

CITIZENS & NORTHERN CORP
Form 10-Q
May 08, 2012

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 March 31, 2012

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 number: 000-16084

CITIZENS & NORTHERN CORPORATION

(Exact name of Registrant as specified in its charter)

PENNSYLVANIA 23-2451943
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

90-92 MAIN STREET, WELLSBORO, PA 16901

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(Address of principal executive offices) (Zip code)

570-724-3411

(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 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 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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Common Stock (\$1.00 par value) 12,216,950 Shares Outstanding on May 4, 2012

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CITIZENS & NORTHERN CORPORATION

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CITIZENS & NORTHERN CORPORATION – FORM 10-Q**PART 1. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CONSOLIDATED BALANCE SHEETS (Unaudited)**

(In Thousands Except Share Data)	March 31, 2012	December 31, 2011
ASSETS		
Cash and due from banks:		
Noninterest-bearing	\$ 19,022	\$ 17,618
Interest-bearing	37,476	42,957
Total cash and due from banks	56,498	60,575
Available-for-sale securities, at fair value	486,664	481,685
Loans held for sale	2,223	939
Loans receivable	697,588	708,315
Allowance for loan losses	(7,370)	(7,705)
Loans, net	690,218	700,610
Bank-owned life insurance	21,008	20,889
Accrued interest receivable	4,943	4,797
Bank premises and equipment, net	18,761	19,028
Foreclosed assets held for sale	977	1,235
Deferred tax asset, net	5,003	6,173
Intangible asset - Core deposit intangibles	193	212
Intangible asset - Goodwill	11,942	11,942
Other assets	18,334	15,650
TOTAL ASSETS	\$ 1,316,764	\$ 1,323,735
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 202,439	\$ 193,595
Interest-bearing	814,362	824,611
Total deposits	1,016,801	1,018,206
Short-term borrowings	4,030	4,950
Long-term borrowings	115,202	125,363
Accrued interest and other liabilities	9,117	7,831
TOTAL LIABILITIES	1,145,150	1,156,350
STOCKHOLDERS' EQUITY		
Preferred stock, \$1,000 par value; authorized 30,000 shares; \$1,000 liquidation preference per share; no shares issued at March 31, 2012 and December 31, 2011	0	0
Common stock, par value \$1.00 per share; authorized 20,000,000 shares in 2012 and 2011; issued 12,473,495 at March 31, 2012 and 12,460,920 at December 31, 2011	12,474	12,461

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Paid-in capital	67,360	67,568
Retained earnings	85,715	82,302
Treasury stock, at cost; 257,745 shares at March 31, 2012 and 305,391 shares at December 31, 2011	(4,309)	(5,106)
Sub-total	161,240	157,225
Accumulated other comprehensive income:		
Unrealized gains on available-for-sale securities	10,852	10,791
Defined benefit plans	(478)	(631)
Total accumulated other comprehensive income	10,374	10,160
TOTAL STOCKHOLDERS' EQUITY	171,614	167,385
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$1,316,764	\$ 1,323,735

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

CITIZENS & NORTHERN CORPORATION – FORM 10-Q

CONSOLIDATED STATEMENTS OF OPERATIONS	3 Months Ended	
(In Thousands, Except Per Share Data) (Unaudited)	March 31, 2012	March 31, 2011
INTEREST INCOME		
Interest and fees on loans	\$10,375	\$ 10,868
Interest on balances with depository institutions	28	16
Interest on loans to political subdivisions	377	375
Income from available-for-sale and held-to-maturity securities:		
Taxable	2,658	2,693
Tax-exempt	1,263	1,284
Dividends	75	62
Total interest and dividend income	14,776	15,298
INTEREST EXPENSE		
Interest on deposits	1,350	2,568
Interest on short-term borrowings	3	6
Interest on long-term borrowings	1,149	1,442
Total interest expense	2,502	4,016
Net interest income	12,274	11,282
(Credit) provision for loan losses	(182)	(192)
Net interest income after (credit) provision for loan losses	12,456	11,474
OTHER INCOME		
Service charges on deposit accounts	1,161	1,131
Service charges and fees	220	218
Trust and financial management revenue	929	877
Interchange revenue from debit card transactions	495	452
Net gains from sale of loans	265	259
Increase in cash surrender value of life insurance	119	122
Insurance commissions, fees and premiums	34	68
Impairment loss on limited partnership investment	0	(948)
Other operating income	536	376
Sub-total	3,759	2,555
Total other-than-temporary impairment losses on available-for-sale securities	(67)	0
Portion of (gain) recognized in other comprehensive income (before taxes)	0	0
Net impairment losses recognized in earnings	(67)	0
Realized gains on available-for-sale securities, net	65	1,839
Net realized (losses) gains on available-for-sale securities	(2)	1,839
Total other income	3,757	4,394
OTHER EXPENSES		
Salaries and wages	3,575	3,401
Pensions and other employee benefits	1,366	1,306
Occupancy expense, net	636	732
Furniture and equipment expense	482	484
FDIC Assessments	146	325
Pennsylvania shares tax	332	319

