

GERMAN AMERICAN BANCORP, INC.

Form 10-Q

November 08, 2010

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, 2010

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 ☒

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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 1, 2010
Common Shares, no par value	11,104,918

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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, 2009, in Part 1, Item 1, “Business – Forward-Looking Statements and Associated Risks” and our discussion of risk factors in Part 1, 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 (a) Item 1A of Part II of our Quarterly Report on Form 10-Q for our quarter ended June 30, 2010, (b) Item 1A of Part II of this Report and (c) 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.”

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## PART I.

## Item 1.

## FINANCIAL INFORMATION

## Financial Statements

## GERMAN AMERICAN BANCORP, INC.

## CONSOLIDATED BALANCE SHEETS

(unaudited, dollars in thousands except share and per share data)

	September 30, 2010	December 31, 2009
<b>ASSETS</b>		
Cash and Due from Banks	\$ 19,203	\$ 16,052
Federal Funds Sold and Other Short-term Investments	26,112	12,002
Cash and Cash Equivalents	45,315	28,054
Securities Available-for-Sale, at Fair Value	301,070	250,940
Securities Held-to-Maturity, at Cost (Fair value of \$1,630 and \$2,801 on September 30, 2010 and December 31, 2009, respectively)	1,603	2,774
Loans Held-for-Sale	13,627	5,706
Loans	915,210	879,475
Less: Unearned Income	(1,587)	(1,653)
Allowance for Loan Losses	(11,700)	(11,016)
Loans, Net	901,923	866,806
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost	10,621	10,621
Premises, Furniture and Equipment, Net	26,784	22,153
Other Real Estate	2,397	2,363
Goodwill	9,835	9,655
Intangible Assets	2,795	2,618
Company Owned Life Insurance	24,599	24,008
Accrued Interest Receivable and Other Assets	15,415	17,267
<b>TOTAL ASSETS</b>	<b>\$ 1,355,984</b>	<b>\$ 1,242,965</b>
<b>LIABILITIES</b>		
Non-interest-bearing Demand Deposits	\$ 187,363	\$ 155,268
Interest-bearing Demand, Savings, and Money Market Accounts	532,877	484,699
Time Deposits	362,608	329,676
Total Deposits	1,082,848	969,643
FHLB Advances and Other Borrowings	137,173	148,121
Accrued Interest Payable and Other Liabilities	13,090	11,652
<b>TOTAL LIABILITIES</b>	<b>1,233,111</b>	<b>1,129,416</b>
<b>SHAREHOLDERS' EQUITY</b>		
Preferred Stock, no par value; 500,000 shares authorized, no shares issued	—	—
Common Stock, no par value, \$1 stated value; 20,000,000 shares authorized	11,105	11,077
Additional Paid-in Capital	69,089	68,816
Retained Earnings	34,635	29,041

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Accumulated Other Comprehensive Income, Net of Tax	8,044	4,615
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>122,873</b>	<b>113,549</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 1,355,984</b>	<b>\$ 1,242,965</b>
<b>End of period shares issued and outstanding</b>	<b>11,104,918</b>	<b>11,077,382</b>

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
AND COMPREHENSIVE INCOME

(unaudited, dollars in thousands except share and per share data)

	Three Months Ended September 30,	
	2010	2009
<b>INTEREST INCOME</b>		
Interest and Fees on Loans	\$ 13,668	\$ 13,706
Interest on Federal Funds Sold and Other Short-term Investments	12	25
Interest and Dividends on Securities:		
Taxable	2,426	2,156
Non-taxable	249	272
<b>TOTAL INTEREST INCOME</b>	<b>16,355</b>	<b>16,159</b>
<b>INTEREST EXPENSE</b>		
Interest on Deposits	2,642	3,129
Interest on FHLB Advances and Other Borrowings	1,236	1,549
<b>TOTAL INTEREST EXPENSE</b>	<b>3,878</b>	<b>4,678</b>
<b>NET INTEREST INCOME</b>	<b>12,477</b>	<b>11,481</b>
Provision for Loan Losses	1,375	1,250
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>11,102</b>	<b>10,231</b>
<b>NON-INTEREST INCOME</b>		
Trust and Investment Product Fees	348	465
Service Charges on Deposit Accounts	1,053	1,131
Insurance Revenues	1,323	1,254
Company Owned Life Insurance	197	200
Other Operating Income	710	595
Net Gains on Sales of Loans	802	411
Net Gain (Loss) on Securities	—	—
<b>TOTAL NON-INTEREST INCOME</b>	<b>4,433</b>	<b>4,056</b>
<b>NON-INTEREST EXPENSE</b>		
Salaries and Employee Benefits	5,470	5,427
Occupancy Expense	918	864
Furniture and Equipment Expense	619	668
FDIC Premiums	355	330
Data Processing Fees	330	321
Professional Fees	698	285
Advertising and Promotion	350	266
Supplies	158	138
Intangible Amortization	262	235
Other Operating Expenses	1,281	1,385
<b>TOTAL NON-INTEREST EXPENSE</b>	<b>10,441</b>	<b>9,919</b>
<b>Income before Income Taxes</b>	<b>5,094</b>	<b>4,368</b>

Income Tax Expense		1,500		1,177
NET INCOME	\$	3,594	\$	3,191
COMPREHENSIVE INCOME	\$	4,201	\$	5,100
Earnings Per Share and Diluted Earnings Per Share	\$	0.32	\$	0.29
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 share and per share data)

	Nine Months Ended September 30,	
	2010	2009
<b>INTEREST INCOME</b>		
Interest and Fees on Loans	\$ 39,701	\$ 40,573
Interest on Federal Funds Sold and Other Short-term Investments	48	64
Interest and Dividends on Securities:		
Taxable	7,353	6,497
Non-taxable	777	805
<b>TOTAL INTEREST INCOME</b>	<b>47,879</b>	<b>47,939</b>
<b>INTEREST EXPENSE</b>		
Interest on Deposits	7,940	10,469
Interest on FHLB Advances and Other Borrowings	3,898	4,231
<b>TOTAL INTEREST EXPENSE</b>	<b>11,838</b>	<b>14,700</b>
<b>NET INTEREST INCOME</b>	<b>36,041</b>	<b>33,239</b>
Provision for Loan Losses	3,875	3,000
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>32,166</b>	<b>30,239</b>
<b>NON-INTEREST INCOME</b>		
Trust and Investment Product Fees	1,134	1,312
Service Charges on Deposit Accounts	3,074	3,271
Insurance Revenues	4,092	4,031
Company Owned Life Insurance	585	638
Other Operating Income	2,299	1,467
Net Gains on Sales of Loans	1,619	1,437
Net Gain (Loss) on Securities	—	(34)
<b>TOTAL NON-INTEREST INCOME</b>	<b>12,803</b>	<b>12,122</b>
<b>NON-INTEREST EXPENSE</b>		
Salaries and Employee Benefits	16,307	16,556
Occupancy Expense	2,640	2,547
Furniture and Equipment Expense	1,871	1,984
FDIC Premiums	1,043	1,550
Data Processing Fees	1,054	1,022
Professional Fees	1,743	1,297
Advertising and Promotion	892	753
Supplies	599	415
Intangible Amortization	727	677
Other Operating Expenses	3,733	3,432
<b>TOTAL NON-INTEREST EXPENSE</b>	<b>30,609</b>	<b>30,233</b>
<b>Income before Income Taxes</b>	<b>14,360</b>	<b>12,128</b>

