

WINTRUST FINANCIAL CORP

Form 10-Q

May 10, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

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

For the quarterly period ended March 31, 2006

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 0-21923
WINTRUST FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)**

Illinois

36-3873352

(State of incorporation or organization)

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

727 North Bank Lane
Lake Forest, Illinois 60045
(Address of principal executive offices)
(847) 615-4096

(Registrant's telephone number, including area code)

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 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.

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

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

Common Stock no par value, 24,274,993 shares, as of May 5, 2006

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PART I
ITEM 1. FINANCIAL STATEMENTS

WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONDITION

(In thousands)	(Unaudited) March 31, 2006	December 31, 2005	(Unaudited) March 31, 2005
Assets			
Cash and due from banks	\$ 121,015	\$ 158,136	\$ 148,205
Federal funds sold and securities purchased under resale agreements	123,430	183,229	70,339
Interest bearing deposits with banks	14,146	12,240	6,108
Available-for-sale securities, at fair value	1,988,050	1,799,384	1,538,433
Trading account securities	2,005	1,610	3,438
Brokerage customer receivables	29,765	27,900	29,662
Mortgage loans held-for-sale	64,437	85,985	133,131
Loans, net of unearned income	5,435,317	5,213,871	4,858,724
Less: Allowance for loan losses	40,367	40,283	39,337
Net loans	5,394,950	5,173,588	4,819,387
Premises and equipment, net	254,471	247,875	217,048
Accrued interest receivable and other assets	176,489	272,772	163,179
Goodwill	196,625	196,716	196,549
Other intangible assets, net	16,864	17,607	20,060
Total assets	\$8,382,247	\$ 8,177,042	\$7,345,539
Liabilities and Shareholders Equity			
Deposits:			
Non-interest bearing	\$ 608,769	\$ 620,091	\$ 581,828
Interest bearing	6,273,718	6,109,343	5,344,257
Total deposits	6,882,487	6,729,434	5,926,085
Notes payable	1,000	1,000	6,000
Federal Home Loan Bank advances	367,279	349,317	336,965
Other borrowings	86,231	95,796	154,991
Subordinated notes	50,000	50,000	50,000
Long-term debt trust preferred securities	230,416	230,458	209,963
Accrued interest payable and other liabilities	111,947	93,126	99,320
Total liabilities	7,729,360	7,549,131	6,783,324
Shareholders equity:			
Preferred stock			

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Common stock	24,231	23,941	23,447
Surplus	435,207	420,426	407,590
Common stock warrants	744	744	828
Retained earnings	217,842	201,133	152,623
Accumulated other comprehensive loss	(25,137)	(18,333)	(22,273)
Total shareholders' equity	652,887	627,911	562,215
Total liabilities and shareholders' equity	\$8,382,247	\$ 8,177,042	\$7,345,539

See accompanying notes to unaudited consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)*

(In thousands, except per share data)	Three Months Ended March 31,	
	2006	2005
Interest income		
Interest and fees on loans	\$ 96,651	\$72,279
Interest bearing deposits with banks	124	28
Federal funds sold and securities purchased under resale agreements	1,520	151
Securities	21,531	14,429
Trading account securities	6	22
Brokerage customer receivables	465	413
Total interest income	120,297	87,322
Interest expense		
Interest on deposits	54,282	28,972
Interest on Federal Home Loan Bank advances	3,280	2,568
Interest on notes payable and other borrowings	654	1,779
Interest on subordinated notes	801	679
Interest on long-term debt trust preferred securities	4,116	3,411
Total interest expense	63,133	37,409
Net interest income	57,164	49,913
Provision for credit losses	1,536	1,231
Net interest income after provision for credit losses	55,628	48,682
Non-interest income		
Wealth management	10,137	7,944
Mortgage banking	5,110	6,527
Service charges on deposit accounts	1,698	1,339
Gain on sales of premium finance receivables	995	1,656
Administrative services	1,154	1,015
Gains on available-for-sale securities, net	80	
Other	9,551	5,899
Total non-interest income	28,725	24,380
Non-interest expense		
Salaries and employee benefits	33,478	29,463
Equipment	3,174	2,749
Occupancy, net	4,668	3,840
Data processing	1,859	1,715
Advertising and marketing	1,120	994
Professional fees	1,436	1,469

