

PEOPLES BANCORP INC

Form 10-Q

July 22, 2010

[For Printer Friendly Version click here](#)

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 June 30, 2010

OR

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

For the transition period from ____ to ____

Commission File Number: 0-16772

PEOPLES BANCORP INC.

(Exact name of Registrant as specified in its charter)

Ohio

(State or other jurisdiction of incorporation or organization)

31-0987416

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

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

45750
(Zip Code)

Registrant's telephone number, including area code:

(740) 373-3155

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant 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

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

filer o

(Do not check if a Smaller reporting
smaller reporting company o
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: 10,538,143 common shares, without par value, at July 21, 2010.

Table of Contents

TABLE OF CONTENTS

<u>PART I – FINANCIAL INFORMATION</u>	<u>3</u>
<u>ITEM 1. FINANCIAL STATEMENTS</u>	<u>3</u>
<u>CONSOLIDATED BALANCE SHEETS</u>	<u>3</u>
(Unaudited)	
<u>CONSOLIDATED STATEMENTS OF INCOME</u>	<u>4</u>
(Unaudited)	
<u>CONSOLIDATED STATEMENT OF</u>	<u>5</u>
<u>STOCKHOLDERS’ EQUITY (Unaudited)</u>	
<u>CONDENSED CONSOLIDATED</u>	<u>5</u>
<u>STATEMENTS OF CASH FLOWS (Unaudited)</u>	
<u>NOTES TO THE UNAUDITED</u>	<u>6</u>
<u>CONSOLIDATED FINANCIAL STATEMENTS</u>	
<u>ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF</u>	<u>17</u>
<u>RESULTS OF OPERATIONS AND FINANCIAL CONDITION</u>	
<u>SELECTED FINANCIAL DATA</u>	<u>17</u>
<u>EXECUTIVE SUMMARY</u>	<u>21</u>
<u>RESULTS OF OPERATIONS</u>	<u>22</u>
<u>FINANCIAL CONDITION</u>	<u>28</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES</u>	<u>37</u>
<u>ABOUT MARKET RISK</u>	
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>37</u>
<u>PART II – OTHER INFORMATION</u>	<u>38</u>
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>38</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>38</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND</u>	<u>38</u>
<u>USE OF PROCEEDS</u>	
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	<u>38</u>
<u>ITEM 4. (REMOVED AND RESERVED)</u>	<u>38</u>
<u>ITEM 5. OTHER INFORMATION</u>	<u>39</u>
<u>ITEM 6. EXHIBITS</u>	<u>39</u>
<u>SIGNATURES</u>	<u>40</u>
<u>EXHIBIT INDEX</u>	<u>41</u>

Table of Contents

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

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
 PEOPLES BANCORP INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands)	June 30, 2010	December 31, 2009
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$43,930	\$29,969
Interest-bearing deposits in other banks	23,438	11,804
Total cash and cash equivalents	67,368	41,773
Available-for-sale investment securities, at fair value (amortized cost of		
\$685,382 at June 30, 2010 and \$706,444 at December 31, 2009)	696,469	726,547
Held-to-maturity investment securities, at amortized cost (fair value of		
\$3,027 at June 30, 2010 and \$963 at December 31, 2009)	2,964	963
Other investment securities, at cost	24,356	24,356
Total investment securities	723,789	751,866
Loans, net of deferred fees and costs	1,016,106	1,052,058
Allowance for loan losses	(27,168)	(27,257)
Net loans	988,938	1,024,801
Loans held for sale	5,054	1,874
Bank premises and equipment, net	24,279	24,844
Bank owned life insurance	53,281	52,924
Goodwill	62,520	62,520
Other intangible assets	2,618	3,079
Other assets	39,199	38,146
Total assets	\$1,967,046	\$2,001,827
Liabilities		
Deposits:		
Non-interest-bearing	\$203,559	\$198,000
Interest-bearing	1,195,217	1,197,886
Total deposits	1,398,776	1,395,886

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Short-term borrowings	49,765	76,921
Long-term borrowings	239,981	246,113
Junior subordinated notes held by subsidiary trust	22,548	22,530
Accrued expenses and other liabilities	15,696	16,409
Total liabilities	1,726,766	1,757,859
Stockholders' Equity		
Preferred stock, no par value, 50,000 shares authorized, 39,000 shares issued at June 30, 2010, and 39,000 at December 31, 2009	38,593	38,543
Common stock, no par value, 24,000,000 shares authorized, 11,055,429 shares issued at June 30, 2010 and 11,031,892 shares issued at December 31, 2009, including shares in treasury	166,065	166,227
Retained earnings	47,699	46,229
Accumulated comprehensive income, net of deferred income taxes	3,677	9,487
Treasury stock, at cost, 632,112 shares at June 30, 2010 and 657,255 shares at December 31, 2009	(15,754)	(16,518)
Total stockholders' equity	240,280	243,968
Total liabilities and stockholders' equity	\$1,967,046	\$2,001,827

See Notes to the Unaudited Consolidated Financial Statements

Table of ContentsPEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Dollars in thousands, except per share data)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Interest Income:				
Interest and fees on loans	\$14,604	\$16,259	\$29,431	\$32,968
Interest and dividends on taxable investment securities	7,720	8,741	15,704	17,605
Interest on tax-exempt investment securities	618	720	1,260	1,465
Other interest income	21	25	25	41
Total interest income	22,963	25,745	46,420	52,079
Interest Expense:				
Interest on deposits	4,953	6,578	10,097	13,562
Interest on short-term borrowings	66	108	147	277
Interest on long-term borrowings	2,279	3,137	4,572	6,293
Interest on junior subordinated notes held by subsidiary trust	492	492	990	990
Total interest expense	7,790	10,315	15,806	21,122
Net interest income	15,173	15,430	30,614	30,957
Provision for loan losses	5,458	4,734	11,959	8,797
Net interest income after provision for loan losses	9,715	10,696	18,655	22,160
Gross impairment losses on investment securities	(800)	–	(1,620)	–
Less: Non-credit losses included in other comprehensive income	–	–	166	–
Net impairment losses on investment securities	(800)	–	(1,786)	–
Other Income:				
Deposit account service charges	2,457	2,616	4,755	5,015
Insurance income	2,261	2,405	4,672	5,150
Trust and investment income	1,209	1,237	2,765	2,295
Electronic banking income	1,175	1,020	2,263	1,943
Mortgage banking income	267	507	502	1,108
Bank owned life insurance	173	254	358	553
Gain on investment securities	3,018	262	3,034	588
(Loss) gain on assets	(1,254)	57	(1,237)	(62)
Loss on loans held for sale	(94)	–	(94)	–
Other non-interest income	230	206	471	418
Total other income	9,442	8,564	17,489	17,008
Other Expenses:				
Salaries and employee benefit costs	7,496	7,499	14,873	15,023
FDIC insurance	612	1,608	1,229	2,095
Net occupancy and equipment	1,440	1,496	2,958	2,968

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Professional fees	601	700	1,293	1,441
Electronic banking expense	557	491	1,162	1,163
Data processing and software	527	564	1,097	1,101
Foreclosed real estate and other loan expenses	472	192	1,118	487
Franchise tax	374	404	747	827
Amortization of other intangible assets	235	319	480	649
Other non-interest expense	1,995	2,248	3,927	4,269
Total other expenses	14,309	15,521	28,884	30,023
Income before income taxes	4,048	3,739	5,474	9,145
Income taxes	763	893	874	2,104
Net income	\$3,285	\$2,846	\$4,600	\$7,041
Preferred dividends	512	511	1,025	852
Net income available to common shareholders	\$2,773	\$2,335	\$3,575	\$6,189
Earnings per common share - basic	\$0.27	\$0.23	\$0.34	\$0.60
Earnings per common share - diluted	\$0.27	\$0.23	\$0.34	\$0.60
Weighted-average number of common shares outstanding - basic	10,422,126	10,360,590	10,406,919	10,352,769
Weighted-average number of common shares outstanding - diluted	10,429,369	10,377,105	10,415,999	10,364,621
Cash dividends declared on common shares	\$1,054	\$2,404	\$2,105	\$4,805
Cash dividends declared per common share	\$0.10	\$0.23	\$0.20	\$0.46

See Notes to the Unaudited Consolidated Financial Statements

Table of Contents

PEOPLES BANCORP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

(Dollars in thousands, except per share data)	Preferred Stock	Common Stock	Retained Earnings	Accumulated		Total
				Income (Loss)	Treasury Stock	
Balance, December 31, 2009	\$38,543	\$166,227	\$46,229	\$9,487	\$(16,518)	\$243,968
Net income			4,600			4,600
Other comprehensive loss, net of tax				(5,810)		(5,810)
Exercise of common stock options		(428)			855	427
Preferred stock dividends			(975)			(975)
Amortization of discount on preferred stock	50		(50)			–
Cash dividends declared of \$0.20 per common share			(2,105)			(2,105)
Tax benefit from exercise of stock options			(7)			(7)
Purchase of treasury stock					(91)	(91)
Common shares issued under dividend reinvestment plan		222				222
Stock-based compensation expense		51				51
Balance, June 30, 2010	\$38,593	\$166,065	\$47,699	\$3,677	\$(15,754)	\$240,280

PEOPLES BANCORP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in thousands)	Six Months Ended	
	2010	2009
Net cash provided by operating activities	\$23,351	\$10,748
Investing activities		
Available-for-sale securities:		
Purchases	(135,204)	(112,837)
Proceeds from sales	51,237	37,019
Proceeds from maturities, calls and prepayments	101,640	85,667
	(2,000)	–

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Purchase of held-to-maturity securities		
Net decrease in loans	20,164	1,704
Net expenditures for premises and equipment	(685)	(1,523)
Proceeds from sales of other real estate owned	310	331
Investment in limited partnership and tax credit funds	(249)	(248)
Net cash provided by investing activities	35,213	10,113
Financing activities		
Net increase in non-interest-bearing deposits	5,559	19,532
Net (decrease) increase in interest-bearing deposits	(2,718)	21,648
Net decrease in short-term borrowings	(27,156)	(50,388)
Proceeds from long-term borrowings	5,000	5,000
Payments on long-term borrowings	(11,131)	(10,763)
Issuance of preferred shares and common stock warrant	–	39,000
Preferred stock dividends	(975)	(568)
Cash dividends paid on common shares	(1,894)	(4,319)
Purchase of treasury stock	(91)	(124)
Proceeds from issuance of common shares	444	3
Excess tax expense for stock-based compensation	(7)	(9)
Net cash (used in) provided by financing activities	(32,969)	19,012
Net increase in cash and cash equivalents	25,595	39,873
Cash and cash equivalents at beginning of period	41,773	35,598
Cash and cash equivalents at end of period	\$67,368	\$75,471

See Notes to the Unaudited Consolidated Financial Statements

Table of Contents

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. 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, 2009 (“2009 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’ 2009 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 June 30, 2010, 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, 2009, contained herein has been derived from the audited Consolidated Balance Sheet included in Peoples’ 2009 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 seasonal variations and unusual or infrequently occurring items. Peoples’ insurance income includes contingent performance based insurance commissions that are recognized by Peoples when received, which typically occurs during the first quarter of each year.

Note 2. Fair Value of Financial Instruments

The measurement of fair value under US GAAP uses a hierarchy intended to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

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

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

Level 3: Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes

observable inputs for single dealer nonbinding quotes not corroborated by observable market data. This category generally includes certain private equity investments, retained interests from securitizations, and certain collateralized debt obligations.

6

Table of Contents

Assets measured at fair value on a recurring basis comprised the following at June 30, 2010:

(Dollars in thousands)	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2010				
Obligations of:				
U.S. Treasury and government agencies	\$ 62	\$ —	\$ 62	\$ —
U.S. government sponsored agencies	1,245	—	1,245	—
States and political subdivisions	58,682	—	58,682	—
Residential mortgage-backed securities	548,455	—	548,455	—
Commercial mortgage-backed securities	25,319	—	25,319	—
U.S. government-backed student loan pools	47,202	—	47,202	—
Bank-issued trust preferred securities	12,599	—	12,599	—
Collateralized debt obligations	—	—	—	—
Equity securities	2,905	2,731	174	—
Total available-for-sale securities	\$ 696,469	\$ 2,731	\$ 693,738	\$ —
December 31, 2009				
Obligations of:				
U.S. Treasury and government agencies	\$ 81	\$ —	\$ 81	\$ —
U.S. government sponsored agencies	4,473	—	4,473	—
States and political subdivisions	62,954	—	62,954	—
Residential mortgage-backed securities	558,826	—	558,826	—
	24,188	—	24,188	—

Commercial mortgage-backed securities				
U.S. government-backed student loan pools	59,440	–	59,440	–
Bank-issued trust preferred securities	13,826	–	12,826	1,000
Collateralized debt obligations	165	–	–	165
Equity securities	2,594	2,420	174	–
Total available-for-sale securities	\$ 726,547	\$ 2,420	\$ 722,962	\$ 1,165

The fair values used by Peoples are obtained from an independent pricing service and represent either quoted market prices for the identical securities (Level 1 inputs) or fair values determined by pricing models using a market approach that consider observable market data, such as interest rate volatilities, LIBOR yield curve, credit spreads and prices from market makers and live trading systems (Level 2). At December 31, 2009, Peoples measured two equity tranche collateralized debt obligation (“CDO”) securities at fair value using Level 3 inputs since there was not an active market. These securities were deemed to be total losses at March 31, 2010. The bank-issued trust preferred securities measured using Level 3 inputs represented a single security that was not actively traded. This security was called during the second quarter of 2010. The following is a reconciliation of activity for assets measured at fair value based on significant unobservable (non-market) information:

(Dollars in thousands)	Bank-Issued Trust Preferred Securities	Collateralized Debt Obligations
Balance, December 31, 2009	\$1,000	\$165
Other-than-temporary impairment loss included in earnings	–	(986)
Calls	(1,000)	–
Unrealized loss included in comprehensive income	–	821
Balance, June 30, 2010	\$ –	\$ –

Certain financial assets and financial liabilities are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets measured at fair value on a non-recurring basis included the following:

Table of Contents

Impaired Loans: Impaired loans are measured and reported at fair value when management believes collection of contractual interest and principal payments is doubtful. Management's determination of the fair value for these loans uses a market approach representing the estimated net proceeds to be received from the sale of the collateral based on observable market prices and market value provided by independent, licensed or certified appraisers (Level 2 Inputs). At June 30, 2010, impaired loans with an aggregate outstanding principal balance of \$21.1 million were measured and reported at a fair value of \$17.1 million. During the three and six months ended June 30, 2010, Peoples recognized losses on impaired loans of \$4.8 million and \$5.8 million, respectively, through the allowance for loan losses.

