BAR HARBOR BANKSHARES
Form 10-Q
November 05, 2014
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: **01-13349**

BAR HARBOR BANKSHARES

(Exact name of registrant as specified in its charter)

Maine	**01-0393663**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
PO Box 400 **82 Main Street, Bar Harbor, ME**	**04609-0400**
(Address of principal executive offices)	(Zip Code)

(207) 288-3314

(Registrant's telephone number, including area code)

Inapplicable

(Former name, former address and former fiscal year, if changed since last report)

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 **þ** 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 **þ** 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 large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act: Large accelerated filer ¨ Accelerated filer **þ** 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 Exchange Act): YES: ¨ NO: **þ**

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

Class of Common Stock	Number of Shares Outstanding November 3, 2014
$2.00 Par Value	5,938,767

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

BAR HARBOR BANKSHARES AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2014 AND DECEMBER 31, 2013

(Dollars in thousands, except share and per share data)

(*unaudited*)

	September 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$ 12,906	$ 9,200
Securities available for sale, at fair value (amortized cost of $460,832 and $461,635, respectively)	466,934	450,170
Federal Home Loan Bank stock	21,354	18,370
Loans	897,945	852,857
Allowance for loan losses	(8,635)	(8,475)
Loans, net of allowance for loan losses	889,310	844,382
Premises and equipment, net	20,258	20,145
Goodwill	4,935	4,935
Bank owned life insurance	8,075	7,879
Other assets	15,354	18,812
TOTAL ASSETS	$1,439,126	$1,373,893
Liabilities		
Deposits:		
Demand and other non-interest bearing deposits	$ 81,059	$ 72,259
NOW accounts	149,764	135,246
Savings and money market deposits	265,013	232,558
Time deposits	391,280	395,588
Total deposits	887,116	835,651
Short-term borrowings	305,122	312,945
Long-term advances from Federal Home Loan Bank	93,500	91,500
Junior subordinated debentures	5,000	5,000
Other liabilities	7,034	7,418
TOTAL LIABILITIES	$1,297,772	$1,252,514
Shareholders' equity		
	13,577	9,051

Capital stock, par value $2.00; authorized 15,000,000 and 10,000,000 shares; issued 6,788,407 and 4,525,635 shares at September 30, 2014 and December 31, 2013, respectively		
Surplus	20,769	25,085
Retained earnings	111,442	103,907
Accumulated other comprehensive (loss) income:		
Prior service cost and unamortized net actuarial losses on employee benefit plans, net of tax of ($185) and ($192), at September 30, 2014 and December 31, 2013, respectively	(359)	(373)
Net unrealized appreciation (depreciation) on securities available for sale, net of tax of $1,819 and ($4,150), at September 30, 2014 and December 31, 2013, respectively	3,533	(8,055)
Portion of OTTI attributable to non-credit gains, net of tax of $255 and $252, at September 30, 2014 and December 31, 2013, respectively	495	488
Net unrealized appreciation on derivative instruments, net of tax of $83 and $0, at September 30, 2014 and December 31, 2013, respectively	159	---
Total accumulated other comprehensive income (loss)	3,828	(7,940)
Less: cost of 852,831 and 879,840 shares of treasury stock at September 30, 2014 and December 31, 2013, respectively	(8,262)	(8,724)
TOTAL SHAREHOLDERS' EQUITY	141,354	121,379
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,439,126	$1,373,893

All share and per share amounts have been adjusted to reflect the effect of the 3-for-2 stock split (dividend) during May 2014.

The accompanying notes are an integral part of these unaudited consolidated interim financial statements.