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Other operating expense	1,980	1,696
Total other expenses	8,517	8,263
Income before income tax provision	7,696	7,605
Income tax provision	2,109	2,064
NET INCOME	\$5,587	\$ 5,541
NET INCOME PER SHARE - BASIC	\$0.46	\$ 0.46
NET INCOME PER SHARE - DILUTED	\$0.46	\$ 0.45

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

CITIZENS & NORTHERN CORPORATION – FORM 10-Q**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(In Thousands) (Unaudited)**

	Three Months Ended March 31,	
	2012	2011
Net income	\$ 5,587	\$ 5,541
Unrealized gains on available-for-sale securities:		
Unrealized holding gains on available-for-sale securities	344	6,125
Reclassification adjustment for losses (gains) realized in income	2	(1,839)
Other comprehensive gain on available-for-sale securities	346	4,286
Unfunded pension and postretirement obligations:		
Change in items from defined benefit plans included in accumulated other comprehensive income	200	(119)
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	20	13
Other comprehensive gain (loss) on unfunded retirement obligations	220	(106)
Other comprehensive income before income tax	566	4,180
Income tax related to other comprehensive income	(352)	(1,421)
Net other comprehensive income	214	2,759
Total comprehensive income	\$ 5,801	\$ 8,300

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

CITIZENS & NORTHERN CORPORATION – FORM 10-Q

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands) (Unaudited)	3 Months Ended March 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 5,587	\$ 5,541
Adjustments to reconcile net income to net cash provided by operating activities:		
Credit for loan losses	(182)	(192)
Realized losses (gains) on available-for-sale securities, net	2	(1,839)
(Gain) loss on sale of foreclosed assets, net	(104)	19
Depreciation expense	493	536
Accretion and amortization on securities, net	182	446
Accretion and amortization on loans, deposits and borrowings, net	(12)	(8)
Amortization of mortgage servicing rights	21	13
Impairment loss on limited partnership interest	0	948
Increase in cash surrender value of life insurance	(119)	(122)
Stock-based compensation	241	192
Amortization of core deposit intangibles	19	29
Deferred income taxes	818	1,826
Gains on sales of mortgage loans, net	(265)	(259)
Origination of mortgage loans for sale	(9,174)	(4,529)
Proceeds from sales of mortgage loans	8,100	9,798
(Increase) decrease in accrued interest receivable and other assets	(2,941)	1,396
Increase (decrease) in accrued interest payable and other liabilities	741	(844)
Net Cash Provided by Operating Activities	3,407	12,951
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of certificates of deposit	(480)	0
Proceeds from sales of available-for-sale securities	27	15,950
Proceeds from calls and maturities of available-for-sale securities	27,279	26,781
Purchase of available-for-sale securities	(31,358)	(46,069)
Redemption of Federal Home Loan Bank of Pittsburgh stock	332	408
Net decrease in loans	10,094	11,207
Purchase of premises and equipment	(226)	(86)
Purchase of investment in limited liability entity	(214)	0
Return of principal on limited liability entity investments	27	70
Proceeds from sale of foreclosed assets	858	0
Net Cash Provided by Investing Activities	6,339	8,261
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in deposits	(1,409)	5,648
Net decrease in short-term borrowings	(920)	(2,345)
Repayments of long-term borrowings	(10,161)	(10,155)
Sale of treasury stock	101	3
Tax benefit from compensation plans	22	15
Common dividends paid	(1,936)	(1,401)
Net Cash Used in Financing Activities	(14,303)	(8,235)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,557)	12,977

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CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	56,815	46,301
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 52,258	\$ 59,278

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Assets acquired through foreclosure of real estate loans	\$ 496	\$ 189
Accrued purchase of available-for-sale securities	\$ 765	\$ 0
Interest paid	\$ 2,573	\$ 4,049
Income taxes paid	\$ 300	\$ 4

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

CITIZENS & NORTHERN CORPORATION – FORM 10-Q

Consolidated Statements of Changes in Stockholders' Equity

Three Months Ended March 31, 2012 and 2011

(In Thousands Except Share and Per Share Data)

(Unaudited)

