

PEOPLES BANCORP INC
Form 10-Q
May 02, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008

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: 0-16772

PEOPLES BANCORP INC.
(Exact name of Registrant as specified in its charter)

Ohio
(State or other jurisdiction of incorporation or
organization)

31-0987416
(I.R.S. Employer Identification No.)

138 Putnam Street, P. O. Box 738, Marietta, Ohio
(Address of principal executive offices)

45750
(Zip Code)

Registrant's telephone number, including area code:

(740) 373-3155

Not Applicable
(Former name, former address and former fiscal year, if changed
since last report)

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 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 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

Non-accelerated filer
(Do not check if a smaller
reporting company)

Smaller reporting company

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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: 10,395,774 common shares, without par value, at April 30, 2008.

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As used in this Quarterly Report on Form 10-Q ("Form 10-Q"), "Peoples" refers to Peoples Bancorp Inc. and its consolidated subsidiaries collectively, except where the context indicates the reference relates solely to the registrant, Peoples Bancorp Inc.

PART I – FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands, except share data)	March 31, 2008	December 31, 2007
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$ 47,508	\$ 43,275
Interest-bearing deposits in other banks	1,714	1,925
Total cash and cash equivalents	49,222	45,200
Available-for-sale investment securities, at fair value (amortized cost of \$543,365 at March 31, 2008 and \$535,979 at December 31, 2007)	551,098	542,231
Other investment securities, at cost	23,478	23,232
Total investment securities	574,576	565,463
Loans, net of deferred fees and costs	1,115,729	1,120,941
Allowance for loan losses	(15,953)	(15,718)
Net loans	1,099,776	1,105,223
Loans held for sale	823	1,994
Bank premises and equipment, net	24,762	24,803
Business owned life insurance	50,715	50,291
Goodwill	62,520	62,520
Other intangible assets	5,085	5,509
Other assets	23,959	24,550
Total assets	\$ 1,891,438	\$ 1,885,553
Liabilities		
Deposits:		
Non-interest-bearing	\$ 177,449	\$ 175,057
Interest-bearing	1,071,542	1,011,320
Total deposits	1,248,991	1,186,377
Short-term borrowings	154,866	222,541
Long-term borrowings	237,976	231,979
Junior subordinated notes held by subsidiary trust	22,469	22,460
Accrued expenses and other liabilities	19,715	19,360
Total liabilities	1,684,017	1,682,717

Stockholders' Equity

Common stock, no par value, 24,000,000 shares authorized, 10,934,940 shares issued at March 31, 2008 and 10,925,954		
shares issued at December 31, 2007, including shares in treasury	163,857	163,399
Retained earnings	55,890	52,527
Accumulated comprehensive income, net of deferred income taxes	3,977	3,014
Treasury stock, at cost, 639,526 shares at March 31, 2008 and 629,206 shares at December 31, 2007	(16,303)	(16,104)
Total stockholders' equity	207,421	202,836
Total liabilities and stockholders' equity	\$ 1,891,438	\$ 1,885,553

See Notes to the Unaudited Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Dollars in thousands, except per share data)	For the Three Months Ended March 31,	
	2008	2007
Interest Income:		
Interest and fees on loans	\$ 19,851	\$ 21,341
Interest on taxable investment securities	6,684	6,402
Interest on tax-exempt investment securities	732	571
Other interest income	32	46
Total interest income	27,299	28,360
Interest Expense:		
Interest on deposits	8,465	9,127
Interest on short-term borrowings	1,539	3,215
Interest on long-term borrowings	2,514	1,846
Interest on junior subordinated notes held by subsidiary trusts	495	651
Total interest expense	13,013	14,839
Net interest income	14,286	13,521
Provision for loan losses	1,437	623
Net interest income after provision for loan losses	12,849	12,898
Other Income:		
Insurance commissions	2,930	2,950
Service charges on deposit accounts	2,295	2,368
Trust and investment income	1,246	1,143
Electronic banking income	918	828
Business owned life insurance	424	411
Mortgage banking income	204	207
Net gain on investment securities	293	17
Other	217	207
Total other income	8,527	8,131
Other Expenses:		
Salaries and employee benefits	7,560	7,297
Net occupancy and equipment	1,426	1,332
Professional fees	610	614
Data processing and software	541	513
Electronic banking expense	524	460
Franchise tax	416	439
Amortization of intangible assets	415	500
Marketing	370	349
Other	1,880	1,838
Total other expenses	13,742	13,342
Income before income taxes	7,634	7,687
Income taxes	1,986	2,041

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Net income	\$ 5,648	\$ 5,646
Earnings per share:		
Basic	\$ 0.55	\$ 0.53
Diluted	\$ 0.55	\$ 0.53
Weighted-average number of shares outstanding:		
Basic	10,302,713	10,584,893
Diluted	10,345,180	10,670,148
Cash dividends declared	\$ 2,285	\$ 2,328
Cash dividends declared per share	\$ 0.22	\$ 0.22