Loans Held-For-Sale: Loans held-for-sale are measured and reported at fair value when the aggregate outstanding principal balance of the loan pool exceeds the estimated fair value of the loan pool. Management's determination of the fair value uses a market approach representing the amounts a third party financial investor would be willing to pay for the loans (Level 1 Inputs). At June 30, 2010, Peoples had \$3.5 million of commercial real estate loans classified as held-for-sale (of which \$2.1 million were on nonaccrual status) which were measured and reported at a fair value of \$3.4 million. As a result, Peoples recognized a \$94,000 loss for the three and six months ended June 30, 2010.

Other Real Estate Owned: Other real estate owned ("OREO") is measured and reported at fair value when the current book value exceeds the estimated fair value of the property. Management's determination of the fair value for these loans uses a market approach representing the estimated net proceeds to be received from the sale of the property based on observable market prices and market value provided by independent, licensed or certified appraisers (Level 2 Inputs). At June 30, 2010, Peoples had \$5.2 million of OREO which were measured and reported at a fair value of \$3.9 million. As a result, Peoples recorded a loss of \$1.3 million for the three and six months ended June 30, 2010.

The following table presents the fair values of financial assets and liabilities carried on Peoples' consolidated balance sheet, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis:

	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Dollars in thousands)				
Financial assets:				
Cash and cash equivalents	\$67,368	\$67,368	\$41,773	\$41,773
Investment securities	723,789	723,852	751,866	751,866
Loans	993,992	873,056	1,026,675	892,182
Financial liabilities:				
Deposits	\$1,398,776	\$1,416,682	\$1,395,886	\$1,406,371
Short-term borrowings	49,765	49,765	76,921	76,921
Long-term borrowings	239,981	249,009	246,113	253,943
Junior subordinated	22,548	23,899	22,530	25,968

notes held by
subsidiary
trust

The methodologies for estimating the fair value of financial assets and liabilities that are measured at fair value on a recurring or non-recurring basis are discussed above. For certain financial assets and liabilities, carrying value approximates fair value due to the nature of the financial instrument. These instruments include cash and cash equivalents, demand and other non-maturity deposits and overnight borrowings. Peoples used the following methods and assumptions in estimating the fair value of the following financial instruments:

Loans: The fair value of portfolio loans assumes sale of the notes to a third party financial investor. Accordingly, this value is not necessarily the value to Peoples if the notes were held to maturity. Peoples considered interest rate, credit and market factors in estimating the fair value of loans. In the current whole loan market, financial investors are generally requiring a much higher rate of return than the return inherent in loans if held to maturity given the lack of market liquidity. This divergence accounts for the majority of the difference in carrying amount over fair value.

Deposits: The fair value of fixed maturity certificates of deposit is estimated using a discounted cash flow calculation based on current rates offered for deposits of similar remaining maturities.

Table of Contents

Long-term Borrowings: The fair value of long-term borrowings is estimated using discounted cash flow analysis based on rates currently available to Peoples for borrowings with similar terms.

Junior Subordinated Notes Held by Subsidiary Trust: The fair value of the junior subordinated notes held by subsidiary trust is estimated using discounted cash flow analysis based on current market rates of securities with similar risk and remaining maturity.

Bank premises and equipment, customer relationships, deposit base, banking center networks, and other information required to compute Peoples' aggregate fair value are not included in the above information. Accordingly, the above fair values are not intended to represent the aggregate fair value of Peoples.

Note 3. Investment Securities

Available-for-sale

The following table summarizes Peoples' available-for-sale investment securities:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Non-Credit Losses included in Other Comprehensive Income	Fair Value
June 30, 2010					
Obligations of:					
U.S. Treasury and government agencies	\$ 61	\$ 1	\$ –	\$ –	\$ 62
U.S. government sponsored agencies	1,176	69	–	–	1,245
States and political subdivisions	56,369	2,358	(45)	–	58,682
Residential mortgage-backed securities	545,580	13,666	(10,791)	–	548,455
Commercial mortgage-backed securities	24,834	491	(6)	–	25,319
U.S. government-backed student loan pools	42,275	4,927	–	–	47,202
Bank-issued trust preferred securities	13,873	36	(1,310)	–	12,599
Equity securities	1,214	1,742	(51)	–	2,905
Total available-for-sale securities	\$ 685,382	\$ 23,290	\$ (12,203)	\$ –	\$ 696,469
December 31, 2009					
Obligations of:					

U.S. Treasury and government agencies	\$ 81	\$ 1\$ –	\$ –	\$ 82
U.S. government sponsored agencies	4,384	89 –	–	4,473
States and political subdivisions	60,943	2,064	(54) –	62,953
Residential mortgage-backed securities	546,131	17,576	(4,882) –	558,825
Commercial mortgage-backed securities	23,656	675	(143) –	24,188
U.S. government-backed student loan pools	52,972	6,547	(77) –	59,442
Bank-issued trust preferred securities	16,073	47	(2,294) –	13,826
Collateralized debt obligations	986 –		(655)	(166) 165
Equity securities	1,218	1,426	(51) –	2,593
Total available-for-sale securities	\$ 706,444	\$ 28,425	\$ (8,156)	\$ (166) 726,547

Peoples' investment in CDO securities at December 31, 2009, consisted of two separate equity tranche securities comprised of trust preferred and subordinated debt securities issued by banks, bank holding companies, insurance companies and real estate investment trusts. These securities were deemed a total loss in the first quarter of 2010. Peoples' investment in equity securities was comprised entirely of common stocks issued by various unrelated banking holding companies at both June 30, 2010 and December 31, 2009.

At June 30, 2010, there were no securities of a single issuer, other than U.S. Treasury and government agencies and U.S. government sponsored agencies that exceeded 10% of stockholders' equity. Peoples had pledged investment securities with a carrying value of \$486.0 million and \$492.8 million at June 30, 2010 and December 31, 2009, respectively, to secure public and trust department deposits and repurchase agreements in accordance with federal and state requirements. Peoples also pledged investment securities with carrying values of \$70.0 million and \$121.3 million at June 30, 2010 and December 31, 2009, respectively, to secure additional borrowing capacity at the Federal Home Loan Bank of Cincinnati ("FHLB") and the Federal Reserve Bank of Cleveland ("FRB").

Table of Contents

The gross gains and gross losses realized by Peoples from sales of available-for-sale securities for the three and six months ended June 30 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2010	2009	2010	2009
Gross gains realized	\$3,018	\$275	\$3,034	\$601
Gross losses realized	–	13	–	13
Net gain realized	\$3,018	\$262	\$3,034	\$588

The cost of investment securities sold, and any resulting gain or loss, was based on the specific identification method and recognized as of the trade date.

The following table presents a summary of available-for-sale investment securities that had an unrealized loss:

(Dollars in thousands) June 30, 2010	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss
Obligations of states and political subdivisions	\$ 1,933	\$ 45	4	\$ –	\$ –	–	\$ 1,933	\$ 45
Mortgage-backed securities:								
Residential	146,456	8,972	22	43,914	1,819	15	190,370	10,791
Commercial	2,622	6	1	–	–	–	2,622	6
Bank-issued trust preferred securities	–	–	–	10,091	1,310	9	10,091	1,310
Equity securities	–	–	–	125	51	1	125	51
Total	\$ 151,011	\$ 9,023	27	\$ 54,130	\$ 3,180	25	\$ 205,141	\$ 12,203
December 31, 2009								
Obligations of states and political subdivisions	\$ 3,284	\$ 54	6	\$ –	\$ –	–	\$ 3,284	\$ 54
Mortgage-backed securities:								
Residential	37,720	2,400	7	60,120	2,482	19	97,840	4,882

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Commercial	1,966	143	1	-	-	-	1,966	143
U.S. government-backed student loan pools	-	-	-	2,923	77	1	2,923	77
Bank-issued trust preferred securities	-	-	-	11,574	2,294	10	11,574	2,294
Collateralized debt obligations	-	-	-	165	655	2	165	655
Equity securities	-	-	-	125	51	1	125	51
Total	\$ 42,970	\$ 2,597	14	\$ 74,907	\$ 5,559	33	\$ 117,877	\$ 8,156

Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. The unrealized losses at both June 30, 2010 and December 31, 2009, were attributable to changes in market interest rates and spreads since the securities were purchased. At June 30, 2010, the securities that have been at an unrealized loss position for twelve months or more were purchased prior to year-end 2008. None of these securities were downgraded by either Moody's or S&P during the second quarter, and, with the exception of a single holding, all of these investments experienced improvement in value during the second quarter. In addition, the fair value for nearly all of these securities was within 90% of its June 30 book value, with half within 2% of its book value. The positions with a fair value less than 90% of their book value were limited to three bank-issued trust preferred securities, which had an aggregate book value of \$3.0 million and fair value of \$2.1 million at June 30, 2010. Management has analyzed the underlying credit quality of these issuers, all of whom were part of the Supervisory Capital Assessment Program conducted by federal banking regulators in the first half of 2009, and concluded the unrealized losses were entirely attributable to the floating rate nature of these investments and current market interest rates.

In early July 2010, Peoples sold a single U.S. agency residential mortgage-backed security with a book value of \$10.3 million at a \$0.8 million loss. The decision to sell this security was based upon its interest rate risk characteristics and current low yield due to increased premium amortization from higher prepayment levels in recent months. Management concluded this security was other-than-temporarily impaired at June 30, 2010, since it was sold prior to recovery. As a result, Peoples recognized the entire loss as a non-cash impairment loss in earnings for the three months ended June 30, 2010. Management concluded no other individual securities were other-than-temporarily impaired at June 30, 2010, since Peoples did not have the intent to sell nor was it more likely than not that Peoples would be required to sell any of the remaining securities with an unrealized loss prior to recovery.

Table of Contents

The table below presents the amortized costs, fair value and weighted-average yield of securities by contractual maturity at June 30, 2010. The average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% federal income tax rate.

(Dollars in thousands)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Amortized cost					
Obligations of:					
U.S. Treasury and government agencies	\$ –	\$ 20	\$ 41	\$ –	\$ 61
U.S. government sponsored agencies	–	1,176	–	–	1,176
States and political subdivisions	1,406	12,886	14,978	27,099	56,369
Residential mortgage-backed securities	–	2,062	97,030	446,488	545,580
Commercial mortgage-backed securities	–	–	–	24,834	24,834
U.S. government-backed student loan pools	–	–	4,889	37,386	42,275
Bank-issued trust preferred securities	–	–	–	13,873	13,873
Equity securities	–	–	–	1,214	1,214
Total available-for-sale securities	\$ 1,406	\$ 16,144	\$ 116,938	\$ 550,894	\$ 685,382
Fair value					
Obligations of:					
U.S. Treasury and government agencies	\$ –	\$ 20	\$ 42	\$ –	\$ 62
U.S. government sponsored agencies	–	1,245	–	–	1,245
States and political subdivisions	1,424	13,412	15,907	27,939	58,682
Residential mortgage-backed securities	–	2,165	100,004	446,286	548,455
Commercial mortgage-backed securities	–	–	–	25,319	25,319
U.S. government-backed student loan pools	–	–	4,941	42,261	47,202
Bank-issued trust preferred securities	–	–	–	12,599	12,599
Equity securities	–	–	–	2,905	2,905
Total available-for-sale securities	\$ 1,424	\$ 16,842	\$ 120,894	\$ 557,309	\$ 696,469
Total average yield	7.36%	5.89%	5.07%	4.76%	4.85%

Held-to-Maturity

At June 30, 2010, Peoples' held-to-maturity investments consisted of two qualified school construction bonds that are classified as held-to-maturity because of Peoples' intent and ability to hold the securities to maturity given uncertainty regarding ownership rights of associated tax credits. These securities are carried at an aggregate amortized cost of \$2,964,000, and have gross unrealized gains totaling \$63,000; weighted average cash coupon and tax credit rates of 1.83% and 6.09%, respectively, and remaining contractual maturity over 10 years.

Other Securities

Peoples' other investment securities on the Consolidated Balance Sheets consist solely of restricted equity securities of the FHLB and the FRB. These securities are carried at cost since they do not have readily determinable fair values due to their restricted nature and Peoples does not exercise significant influence.

Table of Contents

Note 4. Stockholders' Equity

The following table details the progression in shares of Peoples' preferred, common and treasury stock during the period presented:

	Preferred Stock	Common Stock	Treasury Stock
Shares at December 31, 2009	39,000	11,031,892	657,255
Changes related to stock-based compensation awards:			
Release of restricted common shares		5,602	
Exercise of common stock options			(31,121)
Purchase of treasury stock			5,978
Common shares issued under dividend reinvestment plan		17,935	
Shares at June 30, 2010	39,000	11,055,429	632,112

Under its Amended Articles of Incorporation, Peoples is authorized to issue up to 50,000 preferred shares, in one or more series, having such voting powers, designations, preferences, rights, qualifications, limitations and restrictions as determined by the Board of Directors. In 2009, Peoples' Board of Directors created a series of preferred shares designated as Peoples' Fixed Rate Cumulative Perpetual Preferred Shares, Series A, each without par value and having a liquidation preference of \$1,000 per share, and fixed 39,000 shares as the authorized number of such shares (the "Series A Preferred Shares"). These Series A Preferred Shares subsequently were sold to the United States Department of the Treasury (the "U.S. Treasury"), along with a ten-year warrant (the "Warrant") to purchase 313,505 Peoples common shares at an exercise price of \$18.66 per share (subject to certain anti-dilution and other adjustments), for an aggregate purchase price of \$39 million in cash in connection with Peoples' participation in the U.S. Treasury's TARP Capital Purchase Program.

The Series A Preferred Shares accrue cumulative quarterly dividends at a rate of 5% per annum from January 30, 2009 to, but excluding February 15, 2014, and 9% per annum thereafter. These dividends will be paid only if, as and when declared by Peoples' Board of Directors. The Series A Preferred Shares have no maturity date and rank senior to the common shares with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding up of Peoples. Peoples has the option to redeem the Series A Preferred Shares at 100% of their liquidation preference plus accrued and unpaid dividends, subject to the approval of the Board of Governors of the Federal Reserve System and the Office of the Comptroller of Currency. The Series A Preferred Shares are generally non-voting.

The U.S. Treasury has agreed not to exercise voting power with respect to any common shares issued to it upon exercise of the Warrant. Any common shares issued by Peoples upon exercise of the Warrant will be issued from common shares held in treasury to the extent available. If no treasury shares are available, common shares will be issued from authorized but unissued common shares.

The Securities Purchase Agreement, pursuant to which the Series A Preferred Shares and the Warrant were sold, contains limitations on the payment of dividends on the common shares after January 30, 2009. Prior to the earlier of (i) January 30, 2012 and (ii) the date on which the Series A Preferred Shares have been redeemed in whole or the U.S.

Treasury has transferred the Series A Preferred Shares to third parties which are not Affiliates (as defined in the Securities Purchase Agreement) of the U.S. Treasury, any increase in common share dividends by Peoples or any of its subsidiaries would be prohibited without the prior approval of the U.S. Treasury.

If the Series A Preferred Shares were redeemed, Peoples has the right to repurchase the Warrant at its appraised value. Otherwise, the U.S. Treasury must liquidate the related Warrant at the current market price.

