S&T BANCORP INC
Form 10-Q
November 06, 2007
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2007

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 0-12508

S&T BANCORP, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	**25-1434426**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
800 Philadelphia Street, Indiana, PA	**15701**
(Address of principal executive offices)	**(zip code)**

800-325-2265

(Registrant s telephone number, including area code)

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 x   No ¨

Indicated by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer   in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x   Accelerated filer ¨   Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).   Yes ¨   No x

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practical date.

Common Stock, $2.50 Par Value 24,543,577 shares as of October 22, 2007

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S&T BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share and per share data)		**September 30, 2007 (Unaudited)**		**December 31, 2006 (Note A)**
ASSETS				
Cash and due from banks	$	61,192	$	59,980
Securities available for sale		363,838		432,045
Other investments		11,312		10,562
Loans held for sale		1,336		826
Portfolio loans, net of allowance for loan losses of $34,144 at September 30, 2007 and $33,220 at December 31, 2006		2,716,084		2,632,245
Premises and equipment, net		37,262		35,700
Goodwill		50,087		49,955
Other intangibles, net		4,591		4,985
Bank owned life insurance		35,260		34,251
Other assets		80,784		77,994
Total Assets	**$**	**3,361,746**	**$**	**3,338,543**
LIABILITIES				
Deposits:				
Noninterest-bearing demand	$	452,140	$	448,453
Interest-bearing demand		154,623		150,568
Money market		139,904		163,105
Savings		939,443		881,967
Time deposits		934,066		921,213
Total Deposits		**2,620,176**		**2,565,306**
Securities sold under repurchase agreements and federal funds purchased		95,809		133,021
Short-term borrowings		30,000		55,000
Long-term borrowings		211,255		171,941
Junior subordinated debt securities		25,000		25,000
Other liabilities		51,643		49,224
Total Liabilities		**3,033,883**		**2,999,492**
SHAREHOLDERS EQUITY				
Preferred stock, without par value, 10,000,000 shares authorized and none outstanding				
Common stock ($2.50 par value) Authorized 50,000,000 shares in 2007 and 2006 Issued 29,714,038 shares in 2007 and 2006		74,285		74,285
Additional paid-in capital		26,908		26,698
Retained earnings		369,954		349,447
Accumulated other comprehensive income		(284)		4,014
Treasury stock (5,170,861 shares at September 30, 2007 and 4,352,764 shares at December 31, 2006, at cost)		(143,000)		(115,393)
Total Shareholders Equity		**327,863**		**339,051**
Total Liabilities and Shareholders Equity	**$**	**3,361,746**	**$**	**3,338,543**

See notes to Condensed Consolidated Financial Statements

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S&T BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(dollars and share data in thousands, except per share data)	Three Months Ended September 30, 2007	2006	Nine Months Ended September 30, 2007	2006
INTEREST INCOME				
Loans, including fees	$ 50,738	$ 48,332	$ 149,625	$ 137,245
Federal funds sold	28		33	
Investment securities:				
Taxable	2,935	3,535	8,999	11,036
Tax-exempt	651	675	1,961	2,031
Dividends	409	486	1,351	1,557
Total Interest Income	**54,761**	**53,028**	**161,969**	**151,869**
INTEREST EXPENSE				
Deposits	20,801	19,268	60,357	52,924
Securities sold under repurchase agreements and federal funds purchased	925	1,272	3,385	3,982
Short-term borrowings	379	1,170	1,966	4,122
Long-term borrowings and capital securities	3,380	2,476	9,824	5,798
Total Interest Expense	**25,485**	**24,186**	**75,532**	**66,826**
NET INTEREST INCOME	**29,276**	**28,842**	**86,437**	**85,043**
Provision for loan losses	1,142	1,352	4,625	8,552
Net Interest Income After Provision for Loan Losses	**28,134**	**27,490**	**81,812**	**76,491**
NONINTEREST INCOME				
Security gains, net	1,129	1,210	3,265	4,263
Service charges on deposit accounts	2,605	2,666	7,477	7,775
Wealth management fees	1,751	1,854	5,585	6,135
Letter of credit fees	421	479	1,568	1,740
Insurance commissions	1,874	1,759	5,559	5,069
Mortgage banking	244	194	613	548
Other	3,605	1,759	7,257	5,209
Total Noninterest Income	**11,629**	**9,921**	**31,324**	**30,739**
NONINTEREST EXPENSE				
Salaries and employee benefits	9,910	8,618	29,917	27,134
Occupancy, net	1,427	1,265	4,375	3,853
Furniture and equipment	996	929	2,756	2,390
Other taxes	583	647	2,123	2,187
Data processing	1,179	1,186	3,714	3,599
Marketing	549	615	1,810	1,859
Amortization of intangibles	71	81	233	244
FDIC assessment	74	77	227	227
Other	3,340	2,921	8,624	9,059
Total Noninterest Expense	**18,129**	**16,339**	**53,779**	**50,552**
Income Before Taxes	**21,634**	**21,072**	**59,357**	**56,678**
Applicable Income Taxes	5,973	6,408	16,524	16,540

