

PENNS WOODS BANCORP INC
Form 10-Q
November 12, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

ý Quarterly Report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
for the Quarterly Period Ended September 30, 2013.

o Transition report pursuant to Section 13 or 15 (d) of the Exchange Act

For the Transition Period from _____ to _____.

No. 0-17077
(Commission File Number)

PENNS WOODS BANCORP, INC.
(Exact name of Registrant as specified in its charter)
PENNSYLVANIA
(State or other jurisdiction of
incorporation or organization)

23-2226454
(I.R.S. Employer
Identification No.)

300 Market Street, P.O. Box 967 Williamsport,
Pennsylvania
(Address of principal executive offices)

17703-0967
(Zip Code)

(570) 322-1111
Registrant's telephone number, including area code

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 ý NO o

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 ý NO o

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 definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer
Non-accelerated filer

Accelerated filer
Small 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

On November 2, 2013 there were 4,819,054 shares of the Registrant's common stock outstanding.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

PENNS WOODS BANCORP, INC.

CONSOLIDATED BALANCE SHEET

(UNAUDITED)

(In Thousands, Except Share Data)	September 30, 2013	December 31, 2012
ASSETS:		
Noninterest-bearing balances	\$23,073	\$12,695
Interest-bearing deposits in other financial institutions	9,776	2,447
Federal funds sold	195	—
Total cash and cash equivalents	33,044	15,142
Investment securities available for sale, at fair value	285,383	289,316
Loans held for sale	1,588	3,774
Loans	806,163	512,232
Allowance for loan losses	(9,630	) (7,617
Loans, net	796,533	504,615
Premises and equipment, net	18,352	8,348
Accrued interest receivable	4,639	4,099
Bank-owned life insurance	25,216	16,362
Investment in limited partnerships	2,387	2,883
Goodwill	17,104	3,032
Intangibles	1,892	—
Deferred tax asset	10,389	4,731
Other assets	7,563	4,233
TOTAL ASSETS	\$1,204,090	\$856,535
LIABILITIES:		
Interest-bearing deposits	\$760,147	\$527,073
Noninterest-bearing deposits	215,374	114,953
Total deposits	975,521	642,026
Short-term borrowings	15,060	33,204
Long-term borrowings, Federal Home Loan Bank (FHLB)	70,750	76,278
Accrued interest payable	435	366
Other liabilities	16,472	10,935
TOTAL LIABILITIES	1,078,238	762,809
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value, 3,000,000 shares authorized; no shares issued	—	—
Common stock, par value \$8.33, 15,000,000 shares authorized; 4,999,483 and 4,019,112 shares issued	41,662	33,492
Additional paid-in capital	49,782	18,157
Retained earnings	46,324	43,030
Accumulated other comprehensive (loss) income:		
Net unrealized (loss) gain on available for sale securities	(799	) 10,164
Defined benefit plan	(4,807	) (4,807
Treasury stock at cost, 180,596 shares	(6,310	) (6,310

TOTAL SHAREHOLDERS' EQUITY	125,852	93,726
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,204,090	\$856,535