	Common Shares	Treasury Shares	Common Stock	Paid-in Capital	Retained Earnings	Accum. Other Comprehensive Income (Loss)	Treasury Stock	Total
Three Months Ended March 31, 2012:								
Balance, December 31, 2011	12,460,920	305,391	\$12,461	\$67,568	\$82,302	\$10,160	\$(5,106)	\$167,385
Net income					5,587			5,587
Other comprehensive income, net						214		214
Cash dividends declared on common stock, \$.18 per share					(2,196)			(2,196)
Shares issued for dividend reinvestment plan	12,575		13	247				260
Shares issued from treasury related to exercise of stock options		(6,835)		(15)			116	101
Restricted stock granted		(42,552)		(711)			711	0
Forfeiture of restricted stock		1,741		30			(30)	0
Stock-based compensation expense				241				241
Tax benefit from employee benefit plan					22			22
Balance, March 31, 2012	12,473,495	257,745	\$12,474	\$67,360	\$85,715	\$10,374	\$(4,309)	\$171,614
Three Months Ended March 31, 2011:								
Balance, December 31, 2010	12,408,212	254,614	\$12,408	\$66,648	\$65,920	\$(1,601)	\$(4,431)	\$138,944
Net income					5,541			5,541
Other comprehensive income, net						2,759		2,759
Cash dividends declared on common stock, \$.13 per share					(1,582)			(1,582)
Shares issued for dividend reinvestment plan	12,153		12	169				181
Shares issued from treasury related to exercise of stock options		(228)		(1)			4	3
Restricted stock granted		(15,622)		(272)			272	0
Forfeiture of restricted stock		189		3			(3)	0
Stock-based compensation expense				192				192
					15			15

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Tax benefit from employee benefit
plan

Balance, March 31, 2011	12,420,365	238,953	\$12,420	\$66,739	\$69,894	\$ 1,158	\$(4,158)	\$146,053
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The accompanying notes are an integral part of these unaudited consolidated financial statements.

CITIZENS & NORTHERN CORPORATION – FORM 10-Q**Notes to Unaudited Consolidated Financial Statements****1. BASIS OF INTERIM PRESENTATION**

The consolidated financial information included herein, with the exception of the consolidated balance sheet dated December 31, 2011, is unaudited. Such information reflects all adjustments (consisting solely of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations, comprehensive income, cash flows and changes in stockholders' equity for the interim periods; however, the information does not include all disclosures required by accounting principles generally accepted in the United States of America ("U.S. GAAP") for a complete set of financial statements. Certain 2011 information has been reclassified for consistency with the 2012 presentation.

Operating results reported for the three-month period ended March 31, 2012 might not be indicative of the results for the year ending December 31, 2012. The Corporation evaluates subsequent events through the date of filing with the Securities and Exchange Commission.

2. PER COMMON SHARE DATA

Net income per share is based on the weighted-average number of shares of common stock outstanding. The following data show the amounts used in computing basic and diluted net income per share. As shown in the table that follows, diluted earnings per share is computed using weighted average common shares outstanding, plus weighted-average common shares available from the exercise of all dilutive stock options, less the number of shares that could be repurchased with the proceeds of stock option exercises based on the average share price of the Corporation's common stock during the period.

	Net Income Available to Common Shareholders	Weighted- Average Common Shares	Earnings Per Share
Quarter Ended March 31, 2012			
Earnings per common share – basic	\$ 5,587,000	12,206,870	\$ 0.46
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		271,980	
Hypothetical share repurchase at \$15.57		(233,098)	

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Earnings per common share – diluted Quarter Ended March 31, 2011	\$ 5,587,000	12,245,752	\$ 0.46
Earnings per common share – basic	\$ 5,541,000	12,174,935	\$ 0.46
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		255,727	
Hypothetical share repurchase at \$15.58		(252,563)	
Earnings per common share – diluted	\$ 5,541,000	12,178,099	\$ 0.45

Stock options that were anti-dilutive were excluded from net income per share calculations. Weighted-average common shares available from anti-dilutive instruments totaled 84,144 shares in the three-month period ended March 31, 2012 and 226,426 shares in the three months ended March 31, 2011.