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Income Tax Expense		4,107		3,231
NET INCOME	\$	10,253	\$	8,897
COMPREHENSIVE INCOME	\$	13,682	\$	11,497
Earnings Per Share and Diluted Earnings Per Share	\$	0.92	\$	0.80
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,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 10,253	\$ 8,897
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Net (Accretion) Amortization on Securities	694	(177)
Depreciation and Amortization	2,768	2,748
Loans Originated for Sale	(83,298)	(126,278)
Proceeds from Sales of Loans Held-for-Sale	76,996	122,639
Loss in Investment in Limited Partnership	131	109
Provision for Loan Losses	3,875	3,000
Gain on Sale of Loans, net	(1,619)	(1,437)
Loss (Gain) on Sales of Other Real Estate and Repossessed Assets	(234)	328
Loss (Gain) on Disposition and Impairment of Premises and Equipment	(27)	11
Other-than-temporary Impairment on Securities	—	34
Increase in Cash Surrender Value of Company Owned Life Insurance	(591)	(647)
Equity Based Compensation	300	356
Change in Assets and Liabilities:		
Interest Receivable and Other Assets	1,874	2,665
Interest Payable and Other Liabilities	(559)	(2,129)
Net Cash from Operating Activities	10,563	10,119
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Maturities of Securities Available-for-Sale	40,359	30,673
Proceeds from Sales of Securities Available-for-Sale	—	379
Purchase of Securities Available-for-Sale	(85,826)	(54,873)
Proceeds from Maturities of Securities Held-to-Maturity	1,175	554
Purchase of Loans	(496)	(20,666)
Proceeds from Sales of Loans	3,711	16,913
Loans Made to Customers, net of Payments Received	(1,145)	3,264
Proceeds from Sales of Other Real Estate	2,036	457
Property and Equipment Expenditures	(1,994)	(2,008)
Proceeds from Sales of Property and Equipment	505	4
Acquire Bank Branches	855	—
Acquire Insurance Customer List	—	(386)
Net Cash from Investing Activities	(40,820)	(25,689)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Change in Deposits	63,125	19,632
Change in Short-term Borrowings	9,851	(3,680)
Advances in Long-term Debt	—	19,260
Repayments of Long-term Debt	(20,800)	(47)
Issuance of Common Stock	32	10
Employee Stock Purchase Plan	(31)	(3)

Dividends Paid	(4,659)	(4,644)
Net Cash from Financing Activities	47,518	30,528
Net Change in Cash and Cash Equivalents	17,261	14,958
Cash and Cash Equivalents at Beginning of Year	28,054	44,992
Cash and Cash Equivalents at End of Period	\$ 45,315	\$ 59,950
Cash Paid During the Period for		
Interest	\$ 12,071	\$ 15,416
Income Taxes	4,763	3,200
Supplemental Non Cash Disclosures (1)		
Loans Transferred to Other Real Estate	\$ 1,849	\$ 1,713

(1) See Note 11 for non-cash transactions included in the acquisition of bank branches.

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2010  
(unaudited, dollars in thousands except share and 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, 2009 Annual Report on Form 10-K.

Note 2 – Per Share Data

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

	Three Months Ended September 30,	
	2010	2009
Earnings per Share:		
Net Income	\$ 3,594	\$ 3,191
Weighted Average Shares Outstanding	11,104,918	11,075,709
Earnings per Share	\$ 0.32	\$ 0.29
Diluted Earnings per Share:		
Net Income	\$ 3,594	\$ 3,191
Weighted Average Shares Outstanding	11,104,918	11,075,709
Potentially Dilutive Shares, Net	5,943	9,059
Diluted Weighted Average Shares Outstanding	11,110,861	11,084,768
Diluted Earnings per Share	\$ 0.32	\$ 0.29

Stock options for 99,275 and 99,776 shares of common stock were not considered in computing diluted earnings per share for the quarters ended September 30, 2010 and 2009, 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,	
	2010	2009
Earnings per Share:		
Net Income	\$ 10,253	\$ 8,897

Weighted Average Shares Outstanding	11,096,650	11,062,053
Earnings per Share	\$ 0.92	\$ 0.80
Diluted Earnings per Share:		
Net Income	\$ 10,253	\$ 8,897
Weighted Average Shares Outstanding	11,096,650	11,062,053
Potentially Dilutive Shares, Net	5,253	1,401
Diluted Weighted Average Shares Outstanding	11,101,903	11,063,454
Diluted Earnings per Share	\$ 0.92	\$ 0.80

Stock options for 99,275 and 118,399 shares of common stock were not considered in computing diluted earnings per share for the nine months ended September 30, 2010 and 2009, respectively, because they were anti-dilutive.

GERMAN AMERICAN BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2010  
(unaudited, dollars in thousands except share and 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, 2010 and December 31, 2009, were as follows:

Securities Available-for-Sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>September 30, 2010</b>				
U.S. Treasury and Agency Securities	\$ —	\$ —	\$ —	\$ —
Obligations of State and Political Subdivisions	20,495	1,669	—	22,164
Mortgage-backed Securities - Residential	265,375	11,057	(56)	276,376
Equity Securities	2,818	—	(288)	2,530
<b>Total</b>	<b>\$ 288,688</b>	<b>\$ 12,726</b>	<b>\$ (344)</b>	<b>\$ 301,070</b>
<b>December 31, 2009</b>				
U.S. Treasury and Agency Securities	\$ 5,000	\$ —	(30)	\$ 4,970
Obligations of State and Political Subdivisions	21,511	931	(64)	22,378
Mortgage-backed Securities - Residential	214,591	7,065	(404)	221,252
Equity Securities	2,818	13	(491)	2,340
<b>Total</b>	<b>\$ 243,920</b>	<b>\$ 8,009</b>	<b>\$ (989)</b>	<b>\$ 250,940</b>

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 and guaranteed by government sponsored entities.

The carrying amount, unrecognized gains and losses and fair value of Securities Held-to-Maturity at September 30, 2010 and December 31, 2009, were as follows:

Securities Held-to-Maturity:	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
<b>September 30, 2010</b>				
Obligations of State and Political Subdivisions	\$ 1,603	\$ 27	\$ —	1,630
<b>December 31, 2009</b>				
Obligations of State and Political Subdivisions	\$ 2,774	\$ 27	\$ —	2,801

GERMAN AMERICAN BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2010  
(unaudited, dollars in thousands except share and per share data)

## Note 3 – Securities (continued)

The amortized cost and fair value of Securities at September 30, 2010 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. Mortgage-backed and Equity Securities are not due at a single maturity date and are shown separately.

