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ACNB CORP
Form 10-Q/A
September 28, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q/A

(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, 2005

Commission file number 0-11783

ACNB CORPORATION

(Exact name of registrant as specified in its charter)

PENNSYLVANIA

23-2233457

(State or other jurisdiction of
incorporation or organization)

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

16 LINCOLN SQUARE, GETTYSBURG, PENNSYLVANIA

17325-3129

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (717) 334-3161

COMMON STOCK, PAR VALUE \$2.50 PER SHARE

(Title of class)

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 is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

The aggregate market value of the voting stock held by nonaffiliates of the Registrant at June 30, 2005 was approximately \$123,921,000.

The number of shares of Registrant's Common Stock outstanding on July 31, 2005 was 5,436,101.

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PART I

ACNB CORPORATION
ITEM I FINANCIAL INFORMATION
CONSOLIDATED STATEMENTS OF CONDITION

	UNAUDITED JUNE 30, 2005	UNAUDITED JUNE 30, 2004

DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA		
ASSETS		
Cash and due from banks	\$ 17,676	\$ 25,700
Interest-bearing deposits in banks	892	1,100
	-----	-----
Cash and Cash Equivalents	18,568	26,800
Securities available for sale	348,399	366,200
Securities held to maturity, fair value \$21,852; \$35,455; \$25,089	21,534	35,100
Loans held for sale	977	300
Loans, net of allowance for loan losses \$4,086; \$4,096; \$3,938	460,210	418,000
Premises and equipment	14,652	7,700
Restricted investment in bank stocks	8,464	9,000
Investment in bank owned life insurance	20,735	18,800
Investments in low income housing partnerships	5,940	4,900
Intangible asset	3,068	
Goodwill	2,484	
Other assets	11,679	11,500
	-----	-----
TOTAL ASSETS	\$916,710	\$898,700
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing	\$ 80,541	\$ 73,000
Interest bearing	595,477	593,300
	-----	-----
Total Deposits	676,018	666,300
Short-term borrowings	32,731	46,300
Long-term borrowings	125,900	112,000
Other liabilities	7,796	4,500
	-----	-----
TOTAL LIABILITIES	842,445	829,200
	-----	-----

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STOCKHOLDERS' EQUITY

Common stock, \$2.50 par value; 20,000,000 shares authorized; 5,436,101 shares issued and outstanding	13,590	13,590
Retained earnings	64,655	60,300
Accumulated other comprehensive loss	(3,980)	(4,400)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	74,265	69,500
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$916,710	\$898,700
	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

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ACNB CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	UNAUDITED		
	THREE MONTHS ENDED JUNE 30,		
	2005	2004	
	-----	-----	
DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA			
INTEREST INCOME			
Loans, including fees	\$ 6,621	\$ 5,882	\$
Securities:			
Taxable	3,390	3,042	
Tax-exempt	229	229	
Dividends	94	21	
Other	23	8	
	-----	-----	
TOTAL INTEREST INCOME	10,357	9,182	
	-----	-----	
INTEREST EXPENSE			
Deposits	2,738	2,367	
Short-term borrowings	184	175	
Long-term debt	1,079	543	
	-----	-----	
TOTAL INTEREST EXPENSE	4,001	3,085	
	-----	-----	
NET INTEREST INCOME	6,356	6,097	
PROVISION FOR LOAN LOSSES	90	75	
	-----	-----	

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NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,266	6,022	
	-----	-----	
OTHER INCOME			
Service charges on deposit accounts	439	447	
Income from fiduciary activities	205	192	
Earnings on investment in bank owned life insurance	195	198	
Gains (losses) on sales of securities	(272)	(46)	
Service charges on ATM and debit card transactions	184	147	
Commissions from insurance sales	1,001	-	
Other	259	195	
	-----	-----	
TOTAL OTHER INCOME	2,011	1,133	
	-----	-----	
OTHER EXPENSES			
Salaries and employee benefits	3,294	2,575	
Net occupancy expense	342	250	
Equipment expense	554	553	
Other tax expense	241	177	
Professional services	235	113	
Supplies and postage	165	162	
Other operating	1,392	852	
	-----	-----	
TOTAL OTHER EXPENSES	6,223	4,682	
	-----	-----	
INCOME BEFORE INCOME TAXES	2,054	2,473	
	-----	-----	
PROVISION FOR INCOME TAXES	325	655	
	-----	-----	
NET INCOME	\$ 1,729	\$ 1,818	\$
	=====	=====	=====
PER SHARE DATA			
Basic earnings	\$ 0.32	\$ 0.33	\$
	=====	=====	=====
Cash dividends declared	\$ 0.21	\$ 0.21	\$
	=====	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

