

ACCESS NATIONAL CORP
Form 10-Q
August 11, 2017

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, 2017

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: 000-49929

ACCESS NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

Virginia

82-0545425

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1800 Robert Fulton Drive, Suite 300, Reston, Virginia

20191

(Address of principal executive offices)

(Zip Code)

(703) 871-2100

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed from 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 Yes

No

period that the registrant was required to file

such reports), and (2) has been subject to

such filing requirements for the past 90

days.

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

Yes No

the registrant was required to submit and post such files).

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a
smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated
filer," "smaller reporting company" and "emerging growth 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 a smaller reporting company)

Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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. 20,391,994 shares of Common Stock as of August 10, 2017.

ACCESS NATIONAL CORPORATION
FORM 10-Q

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ITEM 1. FINANCIAL STATEMENTS

PART I

ACCESS NATIONAL CORPORATION
CONSOLIDATED BALANCE SHEETS

(In Thousands, Except for Share and Per Share Data)

	June 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Cash and due from banks	\$ 19,772	\$ 9,186
Interest-bearing balances and federal funds sold	46,889	81,873
Total cash and cash equivalents	66,661	91,059
Investment securities:		
Available-for-sale, at fair value	402,557	194,090
Held-to-maturity, at amortized cost (fair value of \$16,449 and \$9,293, respectively)	15,786	9,200
Total investment securities	418,343	203,290
Restricted stock, at amortized cost	8,742	10,092
Loans held for sale, at fair value	34,954	35,676
Loans held for investment, net of allowance for loan losses of \$14,671 and \$16,008, respectively	1,913,674	1,033,690
Premises, equipment and land, net	29,363	7,084
Goodwill and intangible assets	184,194	1,833
Other assets	101,059	47,984
Total assets	\$ 2,756,990	\$ 1,430,708
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Noninterest-bearing deposits	\$ 660,481	\$ 362,036
Interest-bearing demand deposits	454,675	126,189
Savings and money market deposits	611,708	314,396
Time deposits	460,342	251,706
Total deposits	2,187,206	1,054,327
Short-term borrowings	55,429	186,009
Long-term borrowings	80,000	60,000
Trust preferred debentures	3,843	—
Other liabilities and accrued expenses	15,644	9,842
Total liabilities	2,342,122	1,310,178
SHAREHOLDERS' EQUITY		
Common stock \$0.835 par value; 60,000,000 shares authorized; 20,378,994 and 10,636,242 issued and outstanding, respectively	17,016	8,881
Additional paid in capital	303,997	21,779
Retained earnings	94,664	91,439
Accumulated other comprehensive loss, net	(809)	(1,569)
Total shareholders' equity	414,868	120,530
Total liabilities and shareholders' equity	\$ 2,756,990	\$ 1,430,708

See accompanying notes to the consolidated financial statements (unaudited).

ACCESS NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except for Share and Per Share Data)
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
INTEREST AND DIVIDEND INCOME				
Interest and fees on loans	\$23,746	\$ 11,354	\$35,945	\$ 22,230
Interest on federal funds sold and bank balances	221	96	352	166
Interest and dividends on securities	3,172	886	4,396	1,921
Total interest and dividend income	27,139	12,336	40,693	24,317
INTEREST EXPENSE				
Interest on deposits	2,419	1,274	3,921	2,425
Interest on other borrowings	545	301	907	581
Total interest expense	2,964	1,575	4,828	3,006
Net interest income	24,175	10,761	35,865	21,311
Provision for loan losses	900	120	2,300	120
Net interest income after provision for loan losses	23,275	10,641	33,565	21,191
NONINTEREST INCOME				
Service charges and fees	669	239	949	499
Gain on sale of loans	6,046	7,273	9,391	11,103
Other income	2,170	1,661	4,548	4,390
Total noninterest income	8,885	9,173	14,888	15,992
NONINTEREST EXPENSE				
Salaries and benefits	12,660	8,407	20,700	16,075
Occupancy and equipment	1,981	749	2,801	1,510
Other operating expenses	11,585	3,147	14,920	5,847
Total noninterest expense	26,226	12,303	38,421	23,432
Income before income taxes	5,934	7,511	10,032	13,751
Income tax expense	2,088	2,633	3,579	4,778
NET INCOME	\$3,846	\$ 4,878	\$6,453	\$ 8,973
Earnings per common share:				
Basic	\$0.19	\$ 0.46	\$0.42	\$ 0.85
Diluted	\$0.19	\$ 0.46	\$0.41	\$ 0.84
Average outstanding shares:				
Basic	20,335,070	10,576,516	15,529,934	10,564,833
Diluted	20,453,991	10,639,167	15,655,610	10,622,763

