

CITIZENS & NORTHERN CORP
Form 10-Q
August 06, 2010

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, 2010
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
(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 (§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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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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)

12,129,707 Shares Outstanding on August 4, 2010

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CITIZENS & NORTHERN
CORPORATION
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Certification -

Chief Financial Officer

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PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Consolidated Balance Sheet

(In Thousands Except Share Data)

	June 30, 2010 (Unaudited)	December 31, 2009 (Note)
ASSETS		
Cash and due from banks:		
Noninterest-bearing	\$15,807	\$18,247
Interest-bearing	67,845	73,818
Total cash and cash equivalents	83,652	92,065
Trading securities	0	1,045
Available-for-sale securities	426,246	396,288
Held-to-maturity securities	0	300
Loans, net of allowance for loan losses of \$8,461,000 at June 30, 2010 and \$8,265,000 at December 31, 2009	715,363	713,338
Bank-owned life insurance	23,029	22,798
Accrued interest receivable	5,229	5,613
Bank premises and equipment, net	23,401	24,316
Foreclosed assets held for sale	863	873
Deferred tax asset, net	20,390	22,037
Intangible asset - Core deposit intangibles	414	502
Intangible asset – Goodwill	11,942	11,942
Other assets	28,128	30,678
TOTAL ASSETS	\$1,338,657	\$1,321,795
LIABILITIES		
Deposits:		
Noninterest-bearing	\$151,748	\$137,470
Interest-bearing	816,792	789,319
Total deposits	968,540	926,789
Dividends payable	169	169
Short-term borrowings	28,132	39,229
Long-term borrowings	173,831	196,242
Accrued interest and other liabilities	6,490	6,956
TOTAL LIABILITIES	1,177,162	1,169,385
STOCKHOLDERS' EQUITY		
Preferred stock, \$1,000 par value; authorized 30,000 shares; \$1,000 liquidation preference per share; 26,440 shares issued at June 30, 2010 and December 31, 2009	25,833	25,749
Common stock, par value \$1.00 per share; authorized 20,000,000 shares in 2010 and 2009; issued 12,384,285 at June 30, 2010 and 12,374,481 at December 31, 2009	12,384	12,374
Paid-in capital	66,888	66,833
Retained earnings	59,546	53,027
Unamortized stock compensation	(158)	(107)
Treasury stock, at cost; 254,578 shares at June 30, 2010 and 262,780 shares at December 31, 2009	(4,431)	(4,575)
Sub-total	160,062	153,301
Accumulated other comprehensive income (loss):		

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Unrealized gains (losses) on available-for-sale securities	1,684	(522)
Defined benefit plans	(251)	(369)
Total accumulated other comprehensive income (loss)	1,433	(891)
TOTAL STOCKHOLDERS' EQUITY	161,495	152,410
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$1,338,657	\$1,321,795

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

Note: The balance sheet at December 31, 2009 has been derived from the audited financial statements at that date but does not include all the information and notes required by U.S. generally accepted accounting principles for complete financial statements.

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CONSOLIDATED STATEMENT OF OPERATIONS (In Thousands, Except Per Share Data)	Three Months Ended		Fiscal Year To Date Six Months Ended June	
	June 30, 2010 (Current)	June 30, 2009 (Prior Year)	30, 2010 (Current)	2009 (Prior Year)
INTEREST INCOME				
Interest and fees on loans	\$11,009	\$11,356	\$21,959	\$22,713
Interest on balances with depository institutions	38	3	76	4
Interest on loans to political subdivisions	399	415	797	808
Interest on federal funds sold	0	7	0	15
Interest on trading securities	0	8	1	31
Income from available-for-sale and held-to-maturity securities:				
Taxable	2,699	4,268	5,784	8,922
Tax-exempt	1,184	1,124	2,365	2,060
Dividends	57	160	137	359
Total interest and dividend income	15,386	17,341	31,119	34,912
INTEREST EXPENSE				
Interest on deposits	3,058	3,699	6,215	7,680
Interest on short-term borrowings	51	140	151	310
Interest on long-term borrowings	1,927	2,325	3,930	4,780
Total interest expense	5,036	6,164	10,296	12,770
Net interest income	10,350	11,177	20,823	22,142
Provision (credit) for loan losses	76	93	283	(80)
Net interest income after provision (credit) for loan losses	10,274	11,084	20,540	22,222
OTHER INCOME				
Trust and financial management revenue	830	870	1,729	1,639
Service charges on deposit accounts	1,190	1,150	2,283	2,197
Service charges and fees	210	227	403	417
Insurance commissions, fees and premiums	61	76	121	157
Increase in cash surrender value of life insurance	119	126	231	277
Other operating income	776	605	1,864	1,133
Sub-total	3,186	3,054	6,631	5,820
Total other-than-temporary impairment losses on available-for-sale securities	0	(17,974)	(381)	(42,955)
Portion of (gain) loss recognized in other comprehensive loss (before taxes)	(2)	(1,806)	(52)	6,495
Net impairment losses recognized in earnings	(2)	(19,780)	(433)	(36,460)
Realized gains on available-for-sale securities, net	321	785	810	786
Net impairment losses recognized in earnings and realized gains on available-for-sale securities	319	(18,995)	377	(35,674)
Total other income	3,505	(15,941)	7,008	(29,854)
OTHER EXPENSES				
Salaries and wages	3,199	3,318	6,277	6,659
Pensions and other employee benefits	983	1,075	1,922	2,319
Occupancy expense, net	651	679	1,350	1,421
FDIC assessments	415	956	819	1,258
Furniture and equipment expense	542	702	1,110	1,376
Pennsylvania shares tax	306	318	611	636
Other operating expense	1,533	2,110	3,434	4,127

