

NATIONAL BANKSHARES INC

Form 10-Q

May 05, 2010

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, 2010

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 0-15204

NATIONAL BANKSHARES, INC.
(Exact name of registrant as specified in its charter)

Virginia
(State or other jurisdiction of incorporation or organization)

54-1375874
(I.R.S. Employer Identification No.)

101 Hubbard Street
P. O. Box 90002
Blacksburg, VA
(Address of principal executive offices)

24062-9002
(Zip Code)

(540) 951-6300
(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 (§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 Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
 Yes No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at April 30, 2010
Common Stock, \$1.25 Par Value	6,933,474

(This report contains 29 pages)

NATIONAL BANKSHARES, INC. AND SUBSIDIARIES

Form 10-Q
Index

<u>Part I - Financial Information</u>		Page
Item 1	<u>Financial Statements</u>	3
	<u>Consolidated Balance Sheets, March 31, 2010 (Unaudited) and December 31, 2009</u>	3
	<u>Consolidated Statements of Income for the Three Months Ended March 31, 2010 and 2009 (Unaudited)</u>	4
	<u>Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended March 31, 2010 and 2009 (Unaudited)</u>	5
	<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2010 and 2009 (Unaudited)</u>	6
	<u>Notes to Consolidated Financial Statements (Unaudited)</u>	7-15
Item 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15-22
Item 3	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	23
Item 4	<u>Controls and Procedures</u>	23
<u>Part II - Other Information</u>		
Item 1	<u>Legal Proceedings</u>	23
Item 1A	<u>Risk Factors</u>	23
Item 2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	23
Item 3	<u>Defaults Upon Senior Securities</u>	23
Item 4	<u>Reserved</u>	24
Item 5	<u>Other Information</u>	24
Item 6	<u>Exhibits</u>	24

Signatures

24

Index of Exhibits

25-26

2

Part I
Financial Information

Item 1. Financial Statements

National Bankshares, Inc. and Subsidiaries
Consolidated Balance Sheets

	(Unaudited)	
	March 31, 2010	December 31, 2009
\$ in thousands, except per share data		
Assets		
Cash and due from banks	\$ 11,744	\$ 12,894
Interest-bearing deposits	55,706	32,730
Securities available for sale, at fair value	161,543	168,041
Securities held to maturity (fair value approximates \$127,774 at March 31, 2010 and \$129,892 at December 31, 2009)	125,547	129,376
Mortgage loans held for sale	1,358	126
Loans:		
Real estate construction loans	47,245	45,625
Real estate mortgage loans	165,604	165,542
Commercial and industrial loans	284,242	283,998
Loans to individuals	92,035	95,844
Total loans	589,126	591,009
Less unearned income and deferred fees	(1,052)	(1,062)
Loans, net of unearned income and deferred fees	588,074	589,947
Less allowance for loan losses	(7,141)	(6,926)
Loans, net	580,933	583,021
Premises and equipment, net	10,729	10,628
Accrued interest receivable	6,186	6,250
Other real estate owned, net	2,567	2,126
Intangible assets and goodwill	12,355	12,626
Other assets	24,276	24,549
Total assets	\$ 992,944	\$ 982,367
Liabilities and Stockholders' Equity		
Noninterest-bearing demand deposits	\$ 116,153	\$ 122,549
Interest-bearing demand deposits	325,214	310,629
Savings deposits	53,977	51,622
Time deposits	362,124	367,312
Total deposits	857,468	852,112
Accrued interest payable	392	336
Other liabilities	8,580	7,843
Total liabilities	866,440	860,291
Commitments and contingencies	---	---
Stockholders' Equity		
Preferred stock, no par value, 5,000,000 shares authorized; none issued and outstanding	---	---
Common stock of \$1.25 par value.		

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Authorized 10,000,000 shares; issued and outstanding 6,933,474 shares in 2010 and in 2009	8,667	8,667
Retained earnings	117,670	113,901
Accumulated other comprehensive income (loss), net	167	(492)
Total stockholders' equity	126,504	122,076
Total liabilities and stockholders' equity	\$ 992,944	\$ 982,367

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries
Consolidated Statements of Income
Three Months Ended March 31, 2010 and 2009
(Unaudited)

