

FIRST COMMONWEALTH FINANCIAL CORP /PA/  
Form 10-Q  
November 09, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 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

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

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 November 7, 2011, was 104,906,994.

**Table of Contents**

**FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES**

**FORM 10-Q**

**INDEX**

	<b>PAGE</b>
<b><u>PART I.</u></b>	<b><u>Financial Information</u></b>
<b><u>ITEM 1.</u></b>	<b><u>Financial Statements and Supplementary Data (Unaudited)</u></b>
	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
<b><u>ITEM 2.</u></b>	<b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b> 50
<b><u>ITEM 3.</u></b>	<b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b> 75
<b><u>ITEM 4.</u></b>	<b><u>Controls and Procedures</u></b> 75
<b><u>PART II.</u></b>	<b><u>Other Information</u></b>
<b><u>ITEM 1.</u></b>	<b><u>Legal Proceedings</u></b> 76
<b><u>ITEM 1A.</u></b>	<b><u>Risk Factors</u></b> 76
<b><u>ITEM 2.</u></b>	<b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b> 76
<b><u>ITEM 3.</u></b>	<b><u>Defaults Upon Senior Securities</u></b> 76
<b><u>ITEM 4.</u></b>	<b><u>(Removed and Reserved)</u></b> 76
<b><u>ITEM 5.</u></b>	<b><u>Other Information</u></b> 76
<b><u>ITEM 6.</u></b>	<b><u>Exhibits</u></b> 77
	<b><u>Signatures</u></b> 78

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	September 30, 2011	December 31, 2010
	(dollars in thousands, except share data)	
<b>Assets</b>		
Cash and due from banks	\$ 84,810	\$ 69,854
Interest-bearing bank deposits	5,036	4
Securities available for sale, at fair value	1,035,200	967,715
Other investments	41,891	48,859
Loans:		
Portfolio loans	3,973,723	4,218,083
Allowance for credit losses	(72,117)	(71,229)
Net loans	3,901,606	4,146,854
Premises and equipment, net	67,032	66,981
Other real estate owned	33,254	24,700
Goodwill	159,956	159,956
Amortizing intangibles, net	4,214	5,376
Other assets	325,063	322,543
Total assets	\$ 5,658,062	\$ 5,812,842
<b>Liabilities</b>		
Deposits (all domestic):		
Noninterest-bearing	\$ 769,178	\$ 706,889
Interest-bearing	3,715,700	3,910,963
Total deposits	4,484,878	4,617,852
Short-term borrowings	173,779	187,861
Subordinated debentures	105,750	105,750
Other long-term debt	72,709	98,748
Total long-term debt	178,459	204,498
Other liabilities	51,954	52,854
Total liabilities	4,889,070	5,063,065
<b>Shareholders Equity</b>		
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; 105,563,455 shares issued and 104,906,994 shares outstanding at September 30, 2011; 105,515,079 shares issued and 104,846,194 shares outstanding at December 31, 2010	105,563	105,515

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

Additional paid-in capital	366,070	366,488
Retained earnings	302,982	291,492
Accumulated other comprehensive income (loss), net	3,913	(2,458)
Treasury stock (656,461 and 668,885 shares at September 30, 2011 and December 31, 2010)	(7,436)	(7,660)
Unearned ESOP shares	(2,100)	(3,600)
<b>Total shareholders' equity</b>	<b>768,992</b>	<b>749,777</b>
Total liabilities and shareholders' equity	\$ 5,658,062	\$ 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 September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
	(dollars in thousands, except share data)			
<b>Interest Income</b>				
Interest and fees on loans	\$ 49,109	\$ 56,051	\$ 149,371	\$ 170,826
Interest and dividends on investments:				
Taxable interest	8,444	9,193	25,376	29,324
Interest exempt from federal income taxes	9	721	208	4,711
Dividends	11	13	40	59
Interest on bank deposits	27	4	63	77
Total interest income	57,600	65,982	175,058	204,997
<b>Interest Expense</b>				
Interest on deposits	8,097	12,194	26,726	38,841
Interest on short-term borrowings	188	284	551	1,752
Interest on subordinated debentures	1,387	1,429	4,156	4,194
Interest on other long-term debt	448	979	1,391	3,420
Total interest on long-term debt	1,835	2,408	5,547	7,614
Total interest expense	10,120	14,886	32,824	48,207
<b>Net Interest Income</b>	47,480	51,096	142,234	156,790
Provision for credit losses	6,975	4,522	29,904	53,552
<b>Net Interest Income after Provision for Credit Losses</b>	40,505	46,574	112,330	103,238
<b>Noninterest Income</b>				
Change in fair value on impaired securities	(2,535)	(5,787)	(218)	(7,114)
Non-credit related losses (gains) on securities not expected to be sold (recognized in other comprehensive income)	2,535	1,497	218	(2,036)
Net impairment losses	0	(4,290)	0	(9,150)
Net securities gains	0	1,430	2,185	2,412
Trust income	1,603	1,486	5,085	4,378
Service charges on deposit accounts	3,836	4,302	11,010	13,057
Insurance and retail brokerage commissions	1,698	1,600	4,876	5,328
Income from bank owned life insurance	1,411	1,377	4,158	3,935
Income from other real estate owned	1,024	0	1,439	0
Gain on sale of assets	790	215	2,272	628
Card related interchange income	3,053	2,689	8,895	7,695
Credit risk on interest rate swaps	(5,108)	(542)	(5,643)	(836)
Other income	2,492	2,612	7,914	7,532

