

GERMAN AMERICAN BANCORP, INC.
Form 10-Q
November 06, 2009

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, 2009

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 001-15877

German American Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Indiana
(State or other jurisdiction of
incorporation or organization)

35-1547518
(I.R.S. Employer
Identification No.)

711 Main Street, Jasper, Indiana 47546
(Address of Principal Executive Offices and Zip Code)

Registrant's telephone number, including area code: (812) 482-1314

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:

Large Accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act):

YES NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at November 2, 2009
Common Stock, no par value	11,077,382

CAUTION REGARDING FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

Information included in or incorporated by reference in this Quarterly Report on Form 10-Q, our other filings with the Securities and Exchange Commission (the "SEC") and our press releases or other public statements, contains or may contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Please refer to the discussions of our forward-looking statements and associated risks in our annual report on Form 10-K for the year ended December 31, 2008, in Item 1, "Business – Forward-Looking Statements and Associated Risks" and our discussion of risk factors in Item 1A, "Risk Factors" of that annual report on Form 10-K, as updated from time to time in our subsequent SEC filings, including by Item 2 of Part I of this Report ("Management's Discussion and Analysis of Financial Condition and Results of Operations") at the conclusion of that Item 2 under the heading "Forward-Looking Statements and Associated Risks," and by Part II, Item 1A of our quarterly report on Form 10-Q for the quarter ended March 31, 2009 ("Risk Factors").

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PART I.

Item 1.

FINANCIAL INFORMATION

Financial Statements

GERMAN AMERICAN BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

(unaudited, dollars in thousands except per share data)

	September 30, 2009	December 31, 2008
ASSETS		
Cash and Due from Banks	\$ 19,137	\$ 17,201
Federal Funds Sold and Other Short-term Investments	40,813	27,791
Cash and Cash Equivalents	59,950	44,992
Securities Available-for-Sale, at Fair Value	203,729	175,840
Securities Held-to-Maturity, at Cost (Fair value of \$2,827 and \$3,358 on September 30, 2009 and December 31, 2008, respectively)	2,773	3,326
Loans Held-for-Sale	8,105	3,166
Loans	889,214	892,511
Less: Unearned Income	(1,765)	(2,075)
Allowance for Loan Losses	(10,788)	(9,522)
Loans, Net	876,661	880,914
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost	10,621	10,621
Premises, Furniture and Equipment, Net	22,237	22,330
Other Real Estate	2,748	1,818
Goodwill	9,655	9,655
Intangible Assets	2,850	3,141
Company Owned Life Insurance	23,985	23,338
Accrued Interest Receivable and Other Assets	10,501	11,687
TOTAL ASSETS	\$ 1,233,815	\$ 1,190,828
LIABILITIES		
Non-interest-bearing Demand Deposits	\$ 147,704	\$ 147,977
Interest-bearing Demand, Savings, and Money Market Accounts	475,506	439,305
Time Deposits	338,128	354,468
Total Deposits	961,338	941,750
FHLB Advances and Other Borrowings	147,199	131,664
Accrued Interest Payable and Other Liabilities	12,888	12,240
TOTAL LIABILITIES	1,121,425	1,085,654
SHAREHOLDERS' EQUITY		
Preferred Stock, \$10 par value; 500,000 shares authorized, no shares issued	—	—
Common Stock, no par value, \$1 stated value; 20,000,000 shares authorized	11,077	11,030
Additional Paid-in Capital	68,687	68,371

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Retained Earnings	27,272	23,019
Accumulated Other Comprehensive Income	5,354	2,754
TOTAL SHAREHOLDERS' EQUITY	112,390	105,174
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,233,815	\$ 1,190,828
End of period shares issued and outstanding	11,077,382	11,030,288

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME
(unaudited, dollars in thousands except per share data)