	Amortized Cost	Fair Value
<b>Securities Available-for-Sale:</b>		
Due in one year or less	\$ 414	\$ 421
Due after one year through five years	3,400	3,620
Due after five years through ten years	4,452	4,651
Due after ten years	12,229	13,472
Mortgage-backed Securities - Residential	265,375	276,376
Equity Securities	2,818	2,530
Totals	\$ 288,688	\$ 301,070

	Carrying Amount	Fair Value
<b>Securities Held-to-Maturity:</b>		
Due in one year or less	\$ 175	\$ 177
Due after one year through five years	354	359
Due after five years through ten years	754	770
Due after ten years	320	324
Totals	\$ 1,603	\$ 1,630

Below is a summary of securities with unrealized losses as of September 30, 2010 and December 31, 2009, presented by length of time the securities have been in a continuous unrealized loss position:

At September 30, 2010:	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	—	—	—	—	—	—
Mortgage-backed Securities - Residential	2,881	(56)	—	—	2,881	(56)
Equity Securities	377	(64)	1,800	(224)	2,177	(288)
Total	\$ 3,258	\$ (120)	\$ 1,800	\$ (224)	\$ 5,058	\$ (344)



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At December 31, 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	\$ 4,970	\$ (30)	\$ —	\$ —	\$ 4,970	\$ (30)
Obligations of State and Political Subdivisions	3,419	(64)	—	—	3,419	(64)
Mortgage-backed Securities - Residential	47,726	(403)	40	(1)	47,766	(404)
Equity Securities	1,533	(491)	—	—	1,533	(491)
Total	\$ 57,648	\$ (988)	\$ 40	\$ (1)	\$ 57,688	\$ (989)

GERMAN AMERICAN BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2010  
(unaudited, dollars in thousands except share and 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. As a result of valuations of the Company's equity securities portfolio during 2009, the Company recognized a \$34 pre-tax charge for an other-than-temporary decline in fair value of this portfolio. 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. 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, 2010 and December 31, 2009, certain equity securities in the Company's portfolio with fair values below amortized cost were deemed to not be other-than-temporarily impaired due in large part to the overall financial condition of the issuers which included continued profitability throughout the first nine months of 2010 and during 2009 and that the fair value of the securities has declined due to difficult macroeconomic conditions for equity security valuations of banking organizations. In addition, the length of time that fair value has been less than cost was assessed and it is reasonable to expect that fair value can recover to a level greater than cost in a reasonable period of time. Finally, subsequent to September 30, 2010, the equity securities that have been in an unrealized loss position for more than twelve months have recovered above the Company's cost basis.

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

	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Proceeds from Sales and Calls	\$ —	\$ —
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, 2009	Nine Months Ended September 30, 2009
Proceeds from Sales and Calls	\$ —	\$ 379
Gross Gains on Sales and Calls	—	—

Income Taxes on Gross Gains

—

—

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GERMAN AMERICAN BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2010  
(unaudited, dollars in thousands except share and per share data)

Note 4 – Loans

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

	September 30, 2010	December 31, 2009
Commercial and Industrial Loans	\$ 222,437	\$ 188,962
Commercial Real Estate Loans	342,716	334,255
Agricultural Loans	151,517	156,845
Consumer Loans	117,686	114,736
Residential Mortgage Loans	80,854	84,677
Total Loans	\$ 915,210	\$ 879,475
Less: Unearned Income	(1,587)	(1,653)
Allowance for Loan Losses	(11,700)	(11,016)
Loans, Net	\$ 901,923	\$ 866,806

Information Regarding Impaired Loans:

Impaired Loans with No Allowance for Loan Losses Allocated	\$ 4,245	\$ 1,213
Impaired Loans with Allowance for Loan Losses Allocated	6,425	6,932
Amount of Allowance Allocated to Impaired Loans	1,905	3,024

Note 5 – Allowance for Loan Losses

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

	September 30, 2010	September 30, 2009
Balance as of January 1	\$ 11,016	\$ 9,522
Provision for Loan Losses	3,875	3,000
Recoveries of Prior Loan Losses	572	703
Loan Losses Charged to the Allowance	(3,763)	(2,437)
Balance as of September 30	\$ 11,700	\$ 10,788

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 Company's banking subsidiary's local markets.

The core banking segment is comprised by the Company's banking subsidiary, German American Bancorp, which operates through 30 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. 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., which reinsures credit insurance products sold by the Company's subsidiary bank. Commissions derived from the sale of insurance products are the primary source of revenue for the insurance segment.

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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, 2010

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Net Interest Income	\$ 12,927	\$ 2	\$ 6	\$ (458)	\$ 12,477
Net Gains on Sales of Loans	802	—	—	—	802
Net Gain (Loss) on Securities	—	—	—	—	—
Trust and Investment Product Fees	—	349	—	(1)	348
Insurance Revenues	17	14	1,296	(4)	1,323
Noncash Items:					
Provision for Loan Losses	1,375	—	—	—	1,375
Depreciation and Amortization	726	7	223	—	956
Income Tax Expense	1,931	(63)	(39)	(329)	1,500
Segment Profit (Loss)	4,001	(92)	(50)	(265)	3,594
Segment Assets	1,349,960	2,133	8,058	(4,167)	1,355,984

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	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 Items:					
Provision for Loan Losses	1,250	—	—	—	1,250

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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

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## Note 6 – Segment Information (continued)

Nine Months Ended  
September 30, 2010

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Net Interest Income	\$ 37,369	\$ 6	\$ 23	\$ (1,357)	\$ 36,041
Net Gains on Sales of Loans	1,619	—	—	—	1,619
Net Gain (Loss) on Securities	—	—	—	—	—
Trust and Investment Product Fees	2	1,135	—	(3)	1,134
Insurance Revenues	47	21	4,042	(18)	4,092
Noncash Items:					
Provision for Loan Losses	3,875	—	—	—	3,875
Depreciation and Amortization	2,061	20	687	—	2,768
Income Tax Expense	5,252	(167)	(31)	(947)	4,107
Segment Profit (Loss)	11,242	(249)	(60)	(680)	10,253
Segment Assets	1,349,960	2,133	8,058	(4,167)	1,355,984

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	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 Items:					
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

## 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, 2010, 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, 2010.

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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, 2010, the Company has reserved 657,956 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, 2010 and 2009, 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, 2010 and 2009. In addition, there was no unrecognized option expense as all outstanding options were fully vested prior to September 30, 2010 and 2009.

During the quarter ended September 30, 2010, the Company granted no restricted stock awards. During the three months ended September 30, 2009, the Company granted awards of 965 shares of restricted stock. During the nine months ended September 30, 2010 and 2009, the Company granted awards of 24,178 and 43,740 shares of restricted stock, respectively. The expense recorded for the restricted stock grants totaled \$100 (or \$60, net of an income tax benefit of \$40) and \$300 (or \$181, net of an income tax benefit of \$119) during the three and nine months ended September 30, 2010. The expense recorded for the restricted stock grants totaled \$121 (or \$73, net of an income tax benefit of \$48) and \$356 (or \$215, net of an income tax benefit of \$141) during the three and nine months ended September 30, 2009. Unrecognized expense associated with the restricted stock grants totaled \$100 and \$129 as of September 30, 2010 and 2009, respectively.

