

NORWOOD FINANCIAL CORP
Form 10-Q
August 07, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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 June 30, 2015

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 No. 0-28364

NORWOOD FINANCIAL CORP.
(Exact Name of Registrant as Specified in its Charter)

Pennsylvania
(State or Other Jurisdiction of
Incorporation or Organization)

23-2828306
(I.R.S. Employer Identification
No.)

717 Main Street, Honesdale,
Pennsylvania
(Address of Principal Executive Offices)

18431
(Zip Code)

Registrant's Telephone Number, Including Area Code: (570) 253-1455

N/A

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

Indicate by check (x) 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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

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

Class	Outstanding as of July 31, 2015
Common stock, par value \$0.10 per share	3,681,246

NORWOOD FINANCIAL CORP.
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2015

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

NORWOOD FINANCIAL CORP.

Consolidated Balance Sheets (unaudited)

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

	June 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	\$8,505	\$8,081
Interest bearing deposits with banks	11,937	4,295
Cash and cash equivalents	20,442	12,376
Securities available for sale, at fair value	151,304	156,395
Loans receivable	538,870	501,135
Less: Allowance for loan losses	5,947	5,875
Net loans receivable	532,923	495,260
Regulatory stock, at cost	2,240	1,714
Bank premises and equipment, net	6,555	6,734
Bank owned life insurance	18,551	18,284
Accrued interest receivable	2,340	2,339
Foreclosed real estate owned	1,382	3,726
Goodwill	9,715	9,715
Other intangibles	334	389
Deferred tax asset	4,071	3,285
Other assets	1,664	1,418
TOTAL ASSETS	\$751,521	\$711,635
LIABILITIES		
Deposits:		
Non-interest bearing demand	\$107,610	\$98,064
Interest-bearing	468,004	461,880
Total deposits	575,614	559,944
Short-term borrowings	33,842	25,695
Other borrowings	37,211	22,200
Accrued interest payable	988	966
Other liabilities	3,948	3,789
TOTAL LIABILITIES	651,603	612,594
STOCKHOLDERS' EQUITY		
Common stock, \$.10 par value per share, authorized 10,000,000 shares; issued 3,718,018 shares	372	372
Surplus	35,268	35,206
Retained earnings	65,797	64,078
Treasury stock at cost: 2015: 37,162 shares, 2014: 40,576 shares	(997)	(1,077)

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Accumulated other comprehensive (loss) income	(522)	462
TOTAL STOCKHOLDERS' EQUITY	99,918		99,041
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$751,521		\$711,635

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.

Consolidated Statements of Income (unaudited)

(dollars in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
INTEREST INCOME				
Loans receivable, including fees	\$5,924	\$5,933	\$11,985	\$11,913
Securities	950	1,025	1,974	2,013
Other	8	2	12	2
Total interest income	6,882	6,960	13,971	13,928
INTEREST EXPENSE				
Deposits	618	618	1,222	1,253
Short-term borrowings	16	20	29	42
Other borrowings	199	167	364	333
Total interest expense	833	805	1,615	1,628
NET INTEREST INCOME	6,049	6,155	12,356	12,300
PROVISION FOR LOAN LOSSES	420	420	1,040	840
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,629	5,735	11,316	11,460
OTHER INCOME				
Service charges and fees	622	583	1,194	1,159
Income from fiduciary activities	109	99	215	203
Net realized gains on sales of securities	134	509	445	603
Gains on sale of loans and servicing rights, net	12	26	30	66
Earnings and proceeds on bank owned life insurance	166	175	330	343
Other	90	76	198	147
Total other income	1,133	1,468	2,412	2,521
OTHER EXPENSES				
Salaries and employee benefits	2,071	2,172	4,208	4,336
Occupancy, furniture & equipment, net	542	518	1,098	1,096
Data processing related	201	229	435	441
Taxes, other than income	175	161	350	326
Professional fees	124	174	307	340
Federal Deposit Insurance Corporation insurance assessment	65	102	159	216
Foreclosed real estate owned	232	396	390	461
Amortization of intangibles	27	31	56	64
Other	731	690	1,352	1,325
Total other expenses	4,168	4,473	8,355	8,605
INCOME BEFORE INCOME TAXES	2,594	2,730	5,373	5,376
INCOME TAX EXPENSE	631	696	1,369	1,378
NET INCOME	\$1,963	\$2,034	\$4,004	\$3,998

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BASIC EARNINGS PER SHARE	\$0.53	\$0.56	\$1.09	\$1.10
DILUTED EARNINGS PER SHARE	\$0.53	\$0.56	\$1.08	\$1.10

See accompanying notes to the unaudited consolidated financial statements.

