

MidWestOne Financial Group, Inc.
Form 10-Q
May 03, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012

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 000-24630

MIDWESTONE FINANCIAL GROUP, INC.

102 South Clinton Street
Iowa City, IA 52240
(Address of principal executive offices, including Zip Code)

Registrant's telephone number: 319-356-5800

Iowa 42-1206172
(State of Incorporation) (I.R.S. Employer Identification No.)

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. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) 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

As of May 1, 2012, there were 8,468,384 shares of common stock, \$1.00 par value per share, outstanding.

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 Form 10-Q Quarterly Report
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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(dollars in thousands)	March 31, 2012 (unaudited)	December 31, 2011
ASSETS		
Cash and due from banks	\$27,329	\$ 28,155
Interest-bearing deposits in banks	21,631	4,468
Federal funds sold	3,073	—
Cash and cash equivalents	52,033	32,623
Investment securities:		
Available for sale	551,823	534,080
Held to maturity (fair value of \$7,053 as of March 31, 2012 and \$2,042 as of December 31, 2011)	7,017	2,036
Loans held for sale	943	1,955
Loans	981,146	986,173
Allowance for loan losses	(15,679)	(15,676)
Net loans	965,467	970,497
Loan pool participations, net	45,908	50,052
Premises and equipment, net	25,595	26,260
Accrued interest receivable	9,639	10,422
Intangible assets, net	10,053	10,247
Bank-owned life insurance	27,953	27,723
Other real estate owned	3,773	4,033
Assets held for sale	764	—
Deferred income taxes	3,430	3,654
Other assets	21,446	21,662
Total assets	\$1,725,844	\$ 1,695,244
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing demand	\$164,936	\$ 161,287
Interest-bearing checking	536,495	499,905
Savings	79,412	71,823
Certificates of deposit under \$100,000	337,589	346,858
Certificates of deposit \$100,000 and over	226,221	226,769
Total deposits	1,344,653	1,306,642
Federal funds purchased	—	8,920
Securities sold under agreements to repurchase	50,314	48,287
Federal Home Loan Bank borrowings	136,041	140,014
Deferred compensation liability	3,613	3,643
Long-term debt	15,464	15,464
Accrued interest payable	1,641	1,530
Other liabilities	14,848	14,250
Total liabilities	1,566,574	1,538,750
Shareholders' equity:		

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Preferred stock, no par value, with a liquidation preference of \$1,000.00 per share; authorized 500,000 shares; no shares issued and outstanding at March 31, 2012 and December 31, 2011	\$—	\$—
Common stock, \$1.00 par value; authorized 15,000,000 shares at March 31, 2012 and December 31, 2011; issued 8,690,398 shares at March 31, 2012 and December 31, 2011; outstanding 8,464,820 shares at March 31, 2012 and 8,529,530 shares at December 31, 2011	8,690	8,690
Additional paid-in capital	80,187	80,333
Treasury stock at cost, 225,578 shares as of March 31, 2012 and 160,868 shares at December 31, 2011	(3,446)	(2,312)
Retained earnings	70,008	66,299
Accumulated other comprehensive income	3,831	3,484
Total shareholders' equity	159,270	156,494
Total liabilities and shareholders' equity	\$1,725,844	\$ 1,695,244

See accompanying notes to consolidated financial statements.