	Three Months Ended September 30,	
	2009	2008
INTEREST INCOME		
Interest and Fees on Loans	\$ 13,706	\$ 14,414
Interest on Federal Funds Sold and Other Short-term Investments	25	97
Interest and Dividends on Securities:		
Taxable	2,156	2,045
Non-taxable	272	173
TOTAL INTEREST INCOME	16,159	16,729
INTEREST EXPENSE		
Interest on Deposits	3,129	4,893
Interest on FHLB Advances and Other Borrowings	1,549	1,390
TOTAL INTEREST EXPENSE	4,678	6,283
NET INTEREST INCOME	11,481	10,446
Provision for Loan Losses	1,250	838
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,231	9,608
NON-INTEREST INCOME		
Trust and Investment Product Fees	465	618
Service Charges on Deposit Accounts	1,131	1,293
Insurance Revenues	1,254	1,402
Company Owned Life Insurance	200	200
Other Operating Income	595	587
Net Gains on Sales of Loans and Related Assets	411	330
Net Gain (Loss) on Securities	—	(106)
TOTAL NON-INTEREST INCOME	4,056	4,324
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	5,427	5,225
Occupancy Expense	864	807
Furniture and Equipment Expense	668	601
FDIC Premiums	330	39
Data Processing Fees	321	355
Professional Fees	285	365
Advertising and Promotion	266	250
Supplies	138	143
Intangible Amortization	235	222
Other Operating Expenses	1,385	1,152
TOTAL NON-INTEREST EXPENSE	9,919	9,159

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Income before Income Taxes	4,368	4,773
Income Tax Expense	1,177	1,454
NET INCOME	\$ 3,191	\$ 3,319
COMPREHENSIVE INCOME	\$ 5,100	\$ 4,404
Earnings Per Share and Diluted Earnings Per Share	\$ 0.29	\$ 0.30
Dividends Per Share	\$ 0.14	\$ 0.14

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME
(unaudited, dollars in thousands except per share data)

	Nine Months Ended September 30,	
	2009	2008
INTEREST INCOME		
Interest and Fees on Loans	\$ 40,573	\$ 44,299
Interest on Federal Funds Sold and Other Short-term Investments	64	566
Interest and Dividends on Securities:		
Taxable	6,497	5,929
Non-taxable	805	538
TOTAL INTEREST INCOME	47,939	51,332
INTEREST EXPENSE		
Interest on Deposits	10,469	16,404
Interest on FHLB Advances and Other Borrowings	4,231	4,298
TOTAL INTEREST EXPENSE	14,700	20,702
NET INTEREST INCOME	33,239	30,630
Provision for Loan Losses	3,000	3,116
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	30,239	27,514
NON-INTEREST INCOME		
Trust and Investment Product Fees	1,312	1,841
Service Charges on Deposit Accounts	3,271	3,721
Insurance Revenues	4,031	4,612
Company Owned Life Insurance	638	600
Other Operating Income	1,467	1,838
Net Gains on Sales of Loans and Related Assets	1,437	1,058
Net Gain (Loss) on Securities	(34)	179
TOTAL NON-INTEREST INCOME	12,122	13,849
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	16,556	15,670
Occupancy Expense	2,547	2,467
Furniture and Equipment Expense	1,984	1,811
FDIC Premiums	1,550	90
Data Processing Fees	1,022	1,132
Professional Fees	1,297	1,370
Advertising and Promotion	753	776
Supplies	415	417
Intangible Amortization	677	667
Other Operating Expenses	3,432	3,092
TOTAL NON-INTEREST EXPENSE	30,233	27,492
Income before Income Taxes	12,128	13,871

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Income Tax Expense		3,231		4,421
NET INCOME		\$ 8,897	\$	9,450
COMPREHENSIVE INCOME		\$ 11,497	\$	8,866
Earnings Per Share and Diluted Earnings Per Share		\$ 0.81	\$	0.85
Dividends Per Share		\$ 0.42	\$	0.42

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, dollars in thousands)

