

CHOICEONE FINANCIAL SERVICES INC
Form 10-Q
August 12, 2015

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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: **000-19202**

ChoiceOne Financial Services, Inc.

(Exact Name of Registrant as Specified in its Charter)

Michigan

(State or Other Jurisdiction of
Incorporation or Organization)

38-2659066

(I.R.S. Employer Identification No.)

109 East Division

Sparta, Michigan

(Address of Principal Executive Offices)

49345

(Zip Code)

(616) 887-7366

(Registrant's Telephone Number, including Area Code)

Indicate by checkmark 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

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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 Website, 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.

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 July 31, 2015, the Registrant had outstanding 3,287,656 shares of common stock.

PART I. FINANCIAL INFORMATIONItem 1. Financial Statements.ChoiceOne Financial Services, Inc.
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
Assets		
Cash and due from banks	\$ 15,391	\$ 16,650
Securities available for sale (Note 2)	150,974	142,521
Federal Home Loan Bank stock	1,614	1,913
Federal Reserve Bank stock	1,272	1,272
Loans held for sale	2,833	2,170
Loans (Note 3)	335,939	346,113
Allowance for loan losses (Note 3)	(4,353)	(4,173)
Loans, net	331,587	341,940
Premises and equipment, net	11,811	11,795
Cash value of life insurance policies	12,084	12,071
Intangible assets, net	603	827
Goodwill	13,728	13,728
Other assets	5,087	4,753
Total assets	\$ 546,984	\$ 549,640
Liabilities		
Deposits – noninterest-bearing	\$ 114,604	\$ 113,006
Deposits – interest-bearing	308,184	321,822
Total deposits	422,788	434,828
Repurchase agreements	21,040	26,743
Advances from Federal Home Loan Bank	31,873	18,363
Other liabilities	3,179	3,516
Total liabilities	478,880	483,450
Shareholders' Equity		

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Common stock and paid in capital, no par value; shares authorized: 7,000,000; shares outstanding: 3,286,951 at June 30, 2015 and 3,295,834 at December 31, 2014	46,353	46,552
Retained earnings	20,587	18,565
Accumulated other comprehensive income, net	1,164	1,073
Total shareholders' equity	68,104	66,190
Total liabilities and shareholders' equity	\$546,984	\$549,640

See accompanying notes to interim consolidated financial statements.

ChoiceOne Financial Services, Inc.

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data)	2015	2014	2015	2014
Interest income				
Loans, including fees	\$3,988	\$3,940	\$7,930	\$7,764
Securities:				
Taxable	485	454	937	936
Tax exempt	357	343	706	690
Other	2	1	5	4
Total interest income	4,832	4,738	9,578	9,394
Interest expense				
Deposits	215	262	440	541
Advances from Federal Home Loan Bank	28	15	47	26
Other	10	12	22	24
Total interest expense	253	289	509	591
Net interest income	4,579	4,449	9,069	8,803
Provision for loan losses	—	—	100	100
Net interest income after provision for loan losses	4,579	4,449	8,969	8,703
Noninterest income				
Customer service charges	1,062	963	2,045	1,822
Insurance and investment commissions	292	206	633	437
Gains on sales of loans	309	304	812	450
Gains on sales of securities	45	27	53	92
Losses on sales and write-downs of other assets	(55)	(110)	(76)	(111)
Earnings on life insurance policies	87	73	475	143
Other	111	119	202	235
Total noninterest income	1,851	1,582	4,144	3,068
Noninterest expense				
Salaries and benefits	2,214	2,076	4,513	4,160
Occupancy and equipment	593	596	1,188	1,213
Data processing	578	461	1,132	887
Professional fees	236	236	513	433
Supplies and postage	73	105	178	218
Advertising and promotional	58	93	125	135
Intangible amortization	112	112	224	224

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Loan and collection expense	7	40	51	66
FDIC insurance	72	91	149	171
Other	544	403	971	763
Total noninterest expense	4,485	4,213	9,044	8,270
Income before income tax	1,945	1,818	4,069	3,501
Income tax expense	514	481	996	916
Net income	\$1,431	\$1,337	\$3,073	\$2,585
Basic earnings per share (Note 4)	\$0.43	\$0.40	\$0.93	\$0.78
Diluted earnings per share (Note 4)	\$0.43	\$0.40	\$0.93	\$0.78
Dividends declared per share	\$0.17	\$0.15	\$0.32	\$0.29

See accompanying notes to interim consolidated financial statements.

ChoiceOne Financial Services, Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Dollars in thousands)	Three Months		Six Months	
	Ended		Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net income	\$1,431	\$1,337	\$3,073	\$2,585
Other comprehensive income (loss):				
Unrealized holding gains (losses) on available for sale securities	(649)	948	191	1,190
Less: Reclassification adjustment for gain (loss) recognized in net income	(45)	(27)	(53)	(92)
Net unrealized gain (loss)	(694)	921	138	1,098
Less tax effect	236	(313)	(47)	(372)
Other comprehensive income (loss), net of tax	(458)	608	91	726
Comprehensive income	\$973	\$1,945	\$3,164	\$3,311

See accompanying notes to interim consolidated financial statements

ChoiceOne Financial Services, Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

(Dollars in thousands)	Number of Shares	Common Stock and Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net	Total
Balance, January 1, 2014	3,295,463	\$46,595	\$14,815	\$ 148	\$61,558
Net income			2,585		2,585
Other comprehensive income				726	726
Shares issued	4,775	75			75
Change in ESOP repurchase obligation		(8)			(8)
Effect of employee stock purchases		6			6
Stock-based compensation		11			11
Cash dividends declared (\$0.29 per share)			(956)		(956)
Balance, June 30, 2014	3,300,238	\$46,679	\$16,444	\$ 874	\$63,997
Balance, January 1, 2015	3,295,834	\$46,552	\$18,565	\$ 1,073	\$66,190
Net income			3,073		3,073
Other comprehensive income				91	91
Shares issued	7,317	102			102
Change in ESOP repurchase obligation		(4)			(4)
Shares repurchased	(16,200)	(371)			(371)
Effect of employee stock purchases		6			6
Stock-based compensation		68			68
Cash dividends declared (\$0.32 per share)			(1,051)		(1,051)
Balance, June 30, 2015	3,286,951	\$46,353	\$20,587	\$ 1,164	\$68,104

See accompanying notes to interim consolidated financial statements.

ChoiceOne Financial Services, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in thousands)	Six Months	
	Ended	Ended
	June 30,	June 30,
	2015	2014
Cash flows from operating activities:		
Net income	\$3,073	\$2,585
Adjustments to reconcile net income to net cash from operating activities:		