BAR HARBOR BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

(Dollars in thousands, except per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Interest and dividend income:				
Interest and fees on loans	$10,016	$ 9,404	$28,285	$27,991
Interest on securities	3,719	3,412	11,704	9,630
Dividend on FHLB stock	71	18	209	52
Total interest and dividend income	13,806	12,834	40,198	37,673
Interest expense:				
Deposits	1,477	1,626	4,376	4,997
Short-term borrowings	197	127	477	359
Long-term debt	755	1,112	2,545	3,576
Total interest expense	2,429	2,865	7,398	8,932
Net interest income	11,377	9,969	32,800	28,741
Provision for loan losses	491	170	1,376	928
Net interest income after provision for loan losses	10,886	9,799	31,424	27,813
Non-interest income:				
Trust and other financial services	954	900	3,028	2,657
Service charges on deposit accounts	335	346	894	962
Credit and debit card service charges and fees	436	440	1,156	1,172
Net securities gains (losses)	(81)	138	666	659
Total other-than-temporary impairment ("OTTI") losses	---	(73)	---	(241)
Non-credit portion of OTTI losses (before taxes) (1)	---	---	---	53
Net OTTI losses recognized in earnings	---	(73)	---	(188)
Other operating income	172	174	481	487
Total non-interest income	1,816	1,925	6,225	5,749
Non-interest expense:				
Salaries and employee benefits	4,249	4,025	12,448	11,328
Occupancy expense	508	482	1,616	1,459
Furniture and equipment expense	569	506	1,606	1,487

Credit and debit card expenses	111	98	308	286
FDIC insurance assessments	165	175	530	516
Other operating expense	1,610	1,549	4,911	4,661
Total non-interest expense	7,212	6,835	21,419	19,737
Income before income taxes	5,490	4,889	16,230	13,825
Income taxes	1,623	1,356	4,719	3,906
Net income	$ 3,867	$ 3,533	$11,511	$ 9,919
Per Common Share Data:				
Basic earnings per share	$ 0.65	$ 0.60	$ 1.94	$ 1.68
Diluted earnings per share	$ 0.65	$ 0.59	$ 1.93	$ 1.67

All share and per share amounts have been adjusted to reflect the effect of the 3-for-2 stock split (dividend) during May 2014.

(1) Included in other comprehensive loss, net of tax

The accompanying notes are an integral part of these unaudited consolidated interim financial statements.

BAR HARBOR BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

(Dollars in thousands)

(unaudited)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013
Net income	$ 3,867	$ 3,533
Other comprehensive income:		
Net unrealized appreciation on securities available for sale, net of tax of $247 and $196, respectively	488	380
Less reclassification adjustment for net losses (gains) related to securities available for sale included in net income net of tax of $28 and $47, respectively	53	(91)
Add other-than-temporary impairment adjustment, net of tax of $0 and $25, Respectively	---	48
Net unrealized appreciation on interest rate derivatives, net of tax of $58 and $0, respectively	110	---
Actuarial gain on supplemental executive retirement plan, net of related tax of $3 and $4, respectively	5	8
Total other comprehensive income	656	345
Total comprehensive income	$ 4,523	$ 3,878

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Net income	$11,511	$ 9,919
Other comprehensive income:		
Net unrealized appreciation (depreciation) on securities available for sale, net of tax	12,035	(11,237)

of $6,195 and ($5,790), respectively		
Less reclassification adjustment for net gains related to securities available for sale included in net income, net of tax of $226 and $224, respectively	(440)	(435)
Add other-than-temporary impairment adjustment, net of tax of $0 and $82, Respectively	---	159
Less non-credit portion of other-than-temporary impairment losses, net of tax of $0 and $18, respectively	---	(35)
Net unrealized appreciation on interest rate derivatives, net of tax of $83 and $0, respectively	159	---
Net amortization of prior service cost and actuarial gain on supplemental executive retirement plan, net of related tax of $0 and ($56), respectively	---	(109)
Actuarial gain on supplemental executive retirement plan, net of related tax of $7 and $15, respectively	14	28
Total other comprehensive income (loss)	11,768	(11,629)
Total comprehensive income (loss)	$23,279	$(1,710)

The accompanying notes are an integral part of these unaudited consolidated interim financial statements.