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

Total noninterest income	10,799	10,879	42,191	34,979
<b>Noninterest Expense</b>				
Salaries and employee benefits	20,418	20,617	63,092	63,991
Net occupancy expense	3,506	3,317	10,733	10,749
Furniture and equipment expense	3,092	3,084	9,407	9,350
Data processing expense	1,533	1,367	4,482	4,282
Pennsylvania shares tax expense	1,434	1,468	4,046	3,982
Intangible amortization	384	408	1,163	1,641
Collection and repossession expense	1,961	1,209	5,003	2,926
Other professional fees and services	1,706	719	3,930	2,947
FDIC insurance	1,177	2,014	4,260	5,989
Loss on sale or write-down of assets	159	92	4,674	2,489
Loan processing fees	851	441	1,832	1,199
Other operating expenses	4,900	6,195	15,628	18,303
Total noninterest expense	41,121	40,931	128,250	127,848
<b>Income Before Income Taxes</b>				
Income tax provision (benefit)	10,183	16,522	26,271	10,369
	1,857	5,863	5,280	(664)
<b>Net Income</b>				
	\$ 8,326	\$ 10,659	\$ 20,991	\$ 11,033
Average Shares Outstanding	104,728,915	97,199,306	104,678,233	89,380,112
Average Shares Outstanding Assuming Dilution	104,728,915	97,203,753	104,678,436	89,382,588
<b>Per Share Data:</b>				
Basic Earnings per Share	\$ 0.08	\$ 0.11	\$ 0.20	\$ 0.12
Diluted Earnings per Share	0.08	0.11	0.20	0.12
Cash Dividends Declared per Common Share	0.03	0.01	0.09	0.05

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				20,991				20,991
Other comprehensive income, net of tax:								
Unrealized holding gains on securities arising during the period					7,933			7,933
Non-credit related losses on securities not expected to be sold					(142)			(142)
Reclassification adjustment for gains on securities included in net income					(1,420)			(1,420)
Total other comprehensive income								\$ 6,371
Total comprehensive income								\$ 27,362
Cash dividends declared (\$0.09 per share)				(9,418)				(9,418)
Net decrease in unearned ESOP shares							1,500	1,500
ESOP market value adjustment (\$762, net of \$267 tax benefit)			(495)					(495)
Discount on dividend reinvestment plan purchases			(48)					(48)
Tax benefit of stock options exercised			6					6
Treasury stock acquired	(1,336)					(9)		(9)
Treasury stock reissued	13,760			(83)		155		72
Restricted stock granted	25,000	25	(2)	0		78		101
Common stock issuance	23,376	23	121			0		144
Balance at September 30, 2011	104,906,994	\$ 105,563	\$ 366,070	\$ 302,982	\$ 3,913	\$ (7,436)	\$ (2,100)	\$ 768,992





