PENNS WOODS BANCORP INC
Form 10-Q
November 10, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

ý Quarterly Report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

for the Quarterly Period Ended September 30, 2014.

o Transition report pursuant to Section 13 or 15 (d) of the Exchange Act

For the Transition Period from to .

No. 0-17077
(Commission File Number)

PENNS WOODS BANCORP, INC.
(Exact name of Registrant as specified in its charter)

PENNSYLVANIA (State or other jurisdiction of incorporation or organization)	23-2226454 (I.R.S. Employer Identification No.)
300 Market Street, P.O. Box 967 Williamsport, Pennsylvania (Address of principal executive offices)	17703-0967 (Zip Code)

(570) 322-1111
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 ý NO o

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 ý NO o

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Small reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO ý

On November 1, 2014 there were 4,807,903 shares of the Registrant's common stock outstanding.

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements
PENNS WOODS BANCORP, INC.
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

(In Thousands, Except Share Data)	September 30, 2014	December 31, 2013
ASSETS:		
Noninterest-bearing balances	$19,556	$23,723
Interest-bearing balances in other financial institutions	5,686	770
Federal funds sold	—	113
Total cash and cash equivalents	25,242	24,606
Investment securities available for sale, at fair value	233,634	288,612
Loans held for sale	1,602	1,626
Loans	890,727	818,344
Allowance for loan losses	(9,250)	(10,144)
Loans, net	881,477	808,200
Premises and equipment, net	21,509	20,184
Accrued interest receivable	4,298	4,696
Bank-owned life insurance	25,781	25,410
Investment in limited partnerships	1,725	2,221
Goodwill	17,104	17,104
Intangibles	1,538	1,801
Deferred tax asset	7,036	9,889
Other assets	6,176	7,646
TOTAL ASSETS	$1,227,122	$1,211,995
LIABILITIES:		
Interest-bearing deposits	$756,540	$755,625
Noninterest-bearing deposits	232,588	217,377
Total deposits	989,128	973,002
Short-term borrowings	17,213	26,716
Long-term borrowings	71,202	71,202
Accrued interest payable	411	405
Other liabilities	12,164	12,855
TOTAL LIABILITIES	1,090,118	1,084,180
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value, 3,000,000 shares authorized; no shares issued	—	—
Common stock, par value $8.33, 15,000,000 shares authorized; 5,001,972 and 4,999,929 shares issued	41,682	41,665
Additional paid-in capital	49,871	49,800
Retained earnings	52,482	47,554
Accumulated other comprehensive loss:		
Net unrealized gain (loss) on available for sale securities	2,514	(2,169)
Defined benefit plan	(2,725)	(2,725)
Treasury stock at cost, 192,340 and 180,596 shares	(6,820)	(6,310)

TOTAL SHAREHOLDERS’ EQUITY	137,004	127,815
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$1,227,122	$1,211,995