See accompanying notes to the consolidated financial statements (unaudited).

ACCESS NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$3,846	\$4,878	\$6,453	\$8,973
Other comprehensive income:				
Unrealized holding gains arising during the period	1,103	1,288	1,169	4,326
Reclassification adjustment for gains included in net income	—	(51)	—	(109)
Unrealized losses on interest rate swaps	(4)	—	(4)	—
Tax effect	(382)	(433)	(405)	(1,476)
Total other comprehensive income	717	804	760	2,741
Total comprehensive income	\$4,563	\$5,682	\$7,213	\$11,714

See accompanying notes to the consolidated financial statements (unaudited).

ACCESS NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In Thousands, Except for Share and Per Share Data)
(Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance December 31, 2015	\$8,805	\$19,953	\$81,385	\$ (1,005)	\$109,138
Net income	—	—	8,973	—	8,973
Other comprehensive income	—	—	—	2,741	2,741
Cash dividends (\$0.30 per share)	—	—	(3,170)	—	(3,170)
Exercise of stock options (32,638 shares)	27	381	—	—	408
Issuance of restricted common stock (6,205 shares)	5	123	—	—	128
Stock-based compensation	—	168	—	—	168
Balance June 30, 2016	\$8,837	\$20,625	\$87,188	\$ 1,736	\$118,386
Balance December 31, 2016	\$8,881	\$21,779	\$91,439	\$ (1,569)	\$120,530
Net income	—	—	6,453	—	6,453
Other comprehensive income	—	—	—	760	760
Cash dividends (\$0.30 per share)	—	—	(3,228)	—	(3,228)
Exercise of stock options (126,899 shares)	106	1,688	—	—	1,794
Dividend reinvestment plan shares issued from reserve (95,207 shares)	79	2,475	—	—	2,554
Issuance of restricted common stock (4,549 shares)	4	125	—	—	129
Issuance of common stock (9,516,097 shares)	7,946	277,727	—	—	285,673
Stock-based compensation	—	203	—	—	203
Balance June 30, 2017	\$17,016	\$303,997	\$94,664	\$ (809)	\$414,868

See accompanying notes to the consolidated financial statements (unaudited).

ACCESS NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(Unaudited)