**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				11,033				11,033
Other comprehensive income, net of tax:								
Unrealized holding gains on securities arising during the period					1,319			1,319
Non-credit related gains on securities not expected to be sold					1,323			1,323
Reclassification adjustment for losses on securities included in net income					4,412			4,412
Total other comprehensive income								\$ 7,054
Total comprehensive income								\$ 18,087
Cash dividends declared (\$0.05 per share)				(4,261)				(4,261)
Net decrease in unearned ESOP shares							1,500	1,500
ESOP market value adjustment (\$772, net of \$270 tax benefit)			(502)					(502)
Discount on dividend reinvestment plan purchases			(28)					(28)
Tax benefit of stock options exercised			0					0
Treasury stock acquired	(1,291)					(8)		(8)
Treasury stock reissued	728,020		656	(4,785)		8,233		4,104
Restricted stock granted	30,120			(168)		362		194
Common stock issuance	18,914,648	18,915	64,998					83,913
Balance at September 30, 2010	104,823,372	\$ 105,515	\$ 366,647	\$ 280,706	\$ 1,009	\$ (7,967)	\$ (4,100)	\$ 741,810

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

	<b>For the Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(dollars in thousands)</b>	
<b>Operating Activities</b>		
Net income	\$ 20,991	\$ 11,033
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	29,904	53,552
Deferred tax expense (benefit)	1,387	(7,229)
Depreciation and amortization	7,058	8,142
Net losses on securities and other assets	5,861	6,372
Net amortization of premiums and discounts on securities	794	24
Net amortization of premiums and discounts on long-term debt	(96)	(692)
Income from increase in cash surrender value of bank owned life insurance	(4,158)	(3,935)
Decrease in interest receivable	1,063	2,642
Decrease in interest payable	(1,921)	(1,419)
(Decrease) increase in income tax payable	(718)	5,022
Other-net	(1,222)	9,330
<b>Net cash provided by operating activities</b>	<b>58,943</b>	<b>82,842</b>
<b>Investing Activities</b>		
Transactions with securities held to maturity:		
Proceeds from maturities and redemptions	0	14,520
Transactions with securities available for sale:		
Proceeds from sales	75,074	141,585
Proceeds from maturities and redemptions	358,875	344,273
Purchases	(489,963)	(252,794)
Proceeds from the redemption of FHLB stock	6,969	0
Proceeds from bank owned life insurance	88	0
Proceeds from sale of loans	5,763	0
Proceeds from sales of other assets	7,037	5,657
Net decrease in loans	184,440	281,884
Purchases of premises and equipment	(6,542)	(4,074)
<b>Net cash provided by investing activities</b>	<b>141,741</b>	<b>531,051</b>
<b>Financing Activities</b>		
Net decrease in federal funds purchased	(800)	(105,000)
Net decrease in other short-term borrowings	(13,281)	(691,912)
Net (decrease) increase in deposits	(132,912)	192,189
Repayments of other long-term debt	(24,444)	(97,030)
Proceeds from issuance of long-term debt	0	50,000
Proceeds from issuance of common stock	144	83,913
Discount on dividend reinvestment plan purchases	(48)	(28)
Dividends paid	(9,418)	(4,261)

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

Proceeds from reissuance of treasury stock	72	4,104
Purchase of treasury stock	(9)	(8)
Net cash used in financing activities	(180,696)	(568,033)
Net increase in cash and cash equivalents	19,988	45,860
Cash and cash equivalents at January 1	69,858	89,559
Cash and cash equivalents at September 30	\$ 89,846	\$ 135,419

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)*

September 30, 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 nine months ended September 30, 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 Nine Months Ended September 30, 2011			For the Nine Months Ended September 30, 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 gains on securities arising during the period	\$ 12,205	\$ (4,272)	\$ 7,933	\$ 2,029	\$ (710)	\$ 1,319
Non-credit related (losses) gains on securities not expected to be sold	(218)	76	(142)	2,036	(713)	1,323
(Gains) losses realized in net income	(2,185)	765	(1,420)	6,788	(2,376)	4,412
<b>Net unrealized gains</b>	<b>9,802</b>	<b>(3,431)</b>	<b>6,371</b>	<b>10,853</b>	<b>(3,799)</b>	<b>7,054</b>
Other comprehensive income	\$ 9,802	\$ (3,431)	\$ 6,371	\$ 10,853	\$ (3,799)	\$ 7,054

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

Note 2 Supplemental Comprehensive Income Disclosures (Continued)

