FIRST BANCORP /PR/
Form 10-Q
August 11, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

____

FORM 10-Q

(Mark One)

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2014

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

For the transition period from ____________________ to ____________________

COMMISSION FILE NUMBER 001-14793

First BanCorp.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Puerto Rico **(State or other jurisdiction of** **incorporation or organization)**	**66-0561882** **(I.R.S. employer** **identification number)**
1519 Ponce de León Avenue, Stop 23 **Santurce, Puerto Rico** **(Address of principal executive offices)**	**00908** **(Zip Code)**

(787) 729-8200
(Registrant's telephone number, including area code)
Not applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

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 x No ¨

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

Large accelerated filer ¨ Accelerated filer
x

Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

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

Common stock: 212,764,795 shares outstanding as of July 31, 2014.

FIRST BANCORP.

INDEX PAGE

Forward Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to the safe harbor created by such sections. When used in this Form 10-Q or future filings by First BanCorp. (the "Corporation") with the U.S. Securities and Exchange Commission ("SEC"), in the Corporation's press releases or in other public or stockholder communications, or in oral statements made with the approval of an authorized executive officer, the word or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "should," "anticipate" and simila expressions are meant to identify "forward-looking statements."

First BanCorp. wishes to caution readers not to place undue reliance on any such "forward-looking statements," which speak only as of the date made, and to advise readers that various factors, including, but not limited to, the following, could cause actual results to differ materially from those expressed in, or implied by, such "forward-looking statements":

- uncertainty about whether the Corporation and FirstBank Puerto Rico ("FirstBank" or "the Bank") will be able to fully comply with the written agreement dated June 3, 2010 (the "Written Agreement") that the Corporation entered into with the Federal Reserve Bank of New York (the "New York FED" or "Federal Reserve") and the consent order dated June 2, 2010 (the "FDIC Order") and together with the Written Agreement, (the "Agreements") that the Corporation's banking subsidiary, FirstBank, entered into with the Federal Deposit Insurance Corporation ("FDIC") and the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico ("OCIF") that, among other things, require the Bank to maintain certain capital levels and reduce its special mention, classified, delinquent and non-performing assets;

- the risk of being subject to possible additional regulatory actions;

- uncertainty as to the availability of certain funding sources, such as retail brokered certificates of deposit ("brokered CDs");

- the Corporation's reliance on brokered CDs and its ability to obtain, on a periodic basis, approval from the FDIC to issue brokered CDs to fund operations and provide liquidity in accordance with the terms of the FDIC Order;

- the risk of not being able to fulfill the Corporation's cash obligations or resume paying dividends to the Corporation's stockholders in the future due to the Corporation's inability to receive approval from the New York FED and the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”) to receive dividends from FirstBank or FirstBank’s failure to generate sufficient cash flow to make a dividend payment to the Corporation;

- the strength or weakness of the real estate markets and of the consumer and commercial credit sectors and their impact on the credit quality of the Corporation’s loans and other assets, which has contributed and may continue to contribute to, among other things, high levels of non-performing assets, charge-offs and provisions and may subject the Corporation to further risk from loan defaults and foreclosures;

- the ability of FirstBank to realize the benefit of its deferred tax asset;

- adverse changes in general economic conditions in Puerto Rico, the United States ("U.S.") and the U.S. Virgin Islands ("USVI"), and British Virgin Islands ("BVI"), including the interest rate environment, market liquidity, housing absorption rates, real estate prices, and disruptions in the U.S. capital markets, which may reduce interest margins, impact funding sources, and affect demand for all of the Corporation's products and services and reduce the Corporation's revenues, earnings, and the value of the Corporation's assets;

- a credit default by the Puerto Rico government or any of its public corporations or other instrumentalities, and recent and any future downgrades of the long-term and short-term debt ratings of the Puerto Rico government, which could exacerbate Puerto Rico's adverse economic conditions;

- an adverse change in the Corporation's ability to attract new clients and retain existing ones;

- a decrease in demand for the Corporation's products and services and lower revenues and earnings because of the continued recession in Puerto Rico, the current fiscal problems of the Puerto Rico government and recent credit downgrades of the Puerto Rico government's debt;