	For the Six Months Ended June 30,	
	2017	2016
Cash Flows From Operating Activities		
Net income	\$6,453	\$8,973
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,500	254
Provision for loan losses	2,300	120
Originations of loans held for sale	(211,458)	(260,511)
Proceeds from sales of loans held for sale	221,571	260,633
Gain on sale of loans	(9,391)	(11,103)
Gains on sales of securities available-for-sale	—	(109)
Valuation allowance on derivatives	203	(14)
Amortization (accretion) on securities, net	1,150	946
Stock-based compensation	203	168
(Gains) losses on sale of other real estate owned, net	52	—
Income from bank owned life insurance	(527)	(226)
Changes in assets and liabilities:		
Increase in other assets	(2,701)	(4,082)
Decrease in other liabilities	(4,404)	(250)
Net cash used in operating activities	\$4,951	\$(5,201)
Cash Flows from Investing Activities		
Proceeds from maturities, calls, principal repayments and sales of securities available-for-sale	\$192,989	\$17,332
Purchases of securities available-for-sale	(168,609)	(27,290)
Proceeds from sales, maturities and calls of securities held-to-maturity	4,273	5,000
Redemption of restricted stock, net	5,469	100
Purchases of premises, equipment and land, net	(412)	(367)
Purchase of bank owned life insurance	—	(2,500)
Increase in loans, net	(66,467)	(55,230)
Proceeds from sale of other real estate owned	2,072	—
Cash paid in business combination	(608)	—
Cash acquired in business combination	90,940	—
Net cash provided by (used in) investing activities	\$59,647	\$(62,955)
Cash Flows from Financing Activities		
Increase in demand, interest-bearing demand and savings deposits	\$78,092	\$156,426
Increase in time deposits	(1,832)	(25,624)
Increase (decrease) in securities sold under agreements to repurchase	7,478	(9,366)
Decrease in short-term borrowings	(193,983)	(25,000)
Increase in long-term borrowings	20,000	20,000
Payment of dividends on common stock	(3,228)	(3,170)
Proceeds from issuance of common stock	4,477	536
Net cash (used in) provided by financing activities	\$(88,996)	\$113,802
Increase (decrease) in cash and cash equivalents	(24,398)	45,646
Cash and cash equivalents at beginning of the period	91,059	35,889

Cash and cash equivalents at end of the period

\$66,661 \$81,535

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ACCESS NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	For the Six Months Ended June 30,	
	2017	2016
Supplemental Disclosures of Cash Flow Information		
Interest paid	\$4,499	\$2,981
Income taxes	\$2,410	\$4,828
Supplemental Disclosure of Non-Cash Transactions		
Unrealized gains (losses) on securities available for sale	\$1,169	\$4,217
Change in fair value of interest rate swaps	\$(4)	\$—
Transfer of loans held for investment to other real estate owned	\$—	\$129
Transfer of other real estate owned to other assets due to FHA receivable	—	\$(129)
Transactions Related to Business Combination		
Increase in assets and liabilities:		
Loans	\$(815,817)	\$—
Securities	(243,679)	—
Other Assets	(258,306)	—
Noninterest bearing deposits	282,752	—
Interest bearing deposits	773,867	—
Trust preferred debentures	3,824	—
Borrowings	55,925	—
Other liabilities	10,206	—

See accompanying notes to the consolidated financial statements (unaudited).

ACCESS NATIONAL CORPORATION
Notes to Consolidated Financial Statements

Note 1. Basis of Presentation

Access National Corporation (the “Corporation”) is a bank holding company incorporated under the laws of the Commonwealth of Virginia. The Corporation owns all of the stock of its subsidiary, Access National Bank (the “Bank”), which is an independent commercial bank chartered under federal laws as a national banking association and Middleburg Investment Group, which is a non-bank holding company chartered under Virginia law. The Bank has three active wholly owned subsidiaries: Access Real Estate LLC (“Access Real Estate”), a real estate company; ACME Real Estate LLC, a real estate holding company of foreclosed property; and Access Capital Management Holding LLC (“ACM”), a holding company for Capital Fiduciary Advisors, L.L.C., Access Investment Services, L.L.C., and Access Insurance Group, L.L.C.

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with rules and regulations of the Securities and Exchange Commission (“SEC”). The statements do not include all of the information and footnotes required by GAAP for complete financial statements. All adjustments have been made which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. Such adjustments are all of a normal and recurring nature. All significant inter-company accounts and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation. No reclassifications were significant and there was no effect on net income. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the full year. These consolidated financial statements should be read in conjunction with the Corporation’s audited financial statements and the notes thereto as of December 31, 2016, included in the Corporation’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

The Corporation has evaluated subsequent events for potential recognition and/or disclosure in this Quarterly Report on Form 10-Q through the date these consolidated financial statements were issued.

