

PENNS WOODS BANCORP INC
Form 10-Q
November 09, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

ý Quarterly Report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
for the Quarterly Period Ended September 30, 2015.

o Transition report pursuant to Section 13 or 15 (d) of the Exchange Act

For the Transition Period from _____ to _____.

No. 0-17077
(Commission File Number)

PENNS WOODS BANCORP, INC.
(Exact name of Registrant as specified in its charter)
PENNSYLVANIA
(State or other jurisdiction of
incorporation or organization)

23-2226454
(I.R.S. Employer
Identification No.)

300 Market Street, P.O. Box 967 Williamsport,
Pennsylvania
(Address of principal executive offices)

17703-0967
(Zip Code)

(570) 322-1111
Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ý NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ý NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer
Non-accelerated filer

Accelerated filer
Small 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

On November 1, 2015 there were 4,746,728 shares of the Registrant's common stock outstanding.

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PENNS WOODS BANCORP, INC.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

PENNS WOODS BANCORP, INC.
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

(In Thousands, Except Share Data)	September 30, 2015	December 31, 2014
ASSETS:		
Noninterest-bearing balances	\$ 17,304	\$ 19,403
Interest-bearing balances in other financial institutions	951	505
Total cash and cash equivalents	18,255	19,908
Investment securities, available for sale, at fair value	202,593	232,213
Investment securities, trading	63	—
Loans held for sale	1,029	550
Loans	1,001,653	915,579
Allowance for loan losses	(11,489	) (10,579
Loans, net	990,164	905,000
Premises and equipment, net	21,433	21,109
Accrued interest receivable	4,093	3,912
Bank-owned life insurance	26,499	25,959
Investment in limited partnerships	1,064	1,560
Goodwill	17,104	17,104
Intangibles	1,316	1,456
Deferred tax asset	8,618	8,101
Other assets	7,061	8,139
TOTAL ASSETS	\$ 1,299,292	\$ 1,245,011
LIABILITIES:		
Interest-bearing deposits	\$ 756,953	\$ 738,041
Noninterest-bearing deposits	247,848	243,378
Total deposits	1,004,801	981,419
Short-term borrowings	51,690	40,818
Long-term borrowings	91,051	71,176
Accrued interest payable	460	381
Other liabilities	15,713	15,250
TOTAL LIABILITIES	1,163,715	1,109,044
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value, 3,000,000 shares authorized; no shares issued	—	—
Common stock, par value \$8.33, 15,000,000 shares authorized; 5,004,372 and 5,002,649 shares issued	41,702	41,688
Additional paid-in capital	49,959	49,896
Retained earnings	56,523	53,107
Accumulated other comprehensive loss:		
Net unrealized gain on available for sale securities	1,418	2,930
Defined benefit plan	(4,518) (4,597

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Treasury stock at cost, 254,144 and 197,834 shares	(9,507) (7,057)
TOTAL SHAREHOLDERS' EQUITY	135,577	135,967	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,299,292	\$1,245,011	

See accompanying notes to the unaudited consolidated financial statements.

