

FIRST NATIONAL CORP /VA/
Form 10-Q
August 16, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2010

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: 0-23976

(Exact name of registrant as specified in its charter)

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Virginia (State or other jurisdiction of incorporation or organization)	54-1232965 (I.R.S. Employer Identification No.)
112 West King Street, Strasburg, Virginia (Address of principal executive offices)	22657 (Zip Code)
(540) 465-9121 (Registrant's telephone number, including area code)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input checked="" type="checkbox"/>

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. As of August 13, 2010, 2,940,776 shares of common stock, par value \$1.25 per share, of the registrant were outstanding.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****FIRST NATIONAL CORPORATION****Consolidated Balance Sheets****(in thousands, except share and per share data)**

	(unaudited) June 30, 2010	December 31, 2009
Assets		
Cash and due from banks	\$ 6,852	\$ 6,100
Interest-bearing deposits in banks	5,231	8,877
Securities available for sale, at fair value	54,757	60,129
Restricted securities, at cost	3,426	3,426
Loans held for sale		210
Loans, net of allowance for loan losses, 2010, \$7,634, 2009, \$7,106	434,860	436,129
Premises and equipment, net	20,157	21,148
Interest receivable	1,697	1,710
Other real estate owned, net of valuation allowance, 2010, \$742, 2009, \$994	7,253	6,261
Other assets	9,488	8,684
Total assets	\$ 543,721	\$ 552,674
Liabilities and Shareholders Equity		
Liabilities		
Deposits:		
Noninterest-bearing demand deposits	\$ 82,665	\$ 81,101
Savings and interest-bearing demand deposits	156,914	146,056
Time deposits	202,536	236,729
Total deposits	\$ 442,115	\$ 463,886
Federal funds purchased	13,304	
Other borrowings	20,133	20,186
Company obligated mandatorily redeemable capital securities	9,279	9,279
Accrued expenses and other liabilities	3,126	4,516
Commitments and contingencies		
Total liabilities	\$ 487,957	\$ 497,867
Shareholders Equity		
Preferred stock, \$1,000 liquidation preference; 14,595 shares issued and outstanding	\$ 14,062	\$ 13,998
	3,676	3,664

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Common stock, par value \$1.25 per share; authorized 8,000,000 shares; issued and outstanding, 2010, 2,940,776 shares, 2009, 2,931,721 shares

Surplus	1,487	1,418
Retained earnings	35,607	35,104
Unearned ESOP shares		(42)
Accumulated other comprehensive income, net	932	665
Total shareholders' equity	\$ 55,764	\$ 54,807
Total liabilities and shareholders' equity	\$ 543,721	\$ 552,674

See Notes to Consolidated Financial Statements

Table of Contents**FIRST NATIONAL CORPORATION****Consolidated Statements of Income****Three months ended June 30, 2010 and 2009****(in thousands, except per share data)**

	(unaudited) June 30, 2010	(unaudited) June 30, 2009
Interest and Dividend Income		
Interest and fees on loans	\$ 6,229	\$ 6,074
Interest on federal funds sold		2
Interest on deposits in banks	2	
Interest and dividends on securities available for sale:		
Taxable interest	432	520
Tax-exempt interest	142	143
Dividends	16	10
Total interest and dividend income	\$ 6,821	\$ 6,749
Interest Expense		
Interest on deposits	\$ 1,501	\$ 1,968
Interest on federal funds purchased	6	1
Interest on company obligated mandatorily redeemable capital securities	109	121
Interest on other borrowings	103	188
Total interest expense	\$ 1,719	\$ 2,278
Net interest income	\$ 5,102	\$ 4,471
Provision for loan losses	1,000	489
Net interest income after provision for loan losses	\$ 4,102	\$ 3,982
Noninterest Income		
Service charges on deposit accounts	\$ 682	\$ 629
ATM and check card fees	366	306
Trust and investment advisory fees	294	281
Fees for other customer services	91	71
Gains on sale of loans	25	69
Gains on sale of securities available for sale		4
Gains on sale of premises and equipment		9
Other operating income	31	40
Total noninterest income	\$ 1,489	\$ 1,409

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Noninterest Expense		
Salaries and employee benefits	\$ 2,290	\$ 2,206
Occupancy	351	320
Equipment	343	362
Marketing	128	134
Stationery and supplies	85	148
Legal and professional fees	194	211
ATM and check card fees	209	201
FDIC assessment	184	337
Bank franchise tax	109	82
Provision for other real estate owned	40	575
Other operating expense	592	533
Total noninterest expense	\$ 4,525	\$ 5,109
Income before income taxes	\$ 1,066	\$ 282
Income tax provision	313	45
Net income	\$ 753	\$ 237
Effective dividend and accretion on preferred stock	221	220
Net income available to common shareholders	\$ 532	\$ 17
Earnings per common share, basic and diluted	\$ 0.18	\$ 0.01

See Notes to Consolidated Financial Statements

Table of Contents**FIRST NATIONAL CORPORATION****Consolidated Statements of Income**

Six months ended June 30, 2010 and 2009

(in thousands, except per share data)

	(unaudited) June 30, 2010	(unaudited) June 30, 2009
Interest and Dividend Income		
Interest and fees on loans	\$ 12,489	\$ 12,135
Interest on federal funds sold		4
Interest on deposits in banks	4	
Interest and dividends on securities available for sale:		
Taxable interest	900	1,029
Tax-exempt interest	287	282
Dividends	28	16
Total interest and dividend income	\$ 13,708	\$ 13,466
Interest Expense		
Interest on deposits	\$ 3,177	\$ 4,109
Interest on federal funds purchased	11	9
Interest on company obligated mandatorily redeemable capital securities	217	248
Interest on other borrowings	252	436
Total interest expense	\$ 3,657	\$ 4,802
Net interest income	\$ 10,051	\$ 8,664
Provision for loan losses	1,411	1,660
Net interest income after provision for loan losses	\$ 8,640	\$ 7,004
Noninterest Income		
Service charges on deposit accounts	\$ 1,291	\$ 1,183
ATM and check card fees	680	575
Trust and investment advisory fees	604	589
Fees for other customer services	164	145
Gains on sale of loans	65	108
Gains on sale of securities available for sale	2	10
Gains on sale of premises and equipment		9
Losses on sale of other real estate owned, net	(52)	
Other operating income	56	17
Total noninterest income	\$ 2,810	\$ 2,636

Noninterest Expense

Salaries and employee benefits	\$ 4,517	\$ 4,412
Occupancy	695	651
Equipment	691	697
Marketing	252	269
Stationery and supplies	182	295