BAR HARBOR BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

(Dollars in thousands, except share and per share data)

(unaudited)

	Capital Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive income (loss)	Treasury Stock	Total Shareholders' Equity
Balance December 31, 2012	$ 9,051	$24,905	$ 95,688	$ 7,697	$(9,295)	$128,046
Net income	---	---	9,919	---	---	9,919
Total other comprehensive loss	---	---	---	(11,629)	---	(11,629)
Dividend declared:						
Common stock ($0.620 per share)	---	---	(3,655)	---	---	(3,655)
Purchase of treasury stock (1,050 shares)	---	---	---	---	(24)	(24)
Stock options exercised (22,528 shares), including related tax effects	---	108	(44)	---	450	514
Recognition of stock based compensation expense	---	223	10	---	---	233
Restricted stock grants (5,055 shares)	---	(121)	17	---	103	(1)
Balance September 30, 2013	$ 9,051	$25,115	$101,935	$(3,932)	$(8,766)	$123,403
Balance December 31, 2013	$ 9,051	$25,085	$103,907	$(7,940)	$(8,724)	$121,379
Net income	---	---	11,511	---	---	11,511
Total other comprehensive income	---	---	---	11,768	---	11,768
Dividend declared:						
Common stock ($0.670 per share)	---	---	(3,967)	---	---	(3,967)

Purchase of treasury stock (327 shares)	---	---	---	---	(8)	(8)
Stock options exercised (24,456 shares), including related tax effects	---	27	(9)	---	417	435
Three-for-two stock split	4,526	(4,526)		---		---
Recognition of stock based compensation expense	---	167	---	---	---	167
Restricted stock grants (2,878 shares)	---	16	---	---	53	69
Balance September 30, 2014	$13,577	$20,769	$111,442	$ 3,828	$(8,262)	$141,354

All share and per share amounts have been adjusted to reflect the effect of the 3-for-2 stock split (dividend) during May 2014.

The accompanying notes are an integral part of these unaudited consolidated interim financial statements.

BAR HARBOR BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

(Dollars in thousands)

(unaudited)

	2014	2013
Cash flows from operating activities:		
Net income	$ 11,511	$ 9,919
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	1,212	1,084
Amortization of core deposit intangible	69	69
Provision for loan losses	1,376	928
Net securities gains	(666)	(659)
Other-than-temporary impairment	---	188
Net amortization of bond premiums and discounts	2,208	4,205
Recognition of stock based expense	167	233
Gains on sale of other real estate owned	---	(53)
Net change in other assets	(2,416)	733
Net change in other liabilities	(384)	(300)
Net cash provided by operating activities	$ 13,077	$ 16,347
Cash flows from investing activities:		
Purchases of securities available for sale	(78,433)	(155,548)
Proceeds from maturities, calls and principal paydowns of mortgage-backed securities	51,132	77,283
Proceeds from sales of securities available for sale	26,563	12,717
Net decrease in Federal Home Loan Bank stock	(2,984)	(142)
Net loans made to customers	(46,624)	(31,314)
Proceeds from sale of other real estate owned	129	1,065
Capital expenditures	(1,325)	(1,706)
Net cash used in investing activities	(51,542)	(97,645)
Cash flows from financing activities:		
Net increase in deposits	51,465	88,831
Net decrease in securities sold under repurchase agreements and fed funds purchased	(1,133)	(812)
Proceeds from Federal Home Loan Bank advances	36,800	27,900
Repayments of Federal Home Loan Bank advances	(41,490)	(34,641)
Purchases of Treasury Stock	(8)	(24)
Proceeds from stock option exercises, including excess tax benefits	435	513
Restricted stock grant	69	---
Payments of dividends	(3,967)	(3,655)

Net cash provided by financing activities	$ 42,171	$ 78,112
Net increase (decrease) in cash and cash equivalents	3,706	(3,186)
Cash and cash equivalents at beginning of period	9,200	14,992
Cash and cash equivalents at end of period	$ 12,906	$ 11,806
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 7,444	$ 9,077
Income taxes	4,756	3,047
Schedule of noncash investing activities:		
Transfers from loans to other real estate owned	$ 320	$ 261

The accompanying notes are an integral part of these unaudited consolidated interim financial statements.

