

FIRST KEYSTONE CORP  
Form 10-Q  
August 08, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF  
<sup>x</sup> 1934

For the quarterly period ended June 30, 2014

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: 2-88927

**FIRST KEYSTONE CORPORATION**  
(Exact name of registrant as specified in its charter)

**Pennsylvania**  
(State or other jurisdiction of

**23-2249083**  
(I.R.S. Employer

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incorporation or organization) Identification No.)

**111 West Front Street, Berwick, PA 18603**  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (570) 752-3671

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 definitions of "large accelerated filer," "accelerated filer," and "small reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  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

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

Common Stock, \$2 Par Value, 5,543,486 shares as of August 1, 2014.

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## FIRST KEYSTONE CORPORATION AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2014	December 31, 2013
<i>(Dollars in thousands, except per share data)</i>		
<b>ASSETS</b>		
Cash and due from banks	\$9,746	\$ 8,257
Interest-bearing deposits in other banks	1,000	22,366
Total cash and cash equivalents	10,746	30,623
Investment securities available-for-sale	348,877	353,698
Investment securities held-to-maturity (fair value 2014 - \$1,072; 2013 - \$1,083)	1,064	1,072
Restricted investment in bank stocks	6,661	4,761
Loans	463,174	446,518
Allowance for loan losses	(6,477 )	(6,519 )
Net loans	456,697	439,999
Premises and equipment, net	21,301	21,516
Accrued interest receivable	3,321	3,616
Cash surrender value of bank owned life insurance	20,905	20,556
Investments in low-income housing partnerships	1,210	1,289
Goodwill	19,133	19,133
Core deposit intangible, net	258	395
Foreclosed assets held for resale	237	480
Deferred income taxes	86	2,080
Other assets	2,267	2,296
<b>TOTAL ASSETS</b>	<b>\$892,763</b>	<b>\$ 901,514</b>
<b>LIABILITIES</b>		
Deposits:		
Non-interest bearing	\$94,757	\$ 85,156
Interest bearing	547,819	604,919
Total deposits	642,576	690,075
Short-term borrowings	88,434	68,233
Long-term borrowings	55,380	40,429
Accrued interest payable	406	392
Other liabilities	2,940	6,034

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TOTAL LIABILITIES	789,736	805,163
STOCKHOLDERS' EQUITY		
Preferred stock, par value \$2.00 per share; authorized 1,000,000 shares in 2014 and 2013; issued 0 in 2014 and 2013		
Common stock, par value \$2.00 per share; authorized 20,000,000 shares in 2014 and 2013; issued 5,778,635 in 2014 and 5,756,474 in 2013; outstanding 5,543,486 in 2014 and 5,521,325 in 2013	11,557	11,513
Surplus	32,141	31,626
Retained earnings	61,269	59,089
Accumulated other comprehensive income (loss)	3,883	(54 )
Treasury stock, at cost, 235,149 in 2014 and 2013	(5,823 )	(5,823 )
TOTAL STOCKHOLDERS' EQUITY	103,027	96,351
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$892,763	\$ 901,514

See accompanying notes to consolidated financial statements.

## FIRST KEYSTONE CORPORATION AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013

(Unaudited)

<i>(Dollars in thousands, except per share data)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
<b>INTEREST INCOME</b>				
Interest and fees on loans	\$ 5,065	\$5,130	\$10,026	\$10,306
Interest and dividend income on investment securities:				
Taxable	2,005	1,644	4,008	3,274
Tax-exempt	607	1,028	1,240	2,049
Dividends	16	16	32	29
Dividend income on restricted investment in bank stocks	83	4	102	8
Interest on interest bearing deposits in other banks		2	1	2
Total interest income	7,776	7,824	15,409	15,668
<b>INTEREST EXPENSE</b>				
Interest on deposits	743	900	1,557	1,796
Interest on short-term borrowings	53	25	88	49
Interest on long-term borrowings	312	304	588	630
Total interest expense	1,108	1,229	2,233	2,475
Net interest income	6,668	6,595	13,176	13,193
Provision for loan losses	200	200	333	600
Net interest income after provision for loan losses	6,468	6,395	12,843	12,593
<b>NON-INTEREST INCOME</b>				
Trust department	269	200	495	412
Service charges and fees	394	395	711	677
Bank owned life insurance income	167	174	349	347
ATM fees and debit card income	289	254	549	486
Gains on sales of mortgage loans	56	230	80	440
Net investment securities gains	1,203	2,412	1,800	2,680
Other	140	100	249	175
Total non-interest income	2,518	3,765	4,233	5,217
<b>NON-INTEREST EXPENSE</b>				

The trading dates, number of Shares purchased and sold and price per share for all transactions in the Shares by the Reporting Persons in the past 60 days are set forth in Exhibit B.

(\*) The number of outstanding shares is based on the 69,617,341 shares the Issuer reported outstanding as of April 23, 2014, adjusted for shares issued pursuant to BioTime's Controlled Equity Offering sales agreement amended as of March 26, 2014.

(\*\*) The number of outstanding shares is based on the 69,617,341 shares the Issuer reported outstanding as of April 23, 2014, adjusted for shares issued pursuant to BioTime's

Controlled  
Equity Offering  
sales agreement  
amended as of  
March 26, 2014  
and options held  
by Neal C.  
Bradsher.

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer.

NO MATERIAL CHANGE FROM THE SCHEDULE 13D/A FILED ON December 31, 2013.

Item 7. Material to be Filed as Exhibits.

Exhibit A Joint Filing Agreement.

Exhibit B Transactions by the Reporting Persons during the past 60 Days

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SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

BROADWOOD PARTNERS, L.P.

By: Broadwood Capital, Inc.

By: /s/ Neal C. Bradsher

Name: Neal C. Bradsher

Title: President

BROADWOOD CAPITAL, INC.\*

By: /s/ Neal C. Bradsher

Name: Neal C. Bradsher

Title: President

/s/ Neal C. Bradsher

NEAL C. BRADSHER\*

May 5, 2014

\* The Reporting Persons disclaim beneficial ownership over the securities reported herein except to the extent of the reporting persons' pecuniary interest therein.

Attention: Intentional misstatements or omissions of fact constitute Federal criminal violations (see 18 U.S.C. 1001).

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Joint Filing Agreement

Pursuant to Rule 13d-1(k)(1) under the Securities Exchange Act of 1934, as amended, each of the undersigned hereby agrees that only one statement containing the information required by Schedule 13D need be filed with respect to the ownership by each of the undersigned of Common Shares, no par value of BioTime, Inc.

This Joint Filing Agreement may be executed in any number of counterparts, each of which shall be deemed an original.

Executed this 5th day of May, 2014.

BROADWOOD PARTNERS, L.P.

By: Broadwood Capital, Inc.

By: /s/ Neal C. Bradsher

Name: Neal C. Bradsher

Title: President

BROADWOOD CAPITAL, INC.\*

By: /s/ Neal C. Bradsher

Name: Neal C. Bradsher

Title: President

/s/ Neal C. Bradsher

NEAL C. BRADSHER\*

\* The Reporting Persons disclaim beneficial ownership over the securities reported herein except to the extent of the reporting persons' pecuniary interest therein.

Exhibit B

Transactions by the Reporting Persons during the past 60 Days

TRANSACTIONS IN THE SHARES

TRANSACTIONS BY BROADWOOD PARTNERS

Date of Transaction	Number of Shares Purchase/(Sold)	Price of Shares
5/1/2014	2,000,000	\$2.52

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