

ACNB CORP  
Form 10-Q  
November 01, 2013

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended **September 30, 2013**

Commission file number **0-11783**

**ACNB CORPORATION**

(Exact name of Registrant as specified in its charter)

**Pennsylvania**  
(State or other jurisdiction of  
incorporation or organization)

**23-2233457**  
(I.R.S. Employer  
Identification No.)

**16 Lincoln Square, Gettysburg, Pennsylvania**  
(Address of principal executive offices)

**17325**  
(Zip Code)

Registrant's telephone number, including area code: **(717) 334-3161**

Edgar Filing: ACNB CORP - Form 10-Q

**Title of each class**

**Name of each exchange on which registered**

Common Stock, \$2.50 par value per share

The NASDAQ Stock Market, LLC

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 smaller 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 Exchange Act). Yes  No

The number of shares of the Registrant's Common Stock outstanding on November 1, 2013, was 5,986,661.

## PART I - FINANCIAL INFORMATION

## ACNB CORPORATION

## ITEM 1 - FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF CONDITION (UNAUDITED)

Dollars in thousands, except per share data	September 30, 2013	September 30, 2012	December 31, 2012
<b>ASSETS</b>			
Cash and due from banks	\$ 16,371	\$ 12,338	\$ 19,078
Interest bearing deposits with banks	2,856	52,165	32,307
<b>Total Cash and Cash Equivalents</b>	<b>19,227</b>	64,503	51,385
Securities available for sale	135,163	175,889	165,790
Securities held to maturity, fair value \$94,667; \$48,971; \$50,980	96,255	48,016	50,159
Loans held for sale	603	3,618	6,687
Loans, net of allowance for loan losses \$16,797; \$15,993; \$16,825	701,251	686,082	691,311
Premises and equipment	15,545	14,529	15,131
Restricted investment in bank stocks	4,189	5,887	5,318
Investment in bank-owned life insurance	32,003	30,876	31,122
Investments in low-income housing partnerships	5,233	5,562	5,440
Goodwill	6,308	6,308	6,308
Intangible assets	1,928	2,570	2,409
Foreclosed assets held for resale	1,608	4,901	4,247
Other assets	15,217	14,282	14,688
<b>Total Assets</b>	<b>\$ 1,034,530</b>	\$ 1,063,023	\$ 1,049,995
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
<b>LIABILITIES</b>			
Deposits:			
Non-interest bearing	\$ 130,110	\$ 119,086	\$ 119,297
Interest bearing	689,121	712,265	714,879
<b>Total Deposits</b>	<b>819,231</b>	831,351	834,176
Short-term borrowings	57,418	52,926	47,303
Long-term borrowings	47,767	70,015	59,954
Other liabilities	7,094	7,054	7,298
<b>Total Liabilities</b>	<b>931,510</b>	961,346	948,731
<b>STOCKHOLDERS EQUITY</b>			
Preferred Stock, \$2.50 par value; 20,000,000 shares authorized; no shares outstanding			

Edgar Filing: ACNB CORP - Form 10-Q

Common stock, \$2.50 par value; 20,000,000 shares authorized; 6,049,261,  
6,023,320 and 6,027,968 shares issued; 5,986,661, 5,960,720 and 5,965,368  
shares outstanding

	<b>15,123</b>	15,058	15,070
Treasury stock, at cost (62,600 shares)	<b>(728)</b>	(728)	(728)
Additional paid-in capital	<b>9,557</b>	9,183	9,246
Retained earnings	<b>81,532</b>	76,802	77,888
Accumulated other comprehensive (loss) income	<b>(2,464)</b>	1,362	(212)
<b>Total Stockholders Equity</b>	<b>103,020</b>	101,677	101,264
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 1,034,530</b>	\$ 1,063,023	\$ 1,049,995

*The accompanying notes are an integral part of the consolidated financial statements.*