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	COMMON STOCK	RETAINED EARNINGS
	-----	-----
DOLLARS IN THOUSANDS		
BALANCE - DECEMBER 31, 2003	\$13,590	\$58,711
Comprehensive income (loss):		
Net income	-	3,939
Change in net unrealized gains on securities available for sale, net of reclassification adjustment and taxes	-	-
TOTAL COMPREHENSIVE LOSS		
Cash dividends declared	-	(2,283)
	-----	-----
BALANCE - JUNE 30, 2004	\$13,590	\$60,367
	=====	=====
BALANCE - DECEMBER 31, 2004	\$13,590	\$63,127
Comprehensive income:		
Net income	-	3,811
Change in net unrealized gains on securities available for sale, net of reclassification adjustment and taxes	-	-
TOTAL COMPREHENSIVE INCOME		
Cash dividends declared	-	(2,283)
	-----	-----
BALANCE - JUNE 30, 2005	\$13,590	\$64,655
	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

IN THOUSANDS

CASH FLOWS FROM OPERATING ACTIVITIES

Interest and dividends received
Fees and commissions received
Interest paid
Cash paid to suppliers and employees
Income taxes paid
Loans originated for sale
Proceeds on mortgage loans sold

NET CASH PROVIDED BY OPERATING ACTIVITIES

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from maturities of investment securities held-to-maturity
Proceeds from maturities of investment securities available-for-sale
Proceeds from sales of securities available-for-sale
Purchase of investment securities available-for-sale
Purchase of restricted investment in bank stocks
Proceeds from sales of restricted investments in bank stocks
Purchase of bank owned life insurance
Net increase in loans
Investment in Russell Insurance Group, Inc.
Investments in low income housing partnerships
Capital expenditures
Proceeds from sales of property and foreclosed real estate

NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES

CASH FLOWS FROM FINANCING ACTIVITIES

Net increase (decrease) in demand deposits, interest-bearing deposits, and savings accounts
Net increase in time certificates of deposit
Net decrease in short-term borrowings
Dividends paid
Proceeds from long-term borrowings
Repayments on long-term borrowings

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES

NET DECREASE IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS - BEGINNING

CASH AND CASH EQUIVALENTS - ENDING

RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Net income
Adjustments to reconcile net income to net cash provided by operating activities:
Gains on sales of loans, property and foreclosed real estate
Earnings on investment in bank owned life insurance

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(Gains) losses on sales of securities
Depreciation and amortization
Provision for loan losses
Net amortization of investment securities premiums
(Increase) decrease in interest receivable
Decrease in interest payable
(Increase) in mortgage loans held for sale
(Increase) in other assets
Increase in other liabilities

NET CASH PROVIDED BY OPERATING ACTIVITIES

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

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ACNB CORPORATION
ITEM 1 - NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly ACNB Corporation's financial position as of June 30, 2005 and 2004, and the results of its operations, changes in stockholders' equity and cash flows for the three and six months ended June 30, 2005 and 2004. All such adjustments are of a normal recurring nature.

The accounting policies followed by the Corporation are set forth in Note A to the Corporation's financial statements in the 2004 ACNB Corporation Annual Report on Form 10-K, filed with the SEC on March 15, 2005. The results of operations for the six month period ended June 30, 2005 are not necessarily indicative of the results to be expected for the full year. For comparative purposes, the June 30, 2004 balances have been reclassified to conform with the 2005 presentation. Such reclassifications had no impact on net income.

2. EARNINGS PER SHARE

Earnings per share are based on the weighted average number of shares of stock outstanding during each period. Weighted average shares outstanding for the three month and six month periods ended June 30, 2005 and 2004 were 5,436,101. The Corporation does not have dilutive securities outstanding.

3. COMPONENTS OF NET PERIODIC BENEFIT COST

The components of net periodic benefit costs for the three month and six month periods ended June 30 were as follows:

THREE MONTHS ENDED JUNE 30,

SIX

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	2005	2004	2003
Service cost	\$134	\$109	
Interest cost	206	196	
Expected return on plan assets	(219)	(185)	
Recognized net actuarial loss	38	19	
Other, net	13	15	
	-----	-----	-----
NET PERIODIC BENEFIT COST	\$172	\$154	
	=====	=====	=====

The Corporation previously disclosed in its financial statements for the year ended December 31, 2004 that it expected to contribute \$1,250,000 to its pension plan in 2005. As of June 30, 2005, \$1,250,000 of contributions have been made.

4. GUARANTEES

The Corporation does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit are written conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The Corporation, generally holds collateral and/or personal guarantees supporting these commitments. The Corporation had \$5,177,000 in standby letters of credit, as of June 30, 2005. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees should be sufficient to cover the potential amount of future payment required under the corresponding guarantees. The current amount of the liability, as of June 30, 2005 for guarantees under standby letters of credit issued is not material.