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Total other expenses	7,629	9,158	15,523	17,796
Income (loss) before income tax provision	6,150	(14,015)	12,025	(25,428)
Income tax provision	1,281	(5,284)	2,718	(9,672)
Net income (loss)	4,869	(8,731)	9,307	(15,756)
U.S Treasury preferred dividends	372	373	745	682
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	\$4,497	(\$9,104)	\$8,562	(\$16,438)
PER SHARE DATA:				
Net income (loss) per average common share - basic	\$0.37	(\$1.01)	\$0.71	(\$1.83)
Net income (loss) per average common share - diluted	\$0.37	(\$1.01)	\$0.71	(\$1.83)

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

(In Thousands) (Unaudited)

	Six Months Ended June 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$9,307	(\$15,756)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision (credit) for loan losses	283	(80)
Realized (gains) losses on available-for-sale securities, net	(377)	35,674
Loss on sale of foreclosed assets, net	36	10
Depreciation expense	1,209	1,433
(Gain) loss on disposition of premises and equipment	(449)	8
Accretion and amortization on securities, net	1,273	20
Accretion and amortization on loans, deposits and borrowings, net	(126)	(176)
Increase in cash surrender value of life insurance	(231)	(277)
Stock-based compensation	32	314
Amortization of core deposit intangibles	88	161
Deferred income taxes	440	(7,856)
Origination of mortgage loans for sale	(12,830)	(6,669)
Proceeds from sales of mortgage loans	13,310	5,688
Net decrease in trading securities	1,045	116
Decrease (increase) in accrued interest receivable and other assets	3,371	(6,422)
Decrease in accrued interest payable and other liabilities	(253)	(245)
Net Cash Provided by Operating Activities	16,128	5,943
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturity of held-to-maturity securities	300	4
Proceeds from sales of available-for-sale securities	45,522	14,452
Proceeds from calls and maturities of available-for-sale securities	85,954	31,779
Purchase of available-for-sale securities	(159,082)	(61,178)
Purchase of Federal Home Loan Bank of Pittsburgh stock	0	(4)
Net (increase) decrease in loans	(3,202)	16,519
Purchase of premises and equipment	(335)	(650)
Return of principal on limited liability entity investments	23	26
Proceeds from disposition of premises and equipment	100	0
Proceeds from sale of foreclosed assets	408	320
Net Cash (Used in) Provided by Investing Activities	(30,312)	1,268
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	41,746	21,874
Net (decrease) in short-term borrowings	(11,097)	(9,157)
Repayments of long-term borrowings	(22,300)	(15,151)
Issuance of US Treasury preferred stock and warrant	0	26,409
Sale of treasury stock	0	30
Tax benefit from compensation plans	18	92
US Treasury preferred dividends paid	(662)	(427)
Common dividends paid	(1,934)	(3,630)
Net Cash Provided by Financing Activities	5,771	20,040
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(8,413)	27,251
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	92,065	24,028
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$83,652	\$51,279

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Assets acquired through foreclosure of real estate loans	\$434	\$954
Interest paid	\$10,566	\$13,049
Income taxes paid	\$176	\$1,275

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

CITIZENS & NORTHERN CORPORATION – FORM 10-Q

Consolidated Statement of Changes in Stockholders' Equity

Six Months Ended June 30, 2010 and 2009

(In Thousands Except Per Share Data)

(Unaudited)	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Accum. Other Comprehensive Income (Loss)	Unamortized Stock Compensation	Treasury Stock	Total
Six Months Ended June 30, 2010:								
Balance, January 1, 2010	\$25,749	\$12,374	\$66,833	\$53,027	(\$891)	(\$107)	(\$4,575)	\$152,410
Comprehensive income:								
Net income				9,307				9,307
Unrealized gain on securities, net of reclassification and tax					2,206			2,206
Other comprehensive income related to defined benefit plans					118			118
Total comprehensive income								11,631
Accretion of discount associated with U.S. Treasury preferred stock	84			(84)				0
Cash dividends - U.S. Treasury preferred				(661)				(661)
Cash dividends declared on common stock, \$.17 per share				(2,061)				(2,061)
Common shares issued for reinvestment plan		10	116					126
Restricted stock granted			(59)			(100)	159	0
Forfeiture of restricted stock			(2)			17	(15)	0
Stock-based compensation expense						32		32
Tax benefit from employee benefit plan				18				18
Balance, June 30, 2010	\$25,833	\$12,384	\$66,888	\$59,546	\$1,433	(\$158)	(\$4,431)	\$161,495
Six Months Ended June 30, 2009:								
Balance, January 1, 2009	\$0	\$9,284	\$44,308	\$97,757	(\$23,214)	(\$48)	(\$6,061)	\$122,026
Comprehensive (loss) income:								
Net loss				(15,756)				(15,756)
Unrealized gain on securities, net of reclassification and tax					7,938			7,938
Other comprehensive loss related								

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to defined benefit plans			(261)		(261)
Total comprehensive loss					(8,079)
Reclassify non-credit portion of other- than-temporary impairment losses recognized in prior period		2,378	(2,378)		0
Issuance of U.S. Treasury preferred	25,588	821			26,409
Accretion of discount associated with U.S. Treasury preferred stock	76		(76)		0
Cash dividends - U.S. Treasury preferred			(606)		(606)
Cash dividends declared on common stock, \$.48 per share			(4,303)		(4,303)
Shares issued for dividend reinvestment plan		46		629	675
Shares issued from treasury related to exercise of stock options		(4)		34	30
Restricted stock granted		10		(79)	69
Forfeiture of restricted stock		(1)			0