- the risk that any portion of the unrealized losses in the Corporation's investment portfolio is determined to be other-than-temporary, including unrealized losses on the Puerto Rico government's obligations;

- uncertainty about regulatory and legislative changes for financial services companies in Puerto Rico, the U.S., the USVI, and the BVI, which could affect the Corporation's financial condition or performance and could cause the Corporation's actual results for future periods to differ materially from prior results and anticipated or projected results;

- changes in the fiscal and monetary policies and regulations of the U.S. federal government, including those determined by the Federal Reserve Board, the New York FED, the FDIC, government-sponsored housing agencies, and regulators in Puerto Rico, the USVI and the BVI;

- the risk of possible failure or circumvention of controls and procedures and the risk that the Corporation's risk management policies may not be adequate;

- the risk that the FDIC may further increase the deposit insurance premium and/or require special assessments to replenish its insurance fund, causing an additional increase in the Corporation's non-interest expenses;

- the impact on the Corporation's results of operations and financial condition of acquisitions and dispositions;

- a need to recognize additional impairments on financial instruments, goodwill or other intangible assets relating to acquisitions;

- the risk that downgrades in the credit ratings of the Corporation's long-term senior debt will adversely affect the Corporation's ability to access necessary external funds;

- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") on the Corporation's businesses, business practices and cost of operations; and

- general competitive factors and industry consolidation.

The Corporation does not undertake, and specifically disclaims any obligation, to update any "forward-looking statements" to reflect occurrences or unanticipated events or circumstances after the date of such statements except as required by the federal securities laws.

Investors should refer to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2013, as well as "Part II, Item 1A, Risk Factors" in this quarterly report on Form 10-Q, for a discussion of such factors and certain risks and uncertainties to which the Corporation is subject.

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

	June 30, 2014			December 31, 2013	
(In thousands, except for share information)					
ASSETS					
Cash and due from banks	$	660,709		$	454,302
Money market investments:					
Time deposits with other financial institutions		300			300
Other short-term investments		16,653			201,069
Total money market investments		16,953			201,369
Investment securities available for sale, at fair value:					
Securities pledged that can be repledged		1,038,071			1,042,482
Other investment securities		959,337			935,800
Total investment securities available for sale		1,997,408			1,978,282
Other equity securities		29,141			28,691
Investment in unconsolidated entity		-			7,279
Loans, net of allowance for loan and lease losses of $241,177					
(2013 - $285,858)		9,225,924			9,350,312
Loans held for sale, at lower of cost or market		72,105			75,969
Total loans, net		9,298,029			9,426,281
Premises and equipment, net		170,056			166,946
Other real estate owned		121,842			160,193
Accrued interest receivable on loans and investments		52,092			54,012
Other assets		177,021			179,570
Total assets	$	12,523,251		$	12,656,925
LIABILITIES					
Non-interest-bearing deposits	$	851,038		$	851,212
Interest-bearing deposits		8,779,750			9,028,712
Total deposits		9,630,788			9,879,924
Securities sold under agreements to repurchase		900,000			900,000
Advances from the Federal Home Loan Bank (FHLB)		320,000			300,000
Other borrowings		231,959			231,959
Accounts payable and other liabilities		134,503			129,184
Total liabilities		11,217,250			11,441,067

STOCKHOLDERS' EQUITY					
Preferred stock, authorized, 50,000,000 shares:					
Non-cumulative Perpetual Monthly Income Preferred Stock: issued 22,004,000 shares,					
outstanding 1,444,146 shares (2013 - 2,521,872 shares outstanding), aggregate liquidation					
value of $36,104 (2013 - $63,047)		36,104			63,047
Common stock, $0.10 par value, authorized, 2,000,000,000 shares; issued, 213,399,037 shares					
(2013 - 207,635,157 shares issued)		21,340			20,764
Less: Treasury stock (at par value)		(64)			(57)
Common stock outstanding, 212,760,158 shares outstanding (2013 - 207,068,978 shares					
outstanding)		21,276			20,707
Additional paid-in capital		914,382			888,161
Retained earnings		362,646			322,679
Accumulated other comprehensive loss, net of tax of $7,752 (2013 - $7,755)		(28,407)			(78,736)
Total stockholders' equity		1,306,001			1,215,858
Total liabilities and stockholders' equity	$	12,523,251		$	12,656,925
The accompanying notes are an integral part of these statements.					