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ACNB CORPORATION

ITEM 1 - NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. COMPREHENSIVE INCOME

The Corporation's other comprehensive income items are unrealized gains (losses) on securities available for sale and unfunded pension liability. There was no change in the unfunded pension liability during the three month and six month periods ended June 30, 2005 and 2004. The components of other comprehensive income (loss) for the three month and six month periods ended June 30 were as follows:

	THREE MONTHS ENDED JUNE 30,	SIX MONTHS ENDED JUNE 30,
	2005	2004
	-----	-----
	-----	-----

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Unrealized holding gains (losses) on available for sale securities arising during the period	\$4,166	\$ (7,126)
Reclassification of (gains) losses realized in net income	272	46
	-----	-----
NET UNREALIZED GAINS (LOSSES) TAX EFFECT	4,438	(7,080)
Tax effect	(1,554)	2,404
	-----	-----
OTHER COMPREHENSIVE INCOME (LOSS)	\$2,884	\$ (4,676)
	=====	=====

6. ACQUISITION OF RUSSELL INSURANCE GROUP, INC.

On November 19, 2004, the Corporation, through its acquisition subsidiary, entered into a definitive agreement to purchase Russell Insurance Group Inc. Under the terms of the definitive agreement, the Corporation agreed to pay \$4,750,000 in cash to acquire Russell Insurance Group Inc. Additional consideration of up to \$2,882,000 is subject to performance criteria for payment over the next three years. In addition, the Corporation through its acquisition subsidiary has entered into a three-year employment contract with Frank Russell, Jr., the President of Russell Insurance Group Inc. On January 5, 2005, the acquisition was completed. The purchase price of \$5,663,000, which includes closing costs of \$220,000, was allocated as follows (in thousands):

Cash	\$ 628
Intangible asset	3,230
Goodwill	2,334
Other assets	1,049
Other liabilities	(1,578)

	\$5,663
	=====

The intangible asset, representing the customer base, will be amortized over 10 years. Goodwill will not be amortized but will be analyzed annually for impairment. Amortization on goodwill and the intangible asset will be deductible for tax purposes.

ACNB CORPORATION

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION AND FORWARD-LOOKING STATEMENTS

INTRODUCTION

The following is management's discussion and analysis of the significant changes

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in the results of operations, capital resources and liquidity presented in its accompanying consolidated financial statements for ACNB Corporation (the Corporation or ACNB), a financial holding company. The consolidated financial statements include its wholly-owned subsidiaries, Adams County National Bank, Russell Insurance Group Inc. and Pennbanks Insurance Company. Please read this discussion in conjunction with the consolidated financial statements and disclosures included herein. Current performance does not guarantee or assure and is not necessarily indicative of similar performance in the future.

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Form 10-Q contains forward-looking statements. Examples of forward-looking statements include, but are not limited to, (a) projections or statements regarding future earnings, expenses, net interest income, other income, earnings or loss per share, asset mix and quality, growth prospects, capital structure and other financial terms, (b) statements of plans and objectives of management or the board of directors, and (c) statements of assumptions, such as economic conditions in the Corporation's market areas. Such forward-looking statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "intends," "will," "should," "anticipates," or the negative of any of the foregoing or other variations thereon or comparable terminology, or by discussion of strategy. Forward-looking statements are subject to certain risks and uncertainties. Actual results may differ materially from those projected in the forward-looking statements. We caution readers not to place undue reliance on these forward-looking statements. They only reflect management's analysis, as of this date. The Corporation does not revise or update these forward-looking statements to reflect events or changed circumstances. Please carefully review the risk factors described in other documents the Corporation files from time-to-time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q, filed by the Corporation and any Current Reports on Form 8-K filed by the Corporation.

CRITICAL ACCOUNTING POLICIES

The accounting policies that the Corporation's management deems to be most important to the portrayal of its financial condition and results of operations, and that require management's most difficult, subjective or complex judgment, often result in the need to make estimates about the effect of such matters which are inherently uncertain. The following policies are deemed to be critical accounting policies by management:

The allowance for loan losses represents management's estimate of probable losses inherent in our loan portfolio. Management makes numerous assumptions, estimates and adjustments in determining an adequate allowance. The Corporation assesses the level of potential loss associated with its loan portfolio and provides for that exposure through an Allowance for Loan Losses. The allowance is established through a provision for loan losses charged to earnings. The allowance is an estimate of the losses inherent in the loan portfolio as of the end of each reporting period. The Corporation assesses the adequacy of its allowance on a quarterly basis.

The evaluation of securities for other than temporary impairment requires a significant amount of judgment. In estimating other than temporary impairment losses, management considers various factors, including length

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of time the fair value has been below cost, the financial condition of the issuer and the intent and ability of the corporation to hold the securities until recovery. Declines in fair value that are determined to be other than temporary are charged against earnings.