The Company maintains an Employee Stock Purchase Plan 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 plan provides for the purchase of up to 500,000 shares of common stock. The Company may obtain shares for sale under the plan 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 2008/2009 and 2009/2010 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,	
	2010	2009
Service Cost	\$ —	\$ —
Interest Cost	8	9

Expected Return on Assets	(1)	(1)
Amortization of Transition Amount	—	—
Amortization of Prior Service Cost	—	(1)
Recognition of Net (Gain) Loss	6	4
Net Periodic Benefit Cost	\$ 13	\$ 11
Loss on Settlements and Curtailments	None	None

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## Note 9 – Employee Benefit Plans (continued)

	Nine Months Ended September 30,	
	2010	2009
Service Cost	\$ —	\$ —
Interest Cost	25	27
Expected Return on Assets	(2)	(5)
Amortization of Transition Amount	—	—
Amortization of Prior Service Cost	(2)	(2)
Recognition of Net (Gain) Loss	19	12
Net Periodic Benefit Cost	\$ 40	\$ 32
Loss on Settlements and Curtailments	None	None

The Company previously disclosed in its financial statements for the year ended December 31, 2009, that it expected to contribute \$75 to the pension plan during the fiscal year ending December 31, 2010. As of September 30, 2010, the Company has contributed \$53 to the pension plan.

## Note 10 – Fair Value

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Impaired Loans: Values for collateral dependent loans are generally based on appraisals obtained from licensed real estate appraisers and in certain circumstances consideration of offers obtained to purchase properties prior to foreclosure. Appraisals for commercial real estate generally use three methods to derive value: cost, sales or market comparison and income approach. The cost method bases value in the cost to replace the current property. Value of market comparison approach evaluates the sales price of similar properties in the same market area. The income approach considers net operating income generated by the property and an investors required return. Adjustments are routinely made in the appraisal process to adjust for differences between the comparable sale and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

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Note 10 – Fair Value (continued)

Other Real Estate: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate (ORE) are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property utilizing similar techniques as discussed above for Impaired Loans, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, impairment loss is recognized.

Loans Held-for-Sale: The fair values of loans held for sale are determined by using quoted prices for a similar asset, adjusted for specific attributes of that loan (Level 2).

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at September 30, 2010 Using Quoted Prices in			
	Carrying Value	Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Treasury and Agency Securities	\$ —	\$ —	\$ —	\$ —
Obligations of State and Political Subdivisions	22,164	—	22,164	—
Mortgage-backed Securities-Residential	276,376	—	276,376	—
Equity Securities	2,530	2,177	—	353
Loans Held-for-Sale	13,627	—	13,627	—

	Fair Value Measurements at December 31, 2009 Using Quoted Prices in			
	Carrying Value	Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Treasury and Agency Securities	\$ 4,970	\$ —	\$ 4,970	\$ —
Obligations of State and Political Subdivisions	22,378	—	22,378	—
Mortgage-backed Securities-Residential	221,252	—	221,252	—
Equity Securities	2,340	1,987	—	353
Loans Held-for-Sale	5,706	—	5,706	—

The table below presents a reconciliation and income statement classification of gains and losses for equity securities that do not have readily determinable fair values and are evaluated for impairment on a periodic basis. These assets were measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period ended September 30, 2010:

Fair Value Measurements  
Using Significant  
Unobservable Inputs  
(Level 3)  
Available-for-Sale  
Securities

Three Months Ended September 30, 2010:		
Balance of Recurring Level 3 Assets at July 1, 2010	\$	353
Sale of Securities		—
Other-than-temporary Impairment Charges Recognized through Net Income		—
Ending Balance, September 30, 2010	\$	353

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## Note 10 – Fair Value (continued)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Available-for-Sale Securities
Nine Months Ended September 30, 2010:	
Balance of Recurring Level 3 Assets at January 1, 2010	\$ 353
Sale of Securities	—
Other-than-temporary Impairment Charges Recognized through Net Income	—
Ending Balance, September 30, 2010	\$ 353

## Assets and Liabilities Measured on a Non-Recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements at September 30, 2010 Using Quoted Prices in Active Markets for Identical Assets or Significant Other Observable Inputs or Significant Unobservable Inputs			
	Carrying Value	(Level 1)	(Level 2)	(Level 3)
Assets:				
Impaired Loans with Specific				
Allocations	\$ 4,520	\$ —	\$ —	\$ 4,520
Other Real Estate	400	—	—	400

	Fair Value Measurements at December 31, 2009 Using Quoted Prices in Active Markets for Identical Assets or Significant Other Observable Inputs or Significant Unobservable Inputs			
	Carrying Value	(Level 1)	(Level 2)	(Level 3)
Assets:				
Impaired Loans with Specific				
Allocations	\$ 3,908	\$ —	\$ —	\$ 3,908
Other Real Estate	507	—	—	507

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$6,425 with a valuation allowance of \$1,905, resulting in an additional provision for loan losses of \$561 and \$1,317 for the three and nine months ended September 30, 2010, respectively. Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$6,932 with a valuation allowance of \$3,024, resulting in an additional provision for loan losses of \$2,632 for the year ended December 31, 2009.



Other Real Estate which is measured at the lower of carrying or fair value less costs to sell, had a carrying amount of \$400 at September 30, 2010. A charge to earnings through Other Operating Income of \$0 and \$100 was included in the three and nine months ended September 30, 2010. Other Real Estate which is measured at the lower of carrying or fair value less costs to sell, had a carrying amount of \$507 at December 31, 2009, resulting in a write-down of \$228 for the year ending December 31, 2009.

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Note 10 – Fair Value (continued)

The estimated fair values of the Company's financial instruments not previously presented are provided in the table below. Not all of the Company's assets and liabilities are considered financial instruments, and therefore are not included in the table. Because no active market exists for a significant portion of the Company's financial instruments, fair value estimates were based on subjective judgments, and therefore cannot be determined with precision.

	September 30, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets:</b>				
Cash and Short-term Investments	\$ 45,315	\$ 45,315	\$ 28,054	\$ 28,054
Securities Held-to-Maturity	1,603	1,630	2,774	2,801
FHLB Stock and Other Restricted Stock	10,621	N/A	10,621	N/A
Loans, Net	897,403	895,310	862,898	870,463
Accrued Interest Receivable	7,053	7,053	6,605	6,605
<b>Financial Liabilities:</b>				
Demand, Savings, and Money Market Deposits	(720,240)	(720,240)	(639,967)	(639,967)
Other Time Deposits	(362,608)	(361,042)	(329,676)	(330,628)
Short-term Borrowings	(44,652)	(44,652)	(34,801)	(34,801)
Long-term Debt	(92,521)	(97,212)	(113,320)	(114,742)
Accrued Interest Payable	(2,059)	(2,059)	(2,292)	(2,292)
<b>Unrecognized Financial Instruments:</b>				
Commitments to Extend Credit	—	—	—	—
Standby Letters of Credit	—	—	—	—
Commitments to Sell Loans	—	—	—	—

The fair value for cash and short-term investments and accrued interest receivable is estimated to be equal to their carrying value. The fair values of securities held to maturity are based on quoted market prices or dealer quotes, if available, or by using quoted market prices for similar instruments. The fair value of loans are estimated by discounting future cash flows using the current rates at which similar loans would be made for the average remaining maturities. It was not practicable to determine the fair value of FHLB stock and other restricted stock due to restrictions placed on its transferability. The fair value of demand deposits, savings accounts, money market deposits, short-term borrowings and accrued interest payable is the amount payable on demand at the reporting date. The fair value of fixed-maturity time deposits and long-term borrowings are estimated using the rates currently offered on these instruments for similar remaining maturities. Commitments to extend credit and standby letters of credit are generally short-term or variable rate with minimal fees charged. These instruments have no carrying value, and the fair value is not significant. The fair value of commitments to sell loans is the cost or benefit of settling the commitments with the counter-party at the reporting date. At September 30, 2010 and December 31, 2009, none of the Company's commitments to sell loans were mandatory, and there is no cost or benefit to settle these commitments.