5

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(Unaudited)

	Quarter Ended June 30, 2014	Quarter Ended June 30, 2013	Six-Month Period Ended June 30, 2014	Six-Month Period Ended June 30, 2013
(In thousands, except per share information)				
Interest and dividend income:				
Loans	$ 144,241	$ 147,986	$ 289,084	$ 296,629
Investment securities	13,728	12,185	28,956	23,228
Money market investments	454	499	954	1,038
Total interest income	158,423	160,670	318,994	320,895
Interest expense:				
Deposits	19,466	23,918	39,765	49,462
Securities sold under agreements to repurchase	6,430	6,470	12,798	12,887
Advances from FHLB	833	1,631	1,657	3,656
Notes payable and other borrowings	1,787	1,763	3,547	3,509
Total interest expense	28,516	33,782	57,767	69,514
Net interest income	129,907	126,888	261,227	251,381
Provision for loan and lease losses	26,744	87,464	58,659	198,587
Net interest income after provision for loan and lease losses	103,163	39,424	202,568	52,794
Non-interest income (loss):				
Service charges on deposit accounts	3,290	3,098	6,493	6,478
Mortgage banking activities	3,036	4,823	6,404	9,403
Net gain (loss) on sale of investments (includes $42 accumulated other				
comprehensive income reclassification for other-than-temporary				
impairment on equity securities for the quarter and six-month				
period ended June 30, 2013)	291	(42)	291	(42)
Other-than-temporary impairment losses on available-for-sale debt securities:				
Total other-than-temporary impairment losses	-	-	-	-

Portion of other-than-temporary impairment losses recognized in other								
comprehensive income		-		-		-		(117)
Net impairment losses on available-for-sale debt securities		-		-		-		(117)
Equity in (loss) earnings of unconsolidated entity		(670)		648		(7,280)		(4,890)
Impairment of collateral pledged to Lehman		-		(66,574)		-		(66,574)
Insurance commission income		1,467		1,508		4,038		3,528
Other non-interest income		8,517		4,876		17,335		14,180
Total non-interest income (loss)		15,931		(51,663)		27,281		(38,034)
Non-interest expenses:								
Employees' compensation and benefits		35,023		33,116		67,965		66,670
Occupancy and equipment		14,509		14,946		28,855		30,016
Business promotion		4,142		3,831		8,115		7,188
Professional fees		11,371		13,735		21,411		24,867
Taxes, other than income taxes		4,477		6,239		9,024		9,228
Insurance and supervisory fees		10,784		12,699		21,774		25,505
Net loss on other real estate owned (OREO) and OREO operations		6,778		14,829		12,615		22,139
Credit and debit card processing expenses		3,882		2,281		7,706		5,358
Communications		1,894		1,885		3,773		3,699
Other non-interest expenses		5,285		7,762		9,692		14,663
Total non-interest expenses		98,145		111,323		190,930		209,333
Income (loss) before income taxes		20,949		(123,562)		38,919		(194,573)
Income tax benefit (expense)		276		979		(611)		(643)
Net income (loss)	$	21,225	$	(122,583)	$	38,308	$	(195,216)
Net income (loss) attributable to common stockholders	$	22,505	$	(122,583)	$	39,967	$	(195,216)
Net earnings (loss) per common share:								
Basic	$	0.11	$	(0.60)	$	0.19	$	(0.95)
Diluted	$	0.11	$	(0.60)	$	0.19	$	(0.95)
Dividends declared per common share	$	-	$	-	$	-	$	-
The accompanying notes are an integral part of these statements.								