The evaluation of goodwill and intangibles for impairment requires a significant amount of judgment, and includes consideration of various factors, including estimates of future income from the customer base. Impairment would be recognized through a charge to earnings.

RESULTS OF OPERATIONS

Net income totaled \$3,811,000 during the six months ended June 30, 2005. Earnings per share totaled \$0.70 for the same period. Net income during the six months ended June 30, 2004 totaled \$3,939,000 and earnings per share totaled \$0.72. The decrease in net income and earnings per share was primarily driven by lack of securities gains in 2005 as opposed to 2004.

Net interest income totaled \$12,706,000 during the six month period ended June 30, 2005 compared to \$11,966,000 for the same period in 2004. The increase in net interest income during 2005 was primarily related to an increase in average earning assets.

The net interest spread during the first six months of 2005 was 2.68% compared to 2.69% during the same period in 2004. The yield on interest earning assets increased by 0.31% and cost of interest bearing liabilities increased by 0.32% during 2005. The net interest margin was 2.91% for the first half of 2005 compared to 2.92% for the same period in 2004.

Average earning assets were \$869,040,000 during 2005, an increase of \$51,289,000 over the 2004 average of \$817,751,000. Average interest bearing liabilities were \$767,728,000 in 2005, up from \$713,212,000 in 2004.

PROVISION FOR LOAN LOSSES

The provision for loan losses charged against earnings was \$180,000 for the first six months of 2005 compared to \$150,000 for the same period in 2004. The provision for loan losses totaled \$90,000 for the second quarter of 2005 as compared to \$75,000 for the second quarter of 2004. The increase was primarily a result of loan growth. ACNB adjusts the provision for loan losses periodically as necessary to maintain the allowance at a level deemed to meet the risk characteristics of the loan portfolio.

OTHER INCOME

During the first six months of 2005, total other income was \$4,304,000, a \$1,215,000 increase from 2004. The increase was primarily the result of commissions from insurance sales totaling \$2,039,000 recognized by the Corporation's new subsidiary, Russell Insurance Group, Inc. (see footnote 6), partially offset by a decrease in gains on sales of securities of \$1,043,000.

Total other income during the second quarter of 2005 was \$2,011,000 as compared to \$1,133,000 during the second quarter of 2004. The increase was primarily the result of commissions from insurance sales totaling \$1,001,000.

Income from fiduciary activities, which includes both institutional and personal trust management services and brokerage service fees, totaled \$361,000 for the first half of 2005, as compared to \$361,000 during 2004. During the second quarter of 2005, income totaled \$205,000 as compared to \$192,000 during the second quarter of 2004. The change year over year is not significant.

Other income was \$633,000 for the six months ended June 30, 2005, as compared to

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income of \$503,000 during the same period in 2004. The major factor in the increase was the sale of two bank properties for a gain of \$220,000, partially offset by a loss on sale of foreclosed real estate of \$88,000.

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OTHER EXPENSE

The largest component of other expense is salaries and employee benefits, which increased \$1,322,000, or 25%, to \$6,524,000 during the first six months of 2005 as compared to the same period a year ago. Salaries and employee benefits totaled \$3,294,000 during the second quarter of 2005 as compared to \$2,575,000 during the second quarter of 2004. The increase in salary and employee benefits was the result of:

- o Salaries and benefits included expenses related to Russell Insurance Group, Inc. totaling \$1,011,000 and \$538,000 during the first half of 2005 and the second quarter of 2005, respectively.
- o Normal merit increases to employees;
- o Increases in administrative personnel expense as the bank's strategic direction continues to focus on greater growth; and,
- o Increases in employee benefit costs, particularly health and welfare benefit plans, consistent with the rising health care cost trend noted nationwide and increased net periodic pension costs due to the underperformance of investments in the pension plan.

Net occupancy expense totaled \$664,000 and equipment expense totaled \$1,126,000 during the six month period ended June 30, 2005 as compared to \$520,000 and \$1,080,000 during the same period in 2004, respectively. During the second quarter of 2005, net occupancy expense totaled \$342,000 and equipment expense totaled \$554,000 as compared to \$250,000 and \$553,000, respectively, during the second quarter of 2004. The increases were the result of additional operational expenses and maintenance associated with the overall bank growth and more sophisticated delivery channels offered to the bank's customer base as well as additional expenses relating to the New Oxford branch opened in early 2005.

Professional services expense totaled \$506,000 during the first half of 2005, as compared to \$237,000 for the same period in 2004. During the second quarter of 2005, professional services expense totaled \$235,000 as compared to \$113,000 during the second quarter of 2004. The increase was primarily a result of internal audit services and expenses relating to Sarbanes-Oxley ss. 404 compliance.