BAR HARBOR BANKSHARES AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

(Dollars in thousands, except share and per share data)

(*unaudited*)

Note 1: Basis of Presentation

The accompanying consolidated interim financial statements are unaudited. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All inter-company transactions have been eliminated in consolidation. Amounts in the prior period financial statements are reclassified whenever necessary to conform to current period presentation. The net income reported for the three and nine months ended September 30, 2014, is not necessarily indicative of the results that may be expected for the year ending December 31, 2014, or any other interim periods.

The consolidated balance sheet at December 31, 2013, has been derived from audited consolidated financial statements at that date. The accompanying unaudited interim consolidated financial statements have been prepared in accordance with United States (U.S.) generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X (17 CFR Part 210). Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, please refer to the consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013, and notes thereto.

Note 2: Management s Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, other-than-temporary impairments on securities, income tax estimates, and the valuation of intangible assets.

Allowance for Loan Losses: The allowance for loan losses (the allowance) is a significant accounting estimate used in the preparation of the Company s consolidated financial statements. The allowance is available to absorb losses on loans and is maintained at a level that, in management s judgment, is appropriate for the amount of risk inherent in the loan portfolio, given past and present conditions. The allowance is increased by provisions charged to operating expense and by recoveries on loans previously charged-off, and is decreased by loans charged-off as uncollectible.

Arriving at an appropriate level of allowance involves a high degree of judgment. The determination of the adequacy of the allowance and provisioning for estimated losses is evaluated regularly based on review of loans, with particular emphasis on non-performing or other loans that management believes warrant special consideration. The ongoing evaluation process includes a formal analysis, which considers among other factors: the character and size of the loan portfolio, business and economic conditions, real estate market conditions, collateral values, changes in product offerings or loan terms, changes in underwriting and/or collection policies, loan growth, previous charge-off experience, delinquency trends, non-performing loan trends, the performance of individual loans in relation to contract terms, and estimated fair values of collateral.

The allowance consists of allowances established for specific loans including impaired loans; allowances for pools of loans based on historical charge-offs by loan types; and supplemental allowances that adjust historical loss experience to reflect current economic conditions, industry specific risks, and other observable data.

While management uses available information to recognize losses on loans, changing economic conditions and the economic prospects of the borrowers may necessitate future additions or reductions to the allowance. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance, which also may necessitate future additions or reductions to the allowance, based on information available to them at the time of their examination.

Other-Than-Temporary Impairments on Investment Securities**:** One of the significant estimates relating to securities is the evaluation of other-than-temporary impairment (OTTI). If a decline in the fair value of a security is judged to be other-than-temporary, and management does not intend to sell the security and believes it is more-likely-than-not the Company will not be required to sell the security prior to recovery of cost or amortized cost, the portion of the total impairment attributable to the credit loss is recognized in earnings, and the remaining difference between the security s amortized cost basis and its fair value is included in other comprehensive income.

For impaired available for sale debt securities that management intends to sell, or where management believes it is more-likely-than-not that the Company will be required to sell, an OTTI charge is recognized in earnings equal to the difference between fair value and cost or amortized cost basis of the security. The fair value of the OTTI security becomes its new cost basis.

The evaluation of securities for impairments is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of securities should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions, the issuer s financial condition and/or future prospects, the effects of changes in interest rates or credit spreads and the expected recovery period of unrealized losses. The Company has a security monitoring process that identifies securities that, due to certain characteristics, as described below, are subjected to an enhanced analysis on a quarterly basis.

Securities that are in an unrealized loss position are reviewed at least quarterly to determine if an OTTI is present based on certain quantitative and qualitative factors and measures. The primary factors considered in evaluating whether a decline in value of securities is other-than-temporary include: (a) the cause of the impairment; (b) the financial condition, credit rating and future prospects of the issuer; (c) whether the debtor is current on contractually obligated interest and principal payments; (d) the volatility of the securities fair value; (e) performance indicators of the underlying assets in the security including default rates, delinquency rates, percentage of non-performing assets, loan to collateral value ratios, conditional payment rates, third party guarantees, current levels of subordination, vintage, and geographic concentration and; (f) any other information and observable data considered relevant in determining whether an OTTI has occurred, including the expectation of the receipt of all principal and interest due.