	Nine Months Ended September 30,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 8,897	\$ 9,450
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Net Accretion on Securities	(177)	(674)
Depreciation and Amortization	2,748	2,526
Loans Originated for Sale	(126,278)	(83,650)
Proceeds from Sales of Loans Held-for-Sale	122,639	85,412
Loss in Investment in Limited Partnership	109	150
Provision for Loan Losses	3,000	3,116
Gain on Sale of Loans , Net	(1,437)	(1,058)
Gain on Securities, Net	—	(529)
Loss on Sales of Other Real Estate and Repossessed Assets	328	16
Loss / (Gain) on Disposition and Impairment of Premises and Equipment	11	(17)
Other-than-temporary Impairment on Securities	34	350
Increase in Cash Surrender Value of Company Owned Life Insurance	(647)	(611)
Equity Based Compensation	356	6
Change in Assets and Liabilities:		
Interest Receivable and Other Assets	2,665	(17,814)
Interest Payable and Other Liabilities	(2,129)	23
Net Cash from Operating Activities	10,119	(3,304)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Maturities of Securities Available-for-Sale	30,673	44,897
Proceeds from Sales of Securities Available-for-Sale	379	34,884
Purchase of Securities Available-for-Sale	(54,873)	(79,563)
Proceeds from Maturities of Securities Held-to-Maturity	554	974
Purchase of Loans	(20,666)	(22,052)
Proceeds from Sales of Loans	16,913	3,150
Loans Made to Customers, Net of Payments Received	3,264	(4,894)
Proceeds from Sales of Other Real Estate	457	670
Property and Equipment Expenditures	(2,008)	(1,984)
Proceeds from Sales of Property and Equipment	4	58
Acquire Insurance Customer List	(386)	—
Net Cash from Investing Activities	(25,689)	(23,860)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in Deposits	19,632	28,986
Change in Short-term Borrowings	(3,680)	(7,745)
Advances of Long-term Debt	19,260	25,000
Repayments of Long-term Debt	(47)	(3,524)
Issuance of Common Stock	10	—
Employee Stock Purchase Plan	(3)	(46)

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Dividends Paid	(4,644)	(4,633)
Net Cash from Financing Activities	30,528	38,038
Net Change in Cash and Cash Equivalents	14,958	10,874
Cash and Cash Equivalents at Beginning of Year	44,992	27,914
Cash and Cash Equivalents at End of Period	\$ 59,950	\$ 38,788

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009
(unaudited, dollars in thousands except per share data)

Note 1 – Basis of Presentation

German American Bancorp, Inc. operates primarily in the banking industry. The accounting and reporting policies of German American Bancorp, Inc. and its subsidiaries conform to U.S. generally accepted accounting principles. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. All adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the periods reported have been included in the accompanying unaudited consolidated financial statements, and all such adjustments are of a normal recurring nature. Certain prior year amounts have been reclassified to conform with current classifications. It is suggested that these consolidated financial statements and notes be read in conjunction with the financial statements and notes thereto in the German American Bancorp, Inc. December 31, 2008 Annual Report on Form 10-K. These financial statements consider events that occurred through November 6, 2009, the date the financial statements were issued.

Note 2 – Per Share Data

The computations of Earnings per Share and Diluted Earnings per Share are as follows:

	Three Months Ended September 30,	
	2009	2008
Earnings per Share:		
Net Income	\$ 3,191	\$ 3,319
Weighted Average Shares Outstanding	11,075,709	11,029,484
Earnings per Share	\$ 0.29	\$ 0.30
Diluted Earnings per Share:		
Net Income	\$ 3,191	\$ 3,319
Weighted Average Shares Outstanding	11,075,709	11,029,484
Potentially Dilutive Shares, Net	9,059	292
Diluted Weighted Average Shares Outstanding	11,084,768	11,029,776
Diluted Earnings per Share	\$ 0.29	\$ 0.30

Stock options for 99,776 and 248,871 shares of common stock were not considered in computing diluted earnings per share for the quarter ended September 30, 2009 and 2008, respectively, because they were anti-dilutive.

The computations of Earnings per Share and Diluted Earnings per Share are as follows:

	Nine Months Ended September 30,	
	2009	2008
Earnings per Share:		
Net Income	\$ 8,897	\$ 9,450

Weighted Average Shares Outstanding	11,062,053	11,029,484
Earnings per Share	\$ 0.81	\$ 0.85

Diluted Earnings per Share:

Net Income	\$ 8,897	\$ 9,450
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Weighted Average Shares Outstanding	11,062,053	11,029,484
Potentially Dilutive Shares, Net	1,401	233
Diluted Weighted Average Shares Outstanding	11,063,454	11,029,717

