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INVESTORS FINANCIAL SERVICES CORP
Form 8-K
April 10, 2003

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): APRIL 10, 2003

INVESTORS FINANCIAL SERVICES CORP.

(Exact name of registrant as specified in its charter)

DELAWARE

0-26996

04-3279817

(State or other jurisdiction
of incorporation or organization)

(Commission file number)

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

200 CLARENDON STREET, BOSTON, MA

02116

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number including area code: (617) 937-6700

NO CHANGE SINCE LAST REPORT

(Former name or address, if changed since last report)

ITEM 9. REGULATION FD DISCLOSURE.

The undersigned Registrant furnishes the following information under Items 9 and 12.

A. PRESS RELEASE DATED APRIL 10, 2003

INVESTORS FINANCIAL SERVICES CORP. ANNOUNCES FIRST QUARTER EARNINGS

CONTACT: JOHN N. SPINNEY, JR.

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(617) 937-3500
JOHN.SPINNEY@IBTCO.COM

BOSTON, MA, APRIL 10, 2003 - Investors Financial Services Corp. (Nasdaq: IFIN) reported first quarter diluted operating earnings per share of \$0.29, an increase of 21% from \$0.24 in the first quarter of 2002. Net operating income for the first quarter was \$19.3 million, up 20% from \$16.1 million in the first quarter of 2002. Prior year diluted earnings per share reflects the two-for-one stock split which occurred on June 14, 2002.

Both diluted operating earnings per share and net operating income for the first quarter of 2003 exclude the previously disclosed \$13.9 million, or \$0.21 per share, one-time tax accrual that the Company recorded in accordance with Accounting Principles Generally Accepted in the United States of America ("GAAP"). The one-time accrual resulted from a retroactive tax law change during the first quarter by the Commonwealth of Massachusetts disallowing a dividends received deduction taken by Investors Bank & Trust Company on dividends it received since 1999 from a wholly-owned real estate investment trust. This press release includes both an income statement based on GAAP and a pro forma income statement excluding the one-time tax accrual, which management considers a more useful depiction of the Company's results of operations. Including the tax accrual, GAAP net income for the first quarter was \$5.4 million and GAAP diluted earnings per share was \$0.08.

Kevin J. Sheehan, Chairman and Chief Executive Officer, commented, "Investors Financial Services again delivered impressive operating results in a challenging economic environment. Our diverse revenue stream and prudent cost controls continued to drive our strong performance. We are confident that we will be able to meet our diluted operating earnings per share target of \$1.30 and our GAAP diluted earnings per share target of \$1.09 for 2003."

Net operating revenue for the first quarter grew 7% to \$113.0 million from \$105.7 million for the same period in 2002. Revenue from core services such as global custody, multicurrency accounting and mutual fund administration rose to \$56.8 million for the first quarter, up 2% from \$55.9 million from the same period in the prior year. Revenue from value-added services including securities lending, foreign exchange and cash management sweep services increased to \$15.9 million for the quarter, up 19% from

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\$13.4 million in the first quarter of 2002. Net interest income grew 10% to \$39.4 million for the first quarter of 2003 from \$35.7 million for the same period in 2002. Operating expenses were \$84.4 million for the first quarter of 2003, up 3% from \$82.1 million for the same period in 2002. Assets processed for clients totaled approximately \$784 billion at March 31, 2003 compared to \$785 billion at December 31, 2002.

Today the Company also announced that its Board of Directors declared a cash dividend of \$0.015 per share on its common stock. The dividend is payable May 14, 2003 to stockholders of record as of April 30, 2003. Investors Financial will broadcast a conference call, via the Internet, today, April 10, 2003 at 9:00 a.m. EDT. The call will be accessible on Investors Financial's home page at <http://www.ibtco.com>. The conference call will also be available via telephone at (719) 457-2692, confirmation code 534670. Recorded replays of the conference call will be available at www.ibtco.com or by dialing (719) 457-0820, confirmation code 534670.

Investors Financial Services Corp. provides services for a variety of

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financial asset managers such as mutual fund complexes, investment advisors, banks, and insurance companies. Through our wholly-owned subsidiary, Investors Bank & Trust Company, we provide core services including global custody, multicurrency accounting, and mutual fund administration, and value added services including securities lending, foreign exchange, and cash management. Offices are located in the United States, Canada, Cayman Islands, and Ireland. Visit Investors Financial on the web at [HTTP://WWW.IBTCO.COM](http://www.ibtco.com).

This news release contains forward-looking statements (statements which are not historical facts). These statements, such as Mr. Sheehan's statements regarding the Company's 2003 operating and GAAP earnings estimates, are based upon certain assumptions and estimates that might not be realized. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include the performance of global financial markets, changes in interest rates, and the Company's ability to continue to manage its costs and sell its services to new and existing customers. Additional factors that could also affect actual results are set forth under the heading "Certain Factors That May Affect Future Results" in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

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INVESTORS FINANCIAL SERVICES CORP. CONDENSED BALANCE SHEETS (UNAUDITED)

(IN THOUSANDS)

	March 31, 2003
ASSETS	-----
Securities held to maturity	\$ 3,683,457
Securities available for sale	3,512,795
Loans, net of reserve	107,182
Non-marketable equity securities	50,000
Goodwill	79,969
Other non-earning assets	266,974

TOTAL ASSETS	\$ 7,700,377
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
LIABILITIES	
Interest-bearing deposits	\$ 2,230,704
Non-interest bearing deposits	628,457

Total deposits	2,859,161
Securities sold under repurchase agreements	2,988,916
Short-term and other borrowings	1,178,477
Due to brokers for open trades payable	83,366
Other liabilities	109,924

TOTAL LIABILITIES	7,219,844
Minority interest/Trust preferred securities	23,310
Stockholders' equity	457,223