In addition, for securitized financial assets with contractual cash flows, such as private label mortgage-backed securities (MBS), the Company periodically updates its best estimate of cash flows over the life of the security. The Company s best estimate of cash flows is based upon assumptions consistent with the current economic environment, similar to those the Company believes market participants would use. If the fair value of a securitized financial asset is less than its cost or amortized cost and there has been an adverse change in timing or amount of anticipated future cash flows since the last revised estimate to the extent that the Company does not expect to receive the entire amount of future contractual principal and interest, an OTTI charge is recognized in earnings representing the estimated credit loss if management does not intend to sell the security and believes it is more-likely-than-not the Company will not be required to sell the security prior to recovery of cost or amortized cost. Estimating future cash flows is a quantitative and qualitative process that incorporates information received from third party sources along with certain assumptions and judgments regarding the future performance of the underlying collateral. In addition, projections of expected future cash flows may change based upon new information regarding the performance of the underlying collateral.

Income Taxes: The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information indicates that it is more-likely-than-not that deferred tax assets will not be realized, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Significant management judgment is required in determining income tax expense and deferred tax assets and liabilities. As of September 30, 2014, and December 31, 2013, there was no valuation allowance for deferred tax assets. Deferred tax assets are included in other assets on the consolidated balance sheet.

Goodwill and Identifiable Intangible Assets: In connection with acquisitions, the Company generally records as assets on its consolidated financial statements both goodwill and identifiable intangible assets, such as core deposit intangibles.

The Company evaluates whether the carrying value of its goodwill has become impaired, in which case the value is reduced through a charge to its earnings. Goodwill is evaluated for impairment at least annually, or upon a triggering event using certain fair value techniques. Goodwill impairment testing is performed at the segment (or reporting unit) level. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. Once goodwill has been assigned to the reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or organically grown, are available to support the value of the goodwill.

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in accordance with the purchase method of accounting for business combinations. Goodwill is not amortized but, instead, is subject to impairment tests on at least an annual basis or more frequently if an event occurs or circumstances change that reduce the fair value of a reporting unit below its carrying amount. The Company completes its annual goodwill impairment test as of December 31 of each year. The impairment testing process is conducted by assigning assets and goodwill to each reporting unit. Currently, the Company s goodwill is evaluated at the entity level as there is only one reporting unit. The Company first assesses certain qualitative factors to determine if it is more likely than not that the fair value of the reporting unit is less than its carrying value. If it is more likely than not that the fair value of the reporting unit is less than the carrying value, then the fair value of each reporting unit is compared to the recorded book value step one. If the fair value of the reporting unit exceeds its carrying value, goodwill is not considered impaired and step two is not considered necessary. If the carrying value of a reporting unit exceeds its fair value, the impairment test continues (step two) by comparing the carrying value of the reporting unit s goodwill to the implied fair value of goodwill. The implied fair value is computed by adjusting all assets and liabilities of the reporting unit to current fair value with the offset adjustment to goodwill. The adjusted goodwill balance is the implied fair value of the goodwill. An impairment charge is recognized if the carrying fair value of goodwill exceeds the implied fair value of goodwill. At December 31, 2013, there was no indication of impairment that led the Company to believe it needed to perform a two-step test.

Any changes in the estimates used by the Company to determine the carrying value of its goodwill, or which otherwise adversely affect their value or estimated lives, would adversely affect the Company s consolidated results of operations.

Note 3: Three-for-two Common Stock Split

On April 22, 2014, the Company s Board of Directors declared a three-for-two split of its common stock, payable as a large stock dividend, which was paid on May 19, 2014 (the payment date) to all stockholders of record at the close of business on May 5, 2014. As of April 22, 2014, the Company had approximately 3,944,290 shares of common stock outstanding. After the stock split as a large stock dividend, the number of shares of Company common stock outstanding increased to approximately 5,916,435. All previously reported share and per share data included in public filings subsequent to the payment date has been adjusted to reflect the retroactive effect of this three-for-two stock split.

Note 4: Earnings Per Share

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company, such as the Company s dilutive stock options.