Diluted Earnings per Share	\$ 0.81	\$ 0.85
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Stock options for 118,399 and 248,871 shares of common stock were not considered in computing diluted earnings per share for the nine months ended September 30, 2009 and 2008, respectively, because they were anti-dilutive.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009
(unaudited, dollars in thousands except per share data)

Note 3 – Securities

The amortized cost, unrealized gross gains and losses recognized in accumulated other comprehensive income (loss), and fair value of Securities Available-for-Sale at September 30, 2009 and December 31, 2008, were as follows:

Securities Available-for-Sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2009				
U.S. Treasury and Agency Securities	\$ —	—\$	—\$	—
Obligations of State and Political Subdivisions	17,766	1,059	(21)	18,804
U.S. Government Sponsored Entities Mortgage-backed Securities	174,671	7,379	(1)	182,049
Equity Securities	3,207	32	(363)	2,876
Total	\$ 195,644	\$ 8,470	\$ (385)	\$ 203,729
December 31, 2008				
U.S. Treasury and Agency Securities	\$ —	—\$	—\$	—
Obligations of State and Political Subdivisions	16,561	307	—	16,868
U.S. Government Sponsored Entities Mortgage-backed Securities	151,499	4,132	(4)	155,627
Equity Securities	3,620	44	(319)	3,345
Total	\$ 171,680	\$ 4,483	\$ (323)	\$ 175,840

Equity securities that do not have readily determinable fair values are included in the above totals, are carried at historical cost and are evaluated for impairment on a periodic basis. All mortgage-backed securities in the above table are residential mortgage-backed securities.

The carrying amount, unrecognized gains and losses and fair value of Securities Held-to-Maturity at September 30, 2009 and December 31, 2008, were as follows:

Securities Held-to-Maturity:	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
September 30, 2009				
Obligations of State and Political Subdivisions	\$ 2,773	\$ 54	\$ —	2,827
December 31, 2008				
Obligations of State and Political Subdivisions	\$ 3,326	\$ 32	\$ —	3,358

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009
(unaudited, dollars in thousands except per share data)

Note 3 – Securities (continued)

The amortized cost and fair value of Securities at September 30, 2009 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because some issuers have the right to call or prepay certain obligations with or without call or prepayment penalties. Asset-backed, Mortgage-backed and Equity Securities are not due at a single maturity date and are shown separately.

	Amortized Cost	Fair Value
Securities Available-for-Sale:		
Due in one year or less	\$ 1,730	\$ 1,753
Due after one year through five years	1,643	1,671
Due after five years through ten years	2,080	2,267
Due after ten years	12,313	13,113
U. S. Government Sponsored Entities Mortgage-backed Securities	174,671	182,049
Equity Securities	3,207	2,876
Totals	\$ 195,644	\$ 203,729

	Carrying Amount	Fair Value
Securities Held-to-Maturity:		
Due in one year or less	\$ 345	\$ 350
Due after one year through five years	744	761
Due after five years through ten years	1,364	1,393
Due after ten years	320	323
Totals	\$ 2,773	\$ 2,827

Below is a summary of securities with unrealized losses as of September 30, 2009 and December 31, 2008, presented by length of time the securities have been in a continuous unrealized loss position:

At September 30, 2009:	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury and Agency Securities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Obligations of State and Political Subdivisions	1,108	(21)	—	—	1,108	(21)
U.S. Government Sponsored Entities Mortgage-backed Securities	43	(1)	—	—	43	(1)
Equity Securities	1,660	(363)	—	—	1,660	(363)
Total	\$ 2,811	\$ (385)	\$ —	\$ —	\$ 2,811	\$ (385)

At December 31, 2008:	Less than 12 Months		12 Months or More		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized

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	Value	Loss	Value	Loss	Value	Loss
U.S. Treasury and Agency Securities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Obligations of State and Political Subdivisions	—	—	—	—	—	—
U.S. Government Sponsored Entities						
Mortgage-backed Securities	1,253	(2)	617	(2)	1,870	(4)
Equity Securities	1,705	(319)	—	—	1,705	(319)
Total	\$ 2,958	\$ (321)	\$ 617	\$ (2)	\$ 3,575	\$ (323)

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GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009
(unaudited, dollars in thousands except per share data)

Note 3 – Securities (continued)

Securities are written down to fair value when a decline in fair value is not considered temporary. In estimating other-than-temporary losses, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The Company doesn't intend to sell or expect to be required to sell these securities, and the decline in fair value is largely due to changes in market interest rates, therefore, the Company does not consider these securities to be other-than-temporarily impaired. All mortgage-backed securities in the Company's portfolio are guaranteed by government sponsored entities, are investment grade, and are performing as expected.

