

FIRST COMMONWEALTH FINANCIAL CORP /PA/

Form 10-Q

August 05, 2011

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2011

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 001-11138

First Commonwealth Financial Corporation

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

25-1428528
(I.R.S. Employer
Identification No.)

22 North Sixth Street, Indiana, PA
(Address of principal executive offices)

15701
(Zip Code)

724-349-7220

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by a 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Smaller reporting company Non-accelerated filer

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of issuer's common stock, \$1.00 par value, as of August 1, 2011, was 104,906,994.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

FORM 10-Q

INDEX

	PAGE
PART I. Financial Information	
ITEM 1. <u>Financial Statements and Supplementary Data (Unaudited)</u>	
Included in Part I of this report:	
<u>First Commonwealth Financial Corporation and Subsidiaries</u>	
<u>Condensed Consolidated Statements of Financial Condition</u>	3
<u>Condensed Consolidated Statements of Income</u>	4
<u>Condensed Consolidated Statements of Changes in Shareholders' Equity</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u>	7
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	8
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	46
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	71
ITEM 4. <u>Controls and Procedures</u>	71
PART II. <u>Other Information</u>	
ITEM 1. <u>Legal Proceedings</u>	72
ITEM 1A. <u>Risk Factors</u>	72
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	72
ITEM 3. <u>Defaults Upon Senior Securities</u>	72
ITEM 4. <u>(Removed and Reserved)</u>	72
ITEM 5. <u>Other Information</u>	72
ITEM 6. <u>Exhibits</u>	73
<u>Signatures</u>	74

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data**(Unaudited)*

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	June 30, 2011	December 31, 2010
	(dollars in thousands, except share data)	
Assets		
Cash and due from banks	\$ 78,187	\$ 69,854
Interest-bearing bank deposits	52,320	4
Securities available for sale, at fair value	1,009,332	967,715
Other investments	44,095	48,859
Loans held for sale	823	0
Loans:		
Portfolio loans	3,992,058	4,218,083
Allowance for credit losses	(75,166)	(71,229)
Net loans	3,916,892	4,146,854
Premises and equipment, net	66,776	66,981
Other real estate owned	36,507	24,700
Goodwill	159,956	159,956
Amortizing intangibles, net	4,597	5,376
Other assets	321,817	322,543
Total assets	\$ 5,691,302	\$ 5,812,842
Liabilities		
Deposits (all domestic):		
Noninterest-bearing	\$ 730,049	\$ 706,889
Interest-bearing	3,806,099	3,910,963
Total deposits	4,536,148	4,617,852
Short-term borrowings	161,935	187,861
Subordinated debentures	105,750	105,750
Other long-term debt	73,352	98,748
Total long-term debt	179,102	204,498
Other liabilities	52,041	52,854
Total liabilities	4,929,226	5,063,065
Shareholders Equity		
Preferred stock, \$1 par value per share, 3,000,000 shares authorized, none issued	0	0
	105,563	105,515

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

Common stock, \$1 par value per share, 200,000,000 shares authorized; 105,563,455 shares issued and 104,906,994 shares outstanding at June 30, 2011; 105,515,079 shares issued and 104,846,194 shares outstanding at December 31, 2010

Additional paid-in capital	366,266	366,488
Retained earnings	297,796	291,492
Accumulated other comprehensive income (loss), net	2,509	(2,458)
Treasury stock (656,461 and 668,885 shares at June 30, 2011 and December 31, 2010)	(7,458)	(7,660)
Unearned ESOP shares	(2,600)	(3,600)
Total shareholders' equity	762,076	749,777
Total liabilities and shareholders' equity	\$ 5,691,302	\$ 5,812,842

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

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data**(Unaudited) (Continued)*

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
	(dollars in thousands, except share data)			
Interest Income				
Interest and fees on loans	\$ 49,379	\$ 57,367	\$ 100,262	\$ 114,775
Interest and dividends on investments:				
Taxable interest	8,558	9,664	16,932	20,131
Interest exempt from federal income taxes	13	1,839	199	3,990
Dividends	12	19	29	46
Interest on bank deposits	27	48	36	73
Total interest income	57,989	68,937	117,458	139,015
Interest Expense				
Interest on deposits	9,093	13,067	18,629	26,647
Interest on short-term borrowings	178	616	363	1,468
Interest on subordinated debentures	1,386	1,390	2,769	2,765
Interest on other long-term debt	447	1,268	943	2,441
Total interest on long-term debt	1,833	2,658	3,712	5,206
Total interest expense	11,104	16,341	22,704	33,321
Net Interest Income	46,885	52,596	94,754	105,694
Provision for credit losses	9,112	4,010	22,929	49,030
Net Interest Income after Provision for Credit Losses	37,773	48,586	71,825	56,664
Noninterest Income				
Change in fair value on impaired securities	448	190	2,317	(1,327)
Non-credit related gains on securities not expected to be sold (recognized in other comprehensive income)	(448)	(2,300)	(2,317)	(3,533)
Net impairment losses	0	(2,110)	0	(4,860)
Net securities gains	1,608	562	2,185	982
Trust income	1,764	1,398	3,482	2,892
Service charges on deposit accounts	3,748	4,603	7,174	8,755
Insurance and retail brokerage commissions	1,616	1,866	3,178	3,728
Income from bank owned life insurance	1,390	1,301	2,747	2,558
Letter of credit fees	892	748	1,526	1,367
Gain on sale of assets	1,251	116	1,482	413
Card related interchange income	3,042	2,686	5,842	5,006
Other income	1,753	1,479	3,776	3,259
Total noninterest income	17,064	12,649	31,392	24,100

