

NATIONAL BANKSHARES INC

Form 10-Q

November 09, 2009

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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 September 30, 2009

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)

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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.

Class	Outstanding at October 31, 2009
Common Stock, \$1.25 Par Value	6,933,474

(This report contains 30 pages)

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## 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, September 30, 2009 (Unaudited) and December 31, 2008</u>	3
	<u>Consolidated Statements of Income for the Three Months Ended September 30, 2009 and 2008 (Unaudited)</u>	4
	<u>Consolidated Statements of Income for the Nine Months Ended September 30, 2009 and 2008 (Unaudited)</u>	5
	<u>Consolidated Statements of Changes in Stockholders' Equity for the Nine Months Ended September 30, 2009 and 2008 (Unaudited)</u>	6
	<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2009 and 2008 (Unaudited)</u>	7-8
	<u>Notes to Consolidated Financial Statements (Unaudited)</u>	9-17
Item 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17-25
Item 3	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	25
Item 4	<u>Controls and Procedures</u>	25
<u>Part II - Other Information</u>		
Item 1	<u>Legal Proceedings</u>	25
Item 1A	<u>Risk Factors</u>	25
Item 2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	25
Item 3	<u>Defaults Upon Senior Securities</u>	25
Item 4	<u>Submission of Matters to a Vote of Security Holders</u>	25

Item 5	<u>Other Information</u>	26
Item 6	<u>Exhibits</u>	26
	<u>Signatures</u>	26
	<u>Index of Exhibits</u>	27

2

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Part I  
Financial Information

## Item 1. Financial Statements

National Bankshares, Inc. and Subsidiaries  
Consolidated Balance Sheets

	(Unaudited) September 30, 2009	December 31, 2008
\$ in thousands, except share data		
Assets		
Cash and due from banks	\$ 11,891	\$ 16,316
Interest-bearing deposits	22,935	29,656
Securities available for sale, at fair value	169,457	147,227
Securities held to maturity (fair value approximates \$134,285 at September 30, 2009 and \$117,277 at December 31, 2008)	132,786	117,772
Mortgage loans held for sale	628	348
Loans:		
Real estate construction loans	47,671	60,798
Real estate mortgage loans	167,589	162,757
Commercial and industrial loans	268,868	246,218
Loans to individuals	98,632	106,907
Total loans	582,760	576,680
Less unearned income and deferred fees	(1,119)	(1,123)
Loans, net of unearned income and deferred fees	581,641	575,557
Less: allowance for loan losses	(6,453)	(5,858)
Loans, net	575,188	569,699
Bank premises and equipment, net	10,734	11,204
Accrued interest receivable	6,322	5,760
Other real estate owned, net	1,944	1,984
Intangible assets and goodwill, net	12,897	13,719
Other assets	21,106	21,689
Total assets	\$ 965,888	\$ 935,374
Liabilities and Stockholders' Equity		
Noninterest-bearing demand deposits	\$ 122,519	\$ 109,630
Interest-bearing demand deposits	277,884	256,416
Savings deposits	50,241	45,329
Time deposits	385,229	406,473
Total deposits	835,873	817,848
Other borrowed funds	46	54
Accrued interest payable	473	655
Other liabilities	8,025	6,709
Total liabilities	844,417	825,266
Stockholders' Equity		
Preferred stock of no par value.		
Authorized 5,000,000 shares; none issued and outstanding	---	---

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Common stock of \$1.25 par value.

Authorized 10,000,000 shares; issued and outstanding

6,933,474 shares in 2009 and 6,929,474 in 2008

8,667 8,662

Retained earnings

113,087 105,356

Accumulated other comprehensive (loss), net

(283) (3,910)

Total stockholders' equity

121,471 110,108

Total liabilities and stockholders' equity

\$ 965,888 \$ 935,374

See accompanying notes to consolidated financial statements.

3

National Bankshares, Inc. and Subsidiaries  
Consolidated Statements of Income  
Three Months Ended September 30, 2009 and 2008  
(Unaudited)

\$ in thousands, except share and per share data	September 30, 2009	September 30, 2008
<b>Interest Income</b>		
Interest and fees on loans	\$ 9,316	\$ 9,196
Interest on interest-bearing deposits	23	36
Interest on securities – taxable	1,600	1,726
Interest on securities – nontaxable	1,677	1,451
Total interest income	12,616	12,409
<b>Interest Expense</b>		
Interest on time deposits \$100,000 or more	1,379	1,323
Interest on other deposits	2,496	2,865
Interest on borrowed funds	1	7
Total interest expense	3,876	4,195
Net interest income	8,740	8,214
Provision for loan losses	305	280
Net interest income after provision for loan losses	8,435	7,934
<b>Noninterest Income</b>		
Service charges on deposit accounts	865	930
Other service charges and fees	107	88
Credit card fees	723	728
Trust income	255	307
Bank owned life insurance income	201	144
Other income	76	87
Realized securities (losses), net	(15)	(76)
Total noninterest income	2,212	2,208
<b>Noninterest Expense</b>		
Salaries and employee benefits	2,784	2,792
Occupancy, furniture and fixtures	450	437
Data processing and ATM	380	355
FDIC insurance	423	47
Credit card processing	550	546
Intangibles amortization	271	279
Net costs of other real estate owned	29	52
Franchise taxes	221	208
Other operating expenses	783	815
Total noninterest expense	5,891	5,531
Income before income tax expense	4,756	4,611
Income tax expense	976	996
Net Income	\$ 3,780	\$ 3,615