\$ in thousands, except per share data	March 31, 2010	March 31, 2009
Interest Income		
Interest and fees on loans	\$ 9,176	\$ 9,462
Interest on interest-bearing deposits	19	24
Interest on securities – taxable	1,443	1,561
Interest on securities – nontaxable	1,602	1,531
Total interest income	12,240	12,578
Interest Expense		
Interest on time deposits of \$100,000 or more	946	1,491
Interest on other deposits	2,033	2,920
Interest on borrowed funds	---	1
Total interest expense	2,979	4,412
Net interest income	9,261	8,166
Provision for loan losses	647	370
Net interest income after provision for loan losses	8,614	7,796
Noninterest Income		
Service charges on deposit accounts	714	804
Other service charges and fees	47	73
Credit card fees	666	625
Trust income	269	276
BOLI income	185	172
Other income	104	77
Realized securities gains (losses), net	(14)	80
Total noninterest income	1,971	2,107
Noninterest Expense		
Salaries and employee benefits	2,856	2,831
Occupancy and furniture and fixtures	491	469
Data processing and ATM	357	322
FDIC assessment	263	121
Credit card processing	508	463
Intangible assets amortization	271	278
Net costs of other real estate owned	33	60
Franchise taxes	239	227
Other operating expenses	766	859
Total noninterest expense	5,784	5,630
Income before income taxes	4,801	4,273
Income tax expense	1,032	886
Net Income	\$ 3,769	\$ 3,387

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Basic net income per share	\$	0.54	\$	0.49
Fully diluted net income per share	\$	0.54	\$	0.49
Weighted average number of common shares outstanding – basic		6,933,474		6,929,474
Weighted average number of common shares outstanding – diluted		6,952,812		6,934,846
Dividends declared per share	\$	---	\$	---

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
Three Months Ended March 31, 2010 and 2009
(Unaudited)

\$ in thousands	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Total
Balances at December 31, 2008	\$8,662	\$105,356	\$ (3,910)		\$110,108
Net income	---	3,387	---	\$ 3,387	3,387
Other comprehensive income, net of tax:					
Unrealized gain on securities available for sale, net of income tax \$61	---	---	---	113	---
Reclass adjustment, net of tax \$(28)	---	---	---	(52)	---
Other comprehensive income, net of tax \$33	---	---	61	61	61
Comprehensive income	---	---	---	\$ 3,448	---
Balances at March 31, 2009	\$8,662	\$108,743	\$ (3,849)		\$113,556
Balances at December 31, 2009	\$8,667	\$113,901	\$ (492)		\$122,076
Net income	---	3,769	---	\$ 3,769	3,769
Other comprehensive income, net of tax:					
Unrealized gain on securities available for sale, net of income tax \$350	---	---	---	650	---
Reclass adjustment, net of tax \$5	---	---	---	9	---
Other comprehensive income, net of tax \$355	---	---	659	659	659
Comprehensive income	---	---	---	\$ 4,428	---
Balances at March 31, 2010	\$8,667	\$117,670	\$ 167		\$126,504

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Three Months Ended March 31, 2010 and 2009
(Unaudited)

\$ in thousands	March 31, 2010	March 31, 2009
Cash Flows from Operating Activities		
Net income	\$3,769	\$3,387
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	647	370
Depreciation of bank premises and equipment	223	235
Amortization of intangibles	271	278
Amortization of premiums and accretion of discounts, net	79	85
(Gains) losses on sales and calls of securities available for sale, net	14	(75)
(Gains) on calls of securities held to maturity, net	---	(5)
Losses and write-downs on other real estate owned	29	49
Net change in:		
Mortgage loans held for sale	(1,232)	(650)
Accrued interest receivable	64	(449)
Other assets	(63)	131
Accrued interest payable	56	(5)
Other liabilities	740	992
Net cash provided by operating activities	4,597	4,343
Cash Flows from Investing Activities		
Net change interest-bearing deposits	(22,976)	(12,273)
Proceeds from calls, principal payments, sales and maturities of securities available for sale	13,782	7,978
Proceeds from calls, principal payments and maturities of securities held to maturity	9,833	14,541
Purchases of securities available for sale	(6,359)	(26,648)
Purchases of securities held to maturity	(6,030)	(31,277)
Collections of loan participations	66	68
Loan originations and principal collections, net	671	648
Proceeds from disposal of other real estate owned	210	17
Recoveries on loans charged off	24	13
Additions to bank premises and equipment	(324)	(101)
Net cash used in investing activities	(11,103)	(47,034)
Cash Flows from Financing Activities		
Net change in time deposits	(5,188)	4,487
Net change in other deposits	10,544	35,494
Net change in other borrowed funds	---	(3)
Net cash provided by financing activities	5,356	39,978
Net change in cash and due from banks	(1,150)	(2,713)
Cash and due from banks at beginning of period	12,894	16,316
Cash and due from banks at end of period	\$11,744	\$13,603

Supplemental Disclosures of Cash Flow Information

Interest paid on deposits and borrowed funds	\$2,923	\$4,417
Income taxes paid	\$576	\$---

Supplemental Disclosure of Noncash Activities

Loans charged against the allowance for loan losses	\$456	\$123
Loans transferred to other real estate owned	\$680	\$---
Unrealized gains on securities available for sale	\$1,014	\$94

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2010
(Unaudited)