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands, Except Per Share Data)	2014	2013	2014	2013
INTEREST AND DIVIDEND INCOME:				
Loans, including fees	$9,298	$9,211	$27,023	$23,256
Investment securities:				
Taxable	1,198	1,570	4,062	4,520
Tax-exempt	837	1,124	2,660	3,553
Dividend and other interest income	127	74	401	208
TOTAL INTEREST AND DIVIDEND INCOME	11,460	11,979	34,146	31,537
INTEREST EXPENSE:				
Deposits	748	855	2,247	2,406
Short-term borrowings	5	16	32	63
Long-term borrowings	489	479	1,431	1,480
TOTAL INTEREST EXPENSE	1,242	1,350	3,710	3,949
NET INTEREST INCOME	10,218	10,629	30,436	27,588
PROVISION FOR LOAN LOSSES	460	600	1,245	1,675
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	9,758	10,029	29,191	25,913
NON-INTEREST INCOME:				
Service charges	620	671	1,822	1,651
Securities gains (losses), net	2,145	(3)	3,025	2,257
Bank-owned life insurance	185	199	736	481
Gain on sale of loans	602	551	1,313	1,204
Insurance commissions	212	286	915	797
Brokerage commissions	282	250	804	797
Other	878	888	2,449	1,923
TOTAL NON-INTEREST INCOME	4,924	2,842	11,064	9,110
NON-INTEREST EXPENSE:				
Salaries and employee benefits	4,126	4,515	12,796	11,025
Occupancy	547	554	1,729	1,302
Furniture and equipment	591	422	1,910	1,242
Pennsylvania shares tax	232	225	738	617
Amortization of investment in limited partnerships	165	165	496	496
Federal Deposit Insurance Corporation deposit insurance	193	173	572	421
Marketing	144	156	380	371
Intangible amortization	82	91	263	122
Other	2,233	2,674	6,494	6,195
TOTAL NON-INTEREST EXPENSE	8,313	8,975	25,378	21,791
INCOME BEFORE INCOME TAX PROVISION	6,369	3,896	14,877	13,232
INCOME TAX PROVISION	1,576	650	3,152	2,643
NET INCOME	$4,793	$3,246	$11,725	$10,589
EARNINGS PER SHARE - BASIC	$0.99	$0.67	$2.43	$2.48
EARNINGS PER SHARE - DILUTED	$0.99	$0.67	$2.43	$2.48
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	4,820,346	4,818,494	4,820,041	4,272,989

WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED	4,820,346	4,818,494	4,820,041	4,272,989
DIVIDENDS DECLARED PER SHARE	$0.47	$0.47	$1.41	$1.66

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2014	2013	2014	2013
Net Income	$4,793	$3,246	$11,725	$10,589
Other comprehensive (loss) income:				
Change in unrealized gain (loss) on available for sale securities	863	(1,647)	10,121	(14,354)
Tax effect	(293)	560	(3,442)	4,881
Net realized (gain) loss included in net income	(2,145)	3	(3,025)	(2,257)
Tax effect	729	(1)	1,029	767
Total other comprehensive (loss) income	(846)	(1,085)	4,683	(10,963)
Comprehensive income (loss)	$3,947	$2,161	$16,408	$(374)

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)

(In Thousands, Except Per Share Data)	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	TOTAL SHAREHOLDERS' EQUITY
Balance, December 31, 2012	4,019,112	$ 33,492	$ 18,157	$ 43,030	$ 5,357	$ (6,310)	$ 93,726
Net income				10,589			10,589
Other comprehensive loss					(10,963)		(10,963)
Dividends declared, ($1.66 per share)				(7,295)			(7,295)
Common shares issued for employee stock purchase plan	1,394	12	47				59
Common shares issued for acquisition of Luzerne National Bank Corporation	978,977	8,158	31,578				39,736
Balance, September 30, 2013	4,999,483	$ 41,662	$ 49,782	$ 46,324	$ (5,606)	$ (6,310)	$ 125,852

(In Thousands, Except Per Share Data)	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	TOTAL SHAREHOLDERS' EQUITY
Balance, December 31, 2013	4,999,929	$ 41,665	$ 49,800	$ 47,554	$ (4,894)	$ (6,310)	$ 127,815
Net income				11,725			11,725
Other comprehensive income					4,683		4,683
Dividends declared, ($1.41 per share)				(6,797)			(6,797)
Common shares issued for employee stock purchase plan	2,043	17	71				88
Purchase of treasury stock (11,744 shares)						(510)	(510)
Balance, September 30, 2014	5,001,972	$ 41,682	$ 49,871	$ 52,482	$ (211)	$ (6,820)	$ 137,004