	For the Three Months Ended September 30, 2011			For the Three Months Ended September 30, 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 gains (losses) on securities arising during the period	\$ 4,696	\$ (1,644)	\$ 3,052	\$ (7,866)	\$ 2,753	\$ (5,113)
Non-credit related losses on securities not expected to be sold	(2,535)	887	(1,648)	(1,497)	524	(973)
Losses realized in net income	0	0	0	2,860	(1,001)	1,859
Net unrealized gains (losses)	2,161	(757)	1,404	(6,503)	2,276	(4,227)
Other comprehensive income (loss)	\$ 2,161	\$ (757)	\$ 1,404	\$ (6,503)	\$ 2,276	\$ (4,227)

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 Nine Months Ended September 30, 2011 2010 (dollars in thousands)	
Cash paid during the year for:		
Interest	\$ 34,904	\$ 50,421
Income taxes	4,400	1,216
Noncash investing and financing activities:		
ESOP loan reductions	\$ 1,500	\$ 1,500
Loans transferred to other real estate owned and repossessed assets	25,883	6,061
Receivable for sale of other real estate owned	7,260	0
Loans transferred from held to maturity to available for sale	823	0
Gross increase in market value adjustment to securities available for sale	9,792	10,853
Transfer of securities from held to maturity to available for sale	0	22,433

Correction of Prior Period Error in Cash Flow

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

For certain reporting periods in 2010, we erroneously presented the proceeds from the sale of certain available-for-sale securities within the Proceeds from maturities and redemptions sub-line item of Transactions with securities available-for-sale included in the Investing Activities section of the Consolidated Statements of Cash Flows, instead of within the Proceeds from Sales sub-line item of Transactions with securities available-for-sale. In addition, we erroneously presented the proceeds from the call of a held-to-maturity bond within the Proceeds from maturities and redemptions sub-line item of Transactions with securities available-for-sale included in the Investing Activities section of the Consolidated Statements of Cash Flows instead of within the Proceeds from maturities and redemptions sub-line item of Transactions with securities held-to-maturity.



**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

**Note 3 Supplemental Cash Flow Disclosures (Continued)****Correction of Prior Period Error in Cash Flow (Continued)**

The errors for the nine-months ended September 30, 2010, have been corrected in the 2010 Consolidated Statements of Cash Flows presented on page 7 by removing the transactions from the Proceeds from maturities and redemptions sub-line item of Transactions with securities available for sale included in the Investing Activities section of the Consolidated Statements of Cash Flows, and including these transactions within the Proceeds from Sales sub-line item of Transactions with securities available-for-sale. Additionally, the proceeds from the call of the held-to-maturity bond was reclassified from the Proceeds from maturities and redemptions sub-line item of Transactions with securities available for sale included in the Investing Activities section of the Consolidated Statements of Cash Flows to the Proceeds from maturities and redemptions sub-line item of Transactions with securities held to maturity.

We have not amended or restated any prior period filings as this error does not impact our reported net income, net cash flows, or shareholders equity and was not considered material. While the nine-month period of 2010 is corrected in this Form 10-Q and the six-month period of 2010 was corrected in the Form 10-Q as of June 30, 2011, the corrections to the year ended December 31, 2010, will be reflected in future filing of our December 31, 2011 Form 10-K.

The effects of the correction of this error on the sub-lines within the Investing Activities section of the Consolidated Statements of Cash Flows for each respective period, is reflected below.

	For the Six Months Ended June 30, 2010	For the Nine Months Ended September 30, 2010 (dollars in thousands)	For the Year Ended December 31, 2010
<b>Consolidated Statement of Cashflows</b>			
<b>Investing Activities</b>			
Transactions with securities held-to-maturity:			
Proceeds from maturities and redemptions			
Original	\$ 13,063	\$ 13,063	\$ 14,376
Revised	14,520	14,520	14,520
Transactions with securities available-for-sale:			
Proceeds from sales			
Original	19,019	26,754	28,573
Revised	70,043	141,585	143,503
Proceeds from maturities and redemptions			
Original	277,198	460,561	547,761
Revised	224,717	344,273	430,115

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

In accordance with current presentation in the Consolidated Statements of Cash Flows, we have reclassified \$2.6 million related to the redemption of FHLB stock from proceeds from maturities and redemptions of available-for-sale securities to a separate line item. This reclassification decreases the proceeds from maturities and redemptions of available-for-sale securities for the year-ended December 31, 2010.