Note 5. Comprehensive Income (Loss)

The following details the change in the components of Peoples' accumulated other comprehensive income (loss) for the six months ended June 30, 2010:

(Dollars in thousands)	Unrealized Gain (Loss) on Securities	Unrecognized Net Pension and Postretirement Costs	Accumulated Comprehensive Income (Loss)
Balance, December 31, 2009	\$13,068	\$(3,581)	\$9,487
Current period change, net of tax	(5,860)	50	(5,810)
Balance, June 30, 2010	\$7,208	\$(3,531)	\$3,677

Table of Contents

The components of other comprehensive income (loss) were as follows:

(Dollars in thousands)	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2010	2009	2010	2009
Net income	\$3,285	\$2,846	\$4,600	\$7,041
Other comprehensive income (loss):				
Available-for-sale investment securities:				
Gross unrealized holding (loss) gain arising in the period	(1,779)	12,481	(7,766)	17,384
Related tax benefit (expense)	623	(4,369)	2,718	(6,085)
Less: reclassification adjustment for net gain included in net income	2,218	262	1,248	588
Related tax expense	(776)	(92)	(436)	(206)
Net effect on other comprehensive income (loss)	(2,598)	7,942	(5,860)	10,917
Defined benefit plans:				
Amortization of unrecognized loss and service cost on pension plan	77	52	77	84
Related tax expense	(27)	(18)	(27)	(29)
Net effect on other comprehensive income (loss)	50	34	50	55
Total other comprehensive income (loss), net of tax	(2,548)	7,976	(5,810)	10,972
Total comprehensive income (loss)	\$737	\$10,822	\$(1,210)	\$18,013

Note 6. Employee Benefit Plans

Peoples sponsors a noncontributory defined benefit pension plan that covers substantially all employees hired before January 1, 2010. The plan provides retirement benefits based on an employee's years of service and compensation. For employees hired before January 1, 2003, the amount of postretirement benefit is based on the employee's average monthly compensation pay over the highest five consecutive years out of the employee's last ten years with Peoples while an eligible employee. For employees hired on or after January 1, 2003, the amount of postretirement benefit is based on 2% of the employee's annual compensation plus accrued interest. Effective January 1, 2010, the pension plan was closed to new entrants. Peoples also has a contributory postretirement benefit plan for former employees who were retired as of December 31, 1992. The plan provides health and life insurance benefits. Peoples' policy is to fund the cost of the benefits as they are incurred.

The following tables detail the components of the net periodic benefit cost for the plans:

Pension Benefits:

Three Months Ended June 30,	Six Months Ended June 30,
--------------------------------	------------------------------

(Dollars in thousands)	2010	2009	2010	2009
Service cost	\$187	\$199	\$375	\$399
Interest cost	196	196	392	393
Expected return on plan assets	(287)	(299)	(574)	(597)
Amortization of prior service cost	1	1	2	2
Amortization of net loss	37	31	75	72
Net periodic benefit cost	\$134	\$128	\$270	\$269

Postretirement Benefits:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2010	2009	2010	2009
Interest cost	3	4	6	8
Amortization of prior service cost	–	–	(1)	(1)
Amortization of net gain	(3)	–	(5)	(1)
Net periodic benefit cost	\$ –	\$ 4	\$ –	\$ 6

Table of Contents

Note 7. Stock-Based Compensation

Under the Peoples Bancorp Inc. Amended and Restated 2006 Equity Plan (the “2006 Equity Plan”), Peoples may grant, among other awards, nonqualified stock options, incentive stock options, restricted stock awards, stock appreciation rights or any combination thereof covering up to 500,000 common shares to employees and non-employee directors. Prior to 2007, Peoples granted nonqualified and incentive stock options to employees and nonqualified stock options to non-employee directors under the 2006 Equity Plan and predecessor plans. Since February 2007, Peoples has granted a combination of restricted common shares and stock appreciation rights (“SARs”) to be settled in common shares to employees and restricted common shares to non-employee directors subject to the terms and conditions prescribed by the 2006 Equity Plan.

In general, common shares issued in connection with stock-based awards are issued from treasury shares to the extent available. If no treasury shares are available, common shares are issued from authorized but unissued common shares.

Stock Options

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

The following summarizes the changes to Peoples’ stock options for the period ended June 30, 2010:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1	270,757	\$23.90		
Granted	—	—		
Exercised	34,464	13.57		
Expired	16,765	22.58		
Outstanding at June 30	219,528	\$ 25.62	3.4 years	\$ —
Exercisable at June 30	219,528	\$ 25.62	3.4 years	\$ —

For the six months ended June 30, 2010, the total intrinsic value of stock options exercised was \$86,000. The following summarizes information concerning Peoples’ stock options outstanding at June 30, 2010:

Range of Exercise Prices	Option Shares Outstanding	Options Outstanding		Options Exercisable	
		Weighted- Average Remaining Contractual Life	Weighted-Average Exercise Price	Option Shares Exercisable	Weighted-Average Exercise Price

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

\$15.55to\$21.71	10,396	2.0 years	20.54	10,396	20.54
\$23.59to\$25.94	42,498	2.0 years	23.97	42,498	23.97
\$26.01to\$27.74	44,611	3.8 years	27.07	44,611	27.07
\$28.25	37,228	5.0 years	28.25	37,228	28.25
\$28.57to\$30.00	36,520	4.2 years	29.00	36,520	29.00
Total	171,253	3.6 years	\$26.57	171,253	\$26.57

Stock Appreciation Rights

SARs granted to employees have an exercise price equal to the fair market value of Peoples' common shares on the date of grant and will be settled using common shares of Peoples. Additionally, the SARs granted will vest three years from the grant date and expire ten years from the date of grant. The following summarizes the changes to Peoples' SARs for the period ended June 30, 2010:

Table of Contents

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1	53,756	\$ 25.80		
Granted	–	–		
Exercised	–	–		
Forfeited	3,464	24.41		
Outstanding at June 30	50,292	\$ 25.90	6.7 years	\$ –
Exercisable at June 30	20,793	\$ 29.04	5.6 years	\$ –

The following summarizes information concerning Peoples' SARs outstanding at June 30, 2010:

Exercise Prices	Number of Shares Outstanding	Weighted- Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares Exercisable
\$23.26	5,000	7.1 years	\$23.26	–
\$23.77	24,301	7.4 years	23.77	802
\$23.80to\$27.99	1,000	7.4 years	23.80	–
\$29.25	19,991	5.8 years	29.25	19,991
Total	50,292	6.7 years	\$25.90	20,793

Restricted Shares

Under the 2006 Equity Plan, Peoples may award restricted common shares to officers, key employees and non-employee directors. In general, the restrictions on common shares awarded to non-employee directors expire after six months, while the restrictions on common shares awarded to employees expire after three years.

The following summarizes the changes to Peoples' restricted common shares for the period ended June 30, 2010:

	Number of Shares	Weighted- Average Grant Date Fair Value
Outstanding at January 1	13,991	\$24.48
Awarded	2,000	14.82
Released	5,602	29.20
Forfeited	339	23.77
Outstanding at June 30	10,050	\$19.95

For the six months ended June 30, 2010, the total intrinsic value of restricted stock released was \$73,000.

Stock-Based Compensation

Peoples recognized stock-based compensation expense, which is included as a component of Peoples' salaries and employee benefits costs, based on the estimated fair value of the awards on the grant date. The following summarizes the amount of stock-based compensation expense and related tax benefit recognized:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2010	2009	2010	2009
Total stock-based compensation	\$25	\$35	\$51	\$78
Recognized tax benefit	(9)	(12)	(18)	(27)
Net expense recognized	\$16	\$23	\$33	\$51

Table of Contents

Total unrecognized stock-based compensation expense related to unvested awards was \$58,000 at June 30, 2010, which will be recognized over a weighted-average period of 0.8 years.

Note 8. Earnings Per Share

Basic earnings per common share are computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding. Diluted earnings per common share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding adjusted to include the effect of potentially dilutive common shares. Potentially dilutive common shares include incremental shares issuable upon exercise of outstanding stock options, SARs and non-vested restricted common shares using the treasury stock method. As disclosed in Note 4, Peoples had a warrant to purchase 313,505 common shares outstanding at June 30, 2010. This warrant was excluded from the calculation of diluted earnings per common share since it was anti-dilutive. In addition, stock options and SARs covering 269,185 shares and 269,820 shares were excluded from the calculations for the three and six months ended June 30, 2010, respectively, and 287,673 shares and 289,355 shares for the three and six months ended June 30, 2009, respectively, since they were anti-dilutive. The calculation of basic and diluted earnings per common share was as follows:

(Dollars in thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income	\$3,285	\$2,846	\$4,600	\$7,041
Preferred dividends	512	511	1,025	852
Net income available to common shareholders	2,773	2,335	3,575	6,189
Weighted-average common shares outstanding	10,422,126	10,360,590	10,406,919	10,352,769
Effect of potentially dilutive common shares	7,243	16,515	9,080	11,852
Total weighted-average diluted common shares outstanding	10,429,369	10,377,105	10,415,999	10,364,621
Earnings per common share:				
Basic	\$0.27	\$0.23	\$0.34	\$0.60
Diluted	\$0.27	\$0.23	\$0.34	\$0.60

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

SELECTED FINANCIAL DATA

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

	At or For the Three Months Ended June 30,		At or For the Six Months Ended June 30,	
	2010	2009	2010	2009
SIGNIFICANT RATIOS				
Return on average stockholders' equity	5.43%	4.93%	3.81%	5.59%
Return on average common stockholders' equity	5.45%	4.85%	3.52%	6.53%
Return on average assets	0.66%	0.56%	0.46%	0.61%
Net interest margin	3.49%	3.45%	3.51%	3.49%
Efficiency ratio (a)	60.28%	63.12%	60.17%	60.85%
Average stockholders' equity to average assets	12.15%	11.34%	12.13%	10.99%
Average loans to average deposits	72.98%	78.36%	74.22%	79.09%
Dividend payout ratio	38.01%	102.96%	58.88%	77.64%
ASSET QUALITY RATIOS				
Nonperforming loans as a percent of total loans (b)(c)	3.77%	3.72%	3.77%	3.72%
Nonperforming assets as a percent of total assets (b)(c)	2.21%	2.00%	2.21%	2.00%
Allowance for loan losses to loans net of unearned interest (c)	2.66%	2.12%	2.66%	2.12%
Allowance for loan losses to nonperforming loans (b)(c)	70.50%	56.90%	70.50%	56.90%
Provision for loan losses to average loans (annualized)	2.10%	2.49%	2.29%	1.60%
Net charge-offs as a percentage of average loans (annualized)	1.86%	2.05%	2.31%	1.56%
CAPITAL INFORMATION (c)				
Tier 1 capital ratio	16.11%	14.88%	16.11%	14.88%
Total risk-based capital ratio	17.44%	16.22%	17.44%	16.22%
Leverage ratio	10.14%	9.95%	10.14%	9.95%
Tangible equity to tangible assets (d)	9.21%	8.74%	9.21%	8.74%

Tangible common equity to tangible assets (d)	7.18%	6.78%	7.18%	6.78%
Tangible assets (d)	\$1,901,908	\$1,973,158	\$1,901,908	\$1,973,158
Tangible equity (d)	175,142	172,356	175,142	172,356
Tangible common equity (d)	\$136,549	\$133,862	\$136,549	\$133,862

**PER COMMON SHARE
DATA**

Earnings per share – Basic	\$0.27	\$0.23	\$0.34	\$0.60
Earnings per share – Diluted	0.27	0.23	0.34	0.60
Cash dividends declared per common share	0.10	0.23	0.20	0.46
Book value per share (c)	19.35	19.30	19.35	19.30
Tangible book value per share (c) (d)	\$13.10	\$12.92	\$13.10	\$12.92
Weighted-average common shares outstanding – Basic	10,422,126	10,360,590	10,406,919	10,352,769
Weighted-average common shares outstanding – Diluted	10,429,369	10,377,105	10,415,999	10,364,621
Common shares outstanding at end of period	10,423,317	10,358,852	10,423,317	10,358,852

- (a) Non-interest expense (less intangible asset amortization) as a percentage of fully tax-equivalent net interest income plus non-interest income (excluding gains or losses on investment securities and asset disposals).
- (b) Nonperforming loans include loans 90 days past due and accruing, renegotiated loans and nonaccrual loans. Nonperforming assets include nonperforming loans and other real estate owned.
- (c) Data presented as of the end of the period indicated.
- (d) These amounts represent non-GAAP measures since they exclude the balance sheet impact of intangible assets acquired through acquisitions on both total stockholders' equity and total assets. Additional information regarding the calculation of these measures can be found later in this discussion under the caption "Capital/Stockholders' Equity".

Table of Contents

Forward-Looking Statements

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

- (1) continued deterioration in the credit quality of Peoples’ loan portfolio could occur due to a number of factors, such as adverse changes in economic conditions that impair the ability of borrowers to repay their loans, the underlying value of the collateral could prove less valuable than otherwise assumed and assumed cash flows may be worse than expected, which may adversely impact the provision for loan losses;
- (2) competitive pressures among financial institutions or from non-financial institutions, which may increase significantly;
 - (3) changes in the interest rate environment, which may adversely impact interest margins;
- (4) changes in prepayment speeds, loan originations, sale volumes and charge-offs, which may be less favorable than expected and adversely impact the amount of interest income generated;
- (5) general economic conditions and weakening in the real estate market, either nationally or in the states in which Peoples and its subsidiaries do business, which may be less favorable than expected;
- (6) political developments, wars or other hostilities, which may disrupt or increase volatility in securities markets or other economic conditions;
- (7) legislative or regulatory changes or actions, including the Restoring American Financial Stability Act of 2010 and related regulations required to be promulgated, which may adversely affect the business of Peoples and its subsidiaries;
- (8) changes in accounting standards, policies, estimates or procedures may adversely affect Peoples’ reported financial condition or results of operations;
- (9) adverse changes in the conditions and trends in the financial markets, which may adversely affect the fair value of securities within Peoples’ investment portfolio;
 - (10) a delayed or incomplete resolution of regulatory issues that could arise;
 - (11) Peoples’ ability to receive dividends from its subsidiaries;
 - (12) Peoples’ ability to maintain required capital levels and adequate sources of funding and liquidity;
- (13) the impact of larger or similar financial institutions encountering problems, which may adversely affect the banking industry and/or Peoples;
- (14) the impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity;
- (15) the costs and effects of regulatory and legal developments, including the outcome of regulatory or other governmental inquiries and legal proceedings and results of regulatory examinations; and
- (16) other risk factors relating to the banking industry or Peoples as detailed from time to time in Peoples’ reports filed with the Securities and Exchange Commission (“SEC”), including those risk factors included in the disclosure under the headings “ITEM 1A. RISK FACTORS” of Peoples’ Annual Report on Form 10-K for the year ended December 31, 2009 (the “2009 Form 10-K”).