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
(In Thousands)	2014	2013
OPERATING ACTIVITIES:		
Net Income	$11,725	$10,589
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,351	1,475
Amortization of intangible assets	263	122
Provision for loan losses	1,245	1,675
Accretion and amortization of investment security discounts and premiums	509	(44)
Securities gains, net	(3,025)	(2,257)
Originations of loans held for sale	(38,703)	(42,985)
Proceeds of loans held for sale	40,040	46,375
Gain on sale of loans	(1,313)	(1,204)
Earnings on bank-owned life insurance	(736)	(481)
Decrease (increase) in deferred tax asset	440	(86)
Other, net	309	(1,212)
Net cash provided by operating activities	13,105	11,967
INVESTING ACTIVITIES:		
Investment securities available for sale:		
Proceeds from sales	98,815	69,898
Proceeds from calls, maturities, and repayments of principal	5,731	12,775
Purchases	(39,774)	(71,221)
Net increase in loans	(74,874)	(43,401)
Acquisition of bank premises and equipment	(2,459)	(2,744)
Proceeds from the sale of foreclosed assets	534	—
Purchase of bank-owned life insurance	(30)	(981)
Proceeds from bank-owned life insurance death benefit	367	—
Proceeds from redemption of regulatory stock	1,654	2,237
Purchases of regulatory stock	(1,837)	(980)
Acquisition, net of cash acquired	—	17,487
Net cash used for investing activities	(11,873)	(16,930)
FINANCING ACTIVITIES:		
Net increase in interest-bearing deposits	915	38,636
Net increase in noninterest-bearing deposits	15,211	17,903
Repayment of long-term borrowings	—	(5,528)
Net decrease in short-term borrowings	(9,503)	(20,910)
Dividends paid	(6,797)	(7,295)
Issuance of common stock	88	59
Purchases of treasury stock	(510)	—
Net cash (used for) provided by financing activities	(596)	22,865
NET INCREASE IN CASH AND CASH EQUIVALENTS	636	17,902
CASH AND CASH EQUIVALENTS, BEGINNING	24,606	15,142
CASH AND CASH EQUIVALENTS, ENDING	$25,242	$33,044

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(In Thousands)	Nine Months Ended September 30, 2014	2013
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$3,704	$3,880
Income taxes paid	2,415	2,770
Transfer of loans to foreclosed real estate	352	185
Acquisition of Luzerne National Bank Corporation		
Non-cash assets acquired:		
Securities available for sale	—	21,783
Loans	—	250,377
Premises and equipment, net	—	8,014
Accrued interest receivable	—	726
Bank-owned life insurance	—	7,419
Intangibles	—	2,015
Other assets	—	2,636
Goodwill	—	14,072
	—	307,042
Liabilities assumed:		
Deferred tax liability	—	76
Interest-bearing deposits	—	194,438
Noninterest-bearing deposits	—	82,518
Short-term borrowings	—	2,766
Accrued interest payable	—	103
Other liabilities	—	4,892
	—	284,793
Net non-cash assets acquired	—	22,249
Cash acquired	$—	$20,363

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

The consolidated financial statements include the accounts of Penns Woods Bancorp, Inc. (the "Company") and its wholly-owned subsidiaries: Woods Investment Company, Inc., Woods Real Estate Development Company, Inc., Luzerne Bank, and Jersey Shore State Bank (Jersey Shore State Bank and Luzerne Bank are referred to together as the "Bank") and Jersey Shore State Bank's wholly-owned subsidiary, The M Group, Inc. D/B/A The Comprehensive Financial Group ("The M Group"). All significant inter-company balances and transactions have been eliminated in the consolidation.

The interim financial statements are unaudited, but in the opinion of management reflect all adjustments necessary for the fair presentation of results for such periods. The results of operations for any interim period are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

The accounting policies followed in the presentation of interim financial results are the same as those followed on an annual basis. These policies are presented on pages 38 through 43 of the Annual Report on Form 10-K for the year ended December 31, 2013.

In reference to the attached financial statements, all adjustments are of a normal recurring nature pursuant to Rule 10-01(b) (8) of Regulation S-X.