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 7,700,377

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AVERAGE BALANCE SHEET DATA:

Interest earning assets	\$ 6,731,791
Total assets	7,177,001
Total deposits	2,663,447
Common stockholders' equity	447,788

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INVESTORS FINANCIAL SERVICES CORP.
 SELECTED FINANCIAL DATA (UNAUDITED)
 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

GAAP EARNINGS

STATEMENT OF INCOME DATA:

	2003	Quart Mar
Net interest income	\$ 39,369	
Asset servicing and other fees	73,644	
Net operating revenue	113,013	
Operating expenses	84,447	
Income before income taxes and minority interest	28,566	
Provision for income taxes	22,773	
Minority interest expense, net of income taxes	381	
Net Income	\$ 5,412	
Diluted earnings per share	\$ 0.08	

PRO FORMA OPERATING EARNINGS

STATEMENT OF INCOME DATA:

	2003	Quart Mar
Net interest income	\$ 39,369	
Asset servicing and other fees	73,644	
Net operating revenue	113,013	
Operating expenses	84,447	
Income before income taxes and minority interest	28,566	
Provision for income taxes (1)	8,873	
Minority interest expense, net of income taxes	381	
Net Income	\$ 19,312	

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Diluted operating earnings per share

\$ 0.29
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(1) Provision for first quarter 2003 income taxes excludes the \$13,900 tax accrual recognized by the Company as a result of a retroactive tax law change by the Commonwealth of Massachusetts disallowing a 95% dividends received deduction on dividends that Investors Bank & Trust Company received from its wholly-owned real estate investment trust. The effect of this exclusion is a difference of \$0.21 per share in pro forma diluted operating earnings versus GAAP diluted earnings per share.

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B. FINANCIAL HIGHLIGHTS

Investors Financial Services Corp.
Financial Highlights
Quarter Ended
March 31, 2003

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INVESTORS FINANCIAL SERVICES CORP.
CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
FOR THE QUARTER ENDED
MARCH 31, 2003

(Dollars in thousands, except per share data)

NET INTEREST INCOME

Interest income	\$ 60,349
Interest expense	20,980

Net interest income	39,369

NON-INTEREST INCOME

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Asset servicing fees	72,874
Other operating income	770

Total non-interest income	73,644

Net operating revenue	113,013

OPERATING EXPENSES	
Compensation and benefits	49,771
Technology and telecommunications	9,291
Occupancy	7,325
Transaction processing services	6,808
Depreciation and amortization	6,079
Professional fees	1,679
Travel and sales promotion	985
Other operating expenses	2,509

Total operating expenses	84,447

Income Before Income Taxes and Minority Interest	28,566
Provision for income taxes	22,773
Minority interest expense, net of income taxes	381

NET INCOME	\$ 5,412
	=====
EARNINGS PER SHARE (DILUTED)	\$ 0.08
	=====

SHARE INFORMATION
FOR THE QUARTER ENDED (UNAUDITED)
MARCH 31, 2003

Common Stock Outstanding at March 31, 2003	64,992,847
Weighted Average Diluted Shares at March 31, 2003	66,319,248

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(Dollars in thousands)

ASSETS

Securities held to maturity	\$ 3,683,457
Securities available for sale	3,512,795
Loans, net of reserve	107,182
Non-marketable equity securities	50,000
Goodwill, net	79,969
Other assets	266,974

TOTAL ASSETS \$ 7,700,377

LIABILITIES

Interest-bearing deposits	\$ 2,230,704
Non-interest bearing deposits	628,457

Total deposits 2,859,161

Securities sold under repurchase agreements 2,988,916

Short-term and other borrowings 1,178,477

Due to brokers for open trades payable 83,366

Other liabilities 109,924

TOTAL LIABILITIES 7,219,844

Minority interest/trust preferred securities 23,310

Stockholders' Equity 457,223

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$ 7,700,377

INVESTORS FINANCIAL SERVICES CORP.
 AVERAGE BALANCE SHEET (UNAUDITED)
 FOR THE QUARTER ENDED MARCH 31, 2003

(Dollars in thousands)

AVERAGE BALANCE

INTE

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INTEREST-EARNING ASSETS

Federal funds sold and securities purchased under resale agreements	\$ 4,911	\$
Investment securities	6,611,391	
Loans	115,489	

Total interest-earning assets	6,731,791	-----
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Allowance for loan losses	(100)	
Non-interest earning assets	445,310	-----

TOTAL ASSETS	\$ 7,177,001	=====
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INTEREST-BEARING LIABILITIES

Deposits		
Savings	\$ 2,193,981	\$

Securities sold under repurchase agreements	3,092,673	
Short-term and other borrowings	855,274	

Total interest-bearing liabilities	6,141,928	-----
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Non-interest bearing liabilities		
Demand deposits	212,569	
Savings	166,897	
Non-interest bearing time deposits	90,000	
Other liabilities	94,514	

Total liabilities	6,705,908	
Trust preferred stock	23,305	
Equity	447,788	-----

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 7,177,001	=====
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Net interest income	\$	=====
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Net interest margin

Average interest rate spread

Ratio of interest-earning assets to interest-bearing liabilities

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(Dollars in thousands)

ASSET SERVICING FEES BY SERVICE LINES:

Custody, accounting, and administration	\$	56,761
Foreign exchange		6,733
Cash management		5,035
Securities lending		2,188
Investment advisory		1,943
Other service fees		214

TOTAL	\$	72,874
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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.

INVESTORS FINANCIAL SERVICES CORP.

By: /S/ KEVIN J. SHEEHAN

Kevin J. Sheehan
Chief Executive Officer and
Chairman of the Board

Dated: April 10, 2003

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