VENTAS INC
Form 8-K
July 06, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported):
July 1, 2004

VENTAS, INC.

(Exact name of registrant as specified in its charter)

Delaware	1-10989	61-1055020
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

10350 Ormsby Park Place, Suite 300, Louisville, Kentucky 40223

(Address of principal executive offices) (Zip Code)

(502) 357-9000

(Registrant's telephone number, including area code)

Item 5. Other Events.

On July 1, 2004, Ventas, Inc. (the "Company") announced that Standard & Poor's Ratings Services ("S&P") raised its corporate credit ratings on the Company and certain of its affiliates to 'BB' from 'BB-.' S&P also revised the outlook on the Company to stable from positive. In addition, S&P raised its ratings on the Company's senior unsecured debt, which totals $366 million.

Item 7. Financial Statements and Exhibits.

(a) Financial statements of businesses acquired.

Not applicable.

(b) Pro forma financial information.

Not applicable.

(c) Exhibits:

99.1 Press Release dated July 1, 2004.

Item 9. Regulation FD Disclosure

On July 1, 2004, the Company also announced that it will issue its 2004 second quarter earnings release after the close of trading on Tuesday, July 27, 2004. A conference to discuss those earnings will be held Wednesday, July 28, 2004 at 9:00 a.m. Eastern Time (8:00 a.m. Central Time). The call will be webcast live by CCBN and can be accessed at the Company's website at www.ventasreit.com or at www.fulldisclosure.com.

A copy of the press release issued by the Company on July 1, 2004 is included as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated in this Item 9 by reference.

The information of this Item 9 to this Current Report on Form 8-K, including the exhibit, is furnished pursuant to Item 9 and shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that Section.

FORWARD-LOOKING STATEMENTS

This Current Report on Form 8-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of

the Exchange Act. All statements regarding the Company's and its subsidiaries' expected future financial position, results of operations, cash flows, funds from operations, dividends and dividend plans, financing plans, business strategy, budgets, projected costs, capital expenditures, competitive positions, growth opportunities, expected lease income, continued qualification as a real estate investment trust ("REIT"), plans and objectives of management for future operations and statements that include words such as "anticipate," "if," "believe," "plan," "estimate," "expect," "intend," "may," "could," "should," "will" and other similar expressions are forward-looking statements. Such forward-looking statements are inherently uncertain, and security holders must recognize that actual results may differ from the Company's expectations. The Company does not undertake a duty to update such forward-looking statements.

Actual future results and trends for the Company may differ materially depending on a variety of factors discussed in the Company's filings with the Securities and Exchange Commission. Factors that may affect the plans or results of the Company include, without limitation, (a) the ability and willingness of Kindred Healthcare, Inc. ("Kindred") and certain of its affiliates to continue to meet and/or perform their obligations under their contractual arrangements with the Company and the Company's subsidiaries, including without limitation the lease agreements and various agreements entered into by the Company and Kindred at the time of the Company's spin off of Kindred on May 1, 1998 (the "1998 Spin Off"), as such agreements may have been amended and restated in connection with Kindred's emergence from bankruptcy on April 20, 2001, (b) the ability and willingness of Kindred to continue to meet and/or perform its obligation to indemnify and defend the Company for all litigation and other claims relating to the healthcare operations and other assets and liabilities transferred to Kindred in the 1998 Spin Off, (c) the ability of Kindred and the Company's other operators to maintain the financial strength and liquidity necessary to satisfy their respective obligations and duties under the leases and other agreements with the Company, and their existing credit agreements, (d) the Company's success in implementing its business strategy and the Company's ability to identify and consummate diversifying acquisitions or investments, (e) the nature and extent of future competition, (f) the extent of future healthcare reform and regulation, including cost containment measures and changes in reimbursement policies, procedures and rates, (g) increases in the cost of borrowing for the Company, (h) the ability of the Company's operators to deliver high quality care and to attract patients, (i) the results of litigation affecting the Company, (j) changes in general economic conditions and/or economic conditions in the markets in which the Company may, from time to time, compete, (k) the ability of the Company to pay down, refinance, restructure, and/or extend its indebtedness as it becomes due, (l) the movement of interest rates and the resulting impact on the value of and the accounting for the Company's interest rate swap agreement, (m) the ability and willingness of the Company to maintain its qualification as a REIT due to economic, market, legal, tax or other considerations, (n) final determination of the Company's taxable net income for the years ending December 31, 2003 and 2004, (o) the ability and willingness of the Company's tenants to renew their leases with the Company upon expiration of the leases and the Company's ability to relet its properties on the same or better terms in the event such leases expire and are not renewed by the existing tenants, and (p) the impact on the