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Net income per share - basic	\$	0.55	\$	0.52
Net income per share - diluted	\$	0.54	\$	0.52
Weighted average number of common shares outstanding - basic		6,933,474		6,926,974
Weighted average number of common shares outstanding - diluted		6,948,083		6,932,438
Dividends declared per share	\$	---	\$	---

See accompanying notes to consolidated financial statements.

4

National Bankshares, Inc. and Subsidiaries  
Consolidated Statements of Income  
Nine Months Ended September 30, 2009 and 2008  
(Unaudited)

	September 30, 2009	September 30, 2008
\$ in thousands, except share and per share data		
<b>Interest Income</b>		
Interest and fees on loans	\$ 28,170	\$ 27,682
Interest on interest-bearing deposits	73	426
Interest on securities – taxable	4,766	5,175
Interest on securities – nontaxable	4,896	4,309
<b>Total interest income</b>	<b>37,905</b>	<b>37,592</b>
<b>Interest Expense</b>		
Interest on time deposits \$100,000 or more	4,363	4,502
Interest on other deposits	8,197	9,904
Interest on borrowed funds	2	11
<b>Total interest expense</b>	<b>12,562</b>	<b>14,417</b>
<b>Net interest income</b>	<b>25,343</b>	<b>23,175</b>
Provision for loan losses	953	515
<b>Net interest income after provision for loan losses</b>	<b>24,390</b>	<b>22,660</b>
<b>Noninterest Income</b>		
Service charges on deposit accounts	2,506	2,502
Other service charges and fees	263	250
Credit card fees	2,060	2,101
Trust income	792	929
Bank owned life insurance income	554	446
Other income	261	314
Realized securities gains, net	55	189
<b>Total noninterest income</b>	<b>6,491</b>	<b>6,731</b>
<b>Noninterest Expense</b>		
Salaries and employee benefits	8,409	8,395
Occupancy, furniture and fixtures	1,344	1,328
Data processing and ATM	1,016	1,033
FDIC insurance	1,429	90
Credit card processing	1,551	1,570
Intangibles amortization	822	841
Net costs of other real estate owned	100	64
Franchise taxes	666	619
Other operating expenses	2,364	2,354
<b>Total noninterest expense</b>	<b>17,701</b>	<b>16,294</b>
<b>Income before income tax expense</b>	<b>13,180</b>	<b>13,097</b>
Income tax expense	2,656	2,832
<b>Net Income</b>	<b>\$ 10,524</b>	<b>\$ 10,265</b>

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Net income per share - basic	\$	1.52	\$	1.48
Net income per share - diluted	\$	1.52	\$	1.48
Weighted average number of common shares outstanding - basic		6,931,672		6,930,133
Weighted average number of common shares outstanding - diluted		6,942,712		6,937,018
Dividends declared per share	\$	0.41	\$	0.39

See accompanying notes to consolidated financial statements.

5

National Bankshares, Inc. and Subsidiaries  
Consolidated Statements of Changes in Stockholders' Equity  
Nine Months Ended September 30, 2009 and 2008  
(Unaudited)

\$ in thousands, except per share data	Common Stock	Retained Earnings	Accumulated Other Compre- hensive Income(Loss)	Compre-hensive Income	Total
Balances at December 31, 2007	\$ 8,690	\$ 97,810	\$ (1,700)		\$ 104,800
Net income	---	10,265	---	\$ 10,265	10,265
Dividends \$0.39 per share	---	(2,702)	---	---	(2,702)
Exercise of stock options	5	41	---	---	46
Other comprehensive loss, net of tax:					
Unrealized loss on securities available for sale, net of income tax \$(1,198)	---	---	---	(2,224)	---
Reclass adjustment, net of tax \$(58)	---	---	---	(108)	---
Other comprehensive loss, net of tax \$(1,256)	---	---	(2,332)	(2,332)	(2,332)
Comprehensive income	---	---	---	\$ 7,933	---
Effect of changing pension plan measurement date pursuant to SFAS No. 158	---	(45)	3		(42)
Stock repurchase	(36)	(526)	---		(562)
Balances at September 30, 2008	\$ 8,659	\$ 104,843	\$ (4,029)		\$ 109,473
Balances at December 31, 2008	\$ 8,662	\$ 105,356	\$ (3,910)		\$ 110,108
Net income	---	10,524	---	\$ 10,524	10,524
Dividends \$0.41 per share	---	(2,843)	---	---	(2,843)
Exercise of stock options	5	50	---	---	55
Other comprehensive income, net of tax:					
Unrealized gains on securities available for sale, net of income tax \$1,938	---	---	---	3,600	---
Reclass adjustment, net of tax \$15	---	---	---	27	---
Other comprehensive income, net of tax \$1,953	---	---	3,627	3,627	3,627
Comprehensive income	---	---	---	\$ 14,151	---
Balances at September 30, 2009	\$ 8,667	\$ 113,087	\$ (283)		\$ 121,471

