

EVANS BANCORP INC
Form 10-Q
May 06, 2011

Table of Contents

**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 quarterly period ended March 31, 2011

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 001-35021
EVANS BANCORP, INC.**

(Exact name of registrant as specified in its charter)

New York
(State or other jurisdiction of
incorporation or organization)

16-1332767
(I.R.S. Employer
Identification No.)

14 -16 North Main Street, Angola, New York
(Address of principal executive offices)

14006
(Zip Code)

(716) 926-2000
(Registrant's telephone number, including area code)
Not applicable

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

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, 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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if 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:

Common Stock, \$.50 par value: 4,100,319 shares as of April 22, 2011

INDEX
EVANS BANCORP, INC. AND SUBSIDIARIES

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Unaudited Consolidated Balance Sheets March 31, 2011 and December 31, 2010</u>	1
<u>Unaudited Consolidated Statements of Income Three months ended March 31, 2011 and 2010</u>	2
<u>Unaudited Consolidated Statements of Stockholders Equity Three months ended March 31, 2011 and 2010</u>	3
<u>Unaudited Consolidated Statements of Cash Flows Three months ended March 31, 2011 and 2010</u>	4
<u>Notes to Unaudited Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	41
<u>Item 4. Controls and Procedures</u>	42
<u>PART II. OTHER INFORMATION</u>	
<u>Item 6. Exhibits</u>	42
<u>SIGNATURES</u>	43
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

Table of Contents

PART I FINANCIAL INFORMATION
 ITEM 1 FINANCIAL STATEMENTS
 EVANS BANCORP, INC. AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED BALANCE SHEETS
 MARCH 31, 2011 AND DECEMBER 31, 2010
 (in thousands, except share and per share amounts)

	March 31, 2011	December 31, 2010
ASSETS		
Cash and due from banks	\$ 13,553	\$ 13,467
Interest-bearing deposits at banks	17,567	255
Securities:		
Available for sale, at fair value (cost: \$93,940 at March 31, 2011; \$86,096 at December 31, 2010)	95,468	87,422
Held to maturity, at amortized cost (fair value: \$2,221 at March 31, 2011; \$2,130 at December 31, 2010)	2,235	2,140
FHLB and FRB common stock, at amortized cost and fair value	3,165	3,770
Loans and leases, net of allowance for loan and lease losses of \$10,482 in 2011 and \$10,424 in 2010	521,147	517,554
Properties and equipment, net of depreciation of \$12,368 in 2011 and \$12,054 in 2010	10,609	10,841
Goodwill	8,101	8,101
Intangible assets	1,038	1,168
Bank-owned life insurance	12,493	12,389
Other assets	14,335	14,416
TOTAL ASSETS	\$ 699,711	\$ 671,523
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES		
Deposits:		
Demand	\$ 99,444	\$ 98,016
NOW	43,457	32,683
Regular savings	263,854	249,410
Muni-vest	34,804	22,000
Time	143,588	142,348
Total deposits	585,147	544,457
Securities sold under agreement to repurchase	4,807	5,227
Other short-term borrowings	39	13,669
Other liabilities	12,055	11,776
Junior subordinated debentures	11,330	11,330

Long-term borrowings	22,000	22,000
Total liabilities	635,378	608,459
CONTINGENT LIABILITIES AND COMMITMENTS		
STOCKHOLDERS EQUITY:		
Common stock, \$.50 par value, 10,000,000 shares authorized; 4,094,147 and 4,081,960 shares issued and outstanding, respectively,	2,047	2,041
Capital surplus	40,720	40,660
Retained earnings	21,895	20,836
Accumulated other comprehensive loss, net of tax	(329)	(473)
Total stockholders equity	64,333	63,064
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 699,711	\$ 671,523

See Notes to Unaudited Consolidated Financial Statements

Table of Contents

PART I FINANCIAL INFORMATION
 ITEM 1 FINANCIAL STATEMENTS
 EVANS BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
 THREE MONTHS ENDED MARCH 31, 2011 AND 2010
 (in thousands, except share and per share amounts)