Net Income	**$**	**15,661**	**$**	**14,664**	**$**	**42,833**	**$**	**40,138**
Earnings per common share:								
Net Income Basic	$	0.64	$	0.57	$	1.73	$	1.55
Net Income Diluted		0.63		0.57		1.72		1.54
Dividends declared per common share		0.30		0.29		0.90		0.87
Average Common Shares Outstanding Basic		24,529		25,604		24,798		25,878
Average Common Shares Outstanding Diluted		24,691		25,754		24,960		26,078

See notes to Condensed Consolidated Financial Statements

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S&T BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

(dollars in thousands, except share and per share data)	Comprehensive Income	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at January 1, 2006		**$ 74,285**	**$ 26,120**	**$ 326,158**	**$ 9,172**	**$ (83,314)**	**$ 352,421**
Net income for nine months ended September 30, 2006	$ 40,138			40,138			40,138
Other comprehensive income, net of tax							
Change in unrealized losses on securities of $3,529 net of reclassification adjustment for gains included in net income of $4,263 and tax expense of $1,328.	(2,201)				(2,201)		(2,201)
Comprehensive Income	**$ 37,937**						
Cash dividends declared ($0.87 per share)				(22,457)			(22,457)
Treasury stock acquired (999,000 shares)						(34,170)	(34,170)
Treasury stock issued for stock options exercised (32,044 shares)			(27)			804	777
Recognition of restricted stock compensation expense			44				44
Tax benefit from nonstatutory stock options exercised			121				121
Recognition of nonstatutory stock option compensation expense			338				338
Balance at September 30, 2006		**$ 74,285**	**$ 26,596**	**$ 343,839**	**$ 6,971**	**$ (116,680)**	**$ 335,011**
Balance at January 1, 2007		**$ 74,285**	**$ 26,698**	**$ 349,447**	**$ 4,014**	**$ (115,393)**	**$ 339,051**
Net income for nine months ended September 30, 2007	$ 42,833			42,833			42,833
Other comprehensive income, net of tax							
Change in unrealized losses on securities of $5,567 net of reclassification adjustment for gains included in net income of $3,265 and tax expense of $1,269.	(4,298)				(4,298)		(4,298)
Change in pension obligation							
Comprehensive Income	**$ 38,535**						
Cash dividends declared ($0.90 per share)				(22,176)			(22,176)
Treasury stock acquired (971,400 shares)						(31,802)	(31,802)
Treasury stock issued for stock options exercised (153,303 shares)			(843)			4,195	3,352
Recognition of restricted stock compensation expense			116				116
Tax benefit from nonstatutory stock options exercised			596				596
Recognition of nonstatutory stock option compensation expense			341				341
Adjustment to initially apply FIN 48				(150)			(150)
Balance at September 30, 2007		**$ 74,285**	**$ 26,908**	**$ 369,954**	**$ (284)**	**$ (143,000)**	**$ 327,863**

