

ORRSTOWN FINANCIAL SERVICES INC  
Form 10-Q  
May 10, 2011  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**FORM 10-Q**

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2011

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 001-34292

ORRSTOWN FINANCIAL SERVICES, INC.

(Exact name of registrant as specified in its charter)

Commonwealth of Pennsylvania  
(State or other jurisdiction of incorporation or organization)

23-2530374  
(I.R.S. Employer Identification No.)

77 East King Street, P.O. Box 250, Shippensburg, Pennsylvania  
(Address of principal executive offices)

17257  
(Zip Code)

(717) 532-6114

(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, a non-accelerated filer or a smaller reporting company. See definitions 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

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

As of May 5, 2011, 7,996,493 shares of common stock, no par value, of the registrant were outstanding.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

**ORRSTOWN FINANCIAL SERVICES, INC. AND ITS WHOLLY-OWNED SUBSIDIARY**

## Consolidated Balance Sheets (Unaudited)

<i>(Dollars in Thousands, Except per Share Data)</i>	<b>March 31, 2011</b>	<b>December 31, 2010</b>
<b>Assets</b>		
Cash and due from banks	\$ 14,751	\$ 10,400
Federal funds sold	21,500	8,800
Cash and cash equivalents	36,251	19,200
Short-term investments	2,746	2,728
Interest bearing deposits with banks	557	925
Member stock, at cost which approximates market value	8,515	8,798
Securities available for sale	395,792	431,772
Loans held for sale	3,807	2,693
Loans	984,967	964,293
Allowance for loan losses	(18,398)	(16,020)
Net loans	970,376	950,966
Premises and equipment, net	27,557	27,774
Cash surrender value of life insurance	22,946	22,649
Goodwill and intangible assets	20,646	20,698
Accrued interest receivable	5,849	5,715
Other assets	21,158	20,497
<b>Total assets</b>	<b>\$ 1,512,393</b>	<b>\$ 1,511,722</b>
<b>Liabilities</b>		
<b>Deposits:</b>		
Non-interest bearing	\$ 116,418	\$ 104,646
Interest bearing	1,090,955	1,083,731
Total deposits	1,207,373	1,188,377
Short-term borrowings	86,750	87,850
Long-term debt	45,068	65,178
Accrued interest and other liabilities	10,529	9,833
Total liabilities	1,349,720	1,351,238

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**Shareholder s Equity**

Preferred stock \$1.25 par value per share; 500,000 shares authorized; no shares issued or outstanding	0	0
Common stock, no par value - \$0.05205 stated value per share; 50,000,000 shares authorized; 7,991,791 and 7,986,966 shares issued; 7,991,512 and 7,985,667 shares outstanding	416	416
Additional paid-in capital	121,579	121,508
Retained earnings	40,670	38,680
Accumulated other comprehensive income (loss)	15	(88)
Treasury stock - common, 279 and 1,299, at cost	(7)	(32)
<b>Total shareholders equity</b>	<b>162,673</b>	<b>160,484</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 1,512,393</b>	<b>\$ 1,511,722</b>

*The Notes to Consolidated Financial Statements are an integral part of these statements.*

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Consolidated Statements of Income (Unaudited)

	Three Months Ended	
	March 31, 2011	March 31, 2010
<i>(Dollars in Thousands, Except per Share Data)</i>		
<b>Interest and dividend income</b>		
Interest and fees on loans	\$ 12,435	\$ 11,839
Interest and dividends on investment securities		
Taxable	2,095	1,546
Tax-exempt	771	368
Short term investments	24	30
<b>Total interest and dividend income</b>	<b>15,325</b>	<b>13,783</b>
<b>Interest expense</b>		
Interest on deposits	2,525	2,680
Interest on short-term borrowings	123	164
Interest on long-term debt	289	442
<b>Total interest expense</b>	<b>2,937</b>	<b>3,286</b>
<b>Net interest income</b>	<b>12,388</b>	<b>10,497</b>
Provision for loan losses	3,195	1,420
<b>Net interest income after provision for loan losses</b>	<b>9,193</b>	<b>9,077</b>
<b>Other income</b>		
Service charges on deposit accounts	1,485	1,439
Other service charges, commissions and fees	370	396
Trust department income	1,012	760
Brokerage income	404	373
Mortgage banking activities	696	361
Earnings on life insurance	330	162
Merchant processing fees	255	257
Other income	145	201
Investment securities gains	379	398
<b>Total other income</b>	<b>5,076</b>	<b>4,347</b>
<b>Other expenses</b>		
Salaries and employee benefits	4,832	4,598
Occupancy and equipment	562	559
Furniture and equipment	681	601
Data processing	312	294
Telephone	176	172
Advertising and bank promotions	258	180
FDIC insurance	550	544

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Professional services	322	293
Taxes other than income	205	133
Intangible asset amortization	52	65
Other operating expense	1,489	1,221
<b>Total other expense</b>	<b>9,439</b>	<b>8,660</b>
Income before income tax	4,830	4,764
Income tax expense	1,003	1,358
<b>Net income</b>	<b>\$ 3,827</b>	<b>\$ 3,406</b>

**Per share information:**

Basic earnings per share	\$ 0.48	\$ 0.52
Diluted earnings per share	0.48	0.52
Dividends per share	0.23	0.22

*The Notes to Consolidated Financial Statements are an integral part of these statements*

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## Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

<i>(Dollars in thousands)</i>	<u>Three Months Ended March 31, 2011 and 2010</u>					Total Shareholders Equity
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	
Balance, January 1, 2010	\$337	\$82,895	\$28,857	(\$501)	(\$702)	\$110,886
<b>Comprehensive income</b>						
Net income	0	0	3,406	0	0	3,406
Net unrealized securities gains	0	0	0	681	0	681
Net unrealized gains on derivatives	0	0	0	404	0	404
Comprehensive income						4,491