	Three Months Ended March 31,	
	2011	2010
INTEREST INCOME		
Loans and leases	\$ 7,152	\$ 6,941
Interest bearing deposits at banks	4	
Securities:		
Taxable	486	403
Non-taxable	371	402
Total interest income	8,013	7,746
INTEREST EXPENSE		
Deposits	1,420	1,350
Other borrowings	215	238
Junior subordinated debentures	81	80
Total interest expense	1,716	1,668
NET INTEREST INCOME	6,297	6,078
PROVISION FOR LOAN AND LEASE LOSSES	488	1,214
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	5,809	4,864
NON-INTEREST INCOME		
Bank charges	386	511
Insurance service and fees	2,089	2,246
Data center income	239	234
Net gain (loss) on sales and calls of securities		(6)
Gain on loans sold	52	10
Bank-owned life insurance	103	108
Other	592	599
Total non-interest income	3,461	3,702
NON-INTEREST EXPENSE		
Salaries and employee benefits	3,904	3,608
Occupancy	777	771
Repairs and maintenance	159	182
Advertising and public relations	130	102
Professional services	402	414
Technology and communications	235	225
Amortization of intangibles	130	231
FDIC insurance	229	226
Other	639	692

Total non-interest expense	6,605	6,451
INCOME BEFORE INCOME TAXES	2,665	2,115
INCOME TAX PROVISION	790	668
NET INCOME	\$ 1,875	\$ 1,447
Net income per common share-basic	\$ 0.46	\$ 0.51
Net income per common share-diluted	\$ 0.46	\$ 0.51
Cash dividends per common share	\$ 0.20	\$ 0.20
Weighted average number of common shares outstanding	4,085,509	2,818,147
Weighted average number of diluted shares outstanding	4,096,170	2,823,559

See Notes to Unaudited Consolidated Financial Statements

2

Table of Contents

PART I FINANCIAL INFORMATION
 ITEM 1 FINANCIAL STATEMENTS
 EVANS BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
 THREE MONTHS ENDED MARCH 31, 2011 AND 2010
 (in thousands, except share and per share amounts)

	Common	Capital	Retained	Accumulated Other Comprehensive (Loss) Income	Total
	Stock	Surplus	Earnings		
Balance, January 1, 2010	\$ 1,407	\$ 27,279	\$ 17,381	\$ (108)	\$ 45,959
Comprehensive income:					
Net Income			1,447		1,447
Unrealized gain on available-for-sale, net of reclassification of loss of (\$4) (after tax) securities, net of tax effect of (\$8)				25	25
Amortization of prior service cost and net loss net of tax effect of (\$13)				20	20
Total comprehensive income					1,492
Cash dividends (\$0.20 per common share)			(565)		(565)
Stock options expense		49			49
Issued 14,620 restricted shares	7	(7)			
Balance, March 31, 2010	\$ 1,414	\$ 27,321	\$ 18,263	\$ (63)	\$ 46,935
Balance, January 1, 2011	\$ 2,041	\$ 40,660	\$ 20,836	\$ (473)	\$ 63,064
Comprehensive income:					
Net Income			1,875		1,875
Unrealized gain on available-for-sale securities, net of tax effect of (\$78)				124	124

Amortization of prior service cost and net loss net of tax effect of (\$11)				20		20
Total comprehensive income						2,019
Cash dividends (\$0.20 per common share)			(816)			(816)
Excess tax benefit from stock-based compensation		9				9
Stock options expense		57				57
Issued 12,260 restricted shares	6		(6)			
Balance, March 31, 2011	\$ 2,047	\$ 40,720	\$ 21,895	\$	(329)	\$ 64,333

See Notes to Unaudited Consolidated Financial Statements

Table of Contents

PART I FINANCIAL INFORMATION
 ITEM 1 FINANCIAL STATEMENTS
 EVANS BANCORP, INC. AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
 THREE MONTHS ENDED MARCH 31, 2011 AND 2010
 (in thousands)