Note 2. Accumulated Other Comprehensive Loss

The changes in accumulated other comprehensive loss by component as of September 30, 2014 and 2013 were as follows:

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
(In Thousands)	Net Unrealized Gain (Loss) on Available for Sale Securities	Defined Benefit Plan	Total	Net Unrealized Gain (Loss) on Available for Sale Securities	Defined Benefit Plan	Total
Balance, June 30,	$3,360	$(2,725)	$635	$286	$(4,807)	$(4,521)
Other comprehensive income (loss) before reclassifications	570	—	570	(1,087)	—	(1,087)
Amounts reclassified from accumulated other comprehensive income (loss)	(1,416)	—	(1,416)	2	—	2
Net current-period other comprehensive loss	(846)	—	(846)	(1,085)	—	(1,085)
Balance, September 30	$2,514	$(2,725)	$(211)	$(799)	$(4,807)	$(5,606)
	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		

(In Thousands)	Net Unrealized Gain (Loss) on Available for Sale Securities	Defined Benefit Plan	Total	Net Unrealized Gain (Loss) on Available for Sale Securities	Defined Benefit Plan	Total
Balance, December 31	$(2,169)	$(2,725)	$(4,894)	$10,164	$(4,807)	$5,357
Other comprehensive (loss) income before reclassifications	6,679	—	6,679	(9,473)	—	(9,473)
Amounts reclassified from accumulated other comprehensive loss	(1,996)	—	(1,996)	(1,490)	—	(1,490)
Net current-period other comprehensive (loss) income	4,683	—	4,683	(10,963)	—	(10,963)
Balance, September 30	$2,514	$(2,725)	$(211)	$(799)	$(4,807)	$(5,606)

The reclassifications out of accumulated other comprehensive loss as of September 30, 2014 and 2013 were as follows:

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Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income Three Months Ended September 30, 2014	 Three Months Ended September 30, 2013	Affected Line Item in the Consolidated Statement of Income
Net unrealized gain (loss) on available for sale securities	$ 2,145	$ (3)	Securities gains (losses), net
Income tax effect	729	(1)	Income tax provision
Total reclassifications for the period	$ 1,416	$ (2)	Net of tax

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income Nine Months Ended September 30, 2014	 Nine Months Ended September 30, 2013	Affected Line Item in the Consolidated Statement of Income
Net unrealized gain on available for sale securities	$ 3,025	$ 2,257	Securities gains (losses), net
Income tax effect	1,029	767	Income tax provision
Total reclassifications for the period	$ 1,996	$ 1,490	Net of tax

Note 3. Recent Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This update applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. This ASU is not expected to have a significant impact on the Company’s financial statements.

In January 2014, FASB issued ASU 2014-01, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects. The amendments in this update permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this update should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this update are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. This

ASU is not expected to have a significant impact on the Company's financial statements.

In January 2014, the FASB issued ASU 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The amendments in this update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor, and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. An entity can elect to adopt the amendments in this update using either a modified retrospective transition method or a prospective transition method. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

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In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The amendments in this update change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. For repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The amendments also require enhanced disclosures. The accounting changes in this update are effective for the first interim or annual period beginning after December 15, 2014. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Earlier application is prohibited. The disclosure for certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning after December 15, 2014, and the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The disclosures are not required to be presented for comparative periods before the effective date. The Company is currently evaluating the impact the adoption of the standard will have on the Company’s financial position or results of operations.

In June 2014, the FASB issued ASU 2014-12, Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments when the Terms of an Award Provide that a Performance Target Could Be Achieved After the Requisite Service Period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The amendments in this update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. Entities may apply the amendments in this update either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. If retrospective transition is adopted, the cumulative effect of applying this update as of the beginning of the earliest annual period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that date. Additionally, if retrospective transition is adopted, an entity may use hindsight in measuring and recognizing the compensation cost. This ASU is not expected to have a significant impact on the Company’s financial statements.

In August 2014, the FASB issued ASU 2014-14, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40). The amendments in this update require that a mortgage loan be de-recognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. This ASU is not expected to have a significant impact on the Company’s financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40). The amendments in this update provide guidance in accounting principles generally accepted in the United States of America about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The amendments in this update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter.

