

FIRST COMMONWEALTH FINANCIAL CORP /PA/

Form 10-Q

May 10, 2011

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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 March 31, 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 May 2, 2011, was 104,906,994.

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	March 31, 2011	December 31, 2010
	(dollars in thousands, except share data)	
Assets		
Cash and due from banks	\$ 75,448	\$ 69,854
Interest-bearing bank deposits	57,871	4
Securities available for sale, at fair value	1,008,453	967,715
Other investments	46,416	48,859
Loans:		
Portfolio loans	4,074,270	4,218,083
Allowance for credit losses	(76,792)	(71,229)
Net loans	3,997,478	4,146,854
Premises and equipment, net	66,162	66,981
Other real estate owned	28,768	24,700
Goodwill	159,956	159,956
Amortizing intangibles, net	4,987	5,376
Other assets	316,827	322,543
Total assets	\$ 5,762,366	\$ 5,812,842
Liabilities		
Deposits (all domestic):		
Noninterest-bearing	\$ 733,731	\$ 706,889
Interest-bearing	3,896,237	3,910,963
Total deposits	4,629,968	4,617,852
Short-term borrowings	155,342	187,861
Subordinated debentures	105,750	105,750
Other long-term debt	73,993	98,748
Total long-term debt	179,743	204,498
Other liabilities	45,181	52,854
Total liabilities	5,010,234	5,063,065
Shareholders Equity		
Preferred stock, \$1 par value per share, 3,000,000 shares authorized, none issued	0	0
Common stock, \$1 par value per share, 200,000,000 shares authorized; 105,515,079 shares issued and 104,859,954 shares outstanding at March 31, 2011; 105,515,079 shares issued and 104,846,194 shares outstanding at December 31, 2010	105,515	105,515

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Additional paid-in capital	366,338	366,488
Retained earnings	293,518	291,492
Accumulated other comprehensive loss, net	(2,669)	(2,458)
Treasury stock (655,125 and 668,885 shares at March 31, 2011 and December 31, 2010)	(7,470)	(7,660)
Unearned ESOP shares	(3,100)	(3,600)
Total shareholders' equity	752,132	749,777
Total liabilities and shareholders' equity	\$ 5,762,366	\$ 5,812,842

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

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended March 31,	
	2011	2010
	(dollars in thousands, except share data)	
Interest Income		
Interest and fees on loans	\$ 50,883	\$ 57,408
Interest and dividends on investments:		
Taxable interest	8,374	10,467
Interest exempt from federal income taxes	186	2,151
Dividends	17	27
Interest on bank deposits	9	25
Total interest income	59,469	70,078
Interest Expense		
Interest on deposits	9,536	13,580
Interest on short-term borrowings	185	852
Interest on subordinated debentures	1,383	1,375
Interest on other long-term debt	496	1,173
Total interest on long-term debt	1,879	2,548
Total interest expense	11,600	16,980
Net Interest Income	47,869	53,098
Provision for credit losses	13,817	45,020
Net Interest Income after Provision for Credit Losses	34,052	8,078
Noninterest Income		
Change in fair value on impaired securities	1,869	(1,517)
Non-credit related gains on securities not expected to be sold (recognized in other comprehensive income)	(1,869)	(1,233)
Net impairment losses	0	(2,750)
Net securities gains	577	420
Trust income	1,718	1,494
Service charges on deposit accounts	3,426	4,152
Insurance and retail brokerage commissions	1,562	1,862
Income from bank owned life insurance	1,357	1,257
Card related interchange income	2,800	2,320
Other income	2,888	2,696
Total noninterest income	14,328	11,451
Noninterest Expense		
Salaries and employee benefits	21,128	22,327
Net occupancy expense	3,732	3,893