## ACNB CORPORATION

## CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Dollars in thousands, except per share data	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
<b>INTEREST INCOME</b>				
Loans, including fees	\$ 7,840	\$ 8,484	\$ 24,074	\$ 25,551
Securities:				
Taxable	1,078	1,158	3,166	3,758
Tax-exempt	280	393	922	1,130
Dividends	6	4	16	11
Other	16	28	64	51
<b>Total Interest Income</b>	<b>9,220</b>	<b>10,067</b>	<b>28,242</b>	<b>30,501</b>
<b>INTEREST EXPENSE</b>				
Deposits	500	864	1,721	2,652
Short-term borrowings	17	19	44	60
Long-term borrowings	419	643	1,321	2,040
<b>Total Interest Expense</b>	<b>936</b>	<b>1,526</b>	<b>3,086</b>	<b>4,752</b>
<b>Net Interest Income</b>	<b>8,284</b>	<b>8,541</b>	<b>25,156</b>	<b>25,749</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>150</b>	<b>1,125</b>	<b>1,300</b>	<b>3,375</b>
<b>Net Interest Income after Provision for Loan Losses</b>	<b>8,134</b>	<b>7,416</b>	<b>23,856</b>	<b>22,374</b>
<b>OTHER INCOME</b>				
Service charges on deposit accounts	596	648	1,682	1,803
Income from fiduciary activities	333	288	976	932
Earnings on investment in bank-owned life insurance	246	255	741	735
Gain on life insurance proceeds		63		63
Net gains on sales or calls of securities				7
Service charges on ATM and debit card transactions	376	323	1,051	955
Commissions from insurance sales	1,079	1,133	3,609	3,633
Other	217	262	873	725
<b>Total Other Income</b>	<b>2,847</b>	<b>2,972</b>	<b>8,932</b>	<b>8,853</b>
<b>OTHER EXPENSES</b>				
Salaries and employee benefits	4,546	4,527	14,158	13,772
Net occupancy	463	487	1,471	1,477
Equipment	727	573	2,177	1,855
Other tax	199	221	669	614
Professional services	232	186	667	628
Supplies and postage	127	141	443	468
Marketing and corporate relations	81	67	293	257
FDIC and regulatory	191	189	592	640
Intangible assets amortization	160	160	481	481
Foreclosed real estate expenses	503	116	410	346
Other operating	817	825	2,458	2,334
<b>Total Other Expenses</b>	<b>8,046</b>	<b>7,492</b>	<b>23,819</b>	<b>22,872</b>

Edgar Filing: ACNB CORP - Form 10-Q

<b>Income before Income Taxes</b>	<b>2,935</b>	2,896	<b>8,969</b>	8,355
<b>PROVISION FOR INCOME TAXES</b>	<b>627</b>	592	<b>1,921</b>	1,687
<b>Net Income</b>	<b>\$ 2,308</b>	\$ 2,304	<b>\$ 7,048</b>	\$ 6,668
<b>PER SHARE DATA</b>				
Basic earnings	<b>\$ 0.39</b>	\$ 0.39	<b>\$ 1.18</b>	\$ 1.12
Cash dividends declared	<b>\$ 0.19</b>	\$ 0.19	<b>\$ 0.57</b>	\$ 0.57

*The accompanying notes are an integral part of the consolidated financial statements.*

## ACNB CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Dollars in thousands	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
<b>NET INCOME</b>	<b>\$ 2,308</b>	<b>\$ 2,304</b>	<b>\$ 7,048</b>	<b>\$ 6,668</b>
<b>OTHER COMPREHENSIVE (LOSS) INCOME</b>				
<b>SECURITIES</b>				
Unrealized (losses) gains arising during the period, net of income taxes of \$(82), \$208, \$(1,336) and \$196, respectively	(159)	407	(2,595)	386
Reclassification adjustment for net gains included in net income, net of income taxes of \$0, \$0, \$0 and \$(2), respectively (A) (C)				(5)
<b>PENSION</b>				
Change in plan assets and benefit obligations, net of income taxes of \$58, \$56, \$176 and \$170, respectively (B) (C)	115	109	343	326
<b>TOTAL OTHER COMPREHENSIVE (LOSS) INCOME</b>	<b>(44)</b>	<b>516</b>	<b>(2,252)</b>	<b>707</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$ 2,264</b>	<b>\$ 2,820</b>	<b>\$ 4,796</b>	<b>\$ 7,375</b>

*The accompanying notes are an integral part of the consolidated financial statements.*

(A) Amounts are included in net gains on sales or calls of securities on the Consolidated Statements of Income in total other income.

