

UNIVEST CORP OF PENNSYLVANIA
Form 10-Q
August 08, 2007

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2007.

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ___ to ___.

Commission File Number: 0-7617

UNIVEST CORPORATION OF PENNSYLVANIA

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of incorporation
of organization)

23-1886144
(IRS Employer Identification No.)

14 North Main Street, Souderton, Pennsylvania 18964

(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code: (215) 721-2400

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Common Stock, \$5 par value
(Title of Class)

12,875,642
(Number of shares outstanding at 06/30/07)

UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

UNIVEST CORPORATION OF PENNSYLVANIA
CONDENSED CONSOLIDATED BALANCE SHEETS

	(UNAUDITED) June 30, 2007	(SEE NOTE) December 31, 2006
	(In thousands, except share data)	
ASSETS		
Cash and due from banks	\$ 50,237	\$ 46,956
Interest-earning deposits with other banks	473	582
Federal funds sold	27,451	22,817
Investment securities held-to-maturity (market value \$2,218 and \$2,685 at June 30, 2007 and December 31, 2006, respectively)	2,169	2,619
Investment securities available-for-sale	395,295	379,781
Loans and leases	1,380,736	1,353,681
Less: Reserve for loan and lease losses	(13,793)	(13,283)
Net loans and leases	1,366,943	1,340,398
Premises and equipment, net	21,817	21,878
Goodwill, net of accumulated amortization of \$2,942 at June 30, 2007 and December 31, 2006	44,436	44,273
Other intangibles, net of accumulated amortization and fair value adjustments of \$5,502 and \$5,113 at June 30, 2007 and December 31, 2006, respectively	2,995	3,335
Cash surrender value of insurance policies	37,420	36,686
Accrued interest and other assets	29,036	30,176
Total assets	\$ 1,978,272	\$ 1,929,501
LIABILITIES		
Demand deposits, noninterest-bearing	\$ 238,141	\$ 263,417
Demand deposits, interest-bearing	528,363	508,140
Savings deposits	215,161	195,126
Time deposits	575,036	521,862
Total deposits	1,556,701	1,488,545
Securities sold under agreements to repurchase	87,360	99,761
Other short-term borrowings	-	17,900
Accrued expenses and other liabilities	31,132	30,505
Long-term debt	85,807	77,036
Subordinated notes	9,000	9,750
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding junior subordinated debentures of Uninvest ("Trust Preferred Securities")	20,619	20,619
Total liabilities	1,790,619	1,744,116
SHAREHOLDERS' EQUITY		
Common stock, \$5 par value: 24,000,000 shares authorized at June 30, 2007 and December 31, 2006; 14,873,904 shares issued at June 30, 2007 and December 31, 2006; 12,875,642 and 13,005,329 shares outstanding at June 30, 2007 and December 31, 2006, respectively	74,370	74,370
Additional paid-in capital	22,504	22,459

Retained earnings	135,267	128,242
Accumulated other comprehensive loss, net of tax benefit	(6,236)	(4,463)
Treasury stock, at cost; 1,998,262 and 1,868,575 shares at June 30, 2007 and December 31, 2006, respectively	(38,252)	(35,223)
Total shareholders' equity	187,653	185,385
Total liabilities and shareholders' equity	\$ 1,978,272	\$ 1,929,501

Note: The condensed consolidated balance sheet at December 31, 2006 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statement. See accompanying notes to the unaudited condensed consolidated financial statements.

UNIVEST CORPORATION OF PENNSYLVANIA
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
	(\$ in thousands, except per share data)			
Interest income				
Interest and fees on loans and leases:				
Taxable	\$ 23,400	\$ 20,896	\$ 45,985	\$ 40,056
Exempt from federal income taxes	1,033	941	2,052	1,857
Total interest and fees on loans and leases	24,433	21,837	48,037	41,913
Interest and dividends on investment securities:				
Taxable	3,715	2,800	7,399	5,246
Exempt from federal income taxes	970	981	1,918	1,948
Other interest income	88	111	152	174
Total interest income	29,206	25,729	57,506	49,281
Interest expense				
Interest on deposits	11,279	8,410	21,674	15,107
Interest on long-term debt and capital securities	1,561	1,187	3,027	2,343
Interest on short-term debt	728	577	1,722	1,284
Total interest expense	13,568	10,174	26,423	18,734
Net interest income	15,638	15,555	31,083	30,547
Provision for loan and lease losses	653	515	1,277	1,026
Net interest income after provision for loan and lease losses	14,985	15,040	29,806	29,521
Noninterest income				
Trust fee income	1,481	1,448	2,968	2,999
Service charges on deposit accounts	1,702	1,671	3,352	3,343
Investment advisory commission and fee income	686	607	1,365	1,156
Insurance commission and fee income	1,316	924	3,191	2,301
Life insurance income	412	235	734	621
Other service fee income	930	790	1,796	1,544
Net gain on sales of securities	51	47	51	47
Net loss on disposition of fixed assets	(64)	(64)	(64)	(67)
Other	50	17	87	176
Total noninterest income	6,564	5,675	13,480	12,120
Noninterest expense				
Salaries and benefits	7,840	7,198	15,634	14,503
Net occupancy	1,186	1,059	2,437	2,127
Equipment	828	805	1,603	1,577
Marketing and Advertising	243	446	408	981
Other	3,234	2,998	6,411	5,807
Total noninterest expense	13,331	12,506	26,493	24,995

