

FARMERS NATIONAL BANC CORP /OH/

Form 10-Q

August 09, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
Quarterly Report Under Section 13 or 15(d) of the
Securities Exchange Act of 1934**

For the Quarter ended June 30, 2010 Commission file number 0-12055

FARMERS NATIONAL BANC CORP.

(Exact name of registrant as specified in its charter)

OHIO

34-1371693

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No)

20 South Broad Street
Canfield, OH

44406

(Address of principal executive offices)

(Zip Code)

(330) 533-3341

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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 July 31, 2010

Common Stock, No Par Value

13,576,880 shares

PART I FINANCIAL INFORMATION

Item 1 Financial Statements (Unaudited)

Included in Part I of this report:

Farmers National Banc Corp. and Subsidiaries

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CONSOLIDATED BALANCE SHEETS
FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES
(Unaudited)

	(In Thousands of Dollars)	
	June 30, 2010	December 31, 2009
ASSETS		
Cash and due from banks	\$ 25,767	\$ 25,713
Federal funds sold	9,871	25,447
TOTAL CASH AND CASH EQUIVALENTS	35,638	51,160
Securities available for sale	324,681	309,368
Loans	613,259	609,395
Less allowance for loan losses	8,255	7,400
NET LOANS	605,004	601,995
Premises and equipment, net	14,304	14,193
Bank owned life insurance	11,695	11,438
Goodwill	3,709	3,709
Other intangibles	3,501	3,791
Other assets	16,272	19,154
TOTAL ASSETS	\$ 1,014,804	\$ 1,014,808
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Noninterest-bearing	\$ 70,049	\$ 68,420
Interest-bearing	690,630	709,132
TOTAL DEPOSITS	760,679	777,552
Short-term borrowings	137,911	125,912
Long-term borrowings	25,280	27,169
Other liabilities	3,943	3,547
TOTAL LIABILITIES	927,813	934,180

Commitments and contingent liabilities

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Stockholders Equity:

Common Stock	Authorized 25,000,000 shares; issued 15,630,007 in 2010 and 15,572,703 in 2009	95,890	95,650
Retained earnings		9,205	7,137
Accumulated other comprehensive income (loss)		7,399	3,344
Treasury stock, at cost; 2,053,127 shares in 2010 and 2,053,098 in 2009		(25,503)	(25,503)
TOTAL STOCKHOLDERS EQUITY		86,991	80,628
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY		\$ 1,014,804	\$ 1,014,808

See accompanying notes

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CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES
(Unaudited)

	(In Thousands except Per Share Data)			
	For the Three Months Ended		For the Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2010	2009	2010	2009
INTEREST AND DIVIDEND INCOME				
Loans, including fees	\$ 9,192	\$ 9,357	\$ 18,424	\$ 18,393
Taxable securities	2,261	2,284	4,502	4,580
Tax exempt securities	584	613	1,175	1,199
Dividends	47	67	100	137
Federal funds sold	15	8	24	14
TOTAL INTEREST AND DIVIDEND INCOME	12,099	12,329	24,225	24,323
INTEREST EXPENSE				
Deposits	2,420	3,133	5,165	6,422
Short-term borrowings	234	467	519	972
Long-term borrowings	269	501	551	1,018
TOTAL INTEREST EXPENSE	2,923	4,101	6,235	8,412
NET INTEREST INCOME	9,176	8,228	17,990	15,911
Provision for loan losses	1,600	1,050	4,378	1,500
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	7,576	7,178	13,612	14,411
NONINTEREST INCOME				
Service charges on deposit accounts	497	653	975	1,252
Bank owned life insurance income	131	126	257	257
Trust income	1,197	1,003	2,429	1,003
Security gains (losses)	(3)	509	(3)	509
Impairment of equity securities	0	(74)	0	(74)
Insurance agency commissions	110	0	172	0
Investment commissions	129	73	240	144
Other operating income	660	353	987	670
TOTAL NONINTEREST INCOME	2,721	2,643	5,057	3,761
NONINTEREST EXPENSES				
Salaries and employee benefits	4,099	4,078	8,076	7,098
Occupancy and equipment	892	817	1,817	1,667

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State and local taxes	224	238	456	451
Professional fees	381	228	690	443
Advertising	147	155	277	255
FDIC insurance	317	697	620	928
Merger related costs	0	0	0	453
Intangible amortization	145	148	290	148
Core processing charges	237	13	476	32
Other operating expenses	1,203	1,429	2,475	2,584
TOTAL NONINTEREST EXPENSES	7,645	7,803	15,177	14,059
INCOME BEFORE INCOME TAXES	2,652	2,018	3,492	4,113
INCOME TAXES	618	361	611	772
NET INCOME	\$ 2,034	\$ 1,657	\$ 2,881	\$ 3,341
OTHER COMPREHENSIVE INCOME				
(LOSS), NET OF TAX:				
Change in net unrealized gains (losses) on securities, net of reclassifications	2,988	(944)	4,055	(152)
COMPREHENSIVE INCOME (LOSS)	\$ 5,022	\$ 713	\$ 6,936	\$ 3,189
NET INCOME PER SHARE basic and diluted	\$ 0.15	\$ 0.12	\$ 0.21	\$ 0.25
DIVIDENDS PER SHARE	\$ 0.03	\$ 0.12	\$ 0.06	\$ 0.24

See accompanying notes

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CONSOLIDATED STATEMENTS OF CASH FLOWS
FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES
(Unaudited)