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

(In Thousands, Except Per Share Data)	Three Months Ended		Nine Months Ended	
	September 30, 2015	2014	September 30, 2015	2014
INTEREST AND DIVIDEND INCOME:				
Loans, including fees	\$9,862	\$9,298	\$28,937	\$27,023
Investment securities:				
Taxable	829	1,198	2,728	4,062
Tax-exempt	676	837	2,187	2,660
Dividend and other interest income	156	127	597	401
TOTAL INTEREST AND DIVIDEND INCOME	11,523	11,460	34,449	34,146
INTEREST EXPENSE:				
Deposits	800	748	2,328	2,247
Short-term borrowings	31	5	78	32
Long-term borrowings	458	489	1,476	1,431
TOTAL INTEREST EXPENSE	1,289	1,242	3,882	3,710
NET INTEREST INCOME	10,234	10,218	30,567	30,436
PROVISION FOR LOAN LOSSES	520	460	1,820	1,245
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	9,714	9,758	28,747	29,191
NON-INTEREST INCOME:				
Service charges	621	620	1,772	1,822
Net securities gains, available for sale	526	2,145	1,713	3,025
Net securities losses, trading	(33)	—	(37)	—
Bank-owned life insurance	182	185	541	736
Gain on sale of loans	524	602	1,305	1,313
Insurance commissions	185	212	623	915
Brokerage commissions	297	282	836	804
Other	835	878	2,701	2,449
TOTAL NON-INTEREST INCOME	3,137	4,924	9,454	11,064
NON-INTEREST EXPENSE:				
Salaries and employee benefits	4,302	4,126	13,073	12,796
Occupancy	529	547	1,721	1,729
Furniture and equipment	686	591	1,924	1,910
Pennsylvania shares tax	244	232	711	738
Amortization of investment in limited partnerships	165	165	496	496
Federal Deposit Insurance Corporation deposit insurance	209	193	654	572
Marketing	160	144	434	380
Intangible amortization	73	82	235	263
Other	2,162	2,233	6,171	6,494
TOTAL NON-INTEREST EXPENSE	8,530	8,313	25,419	25,378
INCOME BEFORE INCOME TAX PROVISION	4,321	6,369	12,782	14,877
INCOME TAX PROVISION	957	1,576	2,630	3,152
NET INCOME	\$3,364	\$4,793	\$10,152	\$11,725
EARNINGS PER SHARE - BASIC AND DILUTED	\$0.71	\$0.99	\$2.12	\$2.43
	4,761,576	4,820,346	4,780,776	4,820,041

WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC
AND DILUTED

DIVIDENDS DECLARED PER SHARE	\$0.47	\$0.47	\$1.41	\$1.41
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See accompanying notes to the unaudited consolidated financial statements.

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

(In Thousands)	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
	2015	2014	2015	2014	
Net Income	\$3,364	\$4,793	\$10,152	\$11,725	
Other comprehensive income (loss):					
Change in unrealized gain (loss) on available for sale securities	592	863	(579)	) 10,121
Tax effect	(201) (293) 198	(3,442)
Net realized gain included in net income	(526) (2,145) (1,713) (3,025)
Tax effect	179	729	582	1,029	
Amortization of unrecognized pension and post-retirement items	39	—	119	—	
Tax effect	(13	) —	(40) —	
Total other comprehensive income (loss)	70	(846	) (1,433	) 4,683
Comprehensive income	\$3,434	\$3,947	\$8,719	\$16,408	

See accompanying notes to the unaudited consolidated financial statements.

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

(In Thousands, Except Per Share Data)	COMMON STOCK			ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED		TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT				OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	
Balance, December 31, 2013	4,999,929	\$41,665	\$49,800	\$47,554	\$ (4,894)	\$ (6,310)	\$ 127,815	
Net income				11,725			11,725	
Other comprehensive income					4,683		4,683	
Dividends declared, (\$1.41 per share)				(6,797)			(6,797)	
Common shares issued for employee stock purchase plan	2,043	17	71				88	
Purchase of treasury stock (11,744 shares)						(510)	(510)	
Balance, September 30, 2014	5,001,972	\$41,682	\$49,871	\$52,482	\$ (211)	\$ (6,820)	\$ 137,004	

(In Thousands, Except Per Share Data)	COMMON STOCK			ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED		TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT				OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	
Balance, December 31, 2014	5,002,649	\$41,688	\$49,896	\$53,107	\$ (1,667)	\$ (7,057)	\$ 135,967	
Net income				10,152			10,152	
Other comprehensive loss					(1,433)		(1,433)	
Dividends declared, (\$1.41 per share)				(6,736)			(6,736)	
Common shares issued for employee stock purchase plan	1,723	14	63				77	
Purchase of treasury stock (56,310 shares)						(2,450)	(2,450)	
Balance, September 30, 2015	5,004,372	\$41,702	\$49,959	\$56,523	\$ (3,100)	\$ (9,507)	\$ 135,577	

See accompanying notes to the unaudited consolidated financial statements.