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

## Notes to Condensed Consolidated Financial Statements (Continued)

**Note 4 Earnings per Share**

The following table summarizes the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Weighted-average common shares issued	105,563,455	98,258,829	105,545,880	90,638,915
Average treasury stock shares	(656,461)	(709,399)	(658,944)	(878,550)
Average unearned ESOP shares	(148,871)	(304,119)	(181,633)	(336,278)
Average unearned nonvested shares	(29,208)	(46,005)	(27,070)	(43,975)
Weighted-average common shares and common stock equivalents used to calculate basic earnings per share	104,728,915	97,199,306	104,678,233	89,380,112
Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share	0	4,447	0	2,476
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	0	0	203	0
Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share	104,728,915	97,203,753	104,678,436	89,382,588

At September 30, 2011, there were options to purchase 513,210 shares of common stock outstanding, at a price ranging from \$6.36 per share to \$14.55 per share and common stock equivalents outstanding of 20,101 shares at a price ranging from \$5.70 per share to \$6.82 per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive. At September 30, 2010, there were options to purchase 627,106 shares of common stock outstanding, at a price ranging from \$6.07 per share to \$14.55 per share and common stock equivalents outstanding of 4,218 shares at a price of \$12.35 per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive.

**Note 5 Variable Interest Entities**

As defined by Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 810-10, Consolidation, Overall, a Variable Interest Entity ( VIE ) is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Under ASC 810-10, an entity that holds a variable interest in a VIE is required to consolidate the VIE if the entity is deemed to be the primary beneficiary, which generally means it is subject to a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the entity's residual returns, or both.

First Commonwealth's VIEs are evaluated under the guidance included in FASB Accounting Standards Update ( ASU ) 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. These VIEs include qualified affordable housing projects that First

Commonwealth has invested in as

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

**Note 5 Variable Interest Entities (Continued)**

part of its community reinvestment initiatives. We periodically assess whether or not our variable interests in the VIE, based on qualitative analysis, provide us with a controlling interest in the VIE. The analysis includes an assessment of the characteristics of the VIE. We do not have a controlling financial interest in the VIE, which would require consolidation of the VIE, as we do not have the following characteristics: (1) the power to direct the activities that most significantly impact the VIE's economic performance; and (2) the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

First Commonwealth's maximum potential exposure is equal to its carrying value and is summarized in the table below:

	September 30, 2011	December 31, 2010
	(dollars in thousands)	
Low Income Housing Limited Partnership Investments	\$ 854	\$ 925

**Note 6 Commitments and Contingent Liabilities****Commitments and letters of credit**

Standby letters of credit are conditional commitments issued by First Commonwealth to guarantee the performance of a customer to a third party. The contract or notional amount of these instruments reflects the maximum amount of future payments that First Commonwealth could be required to pay under the guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged. In addition, many of these commitments are expected to expire without being drawn upon; therefore, the total commitment amounts do not necessarily represent future cash requirements.

The following table identifies the notional amount of those instruments at:

	September 30, 2011	December 31, 2010
	(dollars in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 1,440,447	\$ 1,471,692
Financial standby letters of credit	53,631	64,348
Performance standby letters of credit	74,737	79,140
Commercial letters of credit	20	20

The current notional amounts outstanding as of September 30, 2011 include financial standby letters of credit of \$3.1 million, performance standby letters of credit of \$2.7 million, and commercial letters of credit of \$0.5 million issued during the first nine months of 2011. A liability

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

of \$0.2 million and \$0.1 million has been recorded as of September 30, 2011 and December 31, 2010, respectively, which represents the fair value of letters of credit issued. The fair value of letters of credit is estimated based on the unrecognized portion of fees received at the time the commitment was issued. See Note 12, Fair Value of Assets and Liabilities, for additional information.

**Table of Contents**

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

*(Unaudited) (Continued)*

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

**Note 6 Commitments and Contingent Liabilities (Continued)**

**Commitments and letters of credit (Continued)**

Unused commitments and letters of credit provide exposure to future credit loss in the event of nonperformance by the borrower or guaranteed parties. An evaluation of the credit risk in these instruments resulted in the recording of a liability of \$0.8 million as of September 30, 2011 and \$1.4 million as of December 31, 2010. The credit risk evaluation incorporated probability of default, loss given default and estimated utilization for the next twelve months for each loan category and the letters of credit.