Other operating expenses totaled \$2,622,000 during the six month period ended June 30, 2005, compared to \$1,672,000 during the same period in 2004. During the second quarter of 2005, other operating expenses totaled \$1,392,000 as compared to \$852,000 during the second quarter of 2004. Significant expense components in this category include marketing and advertising and expenses incurred by Russell Insurance Group, Inc., which totaled \$455,000 and \$215,000 during the first half and second quarter of 2005, respectively.

INCOME TAX EXPENSE

During the six month period ended June 30, 2005, ACNB recognized income taxes of \$712,000, or 15.7% of pretax income as compared to \$1,448,000, or 26.9% of

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pre-tax income during the same period in 2004. The effective tax rate during the second quarter of 2005 was 15.8% as compared to 26.5% during the second quarter of 2004. The variances from the federal statutory rate of 35% are generally due to tax-exempt income and investments in low-income housing partnerships (which qualify for federal tax credits).

The effective tax rate during the periods ended June 30, 2005 and 2004 included historical and low income housing tax credits of \$432,000 and \$142,000, respectively, associated with low income housing projects.

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FINANCIAL CONDITION

Average earning assets during the six months ended June 30, 2005 increased to \$869,040,000 from \$817,751,000 during the same period in 2004. Average funding sources, or interest bearing liabilities, increased in 2005 to \$767,728,000 from \$713,212,000 in 2004.

INVESTMENT SECURITIES

ACNB uses investment securities to generate interest and dividend income, to manage interest rate risk, and to provide liquidity. Much of the investment activity focused on U.S. Government agencies, tax-free municipal, and corporate securities. These securities provide the appropriate characteristics with respect to yield and maturity relative to the management of the overall balance sheet.

At June 30, 2005, the securities balance included a net unrealized loss on available for sale securities of \$3,588,000, net of taxes, versus a net unrealized loss of \$2,196,000, net of taxes at December 31, 2004. The increase in interest rates during 2004 and 2005 led to the depreciation in the fair value of securities during 2005. Management has not recognized other than temporary impairment on any of the securities.

LOANS

Loans outstanding increased \$42,803,000 from June 30, 2004 to June 30, 2005 and \$24,193,000 from December 31, 2004 to June 30, 2005. The growth in loans is consistent with a stable local economy and lending to support existing customers. The commercial loan growth experienced in 2005 is the result of actively marketing to local businesses. Additionally, ACNB has been able to participate with other institutions on larger loans.

Most of the Corporation's activities are with customers located within the south central Pennsylvania and northern Maryland region of the country. The Corporation does not have any significant concentrations greater than 10% of loans to any one industry or customer.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses at June 30, 2005 was \$4,086,000 or 0.88% of loans, as compared to \$4,096,000 or 0.97% of loans at the end of the second quarter of 2004 and \$3,938,000 or 0.89% at December 31, 2004. Loans past due 90 days and still accruing were \$229,000 and non-accrual loans were \$7,314,000 as of June 30, 2005. The ratio of non-performing loans plus foreclosed assets to total assets was 0.82% at June 30, 2005 as compared to 0.66% at June 30, 2004 and 0.91% at December 31, 2004.

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Loans past due 90 days and still accruing were \$160,000 at December 31, 2004, while non-accruals were \$8,054,000. Nonaccrual and impaired loans include three commercial loan relationships. Payments on these loans were current as of December 31, 2004 and June 30, 2005, however, cash flows reported to the Bank by each of the related companies are not sufficient to service the debt. As a result, the loans have been classified as impaired. The loans were also classified as nonaccrual as a result of a banking regulatory requirement to stop accruing interest on loans for which full payment of principal and interest is not expected. All three of the loans are collateralized by real estate.

No additional funds are committed to be advanced in connection with impaired loans.

The bank considers a loan impaired when, based on current information and events, it is probable that a lender will be unable to collect all amounts due. We measure impaired loans based on the present value of expected future cash flows, discounted at the loan's effective interest rate, or as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. If the measure of the impaired loan is less than its recorded investment a lender must recognize an impairment by creating, or adjusting, a valuation allowance with a corresponding charge to loan loss expense. The corporation uses the cash basis method to recognize interest income on loans that are impaired. All of the corporation's impaired loans were on a non-accrual status for all reported periods.

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PREMISES AND EQUIPMENT

The increase in premises and equipment from \$7,786,000 at June 30, 2004 to \$14,652,000 at June 30, 2005 and \$11,992,000 from December 31, 2004 to June 30, 2005 is primarily related to the Corporation's new Operations Center, which is scheduled to be completed later this year. Additionally, the Corporation anticipates incurring an additional \$1,500,000 related to the Operations Center.