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

section.

This discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements, and notes thereto, contained in Peoples' 2009 Form 10-K, as well as the Unaudited Consolidated Financial Statements, ratios, statistics and discussions contained elsewhere in this Form 10-Q.

Business Overview

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

18

Table of Contents

Peoples offers diversified financial products and services through 47 financial service locations and 39 ATMs in southeastern Ohio, northwestern West Virginia and northeastern Kentucky through its financial service units – Peoples Bank, National Association (“Peoples Bank”), Peoples Financial Advisors (a division of Peoples Bank) and Peoples Insurance Agency, LLC, a subsidiary of Peoples Bank. Peoples Bank is a member of the Federal Reserve System and subject to regulation, supervision and examination by the Office of the Comptroller of the Currency.

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

Critical Accounting Policies

The accounting and reporting policies of Peoples conform to US GAAP and to general practices within the financial services industry. The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could materially differ from those estimates. Management has identified the accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of Peoples’ Unaudited Consolidated Financial Statements and Management’s Discussion and Analysis at June 30, 2010, which were unchanged from the policies disclosed in Peoples’ 2009 Form 10-K.

Goodwill and Other Intangible Assets

As more fully discussed in Peoples’ 2009 Form 10-K, goodwill is not amortized but is tested for impairment at least annually and updated quarterly if management believes there are indicators of potential impairment. At June 30, 2010, management performed its annual impairment test of Peoples’ recorded goodwill and concluded no impairment existed since the fair value of Peoples’ single reporting unit exceeded its carrying value. The methodology and significant assumptions made by management in estimating the fair value of Peoples’ reporting unit at June 30, 2010, were consistent with those disclosed in Peoples’ 2009 Form 10-K. Further, management’s analysis indicated any of the following situations would cause the fair value of Peoples’ reporting unit to equal its carrying value: (1) a 25% sustained decline in future cash flows, (2) a 250 basis point decrease in long-term growth rate or (3) a 225 basis point increase in the discount rate.

Summary of Recent Transactions and Events

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

- o Since 2008, Peoples periodically has taken actions designed to reposition the investment portfolio and reduce interest rate exposures within the portfolio and entire balance sheet. During the second quarter of 2010, Peoples’ sold investment securities with an aggregate book value of \$48.2 million during the quarter at a \$3.0 million net gain and a single \$10.3 million security at a \$0.8 million loss in early July. The securities sold consisted of mortgage-backed securities and U.S. government-backed student loan pools and were selected based upon their low yields and interest rate risk characteristics. In accordance with generally accepted accounting principles, Peoples recorded the entire loss related to the July sale as an other-than-temporary impairment in the second quarter of 2010 since the security was sold prior to recovery. In comparison, Peoples realized modest net gains on investment security transactions for the three and six months ended June 30, 2009.

In the first quarter of 2010, Peoples recognized a non-cash pre-tax other-than-temporary impairment (“OTTI”) loss of \$1.0 million on its remaining investment in collateralized debt obligation (“CDO”) securities. These securities were equity tranche CDO securities comprised mostly of bank-issued trust preferred securities. The OTTI loss reflects management’s estimation of credit losses incurred during the first quarter based upon actual defaults, its evaluation of the credit quality of the issuers and corresponding analysis of cash flows to be received from the securities. After recognition of the first quarter 2010 OTTI loss, Peoples no longer has any exposure to CDO securities within its investment portfolio.

- o Since early 2008, Peoples’ loan quality has been negatively impacted by worsening conditions within the commercial real estate market and economy as a whole, which has caused declines in commercial real estate values and deterioration in the financial condition of various commercial borrowers. These conditions led to Peoples downgrading the loan quality ratings on various commercial real estate loans through its normal loan review process. In addition, several impaired loans have become under-collateralized due to reductions in the estimated net realizable fair value of the underlying collateral. As a result, Peoples’ provision for loan losses, net charge-offs and nonperforming loans in 2008, 2009 and the first half of 2010 were significantly higher than historical levels. In the second quarter of 2010, Peoples also recognized \$1.3 million of losses on other real estate owned (“OREO”) due to declining commercial real estate values.

Table of Contents

- o Peoples' earnings in recent quarters also have been impacted by ongoing workout efforts related to existing impaired commercial real estate loans. These efforts have included negotiating reduced payoff amounts in connection with the sale of the underlying collateral – commonly referred to as “short sales” – which resulted in additional loan charge-offs and provision for loan losses. In the second quarter of 2010, Peoples successfully completed the short-sale of a \$3.9 million commercial real estate loan based on a condominium/apartment project in Florida, which removed this loan from Peoples' nonperforming loans. Peoples also took steps in the second quarter to sell \$3.4 million of commercial real estate loans, of which \$2.1 million were nonaccrual loans, secured by property located in Arizona. Correspondingly, these loans were re-classified to “held-for-sale” and written down by \$94,000 based upon their estimated fair value at June 30, 2010. Management believes these actions are prudent since they have afforded opportunities to reduce nonperforming assets and lessen loss exposures within the loan portfolio.
- o During 2009, the Board of Directors of the Federal Deposit Insurance Corporation (“FDIC”) took steps to rebuild the Deposit Insurance Fund, which has been reduced substantially by the higher rate of bank failures in 2008 and 2009 compared to recent years. These actions affected all FDIC-insured depository institutions and included increasing base assessment rates beginning April 1, 2009, collecting a one-time special assessment on September 30, 2009, and requiring the prepayment of assessments for fourth quarter 2009 and full years 2010 through 2012 on December 29, 2009. As a result of the FDIC's actions, Peoples has incurred higher FDIC insurance expense over the last several quarters, including additional expense of \$930,000 in the second quarter of 2009 for the special assessment. Additionally, Peoples prepaid \$9.0 million of FDIC assessments on December 29, 2009, which was recorded initially as a prepaid expense included in “Other Assets” on the Consolidated Balance Sheets, and subsequently amortized as FDIC insurance expense based upon actual insurance assessments. The prepayment of FDIC assessments did not have a material adverse effect on Peoples' liquidity, financial condition or results of operations.
- o Peoples' Board of Directors declared quarterly cash dividends of \$0.10 per common share for each of the prior four quarters. These dividends represented a reduction from the \$0.23 per common share paid in each of the first two quarters of 2009. Management believes the lower dividend rate balances the need for Peoples to provide a return on shareholder investment and to maintain a dividend payout consistent with recent earnings levels and long-term capital needs.
- o As described in “ITEM 1. BUSINESS-Recent Corporate Developments” of Peoples' 2009 Form 10-K, on January 30, 2009, Peoples received \$39 million of new equity capital from the U.S. Treasury's TARP Capital Purchase Program. The investment was in the form of newly-issued non-voting Fixed Rate Cumulative Perpetual Preferred Shares, Series A (the “Series A Preferred Shares”) and a related 10-year warrant sold by Peoples to the U.S. Treasury (the “TARP Capital Investment”).
- o Between August 2007 and December 2008, the Federal Reserve reduced the target Federal Funds Rate 500 basis points and the Discount Rate 575 basis points, which caused a corresponding downward shift in short-term interest rates. During this period, longer-term rates did not decrease to the same extent as short-term rates, resulting in a steepening of the yield curve. In 2009, the Federal Reserve allowed the target Federal Funds Rate and Discount Rate to remain at historically low levels of 0% to 0.25% and 0.50%, respectively, while the slope of the yield curve steepened slightly. These interest rate conditions have negatively impacted asset yields but provided Peoples with opportunities to offset most of the impact on net interest income and margin by decreasing funding costs from taking advantage of lower-cost funding available in the market place and reducing certain deposit costs.
- o In February 2010, the Federal Reserve approved several modifications to the terms of its Discount Window lending programs in light of continued improvement in financial market conditions. Most notably, the Federal Reserve increased the Discount Rate 25 basis points, thereby widening the spread between the Discount Rate and the high end of the target Federal Funds Rate range, which has been maintained since December 2008.

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

20

Table of Contents

EXECUTIVE SUMMARY

Net income available to common shareholders was \$2.8 million, or \$0.27 per diluted common share during the second quarter of 2010, a favorable increase compared to \$0.8 million and \$0.08, respectively, for the first quarter of 2010 (or “linked quarter”), and also higher than \$2.3 million and \$0.23 per diluted common share in the second quarter of 2009. The key driver of the linked quarter increase was a lower provision for loan losses, plus a net gain of \$870,000 on investment securities and other assets in the second quarter of 2010 versus a net loss of \$953,000 for the linked quarter. The year-over-year earnings improvement was largely attributable to lower second quarter FDIC insurance expense in 2010, due to the impact of the special assessment a year ago. On a year-to-date basis, net income available to common shareholders was \$3.6 million through June 30, 2010, versus \$6.2 million for the same period in 2009, representing earnings per diluted common share of \$0.34 and \$0.60, respectively. The lower earnings in 2010 was due mostly to higher provision for loan losses and foreclosed real estate and other loan workout costs.

Provision for loan losses totaled \$5.5 million in the second quarter of 2010 compared to \$6.5 million for the linked quarter and \$4.7 million for the second quarter of 2009. The recorded provision reflects the amount needed to maintain the adequacy of the allowance for loan losses based on management’s formal quarterly analysis. Second quarter 2010 provision for loan losses benefited from continued stabilization of Peoples’ asset quality, supported by a decreased level of net charge-offs and isolated nature of the increase in nonperforming loans. Still, provision for loan losses totaled \$12.0 million for the first six months of 2010 compared to \$8.8 million for the first half of 2009.

Net interest income for the second quarter of 2010 was \$15.2 million, a slight decrease from \$15.4 million for the linked quarter. Net interest income also was down slightly year-over-year for both the three and six months ended June 30, 2010. These decreases occurred as a result of lower interest income that outpaced reductions in interest expense. Net interest margin was 3.49% in the second quarter of 2010, down from 3.52% in the first quarter of 2010 due to a lack of attractive long-term investments and the impact of lower reinvestment rates in the current interest rate environment. Compared to the prior year, net interest margin expanded modestly in 2010, from management’s ongoing efforts to decrease funding costs to offset the impact of lower earning asset levels.

Non-interest income, which excludes gains and losses on securities and asset disposals, was \$7.8 million in the second quarter of 2010, versus \$8.0 million in the linked quarter and \$8.2 million in the second quarter of 2009. During the second quarter of 2010, increased deposit account service charges were offset by a reduction in insurance income from performance based commissions recorded in the first quarter. Also contributing to the linked quarter decline was the recognition of \$255,000 of estate settlement fees in the first quarter of 2010. Year-over-year, non-interest income was impacted by decreased mortgage banking income due to slower refinancing activity in 2010.

Non-interest expense totaled \$14.3 million in the second quarter of 2010, a 2% decline from the linked quarter. This decrease was primarily a result of concentrated efforts by management to improve efficiency in 2010, coupled with a reduction in foreclosed real estate and other loan expenses. Compared to prior year, non-interest expense was down 8% for the second quarter and 4% on a year-to-date basis, due largely to the \$930,000 additional FDIC expense recorded in the second quarter of 2009 for the special assessment.

At June 30, 2010, total assets were 2% lower than both the previous quarter and year-end, totaling \$1.97 billion. These reductions were caused mostly by lower loan balances, which decreased 3% due to commercial loan payoffs and charge-offs exceeding new production. Total investments also decreased \$19.3 million in the second quarter of 2010 and \$28.1 million since year-end 2009, due to a lack of attractive long-term investments meeting management’s risk-return criteria. Management’s efforts to improve the overall balance sheet risk profile were contributing factors to the reductions in loan and investment security balances compared to December 31, 2009.

At June 30, 2010, total liabilities decreased to \$1.73 billion from December 31, 2009. Deposits experienced significant increases during the first quarter of 2010, and tapered off during the second quarter because of adjustments to the pricing on selected deposit products, such as public funds and other non-core deposits. As a result, total retail deposit balances were up \$6.6 million since year-end 2009 but down \$36.2 million compared to March 31, 2010. During early 2010, short-term and long-term borrowings were reduced by \$33.3 million from funding provided by increased deposit balances.

Total stockholders' equity was \$240.3 million at June 30, 2010, a reduction from \$244.0 million at December 31, 2009. Lower fair values of available-for-sale investment securities, net of deferred taxes, accounted for the entire decrease in stockholders' equity from year-end 2009.

Table of Contents

RESULTS OF OPERATIONS

Net Interest Income

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

	For the Three Months Ended					
	June 30, 2010		March 31, 2010		June 30, 2009	
(Dollars in thousands)	Average Balance	Income/ Expense Rate	Average Balance	Income/ Expense Rate	Average Balance	Income/ Expense Rate
Short-Term Investments:						
Total short-term investments	34,077	210.25%	7,317	40.23%	38,546	240.25%
Investment Securities (1):						
Taxable	678,806	7,7664.58%	705,375	8,0154.55%	647,568	8,7415.40%
Nontaxable (2)	60,400	9516.31%	62,429	9886.33%	68,720	1,1086.45%
Total investment securities	739,206	8,7174.72%	767,804	9,0034.69%	716,288	9,8495.50%
Loans (3):						
Commercial	694,004	9,3135.38%	703,886	9,3665.40%	736,823	10,0495.47%
Real estate (4)	262,270	3,6425.55%	266,318	3,7715.66%	275,487	4,4176.41%
Consumer	85,736	1,6747.83%	89,816	1,7137.73%	94,618	1,8167.70%
Total loans	1,042,010	14,6295.63%	1,060,020	14,8505.66%	1,106,928	16,2825.91%
Less: Allowance for loan losses	(30,669)		(29,332)		(24,495)	
Net loans	1,011,341	14,6295.80%	1,030,688	14,8505.82%	1,082,433	16,2826.03%
Total earning assets	1,784,624	23,3675.24%	1,805,809	23,8575.32%	1,837,267	26,1555.70%
Intangible assets	65,248		65,484		66,144	
Other assets	146,234		142,240		137,839	
Total assets	\$1,996,106		\$2,013,533		\$2,041,250	
Deposits:						
Savings accounts	\$121,017	\$480.16%	\$116,572	\$470.16%	\$128,790	\$1680.52%
Interest-bearing demand accounts	237,262	6501.10%	229,628	6611.17%	206,168	7951.55%
Money market accounts	294,138	6540.89%	273,567	6560.97%	223,442	6311.13%
Brokered certificates of deposit	41,717	3983.83%	42,003	4013.87%	32,660	3344.10%
Retail certificates of deposit	524,038	3,2032.45%	539,327	3,3782.54%	623,102	4,6502.99%
	1,218,172	4,9531.63%	1,201,097	5,1431.74%	1,214,162	6,5782.17%