The following is a reconciliation of basic and diluted earnings per share for the three and nine months ended September 30, 2014, and 2013:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2014	**2013**	**2014**	**2013**
Net income	$ 3,867	$ 3,533	$ 11,511	$ 9,919
Weighted average common shares outstanding				
Basic	5,931,342	5,904,193	5,921,427	5,894,789
Effect of dilutive employee stock options	52,581	35,712	44,147	29,056
Diluted	5,983,923	5,939,905	5,965,574	5,923,845
Anti-dilutive options excluded from earnings per share calculation	41,256	60,315	85,431	72,954
Per Common Share Data:				
Basic earnings per share	$ 0.65	$ 0.60	$ 1.94	$ 1.68
Diluted earnings per share	$ 0.65	$ 0.59	$ 1.93	$ 1.67

All share and per share amounts have been adjusted to reflect the effect of the 3-for-2 stock split (dividend) during May 2014.

Note 5: Securities Available For Sale

The following tables summarize the securities available for sale portfolio as of September 30, 2014, and December 31, 2013:

September 30, 2014		**Gross**	**Gross**	
	Amortized	**Unrealized**	**Unrealized**	**Estimated**
Available for Sale:	**Cost**	**Gains**	**Losses**	**Fair Value**
Mortgage-backed securities:				
US Government-sponsored enterprises	$280,238	$5,578	$3,807	$282,009
US Government agency	84,628	1,252	982	84,898
Private label	3,943	832	5	4,770
Obligations of states and political subdivisions thereof	92,023	3,717	483	95,257
Total	$460,832	$11,379	$5,277	$466,934

December 31, 2013		**Gross**	**Gross**	
	Amortized	**Unrealized**	**Unrealized**	**Estimated**
Available for Sale:	**Cost**	**Gains**	**Losses**	**Fair Value**
Mortgage-backed securities:				
US Government-sponsored enterprises	$277,838	$4,386	$ 8,592	$273,632
US Government agency	83,153	833	2,457	81,529
Private label	5,423	825	78	6,170
Obligations of states and political subdivisions thereof	95,221	1,121	7,503	88,839
Total	$461,635	$7,165	$18,630	$450,170

Securities Maturity Distribution: The following table summarizes the maturity distribution of the amortized cost and estimated fair value of securities available for sale as of September 30, 2014. Actual maturities may differ from the final maturities noted below because issuers may have the right to prepay or call certain securities. In the case of MBS, actual maturities may also differ from expected maturities due to the amortizing nature of the underlying mortgage collateral, and the fact that borrowers have the right to prepay.

Securities Available for Sale	Amortized Cost	Estimated Fair Value
Due after one year through five years	$ 5,276	$ 5,355
Due after five years through ten years	14,170	14,648
Due after ten years	441,386	446,931
Total	$460,832	$466,934

Securities Impairment: As a part of the Company s ongoing security monitoring process, the Company identifies securities in an unrealized loss position that could potentially be other-than-temporarily impaired (OTTI). For the nine months ended September 30, 2014, the Company did not have any OTTI losses recognized in earnings (before taxes), compared with $188 for the same period in 2013.

Upon initial impairment of a security, total OTTI losses represent the excess of the amortized cost over the fair value. For subsequent impairments of the same security, total OTTI losses represent additional credit losses and or declines in fair value subsequent to the previously recorded OTTI losses, if applicable. Unrealized OTTI losses recognized in accumulated other comprehensive income (OCI) represent the non-credit component of OTTI losses on debt securities. Net impairment losses recognized in earnings represent the credit component of OTTI losses on debt securities.

As of September 30, 2014, the Company held twelve private label MBS (debt securities) with a total amortized cost (i.e. carrying value) of $1,767 for which OTTI losses have previously been recognized in pre-tax earnings dating back to the fourth quarter of 2008. For all twelve of these securities, the Company previously recognized credit losses in excess of the unrealized losses in accumulated OCI, creating an unrealized gain of $495, net of tax, as included in accumulated OCI as of September 30, 2014. As of September 30, 2014, the total net unrealized gains included in accumulated OCI for securities held where OTTI has been historically recognized in pre-tax earnings amounted to $495, net of tax, compared with net unrealized gains of $488, net of tax, at December 31, 2013.