Note 11 – Mergers and Acquisition Activity

German American Bancorp, the banking subsidiary of the Company, completed the acquisition of two branch offices from Farmers State Bank of Alto Pass, Ill. on May 7, 2010. One of the branches is located in Evansville (Vanderburgh County, Indiana) and the other in adjacent Newburgh (Warrick County, Indiana). Pursuant to the terms of the purchase agreement, Farmers State Bank of Alto Pass, Ill. paid the Company approximately \$368. In accordance with ASC 805, the Company has expensed approximately \$209 of direct acquisition costs and recorded goodwill of \$181 and \$903 of intangible assets. The intangible assets are related to core deposits and are being amortized on an accelerated basis over 10 years. For tax purposes, goodwill of \$181 is deductible on a straight line basis over 15 years. On the date of acquisition, the Company assumed net deposit liabilities valued at approximately \$50.2 million and other liabilities of \$66, acquired a net portfolio of loans valued at \$42.9 million, premises and equipment valued at \$5.2 million and other assets of \$640.

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Note 11 – Mergers and Acquisition Activity (continued)

This acquisition was consistent with the Company's strategy to build a regional presence in Southern Indiana. The acquisition offers the Company the opportunity to increase profitability by introducing existing products and services to the acquired customer base as well as add new customers in the expanded region.

Note 12 – New Accounting Pronouncements

On June 12, 2009, the FASB issued new guidance impacting FASB ASC 860, Transfers and Servicing. The new guidance amends ASC 860, and will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. The new standard was effective January 1, 2010. The adoption of this standard did not have a material effect on the Company's consolidated results of operations or financial position.

On June 12, 2009, the FASB issued new guidance impacting FASB ASC 810-10, Consolidation (Statement No. 167 amends FIN 46(R)). The new guidance replaces the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with a qualitative approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity (VIE) that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. Unlike previous guidance, this Statement requires ongoing reconsideration of whether (1) an entity is a VIE and (2) an enterprise is the primary beneficiary of a VIE. It is expected that the amendments will result in more entities consolidating VIEs that previously were not consolidated. This new guidance will also require additional disclosures about the Company's involvement in variable interest entities. This new guidance was effective January 1, 2010. The adoption of this standard did not have a material effect on the Company's consolidated results of operations or financial position.

Note 13 – Subsequent Events

On October 4, 2010 the Company entered into a definitive agreement to acquire American Community Bancorp, Inc. ("American Community"), through the merger of American Community with and into the Company, and the merger of American Community's sole banking subsidiary, Bank of Evansville, into the Company's subsidiary bank, German American Bancorp. Bank of Evansville operates three banking offices in Evansville, Indiana. American Community's consolidated assets and equity (unaudited) as of September 30, 2010 totaled \$326.0 million and \$24.2 million, respectively, and its consolidated net income (unaudited) totaled \$875 for the nine-month period ended September 30, 2010.

The Company owns approximately 9.2 percent of the outstanding common stock of American Community.

Under the terms of the proposed merger, the shareholders of American Community (other than the Company in respect of its American Community shares) would receive .725 shares of common stock of the Company and \$2.00 of cash for each of their American Community shares. Based on American Community's number of common shares outstanding at the time of entering into the definitive agreement, the Company expects to issue approximately

1,435,000 shares of its common stock, and pay approximately \$3.9 million in cash, for all of the issued and outstanding common shares of American Community that are not currently owned by the Company. In addition, the Company is obligated by the definitive agreement to make cash payments to the holders of compensatory options and the holders of certain warrants issued by American Community (if and to the extent that such options and warrants remain unexercised but are then “in the money” at the time of closing of the merger, based upon the value of the merger consideration to be paid on American Community shares in the merger), which cash payments are expected to total approximately \$2.1 million on a pre-tax basis. These expectations are subject to change and are based upon proforma financial information provided in the Company’s Registration Statement on Form S-4 filed on October 21, 2010.

Completion of the proposed merger is subject to the approval by shareholders of American Community, approval of the appropriate bank regulatory agencies and other terms and conditions. The Company expects (subject to timely satisfaction or waiver of all terms and conditions to closing) that the merger will become effective early in the first quarter of 2011.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

GERMAN AMERICAN BANCORP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

German American Bancorp, Inc. is a financial services holding company based in Jasper, Indiana. The Company's Common Stock is traded on NASDAQ's Global Select Market, under the symbol GABC. The principal subsidiary of German American Bancorp, Inc. is its banking subsidiary, German American Bancorp, which operates through 30 retail banking offices in the twelve contiguous Southern Indiana counties. German American Bancorp owns a trust, brokerage, and financial planning subsidiary, which operates from its banking offices, and a full line property and casualty insurance agency with seven insurance agency offices throughout its market area.

Throughout this Management's Discussion and Analysis, as elsewhere in this report, when we use the term "Company", we will usually be referring to the business and affairs (financial and otherwise) of the Company and its subsidiaries and affiliates as a whole. Occasionally, we will refer to the term "parent company" or "holding company" when we mean to refer to only German American Bancorp, Inc.

This section presents an analysis of the consolidated financial condition of the Company as of September 30, 2010 and December 31, 2009 and the consolidated results of operations for the three and nine months ended September 30, 2010 and 2009. This discussion should be read in conjunction with the consolidated financial statements and other financial data presented elsewhere herein and with the financial statements and other financial data, as well as the Management's Discussion and Analysis of Financial Condition and Results of Operations, included in the Company's December 31, 2009 Annual Report on Form 10-K.

MANAGEMENT OVERVIEW

During the third quarter and first nine months of 2010, the Company achieved a record level of earnings. The Company's third quarter net income totaled \$3,594,000, or \$0.32 per share, representing the highest level of quarterly earnings in the Company's history. This record earnings performance during the third quarter of 2010 was an increase of approximately 13%, from the \$3,191,000, or \$0.29 per share, recorded during the same quarter last year. On a year-to-date basis, 2010 earnings were also a record, increasing to \$10,253,000, or \$0.92 per share, as compared to \$8,897,000, or \$0.80 per share for the first nine months of 2009. The improvement in year-to-date earnings represented an increase of approximately 15%.

