

FIRST FINANCIAL BANCORP /OH/

Form 10-Q

August 08, 2008

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**FORM 10-Q
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549**

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

For the quarterly period ended June 30, 2008

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-12379

FIRST FINANCIAL BANCORP.

(Exact name of registrant as specified in its charter)

Ohio

31-1042001

(State or other jurisdiction of incorporation or organization)

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

4000 Smith Road, Cincinnati, Ohio

45209

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (513) 979-5782

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. (Check one):

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

Class

Outstanding at August 6, 2008

Common stock, No par value

37,482,343

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PART I FINANCIAL INFORMATION
ITEM I FINANCIAL STATEMENTS
FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Cash and due from banks	\$ 106,248	\$ 106,224
Federal funds sold	4,005	106,990
Investment securities trading	3,598	0
Investment securities available-for-sale, at market value (cost \$423,186 at June 30, 2008 and \$306,412 at December 31, 2007)	421,697	306,928
Investment securities held-to-maturity (market value \$5,490 at June 30, 2008 and \$5,814 at December 31, 2007)	5,316	5,639
Other investments	34,632	33,969
Loans held for sale	2,228	1,515
Loans:		
Commercial	814,779	785,143
Real estate construction	186,178	151,432
Real estate commercial	769,555	706,409
Real estate residential	499,002	539,332
Installment	115,575	138,895
Home equity	263,063	250,888
Credit card	26,399	26,610
Lease financing	111	378
Total loans	2,674,662	2,599,087
Less:		
Allowance for loan and lease losses	29,580	29,057
Net loans	2,645,082	2,570,030
Premises and equipment, net	79,380	78,994
Goodwill	28,261	28,261
Other intangibles	641	698
Accrued interest and other assets	128,874	130,068
TOTAL ASSETS	\$ 3,459,962	\$ 3,369,316
LIABILITIES		
Deposits:		
Interest-bearing	\$ 575,236	\$ 603,870
Savings	615,613	596,636
Time	1,167,024	1,227,954
Total interest-bearing deposits	2,357,873	2,428,460

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Noninterest-bearing	419,045	465,731
Total deposits	2,776,918	2,894,191
Short-term borrowings:		
Federal funds purchased and securities sold under agreements to repurchase	25,932	26,289
Federal Home Loan Bank	237,900	0
Other	54,000	72,000
Total short-term borrowings	317,832	98,289
Federal Home Loan Bank long-term debt	41,263	45,896
Other long-term debt	20,620	20,620
Accrued interest and other liabilities	28,039	33,737
TOTAL LIABILITIES	3,184,672	3,092,733
SHAREHOLDERS EQUITY		
Common stock no par value Authorized - 160,000,000 shares Issued - 48,558,614 shares in 2008 and 2007	390,545	391,962
Retained earnings	81,263	82,093
Accumulated comprehensive loss	(8,236)	(7,127)
Treasury Stock, at cost 11,075,230 shares in 2008 and 11,190,806 shares in 2007	(188,282)	(190,345)
TOTAL SHAREHOLDERS EQUITY	275,290	276,583
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 3,459,962	\$ 3,369,316

See notes to consolidated financial statements.

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FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Interest income				
Loans, including fees	\$ 39,646	\$ 45,291	\$ 82,367	\$ 90,355
Investment securities				
Taxable	4,387	3,762	7,908	7,653
Tax-exempt	792	911	1,583	1,820
Total investment securities interest	5,179	4,673	9,491	9,473
Federal funds sold	40	1,241	605	2,997
Total interest income	44,865	51,205	92,463	102,825
Interest expense				
Deposits	14,635	19,409	32,374	38,418
Short-term borrowings	1,130	984	1,922	1,980
Long-term borrowings	384	542	790	1,101
Subordinated debentures and capital securities	302	669	714	1,322
Total interest expense	16,451	21,604	35,800	42,821
Net interest income	28,414	29,601	56,663	60,004
Provision for loan and lease losses	2,493	2,098	5,716	3,454
Net interest income after provision for loan and lease losses	25,921	27,503	50,947	56,550
Noninterest income				
Service charges on deposit accounts	4,951	5,296	9,558	10,040
Trust and wealth management fees	4,654	4,526	9,276	8,686
Bankcard income	1,493	1,424	2,791	2,664
Net gains from sales of loans	188	184	407	346
Gain on sale of mortgage servicing rights	0	0	0	1,061
Gains on sales of investment securities	0	0	1,585	0
Other	2,462	2,702	5,006	6,079
Total noninterest income	13,748	14,132	28,623	28,876
Noninterest expenses				
Salaries and employee benefits	15,895	17,134	32,968	36,095
Net occupancy	2,510	2,484	5,462	5,291
Furniture and equipment	1,617	1,708	3,270	3,335
Data processing	814	818	1,607	1,663
Marketing	474	642	991	1,511
Communication	749	798	1,554	1,663