6

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Quarter Ended				Six-Month Period Ended			
	June 30, 2014		June 30, 2013		June 30, 2014		June 30, 2013	
(In thousands)								
Net income (loss)	$	21,225	$	(122,583)	$	38,308	$	(195,216)
Available-for-sale debt securities on which an other-than-temporary								
impairment has been recognized:								
Subsequent unrealized gain on debt securities on which an								
other-than-temporary impairment has been recognized		274		592		1,187		1,435
Reclassification adjustment for other-than-temporary impairment								
on debt securities included in net income		-		-		-		117
All other unrealized holding gains (losses) on available-for-sale securities:								
All other unrealized holding gains (losses) arising								
during the period		27,806		(60,176)		49,430		(69,746)
Reclassification adjustments for net gain included in net income		(291)		-		(291)		-
Reclassification adjustment for other-than-temporary impairment								
on equity securities		-		42		-		42
Income tax benefit (expense) related to items of other comprehensive income		1		(422)		3		(422)
Other comprehensive income (loss) for the period, net of tax	$	27,790	$	(59,964)	$	50,329	$	(68,574)
Total comprehensive income (loss)	$	49,015	$	(182,547)	$	88,637	$	(263,790)

The accompanying notes are an integral part of these statements.

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six-Month Period Ended				
	June 30, 2014			June 30, 2013	
(In thousands)					
Cash flows from operating activities:					
Net income (loss)	$	38,308		$	(195,216)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation		10,574			11,933
Amortization of intangible assets		2,488			3,039
Provision for loan and lease losses		58,659			198,587
Deferred income tax benefit		(1,352)			(2,154)
Stock-based compensation		1,960			1,321
Gain on sales of investments, net		(291)			-
Other-than-temporary impairments on debt securities		-			117
Other-than-temporary impairments on equity securities		-			42
Equity in loss of unconsolidated entity		7,280			4,890
Impairment of collateral pledged to Lehman		-			66,574
Derivative instruments and financial liabilities measured at fair value, gain		(173)			(1,974)
Gain on sale of premises and equipment and other assets		(32)			-
Net gain on sales of loans		(3,868)			(4,870)
Net amortization of premiums, discounts and deferred loan fees and costs		(1,564)			(2,078)
Originations and purchases of loans held for sale		(141,099)			(306,579)
Sales and repayments of loans held for sale		157,964			263,072
Loans held for sale valuation adjustment		-			6,103
Amortization of broker placement fees		3,501			4,182
Net amortization of premium and discounts on investment securities		869			6,713
Increase (decrease) in accrued income tax payable		5,013			(1,623)
Decrease (increase) in accrued interest receivable		1,920			(2,965)
Increase in accrued interest payable		2,449			1,257
Decrease in other assets		12,480			20,702
(Decrease) increase in other liabilities		(4,940)			16,116
Net cash provided by operating activities		150,146			87,189
Cash flows from investing activities:					

Principal collected on loans		1,619,024			1,363,136
Loans originated and purchased		(1,582,527)			(1,545,408)
Proceeds from sales of loans held for investment		16,558			296,610
Proceeds from sales of repossessed assets		35,344			60,568
Proceeds from sales of available-for-sale securities		4,855			-
Purchases of available-for-sale securities		(88,493)			(541,910)
Proceeds from principal repayments and maturities of available-for-sale securities		114,277			207,810
Additions to premises and equipment		(13,689)			(4,999)
Proceeds from sale of premises and equipments and other assets		37			-
Net redemptions/sales of other equity securities		(450)			6,436
Net cash provided by (used in) investing activities		104,936			(157,757)
Cash flows from financing activities:					
Net (decrease) increase in deposits		(252,637)			108,917
Net FHLB advances proceeds (paid)		20,000			(150,000)
Repurchase of outstanding common stock		(392)			(233)
Issuance costs of common stock issued in exchange for preferred stock Series A through E		(62)			-
Net cash used in financing activities		(233,091)			(41,316)
Net increase (decrease) in cash and cash equivalents		21,991			(111,884)
Cash and cash equivalents at beginning of period		655,671			946,851
Cash and cash equivalents at end of period	$	677,662		$	834,967
Cash and cash equivalents include:					
Cash and due from banks	$	660,709		$	618,593
Money market instruments		16,953			216,374
	$	677,662		$	834,967
The accompanying notes are an integral part of these statements.					