The OTTI losses previously recognized in earnings represented management s best estimate of credit losses inherent in the securities based on discounted, bond-specific future cash flow projections using assumptions about cash flows associated with the pools of mortgage loans underlying each security. In estimating those cash flows the Company takes a variety of factors into consideration including, but not limited to, loan level credit characteristics, current delinquency and non-performing loan rates, current levels of subordination and credit support, recent default rates and future constant default rate estimates, original and current loan to collateral value ratios, recent collateral loss severities and future collateral loss severity estimates, recent and historical conditional prepayment rates and future conditional prepayment rate assumptions, and other estimates of future collateral performance.

Despite elevated levels of delinquencies, defaults and losses in the underlying residential mortgage loan collateral, given credit enhancements resulting from the structures of the individual securities, the Company currently expects that as of September 30, 2014 it will recover the amortized cost basis of its private label MBS as depicted in the table below and has therefore concluded that such securities were not OTTI as of that date. Nevertheless, given recent market conditions, it is possible that adverse changes in repayment performance and fair value could occur in future periods that would change the Company s current best estimates.

The following table displays the beginning balance of OTTI related to historical credit losses on debt securities held by the Company at the beginning of the current reporting period, as well as changes in credit losses recognized in pre-tax earnings for the three and nine months ending September 30, 2014, and 2013.

	2014	2013
Estimated credit losses as of June 30,	$3,413	$3,790
Additions for credit losses for securities on which OTTI has been previously recognized	---	73
Additions for credit losses for securities on which OTTI has not been previously recognized	---	---
Reductions for securities paid off during the period	---	---
Estimated credit losses as of September 30,	$3,413	$3,863

	2014	2013
Estimated credit losses as of prior year-end,	$3,923	$4,366
Additions for credit losses for securities on which OTTI has been previously recognized	---	188
Additions for credit losses for securities on which OTTI has not been previously recognized	---	---
Reductions for securities paid off during the period	510	691
Estimated credit losses as of September 30,	$3,413	$3,863

As of September 30, 2014, based on a review of the remaining securities in the securities portfolio, the Company concluded that it expects to recover its amortized cost basis for such securities. This conclusion was based on the issuers continued satisfaction of the securities obligations in accordance with their contractual terms and the expectation that they will continue to do so through the maturity of the security, the expectation that the Company will receive the entire amount of future contractual cash flows, as well as the evaluation of the fundamentals of the issuers financial condition and other objective evidence. Accordingly, the Company concluded that any declines in the values of those securities were temporary and that any additional OTTI charges were not appropriate at September 30, 2014. As of that date, the Company did not intend to sell nor anticipated that it would more-likely-than-not be required to sell any of its impaired securities, that is, where fair value is less than the cost basis of the security.

The following table summarizes the fair value of securities with continuous unrealized losses for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer as of September 30, 2014 and December 31, 2013. All securities referenced are debt securities.

	Less than 12 months			12 months or longer			Total		
September 30, 2014	**Estimated Fair Value**	**Number of Investments**	**Unrealized Losses**	**Estimated Fair Value**	**Number of Investments**	**Unrealized Losses**	**Estimated Fair Value**	**Number of Investments**	**Unrealized Losses**
Description of Securities:									
Mortgage-backed securities:									
US Government-sponsored enterprises	$41,276	47	$ 811	$ 64,852	74	$2,996	$106,128	121	$ 3,807
US Government agency	23,356	37	256	19,316	23	726	42,672	60	982
Private label	3	1	---	152	4	5	155	5	5
Obligations of states and political subdivisions thereof	1,927	4	11	23,142	50	472	25,069	54	483
Total	$66,562	89	$1,078	$107,462	151	$4,199	$174,024	240	$ 5,277

	Less than 12 months			12 months or longer			Total		
December 31, 2013	**Estimated Fair Value**	**Number of Investments**	**Unrealized Losses**	**Estimated Fair Value**	**Number of Investments**	**Unrealized Losses**	**Estimated Fair Value**	**Number of Investments**	**Unrealized Losses**
Description of Securities:									
Mortgage-backed securities:									