

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

	Page Number
PART I - CONSOLIDATED FINANCIAL INFORMATION OF NORWOOD FINANCIAL CORP.	
Item 1. Financial Statements (unaudited)	3
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	34
Item 3. Quantitative and Qualitative Disclosures about Market Risk	50
Item 4. Controls and Procedures	51
PART II - OTHER INFORMATION	
Item 1. Legal Proceedings	52
Item 1A. Risk Factors	52
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	52
Item 3. Defaults upon Senior Securities	52
Item 4. Mine Safety Disclosures	52
Item 5. Other Information	52
Item 6. Exhibits	52
Signatures	54

## 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
<b>ASSETS</b>		
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
<b>TOTAL ASSETS</b>	<b>\$751,521</b>	<b>\$711,635</b>
<b>LIABILITIES</b>		
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
<b>TOTAL LIABILITIES</b>	<b>651,603</b>	<b>612,594</b>
<b>STOCKHOLDERS' EQUITY</b>		
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
<b>INTEREST INCOME</b>				
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
<b>INTEREST EXPENSE</b>				
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
<b>OTHER INCOME</b>				
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
<b>OTHER EXPENSES</b>				
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.

4

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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
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
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
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Securities available for sale:		