In the second quarter of 2010, the Company completed the acquisition of two branches (including their related loan assets and deposit liabilities) of another bank in the Evansville, Indiana banking market, which was a new market for the Company. On October 4, 2010, the Company and American Community Bancorp, Inc. ("American Community") entered into a definitive agreement to merge American Community into the Company. Upon completion of the transaction, the Company anticipates merging American Community's subsidiary bank, Bank of Evansville, into German American's similarly-named subsidiary bank, German American Bancorp. Management believes that this transaction will provide an excellent opportunity for German American to enhance its presence in the Evansville, Indiana market. Upon completion of this transaction, anticipated for early 2011, the Company will have a total of five branch offices in the strategically important Evansville, Indiana banking market.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The financial condition and results of operations for German American Bancorp, Inc. presented in the Consolidated Financial Statements, accompanying Notes to the Consolidated Financial Statements, and selected financial data

appearing elsewhere within this Report, are, to a large degree, dependent upon the Company's accounting policies. The selection of and application of these policies involve estimates, judgments and uncertainties that are subject to change. The critical accounting policies and estimates that the Company has determined to be the most susceptible to change in the near term relate to the determination of the allowance for loan losses, the valuation of securities available for sale, and the valuation allowance on deferred tax assets.

#### Allowance for Loan Losses

The Company maintains an allowance for loan losses to cover probable incurred credit losses at the balance sheet date. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. A provision for loan losses is charged to operations based on management's periodic evaluation of the necessary allowance balance. Evaluations are conducted at least quarterly and more often if deemed necessary. The ultimate recovery of all loans is susceptible to future market factors beyond the Company's control.

The Company has an established process to determine the adequacy of the allowance for loan losses. The determination of the allowance is inherently subjective, as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on other classified loans and pools of homogeneous loans, and consideration of past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors, all of which may be susceptible to significant change. The allowance consists of two components of allocations, specific and general. These two components represent the total allowance for loan losses deemed adequate to cover losses inherent in the loan portfolio.

Commercial and agricultural loans are subject to a standardized grading process administered by an internal loan review function. The need for specific reserves is considered for credits when graded substandard or special mention, or when: (a) the customer's cash flow or net worth appears insufficient to repay the loan; (b) the loan has been criticized in a regulatory examination; (c) the loan is on non-accrual; or, (d) other reasons where the ultimate collectibility of the loan is in question, or the loan characteristics require special monitoring. Specific allowances are established in cases where management has identified significant conditions or circumstances related to an individual credit that we believe indicates the loan is impaired. Specific allocations on impaired loans are determined by comparing the loan balance to the present value of expected cash flows or expected collateral proceeds. Allocations are also applied to categories of loans not considered individually impaired but for which the rate of loss is expected to be greater than historical averages, including those graded substandard or special mention and non-performing consumer or residential real estate loans. Such allocations are based on past loss experience and information about specific borrower situations and estimated collateral values.

General allocations are made for other pools of loans, including non-classified loans, homogeneous portfolios of consumer and residential real estate loans, and loans within certain industry categories believed to present unique risk of loss. General allocations of the allowance are primarily made based on a three-year historical average for loan losses for these portfolios, judgmentally adjusted for economic factors and portfolio trends.

Due to the imprecise nature of estimating the allowance for loan losses, the Company's allowance for loan losses includes a minor unallocated component. The unallocated component of the allowance for loan losses incorporates the Company's judgmental determination of inherent losses that may not be fully reflected in other allocations, including factors such as economic uncertainties, lending staff quality, industry trends impacting specific portfolio segments, and broad portfolio quality trends. Therefore, the ratio of allocated to unallocated components within the total allowance may fluctuate from period to period.

#### Securities Valuation

Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported separately in accumulated other comprehensive income (loss), net of tax. The Company obtains market values from a third party on a monthly basis in order to adjust the securities to fair value. Equity securities that do not have readily determinable fair values are carried at cost. Additionally, when securities are deemed to be other than temporarily impaired a charge will be recorded through earnings; therefore, future changes in the fair value of securities could have a significant impact on the Company's operating results. In determining whether a market value decline is other than temporary, management considers the reason for the decline, the extent of the decline, the duration of the decline and whether the Company intends to sell or believes it will be required to sell the securities prior to recovery. As of September 30, 2010, gross unrealized losses on the securities available-for-sale portfolio totaled approximately \$344,000 and gross unrealized gains totaled approximately \$12,726,000. As of September 30, 2010, held-to-maturity securities had a gross unrecognized gain of approximately \$27,000.

#### Income Tax Expense



Income tax expense involves estimates related to the valuation allowance on deferred tax assets and loss contingencies related to exposure from tax examinations.

A valuation allowance reduces deferred tax assets to the amount management believes is more likely than not to be realized. In evaluating the realization of deferred tax assets, management considers the likelihood that sufficient taxable income of appropriate character will be generated within carryback and carryforward periods, including consideration of available tax planning strategies. Tax related loss contingencies, including assessments arising from tax examinations and tax strategies, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. In considering the likelihood of loss, management considers the nature of the contingency, the progress of any examination or related protest or appeal, the views of legal counsel and other advisors, experience of the Company or other enterprises in similar matters, if any, and management's intended response to any assessment.

## RESULTS OF OPERATIONS

## Net Income:

Net income for the quarter ended September 30, 2010 totaled \$3,594,000, an increase of \$403,000 or 13% from the quarter ended September 30, 2009 net income of \$3,191,000. Net income for the nine months ended September 30, 2010 totaled \$10,253,000, an increase of \$1,356,000 or 15% from the nine months ended September 30, 2009 net income of \$8,897,000.

## Net Interest Income:

Net interest income is the Company's single largest source of earnings, and represents the difference between interest and fees realized on earning assets, less interest paid on deposits and borrowed funds. Several factors contribute to the determination of net interest income and net interest margin, including the volume and mix of earning assets, interest rates, and income taxes. Many factors affecting net interest income are subject to control by management policies and actions. Factors beyond the control of management include the general level of credit and deposit demand, Federal Reserve Board monetary policy, and changes in tax laws.

The following table summarizes net interest income (on a tax-equivalent basis). For tax-equivalent adjustments, an effective tax rate of 34% was used for all periods presented (1).

Average Balance Sheet (Tax-equivalent basis / dollars in thousands)							
	Three Months Ended September 30, 2010				Three Months Ended September 30, 2009		
	Principal Balance	Income / Expense	Yield / Rate		Principal Balance	Income / Expense	Yield / Rate
Assets							
Federal Funds Sold and Other							
Short-term Investments	\$ 25,241	\$ 12	0.19%	\$	36,627	\$ 25	0.27%
Securities:							
Taxable	289,097	2,426	3.36%		191,750	2,156	4.50%
Non-taxable	25,608	378	5.91%		24,263	414	6.81%
Total Loans and Leases (2)	921,687	13,737	5.92%		903,917	13,773	6.05%
Total Interest Earning Assets	1,261,633	16,553	5.22%		1,156,557	16,368	5.63%
Other Assets	103,059				92,448		
Less: Allowance for Loan Losses	(11,233)				(10,619)		
Total Assets	\$ 1,353,459			\$	1,238,386		
Liabilities and Shareholders’ Equity							
Interest-bearing Demand, Savings and Money Market							
Deposits	\$ 523,265	\$ 402	0.30%	\$	481,052	\$ 822	0.68%
Time Deposits	359,466	2,240	2.47%		336,251	2,307	2.72%
FHLB Advances and Other							
Borrowings	154,011	1,236	3.18%		149,602	1,549	4.11%
	1,036,742	3,878	1.48%		966,905	4,678	1.92%

Total Interest-bearing Liabilities			
Demand Deposit Accounts	180,147		147,437
Other Liabilities	14,590		13,893
Total Liabilities	1,231,479		1,128,235
Shareholders' Equity	121,980		110,151
Total Liabilities and Shareholders' Equity	\$ 1,353,459		\$ 1,238,386
Cost of Funds		1.22%	1.61%
Net Interest Income	\$ 12,675		\$ 11,690
Net Interest Margin		4.00%	4.02%

(1) Effective tax rates were determined as though interest earned on the Company's investments in municipal bonds and loans was fully taxable.

