

PENNS WOODS BANCORP INC
Form 10-Q
May 10, 2018
Table of Contents

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 March 31, 2018.

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 23-2226454
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

300 Market Street, P.O. Box 967 Williamsport, Pennsylvania 17703-0967
(Address of principal executive offices) (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, a smaller reporting company. or an emerging growth company. See the definition of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer x

Non-accelerated filer Small reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

On May 1, 2018 there were 4,689,935 shares of the Registrant's common stock outstanding.

Table of Contents

PENNS WOODS BANCORP, INC.

INDEX TO QUARTERLY REPORT ON FORM 10-Q

	Page Number
<u>Part I</u> <u>Financial Information</u>	
<u>Item 1.</u> <u>Financial Statements</u>	<u>3</u>
<u>Consolidated Balance Sheet (Unaudited) as of March 31, 2018 and December 31, 2017</u>	<u>3</u>
<u>Consolidated Statement of Income (Unaudited) for the Three Months Ended March 31, 2018 and 2017</u>	<u>4</u>
<u>Consolidated Statement of Comprehensive Income (Unaudited) for the Three Months Ended March 31, 2018 and 2017</u>	<u>5</u>
<u>Consolidated Statement of Changes in Shareholders' Equity (Unaudited) for the Three Months Ended March 31, 2018 and 2017</u>	<u>6</u>
<u>Consolidated Statement of Cash Flows (Unaudited) for the Three Months Ended March 31, 2018 and 2017</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>8</u>
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>42</u>
<u>Item 4.</u> <u>Controls and Procedures</u>	<u>42</u>
<u>Part II</u> <u>Other Information</u>	
<u>Item 1.</u> <u>Legal Proceedings</u>	<u>43</u>
<u>Item 1A.</u> <u>Risk Factors</u>	<u>43</u>
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>43</u>
<u>Item 3.</u> <u>Defaults Upon Senior Securities</u>	<u>43</u>
<u>Item 4.</u> <u>Mine Safety Disclosures</u>	<u>43</u>
<u>Item 5.</u> <u>Other Information</u>	<u>43</u>
<u>Item 6.</u> <u>Exhibits</u>	<u>44</u>

Signatures

45

Exhibit Index and Exhibits

46

2

Table of Contents

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

PENNS WOODS BANCORP, INC.

CONSOLIDATED BALANCE SHEET

(UNAUDITED)

	March 31, 2018	December 31, 2017
(In Thousands, Except Share Data)		
ASSETS:		
Noninterest-bearing balances	\$ 18,940	\$ 25,692
Interest-bearing balances in other financial institutions	18,452	1,551
Total cash and cash equivalents	37,392	27,243
Investment debt securities, available for sale, at fair value	116,444	108,627
Investment equity securities, at fair value	2,482	2,516
Investment securities, trading	159	190
Restricted investment in bank stock, at fair value	13,483	13,332
Loans held for sale	748	1,196
Loans	1,280,748	1,246,614
Allowance for loan losses	(12,836)	(12,858)
Loans, net	1,267,912	1,233,756
Premises and equipment, net	27,587	27,386
Accrued interest receivable	4,456	4,321
Bank-owned life insurance	28,169	27,982
Goodwill	17,104	17,104
Intangibles	1,382	1,462
Deferred tax asset	4,721	4,388
Other assets	4,706	4,989
TOTAL ASSETS	\$ 1,526,745	\$ 1,474,492
LIABILITIES:		
Interest-bearing deposits	\$ 888,193	\$ 843,004
Noninterest-bearing deposits	304,261	303,316
Total deposits	1,192,454	1,146,320
Short-term borrowings	59,305	100,748
Long-term borrowings	123,970	70,970
Accrued interest payable	793	502
Other liabilities	12,110	17,758
TOTAL LIABILITIES	1,388,632	1,336,298
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; 5,009,898 and 5,009,339 shares issued; 4,689,748 and 4,689,189 outstanding	41,748	41,744
Additional paid-in capital	50,199	50,173
Retained earnings	63,832	63,364
Accumulated other comprehensive loss:		

Edgar Filing: PENNS WOODS BANCORP INC - Form 10-Q

Net unrealized loss on available for sale securities	(666) (54)
Defined benefit plan	(4,886) (4,920)
Treasury stock at cost, 320,150	(12,115) (12,115)
TOTAL PENNS WOODS BANCORP, INC. SHAREHOLDERS' EQUITY	138,112	138,192	
Non-controlling interest	1	2	
TOTAL SHAREHOLDERS' EQUITY	138,113	138,194	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,526,745	\$1,474,492	

See accompanying notes to the unaudited consolidated financial statements.

3

Table of Contents

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

	Three Months Ended March 31,	
(In Thousands, Except Per Share Data)	2018	2017
INTEREST AND DIVIDEND INCOME:		
Loans, including fees	\$12,193	\$10,627
Investment securities:		
Taxable	546	542
Tax-exempt	241	298
Dividend and other interest income	221	215
TOTAL INTEREST AND DIVIDEND INCOME	13,201	11,682
INTEREST EXPENSE:		
Deposits	1,222	902
Short-term borrowings	224	4
Long-term borrowings	602	440
TOTAL INTEREST EXPENSE	2,048	1,346
NET INTEREST INCOME	11,153	10,336
PROVISION FOR LOAN LOSSES	160	330
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,993	10,006
NON-INTEREST INCOME:		
Service charges	551	528
Net debt securities (losses) gains, available for sale	(9) 197
Net equity securities losses	(34) —
Net securities (losses) gains, trading	3	2
Bank-owned life insurance	173	172
Gain on sale of loans	255	358
Insurance commissions	117	191
Brokerage commissions	343	331
Debit card fees	333	434
Other	349	438
TOTAL NON-INTEREST INCOME	2,081	2,651
NON-INTEREST EXPENSE:		
Salaries and employee benefits	5,048	4,770
Occupancy	741	638
Furniture and equipment	747	649
Software amortization	65	273
Pennsylvania shares tax	277	238
Professional fees	566	437
Federal Deposit Insurance Corporation deposit insurance	202	170
Marketing	251	171
Intangible amortization	80	90
Other	1,300	1,549
TOTAL NON-INTEREST EXPENSE	9,277	8,985
INCOME BEFORE INCOME TAX PROVISION	3,797	3,672
INCOME TAX PROVISION	589	986