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NORWOOD FINANCIAL CORP.
 Consolidated Statements of Comprehensive Income (unaudited)
 (dollars in thousands)

	Three Months Ended June 30,	
	2015	2014
Net income	\$1,963	\$2,034
Other comprehensive (loss) income:		
Investment securities available for sale:		
Unrealized holding gains (losses)	(2,037)	2,032
Tax effect	693	(691)
Reclassification of gains recognized in net income	(134)	(509)
Tax effect	45	173
Other comprehensive (loss) income:	(1,433)	1,005
Comprehensive Income	\$530	\$3,039

	Six Months Ended June 30,	
	2015	2014
Net income	\$4,004	\$3,998
Other comprehensive (loss) income:		
Investment securities available for sale:		
Unrealized holding gains (losses)	(1,048)	4,556
Tax effect	358	(1,551)
Reclassification of gains recognized in net income	(445)	(603)
Tax effect	151	205
Other comprehensive (loss) income:	(984)	2,607
Comprehensive Income	\$3,020	\$6,605

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.

Consolidated Statements of Changes in Stockholders' Equity (unaudited)

Six Months Ended June 30, 2015

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

	Common Stock		Surplus	Retained	Treasury Stock		Accumulated Other Comprehensive Income	Total
	Shares	Amount		Earnings	Shares	Amount	(Loss)	
Balance December 31, 2014	3,718,018	\$ 372	\$ 35,206	\$ 64,078	40,576	\$ (1,077)	\$ 462	\$ 99,041
Net Income				4,004				4,004
Other comprehensive loss							(984)	(984)
Cash dividends declared (\$.62 per share)				(2,285)				(2,285)
Compensation expense related to restricted stock			27					27
Acquisition of treasury stock					4,374	(127)		(127)
Stock options exercised			(7)		(7,788)	207		200
Tax benefit of stock options			9					9
Compensation expense related to stock options			33					33
Balance, June 30, 2015	3,718,018	\$ 372	\$ 35,268	\$ 65,797	37,162	\$ (997)	\$ (522)	\$ 99,918

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.
Consolidated Statements of Cash Flows (Unaudited)

(dollars in thousands)

	Six Months Ended June 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$4,004	\$3,998
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,040	840
Depreciation	277	294
Amortization of intangible assets	56	64
Deferred income taxes	(279)	(291)
Net amortization of securities premiums and discounts	475	424
Net realized gain on sales of securities	(445)	(603)
Earnings and proceeds on bank owned life insurance	(330)	(343)
Loss on sale of foreclosed real estate	275	159
Gain on sale of mortgage loans	(40)	(72)
Mortgage loans originated for sale	(1,803)	(2,228)
Proceeds from sale of mortgage loans originated for sale	1,843	2,300
Compensation expense related to stock options	33	80
Compensation expense related to restricted stock	27	-
Increase in accrued interest receivable and other assets	(145)	(409)
Increase in accrued interest payable and other liabilities	140	443
Net cash provided by operating activities	5,128	4,656
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities available for sale:		
Proceeds from sales	23,384	31,865
Proceeds from maturities and principal reductions on mortgage-backed securities	12,377	8,001
Purchases	(32,193)	(32,528)
Proceeds from maturities on securities held to maturity	-	175
Purchase of regulatory stock	(768)	(751)
Redemption of regulatory stock	242	1,191
Net increase in loans	(38,970)	(3,730)
Proceeds from life insurance policies	-	75
Purchase of premises and equipment	(99)	(79)
Proceeds from sale of foreclosed real estate	2,299	140
Net cash (used in) provided by investing activities	(33,728)	4,359
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	15,670	13,532
Net increase (decrease) in short-term borrowings	8,147	(11,905)
Repayments of other borrowings	(989)	(778)
Proceeds from other borrowings	16,000	-
Stock options exercised	200	14

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Tax benefit of stock options exercised	9	1
Purchase of treasury stock	(127)	(179)
Cash dividends paid	(2,244)	(2,185)
Net cash provided by (used in) financing activities	36,666	(1,500)
Increase in cash and cash equivalents	8,066	7,515
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	12,376	7,863
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$20,442	\$15,378

See accompanying notes to the unaudited consolidated financial statements.