DEPOSITS

ACNB continues to rely on deposit growth as the primary source of funds for lending activities. Deposits increased \$9,655,000 from June 30, 2004 to June 30, 2005 and \$29,146,000 from December 31, 2004 to June 30, 2005. Deposits have grown as the bank has continued to expand its market area. ACNB will continue to explore new products for its customers, to attract and retain other funds seeking safe havens. However, ACNB's ability to maintain and add to its deposit base may experience additional competitive pressures from the stock market and/or other alternative investment products offered by the insurance industry and others.

BORROWINGS

Short-term borrowings are comprised primarily of securities sold under agreements to repurchase, and overnight borrowings at the Federal Home Loan Bank in Pittsburgh (FHLB). As of June 30, 2005, short-term borrowings were \$32,731,000, as compared to \$64,966,000 at December 31, 2004 and \$46,326,000 at June 30, 2004.

Long-term debt consists primarily of advances from the Federal Home Loan Bank to fund ACNB's growth in its securities portfolio. Long-term debt totaled \$125,900,000 at June 30, 2005, versus \$132,000,000 at December 31, 2004. The decrease during the first half of 2005 is the result of a decision to reduce borrowings in the current interest rate environment.

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CAPITAL

The management of capital in a regulated financial services industry must properly balance return on equity to stockholders while maintaining sufficient capital levels and related risk-based capital ratios to satisfy regulatory requirements. Capital management must also consider growth opportunities that may exist, and the resulting need for additional capital. ACNB's capital management strategies have been developed to provide attractive rates of returns to stockholders, while maintaining its "well-capitalized" position.

The primary source of additional capital to ACNB is earnings retention, which represents net income less dividends declared. During 2005, ACNB retained \$1,528,000, or 40%, of its net income as compared to \$1,656,000 or 42% during the same period in 2004.

ACNB is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on ACNB. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, ACNB must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and reclassifications are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy requires ACNB to maintain minimum amounts and ratios of total and Tier 1 capital to average assets. Management believes, as of June 30, 2005, that ACNB's banking subsidiary met all minimum capital adequacy requirements to which they are subject and are categorized as "well-capitalized." There are no conditions or events since June 30, 2005 that management believes have changed the subsidiary bank's category.

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RISKED-BASED CAPITAL

ACNB's capital ratios are as follows:

	JUNE 30 2005 -----
Tier 1 leverage ratio (to average assets)	8.21
Tier 1 risk-based capital ratio (to risk-weighted assets)	14.37
Total risk-based capital ratio	15.15

LIQUIDITY

Effective liquidity management ensures the cash flow requirements of depositors and borrowers, as well as the operating cash needs of ACNB are met.

ACNB's funds are available from a variety of sources, including assets that are readily convertible to such as cash and federal funds sold, maturities and

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repayments from the securities portfolio, scheduled repayments of loans receivable, the core deposit base, and the ability to borrow from the FHLB. At June 30, 2005, ACNB could borrow approximately \$422,712,000 from the FHLB of which \$291,247,000 was available.

Another source of liquidity is securities sold under repurchase agreement to customers of ACNB's banking subsidiary totaling \$20,816,000 and \$27,166,000 at June 30, 2005 and December 31, 2004, respectively.

The liquidity of the parent company also represents an important aspect of liquidity management. The parent company's cash outflows consist principally of dividends to stockholders and corporate expenses. The main source of funding for the parent company is the dividends it receives from its banking subsidiary. Federal and state banking regulations place certain restrictions on dividends paid to the parent company from the subsidiary banks. The total amount of dividends that may be paid from the subsidiary bank to ACNB were \$6,897,000 at June 30, 2005.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Management monitors and evaluates changes in market conditions on a regular basis. Based upon the most recent review management has determined that there have been no material changes in market risks since year end. For further discussion of year end information, refer to the quarterly report.

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ITEM 4 - CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the corporation's disclosure controls and procedures pursuant to the Securities Exchange Act of 1934 (" Exchange Act") Rule 13a-15e. Based upon that evaluation, the Corporation's Chief Executive Officer along with the Corporation's Chief Financial Officer concluded that the Corporation's disclosure controls and procedures are not effective, as a result of a material weakness identified during the Corporation's assessment of internal control over financial reporting as of December 31, 2004, in timely alerting them to material information relating to the Corporation (including its consolidated subsidiaries) required to be included in the Corporation's internal controls or in other factors which could significantly affect these controls subsequent to the date the Corporation carried out its evaluation.

The material weakness is described as follows: ineffective controls over the application of generally accepted accounting principles to certain significant, complex, non-routine transactions and the related statement disclosures. The Corporation is actively searching for experienced financial personnel to enhance the Corporation's financial reporting capabilities and expects to engage outside consultants to provide expertise on non-routine matters when they arise.

Disclosure controls and procedures are corporation controls and other procedures that are designed to ensure that information required to be disclosed by the Corporation in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.