liquidity, financial condition and results of operations of Kindred and the Company's other operators resulting from increased operating costs and uninsured liabilities for professional liability claims, and the ability of Kindred and the Company's other operators to accurately estimate the magnitude of such liabilities. Many of such factors are beyond the control of the Company and its management.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VENTAS, INC.
(Registrant)

Date: July 6, 2004

By: /s/ T. Richard Riney

Name: T. Richard Riney
Title: Executive Vice President and General Counsel

EXHIBIT INDEX

Exhibit	Description
99.1	Press Release dated July 1, 2004

interest earning assets and interest bearing liabilities. Management continues to use the results of these computations, along with the results of its computer model projections, in order to enhance earnings potential while positioning the Company to minimize the effect of a prolonged shift in interest rates that would adversely affect future results of operations. At the present time, the most significant market risk affecting the Company is interest rate risk. Other market risks such as foreign currency exchange risk and commodity price risk do not occur in the normal business of the Company. The Company also is not currently using trading activities or derivative instruments to control interest rate risk. Liquidity and Cash Flows The Company was able to meet liquidity needs during the first three months of 2003. A review of the consolidated statements of cash flows included in the accompanying financial statements shows that the Company's cash and cash equivalents decreased $13.332 million from December 31, 2002 to March 31, 2003. This decrease came from cash used in investing and financing activities offset somewhat by cash provided by operating activities. There were differences in the sources and uses of cash during the first three months of 2003 compared to the first three months of 2002. Cash was used in investing activities during 2003 compared to cash provided by investing activities during 2002. During the first three months of 2003, net cash used in investing activities involving the Company's investment portfolio was $38.661 million compared to cash provided during the first three months of 2002 of $10.972 million. During the first three months of 2003, the Company's investment portfolio grew versus the first three months of 2002 when the Company's investment portfolio was reduced. The size of the Company's investment portfolio varies in response to volume of loans and deposits as well as investment opportunities. Somewhat offsetting this difference was more cash provided by loans during the first three months of 2003 compared to the same period of 2002 due to a larger decrease in net loans. Less cash was used in financing activities during the first three months of 2003 compared to the first three months of 2002. This was mainly due to changes in deposit and federal funds purchased, repurchase agreements, and notes payable volumes. There was a larger decrease in deposits during the first three months of 2002 compared to the same period of 2003. The decrease in 2002 included the maturity of a large short-term time deposit. Also, during the first three months of 2003, cash was provided by an increase in federal funds purchased, repurchase agreements, and notes payable compared to cash used by a decrease during the same period of 2002. Less cash was provided by operating activities during the first three months of 2003 compared to the same period of 2002, primarily from net loans originated for sale. Proceeds from sales were higher than originated loans during the first three months of 2002, whereas during the first three months of 2003, proceeds and originations were fairly equal. 15 Critical Accounting Policies The preparation of financial statements in conformity with accounting standards generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosures of contingent assets and liabilities. Actual results could differ from those estimates under different assumptions and conditions. The Company believes that it has one critical accounting policy, allowance for loan losses, that is subject to estimates and judgements used in the preparation of its consolidated financial statements. Provision and Allowance for Loan Losses The provision for loan losses is based on management's evaluation of the loan portfolio in light of national and local economic conditions, changes in the composition and volume of the loan portfolio, changes in the volume of past due and nonaccrual loans, and other relevant factors. The allowance for loan losses, which is reported as a deduction from loans, is available for loan charge-offs. The allowance is increased by the provision charged to expense and is reduced by loan charge-offs net of loan recoveries. The allowance is allocated between the commercial, residential real estate and consumer loan portfolios according to the historical losses experienced in each of these portfolios as well as the current level of watch list