The Company's equity securities consist of non-controlling investments in other banking organizations. As required by ASC 320, when a decline in fair value below cost is deemed to be other-than-temporary, the unrealized loss must be recognized as a charge to earnings. At September 30, 2009 and December 31, 2008, certain equity securities in the Company's portfolio with fair values below amortized cost were deemed to not be other-than-temporarily impaired due principally to the overall financial condition of the issuers, the near term prospects for the issuers, and the length of time that fair value has been less than cost.

Proceeds from the sales of Available-for-Sale Securities are summarized below:

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Proceeds from Sales and Calls	\$	—\$ 379
Gross Gains on Sales and Calls		—
Income Taxes on Gross Gains		—

Proceeds from the sales of Available-for-Sale Securities are summarized below:

	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Proceeds from Sales and Calls	\$ 18,658	\$ 34,884
Gross Gains on Sales and Calls	244	529
Income Taxes on Gross Gains	83	180

During the three months ended September 30, 2009, the Company did not recognize any other-than-temporary expense on its securities portfolio. During the nine months ended September 30, 2009, the Company recognized other-than-temporary expense of \$34 on its portfolio of non-controlling equity investments in other banking companies. During the quarter ended and nine months ended September 30, 2008, the Company recognized other-than-temporary expense of \$350 on its portfolio of non-controlling equity investments in other banking

organizations.

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GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009
(unaudited, dollars in thousands except per share data)

Note 4 – Loans

Total loans, as presented on the balance sheet, are comprised of the following classifications:

	September 30, 2009	December 31, 2008
Commercial and Industrial Loans	\$ 529,868	\$ 505,191
Agricultural Loans	152,758	159,923
Consumer Loans	119,489	127,343
Residential Mortgage Loans	87,099	100,054
Total Loans	\$ 889,214	\$ 892,511
Less: Unearned Income	(1,765)	(2,075)
Allowance for Loan Losses	(10,788)	(9,522)
Loans, Net	\$ 876,661	\$ 880,914

Information Regarding Impaired Loans:

Impaired Loans with No Allowance for Loan Losses Allocated	\$ 3,397	\$ 1,713
Impaired Loans with Allowance for Loan Losses Allocated	4,317	4,232
Amount of Allowance Allocated to Impaired Loans	1,396	1,797

Note 5 – Allowance for Loan Losses

A summary of the activity in the Allowance for Loan Losses follows:

	September 30, 2009	September 30, 2008
Balance as of January 1	\$ 9,522	\$ 8,044
Provision for Loan Losses	3,000	3,116
Recoveries of Prior Loan Losses	703	505
Loan Losses Charged to the Allowance	(2,437)	(2,307)
Balance as of September 30	\$ 10,788	\$ 9,358

Note 6 – Segment Information

The Company's operations include three primary segments: core banking, trust and investment advisory services, and insurance operations. The core banking segment involves attracting deposits from the general public and using such funds to originate consumer, commercial and agricultural, commercial and agricultural real estate, and residential mortgage loans, primarily in the Company's local markets. The core banking segment also involves the sale of residential mortgage loans in the secondary market. The trust and investment advisory services segment involves providing trust, investment advisory, and brokerage services to customers. The insurance segment offers a full range

of personal and corporate property and casualty insurance products, primarily in the affiliate banks' local markets.