See Notes to the Unaudited Consolidated Financial Statements

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CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

(Dollars in thousands, except per share data)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Comprehensive Income	Treasury Stock	Total
Balance, December 31, 2007	10,925,954	\$ 163,399	\$ 52,527	\$ 3,014	\$ (16,104)	\$ 202,836
Net income			5,648			5,648
Other comprehensive income, net of tax				963		963
Cash dividends declared of \$0.22 per share			(2,285)			(2,285)
Stock-based compensation expense		252				252
Purchase of treasury stock, 15,407 shares					(337)	(337)
Exercise of common stock options (reissued 5,087 treasury shares)		(41)			138	97
Tax benefit from exercise of stock options		15				15
Issuance of common stock under dividend reinvestment plan	8,986	232				232
Balance, March 31, 2008	10,934,940	\$ 163,857	\$ 55,890	\$ 3,977	\$ (16,303)	\$ 207,421

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

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(Dollars in thousands)	Three Months Ended	
	2008	2007
Net cash provided by operating activities	9,025	5,520
Cash flows from investing activities:		
Purchases of available-for-sale securities	(86,224)	(27,272)
Proceeds from sales of available-for-sale securities	20,290	—
Proceeds from maturities, calls and prepayments of available-for-sale securities	58,838	31,494
Net decrease (increase) in loans	4,256	(3,888)
Net expenditures for premises and equipment	(786)	(379)
Net cash used in investing activities	(3,626)	(45)
Cash flows from financing activities:		
Net increase in non-interest-bearing deposits	2,392	1,201
Net increase (decrease) in interest-bearing deposits	60,190	(17,186)
Net (decrease) increase in short-term borrowings	(67,675)	25,632
Proceeds from long-term borrowings	55,000	35,000
Payments on long-term borrowings	(49,003)	(48,026)
Cash dividends paid	(2,062)	(2,105)
Purchase of treasury stock	(337)	(4,931)
Proceeds from issuance of common stock	103	432
Excess tax benefit for share-based payments	15	101
Net cash used in financing activities	(1,377)	(9,882)
Net increase (decrease) in cash and cash equivalents	4,022	(4,407)
Cash and cash equivalents at beginning of period	45,200	39,806
Cash and cash equivalents at end of period	\$ 49,222	\$ 35,399

See Notes to the Unaudited Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation:

The accompanying unaudited Consolidated Financial Statements of Peoples Bancorp Inc. and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States (“US GAAP”) for interim financial information and the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not contain all of the information and footnotes required by US GAAP and should be read in conjunction with Peoples’ Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (“2007 Form 10-K”).

The accounting and reporting policies followed in the presentation of the accompanying unaudited Consolidated Financial Statements are consistent with those described in Note 1 of the Notes to the Consolidated Financial Statements included in Peoples’ 2007 Form 10-K, as updated by the information contained in this report. In the opinion of management, these financial statements reflect all adjustments necessary to present fairly such information for the periods and dates indicated. Such adjustments are normal and recurring in nature. All significant intercompany accounts and transactions have been eliminated. The Consolidated Balance Sheet at December 31, 2007, contained herein has been derived from the audited Consolidated Balance Sheet included in Peoples’ 2007 Form 10-K.

The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. In addition, Peoples’ insurance commission income includes contingent performance based insurance commissions that are recognized by Peoples when received, which typically occurs during the first quarter of each year. Contingent performance based insurance commissions were \$835,000 and \$795,000 for the three months ended March 31, 2008 and 2007, respectively.

2. New Accounting Pronouncements:

On March 19, 2008, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133 (“SFAS 161”), which requires enhanced disclosures about an entity’s derivative and hedging activities intended to improve the transparency of financial reporting. Under SFAS 161, entities will be required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. Peoples will adopt SFAS 161 effective January 1, 2009 and adoption is not anticipated to have a material impact on Peoples’ Consolidated Financial Statements.

On February 15, 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115 (“SFAS 159”), which permits companies to choose to measure many financial instruments and certain other items at fair value. The objective of SFAS 159 is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently. Peoples adopted SFAS 159 effective January 1, 2008, as required, but has not elected to measure any permissible items at fair value. As a result, the adoption of SFAS 159 did not have any impact on Peoples’ Consolidated Financial Statements.