	(In Thousands of Dollars)	
	Six Months Ended	
	June 30,	June 30,
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 2,881	\$ 3,341
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	4,378	1,500
Depreciation and amortization	861	671
Net amortization of securities	504	170
Security gains (losses)	3	(509)
Impairment of securities	0	74
Loss on sale of other real estate owned	48	0
Increase in bank owned life insurance	(257)	(257)
Net change in other assets and liabilities	863	22
NET CASH FROM OPERATING ACTIVITIES	9,281	5,012
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and repayments of securities available for sale	27,489	37,874
Proceeds from sales of securities available for sale	1,896	9,530
Purchases of securities available for sale	(39,014)	(55,535)
Purchase of trust entity, net	0	(10,511)
Loan originations and payments, net	(7,560)	(42,240)
Proceeds from sale of other real estate owned	354	146
Additions to premises and equipment	(632)	(395)
NET CASH FROM INVESTING ACTIVITIES	(17,467)	(61,131)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	(16,873)	65,606
Net change in short-term borrowings	11,999	12,403
Repayments of Federal Home Loan Bank borrowings and other debt	(1,889)	(2,409)
Cash dividends paid	(813)	(3,189)
Proceeds from dividend reinvestment	240	946
NET CASH FROM FINANCING ACTIVITIES	(7,336)	73,357
NET CHANGE IN CASH AND CASH EQUIVALENTS	(15,522)	17,238
Beginning cash and cash equivalents	51,160	24,049
Ending cash and cash equivalents	\$ 35,638	\$ 41,287

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Supplemental cash flow information:

Interest paid	\$	6,435	\$	8,473
Income taxes paid	\$	50	\$	1,165

Supplemental noncash disclosures:

Transfer of loans to other real estate	\$	173	\$	436
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Farmers National Banc Corp acquired all of the stock of Butler Wick Trust Company for \$12.13 million on March 31, 2009. The assets acquired and liabilities assumed were as follows:

Fair value of assets acquired	\$	12,394
Purchase price		12,125
Liabilities assumed	\$	269

See accompanying notes

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Principles of Consolidation:

The consolidated financial statements include the accounts of Farmers National Banc Corp. (the Company) and its wholly-owned subsidiaries, The Farmers National Bank of Canfield, Farmers Trust Company and Farmers National Insurance. All significant intercompany balances and transactions have been eliminated in the consolidation.

Basis of Presentation:

The unaudited condensed consolidated financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (U.S. GAAP) for complete financial statements. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s 2009 Annual Report to Shareholders included in the Company s 2009 Annual Report on Form 10-K. The interim consolidated financial statements include all adjustments (consisting of only normal recurring items) that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of operations for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year.

Estimates:

To prepare financial statements in conformity with U.S. GAAP, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, carrying amount of goodwill and fair values of financial instruments are particularly subject to change.

Segments:

The Company provides a broad range of financial services to individuals and companies in northeastern Ohio. While the Company s chief decision makers monitor the revenue streams of the various products and services, operations are managed and financial performance is primarily aggregated and reported in two lines of business, the Bank segment and the Trust segment.

Table of Contents**Securities:**

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities portfolio at June 30, 2010 and December 31, 2009 and the corresponding amounts of unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

(In Thousands of Dollars)	Amortized	Gross	Gross	Fair
June 30, 2010	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
U.S. Treasury and U.S. government-sponsored entities	\$ 131,019	\$ 4,521	\$ (8)	\$ 135,532
States and political subdivisions	61,046	1,574	(273)	62,347
Mortgage-backed securities residential	120,681	5,494	(10)	126,165
Collateralized mortgage obligations	154	3	0	157
Equity securities	149	78	(15)	212
Other securities	250	18	0	268
Totals	\$ 313,299	\$ 11,688	\$ (306)	\$ 324,681

(In Thousands of Dollars)

December 31, 2009

U.S. Treasury and U.S. government-sponsored entities	\$ 98,746	\$ 1,424	\$ (337)	\$ 99,833
States and political subdivisions	62,809	1,070	(447)	63,432
Mortgage-backed securities residential	141,915	3,758	(411)	145,262
Collateralized mortgage obligations	309	9	0	318
Equity securities	149	129	(19)	259
Other securities	250	14	0	264
Totals	\$ 304,178	\$ 6,404	\$ (1,214)	\$ 309,368

Proceeds from sales of securities were \$1.90 million for the three and six month periods ending June 30, 2010.

Proceeds of \$9.53 million were recognized for the three and six month periods ended June 30, 2009. Gross losses of \$3 thousand and gross gains of \$509 thousand were realized during the second quarter on these sales during 2010 and 2009, respectively.

The amortized cost and fair value of the debt securities portfolio are shown by expected maturity. Expected maturities may differ from contractual maturities if issuers have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage backed securities are not due at a single maturity date and are shown separately.

(In Thousands of Dollars)

Maturity	June 30, 2010	
	Amortized Cost	Fair Value
Within one year	\$ 3,494	\$ 3,520
One to five years	119,075	122,456
Five to ten years	39,994	41,381
Beyond ten years	29,752	30,790
Mortgage-backed and CMO securities	120,835	126,322

Total	\$ 313,150	\$ 324,469
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(In Thousands of Dollars)	December 31, 2009	
	Amortized Cost	Fair Value
Maturity		
Within one year	\$ 3,538	\$ 3,563
One to five years	92,162	93,357
Five to ten years	35,177	35,777
Beyond ten years	30,928	30,832
Mortgage-backed and CMO securities	142,224	145,580
Total	\$ 304,029	\$ 309,109

The following table summarizes the investment securities with unrealized losses at June 30, 2010 and December 31, 2009 aggregated by major security type and length of time in a continuous unrealized loss position:

(In Thousands of Dollars)	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2010						