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

(In Thousands)	Nine Months Ended September 30,	
	2015	2014
OPERATING ACTIVITIES:		
Net Income	\$ 10,152	\$ 11,725
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,478	2,351
Amortization of intangible assets	235	263
Provision for loan losses	1,820	1,245
Accretion and amortization of investment security discounts and premiums	644	509
Net securities gains, available for sale	(1,713	) (3,025
Originations of loans held for sale	(41,762	) (38,703
Proceeds of loans held for sale	42,588	40,040
Gain on sale of loans	(1,305	) (1,313
Net securities losses, trading	37	—
Proceeds from the sale of trading securities	490	—
Purchases of trading securities	(590) —
Earnings on bank-owned life insurance	(541	) (736
Decrease in deferred tax asset	262	440
Other, net	(1,486	) 309
Net cash provided by operating activities	11,309	13,105
INVESTING ACTIVITIES:		
Proceeds from sales of available for sale securities	43,051	98,815
Proceeds from calls and maturities of available for sale securities	14,832	5,731
Purchases of available for sale securities	(26,916	) (39,774
Net increase in loans	(87,324	) (74,874
Acquisition of premises and equipment	(1,491	) (2,459
Proceeds from the sale of foreclosed assets	1,613	534
Purchase of bank-owned life insurance	(30	) (30
Proceeds from bank-owned life insurance death benefit	—	367
Proceeds from redemption of regulatory stock	8,801	1,654
Purchases of regulatory stock	(10,518	) (1,837
Net cash used for investing activities	(57,982	) (11,873
FINANCING ACTIVITIES:		
Net increase in interest-bearing deposits	18,912	915
Net increase in noninterest-bearing deposits	4,470	15,211
Proceeds from long-term borrowings	30,625	—
Repayment of long-term borrowings	(10,750) —
Net increase (decrease) in short-term borrowings	10,872	(9,503
Dividends paid	(6,736	) (6,797
Issuance of common stock	77	88
Purchases of treasury stock	(2,450	) (510
Net cash provided by (used for) provided by financing activities	45,020	(596
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,653) 636
CASH AND CASH EQUIVALENTS, BEGINNING	19,908	24,606

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CASH AND CASH EQUIVALENTS, ENDING	\$18,255	\$25,242
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	\$3,803	\$3,704
Income taxes paid	2,000	2,415
Transfer of loans to foreclosed real estate	340	352

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

Note 1. Basis of Presentation

The consolidated financial statements include the accounts of Penns Woods Bancorp, Inc. (the “Company”) and its wholly-owned subsidiaries: Woods Investment Company, Inc., Woods Real Estate Development Company, Inc., Luzerne Bank, and Jersey Shore State Bank (Jersey Shore State Bank and Luzerne Bank are referred to together as the “Banks”) and Jersey Shore State Bank’s wholly-owned subsidiary, The M Group, Inc. D/B/A The Comprehensive Financial Group (“The M Group”). All significant inter-company balances and transactions have been eliminated in the consolidation.

The interim financial statements are unaudited, but in the opinion of management reflect all adjustments necessary for the fair presentation of results for such periods. The results of operations for any interim period are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

The accounting policies followed in the presentation of interim financial results are the same as those followed on an annual basis. These policies are presented on pages 39 through 45 of the Form 10-K for the year ended December 31, 2014.

In reference to the attached financial statements, all adjustments are of a normal recurring nature pursuant to Rule 10-01(b) (8) of Regulation S-X.