On September 15, 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (“SFAS 157”), which replaces various definitions of fair value in existing accounting literature with a single definition, establishes a framework for measuring fair value and requires additional disclosures about fair value measurements upon adoption. SFAS 157 clarifies that fair value is the price that would be received to sell an asset or the price paid to transfer a liability in the most advantageous market available to the entity and emphasizes that fair value is a market-based measurement and should be based on the assumptions market participants would use. SFAS 157 also creates a three-level hierarchy under which individual fair value estimates are to be ranked based on the relative reliability of the inputs used in the valuation. This hierarchy is the basis for the disclosure requirements, with fair value estimates based on the least reliable inputs requiring more extensive disclosures about the valuation method used and the gains and losses associated with those estimates. SFAS 157 is required to be applied whenever another financial accounting standard requires or permits an asset or liability to be measured at fair value. The statement does not expand the use of fair value to any new circumstances. Peoples adopted SFAS 157 as of January 1, 2008, as required, and adoption did not have a material impact on Peoples’ Consolidated Financial Statements.

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3. Stock-Based Compensation:

Under the Peoples Bancorp Inc. 2006 Equity Plan (the "2006 Equity Plan") approved by shareholders, Peoples may grant, among other awards, nonqualified stock options, incentive stock options, restricted stock awards, stock appreciation rights or any combination thereof covering up to 500,000 common shares to employees and non-employee directors. In prior years, Peoples granted nonqualified and incentive stock options to employees and nonqualified stock options to non-employee directors under the 2006 Equity Plan and predecessor plans. Since February 2007, Peoples has granted a combination of restricted common shares and stock appreciation rights ("SARs") to employees and restricted common shares to non-employee directors subject to the terms and conditions prescribed by the 2006 Equity Plan. In general, common shares issued in connection with stock-based awards are issued from treasury shares to the extent available. If no treasury shares are available, common shares are issued from authorized but unissued common shares.

Stock Options: Under the provisions of the 2006 Equity Plan and predecessor stock option plans, the exercise price per share of any stock option granted may not be less than the fair market value of the underlying common shares on the date of grant of the stock option. The most recent stock options granted to employees and non-employee directors occurred in 2006. The stock options granted to employees will vest three years from the grant date, while the stock options granted to non-employee directors vested six months from the grant date. All stock options granted to both employees and non-employee directors expire ten years from the date of grant.

The following summarizes the changes to Peoples' stock options for the period ended March 31, 2008:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1	325,461	\$ 22.74		
Granted	–	–		
Exercised	6,405	19.51		
Forfeited	3,407	28.20		
Outstanding at March 31	315,649	22.75	4.8 years	\$ 942,000
Exercisable at March 31	273,111	21.86	4.3 years	\$ 942,000

For the three months ended March, 31, 2008, the total intrinsic value of stock options exercised was \$17,000. The following summarizes information concerning Peoples' stock options outstanding at March 31, 2008:

Range of Exercise Prices	Stock Options Outstanding			Stock Options Exercisable	
	Number of Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
\$13.48 to \$16.10	79,272	1.6 years	\$ 14.28	79,272	\$ 14.28

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\$16.45to\$22.32	64,284	4.6	21.82	64,284	21.82
		years			
\$22.33to\$27.74	91,527	5.4	25.54	91,527	25.54
		years			
\$27.74to\$30.00	80,566	7.4	28.65	38,028	28.85
		years			
Total	315,649	4.8	\$ 22.75	273,111	\$ 21.86
		years			

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Stock Appreciation Rights: SARs granted to employees have an exercise price equal to the fair market value of Peoples' common shares on the date of grant and will be settled using common shares of Peoples. Additionally, the SARs granted will vest three years from the grant date and expire ten years from the date of grant. The following summarizes the changes to Peoples' SARs for the period ended March 31, 2008:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1	30,374	\$ 27.96		
Granted	26,170	23.77		
Exercised	—	—		
Forfeited	576	29.25		
Outstanding at March 31	55,968	25.99	9.4 years	\$ 13,000
Exercisable at March 31	535	29.25	0.3 years	\$ —

For the three months ended March, 31, 2008, the weighted-average estimated fair value of the SARs granted was \$5.51. The following summarizes information concerning Peoples' SARs outstanding at March 31, 2008:

Exercise Prices	Number of Shares Outstanding	Weighted Average Remaining Contractual Life	Number of Shares Exercisable
\$23.26	5,000	9.3 years	—
\$23.77	26,170	9.9 years	—
\$23.80	1,000	9.7 years	—
\$27.99	3,000	9.5 years	—
\$29.25	20,798	8.7 years	535
Total	55,968	9.4 years	535

Restricted Shares: Under the 2006 Equity Plan, Peoples may award restricted common shares to officers, key employees and non-employee directors. In general, the restrictions on common shares awarded to non-employee directors expire after six months, while the restrictions on common shares awarded to employees expire after three years. The following summarizes the changes to Peoples' restricted common shares for the period ended March 31, 2008:

Weighted-

	Number of Shares	Average Grant Date Fair Value
Outstanding at January 1	9,148	\$ 28.49
Awarded	12,069	23.77
Released	—	—
Forfeited	164	29.25
Outstanding at March 31	21,053	\$ 25.78

