

IRWIN FINANCIAL CORP

Form 10-Q

August 02, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 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 June 30, 2006**

**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: 0-6835**

**IRWIN FINANCIAL CORPORATION**

**(Exact Name of Corporation as Specified in its Charter)**

**Indiana**

**35-1286807**

(State or Other Jurisdiction of Incorporation or Organization)

(I.R.S. Employer Identification No.)

**500 Washington Street Columbus, Indiana**

**47201**

(Address of Principal Executive Offices)

(Zip Code)

**(812) 376-1909**

**www.irwinfinancial.com**

(Corporation's Telephone Number, Including Area Code)

(Web Site)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Yes  No

As of July 28, 2006, there were outstanding 29,757,943 common shares, no par value, of the Registrant.

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**IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (Unaudited)**

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
	<b>(Dollars in thousands)</b>	
<b>Assets:</b>		
Cash and cash equivalents	\$ 154,619	\$ 155,417
Interest-bearing deposits with financial institutions	45,226	44,430
Residual interests	15,036	22,116
Investment securities- held-to-maturity (Fair value: \$17,245 at June 30, 2006 and \$17,031 at December 31, 2005)	17,579	17,046
Investment securities- available-for-sale	111,010	100,296
Loans held for sale	148,561	513,554
Loans and leases, net of unearned income Note 4	4,909,930	4,477,943
Less: Allowance for loan and lease losses Note 5	(66,921)	(59,223)
	4,843,009	4,418,720
Servicing assets Note 6	33,308	34,445
Accounts receivable	38,557	83,369
Accrued interest receivable	21,993	21,925
Premises and equipment	32,542	29,721
Other assets	96,850	86,572
Assets held for sale Note 2	957,701	1,118,913
Total assets	\$ 6,515,991	\$ 6,646,524
<b>Liabilities and Shareholders Equity:</b>		
Deposits		
Noninterest-bearing	\$ 801,861	\$ 754,778
Interest-bearing	1,766,501	1,921,369
Certificates of deposit over \$100,000	1,299,991	1,222,846
	3,868,353	3,898,993
Short-term borrowings Note 7	753,880	997,444
Collateralized debt Note 8	854,233	668,984
Other long-term debt Note 9	249,360	270,160
Other liabilities	173,721	210,773
Liabilities held for sale Note 2	86,863	87,836
Total liabilities	5,986,410	6,134,190
Commitments and contingencies Note 14		
Shareholders equity		
Preferred stock, no par value authorized 4,000,000 shares; none issued	113,890	112,000

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Common stock, no par value authorized 40,000,000 shares; issued 29,748,973 shares as of June 30, 2006 and 29,612,080 as of December 31, 2005; 993,643 shares in treasury as of December 31, 2005

Additional paid-in capital

Deferred compensation (759)

Accumulated other comprehensive income, net of deferred income tax credit of \$144 at June 30, 2006 and liability of \$71 as of December 31, 2005

4,037 3,448

Retained earnings 411,654 418,784

529,581 533,473

Less treasury stock, at cost (21,139)

Total shareholders equity 529,581 512,334

Total liabilities and shareholders equity \$ 6,515,991 \$ 6,646,524

The accompanying notes are an integral part of the consolidated financial statements.

**Table of Contents****IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

	<b>Three Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Dollars in thousands, except per share)</b>	
<b>Interest income:</b>		
Loans and leases	\$ 105,096	\$ 71,794
Loans held for sale	9,804	9,781
Residual interests	321	1,994
Investment securities	1,711	1,403
Federal funds sold	21	178
<b>Total interest income</b>	<b>116,953</b>	<b>85,150</b>
<b>Interest expense:</b>		
Deposits	34,619	18,124
Short-term borrowings	3,393	2,555
Collateralized debt	11,596	4,484
Other long-term debt	4,130	4,168
<b>Total interest expense</b>	<b>53,738</b>	<b>29,331</b>
Net interest income	63,215	55,819
Provision for loan and lease losses Note 5	6,826	8,966
Net interest income after provision for loan and lease losses	56,389	46,853
<b>Other income:</b>		
Loan servicing fees	10,849	10,445
Amortization of servicing assets Note 6	(6,052)	(8,108)
Recovery of servicing assets Note 6	409	356
Net loan administration income	5,206	2,693
(Loss) gain from sales of loans	(3,591)	4,535
Trading (losses) gains	(492)	2,316
Derivative gains, net	672	248
Other	5,910	5,877
	7,705	15,669
<b>Other expense:</b>		
Salaries	28,372	26,479
Pension and other employee benefits	7,627	6,540
Office expense	2,190	2,196
Premises and equipment	5,398	5,031
Marketing and development	722	1,445
Professional fees	2,444	2,078
Other	4,062	9,239

	50,815	53,008
Income before income taxes from continuing operations	13,279	9,514
Provision for income taxes	5,221	4,245
Net income from continuing operations	8,058	5,269
Loss from discontinued operations, net of \$3,447 and \$6,364 income tax credit, respectively Note 2	(5,187)	(8,680)
Net income (loss)	\$ 2,871	\$ (3,411)
<b>Earnings per share from continuing operations: Note 11</b>		
Basic	\$ 0.27	\$ 0.18
Diluted	\$ 0.27	\$ 0.18
<b>Earnings per share: Note 11</b>		
Basic	\$ 0.10	\$ (0.12)
Diluted	\$ 0.09	\$ (0.12)
Dividends per share	\$ 0.11	\$ 0.10

The accompanying notes are an integral part of the consolidated financial statements.