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Amortization of other intangible assets	743	755
Other	7,982	7,319
Total non-interest expense	54,460	48,304
Income before income taxes	29,893	24,758
Income tax expense	10,880	9,085
Net income	\$ 19,013	\$15,673
Net income per common share Basic	\$ 0.79	\$ 0.72
Net income per common share Diluted	\$ 0.76	\$ 0.68
Cash dividends declared per common share	\$ 0.14	\$ 0.12
Weighted average common shares outstanding	24,056	21,831
Dilutive potential common shares	956	1,215
Average common shares and dilutive common shares	25,012	23,046

See accompanying notes to unaudited consolidated financial statements.

Table of Contents*WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)*

(In thousands)	Compre- hensive Income	Common Stock	Surplus	Common Stock Warrants	Retained Earnings	Accumulated Other Compre- hensive Income (Loss)	Total Shareholders Equity
Balance at December 31, 2004		\$21,729	\$319,147	\$ 828	\$139,566	\$ (7,358)	\$473,912
Comprehensive income:							
Net income	\$ 15,673				15,673		15,673
Other comprehensive income, net of tax:							
Unrealized losses on securities, net of reclassification adjustment	(15,021)					(15,021)	(15,021)
Unrealized gains on derivative instruments	106					106	106
Comprehensive income	\$ 758						
Cash dividends declared					(2,616)		(2,616)
Common stock issued for:							
New issuance, net of costs		1,000	54,883				55,883
Business combinations		598	29,834				30,432
Director compensation plan		7	310				317
Employee stock purchase plan and exercises of stock options		94	2,584				2,678
Restricted stock awards		19	832				851
Balance at March 31, 2005		\$23,447	\$407,590	\$ 828	\$152,623	\$ (22,273)	\$562,215
Balance at December 31, 2005		\$23,941	\$420,426	\$ 744	\$201,133	\$ (18,333)	\$627,911
Comprehensive income:							
Net income	\$ 19,013				19,013		19,013
Other comprehensive income, net of tax:							
Unrealized losses on securities, net of reclassification adjustment	(6,804)					(6,804)	(6,804)
Comprehensive income	\$ 12,209						
Cash dividends declared					(3,373)		(3,373)
Cumulative effect of change in accounting for servicing rights					1,069		1,069
Stock-based compensation			8,137				8,137
			2,822				2,822

Tax benefit from issuance of shares pursuant to stock-based compensation arrangements**Common stock issued for:**

Business combinations	3	155				158
Director compensation plan	13	569				582
Employee stock purchase plan and exercises of stock options	205	3,167				3,372
Restricted stock awards	69	(69)				
Balance at March 31, 2006	\$24,231	\$435,207	\$ 744	\$217,842	\$ (25,137)	\$ 652,887

**Three Months Ended March
31,**

	2006	2005
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Disclosure of reclassification amount and income tax impact:

Unrealized holding losses on available-for-sale securities arising during the period, net	\$ (10,874)	\$ (24,253)
Unrealized holding gains on derivative instruments arising during the period, net		172
Less: Reclassification adjustment for gains included in net income, net	80	
Less: Income tax benefit	(4,150)	(9,166)
Net unrealized losses on available-for-sale securities and derivative instruments	\$ (6,804)	\$ (14,915)

See accompanying notes to unaudited consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)*

