

PEOPLES BANCORP INC
Form 10-Q
October 24, 2013

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 September 30, 2013

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

31-0987416

(State or other jurisdiction of
incorporation or organization)

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

138 Putnam Street, P. O. Box 738,
Marietta, Ohio

45750

(Address of principal executive
offices)

(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 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 Accelerated filer Non-accelerated filer

Smaller reporting company

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filer o

(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
o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable
date: 10,810,596 common shares, without par value, at October 23, 2013.

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PART I

ITEM 1. FINANCIAL STATEMENTS

PEOPLES BANCORP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands)	September 30, 2013	December 31, 2012
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$41,348	\$47,256
Interest-bearing deposits in other banks	9,312	15,286
Total cash and cash equivalents	50,660	62,542
Available-for-sale investment securities, at fair value (amortized cost of \$623,024 at September 30, 2013 and \$628,584 at December 31, 2012)	616,036	639,185
Held-to-maturity investment securities, at amortized cost (fair value of \$48,629 at September 30, 2013 and \$47,124 at December 31, 2012)	49,758	45,275
Other investment securities, at cost	24,679	24,625
Total investment securities	690,473	709,085
Loans, net of deferred fees and costs	1,057,165	985,172
Allowance for loan losses	(16,902)	(17,811)
Net loans	1,040,263	967,361
Loans held for sale	3,179	6,546
Bank premises and equipment, net	28,990	27,013
Bank owned life insurance	1,865	51,229
Goodwill	65,786	64,881
Other intangible assets	5,631	3,644
Other assets	32,858	25,749
Total assets	\$1,919,705	\$1,918,050
Liabilities		
Deposits:		
Non-interest-bearing	\$356,767	\$317,071
Interest-bearing	1,081,099	1,175,232
Total deposits	1,437,866	1,492,303
Short-term borrowings	106,843	47,769
Long-term borrowings	124,146	128,823
Accrued expenses and other liabilities	28,603	27,427
Total liabilities	1,697,458	1,696,322
Stockholders' Equity		
Preferred stock, no par value, 50,000 shares authorized, no shares issued at September 30, 2013 and December 31, 2012	—	—
Common stock, no par value, 24,000,000 shares authorized, 11,197,041 shares issued at September 30, 2013 and 11,155,648 shares issued at December 31, 2012, including shares in treasury	168,457	167,039
Retained earnings	77,298	69,158
Accumulated other comprehensive (loss) income, net of deferred income taxes	(8,545)	)654
Treasury stock, at cost, 600,244 shares at September 30, 2013 and 607,688 shares at December 31, 2012	(14,963)	)(15,123)
Total stockholders' equity	222,247	221,728
Total liabilities and stockholders' equity	\$1,919,705	\$1,918,050

See Notes to the Unaudited Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(Dollars in thousands, except per share data)	2013	2012	2013	2012
Interest Income:				
Interest and fees on loans	\$11,958	\$11,911	\$34,945	\$35,714
Interest and dividends on taxable investment securities	4,119	4,658	12,493	15,104
Interest on tax-exempt investment securities	410	368	1,183	1,064
Other interest income	22	5	65	13
Total interest income	16,509	16,942	48,686	51,895
Interest Expense:				
Interest on deposits	1,674	2,171	5,411	7,007
Interest on short-term borrowings	28	19	63	57
Interest on long-term borrowings	1,131	936	3,406	2,984
Interest on junior subordinated debentures held by subsidiary trust	—	495	—	1,482
Total interest expense	2,833	3,621	8,880	11,530
Net interest income	13,676	13,321	39,806	40,365
Recovery of loan losses	(919)	) (956)	) (3,446)	) (4,213)
Net interest income after recovery of loan losses	14,595	14,277	43,252	44,578
Other Income:				
Insurance income	3,261	2,367	9,359	7,756
Deposit account service charges	2,377	2,261	6,479	6,728
Trust and investment income	1,751	1,565	5,225	4,510
Electronic banking income	1,547	1,484	4,527	4,436
Mortgage banking income	360	638	1,443	1,869
Net (loss) gain on investment securities	(1	) 112	443	3,275
Net loss on asset disposals and other transactions	(19	) (161)	) (30	) (3,266)
Other non-interest income	290	257	841	853
Total other income	9,566	8,523	28,287	26,161
Other Expenses:				
Salaries and employee benefit costs	9,358	8,051	27,009	24,711
Net occupancy and equipment	1,637	1,423	5,121	4,358
Professional fees	1,188	1,172	3,084	3,189
Electronic banking expense	920	887	2,645	2,451
Marketing expense	547	534	1,559	1,490
Data processing and software	530	470	1,479	1,442
Franchise tax	412	415	1,238	1,241
Communication expense	342	294	1,006	930
FDIC insurance	224	257	754	789
Foreclosed real estate and other loan expenses	243	263	683	739
Amortization of other intangible assets	180	134	533	350
Other non-interest expense	1,682	1,766	4,759	4,678
Total other expenses	17,263	15,666	49,870	46,368
Income before income taxes	6,898	7,134	21,669	24,371
Income tax expense	4,381	2,310	9,209	7,860
Net income	\$2,517	\$4,824	\$12,460	\$16,511
Earnings per share - basic	\$0.24	\$0.45	\$1.17	\$1.56