8

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

	Six-Month Period Ended				
	June 30, 2014			June 30, 2013	
(In thousands)					
Preferred Stock					
Balance at beginning of period	$	63,047		$	63,047
Exchange of preferred stock- Series A through E		(26,943)			-
Balance at end of period		36,104			63,047
Common Stock outstanding:					
Balance at beginning of period		20,707			20,624
Common stock issued as compensation		15			11
Common stock withheld for taxes		(7)			(4)
Common stock issued in exchange for Series A through E preferred stock		459			-
Restricted stock grants		102			70
Restricted stock forfeited		-			(3)
Balance at end of period		21,276			20,698
Additional Paid-In-Capital:					
Balance at beginning of period		888,161			885,754
Stock-based compensation		1,960			1,321
Common stock withheld for taxes		(385)			(233)
Common stock issued in exchange for Series A through E preferred stock		23,904			-
Reversal of issuance costs of Series A through E preferred stock exchanged		921			-
Issuance costs of common stock issued in exchange for Series A through E preferred stock		(62)			-
Restricted stock grants		(102)			(70)
Common stock issued as compensation		(15)			-
Restricted stock forfeited		-			3
Balance at end of period		914,382			886,775
Retained Earnings:					
Balance at beginning of period		322,679			487,166
Net income (loss)		38,308			(195,216)

Excess of carrying amount of Series A though E preferred stock exchanged over fair value of new					
shares of common stock		1,659			-
Balance at end of period		362,646			291,950
Accumulated Other Comprehensive Income (Loss), net of tax:					
Balance at beginning of period		(78,736)			28,432
Other comprehensive income (loss), net of tax		50,329			(68,574)
Balance at end of period		(28,407)			(40,142)
Total stockholders' equity	$	1,306,001		$	1,222,328
The accompanying notes are an integral part of these statements.					

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements (unaudited) of First BanCorp. (“the Corporation”) have been prepared in conformity with the accounting policies stated in the Corporation’s Audited Consolidated Financial Statements included in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2013. Certain information and note disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) have been condensed or omitted from these statements pursuant to the rules and regulations of the SEC and, accordingly, these financial statements should be read in conjunction with the Audited Consolidated Financial Statements of the Corporation for the year ended December 31, 2013, which are included in the Corporation’s 2013 Annual Report on Form 10-K. All adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the statement of financial position, results of operations and cash flows for the interim periods have been reflected. All significant intercompany accounts and transactions have been eliminated in consolidation.

The results of operations for the quarter and six-month period ended June 30, 2014 are not necessarily indicative of the results to be expected for the entire year.

Adoption of new accounting requirements and recently issued but not yet effective accounting requirements

The Financial Accounting Standards Board (“FASB”) has issued the following accounting pronouncements and guidance relevant to the Corporation’s operations:

In July 2013, the FASB updated the Codification to provide explicit guidelines on how to present an unrecognized tax benefit in financial statements when a net operating loss (“NOL”) carryforward, a similar tax loss, or a tax credit carryforward exists. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The amendments are effective for public entities with fiscal periods beginning after December 15, 2013. The adoption of this guidance in 2014 did not have an effect on the Corporation’s financial statements as the Corporation’s NOLs and tax credit carryfowards are not available to settle any additional income taxes that would result from the disallowance of the Corporation’s unrecognized tax benefits.

In January 2014, the FASB updated the Codification to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan so that the loan should be derecognized and the real estate property recognized in the financial statements. The Update clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (i) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or (ii) the borrower conveying all interest in the residential real estate property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. In addition, creditors are required to disclose on an annual and interim basis both (i) the amount of the foreclosed residential real estate property held and (ii) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction.

The amendments are effective for public business entities for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 31, 2015. Early adoption is permitted. The guidance can be implemented using either a modified retrospective transition method or a prospective transition method. The Corporation is currently evaluating the impact of the adoption of this guidance, if any, on its financial statements.

In April 2014, the FASB issued an update to current accounting standards which will change the criteria for reporting discontinued operations. The amendments will also require new disclosures about discontinued operations and disposals of components of an entity that do not qualify for discontinued operations reporting. The amendments are effective for the Corporation for new disposals (or classifications as held for sale) of components of the Corporation, should they occur, beginning in the first quarter of fiscal year 2016. Early adoption is permitted for disposals (or classifications as held for sale) that have not been previously reported.

In May 2014, the FASB updated the Codification to create a new, principle-based revenue recognition framework. The Update is the culmination of efforts by the FASB and the International Accounting Standards Board to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards. The core principal of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance describes a 5-step process entities can apply to achieve the core principle of revenue recognition and requires disclosures sufficient to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers and the significant judgments used in determining that information. The amendments are effective for public business entities for annual periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Corporation is currently evaluating the impact that the adoption of this guidance will have on the presentation and disclosures in its financial statements.