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There was no change in our internal control over financial reporting during our fiscal quarter ended June 30, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II

ACNB CORPORATION OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

Management is not aware of any litigation that would have a material adverse effect on the consolidated financial position of the Corporation. There are no proceedings pending other than the ordinary routine litigation incident to the business of the Corporation and its subsidiaries. In addition, no material proceedings are pending or are known to be threatened or contemplated against the Corporation and its subsidiaries by government authorities.

ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS - NOTHING TO REPORT.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES - NOTHING TO REPORT.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

- a. An annual meeting of shareholders was held at 1:00 p.m. on May 17, 2005, at the office of Adams County National Bank, 675 Old Harrisburg Road, Gettysburg, PA 17325. The 2005 Annual Meeting of Shareholders held on May 17, 2005, was adjourned to June 7, 2005, at 2:30 p.m. and held at the office of Adams County National Bank, 675 Old Harrisburg Road, Gettysburg, PA 17325, and again adjourned to June 27, 2005, at 1:45 p.m. and held at the office of Adams County National Bank, 675 Old Harrisburg Road, Gettysburg, PA 17325, and again adjourned to July 12, 2005, at 3:00 p.m. and held at the office of Adams County National Bank, 675 Old Harrisburg Road, Gettysburg, PA 17325 to permit further solicitation of proxies with respect to the proposal to amend Article 9th of the Articles of Incorporation to provide for a two-tiered supermajority clause regarding fundamental transactions and only seven out of eight proposals were acted upon at the May 17, 2005 annual meeting.
- b. Eight matters were voted upon and seven matters were acted upon at the May 17, 2005 meeting as follows:

Proposal to fix the number of Directors of ACNB Corporation at twelve (12):

VOTES CAST "FOR"	VOTES CAST "AGAINST"	VOTES ABSTAINED
-----	-----	-----
4,136,985	40,219	83,447

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Proposal to fix the number of Class 1 Directors at four (4):

VOTES CAST "FOR"	VOTES CAST "AGAINST"	VOTES ABSTAINED
4,143,956	35,518	81,177

Proposal to fix the number of Class 2 Directors at four (4):

VOTES CAST "FOR"	VOTES CAST "AGAINST"	VOTES ABSTAINED
4,139,068	38,806	82,777

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Proposal to fix the number of Class 3 Directors at four (4):

VOTES CAST "FOR"	VOTES CAST "AGAINST"	VOTES ABSTAINED
4,135,012	41,308	84,331

Election of one (1) Class 2 Director to serve for a one-year term:

DIRECTOR	TERM EXPIRES	VOTES CAST "FOR"	VOTE
Alan J. Stock	2006	4,190,254	

Election of four (4) Class 3 Directors to serve for a three-year term:

DIRECTOR	TERM EXPIRES	VOTES CAST "FOR"	VOTE
Philip P. Asper	2008	4,171,424	
Frank Elsner, III	2008	4,182,363	
Daniel W. Potts	2008	4,197,005	
Thomas A. Ritter	2008	4,147,594	

Amend Article 9th of the Articles of Incorporation to provide for a two-tiered supermajority clause regarding fundamental transactions. This matter was voted upon, but not acted upon.

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VOTES CAST "FOR"	VOTES CAST "AGAINST"	VOTES "ABSTAINED"	
3,556,222	122,588	99,885	481,9

To ratify the selection of Beard Miller Company LLP as ACNB Corporation's independent auditors for the year ending December 31, 2005.

VOTES CAST "FOR"	VOTES CAST "AGAINST"	VOTES "ABSTAINED"
4,207,014	13,895	39,742

The following Directors terms continued after the annual meeting of shareholders held on May 17, 2005:

Director Name	Term Expires
D. Richard Guise	2007
Ronald L. Hankey	2007
Edgar S. Heberlig	2007
Marian B. Schultz	2007
Wayne E. Lau	2006
Jennifer L. Weaver	2006
Harry L. Wheeler	2006

One matter was voted upon at the June 7, 2005 meeting and no matter was acted upon as follows:

Amend Article 9th of the Articles of Incorporation to provide for a two-tiered supermajority clause regarding fundamental

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transactions.

VOTES CAST "FOR"	VOTES CAST "AGAINST"	VOTES "ABSTAINED"
3,871,949	147,963	129,260

One matter was voted upon at the June 27, 2005 meeting and no matter was acted upon as follows:

Amend Article 9th of the Articles of Incorporation to provide for a two-tiered supermajority clause regarding fundamental transactions.

VOTES CAST "FOR"	VOTES CAST "AGAINST"	VOTES "ABSTAINED"
4,019,154	152,631	131,945

One matter was voted upon and acted upon at the July 12, 2005 meeting as follows:

Amend Article 9th of the Articles of Incorporation to provide for a two-tiered supermajority clause regarding fundamental transactions.

