

ORRSTOWN FINANCIAL SERVICES INC

Form 10-Q

November 05, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10 - Q

X QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 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 001-34292

ORRSTOWN FINANCIAL SERVICES, INC.

(Exact name of registrant as specified in its charter)

Commonwealth of Pennsylvania
(State or other jurisdiction of

23-2530374
(I.R.S. Employer

incorporation or organization)

Identification No.)

77 East King Street, P.O. Box 250,

Shippensburg, Pennsylvania
(Address of principal executive offices)

17257
(Zip Code)

(717) 532-6114

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filled by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for 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 definition 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 ☒

Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell Corporation (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

As of November 4, 2010, 7,985,535 shares of common stock, no par value, of the registrant were outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ORRSTOWN FINANCIAL SERVICES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2010	(Audited) * December 31, 2009
(Dollars in Thousands, Except per Share Data)		
ASSETS		
Cash and due from banks	\$ 14,966	\$ 13,940
Federal funds sold	18,645	8,000
Cash and cash equivalents	33,611	21,940
Short-term investments	2,728	6,388
Interest bearing deposits with banks	587	601
Member stock, at cost which approximates market value	8,596	8,056
Securities available for sale	429,156	196,253
Loans held for sale	5,580	594
Loans	916,227	880,480
Allowance for loan losses	(15,386)	(11,067)
Net loans	906,421	870,007
Premises and equipment, net	28,163	29,601
Goodwill and intangible assets	20,751	20,938
Cash surrender value of life insurance	22,578	21,204
Accrued interest receivable	6,003	4,605
Other assets	19,186	16,839
Total assets	\$ 1,477,780	\$ 1,196,432
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 105,452	\$ 90,676
Interest bearing	1,033,417	824,494
Total deposits	1,138,869	915,170
Short-term borrowings	124,869	97,914
Long-term debt	40,828	64,858
Other liabilities	9,281	7,604
Total liabilities	1,313,847	1,085,546
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; 7,986,966, and 6,469,508 shares issued; 7,976,018, and 6,443,195 shares outstanding	416	337

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Additional paid-in capital	121,534	82,895
Retained earnings	36,102	28,857
Accumulated other comprehensive income (loss)	6,129	(501)
Treasury stock, 10,948 and 26,313 shares, at cost	(248)	(702)
 Total shareholders' equity	 163,933	 110,886
 Total liabilities and shareholders' equity	 \$ 1,477,780	 \$ 1,196,432

* The consolidated balance sheet at December 31, 2009 has been derived from the audited financial statements at that date.
The accompanying notes are an integral part of these condensed financial statements.

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ORRSTOWN FINANCIAL SERVICES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended	
	September 30, 2010	September 30, 2009
(Dollars in Thousands, Except per Share Data)		
INTEREST INCOME		
Interest and fees on loans	\$ 12,122	\$ 12,117
Interest and dividends on investment securities	2,627	1,415
Interest on short-term investments	31	6
Total interest income	14,780	13,538
INTEREST EXPENSE		
Interest on deposits	2,645	3,023
Interest on short-term borrowings	95	128
Interest on long-term debt	372	908
Total interest expense	3,112	4,059
Net interest income	11,668	9,479
Provision for loan losses	1,130	750
Net interest income after provision for loan losses	10,538	8,729
OTHER INCOME		
Service charges on deposits	1,979	1,842
Other service charges	1,135	697
Trust department income	928	671
Brokerage income	394	322
Gains on sale of loans	383	161
Other income	314	331
Securities gains	1,074	338
Total other income	6,207	4,362
OTHER EXPENSES		
Salaries and employee benefits	5,296	4,293
Occupancy and equipment	1,268	1,215
Data processing	319	291
Advertising	128	146
Other operating expense	2,692	2,039
Total other expenses	9,703	7,984
Income before income taxes	7,042	5,107
Income tax expense	2,146	1,227

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Net income	\$ 4,896	\$ 3,880
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PER SHARE DATA

Basic earnings per share	\$ 0.61	\$ 0.61
Diluted earnings per share	0.61	0.60
Dividends per share	0.225	0.22

The accompanying notes are an integral part of these condensed financial statements.

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ORRSTOWN FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Nine Months Ended	
	September 30, 2010	September 30, 2009
(Dollars in Thousands, Except per Share Data)		
INTEREST INCOME		
Interest and fees on loans	\$ 36,166	\$ 35,319
Interest and dividends on investment securities	6,839	3,899
Interest on short term investments	94	39
Total interest income	43,099	39,257
INTEREST EXPENSE		
Interest on deposits	8,072	9,679
Interest on short-term borrowings	340	309
Interest on long-term debt	1,222	2,956
Total interest expense	9,634	12,944
Net interest income	33,465	26,313
Provision for loan losses	7,550	1,265
Net interest income after provision for loan losses	25,915	25,048
OTHER INCOME		
Service charges on deposits	5,556	5,103
Other service charges	2,916	2,324
Trust department income	2,497	1,957
Brokerage income	1,232	957
Gains on sale of loans	782	629
Other income	2,021	833
Securities gains	3,253	796
Total other income	18,257	12,599
OTHER EXPENSES		
Salaries and employee benefits	14,844	12,832
Occupancy and equipment	3,657	3,605
Data processing	922	821
Advertising	319	372
Security impairment expense	0	36
Other operating expense	7,360	6,257
Total other expenses	27,102	23,923
Income before income taxes	17,070	13,724

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Income tax expense	4,864	3,365
Net income	\$ 12,206	\$ 10,359

PER SHARE DATA

Basic earnings per share	\$ 1.62	\$ 1.62
Diluted earnings per share	1.62	1.61
Dividends per share	0.665	0.66

The accompanying notes are an integral part of these condensed financial statements.