loans and nonperforming loans for each portfolio. Loans for which borrower cash flow and the estimated liquidation value of collateral are inadequate to repay the total outstanding balance are evaluated separately and assigned a specific allocation. The unallocated portion of the allowance is determined by economic conditions and other factors mentioned above. The balance of the allowance for loan losses was $9.622 million at March 31, 2003 compared to $9.259 million at December 31, 2002, as net recoveries were $33,000 and provisions totaled $330,000 during the first three months of 2003. The allowance for loan losses as a percentage of gross loans, including loans held-for-sale, was 1.48% at March 31, 2003, compared to 1.37% at December 31, 2002. Gross loans, including loans held-for-sale, decreased 4.2% to $648.130 million at March 31, 2003 from $676.373 million at December 31, 2002. The allowance for loan losses as a percentage of nonperforming loans was 459.3% at March 31, 2003 compared to 416.9% at December 31, 2002. Nonperforming loans decreased from $2.221 million at December 31, 2002 to $2.095 million at March 31, 2003. The $126,000 decrease in nonperforming loans during the first three months resulted from a $349,000 decrease in loans past due 90 days or more, offset somewhat by a $223,000 increase in nonaccrual loans. The increase in nonaccruals consisted primarily of consumer loans as a result of a more aggressive approach toward placing 90-day consumer loan delinquencies on nonaccrual status. Management believes that nonperforming and potential problem loans are appropriately identified and monitored based on the extensive loan analysis performed by the credit administration department, the internal loan committees and the board of directors. Historically, there have not been a significant amount of loans charged off which had not been previously identified as problem loans by the credit administration department or the loan committees. 16 The following table summarizes changes in the allowance for loan losses by loan categories for each period and additions to the allowance for loan losses which have been charged to operations. Allowance for Loan Losses (dollars in thousands) March 31, ---------------------- 2003 2002 ---------------------- Allowance for loan losses at beginning of year .... $ 9,259 $ 9,259 ---------------------- Charge-offs during period: Commercial, financial and agricultural .... $ -- $ (16) Real estate .... (9) -- Installment and consumer .... (115) (278) ---------------------- Total .... $ (124) $ (294) ---------------------- Recoveries of loans previously charged off: Commercial, financial and agricultural .... $ 95 $ 88 Residential real estate .... 11 24 Installment and consumer .... 51 50 ---------------------- Total .... $ 157 $ 162 ---------------------- Net (charge-offs) recoveries .... $ 33 $ (132) Provision for loan losses .... 330 330 ---------------------- Allowance for loan losses at end of quarter .... $ 9,622 $ 9,457 ====================== Ratio of net (charge-offs) recoveries to average net loans .... 0.01% (0.02)% ====================== The following table shows the allocation of the allowance for loan losses allocated to each category. Allocation of the Allowance for Loan Losses (in thousands) March 31, December 31, 2003 2002 ---------------------- Allocated: Commercial, financial and agricultural .... $5,467 $5,732 Residential real estate .... 218 345 Installment and consumer .... 1,688 1,763 ---------------------- Total allocated allowance .... $7,373 $7,840 Unallocated allowances .... 2,249 1,419 ---------------------- Total .... 9,622 9,259 ====================== The following table presents the aggregate amount of loans considered to be nonperforming for the periods indicated. Nonperforming loans include loans accounted for on a nonaccrual basis, accruing loans contractually past due 90 days or more as to interest or principal payments and loans which are troubled debt restructurings as defined in Statement of Financial Accounting Standards No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings." Nonperforming Loans (dollars in thousands) March 31, 2003 December 31, 2002 -------------------------------- Nonaccrual loans1 .... $1,615 $1,392 ====================== Loans past due 90 days or more .... $ 480 $ 829 ====================== Renegotiated loans .... $ 20 $ 20 ====================== 1 Includes $0.945 million at March 31, 2003 and $0.628 million at December 31, 2002 of real estate and consumer loans which management does not consider impaired as defined by the Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan" (SFAS 114). 17 Other Nonperforming Assets (dollars in thousands) March 31, 2003 December 31, 2002 ---------------------------------- Other real estate owned .... $ 60 $ 58 ====================== Nonperforming other assets .... $184 $ 94 ====================== Results of Operations Results of Operations For the Three Months Ended March 31, 2003 Net income for the first three months of 2003 was $4.298 million, a $112,000, or 2.5%, decrease from $4.410

