.

Table of Contents

Note 5 Junior Subordinated Debt Owed to Unconsolidated Trusts

The Company issued $10.0 million in each of April 2002 and April 2004 in cumulative trust preferred securities through newly formed special-purpose trusts, Kankakee Capital Trust I (Trust I) and Centrue Statutory Trust II (Trust II). The proceeds of the offerings were invested by the trusts in junior subordinated deferrable interest debentures of Trust I and Trust II. Trust I and Trust II are unconsolidated subsidiaries of the Company, and their sole assets are the junior subordinated deferrable interest debentures. Distributions are cumulative and are payable quarterly at a variable rate of 3.70% and 2.65% over the LIBOR rate, respectively, (at a rate of 8.62% and 7.57% at March 31, 2006) per annum of the stated liquidation amount of $1,000 per preferred security. Interest expense on the trust preferred securities was $397,000 and $299,000 for the three months ended March 31, 2006 and 2005. The obligations of the trusts are fully and unconditionally guaranteed, on a subordinated basis, by the Company. The trust preferred securities for Trust I are mandatorily redeemable upon the maturity of the debentures on April 7, 2032, or to the extent of any earlier redemption of any debentures by the Company, and are callable beginning April 7, 2007. The trust preferred securities for Trust II are mandatorily redeemable upon the maturity of the debentures on April 22, 2034, or to the extent of any earlier redemption of any debentures by the Company, and are callable beginning April 22, 2009. Holders of the capital securities have no voting rights, are unsecured, and rank junior in priority of payment to all of the Company s indebtedness and senior to the Company s capital stock. For regulatory purposes, the trust preferred securities qualify as Tier I capital subject to certain provisions.

NOTE 6 STOCK PLANS

Effective January 1, 2006, the Company adopted SFAS 123R using the modified retrospective method to account for share-based payments to employees and the Company s Board of Directors. In accordance with the modified retrospective method, the Company has adjusted previously reported results to reflect the effect of expensing stock options granted during those periods. The cumulative adjustment associated with the adoption of SFAS 123R increased the Company s deferred tax asset $182,000, surplus $1.1 million and decreased retained earnings $901,000 as of March 31, 2006.

The primary type of share-based payment utilized by the Company is stock options. Stock options are awards which allow the employee to purchase shares of the Company s stock at a fixed price. Stock options are granted at an exercise price equal to the Company stock price at the date of grant. Stock options issued by the Company generally have a contractual term of seven to ten years and vest over five years for non-director options and immediately at the time of issuance for director options. Certain option and share awards provide for accelerated vesting if there is a change in control (as defined by the Plan).

Table of Contents

A summary of option activity under the Plan as of March 31, 2006, and changes during the year then ended is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2006	223,800	$ 25.41		
Granted				
Exercised	(15,000)	23.19		
Forfeited	(500)	27.50		
Outstanding at March 31, 2006	208,300	$ 25.52	7.3	$ 1,700,724
Exercisable at March 31, 2006	98,800	$ 24.11	5.5	$ 743,014

There were no option grants issued by the Company during the three month period ended March 31, 2006 or 2005.

A summary of the status of the Company s nonvested shares as of March 31, 2006, and changes during the three month period ended March 31, 2006, is presented below:

Nonvested Shares	Shares	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2006	120,000	$ 26.58
Granted		
Vested	10,100	23.66
Forfeited	400	27.50
Nonvested at March 31, 2006	109,500	$ 26.84

The Company estimates the fair value of stock option grants using the Black-Scholes valuation model and the key input assumptions are described fully in the disclosure of its critical accounting policies in Item 2 of this report on Form 10-Q. The Company believes that the valuation technique and the approach u