Table of ContentsMIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)	Three Months Ended March	
(dollars in thousands, except per share amounts)	31,	2011
	2012	2011
Interest income:		
Interest and fees on loans	\$13,080	\$12,800
Interest and discount on loan pool participations	454	354
Interest on bank deposits	10	8
Interest on investment securities:		
Taxable securities	2,752	2,688
Tax-exempt securities	1,219	1,035
Total interest income	17,515	16,885
Interest expense:		
Interest on deposits:		
Interest-bearing checking	829	1,008
Savings	37	59
Certificates of deposit under \$100,000	1,590	2,187
Certificates of deposit \$100,000 and over	773	848
Total interest expense on deposits	3,229	4,102
Interest on federal funds purchased	3	—
Interest on securities sold under agreements to repurchase	55	74
Interest on Federal Home Loan Bank borrowings	803	945
Interest on notes payable	9	10
Interest on long-term debt	168	162
Total interest expense	4,267	5,293
Net interest income	13,248	11,592
Provision for loan losses	579	900
Net interest income after provision for loan losses	12,669	10,692
Noninterest income:		
Trust, investment, and insurance fees	1,253	1,273
Service charges and fees on deposit accounts	767	851
Mortgage origination and loan servicing fees	767	877
Other service charges, commissions and fees	710	679
Bank-owned life insurance income	230	229
Gain on sale and call of available for sale securities	316	—
Gain (loss) on sale of premises and equipment	158	(48)
Total noninterest income	4,201	3,861
Noninterest expense:		
Salaries and employee benefits	5,972	5,870
Net occupancy and equipment expense	1,644	1,617
Professional fees	732	677
Data processing expense	446	450
FDIC insurance expense	310	597
Amortization of intangible assets	194	224
Other operating expense	1,505	1,199
Total noninterest expense	10,803	10,634
Income before income tax expense	6,067	3,919

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Income tax expense	1,635	1,014
Net income	\$4,432	\$2,905
Less: Preferred stock dividends and discount accretion	\$—	\$217
Net income available to common shareholders	\$4,432	\$2,688
Share and Per share information:		
Ending number of shares outstanding	8,464,820	8,624,392
Average number of shares outstanding	8,497,919	8,621,720
Diluted average number of shares	8,528,828	8,682,381
Earnings per common share - basic	\$0.52	\$0.31
Earnings per common share - diluted	0.52	0.31
Dividends paid per common share	0.09	0.05
See accompanying notes to consolidated financial statements.		

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited) (dollars in thousands)	Three Months Ended March 31,	
	2012	2011
Net income	\$4,432	\$2,905
Other comprehensive income, before tax:		
Unrealized holding gains arising during period	859	793
Less: Reclassification adjustment for gains included in net income	(316) —
Unrealized gains on available for sale securities	543	793
Other comprehensive income, before tax	543	793
Income tax expense related to items of other comprehensive income	196	297
Other comprehensive income, net of tax	347	496
Comprehensive income	\$4,779	\$3,401
See accompanying notes to consolidated financial statements.		

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(unaudited) (dollars in thousands, except per share amounts)	Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Balance at December 31, 2010	\$ 15,767	\$ 8,690	\$ 81,268	\$(1,052)	\$ 55,619	\$ (1,826)	\$ 158,466
Net income	—	—	—	—	2,905	—	2,905
Dividends paid on common stock (\$0.05 per share)	—	—	—	—	(431)	—	(431)
Dividends paid on preferred stock	—	—	—	—	(200)	—	(200)
Stock options exercised (1,682 shares)	—	—	(6)	14	—	—	8
Release/lapse of restriction on RSUs (8,600 shares)	—	—	(120)	120	—	—	—
Preferred stock discount accretion	17	—	—	—	(17)	—	—
Stock compensation	—	—	71	—	—	—	71
Other comprehensive income	—	—	—	—	—	496	496
Balance at March 31, 2011	\$ 15,784	\$ 8,690	\$ 81,213	\$(918)	\$ 57,876	\$ (1,330)	\$ 161,315
Balance at December 31, 2011	\$—	\$ 8,690	\$ 80,333	\$(2,312)	\$ 66,299	\$ 3,484	\$ 156,494
Net income	—	—	—	—	4,432	—	4,432
Dividends paid on common stock (\$0.085 per share)	—	—	—	—	(723)	—	(723)
Stock options exercised (11,553 shares)	—	—	(47)	134	—	—	87
Release/lapse of restriction on RSUs (13,170 shares)	—	—	(164)	173	—	—	9
Repurchase of common stock (86,083 shares)	—	—	—	(1,441)	—	—	(1,441)
Stock compensation	—	—	65	—	—	—	65
Other comprehensive income	—	—	—	—	—	347	347
Balance at March 31, 2012	\$—	\$ 8,690	\$ 80,187	\$(3,446)	\$ 70,008	\$ 3,831	\$ 159,270