million for the same period in 2002. Basic and diluted earnings per share increased $0.01, or 2.5%, to $0.41 per share in the first quarter of 2003 from $0.40 per share in the first quarter of 2002 due, in part, to 5.1% fewer average diluted shares outstanding after completion of the June 2002 tender offer. 18 The following schedule "Consolidated Average Balance Sheet and Interest Rates" provides details of average balances, interest income or interest expense, and the average rates for the Company's major asset and liability categories. Consolidated Average Balance Sheet and Interest Rates (dollars in thousands) -- Three Months Ended March 31, -- 2003 2002 -- Average Average Balance Interest Rate Balance Interest Rate -- Assets Taxable investment securities1 .... $ 275,639 $ 2,823 4.15% $ 273,909 $ 3,325 4.92% Tax-exempt investment securities1 (TE) . 56,876 903 6.44% 55,487 909 6.64% Federal funds sold and interest bearing deposits2 .... 32,105 102 1.29% 20,539 95 1.88% Loans3,4 (TE) .... 658,378 11,058 6.81% 673,475 12,191 7.34% -- Total interest earning assets and interest income (TE) .... $1,022,998 $ 14,886 5.90% $1,023,410 $ 16,520 6.55% -- Cash and due from banks .... $ 49,495 $ 48,993 Premises and equipment .... 18,203 19,136 Other assets .... 16,960 18,650 -- Total assets .... $1,107,656 $1,110,189 == Liabilities and Shareholders' Equity Interest bearing demand deposits .... $ 82,942 $ 169 0.83% $ 106,084 $ 337 1.29% Savings .... 278,185 711 1.04% 251,182 934 1.51% Time deposits .... 337,391 2,993 3.60% 338,388 3,736 4.48% Federal funds purchased, repurchase agreements, and notes payable .... 85,878 267 1.26% 72,304 326 1.83% FHLB advances and other borrowings ..... 27,793 380 5.54% 35,268 494 5.68% -- Total interest bearing liabilities and interest expense $ 812,189 $ 4,520 2.26% $ 803,226 $ 5,827 2.94% -- Noninterest bearing demand deposits .... $ 89,858 $ 105,026 Noninterest bearing savings deposits ... 60,151 51,961 Other liabilities .... 9,716 9,744 -- Total liabilities .... $ 971,914 $ 969,957 Shareholders' equity .... 135,742 140,232 -- Total liabilities and shareholders' equity .... $1,107,656 $1,110,189 == Interest spread (average rate earned minus average rate paid) (TE) .... 3.64% 3.60% == Net interest income (TE) .... $ 10,366 $ 10,693 == Net yield on interest earnings assets (TE) .... 4.11% 4.24% == See next page for Notes 1 - 4. Notes to Consolidated Average Balance Sheet and Interest Rate Tables: 1 Investments in debt securities are included at carrying value. 2 Federal funds sold and interest bearing deposits include approximately $14,000 and $17,000 in 2003 and 2002, respectively, of interest income from third party processing of cashier checks. 3 Loans are net of allowance for loan losses and include mortgage loans held for sale. Nonaccrual loans are included in the total. 4 Loan fees of approximately $498,000 and $250,000 in 2003 and 2002, respectively, are included in total loan income. 19 Net interest income, the most significant component of the Company's earnings, is the difference between interest received or accrued on the Company's earning assets - primarily loans and investments - and interest paid or accrued on deposits and borrowings. In order to compare the interest generated from different types of earning assets, the interest income on certain tax-exempt investment securities and loans is increased for analysis purposes to reflect the income tax savings provided by these tax-exempt assets. The adjustment to interest income for tax-exempt investment securities and loans was calculated based on the federal income tax statutory rate of 35% in 2003 and 34% in 2002. The following table presents, on a tax equivalent (TE) basis, an analysis of changes in net interest income resulting from changes in average volumes of earning assets and interest bearing liabilities and average rates earned and paid. The change in interest due to the combined rate/volume variance has been allocated to rate and volume changes in proportion to the absolute dollar amounts of change in each. Analysis of Volume and Rate Changes (in thousands) Three Months Ended March 31, 2003 -------------------------------- Increase (Decrease) from Previous Due to Due to Year Volume Rate ---------------------------- Interest Income Taxable investment securities .... $ (502) $ 144 $ (646) Tax-exempt investment securities (TE) .... (6) 99 (105) Federal funds sold and interest earning deposits 7 160 (153) Loans (TE) .... (1,133) (268) (865) ---------------------------- Total interest income (TE) .... $(1,634) $ 135 $(1,769) ---------------------------- Interest Expense Interest bearing demand and savings deposits ... $ (391) $ 95 $ (486) Time deposits .... (743) (11) (732) Federal funds purchased, repurchase agreements and notes payable ...... (59) 287 (346) FHLB advances and other borrowings .... (114) (102) (12) ---------------------------- Total interest expense .... $(1,307) $ 269 $(1,576) ---------------------------- Net Interest Income (TE) .... $ (327) $ (134) $ (193) ============================ Net interest income on a tax equivalent basis