Noninterest Expense

Salaries and employee benefits	21,546	21,047	42,674	43,374
Net occupancy expense	3,495	3,539	7,227	7,432
Furniture and equipment expense	3,135	3,101	6,315	6,266
Data processing expense	1,525	1,478	2,949	2,915
Pennsylvania shares tax expense	1,434	1,457	2,612	2,514
Intangible amortization	389	576	779	1,233
Collection and repossession expense	1,726	794	3,042	1,717
Other professional fees and services	1,099	1,062	2,224	2,228
FDIC insurance	1,248	2,012	3,083	3,975
Loss on sale or write-down of assets	4,214	2,314	4,515	2,397
Other operating expenses	5,889	6,298	11,709	12,866
Total noninterest expense	45,700	43,678	87,129	86,917
Income (Loss) Before Income Taxes	9,137	17,557	16,088	(6,153)
Income tax provision (benefit)	1,718	4,015	3,423	(6,527)
Net Income	\$ 7,419	\$ 13,542	\$ 12,665	\$ 374

Average Shares Outstanding	104,686,072	85,777,550	104,652,472	85,405,715
Average Shares Outstanding Assuming Dilution	104,686,072	85,788,566	104,653,604	85,412,371

Per Share Data:

Basic Earnings per Share	\$ 0.07	\$ 0.15	\$ 0.12	\$ 0.00
Diluted Earnings per Share	0.07	0.15	0.12	0.00
Cash Dividends Declared per Common Share	0.03	0.01	0.06	0.04

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

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data**(Unaudited) (Continued)*

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(dollars in thousands, except share data)

	Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net	Treasury Stock	Unearned ESOP Shares	Total Shareholders Equity
Balance at December 31, 2010	104,846,194	\$ 105,515	\$ 366,488	\$ 291,492	\$ (2,458)	\$ (7,660)	\$ (3,600)	\$ 749,777
Comprehensive income								
Net income				12,665				12,665
Other comprehensive income, net of tax:								
Unrealized holding gains on securities arising during the period					4,881			4,881
Non-credit related gains on securities not expected to be sold					1,506			1,506
Reclassification adjustment for gains on securities included in net income					(1,420)			(1,420)
Total other comprehensive income								\$ 4,967
Total comprehensive income								\$ 17,632
Cash dividends declared (\$0.06 per share)				(6,278)				(6,278)
Net decrease in unearned ESOP shares							1,000	1,000
ESOP market value adjustment (\$472, net of \$165 tax benefit)			(307)					(307)
Discount on dividend reinvestment plan purchases			(32)					(32)
Tax benefit of stock options exercised			6					6
Treasury stock acquired	(1,336)					(9)		(9)
Treasury stock reissued	13,760		0	(83)		155		72
Restricted stock	25,000	25	(10)	0		56		71
Common stock issuance	23,376	23	121			0		144
Balance at June 30, 2011	104,906,994	\$ 105,563	\$ 366,266	\$ 297,796	\$ 2,509	\$ (7,458)	\$ (2,600)	\$ 762,076

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data**(Unaudited) (Continued)*

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Continued)

(dollars in thousands, except share data)

	Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net	Treasury Stock	Unearned ESOP Shares	Total Shareholders Equity
Balance at December 31, 2009	85,151,875	\$ 86,600	\$ 301,523	\$ 278,887	\$ (6,045)	\$ (16,554)	\$ (5,600)	\$ 638,811
Comprehensive income								
Net income				374				374
Other comprehensive income, net of tax:								
Unrealized holding gains on securities arising during the period					6,431			6,431
Non-credit related gains on securities not expected to be sold					2,297			2,297
Reclassification adjustment for losses on securities included in net income					2,553			2,553
Total other comprehensive income								\$ 11,281
Total comprehensive income								\$ 11,655
Cash dividends declared (\$0.04 per share)				(3,402)				(3,402)
Net decrease in unearned ESOP shares							1,000	1,000
ESOP market value adjustment (\$500, net of \$175 tax benefit)			(325)					(325)
Discount on dividend reinvestment plan purchases			(22)					(22)
Treasury stock acquired	(1,291)					(8)		(8)
Treasury stock reissued	690,537		656	(4,552)		7,808		3,912
Restricted stock	30,120	0	0	(168)		297		129
Common stock issuance	370,898	371	2,129					2,500
Balance at June 30, 2010	86,242,139	\$ 86,971	\$ 303,961	\$ 271,139	\$ 5,236	\$ (8,457)	\$ (4,600)	\$ 654,250

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

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

(Unaudited) (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended June 30,	
	2011	2010
	(dollars in thousands)	
Operating Activities		
Net income	\$ 12,665	\$ 374
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	22,929	49,030
Deferred tax expense (benefit)	211	(7,526)
Depreciation and amortization	4,827	5,579
Net losses on securities and other assets	1,384	