Note 2. Stock-Based Compensation Plan

During the first six months of 2017, the Corporation granted 128,100 stock options to officers, directors, and employees under the 2009 Stock Option Plan (the “Plan”). Options granted under the Plan have an exercise price equal to the fair market value as of the grant date. Options granted vest over various periods ranging from 2.5 years to 4.0 years and expire one year after the full vesting date. Stock-based compensation expense recognized in other operating expense during the six month periods ended June 30, 2017 and 2016 was \$203 thousand and \$168 thousand, respectively. The fair value of options is estimated on the date of grant using a Black Scholes option-pricing model with the assumptions noted below.

Total unrecognized compensation cost related to non-vested stock-based compensation arrangements granted under the Plan as of June 30, 2017 was \$1.07 million. The cost is expected to be recognized over a weighted average period of 1.42 years.

A summary of stock option activity under the Plan for the six months ended June 30, 2017 and 2016 is presented as follows:

For the Six Months	
Ended June 30,	
2017	2016

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Expected life of options granted, in years	4.66		4.58	
Risk-free interest rate	1.49	%	1.26	%
Expected volatility of stock	29.65	%	30.39	%
Annual expected dividend yield	3.00	%	3.00	%
Fair value of granted options	\$792,766		\$433,479	
Non-vested options	314,821		303,914	

The following table summarizes options outstanding under the Plan for the six months ended June 30, 2017 and 2016:

	June 30, 2017			Aggregate
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Intrinsic Value
Outstanding at beginning of period	481,381	\$ 16.52	2.50	\$5,412,143
Granted	128,100	27.80	4.66	—
Exercised	(126,899)	14.14	1.07	1,651,541
Lapsed or canceled	(3,493)	15.67	1.67	—
Outstanding June 30, 2017	479,089	\$ 20.17	3.01	\$3,208,165
Exercisable at June 30, 2017	164,268	\$ 16.50	1.74	\$1,646,702

	June 30, 2016			Aggregate
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Intrinsic Value
Outstanding at beginning of period	407,832	\$ 15.33	2.81	\$2,091,196
Granted	122,050	18.39	4.58	—
Exercised	(32,638)	12.53	1.33	208,208
Lapsed or canceled	(7,650)	16.16	2.92	—
Outstanding June 30, 2016	489,594	\$ 16.27	2.93	\$1,591,210
Exercisable at June 30, 2016	185,680	\$ 14.27	1.87	\$973,639

Note 3. Securities

The following tables provide the amortized costs and fair values of securities held-to-maturity at June 30, 2017 and December 31, 2016. Held-to-maturity securities are carried at amortized cost, which reflects historical cost, adjusted for amortization of premium and accretion of discounts.

	June 30, 2017			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-maturity				
U.S. Government agencies	\$5,000	\$ 27	\$ —	\$ 5,027
Municipals	10,786	655	(19)	11,422
Total	\$15,786	\$ 682	\$ (19)	\$ 16,449

	December 31, 2016			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-maturity				
U.S. Government agencies	\$5,000	\$ 46	\$ —	\$ 5,046
Municipals	4,200	66	(19)	4,247
Total	\$9,200	\$ 112	\$ (19)	\$ 9,293

The amortized cost and fair value of securities held-to-maturity as of June 30, 2017 and December 31, 2016 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because some of the securities may be called or prepaid without any penalties.

(In Thousands)	June 30, 2017		December 31, 2016	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Held-to-maturity				
U.S. Government agencies:				
Due after one year through five years	\$5,000	\$ 5,027	\$5,000	\$ 5,046
Municipals:				
Due after one year through five years	2,007	2,046	2,028	2,062
Due after five years through ten years	1,611	1,644	1,617	1,649
Due after ten years through fifteen years	7,168	7,732	555	536
Total	\$15,786	\$ 16,449	\$9,200	\$ 9,293

The following tables provide the amortized costs and fair values of securities available-for-sale. Available-for-sale securities are carried at estimated fair value with net unrealized gains or losses reported on an after tax basis as a component of accumulated other comprehensive income in shareholders' equity. The estimated fair value of available-for-sale securities is impacted by interest rates, credit spreads, market volatility, and liquidity.