Stock-Based Compensation: Peoples recognizes stock-based compensation expense, which is included as a component of Peoples' salaries and benefits costs, based on the estimated fair value of the awards on the grant date. The following summarizes the amount of stock-based compensation expense and related tax benefit recognized for the period ended March 31:

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	Three Months Ended	
	March 31, 2008	March 31, 2007
Total stock-based compensation	\$ 252,000	\$ 144,000
Recognized tax benefit	(88,000)	(50,000)
Net expense recognized	\$ 164,000	\$ 94,000

The estimated fair value of SARs was calculated at grant date using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2008	2007
Risk-free interest rate	4.39%	4.89%
Dividend yield	3.82%	2.85%
Volatility factor of the market price of parent stock	26.3%	25.3%
Weighted-average expected life	10 years	10 years

The Black-Scholes option valuation model was originally developed for use in estimating the fair value of traded options, which have different characteristics than equity awards granted by Peoples, such as no vesting or transfer restrictions. The model requires the input of highly subjective assumptions, including the expected stock price volatility, which can materially affect the fair value estimate. The expected volatility and expected life assumptions were based solely on historical data. The expected dividend yield is computed based on the current dividend rate, and the risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term approximating the expected life of the equity awards.

Total unrecognized stock-based compensation expense related to unvested awards was \$406,000 at March 31, 2008, which will be recognized over a weighted-average period of 1.8 years.

4. Employee Benefit Plans:

Peoples sponsors a noncontributory defined benefit pension plan that covers substantially all employees. The plan provides retirement benefits based on an employee's years of service and compensation. In 2003, Peoples changed the methodology used to determine the retirement benefits for employees hired on or after January 1, 2003, which has lowered accumulated benefit obligation and net costs. Peoples also has a contributory postretirement benefit plan for former employees who were retired as of December 31, 1992. The plan provides health and life insurance benefits. Peoples' policy is to fund the cost of the benefits as they are incurred. The following table details the components of the net periodic benefit cost for the plans:

	Pension Benefits	Postretirement Benefits
	March 31,	March 31,

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(Dollars in thousands)	2008	2007	2008	March 31, 2007
Service cost	\$ 191	\$ 212	\$ -	\$ -
Interest cost	195	189	4	6
Expected return on plan assets	(300)	(210)	-	-
Amortization of prior service cost	1	1	(1)	-
Amortization of net loss	3	40	(1)	1
Net periodic benefit cost	\$ 90	\$ 232	\$ 2	\$ 7

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5. Comprehensive Income:

The components of other comprehensive income for the three months ended March 31 were as follows:

(Dollars in thousands)	2008	2007
Net income	\$ 5,648	\$ 5,646
Other comprehensive income:		
Available-for-sale investment securities:		
Gross unrealized holding gain arising in the period	1,775	2,608
Related tax expense	(622)	(913)
Less: reclassification adjustment for net gain included in net income	293	17
Related tax (expense)	(103)	(6)
Net effect on other comprehensive income	963	1,684
Defined benefit plans:		
Amortization of unrecognized loss and service cost on pension plan	–	40
Related tax expense	–	(14)
Net effect on other comprehensive income	–	26
Total other comprehensive income, net of tax	963	1,710
Total comprehensive income	\$ 6,611	\$ 7,356

The following details the change in the components of Peoples' accumulated other comprehensive income for the three months ended March 31, 2008:

(Dollars in thousands)	Unrealized Gains on Securities	Unrecognized Net Pension and Postretirement Costs	Accumulated Comprehensive Income
Balance, December 31, 2007	\$ 4,064	\$ (1,050)	\$ 3,014
Current period change, net of tax	963	–	963
Balance, March 31, 2008	\$ 5,027	\$ (1,050)	\$ 3,977

6. Earnings per Share:

Basic earnings per share are computed by dividing net income by the weighted-average number of common shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding adjusted to include the effect of potentially dilutive common shares. Potentially dilutive common shares include incremental shares issuable upon exercise of outstanding stock options, SARs and non-vested restricted common shares using the treasury stock method. The calculation of basic and diluted earnings per share

was as follows:

(Dollars in thousands, except per share data)	Three Months Ended March 31,	
	2008	2007
Net income	\$ 5,648	\$ 5,646
Weighted-average common shares outstanding	10,302,713	10,584,893
Effect of potentially dilutive common shares	42,467	85,255
Total weighted-average diluted common shares outstanding	10,345,180	10,670,148
Earnings per Share:		
Basic	\$ 0.55	\$ 0.53
Diluted	\$ 0.55	\$ 0.53

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7. Contingent Liabilities:

Peoples is a member of the Visa USA network, which was reorganized under a single holding company, Visa Inc. (“Visa”), during 2007. As a result of Visa’s restructuring, Peoples’ membership interest was exchanged for a negligible equity interest in Visa Inc. Under the Visa bylaws, Peoples is obligated to indemnify Visa for certain losses, with the amount based on Peoples’ proportionate equity interest in Visa. During 2007, Visa announced it had recognized liabilities for probable settlements for two pending litigations. Peoples accrued its proportional share of these liabilities in fourth quarter 2007 based on information provided by Visa, although the amounts did not have a material impact on Peoples’ Consolidated Financial Statements taken as a whole.