In June 2014, the FASB updated the Codification to respond to stakeholders' concerns about current accounting and disclosures for repurchase agreements and similar transactions. This Update requires two accounting changes. First, the Update changes the accounting for repurchase-to-maturity transactions to secured borrowing accounting. Second, for repurchase financing arrangements, the Update requires separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. Additionally, the Update introduces new disclosures to (i) increase transparency about the types of collateral pledged in secured borrowing transactions and (ii) enable users to better understand transactions in which the transferor retains substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. For public business entities, the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. All other accounting and disclosure amendments in the Update are effective for public business entities for the first interim or annual period beginning after December 15, 2014. The Corporation is currently evaluating the impact that the adoption of this guidance will have on the presentation and disclosures in its financial statements, if any.

In June 2014, the FASB updated the Codification to provide guidance for determining compensation cost under specific circumstances when an employee's compensation award is eligible to vest regardless of whether the employee is rendering service on the date the performance target is achieved. This Update becomes effective for annual and interim periods beginning after December 15, 2015 with early adoption permitted. The Company is currently evaluating the effects of this guidance on its financial statements and disclosures, if any. The Update is effective for all business entities for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. The Corporation is currently evaluating the impact that the adoption of this guidance will have on the presentation and disclosures in its financial statements, if any.

NOTE 2 – EARNINGS PER COMMON SHARE

The calculations of earnings (losses) per common share for the quarters and six month periods ended June 30, 2014 and 2013 are as follows:

	Quarter Ended		Six-Month Period Ended	
	June 30, 2014	**June 30, 2013**	**June 30, 2014**	**June 30, 2013**
	(In thousands, except per share information)			
Net income (loss)	$ 21,225	$ (122,583)	$ 38,308	$ (195,216)
Favorable impact from issuing common stock in exchange for Series A through E preferred stock	1,280	-	1,659	-
Net income (loss) attributable to common stockholders	$ 22,505	$ (122,583)	$ 39,967	$ (195,216)
Weighted-Average Shares:				
Basic weighted-average common shares outstanding	208,202	205,490	206,974	205,477
Average potential common shares	1,942	-	1,543	-
Diluted weighted-average number of common shares outstanding	210,144	205,490	208,517	205,477
Earnings (loss) per common share:				
Basic	$ 0.11	$ (0.60)	$ 0.19	$ (0.95)
Diluted	$ 0.11	$ (0.60)	$ 0.19	$ (0.95)

Earnings (loss) per common share is computed by dividing net income (loss) attributable to common stockholders by the weighted average number of common shares issued and outstanding. Net income (loss) attributable to common stockholders represents net income (loss) adjusted for any preferred stock dividends, including any dividends declared, and any cumulative dividends related to the current dividend period that have not been declared as of the end of the period. For the second quarter and first half of 2014, net income attributable to common stockholders also includes the one-time effect of the issuance of common stock in exchange for Series A through E preferred stock. This transaction is discussed in Note 17 to the unaudited consolidated financial statements. Basic weighted average common shares outstanding excludes unvested shares of restricted stock.

Potential common shares consist of common stock issuable under the assumed exercise of stock options, unvested shares of restricted stock, and outstanding warrants using the treasury stock method. This method assumes that the potential common shares are issued and the proceeds from the exercise, in addition to the amount of compensation cost attributable to future services, are used to purchase common stock at the exercise date. The difference between the number of potential shares issued and the shares purchased is added as incremental shares to the actual number of shares outstanding to compute diluted earnings per share. Stock options, unvested shares of restricted stock, and outstanding warrants that result in lower potential shares issued than shares purchased under the treasury stock method are not included in the computation of dilutive earnings per share since their inclusion would have an antidilutive effect on earnings per share. Stock options not included in the computation of outstanding shares because they were antidilutive amounted to 82,575 and 104,499 for the quarters and six-month periods ended June 30, 2014 and 2013, respectively. Warrants outstanding to purchase 1,285,899 shares of common stock and 1,442,427 unvested shares of restricted stock were excluded from the com