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

(In Thousands, Except Per Share Data)	Three Months Ended		Nine Months Ended	
	September 30, 2013	2012	September 30, 2013	2012
INTEREST AND DIVIDEND INCOME:				
Loans, including fees	\$9,211	\$6,346	\$23,256	\$18,954
Investment securities:				
Taxable	1,570	1,486	4,520	4,477
Tax-exempt	1,124	1,339	3,553	4,127
Dividend and other interest income	74	96	208	274
TOTAL INTEREST AND DIVIDEND INCOME	11,979	9,267	31,537	27,832
INTEREST EXPENSE:				
Deposits	855	902	2,406	2,797
Short-term borrowings	16	38	63	100
Long-term borrowings, FHLB	479	637	1,480	1,877
TOTAL INTEREST EXPENSE	1,350	1,577	3,949	4,774
NET INTEREST INCOME	10,629	7,690	27,588	23,058
PROVISION FOR LOAN LOSSES	600	600	1,675	1,800
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,029	7,090	25,913	21,258
NON-INTEREST INCOME:				
Service charges	671	489	1,651	1,394
Securities (losses) gains, net	(3	) 447	2,257	1,206
Bank-owned life insurance	199	138	481	539
Gain on sale of loans	551	527	1,204	1,053
Insurance commissions	286	295	797	1,053
Brokerage commissions	250	239	797	698
Other	888	636	1,923	1,872
TOTAL NON-INTEREST INCOME	2,842	2,771	9,110	7,815
NON-INTEREST EXPENSE:				
Salaries and employee benefits	4,515	2,939	11,025	8,806
Occupancy	554	317	1,302	963
Furniture and equipment	422	355	1,242	1,058
Pennsylvania shares tax	225	169	617	505
Amortization of investment in limited partnerships	165	165	496	496
Federal Deposit Insurance Corporation deposit insurance	173	111	421	349
Marketing	156	132	371	405
Intangible amortization	91	—	122	—
Other	2,674	1,270	6,195	3,683
TOTAL NON-INTEREST EXPENSE	8,975	5,458	21,791	16,265
INCOME BEFORE INCOME TAX PROVISION	3,896	4,403	13,232	12,808
INCOME TAX PROVISION	650	736	2,643	2,054
NET INCOME	\$3,246	\$3,667	\$10,589	\$10,754
EARNINGS PER SHARE - BASIC	\$0.67	\$0.96	\$2.48	\$2.80
EARNINGS PER SHARE - DILUTED	\$0.67	\$0.96	\$2.48	\$2.80
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	4,818,494	3,837,925	4,272,989	3,837,570

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WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED	4,818,494	3,837,925	4,272,989	3,837,570
DIVIDENDS DECLARED PER SHARE	\$0.47	\$0.47	\$1.66	\$1.41

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC.
 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 (UNAUDITED)

(In Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,		
	2013	2012	2013	2012	
Net Income	\$3,246	\$3,667	\$10,589	\$10,754	
Other comprehensive (loss) income:					
Change in unrealized (loss) gain on available for sale securities	(1,647	) 6,190	(14,354	) 13,228	
Tax effect	560	(2,105	) 4,881	(4,498)
Net realized loss (gain) included in net income	3	(447	) (2,257	) (1,206)
Tax effect	(1	) 152	767	410	
Total other comprehensive (loss) income	(1,085	) 3,790	(10,963	) 7,934	
Comprehensive income (loss)	\$2,161	\$7,457	\$(374	) \$18,688	

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)

(In Thousands, Except Per Share Data)	COMMON STOCK			RETAINED EARNINGS	ACCUMULATED		TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL		OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	
Balance, December 31, 2011	4,017,677	\$33,480	\$18,115	\$36,394	\$(1,219)	\$(6,310)	\$80,460
Comprehensive income:							
Net income				10,754			10,754
Other comprehensive income					7,934		7,934
Dividends declared, (\$1.41 per share)				(5,411)			(5,411)
Common shares issued for employee stock purchase plan	1,100	9	33				42
Balance, September 30, 2012	4,018,777	\$33,489	\$18,148	\$41,737	\$6,715	\$(6,310)	\$93,779

(In Thousands, Except Per Share Data)	COMMON STOCK			RETAINED EARNINGS	ACCUMULATED		TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL		OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	
Balance, December 31, 2012	4,019,112	\$33,492	\$18,157	\$43,030	\$5,357	\$(6,310)	\$93,726
Comprehensive loss:							
Net income				10,589			10,589
Other comprehensive loss					(10,963)		(10,963)
Dividends declared, (\$1.66 per share)				(7,295)			(7,295)
Common shares issued for employee stock purchase plan	1,394	12	47				59
Common shares issued for acquisition of Luzerne National Bank Corporation	978,977	8,158	31,578				39,736
Balance, September 30, 2013	4,999,483	\$41,662	\$49,782	\$46,324	\$(5,606)	\$(6,310)	\$125,852

