

FIRST NATIONAL CORP /VA/
Form 10-Q
November 10, 2011
Table of Contents

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 September 30, 2011

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)

Edgar Filing: FIRST NATIONAL CORP /VA/ - Form 10-Q

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 November 9, 2011, 2,955,649 shares of common stock, par value \$1.25 per share, of the registrant were outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
PART I FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Operations</u>	4
<u>Consolidated Statements of Cash Flows</u>	6
<u>Consolidated Statements of Changes in Shareholders' Equity</u>	8
<u>Notes to Consolidated Financial Statements</u>	9
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	35
Item 4. <u>Controls and Procedures</u>	35
PART II OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	36
Item 1A. <u>Risk Factors</u>	36
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
Item 3. <u>Defaults upon Senior Securities</u>	36
Item 4. <u>Removed and Reserved</u>	36
Item 5. <u>Other Information</u>	36
Item 6. <u>Exhibits</u>	36

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) September 30, 2011	December 31, 2010
Assets		
Cash and due from banks	\$ 6,409	\$ 5,048
Interest-bearing deposits in banks	16,316	10,949
Federal funds sold		7,500
Securities available for sale, at fair value	85,460	60,420
Restricted securities, at cost	2,889	3,153
Loans held for sale		271
Loans, net of allowance for loan losses, 2011, \$18,502, 2010, \$16,036	390,706	418,994
Other real estate owned, net of valuation allowance, 2011, \$3,999, 2010, \$3,341	5,576	3,961
Premises and equipment, net	19,657	20,302
Interest receivable	1,660	1,667
Other assets	12,848	12,364
Total assets	\$ 541,521	\$ 544,629
Liabilities and Shareholders Equity		
Liabilities		
Deposits:		
Noninterest-bearing demand deposits	\$ 81,836	\$ 78,964
Savings and interest-bearing demand deposits	190,388	178,685
Time deposits	185,798	205,851
Total deposits	\$ 458,022	\$ 463,500
Other borrowings	25,106	20,122
Trust preferred capital notes	9,279	9,279
Other liabilities	3,099	3,230
Total liabilities	\$ 495,506	\$ 496,131
Shareholders Equity		
Preferred stock, \$1,000 liquidation preference; 14,595 shares issued and outstanding	\$ 14,229	\$ 14,127
Common stock, par value \$1.25 per share; authorized 8,000,000 shares; issued and outstanding, 2011, 2,955,649 shares, 2010, 2,948,901 shares	3,695	3,686

Edgar Filing: FIRST NATIONAL CORP /VA/ - Form 10-Q

Surplus	1,644	1,582
Retained earnings	24,859	28,969
Accumulated other comprehensive income, net	1,588	134
Total shareholders' equity	\$ 46,015	\$ 48,498
Total liabilities and shareholders' equity	\$ 541,521	\$ 544,629

See Notes to Consolidated Financial Statements

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

Three months ended September 30, 2011 and 2010

(in thousands, except per share data)

	(unaudited) September 30, 2011	(unaudited) September 30, 2010
Interest and Dividend Income		
Interest and fees on loans	\$ 5,666	\$ 6,239
Interest on federal funds sold	2	1
Interest on deposits in banks	3	5
Interest and dividends on securities available for sale:		
Taxable interest	595	398
Tax-exempt interest	121	132
Dividends	16	15
Total interest and dividend income	\$ 6,403	\$ 6,790
Interest Expense		
Interest on deposits	\$ 1,204	\$ 1,397
Interest on federal funds purchased		1
Interest on trust preferred capital notes	109	112
Interest on other borrowings	42	104
Total interest expense	\$ 1,355	\$ 1,614
Net interest income	\$ 5,048	\$ 5,176
Provision for loan losses	5,575	1,200
Net interest income (loss) after provision for loan losses	\$ (527)	\$ 3,976
Noninterest Income		
Service charges on deposit accounts	\$ 590	\$ 668
ATM and check card fees	391	378
Trust and investment advisory fees	350	330
Fees for other customer services	84	75
Gains on sale of loans	25	76
Gains (losses) on sale of securities available for sale, net		(9)
Other operating income (loss)	33	(10)
Total noninterest income	\$ 1,473	\$ 1,508

Edgar Filing: FIRST NATIONAL CORP /VA/ - Form 10-Q

Noninterest Expense

Salaries and employee benefits	\$ 2,299	\$ 2,239
Occupancy	347	358
Equipment	325	344
Marketing	109	142
Stationery and supplies	88	110
Legal and professional fees	276	210
ATM and check card fees	162	219
FDIC assessment	181	177
Bank franchise tax	103	109
Provision for other real estate owned	927	111
Other real estate owned expense	133	30
Net (gains) losses on sale of other real estate owned	(36)	(29)
Telecommunications expense	63	72
Data processing	79	66
Other operating expense	332	348
Total noninterest expense	\$ 5,388	\$ 4,506
Income (loss) before income taxes	\$ (4,442)	\$ 978
Income tax provision (benefit)	(1,556)	284
Net income (loss)	\$ (2,886)	\$ 694
Effective dividend on preferred stock	224	221
Net income (loss) available to common shareholders	\$ (3,110)	\$ 473
Earnings (loss) per common share, basic and diluted	\$ (1.05)	\$ 0.16

See Notes to Consolidated Financial Statements

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

Nine months ended September 30, 2011 and 2010

(in thousands, except per share data)

	(unaudited) September 30, 2011	(unaudited) September 30, 2010
Interest and Dividend Income		
Interest and fees on loans	\$ 17,317	\$ 18,728
Interest on federal funds sold	13	1
Interest on deposits in banks	15	9
Interest and dividends on securities available for sale:		
Taxable interest	1,618	1,298
Tax-exempt interest	365	419
Dividends	50	43
Total interest and dividend income	\$ 19,378	\$ 20,498
Interest Expense		
Interest on deposits	\$ 3,810	\$ 4,574
Interest on federal funds purchased		12
Interest on trust preferred capital notes	327	329
Interest on other borrowings	175	356
Total interest expense	\$ 4,312	\$ 5,271
Net interest income	\$ 15,066	\$ 15,227
Provision for loan losses	9,395	2,611

&nbsp;