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Earnings per share - diluted	\$0.23	\$0.45	\$1.16	\$1.56
Weighted-average number of shares outstanding - basic	10,589,126	10,530,800	10,574,130	10,522,874
Weighted-average number of shares outstanding - diluted	10,692,555	10,530,876	10,664,999	10,522,905
Cash dividends declared	\$1,513	\$1,175	\$4,320	\$3,522
Cash dividends declared per share	\$0.14	\$0.11	\$0.40	\$0.33

See Notes to the Unaudited Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net income	\$2,517	\$4,824	\$12,460	\$16,511
Other comprehensive (loss) income:				
Available-for-sale investment securities:				
Gross unrealized holding (loss) gain arising in the period	(876	) (107	) (17,146	) 1,468
Related tax benefit (expense)	307	37	6,001	(514
Less: reclassification adjustment for net gain included in net income	(1	) 112	443	3,275
Related tax expense	—	(39	) (155	) (1,146
Net effect on other comprehensive income (loss)	(568	) (143	) (11,433	) (1,175
Defined benefit plans:				
Net loss arising during the period	3,023	—	3,023	318
Related tax benefit	(1,058	) —	(1,058	) (111
Amortization of unrecognized loss and service cost on benefit plans	50	41	149	119
Related tax expense	(17	) (14	) (52	) (41
Recognition of loss due to settlement and curtailment	264	—	264	353
Related tax expense	(92	) —	(92	) (124
Net effect on other comprehensive income (loss)	2,170	27	2,234	514
Total other comprehensive income (loss), net of tax	1,602	(116	) (9,199	) (661
Total comprehensive income (loss)	\$4,119	\$4,708	\$3,261	\$15,850

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

(Dollars in thousands)	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
					Stockholders' Equity
Balance, December 31, 2012	\$167,039	\$69,158	\$654	\$(15,123)	)\$221,728
Net income		12,460			12,460
Other comprehensive loss, net of tax			(9,199	)	(9,199
Common stock cash dividends declared		(4,320	)		(4,320
Tax benefit from exercise of stock options	73				73
Reissuance of treasury stock for deferred compensation plan				169	169
Purchase of treasury stock				(166	) (166
Common shares issued under dividend reinvestment plan	318				318
Common shares issued under Board of Directors' compensation plan	(25	)		157	132
Stock-based compensation expense	1,052				1,052
Balance, September 30, 2013	\$168,457	\$77,298	\$(8,545) \$(14,963)\$222,247

See Notes to the Unaudited Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in thousands)	Nine Months Ended	
	September 30,	
	2013	2012
Net cash provided by operating activities	\$32,123	\$22,806
Investing activities:		
Available-for-sale investment securities:		
Purchases	(206,331)	(190,531)
Proceeds from sales	121,117	113,720
Proceeds from principal payments, calls and prepayments	82,247	111,377
Held-to-maturity investment securities:		
Purchases	(5,216)	(23,791)
Proceeds from principal payments	455	7,387
Net increase in loans	(68,729)	(20,449)
Net expenditures for premises and equipment	(4,777)	(2,331)
Proceeds from sales of other real estate owned	922	1,387
Proceeds from bank owned life insurance contracts	42,837	—
Business acquisitions, net of cash received	(2,248)	(3,321)
Investment in limited partnership and tax credit funds	(120)	(187)
Net cash used in investing activities	(39,843)	(6,739)
Financing activities:		
Net increase in non-interest-bearing deposits	39,696	34,742
Net (decrease) increase in interest-bearing deposits	(94,140)	27,190
Net increase (decrease) in short-term borrowings	59,074	(13,992)
Payments on long-term borrowings	(4,698)	(39,152)
Repurchase of preferred shares and common stock warrant	—	(1,201)
Cash dividends paid on common shares	(4,007)	(3,265)
Purchase of treasury stock	(166)	(80)
Proceeds from issuance of common shares	6	5
Excess tax benefit from share-based payments	73	13
Net cash (used in) provided by financing activities	(4,162)	4,260
Net (decrease) increase in cash and cash equivalents	(11,882)	20,327
Cash and cash equivalents at beginning of period	62,542	38,950
Cash and cash equivalents at end of period	\$50,660	\$59,277

See Notes to the Unaudited Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Basis of Presentation: The accompanying Unaudited Consolidated Financial Statements of Peoples Bancorp Inc. ("Peoples") 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 for annual financial statements and should be read in conjunction with Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 2012 ("2012 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' 2012 Form 10-K, as updated by the information contained in this Form 10-Q. Management has evaluated all significant events and transactions that occurred after September 30, 2013, for potential recognition or disclosure in these consolidated financial statements. In the opinion of management, these consolidated 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, 2012, contained herein has been derived from the audited Consolidated Balance Sheet included in Peoples' 2012 Form 10-K.

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated 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, due in part to season