

FIRST NATIONAL CORP /VA/
Form 10-Q
May 12, 2006
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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 March 31, 2006

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

FIRST NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

Virginia
(State or other jurisdiction of
incorporation or organization)

112 West King Street, Strasburg, Virginia
(Address of principal executive offices)

54-1232965
(I.R.S. Employer

Identification No.)

22657
(Zip Code)

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(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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 May 11, 2006, 2,922,860 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) March 31, 2006	December 31, 2005
Assets		
Cash and due from banks	\$ 9,039	\$ 9,762
Interest-bearing deposits in banks	2,811	685
Securities available for sale, at fair value	70,054	71,078
Loans held for sale	164	
Loans, net of allowance for loan losses, 2006, \$3,670, 2005, \$3,528	389,978	374,322
Premises and equipment, net	15,175	13,919
Interest receivable	1,810	1,671
Other assets	3,592	3,551
Total assets	\$ 492,623	\$ 474,988
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing demand deposits	\$ 86,871	\$ 82,534
Savings and interest-bearing demand deposits	145,317	145,132
Time deposits	152,247	149,991
Total deposits	\$ 384,435	\$ 377,657
Federal funds purchased	2,455	8,217
Other borrowings	65,218	50,223
Company obligated mandatorily redeemable capital securities	8,248	8,248
Accrued expenses and other liabilities	1,886	1,252
Commitments and contingencies		
Total liabilities	\$ 462,242	\$ 445,597
Shareholders' Equity		
Common stock, par value \$1.25 per share; authorized 8,000,000 shares; issued and outstanding, 2,922,860 shares	\$ 3,653	\$ 3,653
Surplus	1,465	1,465
Retained earnings	25,896	24,735
Accumulated other comprehensive (loss), net	(633)	(462)
Total shareholders' equity	\$ 30,381	\$ 29,391
Total liabilities and shareholders' equity	\$ 492,623	\$ 474,988

See Notes to Consolidated Financial Statements

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

Three months ended March 31, 2006 and 2005

(in thousands, except per share data)

	(unaudited) March 31, 2006	(unaudited) March 31, 2005
Interest and Dividend Income		
Interest and fees on loans	\$ 6,636	\$ 5,131
Interest on federal funds sold	1	7
Interest on deposits in banks	28	16
Interest and dividends on securities available for sale:		
Taxable interest	654	496
Tax-exempt interest	106	106
Dividends	53	31
Total interest and dividend income	\$ 7,478	\$ 5,787
Interest Expense		
Interest on deposits	\$ 2,237	\$ 1,449
Interest on federal funds purchased	77	27
Interest on company obligated mandatorily redeemable capital securities	147	108
Interest on other borrowings	658	564
Total interest expense	\$ 3,119	\$ 2,148
Net interest income	\$ 4,359	\$ 3,639
Provision for loan losses	85	245
Net interest income after provision for loan losses	\$ 4,274	\$ 3,394
Noninterest Income		
Service charges	\$ 663	\$ 585
Fees for other customer services	471	269
Gains on sale of loans	45	56
Other operating income (loss)	43	(11)
Total noninterest income	\$ 1,222	\$ 899
Noninterest Expense		
Salaries and employee benefits	\$ 1,784	\$ 1,525
Occupancy	199	175
Equipment	270	222
Advertising	82	76
Stationery and supplies	105	104
Other operating expense	817	756
Total noninterest expense	\$ 3,257	\$ 2,858

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Income before income taxes	\$ 2,239	\$ 1,435
Provision for income taxes	727	450
Net income	\$ 1,512	\$ 985
Earnings per common share, basic and diluted	\$ 0.52	\$ 0.34

See Notes to Consolidated Financial Statements

Table of Contents**FIRST NATIONAL CORPORATION****Consolidated Statements of Cash Flows**

Three months ended March 31, 2006 and 2005

(in thousands)

	(unaudited) March 31, 2006	(unaudited) March 31, 2005
Cash Flows from Operating Activities		
Net income	\$ 1,512	\$ 985
Adjustments to reconcile net income to cash and cash equivalents provided by operating activities:		
Depreciation and amortization	230	184
Origination of loans held for sale	(3,924)	(3,927)
Proceeds from sale of loans available for sale	3,805	3,773
Provision for loan losses	85	245
Gains on sale of loans	(45)	(56)
Accretion of security discounts	(12)	(5)
Amortization of security premiums	45	71
Changes in assets and liabilities:		
Increase in interest receivable	(139)	(92)
(Increase) decrease in other assets	48	(332)
Increase in accrued expenses and other liabilities	634	414
Net cash provided by operating activities	\$ 2,239	\$ 1,260
Cash Flows from Investing Activities		
Proceeds from sales of securities available for sale	\$ 1,085	\$ 1,215
Proceeds from maturities, calls, and principal payments of securities available for sale	1,987	1,961
Purchase of securities available for sale	(2,341)	(5,332)
Purchase of premises and equipment	(1,486)	(230)
Net increase in loans	(15,741)	(12,498)
Net cash used in investing activities	\$ (16,496)	\$ (14,884)
Cash Flows from Financing Activities		
Net increase in demand deposits and savings accounts	\$ 4,522	\$ 5,115
Net increase in time deposits	2,256	4,798
Proceeds from other borrowings	39,100	37,000
Principal payments on other borrowings	(24,105)	(37,004)
Cash dividends paid	(351)	(322)
Increase (decrease) in federal funds purchased	(5,762)	3,723
Net cash provided by financing activities	\$ 15,660	\$ 13,310
Increase (decrease) in cash and cash equivalents	\$ 1,403	\$ (314)
Cash and Cash Equivalents		
Beginning	\$ 10,447	\$ 7,771
Ending	\$ 11,850	\$ 7,457

See Notes to Consolidated Financial Statements

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FIRST NATIONAL CORPORATION

Consolidated Statements of Cash Flows

(Continued)

Three months ended March 31, 2006 and 2005

(in thousands)

	(unaudited) March 31, 2006	(unaudited) March 31, 2005
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	\$ 3,070	\$ 2,106
Supplemental Disclosures of Noncash Investing Activities		
Unrealized loss on securities available for sale	\$ (259)	\$ (781)

See Notes to Consolidated Financial Statements

Table of Contents**FIRST NATIONAL CORPORATION****Consolidated Statements of Changes in Shareholders' Equity**

Three months ended March 31, 2006 and 2005

*(in thousands, except share and per share data)**(unaudited)*

	Accumulated					
	Common Stock	Surplus	Retained Earnings	Other Comprehensive Income (Loss)	Comprehensive Income	Total
Balance, December 31, 2004	\$ 3,655	\$ 1,465	\$ 20,687	\$ 293		\$ 26,100
Comprehensive income:						
Net income			985		\$ 985	985
Other comprehensive loss, net of tax, unrealized holding losses arising during the period (net of tax, \$266)				(515)	(515)	(515)
Total comprehensive income					\$ 470	
Cash dividends (\$0.11 per share)			(322)			(322)
Balance, March 31, 2005	\$ 3,655	\$ 1,465	\$ 21,350	\$ (222)		