Early application is permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

Note 4. Per Share Data

There are no convertible securities which would affect the denominator in calculating basic and dilutive earnings per share. Net income as presented on the consolidated statement of income will be used as the numerator. The following table sets forth the composition of the weighted average common shares (denominator) used in the basic and dilutive earnings per share computation.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Weighted average common shares issued	5,001,505	4,999,090	5,000,827	4,453,585
Average treasury stock shares	(181,159)	(180,596)	(180,786)	(180,596)
Weighted average common shares and common stock equivalents used to calculate basic and diluted earnings per share	4,820,346	4,818,494	4,820,041	4,272,989

Note 5. Investment Securities

The amortized cost and fair values of investment securities at September 30, 2014 and December 31, 2013 are as follows:

	September 30, 2014			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale (AFS)				
U.S. Government and agency securities	$5,935	$1	$(140)	$5,796
Mortgage-backed securities	10,689	495	(49)	11,135
Asset-backed securities	2,536	38	(3)	2,571
State and political securities	108,801	3,779	(798)	111,782
Other debt securities	90,130	932	(1,326)	89,736
Total debt securities	218,091	5,245	(2,316)	221,020
Financial institution equity securities	8,304	938	(21)	9,221
Other equity securities	3,430	64	(101)	3,393
Total equity securities	11,734	1,002	(122)	12,614
Total investment securities AFS	$229,825	$6,247	$(2,438)	$233,634

	December 31, 2013			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale (AFS)				
U.S. Government and agency securities	$9,989	$17	$(83)	$9,923
Mortgage-backed securities	9,966	694	(68)	10,592
Asset-backed securities	6,700	43	(179)	6,564
State and political securities	145,121	2,120	(5,446)	141,795
Other debt securities	108,939	879	(3,045)	106,773
Total debt securities	280,715	3,753	(8,821)	275,647
Financial institution equity securities	8,842	1,820	—	10,662
Other equity securities	2,342	28	(67)	2,303
Total equity securities	11,184	1,848	(67)	12,965
Total investment securities AFS	$291,899	$5,601	$(8,888)	$288,612

The following tables show the Company’s gross unrealized losses and fair value, aggregated by investment category and length of time, that the individual securities have been in a continuous unrealized loss position, at September 30, 2014 and December 31, 2013.

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	September 30, 2014					
	Less than Twelve Months		Twelve Months or Greater		Total	
(In Thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government and agency securities	$1,010	$(1)	$3,816	$(139)	$4,826	$(140)
Mortgage-backed securities	3,903	(40)	891	(9)	4,794	(49)
Asset-backed securities	—	—	567	(3)	567	(3)
State and political securities	1,816	(11)	7,722	(787)	9,538	(798)
Other debt securities	24,535	(565)	27,188	(761)	51,723	(1,326)
Total debt securities	31,264	(617)	40,184	(1,699)	71,448	(2,316)
Financial institution equity securities	369	(21)	—	—	369	(21)
Other equity securities	366	(67)	766	(34)	1,132	(101)
Total equity securities	735	(88)	766	(34)	1,501	(122)
Total	$31,999	$(705)	$40,950	$(1,733)	$72,949	$(2,438)

	December 31, 2013					
	Less than Twelve Months		Twelve Months or Greater		Total	
(In Thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government and agency securities	$7,740	$(83)	$—	$—	$7,740	$(83)
Mortgage-backed securities	2,483	(68)	—	—	2,483	(68)
Asset-backed securities	3,847	(177)	712	(2)	4,559	(179)
State and political securities	42,577	(2,558)	8,233	(2,888)	50,810	(5,446)
Other debt securities	73,254	(3,045)	—	—	73,254	(3,045)
Total debt securities	129,901	(5,931)	8,945	(2,890)	138,846	(8,821)
Financial institution equity securities	—	—	—	—	—	—
Other equity securities	274	(22)	655	(45)	929	(67)
Total equity securities						