The core banking segment is comprised by the Company's banking subsidiary, German American Bancorp, which operates through 28 retail banking offices. Net interest income from loans and investments funded by deposits and borrowings is the primary revenue for the core-banking segment. The trust and investment advisory services segment's revenues are comprised primarily of fees generated by German American Financial Advisors & Trust Company ("GAFA"). These fees are derived by providing trust, investment advisory, and brokerage services to its customers. The insurance segment consists of German American Insurance, Inc., which provides a full line of personal and corporate insurance products from seven offices; and German American Reinsurance Company, Ltd. ("GARCL"), which reinsures credit insurance products sold by the Company's affiliate banks. Commissions derived from the sale of insurance products are the primary source of revenue for the insurance segment.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009
(unaudited, dollars in thousands except per share data)

Note 6 – Segment Information (continued)

The following segment financial information has been derived from the internal financial statements of German American Bancorp, Inc., which are used by management to monitor and manage the financial performance of the Company. The accounting policies of the three segments are the same as those of the Company. The evaluation process for segments does not include holding company income and expense. Holding company amounts are the primary differences between segment amounts and consolidated totals, and are reflected in the column labeled “Other” below, along with amounts to eliminate transactions between segments.

Three Months Ended
September 30, 2009

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Net Interest Income	\$ 11,917	\$ 4	\$ 20	\$ (460)	\$ 11,481
Net Gains on Sales of Loans and Related Assets	411	—	—	—	411
Net Gain / (Loss) on Securities	—	—	—	—	—
Trust and Investment Product Fees	1	465	—	(1)	465
Insurance Revenues	16	14	1,234	(10)	1,254
Noncash Item:					
Provision for Loan Losses	1,250	—	—	—	1,250
Depreciation and Amortization	700	8	243	—	951
Income Tax Expense	1,460	71	(21)	(333)	1,177
Segment Profit / (Loss)	3,495	105	(35)	(374)	3,191
Segment Assets	1,226,495	2,304	8,418	(3,402)	1,233,815

Three Months Ended
September 30, 2008

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Net Interest Income	\$ 10,603	\$ 8	\$ 17	\$ (182)	\$ 10,446
Net Gains on Sales of Loans and Related Assets	330	—	—	—	330
Net Gain / (Loss) on Securities	244	—	—	(350)	(106)
Trust and Investment Product Fees	1	618	—	(1)	618
Insurance Revenues	8	36	1,370	(12)	1,402
Noncash Item:					
Provision for Loan Losses	838	—	—	—	838
Depreciation and Amortization	639	7	204	—	850
Income Tax Expense	1,720	66	43	(375)	1,454

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Segment Profit / (Loss)	3,482	95	54	(312)	3,319
Segment Assets	1,169,559	2,198	9,817	(2,973)	1,178,601

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GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(unaudited, dollars in thousands except per share data)

Note 6 – Segment Information (continued)

Nine Months Ended
September 30, 2009

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Net Interest Income	\$ 34,116	\$ 9	\$ 48	\$ (934)	\$ 33,239
Net Gains on Sales of Loans and Related Assets	1,437	—	—	—	1,437
Net Gain / (Loss) on Securities	—	—	—	(34)	(34)
Trust and Investment Product Fees	3	1,312	—	(3)	1,312
Insurance Revenues	66	18	3,984	(37)	4,031
Noncash Item:					
Provision for Loan Losses	3,000	—	—	—	3,000
Depreciation and Amortization	2,031	22	695	—	2,748
Income Tax Expense	4,013	27	26	(835)	3,231
Segment Profit / (Loss)	9,319	39	41	(502)	8,897
Segment Assets	1,226,495	2,304	8,418	(3,402)	1,233,815

Nine Months Ended
September 30, 2008

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Net Interest Income	\$ 31,203	\$ 59	\$ 55	\$ (687)	\$ 30,630
Net Gains on Sales of Loans and Related Assets	1,058	—	—	—	1,058
Net Gain / (Loss) on Securities	529	—	—	(350)	179
Trust and Investment Product Fees	4	1,864	—	(27)	1,841
Insurance Revenues	48	42	4,570	(48)	4,612
Noncash Item:					
Provision for Loan Losses	3,116	—	—	—	3,116
Depreciation and Amortization	1,893	21	612	—	2,526
Income Tax Expense	4,746	209	340	(874)	4,421
Segment Profit / (Loss)	9,453	308	548	(859)	9,450
Segment Assets	1,169,559	2,198	9,817	(2,973)	1,178,601

Note 7 – Stock Repurchase Plan

On April 26, 2001 the Company announced that its Board of Directors approved a stock repurchase program for up to 607,754 (as adjusted for subsequent stock dividends) of the outstanding Common Shares of the Company. Shares

may be purchased from time to time in the open market and in large block privately negotiated transactions. The Company is not obligated to purchase any shares under the program, and the program may be discontinued at any time before the maximum number of shares specified by the program is purchased. As of September 30, 2009, the Company had purchased 334,965 (as adjusted for subsequent stock dividends) shares under the program. No shares were purchased under the plan during the nine months ended September 30, 2009.