Note 2. Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) by component as of September 30, 2015 and 2014 were as follows:

(In Thousands)	Three Months Ended September 30, 2015			Three Months Ended September 30, 2014		
	Net Unrealized Gain on Available for Sale Securities	Defined Benefit Plan	Total	Net Unrealized Gain (Loss) on Available for Sale Securities	Defined Benefit Plan	Total
Beginning balance	\$ 1,374	\$(4,544)	\$(3,170)	\$ 3,360	\$(2,725)	\$ 635
Other comprehensive income before reclassifications	391	—	391	570	—	570
Amounts reclassified from accumulated other comprehensive (loss) income	(347)	26	(321)	(1,416)	—	(1,416)
Net current-period other comprehensive income (loss)	44	26	70	(846)	—	(846)
Ending balance	\$ 1,418	\$(4,518)	\$(3,100)	\$ 2,514	\$(2,725)	\$(211)

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(In Thousands)	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014		
	Net Unrealized Gain (Loss) on Available for Sale Securities	Defined Benefit Plan	Total	Net Unrealized Gain (Loss) on Available for Sale Securities	Defined Benefit Plan	Total
Beginning balance	\$2,930	\$(4,597)	\$(1,667)	\$(2,169)	\$(2,725)	\$(4,894)
Other comprehensive (loss) income before reclassifications	(381)	—	(381)	6,679	—	6,679
Amounts reclassified from accumulated other comprehensive (loss) income	(1,131)	79	(1,052)	(1,996)	—	(1,996)
Net current-period other comprehensive (loss) income	(1,512)	79	(1,433)	4,683	—	4,683
Ending balance	\$1,418	\$(4,518)	\$(3,100)	\$2,514	\$(2,725)	\$(211)

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The reclassifications out of accumulated other comprehensive income (loss) as of September 30, 2015 and 2014 were as follows:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Consolidated Statement of Income
	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	
Net unrealized gain on available for sale securities	\$ 526	\$ 2,145	Net securities gains, available for sale
Income tax effect	(179)	(729)	Income tax provision
Total reclassifications for the period	\$ 347	\$ 1,416	Net of tax
Net unrecognized pension costs	\$ (39)	\$ —	Salaries and employee benefits
Income tax effect	13	—	Income tax provision
Total reclassifications for the period	\$ (26)	\$ —	Net of tax
Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Consolidated Statement of Income
	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014	
Net unrealized gain on available for sale securities	\$ 1,713	\$ 3,025	Net securities gains, available for sale
Income tax effect	(582)	(1,029)	Income tax provision
Total reclassifications for the period	\$ 1,131	\$ 1,996	Net of tax
Net unrecognized pension costs	\$ (119)	\$ —	Salaries and employee benefits
Income tax effect	40	—	Income tax provision
Total reclassifications for the period	\$ (79)	\$ —	Net of tax

Note 3. Recent Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-01, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects. The amendments in this update permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this update should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply

the effective yield method for those preexisting investments. The amendments in this update are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. This update did not have an impact on the Company's financial statements.

In January 2014, the FASB issued ASU 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The amendments in this update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor, and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. An entity can elect to adopt the amendments in this update using either a modified retrospective transition method or a prospective transition method. The Company has provided the necessary disclosures in Note 6. Loans.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (a new revenue recognition standard). The updates core principle is that a company will recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, this update specifies the accounting for certain costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognition. This update is effective for annual reporting periods beginning after December 15, 2016,

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including interim periods within that reporting period. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operation.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The amendments in this update change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. For repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The amendments also require enhanced disclosures. The accounting changes in this update are effective for the first interim or annual period beginning after December 15, 2014. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Earlier application is prohibited. The disclosure for certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning after December 15, 2014, and the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The disclosures are not required to be presented for comparative periods before the effective date. This update did not have an impact on the Company's financial statements.

In June 2014, the FASB issued ASU 2014-12, Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments when the Terms of an Award Provide that a Performance Target Could Be Achieved After the Requisite Service Period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The amendments in this update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. Entities may apply the amendments in this update either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. If retrospective transition is adopted, the cumulative effect of applying this update as of the beginning of the earliest annual period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that date. Additionally, if retrospective transition is adopted, an entity may use hindsight in measuring and recognizing the compensation cost. This update is not expected to have a significant impact on the Company's financial statements.