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Total interest-bearing deposits						
Borrowed Funds:						
Short-term FHLB advances	–	0.00%	34,333	90.11%	–	0.00%
Retail repurchase agreements	48,931	660.53%	51,810	710.56%	49,924	1080.86%
Total short-term borrowings	48,931	660.53%	86,143	800.37%	49,924	1080.86%
Long-term FHLB advances	105,058	9293.55%	103,574	9073.55%	147,996	1,4844.02%
Wholesale repurchase agreements	135,000	1,3503.96%	139,222	1,3863.98%	160,000	1,6524.09%
Other borrowings	22,544	4928.64%	22,535	4988.84%	22,509	4938.66%
Total long-term borrowings	262,602	2,7714.19%	265,331	2,7914.23%	330,505	3,6294.37%
Total borrowed funds	311,533	2,8373.62%	351,474	2,8713.28%	380,429	3,7373.91%
Total interest-bearing liabilities	1,529,705	7,7902.04%	1,552,571	8,0142.09%	1,594,591	10,3152.59%
Non-interest-bearing deposits	209,602		203,158		198,515	
Other liabilities	14,317		13,972		16,690	
Total liabilities	1,753,624		1,769,701		1,809,796	
Preferred equity	38,581		38,556		38,478	
Common equity	203,901		205,276		192,976	
Total stockholders' equity	242,482		243,832		231,454	
Total liabilities and stockholders' equity	\$1,996,106		\$2,013,533		\$2,041,250	
Interest rate spread		\$15,5773.20%		\$15,8433.23%		\$15,8403.11%
Net interest margin		3.49%		3.52%		3.45%

Table of Contents

(Dollars in thousands)	For the Six Months Ended					
	June 30, 2010		June 30, 2009			
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Short-Term Investments:						
Total short-term investments	20,772		240.25%	32,148		400.25%
Investment Securities (1):						
Taxable	692,017	15,782	4.56%	644,077	17,606	5.47%
Nontaxable (2)	61,409	1,938	6.31%	69,818	2,254	6.46%
Total investment securities	753,426	17,720	4.71%	713,895	19,860	5.57%
Loans (3):						
Commercial	698,918	18,680	5.39%	735,664	20,325	5.57%
Real estate (4)	264,283	7,412	5.61%	278,430	9,099	6.54%
Consumer	87,764	3,388	7.78%	93,016	3,590	7.78%
Total loans	1,050,965	29,480	5.64%	1,107,110	33,014	6.01%
Less: Allowance for loan loss	(30,004)			(24,239)		
Net loans	1,020,961	29,480	5.81%	1,082,871	33,014	6.13%
Total earning assets	1,795,159	47,224	5.28%	1,828,914	52,914	5.81%
Intangible assets	65,365			66,202		
Other assets	144,111			137,300		
Total assets	\$2,004,635			\$2,032,416		
Deposits:						
Savings accounts	\$118,807	\$950	0.16%	\$123,700	\$292	0.48%
Interest-bearing demand accounts	233,467	1,311	1.13%	200,966	1,530	1.54%
Money market accounts	283,910	1,310	0.93%	223,048	1,280	1.16%
Brokered certificates of deposit	41,859	799	3.85%	29,994	608	4.09%
Retail certificates of deposit	531,640	6,581	2.50%	628,272	9,852	3.16%
Total interest-bearing deposits	1,209,683	10,096	1.68%	1,205,980	13,562	2.27%
Borrowed Funds:						
Short-term FHLB advances	17,072		100.11%	7,347		110.26%
Retail repurchase agreements	50,363		1370.54%	52,210		2661.02%
Total short-term borrowings	67,435		1470.43%	59,557		2770.93%

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Long-term FHLB advances	104,320	1,8373.55%	150,184	3,0124.04%
Wholesale repurchase agreements	137,099	2,7353.97%	160,000	3,2814.08%
Other borrowings	22,539	9908.74%	22,504	9908.75%
Total long-term borrowings	263,958	5,5624.21%	332,688	7,2834.38%
Total borrowed funds	331,393	5,7093.44%	392,245	7,5603.85%
Total interest-bearing liabilities	1,541,076	15,8052.06%	1,598,225	21,1222.66%
Non-interest-bearing deposits	206,398		193,844	
Other liabilities	14,008		17,045	
Total liabilities	1,761,482		1,809,114	
Preferred equity	38,568		32,307	
Common equity	204,585		190,995	
Total stockholders' equity	243,153		223,302	
Total liabilities and stockholders' equity	\$2,004,635		\$2,032,416	
Interest rate spread		\$31,4193.22%		\$31,7923.15%
Net interest margin		3.51%		3.49%

(1) Average balances are based on carrying value.

(2) Interest income and yields are presented on a fully tax-equivalent basis using a 35% federal tax rate.

(3) Nonaccrual and impaired loans are included in the average loan balances. Related interest income earned on nonaccrual loans prior to the loan being placed on nonaccrual is included in loan interest income. Loan fees included in interest income were immaterial for all periods presented.

(4) Loans held for sale are included in the average loan balance listed. Related interest income on loans originated for sale prior to the loan being sold is included in loan interest income.

Table of Contents

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

	Three Months Ended			Six Months Ended	
	March				
	June 30, 2010	31, 2010	June 30, 2009	June 30, 2010	2009
(Dollars in thousands)					
Net interest income, as reported	\$15,173	\$15,441	\$15,430	\$30,614	\$30,957
Taxable equivalent adjustments		404	402	805	835
Fully tax-equivalent net interest income	\$15,577	\$15,843	\$15,840	\$31,419	\$31,792

The following table provides an analysis of the changes in FTE net interest income:

(Dollars in thousands)	Three Months Ended June 30, 2010 Compared to						Six Months Ended June 30, 2010 Compared to		
	March 31, 2010 (1)			June 30, 2009 (1)			June 30, 2009 (1)		
	Rate	Volume	Total	Rate	Volume	Total	Rate	Volume	Total
Increase (decrease) in: INTEREST INCOME:									
Short-term investments	\$ –	\$ 17	\$ 17	\$ –	\$ (3)	\$ (3)	\$ –	\$ (16)	\$ (16)
Investment Securities: (2)									
Taxable	323	(572)	(249)	(3,300)	2,325	(975)	(4,884)	3,060	(1,824)
Nontaxable	(3)	(34)	(37)	(24)	(133)	(157)	(51)	(265)	(316)
Total investment income	320	(606)	(286)	(3,324)	2,192	(1,132)	(4,935)	2,795	(2,140)
Loans:									
Commercial	(11)	(42)	(53)	(162)	(574)	(736)	(646)	(999)	(1,645)
Real estate	(72)	(57)	(129)	(571)	(204)	(775)	(1,243)	(444)	(1,687)
Consumer	131	(170)	(39)	187	(329)	(142)	–	(202)	(202)
Total loan income	48	(269)	(221)	(546)	(1,107)	(1,653)	(1,889)	(1,645)	(3,534)
Total interest income	368	(858)	(490)	(3,870)	1,082	(2,788)	(6,824)	1,134	(5,690)
INTEREST EXPENSE:									

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Deposits:									
Savings accounts	–	1	1	(110)	(10)	(120)	(186)	(11)	(197)
Interest-bearing demand accounts	(122)	111	(11)	(730)	585	(145)	(759)	540	(219)
Money market accounts	(210)	208	(2)	(632)	655	23	(582)	612	30
Brokered certificates of deposit	(2)	(1)	(3)	(130)	194	64	(101)	292	191
Retail certificates of deposit	(97)	(78)	(175)	(770)	(677)	(1,447)	(1,884)	(1,387)	(3,271)
Total deposit cost	(431)	241	(190)	(2,372)	747	(1,625)	(3,512)	46	(3,466)
Borrowed funds:									
Short-term borrowings	(6)	(8)	(14)	(40)	(2)	(42)	(136)	6	(130)
Long-term borrowings	(12)	(8)	(20)	(214)	(644)	(858)	(424)	(1,297)	(1,721)
Total borrowed funds cost	(18)	(16)	(34)	(254)	(646)	(900)	(560)	(1,291)	(1,851)
Total interest expense	(449)	225	(224)	(2,626)	101	(2,525)	(4,072)	(1,245)	(5,317)
Net interest income	\$ 817	\$ (1,083)	\$ (266)	\$ (1,244)	\$ 981	\$ (263)	\$ (2,752)	\$ 2,379	\$ (373)

- (1) The change in interest due to both rate and volume has been allocated to rate and volume changes in proportion to the relationship of the dollar amounts of the change in each.
- (2) Presented on a fully tax-equivalent basis.

In the second quarter of 2010, net interest income and margin experienced a slight decline, as lower interest income caused by lower reinvestment rates on loans and investments, from historically low market interest rates, outpaced a reduction in interest expense from management's efforts to reduce funding costs.

Total average earning assets decreased from the linked quarter and second quarter of 2009, as average loan balances were impacted by downward pressure from commercial loan payoffs and write-downs, plus lower demand for loans due to economic conditions. Average investment securities were lower in the second quarter of 2010 from the linked quarter due to a lack of long-term investments satisfying management's risk-return criteria. Asset yields continue to be affected by lower reinvestment rates.

Table of Contents

During the second quarter of 2010, Peoples lowered some pricing on certain non-core deposits, leading to a reduction in deposit costs. This pricing strategy has caused some of the change in deposit mix, as some customers have opted to reinvest maturing short-term certificates of deposit into money market accounts, which were priced very competitively. Sustained deposit growth in recent quarters has enabled Peoples to reduce borrowings.

During the remainder of 2010, Peoples' balance sheet strategies could include modest deleveraging given the lack of attractive long-term investments and prospects of minimal loan growth due to economic conditions. As a result, management believes downward pressure on net interest income and margin could continue in the second half of 2010, unless the Federal Reserve takes steps to raise short-term interest rates.

Detailed information regarding changes in the Consolidated Balance Sheets can be found under appropriate captions of the "FINANCIAL CONDITION" section of this discussion. Additional information regarding Peoples' interest rate risk and the potential impact of interest rate changes on Peoples' results of operations and financial condition can be found later in this discussion under the caption "Interest Rate Sensitivity and Liquidity".

Provision for Loan Losses

The following table details Peoples' provision for loan losses:

	Three Months Ended			Six Months Ended	
	June 30, 2010	March 31, 2010	June 30, 2009	June 30, 2010	June 30, 2009
(Dollars in thousands)					
Provision for checking account overdrafts	\$179	\$20	\$234	\$199	\$297
Provision for other loan losses	5,279	6,481	4,500	11,760	8,500
Total provision for loan losses	\$5,458	\$6,501	\$4,734	\$11,959	\$8,797
As a percentage of average gross loans (annualized)	2.10%	1.72%	2.49%	2.29%	1.60%

The provision for loan losses reflects amounts needed to maintain the adequacy of the allowance for loan losses based on management's formal quarterly analysis of the loan portfolio and procedural methodology that estimates the amount of probable credit losses. This process considers various factors that affect losses, such as changes in Peoples' loan quality, historical loss experience and current economic conditions.

Additional information regarding changes in the allowance for loan losses and loan credit quality can be found later in this discussion under the caption "Allowance for Loan Losses".

Non-Interest Income

Deposit account service charges comprised the largest portion of second quarter 2010 non-interest income. The following table details Peoples' deposit account service charges:

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

(Dollars in thousands)	Three Months Ended			Six Months Ended	
	June 30, 2010	March 31, 2010	June 30, 2009	June 30, 2010	2009
Overdraft fees	\$1,860	\$1,594	\$2,029	\$3,454	\$3,722
Non-sufficient funds fees	342	314	369	655	686
Other fees and charges	255	390	218	646	607
Total deposit account service charges	\$2,457	\$2,298	\$2,616	\$4,755	\$5,015

The amount of deposit account service charges, particularly fees for overdrafts and non-sufficient funds, is largely dependent on the timing and volume of customer activity. As a result, the amount ultimately recognized by Peoples can fluctuate each quarter. Peoples experiences some seasonal changes in overdraft and non-sufficient funds fees, primarily in the first and fourth quarters. Typically, the volume of overdraft and non-sufficient funds fees are lower in the first quarter attributable to customers receiving income tax refunds, while volumes generally increase in the fourth quarter in connection with the holiday shopping season. On July 1, 2010, new regulations governing overdraft fees became effective that could reduce amounts recognized in future quarters. While management has taken steps to minimize the adverse impact of these changes, it remains difficult to predict what impact, if any, these changes will have on Peoples' deposit account service charges.

Table of Contents

Insurance income continued to comprise a significant portion of non-interest income. The following table details Peoples' insurance income:

	Three Months Ended			Six Months Ended	
	June 30, 2010	March 31, 2010	June 30, 2009	June 30, 2010	June 30, 2009
(Dollars in thousands)					
Property and casualty insurance commissions	\$2,014	\$1,684	\$2,131	\$3,698	\$3,868
Life and health insurance commissions	141	121	173	262	354
Credit life and A&H insurance commissions	35	14	39	48	62
Performance based commissions	–	585	47	585	815
Other fees and charges	71	7	15	79	51
Total insurance income	\$2,261	\$2,411	\$2,405	\$4,672	\$5,150

During the second quarter, property and casualty insurance commissions increased over the linked quarter, due to normal fluctuations and seasonality of annual policy renewals. Although property and casualty insurance commissions were up during the second quarter, total insurance income was lower due to performance based commissions being recognized in the first quarter of 2010. These performance based commissions typically are recorded annually in the first quarter and are based on a combination of factors, such as loss experience of insurance policies sold, production volumes, and overall financial performance of the insurance industry. While Peoples continues to be successful at retaining existing insurance customers, property and casualty insurance commission levels have been reduced by the effects of a contracting economy on commercial insurance needs and lower pricing margins due to competition within the insurance industry.

The following tables detail Peoples' trust and investment income and related assets under management:

	Three Months Ended			Six Months Ended	
	June 30, 2010	March 31, 2010	June 30, 2009	June 30, 2010	June 30, 2009
(Dollars in thousands)					
Fiduciary	\$971	\$1,318	\$989	\$2,289	\$1,835
Brokerage	238	238	248	476	460
Total trust and investment income	\$1,209	\$1,556	\$1,237	\$2,765	\$2,295

	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009
	(Dollars in thousands)				
Trust assets under management	\$742,044	\$768,189	\$750,993	\$738,535	\$692,823
Brokerage assets under management	214,421	229,324	216,479	210,743	\$183,968

Total managed						
assets	\$956,465	\$997,513	\$967,472	\$949,278	\$876,791	

Peoples' fiduciary and brokerage revenues are primarily driven by the value of assets under management. While the value of managed assets has seen considerable recovery since June 30, 2009, asset values showed a modest decrease during the second quarter of 2010 based on a general decline experienced in the financial markets as a whole. These changes were reflected in Peoples' trust and investment income for the second quarter and first half of 2010. Also affecting the decline in fiduciary income from the linked quarter was the recognition of \$255,000 in estate management fees in the first quarter of 2010. Although non-recurring in nature, estate management is a core component of Peoples' fiduciary services.