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (dollars in thousands)	Three Months Ended March	
	31, 2012	2011
Cash flows from operating activities:		
Net income	\$4,432	\$2,905
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	579	900
Depreciation, amortization and accretion	1,377	1,447
(Gain) loss on sale of premises and equipment	(158)	) 48
Deferred income taxes	28	36
Stock-based compensation	74	71
Net gain on sale or call of available for sale securities	(316)) —
Net gain on sale of other real estate owned	(67)	) (90)
Net gain on sale of loans held for sale	(503)	) (288)
Origination of loans held for sale	(32,308)	) (22,625)
Proceeds from sales of loans held for sale	33,823	23,336
Decrease in accrued interest receivable	783	1,068
Increase in cash value of bank-owned life insurance	(230)	) (229)
Decrease in other assets	216	—
Decrease in deferred compensation liability	(30)	) (14)
Increase in accrued interest payable, accounts payable, accrued expenses, and other liabilities	709	4,176
Net cash provided by operating activities	8,409	10,741
Cash flows from investing activities:		
Proceeds from sales of available for sale securities	14,558	—
Proceeds from maturities and calls of available for sale securities	19,134	34,396
Purchases of available for sale securities	(51,162)	) (74,236)
Proceeds from maturities and calls of held to maturity securities	20	361
Purchase of held to maturity securities	(5,000)) —
Decrease (increase) in loans	3,795	(1,291)
Decrease in loan pool participations, net	4,144	3,664
Purchases of premises and equipment	(1,157)	) (183)
Proceeds from sale of other real estate owned	983	200
Proceeds from sale of premises and equipment	645	154
Net cash used in investing activities	(14,040)	) (36,935)
Cash flows from financing activities:		
Net increase in deposits	38,011	43,830
Decrease in federal funds purchased	(8,920)) —
Increase (decrease) in securities sold under agreements to repurchase	2,027	(3,869)
Proceeds from Federal Home Loan Bank borrowings	—	10,000
Repayment of Federal Home Loan Bank borrowings	(4,000)	) (20,000)
Stock options exercised	87	8
Dividends paid	(723)	) (631)
Repurchase of common stock	(1,441)) —
Net cash provided by financing activities	25,041	29,338
Net increase in cash and cash equivalents	19,410	3,144

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Cash and cash equivalents at beginning of period	32,623	20,523
Cash and cash equivalents at end of period	\$52,033	\$23,667
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$1,095	\$5,200
Cash paid during the period for income taxes	\$815	\$143
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	\$656	\$134
Transfer of property to assets held for sale	\$764	\$—
See accompanying notes to consolidated financial statements.		

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MidWestOne Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

1.Principles of Consolidation and Presentation

MidWestOne Financial Group, Inc. (“MidWestOne” or the “Company,” which is also referred to herein as “we,” “our” or “us”) is an Iowa corporation incorporated in 1983, a bank holding company under the Bank Holding Company Act of 1956 and a financial holding company under the Gramm-Leach-Bliley Act of 1999. Our principal executive offices are located at 102 South Clinton Street, Iowa City, Iowa 52240.