In March 2008, Visa completed the offer and sale of its Class A Common Stock to the public and used the proceeds to redeem a portion of Visa USA member’s equity interests (Class B Common Stock) and to fund a litigation escrow account to satisfy liabilities arising from certain Visa USA related litigation. The redemption of the remaining equity interest is not expected to occur until the outcome of this litigation is reasonably assured. Accordingly, Peoples received cash of \$134,000 in partial redemption of its equity interest, previously carried at zero value, and recognized a gain in the first quarter of 2008.

8. Fair Values of Financial Instruments

Effective January 1, 2008, Peoples adopted SFAS 157, which established a hierarchy for measuring fair value that is intended to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

Level 1 – Quoted prices in active exchange markets for identical assets or liabilities; also includes certain U.S. Treasury and other U.S. Government and agency securities actively traded in over-the-counter markets.

Level 2 – Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data; also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data. This category generally includes certain U.S. Government and agency securities, certain collateralized debt obligations, corporate debt securities, derivative instruments, and residential mortgage loans held for sale.

Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for single dealer nonbinding quotes not corroborated by observable market data. This category generally includes certain private equity investments, retained interests from securitizations, and certain collateralized debt obligations.

Assets measured at fair value on a recurring basis comprise the following at March 31, 2008:

Fair Value Measurements at Reporting Date Using		
Quoted Prices in Active	Significant Other Observable	Significant Unobservable Inputs

(Dollars in thousands)	Fair Value	Markets for Identical Assets		Inputs	
		(Level 1)	(Level 2)	(Level 2)	(Level 3)
Available-for-sale investment securities	\$ 551,098	\$ 3,888	\$ 537,922	\$ 9,288	
Interest rate contract		1	–	1	–
Total	\$ 551,099	\$ 3,888	\$ 537,923	\$ 9,288	

The investment securities measured at fair value utilizing Level 1 and 2 inputs are obligations of the U.S. Treasury, agencies and corporations of the U.S. government, including mortgage-backed securities, bank eligible obligations of any state or political subdivision in the U.S., bank eligible corporate obligations, including private-label mortgage-backed securities and common stocks issued by various unrelated banking holding companies. The fair values used by Peoples are obtained from an independent pricing service, which represent either quoted market prices for the identical securities (Level 1 inputs) or fair values determined by pricing models that considers observable market data, such as interest rate volatilities, LIBOR yield curve, credit spreads and prices from market markers and live trading systems.

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The investment securities measured at fair value using Level 3 inputs are comprised of collateralized debt obligations for which there is not an active market. Peoples uses multiple input factors to determine the fair value of these securities. Those input factors are discounted cash flow analysis, structure of the security in relation to current level of deferrals and/or defaults, changes in credit ratings, financial condition of the debtors within the underlying securities, broker quotes for securities similar structure and credit risk, interest rate movements and pricing of new issuances.

The following is a reconciliation of activity for assets measured at fair value based on significant unobservable (non-market) information:

	Investment Securities
Balance, January 1, 2008	\$ 9,004
Unrealized gain included in comprehensive income	284
Balance, March 31, 2008	\$ 9,288

Certain assets were measured at fair value on a non-recurring basis at March 31, 2008. In accordance with the provisions of FASB Statement No. 114, loans held for investment were written down to the fair value of the underlying collateral securing these loans of \$6.3 million, less cost to sell of \$0.7 million (or net value of \$5.6 million). These loans had a carrying amount of \$5.7 million, resulting in a loss of \$119,000, which was recognized in earnings through the provision for loan losses during the period. The fair value of collateral used by Peoples represents that amount expected to be received from the sale of the property as determined by an independent, licensed or certified appraiser in accordance with USPAP, using observable market data. This data includes information such as selling price of similar properties and capitalization rates of similar properties sold within the market, expected future cash flows or earnings of the subject property based on current market expectations, relevant legal, physical, and economic factors supporting the highest and best use of the property and replacement cost of the exact property, adjusted for obsolescence.