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September	
(In Thousands)	2013	2012
OPERATING ACTIVITIES:		
Net Income	\$10,589	\$10,754
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	708	569
Amortization of intangible assets	122	—
Provision for loan losses	1,675	1,800
Accretion and amortization of investment security discounts and premiums	(44	) (816
Securities gains, net	(2,257	) (1,206
Originations of loans held for sale	(42,985	) (32,116
Proceeds of loans held for sale	46,375	34,671
Gain on sale of loans	(1,204	) (1,053
Earnings on bank-owned life insurance	(481	) (539
(Increase) decrease in deferred tax asset	(86	) 315
Other, net	(445	) (1,189
Net cash provided by operating activities	11,967	11,190
INVESTING ACTIVITIES:		
Investment securities available for sale:		
Proceeds from sales	69,898	35,847
Proceeds from calls and maturities	12,775	17,259
Purchases	(71,221	) (64,965
Investment securities held to maturity:		
Proceeds from calls and maturities	—	55
Net increase in loans	(43,401	) (50,513
Acquisition of bank premises and equipment	(2,744	) (1,109
Proceeds from the sale of foreclosed assets	—	700
Purchase of bank-owned life insurance	(981	) (33
Proceeds from bank-owned life insurance death benefit	—	383
Proceeds from redemption of regulatory stock	2,237	1,034
Purchases of regulatory stock	(980) —
Acquisition, net of cash acquired	17,487	—
Net cash used for investing activities	(16,930	) (61,342
FINANCING ACTIVITIES:		
Net increase in interest-bearing deposits	38,636	55,515
Net increase in noninterest-bearing deposits	17,903	3,931
Proceeds from long-term borrowing, FHLB	—	15,000
Repayment of long-term borrowings, FHLB	(5,528) —
Net decrease in short-term borrowings	(20,910	) (11,666
Dividends paid	(7,295	) (5,411
Issuance of common stock	59	42
Net cash provided by financing activities	22,865	57,411
NET INCREASE IN CASH AND CASH EQUIVALENTS	17,902	7,259
CASH AND CASH EQUIVALENTS, BEGINNING	15,142	13,885

CASH AND CASH EQUIVALENTS, ENDING	\$33,044	\$21,144
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See accompanying notes to the unaudited consolidated financial statements.

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(In Thousands)	Nine Months Ended September	
	30,	2012
	2013	2012
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	\$3,880	\$4,809
Income taxes paid	2,770	2,350
Transfer of loans to foreclosed real estate	185	—
Acquisition of Luzerne National Bank Corporation		
Noncash assets acquired:		
Securities available for sale	21,783	
Loans	250,377	
Premises and equipment, net	8,014	
Accrued interest receivable	726	
Bank-owned life insurance	7,419	
Intangibles	2,015	
Other assets	2,636	
Goodwill	14,072	
	307,042	
Liabilities assumed:		
Deferred tax liability	76	
Interest-bearing deposits	194,438	
Noninterest-bearing deposits	82,518	
Short-term borrowings	2,766	
Accrued interest payable	103	
Other liabilities	4,892	
	284,793	
Net noncash assets acquired	22,249	
Cash and cash equivalents acquired	\$20,363	

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

Note 1. Basis of Presentation

The consolidated financial statements include the accounts of Penns Woods Bancorp, Inc. (the “Company”) and its wholly-owned subsidiaries: Woods Investment Company, Inc., Woods Real Estate Development Company, Inc., Luzerne Bank (“Luzerne”) and Jersey Shore State Bank (referred to together as the “Bank”) and Jersey Shore State Bank’s wholly-owned subsidiary, The M Group, Inc. D/B/A The Comprehensive Financial Group (“The M Group”). All significant inter-company balances and transactions have been eliminated in the consolidation.

The interim financial statements are unaudited, but in the opinion of management reflect all adjustments necessary for the fair presentation of results for such periods. The results of operations for any interim period are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

The accounting policies followed in the presentation of interim financial results are the same as those followed on an annual basis. These policies are presented on pages 35 through 39 of the Annual Report on Form 10-K for the year ended December 31, 2012.

In reference to the attached financial statements, all adjustments are of a normal recurring nature pursuant to Rule 10-01(b) (8) of Regulation S-X.