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Income before income taxes	8,218	8,209	16,793	16,646
Applicable income taxes	2,143	2,194	4,471	4,417
Net income	\$ 6,075	\$ 6,015	\$ 12,322	\$ 12,229
Net income per share:				
Basic	\$ 0.47	\$ 0.47	\$ 0.95	\$ 0.95
Diluted	0.47	0.46	0.95	0.94
Dividends declared	0.20	0.19	0.40	0.38

Note: See accompanying notes to the unaudited condensed consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Six Months Ended	
	June 30,	
	2007	2006
	(\$ in thousands)	
Cash flows from operating activities:		
Net income	\$ 12,322	\$ 12,229
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,277	1,026
Depreciation of premises and equipment	1,014	1,081
Realized gains on investment securities	(51)	(47)
Realized losses on dispositions of fixed assets	64	67
Increase in cash surrender value of insurance policies	(734)	(621)
Other adjustments to reconcile net income to cash provided by operating activities	412	467
Decrease (increase) in interest receivable and other assets	1,640	(161)
Increase (decrease) in accrued expenses and other liabilities	440	(11,265)
Net cash provided by operating activities	16,384	2,776
Cash flows from investing activities:		
Net cash paid due to acquisitions, net of cash acquired	(198)	(152)
Net capital expenditures	(1,017)	(1,532)
Proceeds from maturing securities held-to-maturity	452	571
Proceeds from maturing securities available-for-sale	26,248	38,753
Proceeds from sales and calls of securities available-for-sale	21,858	18,515
Purchases of investment securities available-for-sale	(66,221)	(83,682)
Proceeds from sales of loans and leases	1,617	756
Purchases of financing leases	(20,488)	(271)
Net increase in loans and leases	(8,736)	(72,145)
Net decrease (increase) in interest-bearing deposits	109	(46)
Net (increase) decrease in federal funds sold	(4,634)	9,915
Net cash used in investing activities	(51,010)	(89,318)
Cash flows from financing activities:		
Net increase in deposits	68,247	73,184
Net (decrease) increase in short-term borrowings	(30,301)	20,709
Issuance of long term debt	10,000	—
Repayment of long-term debt	(1,000)	(5,000)
Repayment of subordinated debt	(750)	(750)
Purchases of treasury stock	(4,478)	(2,192)
Stock issued under dividend reinvestment and employee stock purchase plans	1,002	1,043
Proceeds from exercise of stock options	384	749
Cash dividends paid	(5,197)	(4,924)
Net cash (used in) provided by financing activities	37,907	82,819
Net decrease in cash and due from banks	3,281	(3,723)
Cash and due from banks at beginning of year	46,956	46,226
Cash and due from banks at end of period	\$ 50,237	\$ 42,503

Supplemental disclosures of cash flow information

Cash paid (received) during the year for:

Interest expense	\$	26,501	\$	19,137
Income taxes, net of refunds received		5,319		5,134

Note: See accompanying notes to the unaudited condensed consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES**Notes to the Unaudited Condensed Consolidated Financial Statements****Note 1. Financial Information**

The accompanying unaudited condensed consolidated financial statements include the accounts of Univest Corporation of Pennsylvania (the "Corporation") and its wholly owned subsidiaries; the Corporation's primary subsidiary is Univest National Bank and Trust Co. (the "Bank"). The unaudited condensed consolidated financial statements included herein have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such rules and regulations. The accompanying unaudited condensed consolidated financial statements reflect all adjustments which are of a normal recurring nature and are, in the opinion of management, necessary to present a fair statement of the results and condition for the interim periods presented. Operating results for the six-month period ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. It is suggested that these unaudited condensed consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the registrant's Annual Report on Form 10-K for the year ended December 31, 2006, which has been filed with the SEC on March 8, 2007.