Mortgage banking income has seen considerable reductions in 2010 as a result of lower demand for mortgage refinancing, coupled with generally higher long-term mortgage interest rates, leading to a reduction in gains on loans sold to the secondary market. This reduction has led to a 47% decrease in mortgage banking income, year-over-year. During the second quarter of 2010, Peoples sold approximately \$10 million of loans to the secondary market, up \$1.1 million from the previous quarter and down substantially from \$27.9 million in the second quarter of 2009.

Non-Interest Expense

Salaries and employee benefit costs remain Peoples' largest non-interest expense, accounting for approximately 50% of total non-interest expense. The following table details Peoples' salaries and employee benefit costs:

Table of Contents

	Three Months Ended			Six Months Ended	
	June 30, 2010	March 31, 2010	June 30, 2009	June 30, 2010	June 30, 2009
(Dollars in thousands)					
Base salaries and wages	\$5,063	\$5,056	\$5,106	\$10,119	\$10,167
Sales-based and incentive compensation	891	712	1,066	1,603	1,988
Employee benefits	1,318	1,336	1,216	2,654	2,456
Stock-based compensation	25	26	35	51	78
Deferred personnel costs	(286)	(282)	(439)	(568)	(778)
Payroll taxes and other employment costs	485	529	515	1,014	1,112
Total salaries and employee benefit costs	\$7,496	\$7,377	\$7,499	\$14,873	\$15,023
Full-time equivalent employees:					
Actual at end of period	527	530	548	527	548
Average during the period	530	532	545	531	545

In 2010, Peoples limited salary increases for all employees, which resulted in base salaries and wages remaining flat versus prior period amounts. Second quarter 2010 sales-based and incentive compensation were higher than in first quarter 2010 corresponding with increased sales production in Peoples' insurance and investment activities. For both the three and six months ended June 30, 2010, sales-based and incentive compensation were lower than the prior year periods as a result of reduced expense for Peoples' annual incentive award plan, which is partially based upon corporate results. Employee benefit costs experienced a slight linked quarter decline but increased year-over-year due to increased employee medical benefit costs. On a year-to-date basis, employee benefit costs were up 8% through June 30, 2010, as higher employee medical benefit costs were partially offset by a reduced 401(k) match beginning in the first quarter of 2010.

Peoples' net occupancy and equipment expense was comprised of the following:

	Three Months Ended			Six Months Ended	
	June 30, 2010	March 31, 2010	June 30, 2009	June 30, 2010	June 30, 2009
(Dollars in thousands)					
Depreciation	\$499	\$492	\$534	\$991	\$1,050
Repairs and maintenance costs	373	456	390	829	780
Net rent expense	219	222	194	441	394
Property taxes, utilities and other costs	349	348	378	697	744
Total net occupancy and equipment expense	\$1,440	\$1,518	\$1,496	\$2,958	\$2,968

Net occupancy and equipment expense recognized a 5% decrease from the linked quarter due to higher snow removal costs recorded in the first quarter of 2010. Management's continued efforts to reduce operating costs during 2010 has led to an overall decrease year-over-year, which is expected to continue in the second half of 2010.

Professional fees decreased 13% on a linked quarter basis and 14% year-over-year, due mostly to reduced legal expenses associated with problem loan workouts. Contributing to the linked quarter decline was the impact of consulting and other professional fees associated with the preparation of Peoples' proxy materials for the Annual Meeting of Shareholders.

Foreclosed real estate and other loan expenses represent costs associated with maintaining foreclosed assets, including real estate taxes and utilities, as well as various administrative costs incurred in connection with serving and collecting outstanding loans. These costs continue to be higher in 2010 compared to the prior year, due mostly to costs associated with commercial properties acquired through foreclosure in the fourth quarter of 2009. Although a modest reduction occurred from the linked quarter as Peoples progressed through the workout process on several problem loans, these costs could remain elevated based on the current level of foreclosed properties held.

Income Tax Expense

For the six months ended June 30, 2010, Peoples recorded income tax expense of \$874,000 included the entire \$625,000 tax benefit associated with the investment impairment losses recognized in both the first and second quarters. The remaining reduction in income tax expense from \$2.1 million for the first half of 2009 was attributable to lower pre-tax income due to higher provision for loan losses.

Management anticipates Peoples' effective tax rate will approximate 20% for each of the final two quarters of 2010. This effective tax rate differs from Peoples' statutory corporate tax rate as a result of income from tax-exempt sources and tax benefits derived from investments in tax credit funds, with the respective impact of each item expected to be generally consistent with that experienced in 2009.

Table of Contents

FINANCIAL CONDITION

Cash and Cash Equivalents

At June 30, 2010, Peoples' cash and cash equivalents included excess cash reserves at the Federal Reserve Bank of \$20.5 million compared to \$23.6 million at March 31, 2010 and \$11.4 million at year-end 2009. These excess funds, which are included in interest-bearing deposits in other banks on the Consolidated Balance Sheets, were maintained rather than federal funds sold due to more favorable current short-term interest rates.

During the first half of 2010, Peoples' operating and investing activities provided net cash of \$23.4 million and \$35.2 million, respectively, of which \$33.0 million was used in financing activities. Net cash provided by investing activities consisted of funds generated by normal principal payments and payoffs on loans exceeding new originations, plus proceeds from securities sales and principal runoff. During 2010, Peoples has reduced borrowed funds, which accounted for virtually all of the net cash used by financing activities.

In comparison, total cash and cash equivalents increased \$39.9 million through six months of 2009. Peoples' financing activities provided net cash of \$19.0 million, as management used \$80.2 million of funds generated from net deposit growth and the TARP Capital Investment to reduce short-term borrowings by \$50.4 million. Cash flow from investing activities totaled \$10.1 million, comprised of proceeds from sales, maturities, calls and principal payments on investment securities that exceeded purchases of new investment securities during the quarter, while operating activities generated net cash of \$10.7 million for the six months ended June 30, 2009.

Further information regarding the management of Peoples' liquidity position can be found later in this discussion under "Interest Rate Sensitivity and Liquidity."

Investment Securities

The following table details Peoples' available-for-sale investment portfolio:

	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009
(Dollars in thousands)					
Fair value:					
Obligations of:					
U.S. Treasury and government agencies	\$62	\$79	\$82	\$84	\$86
U.S. government sponsored agencies	1,245	4,360	4,473	7,981	8,143
States and political subdivisions	58,682	61,970	62,953	67,318	65,953
Residential mortgage-backed securities	548,455	538,866	558,825	549,012	506,939
Commercial mortgage-backed securities	25,319	33,675	24,188	26,674	35,303
U.S. government-backed student loan pools	47,202	59,758	59,442	58,544	55,657
Bank-issued trust preferred securities	12,599	14,244	13,826	12,882	16,229
Collateralized debt obligations	–	–	165	329	1,863

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Equity securities	2,905	2,834	2,593	3,074	3,599
Total fair value	\$696,469	\$715,786	\$726,547	\$725,898	\$693,772
Total amortized cost	\$685,382	\$700,700	\$706,444	\$704,388	\$689,540
Net unrealized gain	\$11,087	\$15,086	\$20,103	\$21,510	\$4,232

Peoples' investment in residential and commercial mortgage-backed securities largely consists of securities either guaranteed by the U.S. government or issued by U.S. government-sponsored agencies, such as Fannie Mae and Freddie Mac. The remaining portion of Peoples' mortgage-backed securities consists of securities issued by other entities, including other financial institutions, which are not guaranteed by the U.S. government. The amount of these "non-agency" securities included in the residential and commercial mortgage-backed securities totals above were as follows:

Table of Contents

	June 30,	March 31,	December 31,	September 30,	June 30,
(Dollars in thousands)	2010	2010	2009	2009	2009
Residential	\$156,962	\$140,736	\$153,621	\$164,461	\$178,545
Commercial	25,319	33,675	24,188	26,274	35,303
Total fair value	\$182,281	\$174,411	\$177,809	\$190,735	\$213,848
Total amortized cost	\$181,727	\$173,933	\$177,370	\$193,481	\$220,535
Net unrealized gain (loss)	\$554	\$478	\$439	\$(2,746)	\$(6,687)

The non-agency portfolio consists entirely of first lien residential and commercial mortgages and all securities are rated AAA or equivalent by Moody's, Standard & Poor's and/or Fitch. Nearly all of the underlying loans in these securities were originated in 2003 or earlier and have fixed interest rates.

Loans

The following table provides information regarding outstanding loan balances:

	June 30,	March 31,	December 31,	September 30,	June 30,
(Dollars in thousands)	2010	2010	2009	2009	2009
Gross portfolio loans:					
Commercial real estate	\$471,046	\$501,917	\$503,034	\$478,518	\$504,826
Commercial and industrial	165,916	165,934	159,915	160,677	173,136
Real estate construction	36,490	34,894	32,427	67,143	54,446
Residential real estate	207,314	212,569	215,735	216,571	216,280
Home equity lines of credit	50,259	49,444	49,183	48,991	48,301
Consumer	83,735	85,231	90,144	94,374	95,161
Deposit account overdrafts	1,346	1,299	1,620	1,765	2,016
Total portfolio loans	\$1,016,106	\$1,051,288	\$1,052,058	\$1,068,039	\$1,094,166
Percent of loans to total loans:					
Commercial real estate	46.4%	47.7%	47.8%	44.8%	46.1%
Commercial and industrial	16.3%	15.8%	15.2%	15.0%	15.8%

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Real estate construction	3.6%	3.3%	3.1%	6.3%	5.0%
Residential real estate	20.4%	20.2%	20.5%	20.3%	19.8%
Home equity lines of credit	4.9%	4.7%	4.7%	4.6%	4.4%
Consumer	8.3%	8.2%	8.5%	8.8%	8.7%
Deposit account overdrafts	0.1%	0.1%	0.2%	0.2%	0.2%
Total percentage	100.0%	100.0%	100.0%	100.0%	100.0%
Residential real estate loans					
being serviced for others	\$234,134	\$230,183	\$227,792	\$220,605	\$213,271

Commercial real estate loan balances have declined throughout 2010 as payoffs exceed new loan production due to lower demand stemming from current economic conditions. Contributing to the second quarter decrease in commercial real estate loans was the payoff of a single \$3.9 million out-of-market loan through a short-sale and the reclassification of \$3.4 million of loans to held-for-sale. During 2010, Peoples reduced its exposure to commercial real estate loans to enhance the overall balance sheet risk profile.

In the first half of 2010, residential real estate loan balances continue to be impacted by customer demand for long-term, fixed-rate mortgages, which Peoples generally sells to the secondary market with the servicing rights retained. During most of 2009, the secondary market offered historically low long-term fixed rates producing significantly higher refinancing activity causing an increase in Peoples' serviced loan portfolio.

Loan Concentration

Peoples categorizes its commercial loans according to standard industry classifications and monitors for concentrations in a single industry or multiple industries that could be impacted by changes in economic conditions in a similar manner. Peoples' commercial lending activities continue to be spread over a diverse range of businesses from all sectors of the economy, with no single industry comprising over 10% of Peoples' total loan portfolio.

Table of Contents

Loans secured by commercial real estate, including commercial construction loans, continue to comprise approximately half of Peoples' loan portfolio. The following table provides information regarding the largest concentrations of commercial real estate loans within the loan portfolio at June 30, 2010:

(Dollars in thousands)	Outstanding Balance	Loan Commitments	Total Exposure	% of Total
Commercial, mortgage loans:				
Lodging and lodging related	\$ 53,662	\$ 246	\$ 53,908	11.2%
Office buildings and complexes:				
Owner occupied	6,210	350	6,560	1.4%
Non-owner occupied	44,473	485	44,958	9.4%
Total office buildings and complexes	50,683	835	51,518	10.7%
Apartment complexes	60,162	1,174	61,336	12.8%
Retail facilities:				
Owner occupied	12,427	74	12,501	2.6%
Non-owner occupied	30,505	331	30,836	6.4%
Total retail facilities	42,932	405	43,337	9.0%
Residential property:				
Owner occupied	5,657	622	6,279	1.3%
Non-owner occupied	31,453	201	31,654	6.6%
Total residential property	37,110	823	37,933	7.9%
Light industrial facilities:				
Owner occupied	26,313	206	26,519	5.5%
Non-owner occupied	9,803	–	9,803	2.0%
Total light industrial facilities	36,116	206	36,322	7.6%
Assisted living facilities and nursing homes	34,162	–	34,162	7.1%
Land and land development	27,230	3,151	30,381	6.3%
Health care facilities	21,165	26	21,191	4.4%
Other	107,824	2,585	110,409	23.0%
Total commercial, mortgage	\$ 471,046	\$9,451	\$ 480,497	100.0%
Real estate, construction loans:				
Assisted living facilities and nursing homes	\$ –	\$ 8,919	\$ 8,919	17.4%
	16,993	121	17,114	33.4%

Lodging and lodging
related

Land and land development	5,450	504	5,954	11.6%
Other	14,047	5,266	19,313	37.6%
Total real estate, construction	\$ 36,490	\$ 14,810	\$ 51,300	100.0%

Peoples' commercial lending activities continue to focus on lending opportunities inside its primary market areas, with loans outside Peoples' primary market areas comprising approximately 10% of total outstanding loan balances, at both June 30, 2010 and December 31, 2009. The majority of those out-of-market loans are still based in Ohio, West Virginia and Kentucky, with total outstanding balances of \$71.1 million and \$77.9 million at June 30, 2010 and December 31, 2009, respectively. In all other states, the aggregate outstanding balance in each state was less than \$4.0 million.

Allowance for Loan Losses

The following table presents changes in Peoples' allowance for loan losses:

Table of Contents

(Dollars in thousands)	Three Months Ended			Six Months Ended	
	June 30, 2010	March 31, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Balance, beginning of period	\$26,553	\$27,257	\$24,076	\$27,257	\$22,931
Gross charge-offs:					
Commercial real estate	4,676	6,423	5,329	11,098	7,882
Commercial and industrial	157	919	33	1,076	33
Residential real estate	145	201	744	346	978
Real estate construction	68	—	—	68	—
Home equity lines of credit	6	12	37	19	41
Consumer	242	349	514	591	720
Deposit account overdrafts	223	230	329	453	630
Total gross charge-offs	5,517	8,134	6,986	13,651	10,284
Recoveries:					
Commercial real estate	275	505	997	779	1,029
Commercial and industrial	119	25	2	144	41
Residential real estate	68	18	97	86	149
Real estate construction	—	—	—	—	—
Home equity lines of credit	1	24	1	25	6
Consumer	153	235	162	389	274
Deposit account overdrafts	58	122	68	180	208
Total recoveries	674	929	1,327	1,603	1,707
Net charge-offs (recoveries):					
Commercial real estate	4,401	5,918	4,332	10,319	6,853
Commercial and industrial	38	894	31	932	(8)
Residential real estate	77	183	647	260	829
Real estate construction	68	—	—	68	—
Home equity lines of credit	5	(12)	36	(6)	35

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Consumer	89	114	352	202	446
Deposit account overdrafts	165	108	261	273	422
Total net charge-offs	4,843	7,205	5,659	12,048	8,577
Provision for loan losses	5,458	6,501	4,734	11,959	8,797
Balance, end of period	\$27,168	\$26,553	\$23,151	\$27,168	\$23,151
Ratio of net charge-offs to average loans (annualized):					
Commercial real estate	1.70%	2.26%	1.59%	1.98%	1.24%
Commercial and industrial	0.01%	0.34%	0.01%	0.18%	– %
Residential real estate	0.03%	0.07%	0.23%	0.05%	0.15%
Real estate construction	0.03%	– %	– %	0.01%	– %
Home equity lines of credit	– %	– %	– %	– %	0.01%
Consumer	0.03%	0.04%	0.13%	0.04%	0.08%
Deposit account overdrafts	0.06%	0.05%	0.09%	0.05%	0.08%
Total	1.86%	2.76%	2.05%	2.31%	1.56%

Second quarter 2010 gross charge-offs were lower than recent quarters and included a \$3.8 million write-down on a single \$14.2 million commercial real estate loan identified as being impaired and placed on nonaccrual status during the quarter. Of this amount, approximately \$1.4 million had been previously provided for through the allowance for loan losses. Gross charge-offs for the six months ended June 30, 2010, were higher than the same period in 2009, due to ongoing workout efforts on existing impaired loans and continued declines in commercial real estate values. Gross recoveries for the second quarter of 2009 included a \$1.0 million recovery on a single impaired commercial relationship.