The Company owns 100% of the outstanding common stock of MidWestOne Bank, an Iowa state non-member bank chartered in 1934 with its main office in Iowa City, Iowa (the “Bank”), and 100% of the common stock of MidWestOne Insurance Services, Inc., Oskaloosa, Iowa. We operate primarily through our bank subsidiary, MidWestOne Bank, and MidWestOne Insurance Services, Inc., our wholly-owned subsidiary that operates an insurance agency business, through three offices located in central and east-central Iowa.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all the information and notes necessary for complete financial statements in conformity with U.S. generally accepted accounting principles. The information in this Quarterly Report on Form 10-Q is written with the presumption that the users of the interim financial statements have read or have access to the most recent Annual Report on Form 10-K of MidWestOne, which contains the latest audited financial statements and notes thereto, together with Management’s Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2011 and for the year then ended. Management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of March 31, 2012, and the results of operations and cash flows for the three months ended March 31, 2012 and 2011. All significant intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. These estimates are based on information available to management at the time the estimates are made. Actual results could differ from those estimates. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring items, considered necessary for fair presentation. The results for the three months ended March 31, 2012 may not be indicative of results for the year ending December 31, 2012, or for any other period.

All significant accounting policies followed in the preparation of the quarterly financial statements are disclosed in the December 31, 2011 Annual Report on Form 10-K. In the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits in banks, and federal funds sold.

2.Shareholders' Equity

Preferred Stock: The number of authorized shares of preferred stock for the Company is 500,000. None are currently issued or outstanding.

Common Stock: The number of authorized shares of common stock for the Company is 15,000,000.

On October 18, 2011, our Board of Directors amended the Company’s existing \$1.0 million share repurchase program, originally authorized on July 26, 2011, by increasing the remaining amount of authorized repurchases to \$5.0 million, and extending the expiration of the program to December 31, 2012. Pursuant to the program, we may repurchase shares from time to time in the open market, and the method, timing and amounts of repurchase will be solely in the discretion of the Company’s management. The repurchase program does not require us to acquire a specific number of shares. Therefore, the amount of shares repurchased pursuant to the program will depend on several factors, including market conditions, capital and liquidity requirements, and alternative uses for cash available.

3.Earnings per Common Share

Basic earnings per common share computations are based on the weighted average number of shares of common stock actually outstanding during the period. The weighted average number of shares outstanding for the three months ended March 31, 2012 and 2011 was 8,497,919 and 8,621,720, respectively. Diluted earnings per share amounts are computed by dividing net income available to common shareholders by the weighted average number of shares outstanding and all

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dilutive potential shares outstanding during the period. The computation of diluted earnings per share used a weighted average diluted number of shares outstanding of 8,528,828 and 8,682,381 for the three months ended March 31, 2012 and 2011, respectively.

The following table presents the computation of earnings per common share for the respective periods:

(dollars in thousands, except per share amounts)	Three Months Ended	
	March 31, 2012	2011
Weighted average number of shares outstanding during the period	8,497,919	8,621,720
Weighted average number of shares outstanding during the period including all dilutive potential shares	8,528,828	8,682,381
Net income	\$4,432	\$2,905
Preferred stock dividend accrued and discount accretion	—	(217)
Net income available to common stockholders	\$4,432	\$2,688
Earnings per share - basic	\$0.52	\$0.31
Earnings per share - diluted	\$0.52	\$0.31

4. Investment Securities

A summary of investment securities available for sale is as follows:

(in thousands)	As of March 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies and corporations	\$68,943	\$1,045	\$73	\$69,915
State and political subdivisions	214,524	10,390	249	224,665
Mortgage-backed securities and collateralized mortgage obligations	237,913	6,495	7	244,401
Corporate debt securities	11,978	227	989	11,216
Total debt securities	533,358	18,157	1,318	550,197
Other equity securities	1,200	426	—	1,626
Total	\$534,558	\$18,583	\$1,318	\$551,823

(in thousands)	As of December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies and corporations	\$55,851	\$1,142	\$12	\$56,981
State and political subdivisions	209,094	10,222	55	219,261
Mortgage-backed securities and collateralized mortgage obligations	238,641	6,161	—	244,802
Corporate debt securities	12,578	203	1,176	11,605
Total debt securities	516,164	17,728	1,243	532,649
Other equity securities	1,194	237	—	1,431