

ACNB CORP
Form 10-Q
May 04, 2012

**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 **March 31, 2012**

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**

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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 April 27, 2012, was 5,949,415.

PART I - FINANCIAL INFORMATION

ACNB CORPORATION

ITEM 1 - FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CONDITION (UNAUDITED)

Dollars in thousands, except per share data	March 31, 2012	March 31, 2011	December 31, 2011
ASSETS			
Cash and due from banks	\$ 12,259	\$ 11,967	\$ 14,423
Interest bearing deposits with banks	17,943	26,427	8,200
Total Cash and Cash Equivalents	30,202	38,394	22,623
Securities available for sale	206,912	192,092	209,227
Securities held to maturity, fair value \$10,641; \$10,570; \$10,680	10,028	10,041	10,032
Loans held for sale	2,181	112	337
Loans, net of allowance for loan losses \$14,538; \$14,335; \$15,482	687,866	650,043	678,986
Premises and equipment	14,706	13,940	14,483
Restricted investment in bank stocks	6,804	7,999	7,146
Investment in bank-owned life insurance	28,649	27,680	28,411
Investments in low-income housing partnerships	3,677	4,038	3,774
Goodwill	6,308	5,972	6,308
Intangible assets	2,890	3,529	3,049
Foreclosed assets held for resale	4,794	2,729	4,437
Other assets	15,718	19,148	16,010
Total Assets	\$ 1,020,735	\$ 975,717	\$ 1,004,823
LIABILITIES AND STOCKHOLDERS EQUITY			
LIABILITIES			
Deposits:			
Non-interest bearing	\$ 116,011	\$ 114,717	\$ 112,247
Interest bearing	671,946	645,144	670,548
Total Deposits	787,957	759,861	782,795
Short-term borrowings	44,420	31,235	45,962
Long-term borrowings	80,133	81,381	71,191
Other liabilities	9,664	8,203	7,401
Total Liabilities	922,174	880,680	907,349
STOCKHOLDERS EQUITY			
Common stock, \$2.50 par value; 20,000,000 shares authorized; 6,012,015, 5,996,611 and 6,008,409 shares issued; 5,949,415, 5,934,011 and 5,945,809 shares outstanding	15,030	14,991	15,021

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Treasury stock, at cost (62,600 shares)	(728)	(728)	(728)
Additional paid-in capital	9,044	8,859	9,000
Retained earnings	74,632	70,870	73,526
Accumulated other comprehensive income	583	1,045	655
Total Stockholders Equity	98,561	95,037	97,474
Total Liabilities and Stockholders Equity	\$ 1,020,735	\$ 975,717	\$ 1,004,823

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 March 31,	
	2012	2011
INTEREST INCOME		
Loans, including fees	\$ 8,563	\$ 8,623
Securities:		
Taxable	1,335	1,531
Tax-exempt	366	304
Dividends	3	3
Other	4	19
Total Interest Income	10,271	10,480
INTEREST EXPENSE		
Deposits	916	1,136
Short-term borrowings	20	20
Long-term borrowings	695	760
Total Interest Expense	1,631	1,916
Net Interest Income	8,640	8,564
PROVISION FOR LOAN LOSSES	1,125	1,100
Net Interest Income after Provision for Loan Losses	7,515	7,464
OTHER INCOME		
Service charges on deposit accounts	552	563
Income from fiduciary activities	288	373
Earnings on investment in bank-owned life insurance	238	237
Net gains on sales or calls of securities	4	
Service charges on ATM and debit card transactions	309	278
Commissions from insurance sales	1,205	1,205
Other	220	301
Total Other Income	2,816	2,957
OTHER EXPENSES		
Salaries and employee benefits	4,573	4,130
Net occupancy	493	556
Equipment	611	662
Other tax	223	208
Professional services	191	209
Supplies and postage	175	154
Marketing and corporate relations	100	124
FDIC and regulatory	233	405
Intangible assets amortization	160	161
Foreclosed real estate expenses (income)	65	(133)
Other operating	715	743
Total Other Expenses	7,539	7,219
Income before Income Taxes	2,792	3,202

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PROVISION FOR INCOME TAXES		556		742
Net Income	\$	2,236	\$	2,460
PER SHARE DATA				
Basic earnings	\$	0.38	\$	0.41
Cash dividends declared	\$	0.19	\$	0.19

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

ACNB CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

NET INCOME	\$ 2,236	\$ 2,460
OTHER COMPREHENSIVE INCOME (LOSS)		
SECURITIES		
Unrealized losses arising during the period, net of income taxes of \$(92) and \$(86), respectively	(177)	(168)
Reclassification adjustment for net gains included in net income, net of income taxes of \$(1) and \$0, respectively	(3)	
PENSION		
Change in plan assets and benefit obligations, net of income taxes of \$57 and \$17, respectively	108	31
TOTAL OTHER COMPREHENSIVE LOSS	(72)	(137)
TOTAL COMPREHENSIVE INCOME	\$ 2,164	\$ 2,323