(B) Amounts are included in the computation of net periodic benefit cost and are included in salaries and employee benefits on the Consolidated Statements of Income in total other expenses.

(C) Income tax amounts are included in the provision for income taxes on the Consolidated Statements of Income.

## ACNB CORPORATION

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)

Nine Months Ended September 30, 2013 and 2012

Dollars in thousands	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
<b>BALANCE JANUARY 1, 2012</b>	\$ 15,021	\$ (728)	\$ 9,000	\$ 73,526	\$ 655	\$ 97,474
Net income				6,668		6,668
Other comprehensive income, net of taxes					707	707
Common stock shares issued (14,911 shares)	37		183			220
Cash dividends declared				(3,392)		(3,392)
<b>BALANCE SEPTEMBER 30, 2012</b>	\$ 15,058	\$ (728)	\$ 9,183	\$ 76,802	\$ 1,362	\$ 101,677
<b>BALANCE JANUARY 1, 2013</b>	\$ 15,070	\$ (728)	\$ 9,246	\$ 77,888	\$ (212)	\$ 101,264
Net income				7,048		7,048
Other comprehensive loss, net of taxes					(2,252)	(2,252)
Common stock shares issued (21,293 shares)	53		311			364
Cash dividends declared				(3,404)		(3,404)
<b>BALANCE SEPTEMBER 30, 2013</b>	\$ 15,123	\$ (728)	\$ 9,557	\$ 81,532	\$ (2,464)	\$ 103,020

The accompanying notes are an integral part of the consolidated financial statements.



## ACNB CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Dollars in thousands	Nine Months Ended September 30,	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 7,048	\$ 6,668
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sales of loans	(417)	(192)
Loss on sales of assets held for resale, including writedowns	173	143
Earnings on investment in bank-owned life insurance	(741)	(735)
Gain on life insurance proceeds		(63)
Gain on sales or calls of securities		(7)
Depreciation and amortization	1,500	1,527
Provision for loan losses	1,300	3,375
Net amortization of investment securities premiums	739	657
Decrease in accrued interest receivable	226	87
Decrease in accrued interest payable	(419)	(109)
Mortgage loans originated for sale	(18,882)	(19,534)
Proceeds from sales of loans originated for sale	25,383	16,445
Decrease in other assets	861	1,594
Increase in other liabilities	734	257
<b>Net Cash Provided by Operating Activities</b>	<b>17,505</b>	<b>10,113</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturities of investment securities held to maturity	7,223	1,576
Proceeds from maturities of investment securities available for sale	33,202	51,695
Purchase of investment securities held to maturity	(53,689)	(39,651)
Purchase of investment securities available for sale	(6,875)	(18,341)
Net increase in loans	(11,741)	(12,283)
Redemption of restricted investment in bank stocks	1,129	1,259
Investment in low-income housing project	(249)	(2,106)
Purchase of bank-owned life insurance	(140)	(1,940)
Capital expenditures	(1,433)	(1,092)
Proceeds from life insurance death benefits		273
Proceeds from sale of foreclosed real estate	2,967	1,205
<b>Net Cash Used in Investing Activities</b>	<b>(29,606)</b>	<b>(19,405)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in demand deposits	10,813	6,839
Net (decrease) increase in time certificates of deposits and interest bearing deposits	(25,758)	41,717
Net increase in short-term borrowings	10,115	6,964
Dividends paid	(3,404)	(3,392)
Common stock issued	364	220
Proceeds from long-term borrowings	2,000	10,000
Repayments on long-term borrowings	(14,187)	(11,176)
<b>Net Cash (Used in) Provided by Financing Activities</b>	<b>(20,057)</b>	<b>51,172</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(32,158)</b>	<b>41,880</b>
<b>CASH AND CASH EQUIVALENTS BEGINNING</b>	<b>51,385</b>	<b>22,623</b>