VOTES CAST "FOR"	VOTES CAST "AGAINST"	VOTES "ABSTAINED"
4,099,896	152,631	136,101

ITEM 5 - OTHER INFORMATION - NOTHING TO REPORT.

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ITEM 6 - EXHIBITS

The following Exhibits are included in this Report:

Exhibit 3(i) Articles of Incorporation of ACNB Corporation, as amended (Incorporated by Reference to Exhibit 3(i) of the Registrant's Annual Report on Form 10-K for

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the year ended December 31, 2004, filed with the Commission on March 15, 2005).

- Exhibit 3(ii) Bylaws of Registrant; a copy of the Bylaws, as amended (Incorporated by Reference to Exhibit 99 of the Registrant's Report of Form 8-K, filed with the Commission on December 19, 2003).
- Exhibit 10.1 Executive Employment Agreement Dated as of January 1, 2000 between Adams County National Bank, ACNB Corporation and Thomas A. Ritter (Incorporated by Reference to Exhibit 99 of the Registrant's Current Report on Form 8-K, filed with the Commission on March 26, 2001).
- Exhibit 10.2 ACNB Corporation, ACNB Acquisition Subsidiary LLC, Russell Insurance Group, Inc. Stock Purchase Agreement. (Incorporated by reference to Exhibit 10.2 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Commission on March 15, 2005.)
- Exhibit 10.3 Salary Continuation Agreement - applicable to Thomas A. Ritter, Lynda L. Glass, John W. Krichten, John M. Kiehl, Carl L. Ricker and Ronald L. Hankey. (Incorporated by reference to Exhibit 10.3 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Commission on March 15, 2005.)
- Exhibit 10.4 Executive Supplemental Life Insurance Plan - applicable to Gary Bennett, Lynda L. Glass, Ronald L. Hankey, John M. Kiehl, John W. Krichten, Carl L. Ricker and Thomas A. Ritter. (Incorporated by reference to Exhibit 10.4 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Commission on March 15, 2005.)
- Exhibit 10.5 Director Supplemental Life Insurance Plan - applicable to Philip P. Asper, Frank Elsner, III, D. Richard Guise, Wayne E. Lau, William B. Lower, Daniel W. Potts, Marian B. Schultz, Jennifer L. Weaver and Harry L. Wheeler. (Incorporated by reference to Exhibit 10.5 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Commission on March 15, 2005.)
- Exhibit 10.6 Director Deferred Fee Agreement - applicable to Frank Elsner, III, D. Richard Guise, Marian B. Schlutz, Jennifer L. Weaver and Harry L. Wheeler. (Incorporated by reference to Exhibit 10.6 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Commission on March 15, 2005.)
- Exhibit 10.7 Adams County National Bank Salary Savings Plan. (Incorporated by reference to Exhibit 10.7 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Commission on March 15, 2005.)

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- Exhibit 10.8 Group Pension Plan for Employees of Adams County National Bank. (Incorporated by reference to Exhibit 10.8 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Commission on March 15, 2005.)
- Exhibit 14 Code of Ethics (incorporated by reference to Exhibit 14 of the registrants annual report on Form 10-K for the year ended December 31, 2003, filed with the Commission on March 12, 2004)

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- Exhibit 16.1 Letter re Change in Certifying Accountant (Incorporated by reference to Exhibit 16.1 of the Registrant's annual report on Form 10-K for the year ended December 31, 2003, filed with the Commission March 12, 2004)
- Exhibit 23 Consent of Stambaugh Ness, P.C. (Incorporated by reference to Exhibit 23 of the Registrant's annual report on Form 10-K for the year ended December 31, 2004, filed with the Commission on March 15, 2005).
- Exhibit 31.1 Chief Executive Officer Certification of quarterly report on Form 10-Q
- Exhibit 31.2 Chief Financial Officer Certification of quarterly report on Form 10-Q
- Exhibit 32.1 Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350 as Added by Section 906 of the Sarbanes-Oxley Act of 2002
- Exhibit 32.2 Chief Financial Officer certification pursuant to 18 U.S.C. Section 1350 as Added by Section 906 of the Sarbanes-Oxley Act of 2002
- Exhibit 99 Independent Auditors' Report for the consolidated statement of condition of ACNB Corporation and subsidiaries as of December 31, 2003 and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the two-year period ended December 31, 2003. (Incorporated by reference to Exhibit 99 of the Registrant's annual report on Form 10-K for the year ended December 31, 2004, filed with the Commission on March 15, 2005).

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

September 20, 2005

/s/ Thomas A. Ritter

Thomas A. Ritter, President/Chief Executive Officer

/s/ John W. Krichten

John W. Krichten, Secretary/Treasurer