(2) Loans held-for-sale and non-accruing loans have been included in average loans.

Net interest income increased \$996,000 or 9% (an increase of \$985,000 or 8% on a tax-equivalent basis) for the quarter ended September 30, 2010 compared with the same quarter of 2009. The net interest margin represents tax-equivalent net interest income expressed as a percentage of average earning assets. The tax equivalent net interest margin for the third quarter of 2010 was 4.00% compared to 4.02% for the third quarter of 2009. The yield on earning assets totaled 5.22% during the quarter ended September 30, 2010 compared to 5.63% in the same period of 2009 while the cost of funds (expressed as a percentage of average earning assets) totaled 1.22% during the quarter ended September 30, 2010 compared to 1.61% in the same period of 2009.

Average earning assets increased by approximately \$105.1 million or 9% during the three months ended September 30, 2010 compared with the same period of 2009. Average loans outstanding increased by \$17.8 million or 2% during the three months ended September 30, 2010 compared with the third quarter of 2009. The average securities portfolio increased approximately \$98.7 million or 46% in the three months ended September 30, 2010 compared with the third quarter of 2009. The key driver of the increased securities portfolio and overall increased average earnings assets was a higher level of average core deposits (core deposits defined as demand deposits - both interest and non-interest bearing, savings, money market and time deposits in denominations of less than \$100,000). During the third quarter of 2010, average core deposits increased \$100.6 million or 11%, compared to the third quarter of 2009.

The increase in average loans and average core deposits during the third quarter of 2010 compared with the third quarter 2009 was positively impacted by the acquisition of the two Evansville area (Indiana) branches on May 7, 2010. On a quarterly average basis, loans related to the acquired branches totaled approximately \$44.4 million during the third quarter of 2010 while average core deposits related to the acquired branches totaled approximately \$45.1 million.

The following table summarizes net interest income (on a tax-equivalent basis). For tax-equivalent adjustments, an effective tax rate of 34% was used for all periods presented (1).

Average Balance Sheet (Tax-equivalent basis / dollars in thousands)							
	Nine Months Ended September 30, 2010				Nine Months Ended September 30, 2009		
	Principal Balance	Income / Expense	Yield / Rate		Principal Balance	Income / Expense	Yield / Rate
Assets							
Federal Funds Sold and Other							
Short-term Investments	\$ 34,168	\$ 48	0.19%	\$	29,840	\$ 64	0.29%
Securities:							
Taxable	258,919	7,353	3.79%		187,037	6,497	4.63%
Non-taxable	26,089	1,178	6.02%		24,096	1,220	6.75%
Total Loans and Leases (2)	900,552	39,907	5.92%		891,519	40,752	6.11%
Total Interest Earning Assets	1,219,728	48,486	5.31%		1,132,492	48,533	5.73%
Other Assets	98,965				91,979		
Less: Allowance for Loan							
Losses	(11,257)				(10,254)		
Total Assets	\$ 1,307,436			\$	1,214,217		
Liabilities and Shareholders' Equity							
Interest-bearing Demand, Savings and Money Market							
Deposits	\$ 504,236	\$ 1,289	0.34%	\$	461,787	\$ 2,505	0.73%
Time Deposits	351,906	6,651	2.53%		342,304	7,964	3.11%
FHLB Advances and Other							
Borrowings	153,414	3,898	3.40%		140,544	4,231	4.02%
Total Interest-bearing							
Liabilities	1,009,556	11,838	1.57%		944,635	14,700	2.08%
Demand Deposit Accounts	165,959				147,324		
Other Liabilities	13,558				13,635		

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Total Liabilities	1,189,073	1,105,594
Shareholders' Equity	118,363	108,623
Total Liabilities and Shareholders' Equity	\$ 1,307,436	\$ 1,214,217
Cost of Funds	1.30%	1.74%
Net Interest Income	\$ 36,648	\$ 33,833
Net Interest Margin	4.01%	3.99%

(1) Effective tax rates were determined as though interest earned on the Company's investments in municipal bonds and loans was fully taxable.

(2) Loans held-for-sale and non-accruing loans have been included in average loans.

Net interest income increased \$2,802,000 or 8% (an increase of \$2,815,000 or 8% on a tax-equivalent basis) for the nine months ended September 30, 2010 compared with the same period of 2009. The tax equivalent net interest margin for the nine months ended September 30, 2010 was 4.01% compared to 3.99% for the nine months ended September 30, 2009. The yield on earning assets totaled 5.31% during the nine months ended September 30, 2010 compared to 5.73% in the same period of 2009 while the cost of funds (expressed as a percentage of average earning assets) totaled 1.30% during the nine months ended September 30, 2010 compared to 1.74% in the same period of 2009.

Average earning assets increased by approximately \$87.2 million or 8% during the nine months ended September 30, 2010 compared with the same period of 2009. Average loans outstanding increased by \$9.0 million or 1% during the nine months ended September 30, 2010 compared with the same period of 2009. The average securities portfolio increased approximately \$73.9 million or 35% in the nine months ended September 30, 2010 compared with the nine months ended September 30, 2009. Similar to the third quarter comparisons, the key driver of the increased securities portfolio and overall increased average earnings assets was a higher level of average core deposits. During the nine months ended September 30, 2010, average core deposits increased \$77.6 million or 9%, compared to the same period of 2009.

The increase in average loans and average core deposits during the nine months ended September 30, 2010 compared with the nine months ended September 30, 2009 was positively impacted by the acquisition of the two Evansville area (Indiana) branches on May 7, 2010. On a year-to-date average basis, loans related to the acquired branches totaled approximately \$23.8 million during the first nine months of 2010 while average core deposits related to the acquired branches totaled approximately \$23.9 million.

The expansion of the Company's net interest income in both the three months and nine months ended September 30, 2010 compared with the same periods of 2009 has been augmented by utilization of interest rate floors on adjustable rate commercial and agricultural loans. As of September 30, 2010, the Company's commercial and agricultural loan portfolio totaled \$716.7 million of which approximately 73% were adjustable rate loans. Of these adjustable rate loans, approximately 83% contain interest rate floors which range predominantly from 4% to 7%. At September 30, 2010, approximately \$283 million of these loans were at their contractual floor.

Also contributing to the expansion of the Company's net interest income in the nine months ended September 30, 2010 compared with the first nine months of 2009 has been the relative liability sensitive nature of the Company's balance sheet. The Company has been able to effectively lower interest rates on its interest-bearing non-maturity deposits while continuing to expand its core deposit base. In addition, a significant level of time deposits matured during the past several quarters allowing the Company to lower its cost of funds of these deposits in a time of historically low interest rates.