In August 2014, the FASB issued ASU 2014-14, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40). The amendments in this update require that a mortgage loan be de-recognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. This update did not have an impact on the Company's financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40). The amendments in this update provide guidance in accounting principles generally accepted in the United States of America about management's responsibility to evaluate whether there is substantial doubt about an entity's

ability to continue as a going concern and to provide related footnote disclosures. The amendments in this update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. This update is not expected to have a significant impact on the Company's financial statements.

In November 2014, the FASB issued ASU 2014-17, Business Combinations (Topic 805): Pushdown Accounting. The amendments in this update apply to the separate financial statements of an acquired entity and its subsidiaries that are a business or nonprofit activity (either public or nonpublic) upon the occurrence of an event in which an acquirer (an individual or an entity) obtains control of the acquired entity. An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. If pushdown accounting is not applied in the reporting period in which the change-in-control event occurs, an acquired entity will have the option to elect to apply pushdown accounting in a subsequent reporting period to the acquired entity's most recent change-in-control event. The amendments in this update are effective on November 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. This update is not expected to have a significant impact on the Company's financial statements.

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In January 2015, the FASB issued ASU 2015-01, Income Statement -Extraordinary and Unusual Items, as part of its initiative to reduce complexity in accounting standards. This update eliminates from GAAP the concept of extraordinary items. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. This update is not expected to have a significant impact on the Company's financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810). The amendments in this update affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments (1) Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; (2) Eliminate the presumption that a general partner should consolidate a limited partnership; (3) Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; (4) Provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments in this update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30), as part of its initiative to reduce complexity in accounting standards. To simplify presentation of debt issuance costs, the amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. For public business entities, the amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. An entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. This update is not expected to have a significant impact on the Company's financial statements.

In April 2015, the FASB issued ASU 2015-04, Compensation-Retirement Benefits (Topic 715), as part of its initiative to reduce complexity in accounting standards. For an entity with a fiscal year-end that does not coincide with a month-end, the amendments in this update provide a practical expedient that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end and apply that practical expedient consistently from year to year. The practical expedient should be applied consistently to all plans if an entity has more than one plan. The amendments in this update are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Earlier application is permitted. This update is not expected to have a significant impact on the Company's financial statements.

In April 2015, the FASB issued ASU 2015-05, Intangible - Goodwill and Other Internal Use Software (Topic 350-40), as part of its initiative to reduce complexity in accounting standards. This guidance will help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The amendments in this update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does

not include a software license, the customer should account for the arrangement as a service contract. For public business entities, the Board decided that the amendments will be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted for all entities. This update is not expected to have a significant impact on the Company's financial statements.

In May 2015, the FASB issued ASU 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). The update applies to reporting entities that elect to measure the fair value of an investment using the net asset value per share (or its equivalent) practical expedient. Under the amendments in this update, investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient should not be categorized in the fair value hierarchy. Removing those investments from the fair value hierarchy not only eliminates the diversity in practice resulting from the way in which investments measured at net asset value per share (or its equivalent) with future redemption dates are classified, but also ensures that all investments categorized in the fair value hierarchy are classified using a consistent approach. Investments that calculate net asset value per share (or its equivalent), but for which the practical expedient is not applied will continue to be included in the fair value hierarchy. A reporting entity should continue to disclose information on investments for which fair value is measured at net asset value (or its equivalent) as a practical expedient to help users understand the nature and

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risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from net asset value. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this update are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. The retrospective approach requires that an investment for which fair value is measured using the net asset value per share practical expedient be removed from the fair value hierarchy in all periods presented in an entity's financial statements. Earlier application is permitted. This update is not expected to have a significant impact on the Company's financial statements.

In May 2015, the FASB issued ASU 2015-08, Business Combinations - Pushdown Accounting - Amendment to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115. This ASU was issued to amend various SEC paragraphs pursuant to the issuance of Staff Accounting Bulletin No. 115. This update is not expected to have a significant impact on the Company's financial statements.