Edgar Filing: PENNS WOODS BANCORP INC - Form 10-Q

CONSOLIDATED NET INCOME	\$3,208	\$ 2,686
Less: Net loss attributable to noncontrolling interest	(1) —
NET INCOME ATTRIBUTABLE TO PENNS WOODS BANCORP, INC.	\$3,209	\$ 2,686
EARNINGS PER SHARE - BASIC	\$0.68	\$ 0.57
EARNINGS PER SHARE - DILUTED	\$0.68	\$ 0.56
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	4,689,376	4,734,805
WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED	4,689,376	4,761,305
DIVIDENDS DECLARED PER SHARE	\$0.47	\$ 0.47

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

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

(In Thousands)	Three Months	
	Ended March 31,	
	2018	2017
Net Income	\$3,208	\$2,686
Other comprehensive (loss) income:		
Change in unrealized (loss) gain on available for sale securities	(1,461)	739
Tax effect	306	(251)
Net realized loss (gain) on available for sale securities included in net income	9	(197)
Tax effect	(3)	67
Amortization of unrecognized pension gain	42	39
Tax effect	(8)	(13)
Total other comprehensive (loss) income	(1,115)	384
Comprehensive income	\$2,093	\$3,070

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

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

(In Thousands, Except Per Share Data)	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS		TREASURY STOCK	MONETARY INTEREST	TOTAL CONTROLLING SHAREHOLDERS' EQUITY
	SHARES	AMOUNT							
Balance, December 31, 2016	5,007,109	\$41,726	\$50,075	\$61,610	\$(4,928)	\$(10,234)	\$	—	\$138,249
Net income				2,686					2,686
Other comprehensive income					384				384
Stock-based compensation			5						5
Dividends declared, (\$0.47 per share)				(2,225)					(2,225)
Common shares issued for employee stock purchase plan	460	3	11						14
Balance, March 31, 2017	5,007,569	\$41,729	\$50,091	\$62,071	\$(4,544)	\$(10,234)	\$	—	\$139,113

(In Thousands, Except Per Share Data)	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS		TREASURY STOCK	MONETARY INTEREST	TOTAL CONTROLLING SHAREHOLDERS' EQUITY
	SHARES	AMOUNT							
Balance, December 31, 2017	5,009,339	\$41,744	\$50,173	\$63,364	\$(4,974)	\$(12,115)	\$2	\$	\$138,194
Net income				3,209			(1)		3,208
Adoption of ASU 2016-01				(537)	537				—
Other comprehensive loss					(1,115)				(1,115)
Stock-based compensation			7						7
Dividends declared, (\$0.47 per share)				(2,204)					(2,204)
Common shares issued for employee stock purchase plan	559	4	19						23
Balance, March 31, 2018	5,009,898	\$41,748	\$50,199	\$63,832	\$(5,552)	\$(12,115)	\$1	\$	\$138,113

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

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

(In Thousands)	Three Months Ended March 31,	
	2018	2017
OPERATING ACTIVITIES:		
Net Income	\$3,209	\$2,686
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	386	719
Amortization of intangible assets	80	90
Provision for loan losses	160	330
Accretion and amortization of investment security discounts and premiums	195	255
Net securities losses (gains), available for sale	9	(197)
Originations of loans held for sale	(8,762)	(10,964)
Proceeds of loans held for sale	9,465	12,054
Gain on sale of loans	(255)	(358)
Net equity securities losses	34	—
Net securities losses (gains), trading	(3)	(2)
Proceeds from the sale of trading securities	233	169
Purchases of trading securities	(222)	(109)
Earnings on bank-owned life insurance	(173)	(172)
Decrease (increase) in deferred tax asset	(170)	174
Security Trades Payable	(3,689)	1,933
Other, net	(561)	(2,076)
Net cash used for operating activities	(64)	4,532
INVESTING ACTIVITIES:		
Proceeds from sales of available for sale securities	3,363	2,652
Proceeds from calls and maturities of available for sale securities	660	3,958
Purchases of available for sale securities	(12,935)	(9,699)
Net increase in loans	(35,900)	(18,200)
Acquisition of premises and equipment	(323)	(557)
Proceeds from the sale of foreclosed assets	16	586
Purchase of bank-owned life insurance	(27)	(30)
Proceeds from redemption of regulatory stock	5,335	1,162
Purchases of regulatory stock	(5,486)	(1,007)
Net cash used for investing activities	(45,297)	(21,135)
FINANCING ACTIVITIES:		
Net increase in interest-bearing deposits	45,189	56,335
Net increase in noninterest-bearing deposits	945	9,115
Proceeds from long-term borrowings	55,000	—
Repayment of long-term borrowings	(2,000)	(10,000)
Net decrease in short-term borrowings	(41,443)	(4,652)
Dividends paid	(2,204)	(2,225)
Issuance of common stock	23	19
Net cash provided by financing activities	55,510	