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ORRSTOWN FINANCIAL SERVICES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

	Nine Months Ended September 30, 2010 and 2009					
				Accumulated		
	Common	Additional	Retained	Other	Treasury	Total
(Dollars in thousands, Except per Share Data)	Stock	Paid-In	Earnings	Comprehensive	Stock	Shareholders
		Capital		Income		Equity
				(Loss)		
Beginning Balance, January 1, 2009	\$ 336	\$ 82,555	\$ 21,120	\$ 1,369	(\$ 2,033)	\$ 103,347
Comprehensive income						
Net income	0	0	10,359	0	0	10,359
Net unrealized securities gains	0	0	0	1,029	0	1,029
Net unrealized losses on derivatives	0	0	0	(706)	0	(706)
Comprehensive income						10,682
Cash dividends (\$0.66 per share)	0	0	(4,221)	0	0	(4,221)
Stock-based compensation plans:						
Compensation expense	0	137	0	0	0	137
Issuance of stock	1	283	0	0	0	284
Purchase of treasury stock (5,883 shares)	0	0	0	0	(71)	(71)
Issuance of treasury stock (17,233 shares)	0	(42)	0	0	533	491
Balance, September 30, 2009	\$ 337	\$ 82,933	\$ 27,258	\$ 1,692	(\$ 1,571)	\$ 110,649
Beginning Balance, January 1, 2010	\$ 337	\$ 82,895	\$ 28,857	(\$ 501)	(\$ 702)	\$ 110,886
Comprehensive income						
Net income	0	0	12,206	0	0	12,206
Net unrealized securities gains	0	0	0	5,806	0	5,806
Net unrealized gains on derivatives	0	0	0	824	0	824
Comprehensive income						18,836
Cash dividends (\$0.665 per share)	0	0	(4,961)	0	0	(4,961)
Stock-based compensation plans:						
Compensation expense	0	378	0	0	0	378
Issuance of stock	0	150	0	0	0	150
Issuance of stock through dividend reinvestment plan	2	666	0	0	0	668
Purchase of treasury stock (9,109 shares)	0	0	0	0	(195)	(195)
Issuance of treasury stock (24,474 shares)	0	(63)	0	0	649	586
Issuance of common stock (1,481,481 shares)	77	37,508	0	0	0	37,585
Balance, September 30, 2010	\$ 416	\$ 121,534	\$ 36,102	\$ 6,129	(\$ 248)	\$ 163,933

The accompanying notes are an integral part of these condensed financial statements.

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ORRSTOWN FINANCIAL SERVICES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended	
	September 30, 2010	September 30, 2009
(Dollars in Thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 12,206	\$ 10,359
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,650	2,763
Provision for loan losses	7,550	1,265
Net change in loans held for sale	(4,986)	634
Stock based compensation expense	378	137
Net (gain) loss on disposal of other real estate owned	56	(9)
Net gain on disposal of bank premises and equipment	(119)	0
Gain on sale of interest rate swap	(778)	0
Securities gains	(3,253)	(796)
Securities impairment expense	0	36
Other, net	(3,392)	(2,276)
Net cash provided by operating activities	12,312	12,113
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (increase) decrease in interest bearing deposits with banks and short-term investments	3,674	(7,086)
Purchases of available for sale securities	(454,062)	(137,466)
Sales and maturities of available for sale securities	230,912	94,511
Purchases of member stock	(540)	(343)
Proceeds from disposal of other real estate owned	378	612
Proceeds from disposal of bank premises and equipment	373	0
Proceeds from sale of interest rate swap	868	0
Net increase in loans	(40,933)	(48,962)
Purchases of bank premises and equipment	(440)	(615)
Other, net	(1,328)	(1,027)
Net cash used by investing activities	(261,098)	(100,376)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	223,699	91,726
Dividends paid	(4,961)	(4,221)
Net proceeds from issuance of common stock	38,403	284
Purchase of treasury stock	(195)	(71)
Net proceeds from issuance of treasury stock	586	491
Net change in short-term borrowings	26,955	43,063
Repayment of long-term borrowings	(24,030)	(32,587)
Net cash provided by financing activities	260,457	98,685
Net increase in cash and cash equivalents	11,671	10,422
Cash and cash equivalents at beginning of period	21,940	26,804

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Cash and cash equivalents at end of period	\$ 33,611	\$ 37,226
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SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Unrealized gain on investments available for sale (net of deferred taxes of \$3,126 and \$558 at September 30, 2010 and 2009, respectively)	\$ 5,806	\$ 1,029
Unrealized (loss) on rate swaps (net of deferred taxes of \$443 and \$380 at June 30, 2010 and 2009, respectively)	824	(706)
Other real estate acquired in settlement of loans	1,955	919

Supplemental disclosure of cash flow information:

Cash paid during the period for:

Interest	9,754	12,829
Income Taxes	6,100	2,575

The accompanying notes are an integral part of these condensed financial statements.

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