In June 2015, the FASB issued ASU 2015-10, Technical Corrections and Improvements. The amendments in this update represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. Transition guidance varies based on the amendments in this update. The amendments in this update that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. All other amendments will be effective upon the issuance of this update. This update is not expected to have a significant impact on the Company's financial statements.

In August 2015, the FASB issued ASU 2015-14, Revenue from Contract with Customers (Topic 606). The amendments in this update defer the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The Company is evaluating the effect of adopting this new accounting update.

In August 2015, the FASB issued ASU 2015-15, Interest-Imputation of Interest (Subtopic 835-30) Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting. This ASU adds SEC paragraphs pursuant to the SEC Staff Announcement at the June 18, 2015 Emerging Issues Task Force meeting about the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. This update is not expected to have a significant impact on the Company's financial statements.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805). The amendments in this update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this update require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this update require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. This update is not expected to have a significant impact on the Company's financial statements.

Note 4. Per Share Data

There are no convertible securities which would affect the denominator in calculating basic and dilutive earnings per share. There are 38,750 stock options outstanding, however, since the strike price of \$42.03 is greater than the market price the options are not included in the denominator when calculating basic and dilutive earnings per share. Net income as presented on the consolidated statement of income will be used as the numerator. The following table sets forth the composition of the weighted average common shares (denominator) used in the basic and dilutive earnings per share computation.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Weighted average common shares issued	5,003,979	5,001,505	5,003,396	5,000,827
Average treasury stock shares	(242,403)	(181,159)	(222,620)	(180,786)
Weighted average common shares and common stock equivalents used to calculate basic and diluted earnings per share	4,761,576	4,820,346	4,780,776	4,820,041

Note 5. Investment Securities

The amortized cost and fair values of investment securities available for sale at September 30, 2015 and December 31, 2014 are as follows:

(In Thousands)	September 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale (AFS)				
U.S. Government and agency securities	\$3,588	\$—	\$(21)	\$3,567
Mortgage-backed securities	10,261	337	(21)	10,577
Asset-backed securities	2,086	—	(27)	2,059
State and political securities	90,029	1,999	(391)	91,637
Other debt securities	79,030	1,084	(1,272)	78,842
Total debt securities	184,994	3,420	(1,732)	186,682
Financial institution equity securities	10,362	943	(32)	11,273
Other equity securities	5,089	11	(462)	4,638
Total equity securities	15,451	954	(494)	15,911
Total investment securities AFS	\$200,445	\$4,374	\$(2,226)	\$202,593
	December 31, 2014			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale (AFS)				
U.S. Government and agency securities	\$3,953	\$—	\$(112)	\$3,841
Mortgage-backed securities	12,240	485	(28)	12,697
Asset-backed securities	2,468	27	(3)	2,492
State and political securities	104,820	3,885	(589)	108,116
Other debt securities	89,911	1,031	(1,299)	89,643
Total debt securities	213,392	5,428	(2,031)	216,789
Financial institution equity securities	8,823	1,110	(18)	9,915
Other equity securities	5,558	79	(128)	5,509
Total equity securities	14,381	1,189	(146)	15,424
Total investment securities AFS	\$227,773	\$6,617	\$(2,177)	\$232,213

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The amortized cost and fair values of trading investment securities at September 30, 2015 are as follows. There were no trading securities at December 31, 2014.

(In Thousands)	September 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Trading				
Financial institution equity securities	\$78	\$—	\$(15	) \$63
Total equity securities	78	—	(15	) 63
Total trading securities	\$78	\$—	\$(15	) \$63

Total net unrealized losses of \$15,000 and net realized losses of \$22,000 for the nine months ended September 30, 2015 were included in the Consolidated Statement of Income.

The following tables show the Company's gross unrealized losses and fair value, aggregated by investment category and length of time, that the individual securities have been in a continuous unrealized loss position, at September 30, 2015 and December 31, 2014.