(In thousands)	Three Months Ended March 31,	
	2006	2005
Operating Activities:		
Net income	\$ 19,013	\$ 15,673
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	1,536	1,231
Depreciation and amortization	3,803	3,172
Share-based compensation expense	2,981	726
Tax benefit from stock-based compensation arrangements	2,822	1,292
Excess tax benefits from stock-based compensation arrangements	(2,395)	
Net amortization of premium on securities	76	1,045
Fair market value change of interest rate swaps	(4,915)	(1,070)
Originations and purchases of mortgage loans held-for-sale	(407,889)	(473,539)
Proceeds from sales of mortgage loans held-for-sale	432,019	449,525
Gain on sales of premium finance receivables	(995)	(1,656)
(Increase) decrease in trading securities, net	(395)	161
Net (increase) decrease in brokerage customer receivables	(1,865)	2,185
Gain on mortgage loans sold	(2,582)	(4,188)
Gains on available-for-sale securities, net	(80)	
Gain on sales of premises and equipment, net	(26)	(11)
Decrease (increase) in accrued interest receivable and other assets, net	107,773	(4,863)
Increase in accrued interest payable and other liabilities, net	24,003	8,119
Net Cash Provided by (Used for) Operating Activities	172,884	(2,198)
Investing Activities:		
Proceeds from maturities of available-for-sale securities	179,000	29,837
Proceeds from sales of available-for-sale securities	16,658	65,082
Purchases of available-for-sale securities	(395,182)	(98,024)
Proceeds from sales of premium finance receivables	756,056	146,415
Net cash paid for acquisitions		(78,877)
Net increase in interest-bearing deposits with banks	(1,906)	(1,059)
Net increase in loans	(978,511)	(234,635)
Purchases of premises and equipment, net	(9,894)	(9,117)
Net Cash Used for Investing Activities	(433,779)	(180,378)
Financing Activities:		
Increase in deposit accounts	153,146	234,578
Decrease in other borrowings, net	(9,565)	(74,560)
Increase in Federal Home Loan Bank advances, net	18,000	10,300
Excess tax benefits from stock based compensation arrangements	2,395	

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Issuance of common stock, net of issuance costs		55,883
Issuance of common shares resulting from exercise of stock options, employee stock purchase plan and conversion of common stock warrants	3,372	1,509
Dividends paid	(3,373)	(2,616)
Net Cash Provided by Financing Activities	163,975	225,094
Net Increase (Decrease) in Cash and Cash Equivalents	(96,920)	42,518
Cash and Cash Equivalents at Beginning of Period	341,365	176,026
Cash and Cash Equivalents at End of Period	\$ 244,445	\$ 218,544

See accompanying notes to unaudited consolidated financial statements.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS***(1) Basis of Presentation**

The consolidated financial statements of Wintrust Financial Corporation and Subsidiaries (Wintrust or Company) presented herein are unaudited, but in the opinion of management reflect all necessary adjustments of a normal or recurring nature for a fair presentation of results as of the dates and for the periods covered by the consolidated financial statements.

Wintrust is a financial holding company currently engaged in the business of providing traditional community banking services to customers in the Chicago metropolitan area and southern Wisconsin. Additionally, the Company operates various non-bank subsidiaries.

As of March 31, 2006, Wintrust had 14 wholly-owned bank subsidiaries (collectively, Banks), nine of which the Company started as *de novo* institutions, including Lake Forest Bank & Trust Company (Lake Forest Bank), Hinsdale Bank & Trust Company (Hinsdale Bank), North Shore Community Bank & Trust Company (North Shore Bank), Libertyville Bank & Trust Company (Libertyville Bank), Barrington Bank & Trust Company, N.A. (Barrington Bank), Crystal Lake Bank & Trust Company, N.A. (Crystal Lake Bank), Northbrook Bank & Trust Company (Northbrook Bank), Beverly Bank & Trust, N.A. (Beverly Bank) and Old Plank Trail Community Bank, N.A. (Old Plank Trail Bank). The Company acquired Advantage National Bank (Advantage Bank) in October 2003, Village Bank & Trust (Village Bank) in December 2003, Northview Bank and Trust (Northview Bank) in September 2004, Town Bank in October 2004, State Bank of The Lakes in January 2005 and First Northwest Bank on March 31, 2005. In December 2004, Northview Bank's two Northfield locations became branches of Northbrook Bank, its Mundelein location became a branch of Libertyville Bank and its Wheaton location was renamed Wheaton Bank & Trust (Wheaton Bank). In May 2005, First Northwest Bank was merged into Village Bank.

The Company provides, on a national basis, loans to businesses to finance insurance premiums on their commercial insurance policies (premium finance receivables) through First Insurance Funding Corporation (FIFC). FIFC is a wholly-owned subsidiary of Crabtree Capital Corporation (Crabtree) which is a wholly-owned subsidiary of Lake Forest Bank.

