

1ST INDEPENDENCE FINANCIAL GROUP, INC.

Form 10QSB

August 12, 2004

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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### FORM 10-QSB

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(Mark One)

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

For the quarterly period ended June 30, 2004.

OR

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

Commission File Number: 0-26570

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## Harrodsburg First Financial Bancorp, Inc.

(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of

61-1284899  
(I.R.S. Employer

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incorporation or organization)

Identification No.)

**104 South Chiles Street, Harrodsburg, Kentucky**  
(Address of principal executive offices)

**40330-1620**  
(Zip Code)

**Registrant's telephone number, including area code: (859) 734-5452**

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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 ninety days. Yes  No

As of August 12, 2004, 1,912,978 shares of the registrant's common stock were issued and outstanding.

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	As of <b>June 30,</b> <b>2004</b>	As of <b>September 30,</b> <b>2003</b>
	<u>(unaudited)</u>	
<b>ASSETS</b>		
Cash and due from banks	\$ 1,642,462	\$ 2,027,407
Federal funds sold	777,000	482,000
Interest-bearing deposits in banks	4,278,738	6,028,852
	<u>6,698,200</u>	<u>8,538,259</u>
Cash equivalents	6,698,200	8,538,259
Interest bearing deposits	496,000	596,000
Securities available-for-sale at fair value	34,420,604	31,689,002
Securities held-to-maturity, fair value of \$2,817,000 and \$4,400,000 at June 30, 2004 and September 30, 2003, respectively	2,865,969	4,404,376
Federal Home Loan Bank stock, at cost	2,022,700	1,945,800
Loans receivable, net of allowance per loan losses of \$982,090 At June 30, 2004 and \$1,006,286 at September 30, 2003, respectively	122,686,247	117,655,048
Interest receivable	748,276	770,806
Premises and equipment, net	3,171,065	2,171,449
Cash surrender value of life insurance	2,956,712	2,825,948
Equity method investment	2,129,869	2,135,346
Goodwill	356,064	356,064
Real estate owned	536,735	
Other assets	1,352,980	636,327
	<u>\$ 180,441,421</u>	<u>\$ 173,764,425</u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Deposits	\$ 141,912,436	\$ 141,744,891
Advances from Federal Home Loan Bank	9,342,532	2,706,669
Trust preferred securities	5,155,000	5,155,000
Deferred Federal income tax	1,244,881	1,113,684
Interest payable and other liabilities	537,568	507,638
	<u>158,192,417</u>	<u>151,227,882</u>
Total liabilities	158,192,417	151,227,882
Commitments and contingencies		
	<u>1,739,484</u>	<u>1,764,484</u>
Minority interests	1,739,484	1,764,484
Stockholders equity		
Common stock, \$0.10 par value, 5,000,000 shares authorized; 1,222,978 shares issued and outstanding as of June 30, 2004 and September 30, 2003, respectively	218,213	218,213
Additional paid-in capital	21,409,413	21,314,754
Retained earnings, substantially restricted	10,806,081	11,491,935

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Accumulated other comprehensive income	2,939,797	2,746,618
Treasury stock, 959,147 shares, at cost, as of June 30, 2004 and September 30, 2003, respectively	(14,389,080)	(14,377,599)
Unallocated employee stock ownership plan (ESOP) shares	(474,904)	(621,862)
	<u>                    </u>	<u>                    </u>
Total stockholders' equity	20,509,520	20,772,059
	<u>                    </u>	<u>                    </u>
Total liabilities and stockholders' equity	\$ 180,441,421	\$ 173,764,425
	<u>                    </u>	<u>                    </u>

*See accompanying notes to condensed consolidated financial statements.*

**Table of Contents****HARRODSBURG FIRST FINANCIAL BANCORP, INC. AND SUBSIDIARY****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