**Legal proceedings**

**McGrogan v. First Commonwealth Bank** is a class action that was filed on January 12, 2009, in the Court of Common Pleas of Allegheny County, Pennsylvania. The action alleges that First Commonwealth Bank promised class members a minimum interest rate of 8% on its IRA Market Rate Savings Account for as long as the class members kept their money on deposit in the IRA account. The class asserts that First Commonwealth committed fraud, breached its modified contract with the class members, and violated the Pennsylvania Unfair Trade Practice and Consumer Protection Law when it resigned as custodian of the IRA Market Rate Savings Accounts in 2008 and offered the class members a roll-over IRA account with a 3.5% interest rate. At that time, aggregate balances in the IRA Market Rate Savings accounts totaled approximately \$11.5 million. The class members seek monetary damages for the alleged breach of contract, punitive damages for the alleged fraud and Unfair Trade Practice and Consumer Protection Law violations, and attorney's fees. On July 27, 2011, the court granted class certification as to breach of contract claim and denied class certification as to the fraud and Pennsylvania Unfair Trade Practice and Consumer Protection Law claims. The amount of liability, if any, will depend upon information which is not presently known to the Bank, including the Court's interpretation of the IRA contract and each class member's life expectancy and pace of distributions from the IRA account. Accordingly, the Company is unable to estimate the amount or range of a reasonably possible loss.

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

## Notes to Condensed Consolidated Financial Statements (Continued)

**Note 7 Investment Securities**

Below is an analysis of the amortized cost and estimated fair values of securities available for sale at:

	September 30, 2011					December 31, 2010		
	Amortized	Gross	Gross	Estimated	Amortized	Gross	Gross	Estimated
	Cost	Unrealized	Unrealized	Fair	Cost	Unrealized	Unrealized	Fair
		Gains	Losses	Value		Gains	Losses	Value
	(dollars in thousands)							
Obligations of U.S. Government Agencies:								
Mortgage Backed Securities Residential	\$ 32,366	\$ 4,152	\$ 0	\$ 36,518	\$ 36,719	\$ 3,874	\$ 0	\$ 40,593
Obligations of U.S. Government Sponsored Enterprises:								
Mortgage Backed Securities Residential	683,653	32,747	(70)	716,330	618,454	26,513	(2,986)	641,981
Mortgage Backed Securities Commercial	202	1	(1)	202	233	1	(1)	233
Other Government- Sponsored Enterprises	242,811	967	(206)	243,572	184,531	225	(869)	183,887
Obligations of States and Political Subdivisions	445	20	0	465	47,175	644	0	47,819
Corporate Securities	11,818	248	(699)	11,367	21,226	494	(344)	21,376
Pooled Trust Preferred Collateralized Debt Obligations	56,606	1	(31,909)	24,698	58,780	16	(32,444)	26,352
Total Debt Securities	1,027,901	38,136	(32,885)	1,033,152	967,118	31,767	(36,644)	962,241
Equity Securities	2,048	0	0	2,048	5,137	337	0	5,474
Total Securities Available for Sale	\$ 1,029,949	\$ 38,136	\$ (32,885)	\$ 1,035,200	\$ 972,255	\$ 32,104	\$ (36,644)	\$ 967,715



**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

## Notes to Condensed Consolidated Financial Statements (Continued)

**Note 7 Investment Securities (Continued)**

The amortized cost and estimated fair value of debt securities available for sale at September 30, 2011, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or repay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
	(dollars in thousands)	
Due within one year	\$ 4,805	\$ 4,813
Due after one but within five years	238,090	238,852
Due after five but within ten years	361	372
Due after ten years	68,424	36,065
	311,680	280,102
Mortgage Backed Securities (a)	716,221	753,050
<b>Total Debt Securities</b>	<b>\$ 1,027,901</b>	<b>\$ 1,033,152</b>

(a) Mortgage Backed Securities include an amortized cost of \$32 million and a fair value of \$37 million for Obligations of U.S. Government Agencies issued by Ginnie Mae. Obligations of U.S. Government-Sponsored Enterprises includes obligations issued by Fannie Mae and Freddie Mac which had an amortized cost of \$684 million and a fair value of \$716 million.

For the nine months ended September 30, 2011, the Company realized proceeds of \$75.1 million from the sale of available for sale securities which included \$2.4 million in gross gains and \$0.2 million in gross losses. For the nine months ended September 30, 2010, the Company realized proceeds of \$141.6 million from the sale of available for sale securities which included \$3.2 million in gross gains and \$0.8 million in gross losses.