was $327,000, or 3.1%, lower for the first three months of 2003 compared to 2002. Total tax-equivalent interest income was $1.634 million, or 9.9%, lower in 2003 compared to 2002, and interest expense decreased $1.307 million, or 22.4%. The decrease in tax-equivalent interest income was mainly due to lower rates, offset slightly by an increase in average balances. The decrease in interest expense was due to lower rates offset somewhat by an increase in average balances. The decrease in total tax-equivalent interest income was due to a decrease in interest income from loans and taxable investment securities. The decrease in interest income from loans was due to lower rates and lower average balances. The decrease in interest income from taxable investment securities was due to lower rates offset somewhat by an increase in average balances. The decrease in total interest expense was due to decreases in interest expense from all categories of interest bearing liabilities. Interest expense on time deposits decreased primarily due to lower rates and interest expense on FHLB advances and other borrowings decreased primarily due to lower average balances. Interest expense on interest bearing demand and savings deposits and federal funds purchased, repurchase agreements and notes payable decreased primarily due to lower rates, offset somewhat by an increase in average balances. The provision for loan losses recorded was $330,000 during the first three months of both 2003 and 2002. The provision during both periods was based on management's analysis of the loan portfolio, as discussed in the provision for loan losses section above. 20 Total non-interest income increased $83,000, or 1.7%, during the first three months of 2003 compared to the first three months of 2002. Included in this increase was an increase of $325,000, or 148.4%, in gains on sales of mortgage loans held-for-sale during the first three months of 2003 compared to the same period in 2002. This increase reflected a $23.249 million, or 86.7%, increase in funded mortgage loans held-for-sale during the first quarter of 2003 compared to the first quarter of 2002. This increase was reflective of lower mortgage interest rates during the first three months of 2003 compared to the same period in 2002. Service charges on deposit accounts increased $26,000, or 4.7%, during the first three months of 2003 compared to the same period in 2002. Other non-interest income increased $19,000, or 3.7%, and trust and brokerage fees increased $9,000, or 0.6%, in the first quarter of 2003 compared to the first quarter of 2002. Somewhat offsetting these increases was a decrease of $183,000, or 9.4%, in remittance processing income in the first three months of 2003 compared to the same period in 2002. This was due to a significant reduction of volume at the Company's remittance processing subsidiary, FirsTech, associated with the donations processed for a charitable organization as well as a gradual volume reduction in electronic payments processed for a large telecommunications company since 2002 as a result of their conversion to an internal processing platform. Income from securities transactions decreased $113,000, or 161.4%, in the first quarter of 2003 compared to the first quarter of 2002. This decrease included recognition of loss on non-marketable equity securities, offset somewhat by a gain on the sale of one available-for-sale government agency security. Total non-interest expense decreased $133,000, or 1.6%, during the first three months of 2003 compared to the same period in 2002. Of this decrease, salaries and employee benefits decreased $106,000, or 2.2%, during the first quarter of 2003 compared to the first quarter of 2002. Equipment expense decreased $39,000, or 5.7%, during the first three months of 2003 compared to the same period in 2002. Data processing expense decreased $34,000, or 6.0%, in the first quarter of 2003 compared to the first quarter of 2002. Salaries and benefits, equipment and data processing expense decreased largely due to efficiencies gained from restructuring and the merger of BankIllinois and First Trust Bank of Shelbyville in June 2002. Office supplies decreased $38,000, or 11.1%, in the first quarter of 2003 compared to the first quarter of 2002. This decrease was due, in part, to a $27,000 decrease at Firstech as a result of reduced volume with one large client, and favorable discounts from renegotiated supply contracts. Service charges from correspondent banks decreased $7,000, or 3.0%, in the first three months of 2003 compared to the same period in 2002. Somewhat offsetting these decreases was an increase in occupancy expense of $71,000, or 12.9%, during the first quarter of 2003 compared to the first quarter of 2002. This was primarily due to increases in snow and ice removal related expenses and utilities due to the harsher winter in the first quarter of 2003 compared to the same period in 2002. Other non-interest expense increased $20,000, or 1.9%, during the first three months of 2003 compared to the same period in 2002. Income tax expense decreased $6,000, or 