	<b>For the Three-Month Periods</b>		<b>For the Nine-Month Periods</b>	
	<b>Ended June 30</b>		<b>Ended June 30</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
<b>Interest income:</b>				
Interest on loans	\$ 1,828,556	\$ 1,974,968	\$ 5,525,880	\$ 5,857,125
Interest and dividends on securities	321,800	217,746	1,018,444	536,301
Other interest income	12,375	21,134	33,118	120,540
<b>Total interest income</b>	<b>2,162,731</b>	<b>2,213,848</b>	<b>6,577,442</b>	<b>6,513,966</b>
<b>Interest expense:</b>				
Interest on deposits	909,526	1,019,379	2,806,694	3,094,891
FHLB advances	25,230	21,693	94,710	50,970
Other interest	98,905	80,738	277,589	85,258
<b>Total interest expense</b>	<b>1,033,661</b>	<b>1,121,810</b>	<b>3,178,993</b>	<b>3,231,119</b>
<b>Net interest income</b>	<b>1,129,070</b>	<b>1,092,038</b>	<b>3,398,449</b>	<b>3,282,847</b>
Provision for loan losses	27,490	60,000	78,990	150,700
<b>Net interest income after provision for loan losses</b>	<b>1,101,580</b>	<b>1,032,038</b>	<b>3,319,459</b>	<b>3,132,147</b>
<b>Non-interest Income:</b>				
Loan and other service fees, net	103,082	109,702	305,000	290,288
Earnings in equity method investee	(391)	45,521	29,746	92,880
Increase in cash value of life insurance	43,774	44,885	130,763	134,121
Gain (loss) on sale of investments		29,133	(2,812)	42,552
Gain (loss) on sale of premises and equipment	(90,399)		(89,399)	114,550
Other	25,790	11,533	57,682	31,121
	<b>81,856</b>	<b>240,774</b>	<b>430,980</b>	<b>705,512</b>
<b>Non-interest Expense:</b>				
Compensation and benefits	750,419	479,657	1,809,508	1,435,197
Occupancy expenses, net	104,595	89,750	309,631	262,213
Data processing expenses	1,032,128	75,347	1,201,164	231,193
State franchise tax	49,641	40,244	142,320	114,388
Other operating expenses	298,995	220,467	882,015	651,023
	<b>2,235,778</b>	<b>905,465</b>	<b>4,344,638</b>	<b>2,694,014</b>
<b>Income before income tax expense</b>	<b>(1,052,342)</b>	<b>367,347</b>	<b>(594,199)</b>	<b>1,143,645</b>
Income tax benefit (expense)	371,502	(131,648)	267,368	(283,027)

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Net income (loss) before minority interests	(680,840)	235,699	(326,831)	860,618
Minority interests	(957)	(8,730)	(11,842)	15,315
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net income (loss)	\$ (681,797)	\$ 226,969	\$ (338,673)	\$ 875,933
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Basic earnings per common share	\$ (0.58)	\$ 0.18	\$ (0.29)	\$ 0.69
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Diluted earnings per common share	\$ (0.58)	\$ 0.18	\$ (0.29)	\$ 0.69
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Weighted average common shares outstanding	1,171,385	1,266,554	1,166,368	1,260,782
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Weighted average common shares outstanding after dilutive effect	1,171,385	1,266,554	1,166,368	1,260,782
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

*See accompanying notes to condensed consolidated financial statements.*

**Table of Contents****HARRODSBURG FIRST FINANCIAL BANCORP, INC. AND SUBSIDIARY****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY**

For the Nine-Month Periods Ended June 30, 2004 and 2003

(unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Unearned ESOP Shares	Total Stockholders Equity
Balance, September 30, 2003	\$ 218,213	\$ 21,314,754	\$ 11,491,935	\$ 2,746,618	\$ (14,377,599)	\$ (621,862)	\$ 20,772,059
Comprehensive income:							
Net loss			(338,673)				(338,673)
Other comprehensive income, net of tax unrealized gains on securities				193,179			193,179
Total comprehensive income (loss)							(145,494)
Dividends declared			(347,181)				(347,181)
ESOP shares earned		87,109				146,958	234,067
Stock options exercised		7,550			74,950		82,500
Purchase of common stock					(86,431)		(86,431)
Balance, June 30, 2004	\$ 218,213	\$ 21,409,413	\$ 10,806,081	\$ 2,939,797	\$ (14,389,080)	\$ (474,904)	\$ 20,509,520
Balance, September 30, 2002	\$ 218,213	\$ 21,283,692	\$ 10,906,419	\$ 2,867,743	\$ (12,385,241)	\$ (824,615)	\$ 22,066,211
Comprehensive income:							
Net income			875,933				875,933
Other comprehensive income, net of tax unrealized gains on securities				(267,434)			(267,434)
Total comprehensive income							608,499
Dividends declared			(375,467)				(375,467)
ESOP shares earned		4,129	(3,588)			173,864	174,405
Purchase of common stock					(1,992,358)		(1,992,358)
Balance, June 30, 2003	\$ 218,213	\$ 21,287,821	\$ 11,403,297	\$ 2,600,309	\$ (14,377,599)	\$ (650,751)	\$ 20,481,290