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ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION AND FINANCIAL CONDITION

SELECTED FINANCIAL DATA

The following data should be read in conjunction with the unaudited Consolidated Financial Statements and Management's Discussion and Analysis that follows:

SIGNIFICANT RATIOS	At or For the Three Months Ended March 31,	
	2008	2007
Return on average equity	11.00%	11.59%
Return on average assets	1.21%	1.22%
Net interest margin (a)	3.51%	3.32%
Efficiency ratio (b)	58.09%	58.45%
Average stockholders' equity to average assets	10.99%	10.54%
Average loans to average deposits	92.06%	93.68%
Dividend payout ratio	40.46%	41.23%
ASSET QUALITY RATIOS		
Nonperforming loans as a percent of total loans (c)	1.57%	0.53%
Nonperforming assets as a percent of total assets (d)	0.94%	0.32%
Allowance for loan losses to loans net of unearned interest	1.43%	1.28%
Allowance for loan losses to nonperforming loans (c)	91.20%	241.30%
Provision for loan losses to average loans	0.13%	0.06%
Net charge-offs as a percentage of average loans (annualized)	0.43%	0.22%
CAPITAL RATIOS (end of period)		
Tier I capital ratio	12.13%	11.93%
Total risk-based capital ratio	13.44%	13.11%
Leverage ratio	8.81%	8.91%
PER SHARE DATA		
Earnings per share – basic	\$ 0.55	\$ 0.53
Earnings per share – diluted	0.55	0.53
Cash dividends declared per share	0.22	0.22
Book value per share (end of period)	20.15	18.85
	\$ 13.58	\$ 12.34

Tangible book value per share (end of period) (e)		
Weighted average shares outstanding – Basic	10,302,713	10,584,893
Weighted average shares outstanding – Diluted	10,345,180	10,670,148
Common shares outstanding at end of period	10,295,414	10,511,134

Fully tax-equivalent net interest income as a percentage of average earning assets.

- (a)
- (b) Non-interest expense (less intangible amortization) as a percentage of fully tax-equivalent net interest income plus non-interest income
(excluding gains or losses on investment securities and asset disposals).
- (c) Nonperforming loans include loans 90 days past due and accruing, renegotiated loans and nonaccrual loans.
- (d) Nonperforming assets include nonperforming loans and other real estate owned.
- (e) Tangible book value per share reflects capital calculated for banking regulatory requirements and excludes balance sheet impact of intangible assets acquired through acquisitions.

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Forward-Looking Statements

Certain statements in this Form 10-Q which are not historical fact are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Words such as “feels”, “expects,” “believes”, “plans”, “will”, “would”, “should”, “could” and similar expressions are intended to identify these forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements are subject to risks and uncertain-ties that may cause actual results to differ materially. Factors that might cause such a difference include, but are not limited to:

- (1) deterioration in the credit quality of Peoples’ loan portfolio could occur due to a number of factors, such as adverse changes in economic conditions that impair the ability of borrowers to repay their loans, the underlying value of the collateral could prove less valuable than otherwise assumed and assumed cash flows may be worse than expected, which may adversely impact the provision for loan losses;
- (2) competitive pressures among financial institutions or from non-financial institutions, which may increase significantly;
 - (3) changes in the interest rate environment, which may adversely impact interest margins;
- (4) changes in prepayment speeds, loan originations, sale volumes, and charge-offs, which may be less favorable than expected and adversely impact the amount of interest income generated;
- (5) general economic conditions, either national or in the states in which Peoples does business, which may be less favorable than expected;
- (6) political developments, wars or other hostilities, which may disrupt or increase volatility in securities markets or other economic conditions;
 - (7) legislative or regulatory changes or actions, which may adversely affect the business of Peoples;
- (8) adverse changes in the conditions and trends in the financial markets, which may adversely affect the fair value of securities within Peoples’ investment portfolio;
 - (9) a delayed or incomplete resolution of regulatory issues that could arise;
 - (10) ability to receive dividends from subsidiaries;
- (11) changes in accounting standards, policies, estimates or procedures, which may impact Peoples’ reported financial condition or results of operations;
 - (12) ability to maintain required capital levels and adequate sources of funding and liquidity;
- (13) the impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity;
- (14) the costs and effects of regulatory and legal developments, including the outcome of regulatory or other governmental inquiries and legal proceedings and results of regulatory examinations; and
- (15) other risk factors relating to the banking industry or Peoples as detailed from time to time in Peoples’ reports filed with the Securities and Exchange Commission (“SEC”), including those risk factors included in the disclosure under the heading “ITEM 1A. RISK FACTORS” of Part I of Peoples’ 2007 Form 10-K.

All forward-looking statements speak only as of the execution date of this Form 10-Q and are expressly qualified in their entirety by the cautionary statements. Although management believes the expectations in these forward-looking statements are based on reasonable assumptions within the bounds of management’s knowledge of Peoples’ business and operations, it is possible that actual results may differ materially from these projections. Additionally, Peoples undertakes no obligation to update these forward-looking statements to reflect events or circumstances after the date of this Form 10-Q or to reflect the occurrence of unanticipated events except as may be required by applicable legal requirements. Copies of documents filed with the SEC are available free of charge at the SEC’s website at <http://www.sec.gov> and/or from Peoples Bancorp’s website – www.peoplesbancorp.com.