(In Thousands)	September 30, 2015						
	Less than Twelve Months		Twelve Months or Greater		Total	Gross Unrealized Losses	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value		
Available for sale (AFS)							
U.S. Government and agency securities	\$—	\$—	\$3,567	\$(21	) \$3,567	\$(21)
Mortgage-backed securities	3,808	(21	) —	—	3,808	(21)
Asset-backed securities	1,693	(24	) 366	(3	) 2,059	(27)
State and political securities	6,115	(97	) 1,529	(294	) 7,644	(391)
Other debt securities	21,901	(301	) 20,037	(971	) 41,938	(1,272)
Total debt securities	33,517	(443	) 25,499	(1,289	) 59,016	(1,732)
Financial institution equity securities	306	(32	) —	—	306	(32)
Other equity securities	3,039	(330	) 1,027	(132	) 4,066	(462)
Total equity securities	3,345	(362) 1,027	(132) 4,372	(494)
Total investment securities AFS	\$36,862	\$(805) \$26,526	\$(1,421) \$63,388	\$(2,226)

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(In Thousands)	December 31, 2014					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available for sale (AFS)						
U.S. Government and agency securities	\$—	\$—	\$3,841	\$(112)	\$3,841	\$(112)
Mortgage-backed securities	6,741	(28)	—	—	6,741	(28)
Asset-backed securities	—	—	519	(3)	519	(3)
State and political securities	8,243	(14)	6,382	(575)	14,625	(589)
Other debt securities	23,174	(718)	29,266	(581)	52,440	(1,299)
Total debt securities	38,158	(760)	40,008	(1,271)	78,166	(2,031)
Financial institution equity securities	407	(18)	—	—	407	(18)
Other equity securities	1,837	(100)	773	(28)	2,610	(128)
Total equity securities	2,244	(118)	773	(28)	3,017	(146)
Total investment securities AFS	\$40,402	\$(878)	\$40,781	\$(1,299)	\$81,183	\$(2,177)

At September 30, 2015 there were a total of 43 securities in a continuous unrealized loss position for less than twelve months and 18 individual securities that were in a continuous unrealized loss position for twelve months or greater.

The Company reviews its position quarterly and has determined that, at September 30, 2015, the declines outlined in the above table represent temporary declines and the Company does not intend to sell and does not believe it will be required to sell these securities before recovery of their cost basis, which may be at maturity. The Company has concluded that the unrealized losses disclosed above are not other than temporary but are the result of interest rate changes, sector credit ratings changes, or company-specific ratings changes that are not expected to result in the non-collection of principal and interest during the period.

The amortized cost and fair value of debt securities at September 30, 2015, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities since borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(In Thousands)	Amortized Cost	Fair Value
Due in one year or less	\$1,059	\$1,062
Due after one year to five years	47,357	48,184
Due after five years to ten years	90,859	90,528
Due after ten years	45,719	46,908
Total	\$184,994	\$186,682

Total gross proceeds from sales of securities available for sale were \$43,051,000 and \$98,815,000 for the nine months ended September 30, 2015 and 2014, respectively.

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The following table represents gross realized gains and losses within the available for sale portfolio:

(In Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Gross realized gains:				
U.S. Government and agency securities	\$—	\$—	\$—	\$49
Mortgage-backed securities	—	13	—	89
State and political securities	511	1,361	1,257	2,093
Other debt securities	14	149	273	611
Financial institution equity securities	1	582	163	710
Other equity securities	—	86	132	205
Total gross realized gains	\$526	\$2,191	\$1,825	\$3,757
Gross realized losses:				
U.S. Government and agency securities	\$—	\$—	\$—	\$45
State and political securities	—	9	22	412
Other debt securities	—	37	47	209
Other equity securities	—	—	43	66
Total gross realized losses	\$—	\$46	\$112	\$732

The following table represents gross realized gains and losses within the trading portfolios:

(In Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Gross realized gains:				
Financial institution equity securities	—	—	2	—
Other equity securities	2	—	3	—
Total gross realized gains	\$2	\$—	\$5	\$—
Gross realized losses:				
Financial institution equity securities	12	—	15	—