*See accompanying notes to condensed consolidated financial statements.*

**Table of Contents****HARRODSBURG FIRST FINANCIAL BANCORP, INC. AND SUBSIDIARY****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	<b>For the Nine-Month Periods Ended June 30,</b>	
	<b>2004</b>	<b>2003</b>
<b>Operating activities</b>		
Net income (loss)	\$ (338,673)	\$ 875,933
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Provision for loan and REO losses	90,090	150,700
ESOP benefit expense	234,067	174,405
Comparison expense associated with stock options exercised	40,250	
Provision for depreciation	146,982	152,902
Amortization of loan fees	(80,657)	(131,034)
Accretion/amortization of investment premium/discount	201,589	295,419
FHLB stock dividend	(60,200)	(57,800)
Loss (gain) on sale of securities	2,812	(47,772)
Loss (gain) on sale of property	89,399	(118,496)
Increase in equity investment in Independence Bank	(24,658)	(92,880)
Amortization of core deposit intangible	30,135	20,090
Minority interest	(25,000)	(8,110)
Cash surrender value of life insurance	(130,764)	(134,121)
Change in:		
Interest receivable	22,530	(122,859)
Interest payable	3,321	5,371
Accrued liabilities	408,184	(259,863)
Other assets	133,060	104,506
Income tax payable	(401,681)	190,895
<b>Net cash provided by operating activities</b>	<b>340,786</b>	<b>997,286</b>
<b>Investing activities</b>		
Net (increase) decrease in loans	(5,577,367)	(3,835,697)
Proceeds from maturity of investment securities - HTM	3,092,000	3,040,000
Proceeds from sale of securities - AFS	5,384,066	13,104,630
Purchase of securities - AFS	(14,461,469)	(24,787,492)
Purchase of securities - HTM	(1,577,500)	(7,500,000)
Principal repayments on investment securities - AFS	6,457,689	4,739,184
Equity investment		(2,000,000)
Purchase of certificates of deposit		(496,000)
Purchase of FHLB stock	(16,700)	(27,500)
Proceeds from maturity of certificates of deposit	100,000	2,792,000
Purchase of property and equipment	(1,235,997)	(783,604)
Investment escrow payment		315,540
Prepaid merger expense	(390,057)	
<b>Net cash provided (used) by investing activities</b>	<b>(8,225,335)</b>	<b>(15,438,939)</b>

*See accompanying notes to condensed consolidated financial statements.*

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**HARRODSBURG FIRST FINANCIAL BANCORP, INC. AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued**  
**(Unaudited)**

	For the Nine-Month Periods Ended June 30,	
	2004	2003
<b>Financing activities</b>		
Net increase (decrease) in demand deposits, NOW accounts and savings accounts	365,859	4,403,112
Net increase (decrease) in certificates of deposit	(198,314)	13,037,890
Net increase (decrease) in custodial accounts	(663)	210
Purchase of treasury stock	(126,681)	(77,697)
Proceeds from FHLB borrowings	6,675,613	1,282,352
Repayment of FHLB borrowings	(39,750)	(4,090,452)
Proceeds from trust preferred securities		5,000,000
Payment of dividends	(714,074)	(777,442)
Proceeds from exercise of stock options	82,500	
Net cash provided (used) by financing activities	6,044,490	18,777,973
Increase (decrease) in cash and cash equivalents	(1,840,059)	4,336,320
Cash and cash equivalents, beginning of period	8,538,259	9,555,676
Cash and cash equivalents, end of period	\$ 6,698,200	\$ 13,891,996
<b>Supplemental Disclosures</b>		
Cash payments for:		
Interest on deposits	\$ 3,182,314	\$ 3,225,072
Income taxes	\$ 115,288	\$ 359,744
Other non cash transactions:		
Loans transferred to other real estate owned	\$ 558,154	\$ 74,754
Loans to facilitate sale of other real estate owned	\$ 0	\$ 307,440
Purchase of common stock	\$ 0	\$ 1,894,612

*See accompanying notes to condensed consolidated financial statements.*

**Table of Contents****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****1. Basis of Presentation**

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles ( GAAP ) for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Form 10-KSB Annual Report for 2003 filed with the Securities and Exchange Commission. The accompanying unaudited consolidated financial statements reflect all adjustments (which were normal and recurring) that are, in the opinion of the Company s management, necessary to present the financial position, results of operations, and cash flows of the Company. The results of operations and other data for the three and nine-month period ended June 30, 2004 are not necessarily indicative of results that may be expected for the fiscal year ending September 30, 2004 or any future period. The consolidated balance sheet of the Company as of September 30, 2003 has been derived from the audited consolidated balance sheet of the Company as of that date and have been restated to comply with the provisions of FIN 46 (Revised).

***Stock Options***

At June 30, 2003, the Company has a stock-based employee compensation plan. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under this plan had an exercise price equal to the market value of the underlying common stock on the grant date. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

	<b>Quarter Ended June 30</b>	
	<b>2004</b>	<b>2003</b>
Net income (loss), as reported	\$ (681,797)	\$ 226,969
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	3,925	3,925
Pro forma net income (loss)	\$ (685,722)	\$ 223,044
Earnings per share:		
Basic as reported	\$ (.58)	\$ .18
Basic pro forma	\$ (.59)	\$ .18
Diluted as reported	\$ (.58)	\$ .18
Diluted pro forma	\$ (.59)	\$ .18



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	<b>Period Ended June 30</b>	
	<b>2004</b>	<b>2003</b>
Net income (loss), as reported	\$ (338,673)	\$ 875,933
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	11,775	11,775
Pro forma net income (loss)	\$ (350,448)	\$ 864,158
<b>Earnings per share:</b>		
Basic as reported	\$ (.29)	\$ .69
Basic pro forma	\$ (.30)	