0.3%, during the first three months of 2003 compared to the first three months of 2002. The effective tax rate increased to 33.8% during the first quarter of 2003 from 33.2% during the first quarter of 2002. Business Segment Information The Company currently operates in two industry segments. The primary business involves providing banking services to central Illinois. The Banks offer a full range of financial services to business and individual customers. These services include demand, savings, time and individual retirement accounts; commercial, consumer (including automobile loans and personal lines of credit), agricultural, and real estate lending; safe deposit and night depository services; farm management; full service trust departments that offer a wide range of services such as investment management, acting as trustee, serving as guardian, executor or agent and miscellaneous consulting; discount brokerage services and purchases of installment obligations from retailers, primarily without recourse. The other industry segment involves retail payment processing. FirsTech provides the following services to electric, water and gas utilities, telecommunication companies, cable television firms and charitable organizations: retail lockbox processing of payments delivered by mail on behalf of the biller; processing of payments delivered by customers to pay agents such as grocery stores, convenience stores and currency exchanges; and concentration of payments delivered by the Automated Clearing House network, money management software such as Quicken and through networks such as Visa e-Pay and MasterCard RPS. 21 Company information is provided for informational purposes only, since it is not considered a separate segment for reporting purposes. Effective January 1, 2003, certain administrative, audit, compliance, accounting, finance, property management, human resources, courier, information systems and other support services previously included in the budgets of the Banks were moved to the Company. During this process, approximately 80 full time equivalent employees were moved from the Banks to the Company. The net expenses of these functions are now allocated to the subsidiaries by charging a monthly management fee. Banking Remittance Services Services Company Eliminations Total -- March 31, 2003 Total interest income .... $ 14,416 $ 18 $ 155 $ (23) $ 14,566 Total interest expense ...... 4,543 -- -- (23) 4,520 Provision for loan losses ... 330 -- -- -- 330 Total non-interest income ... 3,226 1,787 1,101 (1,278) 4,836 Total non-interest expense .. 6,641 1,251 1,450 (1,278) 8,064 Income before income tax .... 6,128 554 (194) -- 6,488 Income tax expense .... 2,038 222 (70) -- 2,190 Net income .... 4,090 332 (124) -- 4,298 Total assets .... 1,103,743 7,101 140,933 (133,767) 1,118,010 Depreciation and amortization 449 100 97 -- 646 March 31, 2002 Total interest income .... $ 16,194 $ 24 $ 43 24 $ (54) $ 16,207 Total interest expense ...... 5,881 -- -- (54) 5,827 Provision for loan losses ... 330 -- -- -- 330 Total non-interest income ... 2,909 1,980 27 (163) 4,753 Total non-interest expense .. 6,865 1,331 164 (163) 8,197 Income before income tax .... 6,027 673 (94) -- 6,606 Income tax expense .... 1,965 269 (38) -- 2,196 Net income .... 4,062 404 (56) -- 4,410 Total assets .... 1,095,135 7,790 142,862 (139,520) 1,106,267 Depreciation and amortization 526 126 8 -- 660 Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995 This document (including information incorporated by reference) contains, and future oral and written statements of the Company and its management may contain, forward-looking statements, within the meaning of such term in the Private Securities Litigation Reform Act of 1995, with respect to the financial condition, results of operations, plans, objectives, future performance and business of the Company. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of the Company's management and on information currently available to management, are generally identifiable by the use of words such as "believe", "expect", "anticipate", "plan", "intend", "estimate", "may", "will", "would", "could", "should", or other similar expressions. Additionally, all statements in this document, including forward-looking statements, speak only as of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries include, but are not limited to, the following: o The strength of the United States economy in general and the strength of the local economies in which the Company conducts its operations which may be less favorable then expected and may result in, among other things, a deterioration in the credit quality and value of the Company's assets. o The economic impact of past and any future terrorist attacks, acts of war or threats thereof, and the response of the United States to any such threats and attacks. o The effects of, and changes in, federal, state and local laws, regulations and policies affecting banking, securities, insurance and monetary and financial matters. o The effects of changes in interest rates (including the effects of changes in the rate of prepayments of the Company's assets) and the policies of the Board of Governors of the Federal Reserve System. 