

ORRSTOWN FINANCIAL SERVICES INC

Form 10-Q

November 07, 2016

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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 September 30, 2016

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: 001-34292

ORRSTOWN FINANCIAL SERVICES, INC.
(Exact Name of Registrant as Specified in its Charter)

Pennsylvania 23-2530374
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)
77 East King Street, P. O. Box 250, Shippensburg, Pennsylvania 17257
(Address of Principal Executive Offices) (Zip Code)
Registrant’s Telephone Number, Including Area Code: (717) 532-6114

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 “accelerated filer,” “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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 Act.). Yes No

Number of shares outstanding of the registrant’s Common Stock as of November 2, 2016: 8,283,003.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets (Unaudited)

ORRSTOWN FINANCIAL SERVICES, INC. AND ITS WHOLLY-OWNED SUBSIDIARY

(Dollars in thousands, except per share data)	September 30, 2016	December 31, 2015
Assets		
Cash and due from banks	\$ 17,787	\$ 11,412
Interest bearing deposits with banks	19,854	16,928
Cash and cash equivalents	37,641	28,340
Restricted investments in bank stocks	6,615	8,720
Securities available for sale	374,902	394,124
Loans held for sale	3,956	5,917
Loans	847,061	781,713
Less: Allowance for loan losses	(13,850)	(13,568)
Net loans	833,211	768,145
Premises and equipment, net	34,630	23,960
Cash surrender value of life insurance	31,870	31,224
Intangible assets	122	207
Accrued interest receivable	3,690	3,845
Other assets	27,517	28,334
Total assets	\$ 1,354,154	\$ 1,292,816
Liabilities		
Deposits:		
Non-interest bearing	\$ 148,388	\$ 131,390
Interest bearing	984,944	900,777
Total deposits	1,133,332	1,032,167
Short-term borrowings	42,852	89,156
Long-term debt	24,247	24,495
Accrued interest and other liabilities	13,928	13,937
Total liabilities	1,214,359	1,159,755
Shareholders' Equity		
Preferred stock, \$1.25 par value per share; 500,000 shares authorized; no shares issued or outstanding	0	0
Common stock, no par value—\$0.05205 stated value per share 50,000,000 shares authorized; 8,357,941 and 8,320,479 shares issued; 8,289,739 and 8,272,591 shares outstanding	437	435
Additional paid - in capital	124,935	124,317
Retained earnings	10,483	7,939
Accumulated other comprehensive income	5,136	1,199
Treasury stock—common, 68,202 and 47,888 shares, at cost	(1,196)	(829)
Total shareholders' equity	139,795	133,061
Total liabilities and shareholders' equity	\$ 1,354,154	\$ 1,292,816

The Notes to Consolidated Financial Statements are an integral part of these statements.

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Consolidated Statements of Income (Unaudited)

ORRSTOWN FINANCIAL SERVICES, INC. AND ITS WHOLLY-OWNED SUBSIDIARY

(Dollars in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Interest and dividend income				
Interest and fees on loans	\$8,631	\$ 7,912	\$25,006	\$ 22,988
Interest and dividends on investment securities				
Taxable	1,544	1,532	4,376	5,012
Tax-exempt	437	420	1,319	617
Short-term investments	42	21	186	64
Total interest and dividend income	10,654	9,885	30,887	28,681
Interest expense				
Interest on deposits	1,295	979	3,625	2,536
Interest on short-term borrowings	21	85	112	226
Interest on long-term debt	104	108	315	293
Total interest expense	1,420	1,172	4,052	3,055
Net interest income	9,234	8,713	26,835	25,626
Provision for loan losses	250	(603) 250	(603
Net interest income after provision for loan losses	8,984	9,316	26,585	26,229
Noninterest income				
Service charges on deposit accounts	1,370	1,381	4,045	3,873
Other service charges, commissions and fees	188	586	637	1,024
Trust department income	1,247	1,074	3,771	3,519
Brokerage income	459	551	1,485	1,536
Mortgage banking activities	1,012	837	2,381	2,150
Earnings on life insurance	272	269	810	731
Other income	20	104	221	338
Investment securities gains	0	29	1,420	1,911
Total noninterest income	4,568	4,831	14,770	15,082
Noninterest expenses				
Salaries and employee benefits	6,823	6,051	19,318	18,109
Occupancy expense	683	529	1,801	1,715
Furniture and equipment	782	759	2,316	2,265
Data processing	532	536	1,686	1,573
Telephone and communication	206	168	572	529
Automated teller and interchange fees	157	204	555	625
Advertising and bank promotions	433	471	1,244	1,040
FDIC insurance	143	201	598	631
Legal fees	298	427	704	1,116
Other professional services	287	308	971	951
Directors compensation	242	204	730	531
Collection and problem loan	39	108	187	306
Real estate owned expenses	94	42	195	116
Taxes other than income	186	239	594	691
Intangible asset amortization	10	51	85	156
Regulatory settlement	0	0	1,000	0
Other operating expenses	1,070	926	3,108	3,034
Total noninterest expenses	11,985	11,224	35,664	33,388