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Furniture and equipment expense	3,180	3,165
Data processing expense	1,424	1,437
Pennsylvania shares tax expense	1,178	1,057
Intangible amortization	390	657
Collection and repossession expense	1,316	923
FDIC insurance	1,835	1,963
Other professional fees and services	1,125	1,166
Other operating expenses	6,121	6,651
Total noninterest expense	41,429	43,239
Income (Loss) Before Income Taxes	6,951	(23,710)
Income tax provision (benefit)	1,705	(10,542)
Net Income (Loss)	\$ 5,246	\$ (13,168)
Average Shares Outstanding	104,618,499	85,029,748
Average Shares Outstanding Assuming Dilution	104,623,518	85,029,748
Per Share Data:		
Basic Earnings (Loss) per Share	\$ 0.05	\$ (0.15)
Diluted Earnings (Loss) per Share	0.05	(0.15)
Cash Dividends Declared per Common Share	0.03	0.03

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

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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)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net	Treasury Stock	Unearned ESOP Shares	Total Shareholders' Equity
Balance at December 31, 2010	\$ 105,515	\$ 366,488	\$ 291,492	\$ (2,458)	\$ (7,660)	\$ (3,600)	\$ 749,777
Comprehensive income							
Net income			5,246				5,246
Other comprehensive income, net of tax:							
Unrealized holding losses on securities arising during the period				(1,051)			(1,051)
Non-credit related gains on securities not expected to be sold				1,215			1,215
Reclassification adjustment for gains on securities included in net income				(375)			(375)
Total other comprehensive loss							\$ (211)
Total comprehensive income							\$ 5,035
Cash dividends declared (\$0.03 per share)			(3,138)				(3,138)
Net decrease in unearned ESOP shares						500	500
ESOP market value adjustment (\$226, net of \$80 tax benefit)		(147)					(147)
Discount on dividend reinvestment plan purchases		(16)					(16)
Tax benefit of stock options exercised		6					6
Treasury stock reissued			(82)		156		74
Restricted stock		7			34		41
Balance at March 31, 2011	\$ 105,515	\$ 366,338	\$ 293,518	\$ (2,669)	\$ (7,470)	\$ (3,100)	\$ 752,132

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

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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)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, net	Treasury Stock	Unearned ESOP Shares	Total Shareholders Equity
Balance at December 31, 2009	\$ 86,600	\$ 301,523	\$ 278,887	\$ (6,045)	\$ (16,554)	\$ (5,600)	\$ 638,811
Comprehensive income							
Net loss			(13,168)				(13,168)
Other comprehensive income, net of tax:							
Unrealized holding gains on securities arising during the period				2,538			2,538
Non-credit related gains on securities not expected to be sold				802			802
Reclassification adjustment for losses on securities included in net loss				1,524			1,524
Total other comprehensive income							\$ 4,864
Total comprehensive loss							\$ (8,304)
Cash dividends declared (\$0.03 per share)			(2,544)				(2,544)
Net decrease in unearned ESOP shares						500	500
ESOP market value adjustment (\$255, net of \$89 tax benefit)		(166)					(166)
Discount on dividend reinvestment plan purchases		(17)					(17)
Treasury stock reissued		656	(4,414)		7,494		3,736
Restricted stock			(168)		231		63
Capital issuance	155	845					1,000
Balance at March 31, 2010	\$ 86,755	\$ 302,841	\$ 258,593	\$ (1,181)	\$ (8,829)	\$ (5,100)	\$ 633,079