Note 2. Loans and Leases

The following is a summary of the major loan and lease categories:

(\$ in thousands)	At June 30, 2007	At December 31, 2006
Commercial, financial and agricultural	\$ 446,111	\$ 442,182
Real estate-commercial	352,189	352,596
Real estate-construction	139,748	136,331
Real estate-residential	308,527	305,306
Loans to individuals	82,363	89,217
Lease financings	55,697	30,186
Total gross loans and leases	1,384,635	1,355,818
Less: Unearned income	(3,899)	(2,137)
Total loans and leases	\$ 1,380,736	\$ 1,353,681

Note 3. Reserve for Loan and Lease Losses

A summary of the activity in the reserve for loan and lease losses is as follows:

Information with respect to loans and leases that are considered to be impaired under SFAS 114 at June 30, 2007 and December 31, 2006 is as follows:

(\$ in thousands)	At June 30, 2007 Three Months Ended June 30,		At December 31, 2006 Six Months Ended June 30,	
	2007	2006	2007	2006
Reserve for loan and lease losses at beginning of period	\$ 13,414	\$ 13,856	\$ 13,283	\$ 13,363
Provision for loan and lease losses	653	515	1,277	1,026
Recoveries	197	129	356	402
Loans charged off	(471)	(220)	(1,123)	(511)
Reserve for loan and lease losses at period end	\$ 13,793	\$ 14,280	\$ 13,793	\$ 14,280

(\$ in thousands)	Balance	Specific Reserve	Balance	Specific Reserve
Recorded investment in impaired loans and leases at period-end subject to a specific reserve for loan and lease losses and corresponding specific reserve	\$ 7,303	\$ 2,520	\$ 5,606	\$ 1,576
Recorded investment in impaired loans and leases at period-end requiring no specific reserve for loan and lease losses	575		2,837	
Recorded investment in impaired loans and leases at period-end	\$ 7,878		\$ 8,443	
Recorded investment in nonaccrual and restructured loans and leases	\$ 7,878		\$ 8,443	

The following is an analysis of interest on nonaccrual and restructured loans and leases:

(\$ in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Nonaccrual and restructured loans and leases at period end	\$ 7,878	\$ 9,843	\$ 7,878	\$ 9,843
Average recorded investment in impaired loans and leases	7,868	5,707	7,756	4,967
Interest income that would have been recognized under original terms	198	115	396	233

No interest income was recognized on these loans for the three- and six-month periods ended June 30, 2007 and 2006.

Note 4. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

(\$ in thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Numerator:				
Numerator for basic and diluted earnings per share – Net income	\$ 6,075	\$ 6,015	\$ 12,322	\$ 12,229
Denominator:				
Denominator for basic earnings per share – weighted-average shares outstanding	12,936	12,939	12,970	12,942
Effect of dilutive securities:				
Employee stock options	22	79	33	69
Denominator for diluted earnings per share – adjusted weighted-average shares outstanding	12,958	13,018	13,003	13,011
Basic earnings per share	\$ 0.47	\$ 0.47	\$ 0.95	\$ 0.95
Diluted earnings per share	0.47	0.46	0.95	0.94

Note 5. Accumulated Comprehensive Income

The following shows the accumulated comprehensive income, net of income taxes, for the periods presented:

(\$ in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
Net Income	\$ 6,075	\$ 6,015	\$ 12,322	\$ 12,229
Unrealized gain on cash flow hedges:				
Unrealized holding gains arising during the period	—	15	—	4
Unrealized gain (loss) on available-for-sale investment securities:				
Unrealized losses arising during the period	(2,298)	(977)	(1,789)	(1,846)
Less: reclassification adjustment for gains realized in net income	33	31	33	31
Defined benefit pension plans:				
Unrealized gains (losses) arising during the period	13	—	(39)	—
Less: amortization of net gain included in net periodic pension costs	(65)	—	(112)	—
Less: accretion of prior service cost included in net periodic pension costs	9	—	24	—
Total comprehensive income	\$ 3,813	\$ 5,022	\$ 10,549	\$ 10,356

Note 6. Pensions and Other Postretirement Benefits

Components of net periodic benefit cost:

(\$ in thousands)

	Three Months Ended June 30,			
	2007	2006	2007	2006
	Retirement Plans		Other Postretirement	
Service cost	\$ 324	\$ 347	\$ 16	\$ 15
Interest cost	429	406	20	20
Expected return on plan assets	(470)	(388)	—	—
Amortization of net (gain) loss	98	70	2	3
Amortization of prior service cost	(9)	72	(5)	(5)
Net periodic benefit cost	\$ 372	\$ 437	\$ 33	\$ 33

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(\$ in thousands)

	Six Months Ended June 30,			
	2007	2006	2007	2006
	Retirement Plans		Other Postretirement	
Service cost	\$ 686	\$ 687	\$ 32	\$ 29
Interest cost	848	820	39	39
Expected return on plan assets	(885)	(776)	—	—
Amortization of net (gain) loss	168	166	5	6
Amortization of prior service cost	(27)	(36)	(10)	