See Notes to Condensed Consolidated Financial Statements

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S&T BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(dollars in thousands)	Nine Months Ended September 30, 2007	2006
Operating Activities		
Net Income	$ 42,833	$ 40,138
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	4,625	8,552
Depreciation and amortization	2,788	2,363
Net amortization of investment security premiums	640	710
Recognition of stock-based compensation expense	553	553
Security gains, net	(3,265)	(4,263)
Deferred income taxes	67	514
Excess tax benefits from stock-based compensation	(204)	(80)
Mortgage loans originated for sale	(13,173)	(13,954)
Proceeds from the sale of loans	12,964	14,816
Gain on the sale of loans, net	(300)	(239)
Increase in interest receivable	(659)	(785)
Increase (decrease) in interest payable	1,157	(1,069)
Increase in other assets	(4,286)	(10,673)
Increase in other liabilities	4,244	10,538
Net Cash Provided by Operating Activities	**47,984**	**47,121**
Investing Activities		
Net decrease of interest-earning deposits with banks		(196)
Proceeds from maturities of securities available for sale	67,562	64,120
Proceeds from sales of securities available for sale	5,441	11,699
Purchases of securities available for sale	(8,489)	(12,711)
Net increase in loans	(88,465)	(138,778)
Purchases of premises and equipment	(4,118)	(6,717)
Net Cash Used in Investing Activities	**(28,069)**	**(82,583)**
Financing Activities		
Net increase in core deposits	42,540	145,024
Net increase (decrease) in time deposits	12,329	(27,816)
Net decrease in short-term borrowings	(25,000)	(90,000)
Net decrease in securities sold under repurchase agreements and federal funds purchased	(37,212)	(35,478)
Proceeds from long-term borrowings	50,000	122,697
Repayments of long-term borrowings	(10,686)	(45,256)
Proceeds from junior subordinated debt securities		25,000
Acquisition of treasury stock	(31,802)	(34,170)
Sale of treasury stock	3,352	777
Cash dividends paid to shareholders	(22,428)	(22,647)
Excess tax benefits from stock-based compensation	204	80
Net Cash (Used) Provided by Financing Activities	**(18,703)**	**38,211**
Increase in Cash and Cash Equivalents	1,212	2,749
Cash and Cash Equivalents at Beginning of Period	59,980	56,189
Cash and Cash Equivalents at End of Period	**$ 61,192**	**$ 58,938**

See notes to Condensed Consolidated Financial Statements

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

NOTE A BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of S&T Bancorp, Inc. and subsidiaries (S&T) have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by United States GAAP for complete annual financial statements. In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included. Operating results for the three-month and nine-month periods ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. S&T operates within one business segment, community banking, providing a full range of services to individual and corporate customers. The condensed consolidated balance sheet as of December 31, 2006, has been extracted from the audited financial statements included in S&T s 2006 Annual Report to Shareholders. For further information, refer to the consolidated financial statements and footnotes thereto included in the annual report on Form 10-K for the year ended December 31, 2006, as filed with the Securities and Exchange Commission (SEC) on February 28, 2007.

The financial statements of S&T Bancorp, Inc. and subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the balance sheets and revenues and expenses for the periods. Actual results could differ from those estimates.

The consolidated financial statements include the accounts of S&T and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation. Investments of 20 percent 50 percent of the outstanding common stock of investees are accounted for using the equity method of accounting. S&T operates within one business segment, community banking, providing a full range of services to individual and corporate customers.

For the periods ended September 30, 2007 and 2006, interest paid was $78,148,000 and $66,885,000, respectively. Income taxes paid during the first nine months of 2007 were $15,058,000 compared to $17,696,000 for the same period of 2006.