\$ in thousands, except per share data and % data

Note 1: General

The consolidated financial statements of National Bankshares, Inc. (NBI) and its wholly-owned subsidiaries, The National Bank of Blacksburg (NBB) and National Bankshares Financial Services, Inc. (NBFS) (collectively, the Company), conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The accompanying interim period consolidated financial statements are unaudited; however, in the opinion of management, all adjustments consisting of normal recurring adjustments, which are necessary for a fair presentation of the consolidated financial statements, have been included. The results of operations for the three months ended March 31, 2010 are not necessarily indicative of results of operations for the full year or any other interim period. The interim period consolidated financial statements and financial information included in this Form 10-Q should be read in conjunction with the notes to consolidated financial statements included in the Company's 2009 Form 10-K. The Company posts all reports required to be filed under the Securities and Exchange Act of 1934 on its web site at www.nationalbankshares.com.

Subsequent events have been considered through the date when the Form 10-Q was issued.

Note 2: Stock-Based Compensation

The Company had a stock option plan, the 1999 Stock Option Plan, that was adopted in 1999 and that was terminated on March 9, 2009. From 1999 to 2005, incentive stock options were granted annually to key employees of NBI and its subsidiaries. None have been granted since 2005. All of the outstanding stock options are vested. Because there have been no options granted in 2010 and all options were fully vested at December 31, 2008, there is no expense included in net income for the periods presented.

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2010	109,500	\$22.14		
Exercised	---	---		
Forfeited or expired	---	---		
Outstanding at March 31, 2010	109,500	\$22.14	5.24	\$559
Exercisable at March 31, 2010	109,500	\$22.14	5.24	\$559

During the three months ended March 31, 2010 and March 31, 2009, there were no stock options exercised.

Note 3: Allowance for Loan Losses, Nonperforming Assets and Impaired Loans

	Three Months ended March 31,		Year ended December 31,	
	2010	2009	2009	
Balance at beginning of period	\$6,926	\$5,858	\$5,858	
Provision for loan losses	647	370	1,634	
Loans charged off	(456)	(123)	(647)	
Recoveries of loans previously charged off	24	13	81	
Balance at the end of period	\$7,141	\$6,118	\$6,926	
Ratio of allowance for loan losses to the end of period loans, net of unearned income and deferred fees	1.21	% 1.06	% 1.17	%
Ratio of net charge-offs to average loans, net of unearned income and deferred fees(1)	0.30	% 0.08	% 0.10	%
Ratio of allowance for loan losses to nonperforming loans(2)	92.23	% 457.59	% 102.61	%

(1) Net charge-offs are on an annualized basis.

(2) The Company defines nonperforming loans as total nonaccrual and restructured loans. Loans 90 days past due and still accruing are excluded.

	March 31,		December 31,	
	2010	2009	2009	
Nonperforming assets:				
Nonaccrual loans	\$7,743	\$1,337	\$4,098	
Restructured loans	---	---	2,652	
Total nonperforming loans	7,743	1,337	6,750	
Other real estate owned, net	2,567	1,918	2,126	
Total nonperforming assets	\$10,310	\$3,255	\$8,876	
Ratio of nonperforming assets to loans, net of unearned income and deferred fees, plus other real estate owned	1.75	% 0.56	% 1.50	%

	March 31,		December 31,	
	2010	2009	2009	
Loans past due 90 days or more and still accruing	\$2,217	\$1,607	\$1,697	
Ratio of loans past due 90 days or more and still accruing to loans, net of unearned income and deferred fees	0.38	% 0.28	% 0.29	%
Impaired loans:				
Total impaired loans	\$7,743	\$3,208	\$7,680	
Impaired loans with a valuation allowance	\$7,693	\$2,176	\$7,630	
Valuation allowance	(2,438)	(893)	(2,495)	
Impaired loans, net of allowance	\$5,255	\$1,283	\$5,135	
Impaired loans with no valuation allowance	\$50	\$1,032	\$50	
Average recorded investment in impaired loans	\$7,712	\$3,223	\$7,851	

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Income recognized on impaired loans	\$---	\$44	\$169
Amount of income recognized on a cash basis	\$---	\$---	\$---

There were no nonaccrual loans excluded from impaired loan disclosure at March 31, 2010.

8

Note 4: Securities

The amortized costs, gross unrealized gains, gross unrealized losses and fair values for securities available for sale by major security type as of March 31, 2010 are as follows:

		March 31, 2010		
	Amortized	Gross	Gross	Fair
	Costs	Unrealized	Unrealized	Values
		Gains	Losses	
Available for sale:				
U.S. Treasury	\$2,019	\$144	\$---	\$2,163
U.S. Government agencies	43,809	348	432	43,725
Mortgage-backed securities	14,833	759	---	15,592
States and political subdivisions	70,678	2,333	161	