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Note 8 – Equity Plans and Equity Based Compensation

The Company maintains equity incentive plans under which stock options, restricted stock, and other equity incentive awards can be granted. At September 30, 2009, the Company has reserved 620,144 shares of Common Stock (as adjusted for subsequent stock dividends and subject to further customary anti-dilution adjustments) for the purpose of issuance pursuant to outstanding and future grants of options, restricted stock, and other equity awards to officers, directors and other employees of the Company.

For the nine months ended September 30, 2009 and 2008, the Company granted no options, and accordingly, recorded no stock option expense related to option grants during the three or nine months ended September 30, 2009 and 2008. In addition, there was no unrecognized option expense as all outstanding options were fully vested prior to September 30, 2009 and 2008.

During the quarter and nine months ended September 30, 2009, the Company granted awards of 965 shares and 43,740 shares of restricted stock, respectively. During the quarter and nine months ended September 30, 2008, the Company granted awards of 385 shares and 804 shares of restricted stock, respectively. The expense recorded for the restricted stock grants totaled \$121, net of an income tax benefit of \$73, and \$365, net of an income tax benefit of \$220, during the three and nine months ended September 30, 2009. The expense recorded for the restricted stock grants totaled \$4, net of an income tax benefit of \$3, and \$6, net of an income tax benefit of \$4, during the three and nine months ended September 30, 2008, respectively. Unrecognized expense associated with the restricted stock grants totaled \$129 and \$4 as of September 30, 2009 and 2008, respectively.

The Company maintains an Employee Stock Purchase Plan (a 1999 plan that expired at the end of the most recent plan year in August 2009; a 2009 plan that is substantively the same in all material respects has succeeded the 1999 plan for the annual offering period that commenced in August 2009) whereby eligible employees have the option to purchase the Company's common stock at a discount. The plan year for the Employee Stock Purchase Plan runs from August 17 through August 16 of the subsequent year.

The purchase price of the shares under this Plan is 95% of the fair market value of the Company's common stock as of the last day of the plan year. The 1999 plan provided for the purchase of up to 542,420 shares of common stock, and the 2009 plan provides for the purchase of up to 500,000 shares of common stock. The Company may obtain shares for sale under both the 1999 and 2009 plans by purchases on the open market or from private sources, or by issuing authorized but unissued common shares. Funding for the purchase of common stock is from employee and Company contributions. The Employee Stock Purchase Plan was not considered compensatory and no expense was recorded during the 2007/2008 and 2008/2009 plan years.

Note 9 – Employee Benefit Plans

The Company acquired through previous bank mergers a noncontributory defined benefit pension plan with benefits based on years of service and compensation prior to retirement. The benefits under the plan were suspended in 1998. The following tables represent the components of net periodic benefit cost for the periods presented:

	Three Months Ended September 30,
2009	2008

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Service Cost	\$	—	\$	—
Interest Cost		9		9
Expected Return on Assets		(1)		(3)
Amortization of Transition Amount		—		(1)
Amortization of Prior Service Cost		(1)		—
Recognition of Net (Gain)/Loss		4		5
Net Periodic Benefit Cost	\$	11	\$	10
Loss on Settlements and Curtailments		None		None

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Note 9 – Employee Benefit Plans (continued)

	2009	Nine Months Ended September 30,	
		2008	
Service Cost	\$	—	\$ —
Interest Cost		27	28
Expected Return on Assets		(5)	(9)
Amortization of Transition Amount		—	(1)
Amortization of Prior Service Cost		(2)	(2)
Recognition of Net (Gain)/Loss			