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Income before income taxes	1,567	2,923	5,691	7,923
Income tax expense	125	462	991	1,498
Net income	\$1,442	\$ 2,461	\$4,700	\$ 6,425
Per share information:				
Basic earnings per share	\$0.18	\$ 0.30	\$0.58	\$ 0.79
Diluted earnings per share	0.18	0.30	0.58	0.79
Dividends per share	0.09	0.07	0.26	0.14

The Notes to Consolidated Financial Statements are an integral part of these statements.

Table of ContentsConsolidated Statements of Comprehensive Income (Loss) (Unaudited)
ORRSTOWN FINANCIAL SERVICES, INC. AND ITS WHOLLY-OWNED SUBSIDIARY

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net income	\$ 1,442	\$ 2,461	\$4,700	\$ 6,425
Other comprehensive income, net of tax:				
Unrealized gains (losses) on securities available for sale arising during the period	(3,635)	3,816	7,357	4,421
Reclassification adjustment for gains realized in net income	0	(29)	(1,420)	(1,911)
Net unrealized gains (losses)	(3,635)	3,787	5,937	2,510
Tax effect	1,350	(1,325)	(2,000)	(879)
Total other comprehensive income (loss), net of tax and reclassification adjustments	(2,285)	2,462	3,937	1,631
Total comprehensive income (loss)	\$ (843)	\$ 4,923	\$8,637	\$ 8,056

The Notes to Consolidated Financial Statements are an integral part of these statements.

Table of ContentsConsolidated Statements of Changes in Shareholders' Equity (Unaudited)
ORRSTOWN FINANCIAL SERVICES, INC. AND ITS WHOLLY-OWNED SUBSIDIARY

(Dollars in thousands, except per share data)	Nine Months Ended September 30, 2016 and 2015					
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Shareholders' Equity
Balance, January 1, 2015	\$430	\$123,392	\$1,887	\$ 1,576	\$(20)	\$ 127,265
Net income	0	0	6,425	0	0	6,425
Total other comprehensive income, net of taxes	0	0	0	1,631	0	1,631
Cash dividends (\$0.14 per share)	0	0	(1,161)	0	0	(1,161)
Stock-based compensation plans:						
Issuance of stock (52,686 shares), including compensation expense of \$525	5	620	0	0	0	625
Issuance of stock through dividend reinvestment plan (5,239 shares)	0	90	0	0	0	90
Acquisition of treasury stock (8,813 shares)	0	0	0	0	(147)	(147)
Balance, September 30, 2015	\$435	\$124,102	\$7,151	\$ 3,207	\$(167)	\$ 134,728
Balance, January 1, 2016	\$435	\$124,317	\$7,939	\$ 1,199	\$(829)	\$ 133,061
Net income	0	0	4,700	0	0	4,700
Total other comprehensive income, net of taxes	0	0	0	3,937	0	3,937
Cash dividends (\$0.26 per share)	0	0	(2,156)	0	0	(2,156)
Stock-based compensation plans:						
Issuance of stock (37,462 shares), including compensation expense of \$762	2	760	0	0	0	762
Issuance of treasury stock (15,334 shares), including compensation expense of \$16	0	(142)	0	0	264	122
Acquisition of treasury stock (35,648 shares)	0	0	0	0	(631)	(631)
Balance, September 30, 2016	\$437	\$124,935	\$10,483	\$ 5,136	\$(1,196)	\$ 139,795

The Notes to Consolidated Financial Statements are an integral part of these statements.

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Consolidated Statements of Cash Flows (Unaudited)

ORRSTOWN FINANCIAL SERVICES, INC. AND ITS WHOLLY-OWNED SUBSIDIARY

(Dollars in thousands)	Nine Months Ended	
	September 30, 2016	September 30, 2015
Cash flows from operating activities		
Net income	\$4,700	\$ 6,425
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premiums on securities available for sale	3,856	4,613
Depreciation and amortization	2,180	2,161
Provision for loan losses	250	(603)
Stock-based compensation	778	525
Gain on sales of loans originated for sale	(2,197)	(1,814)
Mortgage loans originated for sale	(81,911)	(66,140)
Proceeds from sales of loans originated for sale	85,585	66,640
Net gain on disposal of other real estate owned	(88)	(205)
Writedown of other real estate owned	152	21
Net loss on disposal of premises and equipment	46	0
Deferred income taxes	(206)	1,554
Investment securities gains	(1,420)	(1,911)
Earnings on cash surrender value of life insurance		