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

ACNB CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)

Three Months Ended March 31, 2012 and 2011

Dollars in thousands	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders Equity
BALANCE JANUARY 1, 2011	\$ 14,977	\$ (728)	\$ 8,787	\$ 69,536	\$ 1,182	\$ 93,754
Comprehensive income:						
Net income				2,460		2,460
Other comprehensive loss, net of taxes					(137)	(137)
Total Comprehensive Income						2,323
Common stock shares issued (5,668 shares)	14		72			86
Cash dividends declared				(1,126)		(1,126)
BALANCE MARCH 31, 2011	\$ 14,991	\$ (728)	\$ 8,859	\$ 70,870	\$ 1,045	\$ 95,037
BALANCE JANUARY 1, 2012	\$ 15,021	\$ (728)	\$ 9,000	\$ 73,526	\$ 655	\$ 97,474
Comprehensive income:						
Net income				2,236		2,236
Other comprehensive loss, net of taxes					(72)	(72)
Total Comprehensive Income						2,164
Common stock shares issued (3,606 shares)	9		44			53
Cash dividends declared				(1,130)		(1,130)
BALANCE MARCH 31, 2012	\$ 15,030	\$ (728)	\$ 9,044	\$ 74,632	\$ 583	\$ 98,561

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

ACNB CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Dollars in thousands	Three Months Ended	
	2012	March 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 2,236	\$ 2,460
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sales of loans and foreclosed real estate, net of write-downs on foreclosed real estate	(5)	(327)
Earnings on investment in bank-owned life insurance	(238)	(237)
Gain on sales or calls of securities	(4)	
Depreciation and amortization	510	578
Provision for loan losses	1,125	1,100
Net amortization of investment securities premiums	225	111
Decrease (increase) in interest receivable	19	(260)
Decrease in interest payable	(139)	(33)
Mortgage loans originated for sale	(2,888)	(5,663)
Proceeds from loans sold to others	1,060	8,752
Decrease in other assets	406	253
Increase (decrease) in other liabilities	(332)	482
Net Cash Provided by Operating Activities	1,975	7,216
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investment securities available for sale	16,865	13,938
Purchase of investment securities available for sale	(12,141)	(15,662)
Net increase in loans	(10,522)	(1,154)
Redemption of restricted investment in bank stocks	342	421
Capital expenditures	(574)	(238)
Proceeds from sale of foreclosed real estate	149	5,374
Net Cash Provided by (Used in) Investing Activities	(5,881)	2,679
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand deposits	3,764	11,253
Net increase in time certificates of deposits and interest bearing deposits	1,398	2,082
Net decrease in short-term borrowings	(1,542)	(7,851)
Dividends paid	(1,130)	(1,126)
Common stock issued	53	86
Proceeds from long-term borrowings	10,000	
Repayments on long-term borrowings	(1,058)	(118)
Net Cash Provided by Financing Activities	11,485	4,326
Net Increase in Cash and Cash Equivalents	7,579	14,221
CASH AND CASH EQUIVALENTS BEGINNING	22,623	24,173
CASH AND CASH EQUIVALENTS ENDING	\$ 30,202	\$ 38,394
Interest paid	\$ 1,770	\$ 1,949
Incomes taxes paid	\$	\$
Loans transferred to foreclosed assets held for resale	\$ 517	\$ 50

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 owns an insurance cell through which its premiums and losses from credit life, disability and accident insurance are funded. Each entity is responsible for the activity in its respective cell. The financial activity for the insurance cell has been reported in the consolidated financial statements and is not material to the consolidated financial statements.

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 as of March 31, 2012 and 2011 and December 31, 2011, and the results of operations, comprehensive income, changes in stockholders' equity, and cash flows for the three months ended March 31, 2012 and 2011. 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 2011 ACNB Corporation Annual Report on Form 10-K, filed with the SEC on March 12, 2012. 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 month period ended March 31, 2012, are not necessarily indicative of the results to be expected for the full year.

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The Corporation has evaluated events and transactions occurring subsequent to the statement of condition date of March 31, 2012, 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 5,946,443 and 5,929,351 weighted average shares of common stock outstanding for the three months ended March 31, 2012 and 2011, respectively. The Corporation does not have dilutive securities outstanding.