#### Provision for Loan Losses:

The Company provides for loan losses through regular provisions to the allowance for loan losses. The provision is affected by net charge-offs on loans and changes in specific and general allocations of the allowance. The provision for loan loss totaled \$1,375,000 during the quarter ended September 30, 2010, an increase of \$125,000 or 10% compared to the provision of \$1,250,000 during the quarter ended September 30, 2009. The provision for loan loss totaled \$3,875,000 during the nine months ended September 30, 2010, an increase of \$875,000 or 29% compared with the provision of \$3,000,000 for the first nine months of 2009.

During the third quarter of 2010, the annualized provision for loan loss represented 0.60% of average loans outstanding compared with 0.55% on an annualized basis of average loans outstanding during the third quarter of 2009. Net charge-offs totaled \$488,000 or 0.21% on an annualized basis of average loans outstanding during the three months ended September 30, 2010 compared with \$757,000 or 0.33% on an annualized basis of average loans outstanding during the same period of 2009. During the nine months ended September 30, 2010, the annualized provision for loan loss represented 0.57% of average loans outstanding compared with 0.45% on an annualized basis of average loans outstanding during the first nine months of 2009. Net charge-offs totaled \$3,191,000 or 0.47% on an annualized basis of average loans outstanding during the nine months ended September 30, 2010 compared with \$1,734,000 or 0.26% on an annualized basis of average loans outstanding during the same period of 2009. The elevated level of net charge-offs during the first nine months of 2010 was largely the result of the disposition of three commercial real estate loan relationships during the first half of 2010. The resulting net charge-offs of these three relationships totaled approximately \$2.5 million, a significant portion of which had been allocated in prior periods.

The provision for loan losses made during the quarter ended and nine months ended September 30, 2010 was made at a level deemed necessary by management to absorb estimated, probable incurred losses in the loan portfolio. A detailed evaluation of the adequacy of the allowance for loan losses is completed quarterly by management, the results of which are used to determine provision for loan losses. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors.

# Non-interest Income:

During the quarter ended September 30, 2010, non-interest income increased approximately 9% from the third quarter of 2009.

Non-interest Income (\$ in thousands)	Three Months Ended September 30,		Change from Prior Period	
	2010	2009	Amount Change	Percent Change
Trust and Investment Product Fees	\$ 348	\$ 465	\$ (117)	-25%
Service Charges on Deposit Accounts	1,053	1,131	(78)	-7%
Insurance Revenues	1,323	1,254	69	6%
Company Owned Life Insurance	197	200	(3)	-2%
Other Operating Income	710	595	115	19%
Subtotal	3,631	3,645	(14)	n/m
Net Gains on Sales of Loans	802	411	391	95%
Net Gain (Loss) on Securities	—	—	—	n/m
Total Non-interest Income	\$ 4,433	\$ 4,056	\$ 377	9%

n/m = not meaningful

Trust and investment product fees declined by 25% during the third quarter of 2010 compared with the third quarter of 2009 due primarily to lower retail brokerage revenues. Deposit service charges and fees declined 7% during the third quarter of 2010 compared with the third quarter of 2009 due primarily to less customer utilization of the Company's overdraft protection program. The implementation of Regulation E during August of 2010 had minimal impact on deposit service charges and fees based on the Company's internal analysis. Other operating income increased \$115,000 or 19% during the third quarter of 2010 compared with the same period of 2009 due primarily to a higher level of net interchange revenues.

The net gain on sales of loans increased \$391,000 or 95% due to strong residential mortgage loan production that has been sold in the secondary market and improved pricing on those loans sold and those loans held for sale. Loans sales totaled \$39.6 million during the third quarter of 2010 compared to \$50.4 million during the third quarter of 2009.

During nine months ended September 30, 2010, non-interest income increased approximately 6% over the first nine months of 2009.

Non-interest Income (\$ in thousands)	Nine Months Ended September 30,		Change from Prior Period	
	2010	2009	Amount Change	Percent Change
Trust and Investment Product Fees	\$ 1,134	\$ 1,312	\$ (178)	-14%
Service Charges on Deposit Accounts	3,074	3,271	(197)	-6%
Insurance Revenues	4,092	4,031	61	2%
Company Owned Life Insurance	585	638	(53)	-8%
Other Operating Income	2,299	1,467	832	57%
Subtotal	11,184	10,719	465	4%
Net Gains on Sales of Loans	1,619	1,437	182	13%
Net Gain (Loss) on Securities	—	(34)	34	100%
Total Non-interest Income	\$ 12,803	\$ 12,122	\$ 681	6%



Trust and investment product fees declined by 14% during the nine months ended September 30, 2010 compared with the same period of 2009 due primarily to lower retail brokerage revenues. Deposit service charges and fees declined 6% during the nine months ended September 30, 2010 compared with the first nine months of 2009 due primarily to less customer utilization of the Company's overdraft protection program.

Other operating income increased \$832,000 or 57% during the nine months ended September 30, 2010 compared with the same period of 2009. The increase was attributable to the gain on sale of a commercial other real estate owned property combined with net write-downs on other real estate owned properties during the nine months ended September 30, 2009. In addition, a higher level of net interchange revenues contributed to the increased level of other operating income during the nine months ended September 30, 2010 compared with the same period of 2009.

The net gain on sales of loans increased 13% due to strong residential mortgage loan production that has been sold in the secondary market and improved pricing on those loans sold and those loans held for sale for delivery into the secondary market. Loans sales totaled \$75.4 million during the nine months ended September 30, 2010 compared to \$121.4 million during the same period of 2009.

#### Non-interest Expense:

During the quarter ended September 30, 2010, non-interest expense increased approximately 5% compared with the quarter ended September 30, 2009. The increase from a total non-interest expense perspective was largely attributable to the operating costs associated with the branch offices acquired during the second quarter of 2010.

Non-interest Expense (\$ in thousands)	Three Months Ended September 30,		Change from Prior Period	
	2010	2009	Amount Change	Percent Change
Salaries and Employee Benefits	\$ 5,470	\$ 5,427	\$ 43	1%
Occupancy, Furniture and Equipment Expense	1,537	1,532	5	n/m
FDIC Premiums	355	330	25	8%
Data Processing Fees	330	321	9	3%
Professional Fees	698	285	413	145%
Advertising and Promotion	350	266	84	32%
Intangible Amortization	262	235	27	11%
Other Operating Expenses	1,439	1,523	(84)	-6%
Total Non-interest Expense	\$ 10,441	\$ 9,919	\$ 522	5%

n/m = not meaningful

Professional fees increased \$413,000 or 145% during the quarter ended September 30, 2010 compared with the same quarter of 2009 primarily as a result of professional fees associated with the pending acquisition of American Community Bancorp, Inc.

During the nine months ended September 30, 2010, non-interest expense increased approximately 1% compared with the same period of 2009.

Non-interest Expense (\$ in thousands)	Nine Months Ended September 30,		Change from Prior Period	
	2010	2009	Amount Change	Percent Change
Salaries and Employee Benefits	\$ 16,307	\$ 16,556	\$ (249)	-2%
Occupancy, Furniture and Equipment Expense	4,511	4,531	(20)	n/m
FDIC Premiums	1,043	1,550	(507)	-33%
Data Processing Fees	1,054			