Note 2. Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income by component as of September 30, 2013 were as follows:

(In Thousands)	Three Months Ended September 30, 2013			Three Months Ended September 30, 2012		
	Net Unrealized Gain (Loss) on Available for Sale Securities	Defined Benefit Plan	Total	Net Unrealized Gain on Available for Sale Securities	Defined Benefit Plan	Total
Balance, June 30	\$286	\$(4,807)	\$(4,521)	\$7,058	\$(4,133)	\$2,925
Other comprehensive (loss) income before reclassifications	(1,087)	—	(1,087)	4,085	—	4,085
Amounts reclassified from accumulated other comprehensive (loss) income	2	—	2	(295)	—	(295)
Net current-period other comprehensive (loss) income	(1,085)	—	(1,085)	3,790	—	3,790
Balance, September 30	\$(799)	\$(4,807)	\$(5,606)	\$10,848	\$(4,133)	\$6,715
(In Thousands)	Nine Months Ended September 30, 2013			Nine Months Ended September 30, 2012		
		Defined	Total	Net Unrealized	Defined	Total

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	Net Unrealized Gain (Loss) on Available for Sale Securities	Benefit Plan		Gain on Available for Sale Securities	Benefit Plan	
Balance, December 31	\$10,164	\$(4,807)	\$5,357	\$2,914	\$(4,133)	\$(1,219)
Other comprehensive (loss) income before reclassifications	(9,473)	—	(9,473)	8,730	—	8,730
Amounts reclassified from accumulated other comprehensive (loss) income	(1,490)	—	(1,490)	(796)	—	(796)
Net current-period other comprehensive (loss) income	(10,963)	—	(10,963)	7,934	—	7,934
Balance, September 30	\$(799)	\$(4,807)	\$(5,606)	\$10,848	\$(4,133)	\$6,715

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The reclassifications out of accumulated other comprehensive income as of September 30, 2013 were as follows:
(In Thousands)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Consolidated Statement of Income
	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	
Net unrealized loss on available for sale securities	\$ (3)	) \$ 447	Securities (losses) gains, net
Total reclassifications for the period	\$ (2)	) \$ 295	Income tax provision Net of tax

(In Thousands)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Consolidated Statement of Income
	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012	
Net unrealized gain on available for sale securities	\$ 2,257	\$ 1,206	Securities gains, net
Total reclassifications for the period	767	410	Income tax provision Net of tax

Note 3. Recent Accounting Pronouncements

In January 2013, the FASB issued ASU 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The amendments clarify that the scope of Update 2011-11 applies to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. An entity is required to apply the amendments for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all comparative periods presented. The effective date is the same as the effective date of Update 2011-11. This ASU is not expected to have a significant impact on the Company's financial statements.

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The amendments in this update require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. The Company has provided the necessary disclosures in Note 2 - Accumulated Other Comprehensive Income.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This Update applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. 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 in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

Note 4. Per Share Data

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There are no convertible securities which would affect the denominator in calculating basic and dilutive earnings per share. Net income as presented on the consolidated statement of income will be used as the numerator. The following table sets forth the composition of the weighted average common shares (denominator) used in the basic and dilutive earnings per share computation.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Weighted average common shares issued	4,999,090	4,018,521	4,453,585	4,018,166
Average treasury stock shares	(180,596)	(180,596)	(180,596)	(180,596)
Weighted average common shares and common stock equivalents used to calculate basic and diluted earnings per share	4,818,494	3,837,925	4,272,989	3,837,570

Note 5. Investment Securities

The amortized cost and fair values of investment securities at September 30, 2013 and December 31, 2012 are as follows:

(In Thousands)	September 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale (AFS)				
U.S. Government and agency securities	\$30,263	\$795	\$(289)	\$30,769
State and political securities	148,581	3,215	(4,924)	146,872
Other debt securities	97,691	858	(2,424)	96,125
Total debt securities	276,535	4,868	(7,637)	273,766
Financial institution equity securities	8,384	1,616	(10)	9,990
Other equity securities	1,675	11	(59)	1,627
Total equity securities	10,059	1,627	(69)	11,617
Total investment securities AFS				