3. **Retirement Benefits**

The components of net periodic benefit cost (income) related to the non-contributory, defined benefit pension plan for the three month period ended March 31 were as follows:

In thousands	Three Months Ended March 31,	
	2012	2011
Service cost	\$ 163	\$ 143
Interest cost	231	240
Expected return on plan assets	(443)	(457)
Amortization of net loss	153	35
Amortization of transition obligation	2	3
Amortization of prior service cost	10	10
Net Periodic Benefit Cost (Income)	\$ 116	\$ (26)

The Corporation previously disclosed in its consolidated financial statements for the year ended December 31, 2011, that it had not yet determined the amount the Bank plans on contributing to the plan in 2012. As of March 31, 2012, this contribution amount has still not been determined. Effective April 1, 2012, no inactive or former participant in the plan will be eligible to again participate in the plan, and no employee hired after March 31, 2012, will be eligible to participate in the plan.

4. **Guarantees**

The Corporation does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit are written conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued, have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The Corporation generally holds collateral and/or personal guarantees supporting these commitments. The Corporation had \$6,774,000 in standby letters of credit as of March 31, 2012. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The current amount of the liability, as of March 31, 2012, for guarantees under standby letters of credit issued is not material.

5. **Accumulated Other Comprehensive Income**

The components of accumulated other comprehensive income, net of taxes, are as follows:

In thousands		Unrealized Gains on Securities	Pension Liability	Accumulated Other Comprehensive Income
BALANCE	MARCH 31, 2012	\$ 5,816	\$ (5,233)	\$ 583

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BALANCE	DECEMBER 31,						
2011		\$	5,996	\$	(5,341)		
					\$	655	
BALANCE	MARCH 31, 2011	\$	3,755	\$	(2,710)	\$	1,045

6. **Segment Reporting**

Russell Insurance Group, Inc. (RIG) is managed separately from the banking segment, which includes the Bank and related financial services that the Corporation offers. RIG offers a broad range of property and casualty, life and health insurance to both commercial and individual clients.

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Segment information for the three month periods ended March 31, 2012 and 2011, is as follows:

In thousands	Banking	Insurance	Intercompany Eliminations	Total
2012				
Net interest income and other income				
from external customers	\$ 10,263	\$ 1,193	\$	\$ 11,456
Income before income taxes	2,602	190		2,792
Total assets	1,010,248	11,712	(1,225)	1,020,735
Capital expenditures	502	72		574
2011				
Net interest income and other income				
from external customers	\$ 10,320	\$ 1,201	\$	\$ 11,521
Income before income taxes	2,933	269		3,202
Total assets	965,843	11,846	(1,972)	975,717
Capital expenditures	236	2		238

Intangible assets, representing customer lists, are amortized over 10 years on a straight line basis. Goodwill is not amortized, but rather is analyzed annually for impairment. If certain events occur which might indicate goodwill has been impaired, the goodwill is tested for impairment when such events occur. Amortization of goodwill and the intangible assets is deductible for tax purposes.

7. **Securities**

Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported, net of tax, in other comprehensive income (loss).

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses on debt securities, management considers (1) whether management intends to sell the security, or (2) if it is more likely than not that management will be required to sell the security before recovery, or (3) management does not expect to recover the entire amortized cost basis. In assessing potential other-than-temporary impairment for equity securities, consideration is given to management's intention and ability to hold the securities until recovery of unrealized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

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Amortized cost and fair value at March 31, 2012, and December 31, 2011, were as follows:

In thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
MARCH 31, 2012				
U.S. Government and agencies	\$ 34,179	\$ 917	\$	\$ 35,096
Mortgage-backed securities	99,450	5,428	33	104,845
State and municipal	49,746	2,051	80	51,717
Corporate bonds	13,056	328	13	13,371
CRA mutual fund	1,044	38		1,082
Stock in other banks	627	174		801
	\$ 198,102	\$ 8,936	\$ 126	\$ 206,912

DECEMBER 31, 2011				
U.S. Government and agencies	\$ 39,237	\$ 932	\$	\$ 40,169
Mortgage-backed securities	102,059	5,473	5	107,527
State and municipal	44,072	2,250	5	46,317
Corporate bonds	13,105	304	30	13,379
CRA mutual fund	1,044	37		1,081
Stock in other banks	627	127		754
	\$ 200,144	\$ 9,123	\$ 40	\$ 209,227

SECURITIES HELD TO MATURITY				
MARCH 31, 2012				
U.S. Government and agencies	\$ 10,028	\$ 613	\$	\$ 10,641
DECEMBER 31, 2011				
U.S. Government and agencies	\$ 10,032	\$ 648	\$	\$ 10,680

The following table shows the Corporation's gross unrealized losses and fair value for investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2012, and December 31, 2011:

In thousands	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
SECURITIES AVAILABLE FOR SALE						
MARCH 31, 2012						
Mortgage-backed securities	\$ 6,115	\$ 33	\$	\$	\$ 6,115	\$ 33
State and municipal	3,981	80			3,981	80
Corporate bonds			987	13	987	13
	\$ 10,096	\$ 113	\$ 987	\$ 13	\$ 11,083	