See accompanying notes to consolidated financial statements.



National Bankshares, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
Nine Months Ended September 30, 2009 and 2008  
(Unaudited)

\$ in thousands	September 30, 2009	September 30, 2008
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 10,524	\$ 10,265
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	953	515
Depreciation of bank premises and equipment	687	730
Amortization of intangibles	822	841
Amortization of premiums and accretion of discounts, net	268	189
Losses on sale of disposal of fixed assets	---	2
(Gains) on sales and calls of securities available for sale, net	(42)	(166)
(Gains) on calls of securities held to maturity, net	(13)	(23)
(Gains) losses on other real estate owned	54	(5)
Net change in:		
Mortgage loans held for sale	(280)	125
Accrued interest receivable	(562)	(290)
Other assets	(1,309)	(2,722)
Accrued interest payable	(182)	(156)
Other liabilities	1,316	415
Net cash provided by operating activities	12,236	9,720
<b>Cash Flows from Investing Activities</b>		
Net change interest-bearing deposits	6,721	17,430
Proceeds from calls, principal payments, sales and maturities of securities available for sale	19,699	20,409
Proceeds from calls, principal payments and maturities of securities held to maturity	31,929	19,953
Purchases of securities available for sale	(36,542)	(16,957)
Purchases of securities held to maturity	(47,024)	(32,350)
Purchases of loan participations	(13)	(369)
Collections of loan participations	704	102
Loan originations and principal collections, net	(7,480)	(24,161)
Proceeds from disposal of other real estate owned	269	65
Recoveries on loans charged off	64	110
Purchase of bank premises and equipment	(217)	(194)
Proceeds from disposal of bank premises and equipment	---	8
Net cash used in investing activities	(31,890)	(15,954)
<b>Cash Flows from Financing Activities</b>		
Net change in other deposits	39,269	716
Net change in time deposits	(21,244)	8,931
Net change in other borrowed funds	(8)	(8)
Stocks options exercised	55	46

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Cash dividends	(2,843)	(2,702)
Common stock repurchased	---	(562)
Net cash provided by financing activities	15,229	6,421
Net change in cash and due from banks	(4,425)	187
Cash and due from banks at beginning of period	16,316	16,324
Cash and due from banks at end of period	\$ 11,891	\$ 16,511

Supplemental Disclosures of Cash Flow Information

Interest paid on deposits and borrowed funds	\$ 12,744	\$ 14,573
Income taxes paid	\$ 3,200	\$ 3,034

7

Supplemental Disclosure of Noncash Activities

Loans charged against the allowance for loan losses	\$	422	\$	409
Loans transferred to other real estate owned	\$	283	\$	834
Unrealized gains (losses) on securities available for sale	\$	5,580	\$	(3,588)
Capital reduction due to change in pension measurement date	\$	---	\$	63

See accompanying notes to consolidated financial statements.

8

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National Bankshares, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
September 30, 2009  
(Unaudited)

\$ in thousands, except share and per share 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 and nine months ended September 30, 2009 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 2008 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](http://www.nationalbankshares.com). Subsequent events have been considered through November 9, 2009, the same date on which these financial statements were issued.

Note (2) Stock-Based Compensation

The Company adopted the National Bankshares, Inc. 1999 Stock Option Plan to give key employees of NBI and its subsidiaries an opportunity to acquire shares of NBI common stock. The Plan terminated on March 9, 2009. The purpose of the 1999 Stock Option Plan was to promote the success of NBI and its subsidiaries by providing an incentive to key employees that enhanced the identification of their personal interest with the long term financial success of the Company and with growth in stockholder value. Under the 1999 Stock Option Plan, up to 500,000 shares of NBI common stock could be granted. The 1999 Stock Option Plan limited the maximum term of any option granted to ten years, stated that options could be granted at not less than fair market value on the date of the grant and contained certain other limitations on the exercisability of incentive stock options. There were no nonvested options outstanding at September 30, 2009.

Compensation expense is calculated using the Black-Scholes model and is amortized over the requisite service period using the straight-line method. There have been no grants of stock options in 2009.

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2009	113,500	\$ 21.84		
Granted	---	---		
Exercised				