**Table of Contents****IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

	<b>Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Dollars in thousands, except per share)</b>	
<b>Interest income:</b>		
Loans and leases	\$ 202,981	\$ 137,120
Loans held for sale	21,210	17,996
Residual interests	843	4,333
Investment securities	3,039	2,633
Federal funds sold	48	228
<b>Total interest income</b>	<b>228,121</b>	<b>162,310</b>
<b>Interest expense:</b>		
Deposits	64,299	32,798
Short-term borrowings	7,499	3,986
Collateralized debt	22,707	8,798
Other long-term debt	9,121	8,418
<b>Total interest expense</b>	<b>103,626</b>	<b>54,000</b>
<b>Net interest income</b>	<b>124,495</b>	<b>108,310</b>
Provision for loan and lease losses Note 5	16,019	12,447
<b>Net interest income after provision for loan and lease losses</b>	<b>108,476</b>	<b>95,863</b>
<b>Other income:</b>		
Loan servicing fees	18,957	19,763
Amortization of servicing assets Note 6	(12,528)	(14,216)
Recovery of servicing assets Note 6	983	267
<b>Net loan administration income</b>	<b>7,412</b>	<b>5,814</b>
(Loss) gain from sales of loans	(823)	14,087
Trading (losses) gains	(265)	2,796
Derivative gains, net	3,439	350
Other	11,404	10,801
	21,167	33,848
<b>Other expense:</b>		
Salaries	54,902	55,473
Pension and other employee benefits	15,400	13,919
Office expense	4,284	4,185
Premises and equipment	10,394	10,801
Marketing and development	1,390	2,774
Professional fees	4,818	5,488
Other	11,966	15,807



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	103,154	108,447
Income before income taxes from continuing operations	26,489	21,264
Provision for income taxes	9,955	8,764
Net income from continuing operations	16,534	12,500
Loss from discontinued operations, net of \$10,330 and \$12,488 income tax credit, respectively Note 2	(15,521)	(18,457)
Net income (loss)	\$ 1,013	\$ (5,957)
<b>Earnings per share from continuing operations: Note 11</b>		
Basic	\$ 0.56	\$ 0.44
Diluted	\$ 0.56	\$ 0.43
<b>Earnings per share: Note 11</b>		
Basic	\$ 0.03	\$ (0.21)
Diluted	\$ 0.03	\$ (0.21)
Dividends per share	\$ 0.22	\$ 0.20

The accompanying notes are an integral part of the consolidated financial statements.

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**IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)**  
**For the Three Months Ended June 30, 2006, and 2005**

	Accumulated Other Comprehensive Income								
				Minimum		Additional			
	Total	Retained	Foreign	Unrealized	SERP	Deferred	in	Common	Treasury
		Earnings	Currency	Gain/Loss	Liability	Compensation	Capital	Stock	Stock
				Derivatives					
				Securities					
				(Dollars in thousands)					
<b>Balance at</b>									
<b>April 1, 2006</b>	\$ 527,693	\$ 411,274	\$ 3,188	\$ (492)	\$ 748	\$ (274)	\$	\$ 113,249	\$
Net income	2,871	2,871							
Unrealized loss on investment securities net of \$170 tax benefit	(255)			(255)					
Unrealized loss on derivative net of \$34 tax benefit	(51)				(51)				
Foreign currency adjustment	1,173		1,173						
Other comprehensive income	867								
Total comprehensive income	3,738								
Deferred compensation	(77)	(77)							
Cash dividends	(3,273)	(3,273)							
Tax benefit on stock option exercises									
Stock option expense	854						854		
Stock: Purchase of 1,253 shares	(25)								(25)
Sales of 35,231 shares	671	859					(854)	641	25
<b>Balance at</b>									
<b>June 30, 2006</b>	\$ 529,581	\$ 411,654	\$ 4,361	\$ (747)	\$ 697	\$ (274)	\$	\$ 113,890	\$

<b>Balance at</b>										
<b>April 1, 2005</b>	\$ 496,221	\$ 406,406	\$ 2,527	\$ (237)	\$	\$ (254)	\$ (679)	\$	\$ 112,000	\$ (23,542)
Net loss	(3,411)	(3,411)								
Unrealized gain on investment securities net of \$110 tax liability	165			165						
Unrealized gain on derivative net of \$19 tax liability	29				29					
Foreign currency adjustment	(208)		(208)							
Other comprehensive loss	(14)									
Total comprehensive loss	(3,425)									
Deferred compensation	2					2				
Cash dividends	(2,855)	(2,855)								
Tax benefit on stock option exercises	28						28			
Treasury stock: Purchase of 7,240 shares	(153)									(153)
Sales of 40,824 shares	758	(154)					(28)			940
<b>Balance at</b>										
<b>June 30, 2005</b>	\$ 490,576	\$ 399,986	\$ 2,319	\$ (72)	\$ 29	\$ (254)	\$ (677)	\$	\$ 112,000	\$ (22,755)

The accompanying notes are an integral part of the consolidated financial statements.

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**IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)**  
**For the Six Months Ended June 30, 2006, and 2005**

	Accumulated Other Comprehensive					
		Income	Minimum	Additional		
		Unrealized				
	Retained Foreign	Gain/Loss	SERP	Deferred	Paid in	Common Treasury
Total	Earnings	Currency	Securities	Derivatives	Liability	