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Professional services	1,061	1,063	1,822	2,069
Other	4,849	4,793	9,315	9,023
Total noninterest expenses	27,969	29,440	56,989	60,650
Income before income taxes	11,700	12,195	22,581	24,776
Income tax expense	3,892	4,023	7,435	8,169
Net income	\$ 7,808	\$ 8,172	\$ 15,146	\$ 16,607
Earnings per share basic	\$ 0.21	\$ 0.21	\$ 0.41	\$ 0.43
Earnings per share diluted	\$ 0.21	\$ 0.21	\$ 0.40	\$ 0.43
Cash dividends declared per share	\$ 0.17	\$ 0.16	\$ 0.34	\$ 0.32
Average basic shares outstanding	37,114,451	38,965,409	37,090,603	39,042,827
Average diluted shares outstanding	37,524,789	38,967,061	37,478,353	39,050,919

See notes to consolidated financial statements.

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FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, dollars in thousands)

	Six months ended June 30,	
	2008	2007
Operating activities		
Net income	\$ 15,146	\$ 16,607
Adjustments to reconcile net cash provided by operating activities		
Provision for loan and lease losses	5,716	3,454
Depreciation and amortization	3,398	4,100
Stock-based compensation expense	837	194
Pension expense	605	1,397
Net amortization of premiums and accretion of discounts on investment securities	92	69
Gains on sales of investment securities	(1,585)	0
Originations of loans held for sale	(50,469)	(44,641)
Net gains from sales of loans held for sale	(407)	(346)
Proceeds from sales of loans held for sale	50,187	54,572
Deferred income taxes	(288)	(2,471)
Decrease (increase) in interest receivable	3,614	(1,445)
Decrease (increase) in cash surrender value of life insurance	390	(550)
Increase in prepaid expenses	(876)	(1,469)
(Decrease) increase in accrued expenses	(4,010)	1,230
(Decrease) increase in interest payable	(1,502)	163
Other	(1,925)	3,657
Net cash provided by operating activities	18,923	34,521
Investing activities		
Proceeds from sales of securities available for sale	1,124	0
Proceeds from calls, paydowns and maturities of securities available-for-sale	51,205	27,132
Purchases of securities available-for-sale	(173,052)	(21,374)
Proceeds from calls, paydowns and maturities of securities held-to-maturity	323	2,918
Purchases of securities held-to-maturity	0	(634)
Purchases of FHLB stock	(663)	0
Net decrease in federal funds sold	102,985	47,000
Net increase in loans and leases	(82,596)	(77,642)
Proceeds from disposal of other real estate owned	701	1,095
Purchases of premises and equipment	(3,801)	(2,709)
Net cash used in investing activities	(103,774)	(24,214)
Financing activities		
Net decrease in total deposits	(117,273)	(4,499)
Net increase (decrease) in short-term borrowings	219,543	(12,501)
Payments on long-term borrowings	(4,633)	(4,741)
Cash dividends paid	(12,717)	(12,540)
Purchase of common stock	0	(7,728)

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Proceeds from exercise of stock options	0	80
Excess tax benefit on share-based compensation	(45)	23
Net cash provided by (used in) financing activities	84,875	(41,906)
Cash and cash equivalents:		
Net increase (decrease) in cash and cash equivalents	24	(31,599)
Cash and cash equivalents at beginning of period	106,224	119,407
Cash and cash equivalents at end of period	\$ 106,248	\$ 87,808

See notes to consolidated financial statements.