During the first quarter of 2011, \$5.2 million in single issue trust preferred securities and \$1.2 million in corporate debentures owned by a non-bank subsidiary of the Company were sold in order to reinvest the proceeds in more liquid assets for that subsidiary. The amounts sold represent the subsidiaries entire portfolio of these investments and resulted in a net gain of \$0.3 million. During the first half of 2011, \$3.0 million in single issue trust preferred securities held by another subsidiary were called, resulting in a gain of \$0.1 million. Additionally, during 2011 the Company continued its strategy to liquidate its obligations of states and political subdivisions in order to mitigate future credit risk and improve its tax position. Investments in obligations of states and political subdivisions totaled \$0.5 million and \$47.8 million as of September 30, 2011 and December 31, 2010, respectively. This decline is a result of \$3.6 million in maturities and \$42.5 million in sales which provided \$0.3 million in recognized gains. As of September 30, 2011, all of the remaining investments in obligations of states and political subdivisions were classified as available for sale and none were in an unrealized loss position.

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

Securities available for sale with a fair value of \$648 million and \$660 million were pledged as of September 30, 2011 and December 31, 2010, respectively, to secure public deposits and for other purposes required or permitted by law.

As of September 30, 2011 and December 31, 2010, there were no securities classified as held to maturity.

**Table of Contents**

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

*(Unaudited) (Continued)*

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

**Note 7 Investment Securities (Continued)**

For the nine months ended September 30, 2010, net securities gains included \$50 thousand in gains and no losses for debt securities held to maturity.

**Note 8 Other Investments**

As a member of the Federal Home Loan Bank ( FHLB ) of Pittsburgh, First Commonwealth is required to purchase and hold stock in the FHLB to satisfy membership and borrowing requirements. This stock is restricted in that it can only be sold to the FHLB or to another member institution, and all sales of FHLB stock must be at par. As a result of these restrictions, FHLB stock is unlike other investment securities insofar as there is no trading market for FHLB stock and the transfer price is determined by FHLB membership rules and not by market participants. As of September 30, 2011 and December 31, 2010, our FHLB stock totaled \$41.9 million and \$48.9 million, respectively, and is included in Other investments on the Condensed Consolidated Statements of Financial Condition.

In December 2008, the FHLB voluntarily suspended dividend payments on its stock, as well as temporarily discontinued the repurchase of excess stock from members. In October 2010, the FHLB resumed the repurchase of excess stock from its members by repurchasing the lesser of 5% of the members total capital stock outstanding or its total excess capital stock. Since that time, a similar repurchase has occurred on a quarterly basis, resulting in \$7.0 million in repurchases during the first nine months of 2011. Decisions regarding any future repurchases of excess capital stock will be made by the FHLB on a quarterly basis.

FHLB stock is held as a long-term investment and its value is determined based on the ultimate recoverability of the par value. First Commonwealth evaluates impairment quarterly. The decision of whether impairment exists is a matter of judgment that reflects our view of the FHLB s long-term performance, which includes factors such as the following:

its operating performance;

the severity and duration of declines in the fair value of its net assets related to its capital stock amount;

its commitment to make payments required by law or regulation and the level of such payments in relation to its operating performance;

the impact of legislative and regulatory changes on the FHLB, and accordingly, on the members of the FHLB; and

its liquidity and funding position.

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

Management reviewed the FHLB's Form 10-Q for the period ended June 30, 2011 filed with the SEC on August 9, 2011 in order to evaluate all of these considerations. First Commonwealth concluded that the par value of its investment in FHLB stock is recoverable. Accordingly, no impairment charge was recorded on these securities for the nine months ended September 30, 2011. Our evaluation of the factors described above in future periods could result in the recognition of impairment charges on FHLB stock.