22 o The ability of the Company to compete with other financial institutions as effectively as the Company currently intends due to increases in competitive pressures in the financial services sector. o The inability of the Company to obtain new customers and to retain existing customers. o The timely development and acceptance of products and services, including products and services offered through alternative delivery channels such as the Internet. o Technological changes implemented by the Company and by other parties, including third party vendors, which may be more difficult or more expensive than anticipated or which may have unforeseen consequences to the Company and its customers. o The ability of the Company to develop and maintain secure and reliable electronic systems. o The ability of the Company to retain key executives and employees and the difficulty that the Company may experience in replacing key executives and employees in an effective manner. o Consumer spending and saving habits which may change in a manner that affects the Company's business adversely. o Business combinations and the integration of acquired businesses which may be more difficult or expensive than expected. o The costs, effects and outcomes of existing or future litigation. o Changes in accounting policies and practices, as may be adopted by state and federal regulatory agencies and the Financial Accounting Standards Board. o The ability of the Company to manage the risks associated with the foregoing as well as anticipated. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Additional information concerning the Company and its business, including other factors that could materially affect the Company's financial results, is included in the Company's filings with the Securities and Exchange Commission. Item 3. Quantitative and Qualitative Disclosures about Market Risk See the "Interest Rate Sensitivity" section above. Item 4. Controls and Procedures Based upon an evaluation within the 90 days prior to the filing date of this report, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's internal controls subsequent to the date of the evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. 23 PART II. OTHER INFORMATION Item 1. Legal Proceedings There are no material pending legal proceedings to which the Company or its subsidiaries is a party other than ordinary routine litigation incidental to their respective businesses. Item 2. Changes in Securities and Use of Proceeds None Item 3. Defaults Upon Senior Securities None Item 4. Submission of Matters to a Vote of Security Holders None Item 5. Other Information None Item 6. Exhibits and Reports on Form 8-K a. Exhibits None b. Reports On April 25, 2003, Main Street Trust, Inc. file a report on Form 8-K pursant to Item 12 regarding the issuance of a letter to the shareholders and a press release announcing its earnings for the quarter ended March 31, 2003. 24 SIGNATURES In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. MAIN STREET TRUST, INC. Date: May 6, 2003 By: /s/ David B. White ------------------------------- David B. White Executive Vice President and Chief Financial Officer By: /s/ Van A. Dukeman ------------------------------- Van A. Dukeman President and Chief Executive Officer 25 CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002 I, Van A. Dukeman, Chief Executive Officer of the Company, certify that: 1. I have reviewed this quarterly report on Form 10-Q of Main Street Trust, Inc.; 2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; 3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report; 4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have: a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared; b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within the 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date; 5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function); a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and 6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. Date: May 6, 2003 /s/ Van A. Dukeman -------------------------- Van A. Dukeman Chief Executive Officer 26 CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002 I, David B. White, Chief Financial Officer of the Company, certify that: 1. I have reviewed this quarterly report on Form 10-Q of Main Street Trust, Inc.; 2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; 3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report; 4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have: a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared; b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within the 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date; 5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function); a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and 6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. Date: May 6, 2003 /s/ David B. White -------------------------- David B. White Chief Financial Officer 27