Business Overview

The following discussion and analysis of Peoples' unaudited Consolidated Financial Statements is presented to provide insight into management's assessment of the financial condition and results of operations.

Peoples makes available diversified financial products and services through 50 financial service locations and 38 ATMs in southeastern Ohio, northwestern West Virginia and northeastern Kentucky through its financial service units – Peoples Bank, National Association (“Peoples Bank”), Peoples Financial Advisors (a division of Peoples Bank) and Peoples Insurance Agency, Inc. Peoples Bank is a member of the Federal Reserve System and subject to regulation, supervision and examination by the Office of the Comptroller of the Currency.

Peoples' products and services include traditional banking products, such as deposit accounts, lending products and trust services. Peoples also offers a complete array of insurance products and makes available custom-tailored fiduciary and wealth management services. Peoples provides services through traditional offices, ATMs and telephone and internet-based banking. Brokerage services are offered exclusively through an unaffiliated registered broker-dealer located at Peoples' offices.

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This discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements, and notes thereto, contained in Peoples' 2007 Form 10-K, as well as the Consolidated Financial Statements, ratios, statistics and discussions contained elsewhere in this Form 10-Q.

Critical Accounting Policies

The accounting and reporting policies of Peoples conform to US GAAP and to general practices within the financial services industry. The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could materially differ from those estimates. Management has identified the accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of Peoples' Consolidated Financial Statements and Management's Discussion and Analysis at March 31, 2008, which were unchanged from the policies disclosed in Peoples' 2007 Form 10-K.

Summary of Recent Transactions and Events

The following is a summary of recent transactions that have impacted or are expected to impact Peoples' results of operations or financial condition:

- o In the first quarter of 2008, Peoples completed certain investment securities transactions focused on reducing exposures to credit and interest rate risks. Specifically, Peoples sold \$7.2 million of preferred stocks issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation and two US agency collateralized mortgage obligations with an aggregate book value of \$7.6 million. The preferred stocks, whose book value previously had been reduced by \$3.2 million due to impairment charges recorded in fourth quarter 2007, were sold to reduce Peoples' exposure to those entities. The sale of the collateralized mortgage obligations was part of management's current strategy to lessen the exposure to a future rising interest rate environment within Peoples' investment portfolio. Peoples also sold several small-lot mortgage-backed securities. The net impact of the portfolio management initiatives produced a net gain of \$159,000.
 - o In March 2008, Peoples recognized a gain of \$134,000 from the mandatory, partial redemption of its equity interest in Visa USA in connection with the initial public offering of Visa Inc (the "Visa Redemption"). Peoples' equity interest in Visa USA was previously carried at zero value.
- o On January 12, 2007, Peoples announced the authorization to repurchase up to 425,000 of Peoples' outstanding common shares in 2007 from time to time in open market transactions (the "2007 Stock Repurchase Program"). On November 9, 2007, Peoples announced the authorization to repurchase up to 500,000 common shares upon the completion of the 2007 Stock Repurchase Program and continuing in 2008 until expiration on December 31, 2008. Peoples completed the 2007 Stock Repurchase Program on November 23, 2007. Through April 30, 2008, Peoples had repurchased a total of 52,200 common shares, at an average price of \$23.58, under the stock repurchase plan announced November 9, 2007, of which 13,600 common shares were repurchased during the first quarter of 2008, at an average price of \$21.59. All of the common shares repurchased were held as treasury shares and available for future issuances of common shares in connection with equity awards granted from Peoples' equity plans and other general corporate purposes.

The impact of these transactions, where material, is discussed in the applicable sections of this Management's Discussion and Analysis.

Executive Summary

For the three months ended March 31, 2008, net income totaled \$5.6 million, matching the amount earned for the same period a year ago, while diluted earnings per share increased \$0.02 to \$0.55. Return on equity ("ROE") was 11.00% for the first quarter of 2008 versus 11.59% a year ago, while return on assets ("ROA") was 1.21% versus 1.22%, respectively.

Net interest income grew to \$14.3 million for the quarter ended March 31, 2008, from \$13.9 million for the prior quarter, while net interest margin expanded 11 basis points to 3.51%. Compared to the first quarter of 2007, net interest income was up 6% in the first quarter of 2008 and net interest margin expanded 19 basis points. These improvements were attributable to the recent decline in short-term interest rates along with a reduction in certain deposit rates, which resulted in a greater decline in funding costs than asset yields.

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In the first quarter of 2008, total non-interest income, which excludes gains and losses on securities and asset disposals, was \$8.2 million compared to \$8.1 million a year ago. The primary driver of this growth was higher trust and investment revenues from an increase in assets under management since March 31, 2007. Electronic banking (“e-banking”) revenue was up 11%, contributing to the increased non-interest income. During the first quarter of 2008, Peoples recognized a net gain of \$293,000 from active investment portfolio management focused on reducing exposures to credit and interest rate risks.