NOTE B NET INCOME PER SHARE

S&T s basic net income per share is calculated as net income divided by the weighted average number of shares outstanding. For diluted net income per share, net income is divided by the weighted average number of shares outstanding plus the incremental number of shares added as a result of converting common stock equivalents, calculated using the treasury stock method. S&T s common stock equivalents consist of outstanding stock options and restricted stock. Excluded from the calculation were 564,000 and 567,000 anti-dilutive stock options for the nine months ended September 30, 2007 and 2006, respectively.

A reconciliation of the weighted average shares outstanding used to calculate basic net income per share and diluted net income per share follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Weighted average shares outstanding (basic)	24,529,448	25,604,340	24,798,043	25,877,775
Impact of common stock equivalents	161,287	149,382	161,521	200,485
Weighted average shares outstanding (diluted)	**24,690,735**	**25,753,722**	**24,959,564**	**26,078,260**

NOTE C RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2006, Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 155, Accounting for Certain Hybrid Financial Instruments. Under current generally accepted accounting principles, an entity that holds a financial instrument with an embedded derivative must bifurcate the financial instrument, resulting in the host and the embedded derivative being accounted for separately. SFAS No. 155 permits, but does not

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued

require, entities to account for certain financial instruments with an embedded derivative at fair value thereby eliminating the need to bifurcate the instrument into its host and the embedded derivative. SFAS No. 155 is effective for all financial instruments acquired or issued by S&T on or after January 1, 2007, and did not have a significant impact on S&T s financial position or results of operations. During the first nine months of 2007, S&T had no new financial instruments acquired or issued after the date of adoption with embedded derivatives.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets. SFAS No. 156 amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 requires companies to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract. SFAS No. 156 permits a company to choose either the amortized cost method or fair value measurement method for each class of separately recognized servicing assets. On January 1, 2007, S&T adopted the provisions of SFAS No. 156 using the amortized cost method for S&T s mortgage servicing asset. The adoption of SFAS No. 156 did not have a significant impact on S&T s financial position and results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109, Accounting for Income Taxes, to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. S&T adopted FIN 48 as of January 1, 2007, as required. The cumulative effect of adopting FIN 48 decreased retained earnings by $150,666. As of the date of adoption, total unrecognized tax benefits were $231,794, of which $178,718 related to tax exposures that, if resolved favorably, would reduce the effective tax rate. In addition to recording these adoption effects, S&T accrued $103,023 of interest expense in the first quarter of 2007 related to previously unrecognized tax exposures. The total amount of interest expense related to unrecognized tax benefits was $156,099. As permitted by FIN 48, S&T will continue to record interest and penalties as other noninterest expense. There were no material changes to unrecognized tax benefits during the third quarter, and it is not anticipated that any such changes will occur by December 31, 2007. U. S. federal tax returns for tax years 2004 forward remain open to examination.

In September 2006, the FASB issued, SFAS No. 157, Fair Value Measurements. SFAS No. 157 provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 also responds to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. SFAS No. 157 does not expand the use of fair value in any new circumstances. S&T will be required to apply the new guidance effective January 1, 2008. S&T is in the process of determining the impact of applying SFAS No. 157 on S&T s financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which is effective as of the beginning of the entity s first fiscal year that begins after November 15, 2007. SFAS No. 159 will enable entities to reduce the volatility in reported earnings caused by measuring related assets and liabilities differently. SFAS No. 159 is expected to expand the use of fair-value measurements and achieve a long-term objective of reporting all financial instruments at fair value. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157, Fair Value Measurements. S&T did not adopt SFAS No. 159 early and is in the process of determining the impact of adopting SFAS No. 159 on S&T s financial position and results of operations.