The amount of the allowance for loan losses at end of each period represents management's estimate of expected losses from existing loans based upon the formal quarterly analysis of the loan portfolio. While this process involves allocations being made to specific loans and pools of loans, the entire allowance is available for all losses incurred within the loan portfolio. The following details management's allocation of the allowance for loan losses:

Table of Contents

	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009
(Dollars in thousands)					
Commercial real estate	\$20,198	\$19,388	\$22,125		
Commercial and industrial	3,954	3,992	1,586		
Total commercial	\$24,152	\$23,380	\$23,711	\$23,218	\$20,087
Residential real estate	1,359	1,436	1,619	1,210	1,281
Home equity lines of credit	534	540	528	501	492
Consumer	872	960	1,074	995	973
Deposit account overdrafts	251	237	325	325	318
Total allowance for loan losses	\$27,168	\$26,553	\$27,257	\$26,249	\$23,151
As a percentage of total loans	2.66%	2.53%	2.59%	2.46%	2.12%

The significant allocations to commercial loans reflects the higher credit risk associated with this type of lending and the size of this loan category in relationship to the entire loan portfolio. The increased allowance for commercial real estate loans during the second quarter of 2010 primarily reflects changes to the qualitative factors used in determining the appropriate level of allowance for lodging and lodging related loans — Peoples' largest industrial concentration — given the continued impact of general economic conditions both within Peoples' market area and nationally on this industry. The overall higher allocations to commercial loans in prior quarters primarily reflected higher loss factors for graded loans due to recent elevated charge-off levels, along with continued deterioration in credit quality of various commercial loans based on the financial condition of the borrowers. Another significant contributing factor was the impact of distressed commercial real estate values and general economic conditions on specific reserves for impaired loans.

The allowance allocated to the residential real estate and consumer loan categories is based upon Peoples' allowance methodology for homogeneous pools of loans. The fluctuations in these allocations have been directionally consistent with the changes in loan quality, loss experience and changes in loan balances in each category.

Peoples' asset quality showed signs of continued stabilization in the second quarter of 2010, despite an increase in nonperforming assets attributable to a single commercial loan relationship. The following table details Peoples' nonperforming assets:

	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009
(Dollars in thousands)					
Loans 90+ days past due and accruing:					
Commercial real estate	\$ 459	\$ —	\$ 164	\$ —	\$ —
		—	—	679	—

Commercial and industrial					
Residential real estate	22	–	238	311	242
Consumer	–	–	9	3	–
Total	481	–	411	993	242
Nonaccrual loans:					
Commercial real estate	29,676	22,706	25,852	33,326	35,015
Commercial and industrial	2,877	3,019	2,884	3,107	1,816
Residential real estate	4,933	3,567	4,687	4,125	3,071
Home equity	564	536	546	574	493
Consumer	–	4	3	4	65
Total	38,050	29,832	33,972	41,136	40,460
Total nonperforming loans (NPLs)	38,531	29,832	34,383	42,129	40,702
Other real estate owned (OREO)					
Commercial	4,752	5,857	6,087	1,062	118
Residential	140	176	226	176	45
Total	4,892	6,033	6,313	1,238	163
Total nonperforming assets (NPAs)	\$ 43,423	\$ 35,865	\$ 40,696	\$ 43,367	\$ 40,865
NPLs as a percent of total loans	3.77%	2.84%	3.27%	3.94%	3.72%
NPAs as a percent of total assets	2.21%	1.79%	2.03%	2.16%	2.00%
NPAs as a percent of gross loans and OREO	4.23%	3.39%	3.85%	4.06%	3.73%
Allowance for loan losses as a percent of NPLs	70.5%	89.0%	79.3%	62.3%	56.9%

Table of Contents

Nonperforming loans increased during the second quarter of 2010 due to the previously mentioned commercial loan relationship placed on nonaccrual status. This relationship is collateralized by real estate located within Peoples' northeastern Kentucky market area and was written down to \$10.4 million at June 30, 2010, which represented the estimated net realizable fair value of the underlying collateral. As such, no specific allocations of the allowance for loan losses were made to this loan relationship at June 30, 2010, causing the lower allowance for loan losses to nonperforming loans ratio. The increase in nonperforming assets was partially offset by the payoff of a \$3.9 million impaired commercial real estate loan in the second quarter and \$1.3 million write-downs on OREO.

Peoples' nonaccrual commercial real estate loans primarily consist of non-owner occupied commercial properties and real estate development projects. In general, management believes repayment of these loans is dependent on sale of the underlying collateral. As such, the carrying values of these loans are ultimately supported by management's estimate of the net proceeds Peoples would receive upon the sale of the collateral. These estimates are based in part on market values provided by independent, licensed or certified appraisers periodically, but no less frequently than annually. Given the sustained weakness in commercial real estate values, management continues to monitor changes in real estate values from quarter-to-quarter and updates its estimates as needed based on observable changes in market prices and/or updated appraisals for similar properties.

At June 30, 2010, Peoples' nonaccrual commercial real estate loans included \$2.1 million of loans to a single commercial borrower that were classified as held-for-sale and written down to their estimated fair value. Management believes it is possible these loans could be sold during the third quarter, which would remove the loans from Peoples' nonperforming loans.

Certain nonaccrual loans are not considered impaired and not evaluated individually by Peoples. These loans consist primarily of smaller balance homogenous consumer and residential real estate loans that are collectively evaluated for impairment. The following tables summarize loans classified as impaired:

	June 30,	March 31,	December 31,	September 30,	June 30,
(Dollars in thousands)	2010	2010	2009	2009	2009
Loans with an allocated allowance for loan losses	\$14,451	\$14,590	\$18,188	\$15,688	\$6,714
Loans with no allocated allowance for loan losses	21,880	13,557	15,052	23,988	32,579
Total impaired loans	\$36,331	\$28,147	\$33,240	\$39,676	\$39,293
Allowance for loan losses allocated to impaired loans	\$3,815	\$3,532	\$5,738	\$5,761	\$2,600
Nonaccrual loans not considered impaired	\$2,135	\$1,924	\$1,738	\$2,561	\$1,458

	Three Months Ended		Six Months Ended	
(Dollars in thousands)	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Average investment in impaired loans	\$31,179	\$38,988	\$31,866	\$39,209
Interest income recognized on impaired loans	\$2	\$2	\$4	\$19

Peoples has not allocated a portion of the allowance for loan losses to certain impaired loans because those loans either have been written down previously to the amount expected to be collected or possess characteristics indicative of Peoples' ability to collect the remaining outstanding principal from the sale of collateral and/or enforcement of guarantees by the principals.

Overall, management believes the allowance for loan losses was adequate at June 30, 2010, based on all significant information currently available. Still, there can be no assurance that the allowance for loan losses will be adequate to cover future losses or that the amount of nonperforming loans will remain at current levels, especially considering the current economic uncertainty that exists and the concentration of commercial loans in Peoples' loan portfolio.

Deposits

The following table details Peoples' deposit balances:

Table of Contents

	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009
(Dollars in thousands)					
Interest-bearing deposits:					
Retail certificates of deposit	\$512,327	\$546,760	\$537,549	\$561,619	\$596,713
Money market deposit accounts	290,477	296,196	263,257	245,621	228,963
Governmental/public funds	136,119	143,068	147,745	137,655	129,491
Savings accounts	120,086	117,526	112,074	113,104	116,108
Interest-bearing demand accounts	94,542	88,425	91,878	87,153	90,881
Total retail interest-bearing deposits	1,153,551	1,191,975	1,152,503	1,145,152	1,162,156
Brokered certificates of deposits	41,666	41,738	45,383	61,412	45,862
Total interest-bearing deposits	1,195,217	1,233,713	1,197,886	1,206,564	1,208,018
Non-interest-bearing deposits	203,559	201,337	198,000	187,011	199,572
Total deposits	\$1,398,776	\$1,435,050	\$1,395,886	\$1,393,575	\$1,407,590

During the second quarter of 2010, a single commercial customer reduced its specially-priced certificates of deposit (“CDs”) and money market accounts by \$10 million each. Management decided to price these accounts, along with out-of-market CDs and non-core deposits, more selectively in the second quarter given recent growth in lower-costing deposits and lack of attractive investment opportunities. These actions accounted for most of the decrease in retail CDs and governmental/public fund deposits since year-end 2009. Governmental/public fund deposits were also impacted by normal seasonal fluctuations based on tax collections during the first quarter and subsequent expenditures. Savings and non-interest-bearing deposits continued to grow in the second quarter of 2010, due to customer preference for insured deposits over short-term investment alternatives.

At June 30, 2010, Peoples’ retail CD balances included deposits obtained from customers outside its primary market areas, primarily school districts, government entities and credit unions located in the Midwest. These deposits totaled \$63.4 million, down 26% from \$85.6 million a year ago. Management anticipates further reductions in these balances during the remainder of 2010, as these deposits are not expected to be renewed based on Peoples’ current deposit pricing strategies. Still, management continues to consider these deposits to be an alternative funding source to brokered deposits and other wholesale funding for satisfying potential future liquidity needs.

Borrowed Funds

The following table details Peoples’ short-term and long-term borrowings:

June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009
------------------	-------------------	-------------------------	--------------------------	------------------

(Dollars in thousands)

Short-term borrowings:

Retail repurchase agreements	\$	49,765	\$	49,714	\$	51,921	\$	48,344	\$	48,464
FHLB advances		–		–		25,000		–		–
Total short-term borrowings		49,765		49,714		76,921		48,344		48,464

Long-term borrowings:

FHLB advances		104,981		105,206		101,113		132,085		142,533
National market repurchase agreements		135,000		135,000		145,000		145,000		160,000
Total long-term borrowings		239,981		240,206		246,113		277,085		302,533
Subordinated notes held by subsidiary trust		22,548		22,539		22,530		22,522		22,513
Total borrowed funds	\$	312,294	\$	312,459	\$	345,564	\$	347,951	\$	373,510

Over the last several quarters, Peoples has repaid maturing long-term borrowings using short-term assets, primarily using funds generated from retail deposit growth. The level and composition of borrowed funds may change in future quarters, as management will continue to use a combination of short-term and long-term borrowings to manage the interest rate risk of the balance sheet.

Capital/Stockholders' Equity

At June 30, 2010, capital levels for both Peoples and Peoples Bank remained substantially higher than the minimum amounts needed to be considered well capitalized institutions under banking regulations. The following table details Peoples' actual risk-based capital levels and corresponding ratios:

Table of Contents

	June 30,	March 31,	December	September	June 30,
(Dollars in thousands)	2010	2010	31, 2009	30, 2009	2009
Capital Amounts:					
Tier 1	\$195,439	\$193,211	\$192,822	\$193,013	\$198,041
Tier 1 common	\$134,298	\$132,103	\$131,747	\$131,973	\$137,035
Total (Tier 1 and Tier 2)	\$211,509	\$209,647	\$209,144	\$209,986	\$215,826
Net risk-weighted assets	\$1,212,816	\$1,245,770	\$1,244,707	\$1,281,318	\$1,330,979
Capital Ratios:					
Tier 1	16.11%	15.51%	15.49%	15.06%	14.88%
Tier 1 common	11.07%	10.60%	10.58%	10.30%	10.30%
Total (Tier 1 and Tier 2)	17.44%	16.83%	16.80%	16.39%	16.22%
Leverage ratio	10.14%	9.97%	10.06%	9.82%	9.95%

In addition to traditional capital measurements, management uses tangible capital to evaluate the adequacy of Peoples' stockholders' equity. This non-GAAP financial measure and related ratios facilitate comparisons with peers since they remove the impact of intangible assets acquired through acquisitions on the Consolidated Balance Sheets. The following table reconciles the calculation of tangible capital to amounts reported in Peoples' consolidated financial statements:

	June 30,	March 31,	December	September	June 30,
(Dollars in thousands)	2010	2010	31, 2009	30, 2009	2009
Tangible Equity:					
Total stockholders' equity, as reported	\$240,280	\$240,842	\$243,968	\$244,363	\$238,449
Less: goodwill and other intangible assets	65,138	65,357	65,599	65,805	66,093
Tangible equity	\$175,142	\$175,485	\$178,369	\$178,558	\$172,356
Tangible Common Equity:					
Tangible equity	\$175,142	\$175,485	\$178,369	\$178,558	\$172,356
Less: preferred stockholders' equity	38,593	38,568	38,543	38,518	38,494
Tangible common equity	\$136,549	\$136,917	\$139,826	\$140,040	\$133,862
Tangible Assets:					
	\$1,967,046	\$2,003,271	\$2,001,827	\$2,004,754	\$2,039,251

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Total assets, as reported					
Less: goodwill and other intangible assets	65,138	65,357	65,599	65,805	66,093
Tangible assets	\$1,901,908	\$1,937,914	\$1,936,228	\$1,938,949	\$1,973,158
Tangible Book Value per Share:					
Tangible common equity	\$136,549	\$136,917	\$139,826	\$140,040	\$133,862
Common shares outstanding	10,423,317	10,408,096	10,374,637	10,371,357	10,358,852
Tangible book value per share	\$13.10	\$13.15	\$13.48	\$13.50	\$12.92
Tangible Equity to Tangible Assets Ratio:					
Tangible equity	\$175,142	\$175,485	\$178,369	\$178,558	\$172,356
Total tangible assets	\$1,901,908	\$1,937,914	\$1,936,228	\$1,938,949	\$1,973,158
Tangible equity to tangible assets	9.21%	9.06%	9.21%	9.21%	8.74%
Tangible Common Equity to Tangible Assets Ratio:					
Tangible common equity	\$136,549	\$136,917	\$139,826	\$140,040	\$133,862
Tangible assets	\$1,901,908	\$1,937,914	\$1,936,228	\$1,938,949	\$1,973,158
Tangible common equity to tangible assets	7.18%	7.07%	7.22%	7.22%	6.78%

The fluctuations in tangible equity and tangible common equity over the last several quarters primarily reflected the impact of changes in fair value of Peoples' available-for-sale investment portfolio on accumulated other comprehensive income, a component of total stockholders' equity. The reduction in tangible assets during the second quarter of 2010 occurred primarily as a result of decreased loan balances, while the reduction during the second half of 2009 resulted from Peoples' use of short-term assets to repay maturing long-term borrowings.