Edgar Filing: ACNB CORP - Form 10-Q

<b>CASH AND CASH EQUIVALENTS</b>	<b>ENDING</b>	<b>\$</b>	<b>19,227</b>	<b>\$</b>	<b>64,503</b>
Interest paid		\$	3,505	\$	4,861
Incomes taxes paid		\$	2,225	\$	250
Loans transferred to foreclosed assets held for resale		\$	501	\$	1,812

*The accompanying notes are an integral part of the consolidated financial statements.*

**ACNB CORPORATION**

**ITEM 1 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation**

ACNB Corporation, headquartered in Gettysburg, Pennsylvania, provides banking, insurance, and financial services to businesses and consumers through its wholly-owned subsidiaries, ACNB Bank and Russell Insurance Group, Inc. (RIG). The Bank engages in full-service commercial and consumer banking and trust services through its nineteen retail banking office locations in Adams, Cumberland and York Counties, Pennsylvania. There are also two loan production offices situated in York and Franklin Counties, Pennsylvania.

RIG is a full-service insurance agency based in Westminster, Maryland. The agency offers a broad range of property and casualty, life, and health insurance to both commercial and individual clients. In 2008, due to an agency acquisition, a second location of RIG was established in Germantown, Maryland.

The Corporation, along with seven other banks, entered into a joint venture to form BankersRe Insurance Group, SPC (formerly Pennbanks Insurance Co., SPC), an offshore reinsurance company. Each participating entity owned an insurance cell through which its premiums and losses from credit life, disability, and accident insurance are funded. Each entity was responsible for the activity in its respective cell. The financial activity for the Corporation's insurance cell has been included in the consolidated financial statements and is not material to the consolidated financial statements. The segregated portfolio was novated to a third party during 2012.

The Corporation's primary source of revenue is interest income on loans and investment securities and fee income on its products and services. Expenses consist of interest expense on deposits and borrowed funds, provisions for loan losses, and other operating expenses.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly ACNB Corporation's financial position and the results of operations, comprehensive income, changes in stockholders' equity, and cash flows. All such adjustments are of a normal recurring nature.

The accounting policies followed by the Corporation are set forth in Note A to the Corporation's consolidated financial statements in the 2012 ACNB Corporation Annual Report on Form 10-K, filed with the SEC on March 15, 2013. It is suggested that the consolidated financial statements contained herein be read in conjunction with the consolidated financial statements and notes included in the Corporation's Annual Report on Form 10-K. The results of operations for the three and nine month periods ended September 30, 2013, are not necessarily indicative of the results to be expected for the full year.

The Corporation has evaluated events and transactions occurring subsequent to the statement of condition date of September 30, 2013, for items that should potentially be recognized or disclosed in the consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

2. **Earnings Per Share**

The Corporation has a simple capital structure. Basic earnings per share of common stock is computed based on 5,973,418 and 5,951,102 weighted average shares of common stock outstanding for the nine months ended September 30, 2013 and 2012, respectively, and 5,981,936 and 5,956,380 for the three months ended September 30, 2013 and 2012, respectively. The Corporation does not have dilutive securities outstanding.

3. **Retirement Benefits**

The components of net periodic benefit cost related to the non-contributory, defined benefit pension plan for the three and nine month periods ended September 30 were as follows:

In thousands	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Service cost	\$ 194	\$ 163	\$ 582	\$ 488
Interest cost	223	231	669	694
Expected return on plan assets	(489)	(443)	(1,467)	(1,329)
Amortization of net loss	163			