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FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited, dollars in thousands except per share data)

	Common stock shares	Common stock amount	Retained earnings	Unrealized gain (loss) on AFS securities	Accumulated comprehensive income (loss) Unrealized gain (loss) on Pension obligation	Treasury stock Shares	Treasury stock Amount	Total
Balances at December 31, 2006	48,558,614	\$ 392,736	\$ 71,320	\$ (420)	\$(12,955)	(9,313,207)	\$(165,202)	\$ 285,479
Net income			16,607					16,607
Unrealized holding gains on securities available-for-sale arising during the period				(3,079)				(3,079)
Changes in accumulated unrealized losses for pension and other postretirement obligations								
Total comprehensive income								13,814
Cash dividends declared (\$0.32 per share)			(12,483)					(12,483)
Purchase of common stock						(496,000)	(7,728)	(7,728)
Tax benefit on stock option exercise		23						23
Exercise of stock options, net of shares purchased		(58)				8,474	138	80
Restricted stock awards, net		(2,350)				125,202	2,197	(153)
Share-based compensation expense		194						194

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Balances at June 30, 2007	48,558,614	390,545	75,444	(3,499)	(12,669)	(9,675,531)	(170,595)	279,226
Balances at December 31, 2007	48,558,614	391,962	82,093	328	(7,455)	(11,190,806)	(190,345)	276,583
Cumulative adjustment for adoption of new accounting principles on January 1, 2008:								
Fair value option (SFAS No. 159)			(750)	750				0
Cost of split-dollar life insurance for retirees (EITF Issue No. 06-4)			(2,499)					(2,499)
Net income			15,146					15,146
Unrealized holding gains on securities available-for-sale arising during the period				(2,024)				(2,024)
Changes in accumulated unrealized losses for pension and other postretirement obligations					165			165
Total comprehensive income								13,287
Cash dividends declared (\$0.34 per share)			(12,727)					(12,727)
Tax liability on stock option exercise		(45)						(45)
Restricted stock awards, net		(2,209)				115,576	2,063	(146)
Share-based compensation expense		837						837
	48,558,614	\$ 390,545	\$ 81,263	\$ (946)	\$ (7,290)	(11,075,230)	\$(188,282)	\$ 275,290

Balances at
June 30, 2008

See notes to consolidated financial statements.

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**FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008
(Unaudited)**

The consolidated financial statements for interim periods are unaudited; however, in the opinion of the management of First Financial Bancorp. (First Financial), all material adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation have been included.

NOTE 1: BASIS OF PRESENTATION

The consolidated financial statements of First Financial, a bank holding company, include the accounts of First Financial and its wholly-owned subsidiaries First Financial Bank, N.A. and First Financial Capital Advisors LLC, a registered investment advisor. All intercompany transactions and accounts have been eliminated in consolidation. The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 materially from those estimates. These interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and serve to update the First Financial Bancorp. Annual Report on Form 10-K (Form 10-K) for the year ended December 31, 2007. These financial statements may not include all information and notes necessary to constitute a complete set of financial statements under U.S. generally accepted accounting principles applicable to annual periods and accordingly should be read in conjunction with the financial information contained in the Form 10-K. Management believes these unaudited consolidated financial statements reflect all adjustments of a normal recurring nature which are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period. The Consolidated Balance Sheet as of December 31, 2007, has been derived from the audited financial statements in the company's 2007 Form 10-K.

NOTE 2: RECENTLY ADOPTED AND ISSUED ACCOUNTING STANDARDS

Effective January 1, 2008, First Financial adopted FASB Statement No. 157 (SFAS No. 157), Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in U.S. generally accepted accounting principles, and expands disclosures about fair value measurements. Fair value is defined under SFAS No. 157, from the point of view of the transferor, as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability at the measurement date. For further detail on SFAS No. 157, see Note 10 Fair Value Disclosures.

Effective January 1, 2008, First Financial adopted FASB Statement No. 159 (SFAS No. 159), The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. This statement permits the measurement of many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument, irrevocable basis. First Financial applied the fair value option to its equity securities of government sponsored entities, specifically 200,000 Federal Home Loan Mortgage Corporat