**Table of Contents**

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

*(Unaudited) (Continued)*

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

**Note 9 Impairment of Investment Securities**

As required by FASB ASC Topic 320, Investments—Debt and Equity Securities, credit related other-than-temporary impairment on debt securities is recognized in earnings while non-credit related other-than-temporary impairment on debt securities not expected to be sold is recognized in other comprehensive income (OCI). In the third quarter of 2011, no other-than-temporary impairment charges were recognized and \$2.5 million in non-credit related losses on our trust preferred collateralized debt obligations that were determined to be impaired in previous periods was recorded in OCI. In the third quarter of 2010, we recorded \$4.3 million in other-than-temporary impairment charges. These charges include \$4.0 million in credit related other-than-temporary impairment on five trust preferred collateralized debt obligations and \$0.3 million recorded on one equity security related to a Pennsylvania-based financial institution. Additionally, for the three months ended September 30, 2010, \$1.5 million in non-credit related losses on securities that were determined to be impaired in the current or any previous periods was recorded in OCI on our trust preferred collateralized debt obligations. All of the securities for which other-than-temporary impairment was recorded were classified as available for sale securities.

First Commonwealth utilizes the specific identification method to determine the net gain or loss on debt securities and the average cost method to determine the net gain or loss on equity securities.

In the Condensed Consolidated Statements of Income, the Change in fair value on impaired securities line represents the change in fair value of securities impaired in the current or previous periods. The change in fair value includes both non-credit and credit related gains or losses. Credit related losses occur when the entire amortized cost of the security will not be recovered. The Non-credit related losses (gains) on securities not expected to be sold (recognized in other comprehensive income) line represents the gains and losses on the securities resulting from factors other than credit. The non-credit related gain or loss is disclosed in the Condensed Consolidated Statements of Income and recognized through other comprehensive income. The Net impairment losses line represents the credit related losses recognized in total noninterest income for the related period.

We review our investment portfolio on a quarterly basis for indications of impairment. This review includes analyzing the length of time and the extent to which the fair value has been lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer and whether we are more likely than not to sell the security. We evaluate whether we are more likely than not to sell debt securities based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy, tax position and interest rate risk position. In addition, the risk of future other-than-temporary impairment may be influenced by additional bank failures, weakness in the U.S. economy, changes in real estate values and additional interest deferrals in our pooled trust preferred collateralized debt obligations. Our pooled trust preferred collateralized debt obligations are beneficial interests in securitized financial assets within the scope of FASB ASC Topic 325, Investments—Other, and are therefore evaluated for other-than-temporary impairment using management's best estimate of future cash flows. If these estimated cash flows indicate that it is probable that an adverse change in cash flows has occurred, then other-than-temporary impairment would be recognized in accordance with FASB ASC Topic 320. There is a risk that First Commonwealth will record other-than-temporary impairment charges in the future. See Note 12, Fair Values of Assets and Liabilities, for additional information.

**Table of Contents**

## FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

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

September 30, 2011

Notes to Condensed Consolidated Financial Statements (Continued)

**Note 9 Impairment of Investment Securities (Continued)**

The following table presents the gross unrealized losses and estimated fair values at September 30, 2011 by investment category and time frame for which securities have been in a continuous unrealized loss position:

Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
(dollars in thousands)						
Obligations of U.S. Government Sponsored Enterprises:						
Mortgage Backed Securities Residential	\$ 26,807	\$ (69)	\$ 17	\$ (1)	\$ 26,824	\$ (70)
Mortgage Backed Securities Commercial	0	0	157	(1)	157	(1)
Other Government-Sponsored Enterprises	28,495	(206)	0	0	28,495	(206)
Corporate Securities	4,402	(699)	0	0	4,402	(699)
Pooled Trust Preferred Collateralized Debt Obligations	0	0	24,645	(31,909)	24,645	(31,909)
<b>Total Securities</b>	<b>\$ 59,704</b>	<b>\$ (974)</b>	<b>\$ 24,819</b>	<b>\$ (31,911)</b>	<b>\$ 84,523</b>	<b>\$ (32,885)</b>

The following table presents the gross unrealized losses and estimated fair values at December 31, 2010 by investment category and time frame for which securities have been in a continuous unrealized loss position:

Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
(dollars in thousands)						
Obligations of U.S. Government Sponsored Enterprises:						
Mortgage Backed Securities Residential	\$ 105,304	\$ (2,986)	\$ 0	\$ 0	\$ 105,304	\$ (2,986)
Mortgage Backed Securities Commercial	182	(1)	0	0	182	(1)
Other Government Sponsored Enterprises	126,531	(869)	0	0	126,531	(869)
Corporate Securities	4,482	(73)	5,827	(271)	10,309	(344)
Pooled Trust Preferred Collateralized Debt Obligations	0	0	26,286	(32,444)	26,286	(32,444)
<b>Total Securities</b>						