In July 2007, the AICPA issued Statement of Position 07-1, Clarification of the Scope of the Audit and Accounting Guide for Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies (SOP 07-1), which was expected to be effective for fiscal years beginning on or after December 15, 2007. However, the FASB has recently voted to delay the effective date indefinitely. The proposal to delay the effectiveness will be exposed for a 30-day comment period. SOP 07-1 sets forth more stringent criteria for qualifying as an investment company than does the predecessor Audit Guide. In addition, SOP 07-1 establishes new criteria for a parent company or equity method investor to retain investment company accounting in their consolidated financial statements. Investment companies record all their investments at fair value with changes in value reflected in earnings. S&T is currently evaluating the potential impact of adopting SOP 07-1.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE D EMPLOYEE BENEFITS

The following table summarizes the components of net periodic pension expense for S&T s defined benefit plan:

(dollars in thousands)	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Service cost benefits earned during the period	$ 489	$ 514	$ 1,491	$ 1,475
Interest cost on projected benefit obligation	756	699	2,236	2,064
Expected return on plan assets	(1,231)	(1,064)	(3,698)	(3,070)
Net amortization and deferral	4	23	12	162
Net Periodic Pension Expense	**$ 18**	**$ 172**	**$ 41**	**$ 631**

S&T previously disclosed in its financial statements for the year ended December 31, 2006, that S&T contributed $6.0 million to its pension plan in December 2006 for 2007. No further contributions are expected to be made for 2007.

NOTE E SECURITIES

The amortized cost and market value of securities are as follows:

September 30, 2007

	Available for Sale			
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Market Value**
Obligations of U.S. government corporations and agencies	$ 154,464	$ 130	$ (806)	$ 153,788
Collateralized mortgage obligations of U.S. government corporations and agencies	60,356	137	(540)	59,953
Mortgage-backed securities	28,994	13	(981)	28,026
U.S. treasury securities	498	1		499
Obligations of state and political subdivisions	79,438	46	(874)	78,610
Debt securities available for sale	**323,750**	**327**	**(3,201)**	**320,876**
Marketable equity securities	34,870	7,882	(773)	41,979
Other securities	983			983
Total	**$ 359,603**	**$ 8,209**	**$ (3,974)**	**$ 363,838**

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued

December 31, 2006

(dollars in thousands)	Available for Sale Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Obligations of U.S. government corporations and agencies	$ 183,161	$ 16	$ (3,174)	$ 180,003
Collateralized mortgage obligations of U.S. government corporations and agencies	61,087		(997)	60,090
Mortgage-backed securities	32,856	15	(1,078)	31,793
Obligations of state and political subdivisions	82,733	37	(1,098)	81,672
Debt securities available for sale	**359,837**	**68**	**(6,347)**	**353,558**
Marketable equity securities	39,268	16,126	(45)	55,349
Other securities	23,138			23,138
Total	**$ 422,243**	**$ 16,194**	**$ (6,392)**	**$ 432,045**

For debt securities classified as available for sale, S&T does not believe any individual unrealized loss as of September 30, 2007 and December 31, 2006 represents an other-than-temporary impairment. S&T performs a review on the entire securities portfolio on a quarterly basis to identify securities that may indicate an other-than-temporary impairment. S&T management considers the length of time and the extent to which the market value has been less than cost and the financial condition of the issuer. The unrealized losses on 167 debt securities at September 30, 2007 are attributable to changes in interest rates. The unrealized losses on eight marketable equity securities at September 30, 2007 are attributable to temporary declines in market value. S&T has both the intent and the ability to hold the securities referenced in the table above for a time necessary to recover the amortized cost or, in the case of the debt securities, until maturity.

There were $3,363,000 and $4,819,000 in gross realized gains and $98,000 and $556,000 in gross realized losses for the nine months ended September 30, 2007 and 2006, respectively, relative to securities available for sale. S&T recognized an other-than-temporary impairment totaling $0.1 million on one equity security during the first nine months of 2007. During the first nine months of 2006, $0.3 million of realized losses were attributable to a strategic initiative for reducing non-strategic equity holdings and $0.3 million of realized losses were attributable to other-than-temporary impairment on two equity securities.

The following tables present the age of gross unrealized losses and market value by investment category:

September 30, 2007

	Less Than 12 months	12 Months or More