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

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31,	
	2011	2010
	(dollars in thousands)	
Operating Activities		
Net income (loss)	\$ 5,246	\$ (13,168)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for credit losses	13,817	45,020
Deferred tax expense (benefit)	14	(12,247)
Depreciation and amortization	2,407	2,764
Net (gains) losses on securities and other assets	(535)	2,117
Net amortization (accretion) of premiums and discounts on securities	215	(51)
Net amortization of premiums and discounts on long-term debt	(42)	(305)
Income from increase in cash surrender value of bank owned life insurance	(1,357)	(1,257)
Decrease (increase) in interest receivable	78	(595)
Decrease in interest payable	(1,098)	(676)
Increase in income tax payable	1,587	2,780
Other-net	(970)	3,247
Net cash provided by operating activities	19,362	27,629
Investing Activities		
Transactions with securities held to maturity:		
Proceeds from maturities and redemptions	0	4,953
Transactions with securities available for sale:		
Proceeds from sales	54,965	2,117
Proceeds from maturities and redemptions	72,145	101,725
Purchases	(165,377)	(27,579)
Proceeds from bank owned life insurance	88	0
Proceeds from sale of loans	4,402	0
Proceeds from sales of other assets	2,076	2,904
Net decrease in loans	124,940	31,610
Purchases of premises and equipment	(1,470)	(1,860)
Net cash provided by investing activities	91,769	113,870
Financing Activities		
Net decrease in federal funds purchased	(12,800)	(105,000)
Net decrease in other short-term borrowings	(19,719)	(59,737)
Net increase in deposits	12,143	116,522
Repayments of other long-term debt	(24,213)	(48,809)
Proceeds from issuance of common stock	0	1,000
Discount on dividend reinvestment plan purchases	(16)	(17)
Dividends paid	(3,138)	(2,544)
Proceeds from reissuance of treasury stock	73	3,736

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Net cash used in financing activities	(47,670)	(94,849)
Net increase in cash and cash equivalents	63,461	46,650
Cash and cash equivalents at January 1	69,858	89,559
Cash and cash equivalents at March 31	\$ 133,319	\$ 136,209

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

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

March 31, 2011

Notes to Condensed Consolidated Financial Statements

Note 1 Basis of Presentation

The accounting and reporting policies of First Commonwealth Financial Corporation and its subsidiaries (First Commonwealth or Company) conform with generally accepted accounting principles in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements and accompanying notes. Actual realized amounts could differ from those estimates. In the opinion of management, the unaudited interim condensed consolidated financial statements include all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of First Commonwealth s financial position, results of operations, cash flows and changes in shareholders equity as of and for the periods presented.

The results of operations for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the full year of 2011. These interim financial statements should be read in conjunction with First Commonwealth s 2010 Annual Report on Form 10-K which is available on First Commonwealth s website at <http://www.fcbanking.com>.

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold and interest-bearing bank deposits. Generally, federal funds are sold for one-day periods.

Note 2 Supplemental Comprehensive Income Disclosures

The following table identifies the related tax effects allocated to each component of other comprehensive income in the Condensed Consolidated Statements of Changes in Shareholders Equity:

	For the Three Months Ended March 31, 2011			For the Three Months Ended March 31, 2010		
	Pre-tax Amount	Tax (Expense) Benefit	Net of Tax Amount (dollars in thousands)	Pre-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Unrealized gains on securities:						
Unrealized holding (losses) gains on securities arising during the period	\$ (1,616)	\$ 565	\$ (1,051)	\$ 3,905	\$ (1,367)	\$ 2,538
Non-credit related gains on securities not expected to be sold	1,869	(654)	1,215	1,233	(431)	802
(Gains) losses realized in net income (loss)	(577)	202	(375)	2,345	(821)	1,524
Net unrealized (losses) gains	(324)	113	(211)	7,483	(2,619)	4,864
Other comprehensive (loss) income	\$ (324)	\$ 113	\$ (211)	\$ 7,483	\$ (2,619)	\$ 4,864

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FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

March 31, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 3 Supplemental Cash Flow Disclosures

The following table presents information related to cash paid during the year for interest and income taxes as well as detail on noncash investing and financing activities.

	For the Three Months Ended March 31, 2011 2010 (dollars in thousands)	
Cash paid (received) during the year for:		
Interest	\$ 12,765	\$ 17,999
Income taxes	0	(1,184)
Non-cash investing and financing activities:		
ESOP loan reductions	\$ 500	\$ 500
Loans transferred to other real estate owned and repossessed assets	6,197	1,812
Gross (decrease) increase in market value adjustment to securities available for sale	(334)	7,483

Note