	Three Months Ended March 31,	
	2011	2010
OPERATING ACTIVITIES:		
Interest received	\$ 7,654	\$ 7,679
Fees received	3,590	3,765
Interest paid	(1,829)	(1,805)
Cash paid to employees and vendors	(5,985)	(5,079)
Income taxes paid	(299)	(1,021)
Proceeds from sale of loans held for resale	7,285	1,998
Originations of loans held for resale	(9,779)	(2,817)
Net cash provided by operating activities	637	2,720
INVESTING ACTIVITIES:		
Available for sales securities:		
Purchases	(10,029)	(38,305)
Proceeds from maturities and calls	2,655	29,254
Held to maturity securities:		
Purchases	(135)	
Proceeds from maturities and calls	39	
Additions to properties and equipment	(82)	(214)
Increase in loans, net of repayments	(2,327)	(9,725)
Net cash used in investing activities	(9,879)	(18,990)
FINANCING ACTIVITIES:		
Proceeds from borrowings		2,795
Repayments of borrowings	(14,050)	(61)
Net increase in deposits	40,690	11,332
Net cash provided by financing activities	26,640	14,066
Net increase (decrease) in cash and equivalents	17,398	(2,204)
CASH AND CASH EQUIVALENTS:		
Beginning of period	13,722	12,983

End of period

\$ 31,120

\$ 10,779

(continued)

Table of Contents

(in thousands)

	Three Months Ended March 31,	
	2011	2010
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income	\$ 1,875	\$ 1,447
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	379	420
Deferred tax expense (benefit)	86	(31)
Provision for loan and lease losses	488	1,214
Net gain on sales of securities		6
Premium on loans sold	(52)	(10)
Stock options expense	57	49
Proceeds from sale of loans held for resale	7,285	1,998
Originations of loans held for resale	(9,779)	(2,817)
Changes in assets and liabilities affecting cash flow:		
Other assets	1,461	(490)
Other liabilities	(1,163)	934
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 637	\$ 2,720

See Notes to Unaudited Consolidated Financial Statements

Table of Contents

PART I-FINANCIAL INFORMATION

ITEM 1-FINANCIAL STATEMENTS

EVANS BANCORP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2011 AND 2010

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies followed by Evans Bancorp, Inc. (the Company), a financial holding company, and its two direct, wholly-owned subsidiaries: (i) Evans Bank, National Association (the Bank), and the Bank's subsidiaries, Evans National Leasing, Inc. (ENL), Evans National Holding Corp. (ENHC) and Suchak Data Systems, Inc. (SDS); and (ii) Evans National Financial Services, Inc. (ENFS), and ENFS's subsidiary, The Evans Agency, Inc. (TEA) and TEA's subsidiaries, Frontier Claims Services, Inc. (FCS) and ENB Associates Inc. (ENBA), in the preparation of the accompanying interim unaudited consolidated financial statements conform with U.S. generally accepted accounting principles (GAAP) and with general practice within the industries in which it operates. Except as the context otherwise requires, the Company and its direct and indirect subsidiaries are collectively referred to in this report as the Company.

The accompanying consolidated financial statements are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of the Company's financial position and results of operations for the interim periods have been made. Certain reclassifications have been made to the 2010 unaudited consolidated financial statements to conform to the presentation used in 2011.

The results of operations for the three month period ended March 31, 2011 are not necessarily indicative of the results to be expected for the full year. The accompanying unaudited consolidated financial statements should be read in conjunction with the Audited Consolidated Financial Statements and the Notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010. The Company has evaluated subsequent events for potential recognition and/or disclosure through the date of filing.

2. SECURITIES

The amortized cost of securities and their approximate fair value at March 31, 2011 and December 31, 2010 were as follows:

Table of Contents

	March 31, 2011 (in thousands)			
	Unrealized			
	Amortized Cost	Gains	Losses	Fair Value
Available for Sale:				
Debt securities:				
U.S. government agencies	\$ 24,057	\$ 572	\$ (69)	\$ 24,560
States and political subdivisions	37,800	730	(107)	38,423
Total debt securities	\$ 61,857	\$ 1,302	\$ (176)	\$ 62,983
Mortgage-backed securities:				
FNMA	\$ 13,162	\$ 266	\$ (57)	\$ 13,371
FHLMC	9,667	139	(6)	9,800
GNMA	6,720	76	(13)	6,783
CMO S	2,534	19	(22)	2,531
Total mortgage-backed securities	\$ 32,083	\$ 500	\$ (98)	\$ 32,485
Total securities designated as available for sale	\$ 93,940	\$ 1,802	\$ (274)	\$ 95,468
Held to Maturity:				