Wintrust, through Tricom, Inc. of Milwaukee (Tricom), provides high-yielding short-term accounts receivable financing (Tricom finance receivables) and value-added out-sourced administrative services, such as data processing of payrolls, billing and cash management services, to the temporary staffing industry, with clients located throughout the United States. Tricom is a wholly-owned subsidiary of Hinsdale Bank.

The Company provides a full range of wealth management services through its trust, asset management and broker-dealer subsidiaries. Trust and investment services are provided at each of the Banks through the Company's wholly-owned subsidiary, Wayne Hummer Trust Company, N.A. (WHTC), a *de novo* company started in 1998. Wayne Hummer Investments, LLC (WHI) is a broker-dealer providing a full range of private client and securities brokerage services to clients located primarily in the Midwest and is a wholly-owned subsidiary of North Shore Bank. Focused Investments, LLC (Focused) is a broker-dealer that provides a full range of investment services to individuals through a network of relationships with community-based financial institutions primarily in Illinois. Focused is a wholly-owned subsidiary of WHI. Wayne Hummer Asset Management Company (WHAMC) provides money management services and advisory services to individuals, institutions and municipal and tax-exempt organizations, in addition to portfolio management and financial supervision for a wide range of pension and profit-sharing plans. WHAMC is a wholly-owned subsidiary of Wintrust. WHI, WHAMC and Focused were acquired in 2002, and are collectively referred to as the Wayne Hummer Companies . In February 2003, the Company acquired Lake Forest Capital Management (LFCM), a registered investment advisor, which was merged into WHAMC.

In May 2004, the Company acquired SGB Corporation d/b/a WestAmerica Mortgage Company (WestAmerica) and its affiliate, Guardian Real Estate Services, Inc. (Guardian). WestAmerica engages primarily in the origination and purchase of residential mortgages for sale into the secondary market, and Guardian provides document preparation and other loan closing services to WestAmerica and a network of mortgage brokers. WestAmerica maintains principal

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origination offices in eleven states, including Illinois, and originates loans in other states through wholesale and correspondent offices. WestAmerica and Guardian are wholly-owned subsidiaries of Barrington Bank. Wintrust Information Technology Services Company provides information technology support, item capture, imaging and statement preparation services to the Wintrust subsidiaries and is a wholly-owned subsidiary of Wintrust. The accompanying consolidated financial statements are unaudited and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations or cash flows in accordance with generally accepted accounting principles. The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report and Form 10-K for the year ended December 31, 2005. Operating results reported for the three-month and year-to-date periods are not necessarily indicative of the results which may be expected for the entire year. Reclassifications of certain prior period amounts have been made to conform to the current period presentation.

The preparation of the financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities. Management believes that the estimates made are reasonable, however, changes in estimates may be required if economic or other conditions develop differently from management's expectations. Certain policies and accounting principles inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Management views critical accounting policies to be those which are highly complex or dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views the determination of the allowance for loan losses and the allowance for losses on lending-related commitments, the valuation of the retained interest in the premium finance receivables sold, the valuations required for impairment testing of goodwill, the valuation and accounting for derivative instruments and the accounting for income taxes as the areas that are most complex and require the most subjective and complex judgments and as such could be the most subject to revision as new information becomes available.

(2) Cash and Cash Equivalents

For purposes of the Consolidated Statements of Cash Flows, the Company considers cash and cash equivalents to include cash and due from banks, federal funds sold and securities purchased under resale agreements with original maturities of 90 days or less.

(3) Available-for-sale Securities

The following table is a summary of the available-for-sale securities portfolio as of the dates shown:

(Dollars in thousands)	March 31, 2006		December 31, 2005		March 31, 2005	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury	\$ 36,516	\$ 34,040	\$ 36,577	\$ 34,586	\$ 139,353	\$ 133,526
U.S. Government agencies	738,681	726,136	724,273	714,715	647,374	633,684
Municipal	51,659	51,064	48,853	48,397	56,928	56,664
Corporate notes and other debt	107,663	107,145	8,467	8,358	8,455	8,411
Mortgage-backed	967,525					