CITIZENS & NORTHERN CORPORATION – FORM 10-Q**3. COMPREHENSIVE INCOME**

Comprehensive income is the total of (1) net income, and (2) all other changes in equity from non-stockholder sources, which are referred to as other comprehensive income. The components of other comprehensive income, and the related tax effects, are as follows:

	Before-Tax Amount	Income Tax Effect	Net-of-Tax Amount
Three Months Ended March 31, 2012			
Unrealized gains (losses) on available-for-sale securities:			
Unrealized holding gains on available-for-sale securities	\$ 344	\$ (284)	\$ 60
Reclassification adjustment for losses (gains) realized in income	2	(1)	1
Other comprehensive gain on available-for-sale securities	346	(285)	61
Unfunded pension and postretirement obligations:			
Change in items from defined benefit plans included in accumulated other comprehensive income	200	(61)	139
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	20	(6)	14
Other comprehensive gain on unfunded retirement obligations	220	(67)	153
Total other comprehensive income	\$ 566	\$ (352)	\$ 214
Three Months Ended March 31, 2011			
Unrealized gains (losses) on available-for-sale securities:			
Unrealized holding gains (losses) on available-for-sale securities	\$ 6,125	\$ (2,082)	\$ 4,043
Reclassification adjustment for (gains) losses realized in income	(1,839)	625	(1,214)
Other comprehensive gain on available-for-sale securities	4,286	(1,457)	2,829
Unfunded pension and postretirement obligations:			
Change in items from defined benefit plans included in accumulated other comprehensive income	(119)	40	(79)
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	13	(4)	9
Other comprehensive (loss) on unfunded retirement obligations	(106)	36	(70)
Total other comprehensive income	\$ 4,180	\$ (1,421)	\$ 2,759

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Changes in the components of other comprehensive income and in accumulated other comprehensive income are as follows:

	Unrealized Holding Gains on Securities	Unfunded Retirement Obligations	Accumulated Other Comprehensive Income (Loss)
Three Months Ended March 31, 2012			
Balance, beginning of period	\$ 10,791	\$ (631)	\$ 10,160
Change during three months ended March 31, 2012	61	153	214
Balance, end of period	\$ 10,852	\$ (478)	\$ 10,374
Three Months Ended March 31, 2011			
Balance, beginning of period	\$ (1,351)	\$ (250)	\$ (1,601)
Change during three months ended March 31, 2011	2,829	(70)	2,759
Balance, end of period	\$ 1,478	\$ (320)	\$ 1,158

CITIZENS & NORTHERN CORPORATION – FORM 10-Q**4. CASH AND DUE FROM BANKS**

Cash and due from banks at March 31, 2012 and December 31, 2011 include the following:

(In thousands)	Mar. 31, 2012	Dec. 31, 2011
Cash and cash equivalents	\$52,258	\$56,815
Certificates of deposit	4,240	3,760
Total cash and due from banks	\$56,498	\$60,575

Certificates of deposit are issued by U.S. banks with original maturities greater than three months. Each certificate of deposit is fully FDIC-insured. The Corporation maintains cash and cash equivalents with certain financial institutions in excess of the FDIC insurance limit.

The Corporation is required to maintain reserves against deposit liabilities in the form of cash and balances with the Federal Reserve Bank. The reserves are based on deposit levels, account activity, and other services provided by the Federal Reserve Bank. Required reserves were \$14,059,000 at March 31, 2012 and \$14,035,000 at December 31, 2011.

5. FAIR VALUE MEASUREMENTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The Corporation measures certain assets at fair value. Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. FASB ASC topic 820, “Fair Value Measurements and Disclosures” establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 – Fair value is based on unadjusted quoted prices in active markets that are accessible to the Corporation for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever

available.

Level 2 – Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets and other observable inputs.

Level 3 – Fair value is based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows and other similar techniques.

The Corporation monitors and evaluates available data relating to fair value measurements on an ongoing basis and recognizes transfers among the levels of the fair value hierarchy as of the date of an event or change in circumstances that affects the valuation method chosen. Examples of such changes may include the market for a particular asset becoming active or inactive, changes in the availability of quoted prices, or changes in the availability of other market data.

CITIZENS & NORTHERN CORPORATION – FORM 10-Q

At March 31, 2012 and December 31, 2011, assets measured at fair value and the valuation methods used are as follows:

(In Thousands)	March 31, 2012			Total Fair Value
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
Recurring fair value measurements				
AVAILABLE-FOR-SALE SECURITIES:				
Obligations of U.S. Government agencies	\$ 0	\$25,488	\$ 0	\$25,488
Obligations of states and political subdivisions:				
Tax-exempt	0	133,337	0	133,337
Taxable	0	17,206	0	17,206
Mortgage-backed securities	0	121,943	0	121,943
Collateralized mortgage obligations, Issued by U.S. Government agencies	0	165,764	0	165,764
Trust preferred securities issued by individual institutions	0	8,147	0	8,147
Collateralized debt obligations:				
Pooled trust preferred securities - senior tranches	0	0	4,638	4,638
Pooled trust preferred securities - mezzanine tranches	0	0	782	782
Other collateralized debt obligations	0	660	0	660
Total debt securities	0	472,545	5,420	477,965
Marketable equity securities	8,699	0	0	8,699
Total available-for-sale securities	8,699	472,545	5,420	