NORWOOD FINANCIAL CORP.
 Consolidated Statements of Cash Flows (Unaudited) (continued)

(dollars in thousands)

	Six Months Ended June 30,	
	2015	2014
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest on deposits and borrowings	\$1,593	\$1,713
Income taxes paid, net of refunds	1,431	1,337
Supplemental Schedule of Noncash Investing Activities		
Transfers of loans to foreclosed real estate and repossession of other assets	\$251	\$3,583
Cash dividends declared	1,141	1,091

See accompanying notes to the unaudited consolidated financial statements.

Notes to the Unaudited Consolidated Financial Statements

1. Basis of Presentation

The unaudited consolidated financial statements include the accounts of Norwood Financial Corp. (Company) and its wholly-owned subsidiary, Wayne Bank (Bank) and the Bank's wholly-owned subsidiaries, WCB Realty Corp., Norwood Investment Corp., Norwood Settlement Services, LLC, and WTRO Properties, Inc. All significant intercompany transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in conformity with generally accepted accounting principles for interim financial statements and with instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. The financial statements reflect, in the opinion of management, all normal, recurring adjustments necessary to present fairly the financial position and results of operations of the Company. The operating results for the three and six month periods ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015 or any other future interim period.

These statements should be read in conjunction with the consolidated financial statements and related notes which are incorporated by reference in the Company's Annual Report on Form 10-K for the year-ended December 31, 2014.

2. Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method.

The following table sets forth the weighted average shares outstanding used in the computations of basic and diluted earnings per share.

(in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Basic EPS weighted average shares outstanding	3,680	3,643	3,680	3,643
Dilutive effect of stock options	11	10	11	10
Diluted EPS weighted average shares outstanding	3,691	3,653	3,691	3,653

Stock options which had no intrinsic value, because their effect would be anti-dilutive and therefore would not be included in the diluted EPS calculation, were 20,700 as of June 30, 2014 based upon the closing price of Norwood common stock of \$28.50 per share on June 30, 2014. There was no anti-dilutive effect at June 30, 2015.

3. Stock-Based Compensation

No awards were granted during the six month period ending June 30, 2015. As of June 30, 2015, there was \$33,000 of total unrecognized compensation cost related to non-vested stock options granted in 2014 under the 2014 Stock Option Plan, which will be fully amortized by December 31, 2015. Total compensation cost related to stock options during the six month period ending June 30, 2015 was \$33,000.

A summary of stock options from all plans, adjusted for stock dividends declared, is shown below.

	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000)
Outstanding at January 1, 2015	206,463	\$ 26.74	5.7Yrs.	\$ 478
Granted	-	-	-	-
Exercised	(7,788)	25.71	5.2	-
Forfeited	(9,583)	27.02	4.5	-
Outstanding at June 30, 2015	189,092	\$ 26.77	5.2	\$ 483
Exercisable at June 30, 2015	177,092	\$ 26.61	5.0 Yrs.	\$ 480

Intrinsic value represents the amount by which the market price of the stock on the measurement date exceeded the exercise price of the option. The stock price was \$29.32 as of June 30, 2015 and \$29.05 as of December 31, 2014.

A summary of the Company's restricted stock activity and related information for the six month period ended June 30, 2015 is as follows:

	Number of Restricted Stock	Weighted-Average Grant Date Fair Value
Outstanding, January 1, 2015	9,300	\$ 29.08
Granted	-	-
Vested	-	-
Forfeited	-	-
Non-vested at June 30, 2015	9,300	\$ 29.08

The expected future compensation expense relating to the 9,300 shares of non-vested restricted stock outstanding as of June 30, 2015 is \$243,000 to be recognized over the next 4.5 years. Total compensation cost related to restricted stock during the six month period ending June 30, 2015 was \$27,000.

4. Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in accumulated other comprehensive income (in thousands) by component net of tax for the three months and six months ended June 30, 2015 and 2014:

	Unrealized gains (losses) on available for sale securities (a)	
Balance as of December 31, 2014	\$	462
Other comprehensive loss before reclassification		(690)
Amount reclassified from accumulated other comprehensive income (loss)		(294)
Total other comprehensive loss		(984)
Balance as of June 30, 2015	\$	(522)

	Unrealized gains (losses) on available for sale securities (a)	
Balance as of December 31, 2013	\$	(2,602)
Other comprehensive income before reclassification		3,005
Amount reclassified from accumulated other comprehensive income (loss)		(398)
Total other comprehensive income		2,607
Balance as of June 30, 2014	\$	5

	Unrealized gains (losses) on available for sale securities (a)	
Balance as of March 31, 2015	\$	911
Other comprehensive loss before reclassification		(1,344)
Amount reclassified from accumulated other comprehensive income (loss)		(89)
Total other comprehensive loss		(1,433)
Balance as of June 30, 2015	\$	(522)

	Unrealized gains (losses) on available for sale securities (a)	
Balance as of March 31, 2014	\$	(1,000)
Other comprehensive income before reclassification		1,341
Amount reclassified from accumulated other comprehensive income (loss)		(336)
Total other comprehensive income		1,005
Balance as of June 30, 2014	\$	5

(a) All amounts are net of tax. Amounts in parentheses indicate debits.

The following table presents significant amounts reclassified out of each component of accumulated other comprehensive income (loss) (in thousands) for the three and six months ended June 30, 2015 and 2014:

Details about other comprehensive income (loss)	Amount Reclassified From Accumulated Other Comprehensive Income (loss) (a)		Affected Line Item in the Statement Where Net Income is Presented		
	Three months ended June 30,		Six months ended June 30,		
	2015	2014	2015	2014	
Unrealized gains on available for sale securities	\$ 134	\$ 509	\$ 445	\$ 603	Net realized gains on sales of securities
	(45)	(173)	(151)	(205)	Income tax expense
	\$ 89	\$ 336	\$ 294	\$ 398	Net of tax

(a) Amounts in parentheses indicate debits to net income

5. Off-Balance Sheet Financial Instruments and Guarantees

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

A summary of the Bank's financial instrument commitments is as follows:

(in thousands)	June 30,	
	2015	2014
Unfunded availability under loan commitments	\$18,772	\$22,851
Unfunded commitments under lines of credit	45,026	43,019
Standby letters of credit	5,769	5,668
	\$69,567	\$71,538

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer and generally consists of real estate.

The Bank does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit written are conditional commitments issued by the Bank 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 Bank, generally, holds collateral and/or personal guarantees supporting these commitments. 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 June 30, 2015 for guarantees under standby letters of credit issued is not material.

6. Securities

The amortized cost and fair value of securities were as follows:

	Amortized Cost	June 30, 2015		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Available for Sale:				
U.S. Government agencies	\$24,068	\$70	\$(146)	) \$23,992
States and political subdivisions	59,973	848	(919)	) 59,902
Corporate obligations	4,988	73	(9)	) 5,052
Mortgage-backed securities- government sponsored entities	62,766	92	(885)	) 61,973
Total debt securities	151,795	1,083	(1,959)	) 150,919
Equity securities-financial services	292	93	-	) 385
	\$152,087	\$1,176	\$(1,959)	) \$151,304

		December 31, 2014		
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	

(In Thousands)

Available for Sale:				
U.S. Government agencies	\$29,289	\$42	\$(356)	) \$28,975
States and political subdivisions	52,685	1,750	(103)	) 54,332
Corporate obligations	6,387	110	(11)	) 6,486
Mortgage-backed securities-government sponsored entities	67,032	109	(937)	) 66,204
Total debt securities	155,393	2,011	(1,407)	) 155,997
Equity securities-financial services	292			