Table of Contents

Interest Rate Sensitivity and Liquidity

While Peoples is exposed to various business risks, the risks relating to interest rate sensitivity and liquidity are major risks that can materially impact future results of operations and financial condition due to their complexity and dynamic nature. The objective of Peoples' asset/liability management ("ALM") function is to measure and manage these risks in order to optimize net interest income within the constraints of prudent capital adequacy, liquidity and safety. This objective requires Peoples to focus on interest rate risk exposure and adequate liquidity through its management of the mix of assets and liabilities, their related cash flows and the rates earned and paid on those assets and liabilities. Ultimately, the ALM function is intended to guide management in the acquisition and disposition of earning assets and selection of appropriate funding sources.

Interest Rate Risk

Interest rate risk ("IRR") is one of the most significant risks arising in the normal course of business of financial services companies like Peoples. IRR is the potential for economic loss due to future interest rate changes that can impact both the earnings stream as well as market values of financial assets and liabilities. Peoples' exposure to IRR is due primarily to differences in the maturity or repricing of earning assets and interest-bearing liabilities. In addition, other factors, such as prepayments of loans and investment securities or early withdrawal of deposits, can expose Peoples to IRR and increase interest costs or reduce revenue streams.

Peoples has assigned overall management of IRR to its Asset-Liability Committee (the "ALCO"), which has established an IRR management policy that sets minimum requirements and guidelines for monitoring and managing the level and amount of IRR. There have been no material changes to the policies or methods used by the ALCO to assess IRR from those disclosed in Peoples' 2009 Form 10-K. In 2010, the ALCO improved its simulation modeling process by incorporating more detailed information regarding the interest rate risk characteristics of Peoples' earning assets and interest-bearing liabilities. This refinement enhances the accuracy of modeling results and overall impact of interest rate changes to both earnings and fair value of equity.

The following table shows the estimated changes in net interest income and the economic value of equity based upon a standard, parallel shock analysis (dollars in thousands):

Increase in Interest Rate (in Basis Points)	Estimated Increase in Net Interest Income June 30, 2010		Estimated (Decrease) Increase in Economic Value of Equity June 30, 2010	
	Dollars	Percentage	Dollars	Percentage
300	\$8,786	15.6%	\$(10,969)	(5.2)%
200	6,969	12.4%	(5,099)	(2.4)%
100	3,645	6.5%	1,316	0.6%

At June 30, 2010, Peoples' balance sheet remained positioned for a rising interest rate environment, as illustrated by the potential increase in net interest income shown in the above table. Given the inherent uncertainty surrounding the timing and magnitude of future interest rate changes, management's near-term balance sheet strategies will continue to

emphasize maintaining good asset liquidity and lowering overall funding costs through a combination of less aggressive pricing of non-core funding and growing low cost retail deposits.

Liquidity

In addition to IRR management, another major objective of the ALCO is to maintain a sufficient level of liquidity. The ALCO defines liquidity as the ability to meet anticipated and unanticipated operating cash needs, loan demand and deposit withdrawals, without incurring a sustained negative impact on profitability. The ALCO's liquidity management policy sets limits on the net liquidity position and the concentration of non-core funding sources, both wholesale funding and brokered deposits.

Typically, the main source of liquidity for Peoples is deposit growth. Liquidity is also provided by cash generated from earning assets such as maturities, calls, principal payments and interest income from loans and investment securities. Peoples also uses various wholesale funding sources to supplement funding from customer deposits. These external sources also provide Peoples with the ability to obtain large quantities of funds in a relatively short time period in the event of sudden unanticipated cash needs. Peoples also has a contingency funding plan that serves as an action plan for management in the event of a short-term or long-term funding crisis caused by a single or series of unexpected events.

At June 30, 2010, Peoples had available borrowing capacity through its wholesale funding sources and unpledged investment securities totaling approximately \$294 million that can be used to satisfy liquidity needs, compared to \$185 million at year-end 2009. This liquidity position excludes the \$21 million excess cash reserves at the Federal Reserve Bank of Cleveland and the impact of Peoples' ability to obtain additional funding by either offering higher rates on retail deposits or issuing additional brokered deposits. Management believes the current balance of cash and cash equivalents and anticipated cash flows from the investment portfolio, along with the availability of other funding sources, will allow Peoples to meet anticipated cash obligations, as well as special needs and off-balance sheet commitments.

Table of Contents

Off-Balance Sheet Activities and Contractual Obligations

Peoples routinely engages in activities that involve, to varying degrees, elements of risk that are not reflected in whole or in part in the Consolidated Financial Statements. These activities are part of Peoples' normal course of business and include traditional off-balance sheet credit-related financial instruments, interest rate contracts and commitments to make additional capital contributions in low-income housing tax credit investments. Traditional off-balance sheet credit-related financial instruments continue to represent the most significant off-balance sheet exposure. The following table details the total contractual amount of loan commitments and standby letters of credit:

(Dollars in thousands)	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009
Home equity lines of credit	\$39,650	\$40,213	\$40,169	\$41,098	\$42,046
Unadvanced construction loans	14,878	12,921	12,921	17,529	25,412
Other loan commitments	108,281	109,822	113,072	100,457	98,532
Loan commitments	162,809	162,956	166,162	159,084	165,990
Standby letters of credit	\$43,505	\$43,628	\$44,048	\$44,661	\$46,762

Management does not anticipate Peoples' current off-balance sheet activities will have a material impact on future results of operations and financial condition based on historical experience and recent trends.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this Item 3 is provided under the caption "Interest Rate Sensitivity and Liquidity" under "ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION" in this Form 10-Q, and is incorporated herein by reference.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Peoples' management, with the participation of Peoples' President and Chief Executive Officer and Peoples' Executive Vice President, Chief Financial Officer and Treasurer, has evaluated the effectiveness of Peoples' disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) (the "Exchange Act") as of June 30, 2010. Based upon that evaluation, Peoples' President and Chief Executive Officer and Peoples' Executive Vice President, Chief Financial Officer and Treasurer have concluded that:

- information required to be disclosed by Peoples in this Quarterly Report on Form 10-Q and other reports Peoples files or submits under the Exchange Act would be accumulated and communicated to Peoples' management, including its President and Chief Executive Officer and its Executive Vice President, Chief Financial Officer and Treasurer, as appropriate to allow timely decisions regarding required disclosure;
- information required to be disclosed by Peoples in this Quarterly Report on Form 10-Q and other reports Peoples files or submits under the Exchange Act would be recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and

(c) Peoples' disclosure controls and procedures were effective as of the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q.

Changes in Internal Control Over Financial Reporting

There were no changes in Peoples' internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during Peoples' fiscal quarter ended June 30, 2010, that have materially affected, or are reasonably likely to materially affect, Peoples' internal control over financial reporting.

Table of Contents

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of their respective businesses or operations, Peoples or one of its subsidiaries may be named as a plaintiff, a defendant, or a party to a legal proceeding or any of their respective properties may be subject to various pending and threatened legal proceedings and various actual and potential claims. In view of the inherent difficulty of predicting the outcome of such matters, Peoples cannot state what the eventual outcome of any such matters will be; however, based on current knowledge and after consultation with legal counsel, management believes that these proceedings will not have a material adverse effect on the consolidated financial position, results of operations or liquidity of Peoples.

ITEM 1A. RISK FACTORS

There have been no material changes from those risk factors previously disclosed in “ITEM 1A. RISK FACTORS” of Part I of Peoples’ 2009 Form 10-K. Those risk factors are not the only risks Peoples faces. Additional risks and uncertainties not currently known to management or that management currently deems to be immaterial also may materially adversely affect Peoples’ business, financial condition and/or operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table details repurchases by Peoples and purchases by “affiliated purchasers” as defined in Rule 10b-18(a)(3) of the Securities Exchange Act of 1934, as amended, of Peoples’ common shares during the three months ended June 30, 2010:

Period	(a) Total Number of Common Shares Purchased	(b) Average Price Paid per Share	(c)	(d)
			Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Common Shares that May Yet Be Purchased Under the Plans or Programs (1)
April 1 – 30, 2010	1,500(2)	\$18.65(2)	–	–
May 1 – 31, 2010	–	\$(2)	–	–
June 1 – 30, 2010	1,171(2)	\$14.76(2)	–	–
Total	2,671	\$16.95	–	–

(1) Peoples' Board of Directors has not authorized any stock repurchase plans or programs for 2010, due in part to the restrictions on stock repurchases imposed by the terms of the TARP Capital Investment.

(2) Information reflects solely common shares purchased in open market transactions by Peoples Bank under the Rabbi Trust Agreement establishing a rabbi trust holding assets to provide funds for the payment of the benefits under the Peoples Bancorp Inc. Second Amended and Restated Deferred Compensation Plan for Directors of Peoples Bancorp Inc. and Subsidiaries.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

38

Table of Contents

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The exhibits required to be filed with this Form 10-Q are attached hereto or incorporated herein by reference. For a list of such exhibits, see “Exhibit Index” beginning at page 41.

39

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PEOPLES BANCORP
INC.

Date: July 22,
2010

MARK F. BRADLEY
By:
/s/
Mark F. Bradley
President and Chief
Executive Officer

Date: July
22, 2010

EDWARD G. SLOANE
By:
/s/
Edward G. Sloane
Executive Vice President,
Chief Financial Officer
and Treasurer

Table of Contents

EXHIBIT INDEX

PEOPLES BANCORP INC. QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010

Exhibit Number	Description	Exhibit Location
3.1(a)	Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on May 3, 1993)	Incorporated herein by reference to Exhibit 3(a) to the Registration Statement on Form 8-B of Peoples Bancorp Inc. ("Peoples") filed July 20, 1993 (File No. 0-16772)
3.1(b)	Certificate of Amendment to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on April 22, 1994)	Incorporated herein by reference to Exhibit 3(a)(2) to Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (File No. 0-16772) ("Peoples' 1997 Form 10-K")
3.1(c)	Certificate of Amendment to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on April 9, 1996)	Incorporated herein by reference to Exhibit 3(a)(3) to Peoples' 1997 Form 10-K
3.1(d)	Certificate of Amendment to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on April 23, 2003)	Incorporated herein by reference to Exhibit 3(a) to Peoples' Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003 (File No. 0-16772) ("Peoples' March 31, 2003 Form 10-Q")
3.1(e)	Certificate of Amendment by Shareholders or Members to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on January 22, 2009)	Incorporated herein by reference to Exhibit 3.1 to Peoples' Current Report on Form 8-K dated and filed on January 23, 2009 (File No. 0-16772)
3.1(f)	Certificate of Amendment by Directors or Incorporators to Articles filed with the Secretary of State of the State of Ohio on January 28, 2009, evidencing adoption of amendments by the Board	Incorporated herein by reference to Exhibit 3.1 to Peoples' Current Report on Form 8-K dated and filed on February 2, 2009 (File No.

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

	of Directors of Peoples Bancorp Inc. to Article FOURTH of Amended Articles of Incorporation to establish express terms of Fixed Rate Cumulative Perpetual Preferred Shares, Series A, each without par value, of Peoples Bancorp Inc.	0-16772) (“Peoples’ February 2, 2009 Form 8-K”)
3.1(g)	Amended Articles of Incorporation of Peoples Bancorp Inc. (reflecting amendments through January 28, 2009) [For SEC reporting compliance purposes only – not filed with Ohio Secretary of State]	Incorporated herein by reference to Exhibit 3.1(g) to Peoples’ Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (File No. 0-16772)
3.2(a)	Code of Regulations of Peoples Bancorp Inc.	Incorporated herein by reference to Exhibit 3(b) to Peoples’ Registration Statement on Form 8-B filed July 20, 1993 (File No. 0-16772)
3.2(b)	Certified Resolutions Regarding Adoption of Amendments to Sections 1.03, 1.04, 1.05, 1.06, 1.08, 1.10, 2.03(C), 2.07, 2.08, 2.10 and 6.02 of the Code of Regulations of Peoples Bancorp Inc. by shareholders on April 10, 2003	Incorporated herein by reference to Exhibit 3(c) to Peoples’ March 31, 2003 Form 10-Q
3.2(c)	Certificate regarding adoption of amendments to Sections 3.01, 3.03, 3.04, 3.05, 3.06, 3.07, 3.08 and 3.11 of the Code of Regulations of Peoples Bancorp Inc. by shareholders on April 8, 2004	Incorporated herein by reference to Exhibit 3(a) to Peoples’ Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 (File No. 0-16772)

Table of Contents

EXHIBIT INDEX

PEOPLES BANCORP INC. QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010

Exhibit Number	Description	Exhibit Location
3.2(d)	Certificate regarding adoption of amendments to Sections 2.06, 2.07, 3.01 and 3.04 of Peoples Bancorp Inc.'s Code of Regulations by the shareholders on April 13, 2006	Incorporated herein by reference to Exhibit 3.1 to Peoples' Current Report on Form 8-K dated and filed on April 14, 2006 (File No. 0-16772)
3.2(e)	Code of Regulations of Peoples Bancorp Inc. (reflecting amendments through April 13, 2006) [For SEC reporting compliance purposes only]	Incorporated herein by reference to Exhibit 3(b) to Peoples' Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006 (File No. 0-16772)
4.1	Warrant to purchase 313,505 Shares of Common Stock (common shares) of Peoples Bancorp Inc., issued to the United States Department of the Treasury on January 30, 2009	Incorporated herein by reference to Exhibit 4.1 to Peoples' February 2, 2009 Form 8-K
4.2	Letter Agreement, dated January 30, 2009, including Securities Purchase Agreement – Standard Terms attached thereto as Exhibit A, between Peoples Bancorp Inc. and the United States Department of the Treasury [NOTE: Exhibit A to the Securities Purchase Agreement is not included therewith; filed as Exhibit 3.1 to Peoples' February 2, 2009 Form 8-K and incorporated by reference at Exhibit 3.1(f) to this Quarterly Report on Form 10-Q]	Incorporated herein by reference to Exhibit 10.1 to Peoples' February 2, 2009 Form 8-K
12	Statements regarding Computation of Consolidated Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends Appearing in Quarterly Report on Form 10-Q	Filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certifications [President and Chief Executive Officer]	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certifications [Executive Vice President, Chief Financial Officer and Treasurer]	Filed herewith

Table of Contents