Non-interest expense totaled \$13.7 million through three months of 2008, versus \$13.3 million for the same period in 2007. First quarter salary and benefit costs were up 4% year-over-year and accounted for over half of the increase in total non-interest expense. Other key contributing factors were increased occupancy expenses, including repairs, maintenance and utility costs, and e-banking expense, primarily online banking costs.

At March 31, 2008, total assets were \$1.89 billion, virtually unchanged since year-end 2007. Gross portfolio loan balances decreased \$5.2 million during the first quarter of 2008, to \$1.12 billion, attributable to commercial loan payoffs. Investment securities totaled \$574.6 million at quarter-end versus \$565.5 million at year-end 2007.

Total liabilities were \$1.68 billion at both March 31, 2008 and December 31, 2007. Total deposit balances increased \$62.6 million since year-end 2007, to \$1.25 billion at March 31, 2008. During the first quarter of 2008, retail deposit balances grew \$82.4 million, due almost entirely to growth in interest-bearing deposit balances, which were used to reduce higher rate brokered certificates of deposit balances by \$19.8 million. The retail deposit growth also contributed to the \$61.7 million, or 13%, overall reduction in borrowed funds since year-end 2007.

Total stockholders’ equity grew \$4.6 million, from \$202.8 million at December 31, 2007, largely attributable to the increase in Peoples’ retained earnings.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income, the amount by which interest income exceeds interest expense, remains Peoples’ largest source of revenue. The amount of net interest income earned by Peoples each quarter is affected by various factors, including changes in market interest rates due to the Federal Reserve Board’s monetary policy, the level and degree of pricing competition for both loans and deposits in Peoples’ markets, and the amount and composition of Peoples’ earning assets and interest-bearing liabilities.

Net interest margin, calculated by dividing fully tax-equivalent (“FTE”) net interest income by average interest-earning assets, serves as an important measurement of the net revenue stream generated by the volume, mix and pricing of Peoples’ earning assets and interest-bearing liabilities. FTE net interest income is calculated by increasing interest income to convert tax-exempt income earned on obligations of states and political subdivisions to the pre-tax equivalent of taxable income using a 35% federal statutory tax rate. The following table details the calculation of FTE net interest income:

	Three Months Ended		
	March 31,	December 31,	March 31,
	2008	2007	2007
(Dollars in thousands)			

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Net interest income, as reported	\$ 14,286	\$ 13,915	\$ 13,521
Taxable equivalent adjustments	422	431	335
Fully tax-equivalent net interest income	\$ 14,708	\$ 14,346	\$ 13,856

The following table details Peoples' average balance sheet for the periods presented:

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(Dollars in thousands)	March 31, 2008			For the Three Months Ended December 31, 2007			March 31, 2007		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Short-Term Investments:									
Deposits with other banks	\$ 3,382	\$ 27	3.10%	\$ 2,069	\$ 25	4.70%	\$ 3,254	\$ 38	4.74%
Federal funds sold	635	5	3.17%	563	6	4.44%	629	8	5.22%
Total short-term investments	4,017	32	3.11%	2,632	31	4.64%	3,883	46	4.81%
Investment Securities (1):									
Taxable	512,362	6,684	5.22%	512,714	6,754	5.27%	506,321	6,402	5.06%
Nontaxable (2)	69,276	1,126	6.51%	69,257	1,152	6.66%	52,971	879	6.64%
Total investment securities	581,638	7,810	5.37%	581,971	7,906	5.43%	559,292	7,281	5.21%
Loans (3):									
Commercial	746,945	13,198	7.11%	755,445	14,334	7.53%	755,067	14,523	7.80%
Real estate (4)	283,949	5,005	7.09%	287,898	5,184	7.20%	299,311	5,313	7.10%
Consumer	82,129	1,676	8.21%	82,451	1,714	8.25%	75,142	1,532	8.27%
Total loans	1,113,023	19,879	7.17%	1,125,794	21,232	7.48%	1,129,520	21,368	7.65%
Less: Allowance for loan loss	(16,240)			(15,048)			(14,731)		
Net loans	1,096,783	19,879	7.28%	1,110,746	21,232	7.60%	1,114,789	21,368	7.75%
Total earning assets	1,682,438	27,721	6.61%	1,695,349	29,169	6.85%	1,677,964	28,695	6.89%
Intangible assets	67,831			68,275			68,589		
Other assets	128,307			128,747			128,598		
Total assets	\$ 1,878,576			\$ 1,892,371			\$ 1,875,151		
Deposits:									
Savings	\$ 108,525	\$ 122	0.45%	\$ 109,543	\$ 181	0.66%	\$ 114,132	\$ 166	0.59%
Interest-bearing transaction	197,998	982	1.99%	185,246	1,036	2.22%	176,773	846	1.94%
Money market	152,202	1,058	2.80%	151,582	1,365	3.57%			