

AMERICAN NATIONAL BANKSHARES INC.
Form 10-Q
August 09, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 June 30, 2013.

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: 0-12820

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

VIRGINIA 54-1284688
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

628 Main Street
Danville, Virginia 24541
(Address of principal executive offices) (Zip Code)

(434) 792-5111
(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 x 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.

Yes x 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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

At August 6, 2013, the Company had 7,875,250 shares of Common Stock outstanding, \$1 par value.

AMERICAN NATIONAL BANKSHARES INC.

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Part I. Financial Information

Item 1. Financial Statements

American National Bankshares Inc. and Subsidiaries

Consolidated Balance Sheets

(Dollars in thousands, except share data)

	(Unaudited) June 30, 2013	(Audited) December 31, 2012
Assets		
Cash and due from banks	\$ 18,994	\$ 20,435
Interest-bearing deposits in other banks	37,720	27,007
Securities available for sale, at fair value	340,135	335,246
Restricted stock, at cost	4,880	5,287
Loans held for sale	4,098	13,852
Loans, net of unearned income	794,045	788,705
Less allowance for loan losses	(12,676)	(12,118)
Net loans	781,369	776,587
Premises and equipment, net	24,269	24,543
Other real estate owned, net	5,569	6,193
Goodwill	39,043	39,043
Core deposit intangibles, net	3,819	4,660
Bank owned life insurance	14,495	14,289
Accrued interest receivable and other assets	19,626	16,545
Total assets	\$ 1,294,017	\$ 1,283,687
Liabilities		
Liabilities:		
Demand deposits -- noninterest bearing	\$ 213,123	\$ 217,275
Demand deposits -- interest bearing	169,204	153,578
Money market deposits	173,696	166,111
Savings deposits	84,489	81,135
Time deposits	405,882	409,568
Total deposits	1,046,394	1,027,667
Customer repurchase agreements	41,972	49,942
Long-term borrowings	10,015	10,079
Trust preferred capital notes	27,368	27,317
Accrued interest payable and other liabilities	5,332	5,436
Total liabilities	1,131,081	1,120,441
Shareholders' equity		
Preferred stock, \$5 par, 2,000,000 shares authorized, none outstanding	-	-
Common stock, \$1 par, 20,000,000 shares authorized, 7,872,250 shares outstanding at June 30, 2013 and 7,846,912 shares outstanding at December 31, 2012	7,872	7,847
Capital in excess of par value	57,581	57,211
Retained earnings	95,333	90,591

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Accumulated other comprehensive income, net	2,150	7,597
Total shareholders' equity	162,936	163,246
Total liabilities and shareholders' equity	\$1,294,017	\$ 1,283,687

The accompanying notes are an integral part of the consolidated financial statements.

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American National Bankshares Inc. and Subsidiaries

Consolidated Statements of Income

(Dollars in thousands, except share and per share data) (Unaudited)

	Three Months Ended	
	June 30	
	2013	2012
Interest and Dividend Income:		
Interest and fees on loans	\$ 11,358	\$ 12,683
Interest and dividends on securities:		
Taxable	851	1,056
Tax-exempt	1,045	1,077
Dividends	54	52
Other interest income	39	18
Total interest and dividend income	13,347	14,886
Interest Expense:		
Interest on deposits	1,369	1,729
Interest on short-term borrowings	14	51
Interest on long-term borrowings	82	84
Interest on trust preferred capital notes	189	206
Total interest expense	1,654	2,070
Net Interest Income	11,693	12,816
Provision for Loan Losses	-	733
Net Interest Income After Provision for Loan Losses	11,693	12,083
Noninterest Income:		
Trust fees	944	966
Service charges on deposit accounts	429	413
Other fees and commissions	463	445
Mortgage banking income	531	519
Securities gains, net	1	160
Other	318	297
Total noninterest income	2,686	2,800
Noninterest Expense:		
Salaries	3,503	3,809
Employee benefits	867	799
Occupancy and equipment	872	1,048
FDIC assessment	161	213
Bank franchise tax	185	182
Core deposit intangible amortization	421	546
Foreclosed real estate, net	193	171
Merger related expenses	-	(202)
Other	2,226	2,267
Total noninterest expense	8,428	8,833
Income Before Income Taxes	5,951	6,050
Income Taxes	1,741	1,776

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Net Income	\$4,210	\$4,274
Net Income Per Common Share:		
Basic	\$0.54	\$0.55
Diluted	\$0.53	\$0.54
Average Common Shares Outstanding:		
Basic	7,867,222	7,832,162
Diluted	7,876,969	7,849,142

The accompanying notes are an integral part of the consolidated financial statements.

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American National Bankshares Inc. and Subsidiaries

Consolidated Statements of Income

(Dollars in thousands, except share and per share data) (Unaudited)

	Six Months Ended	
	June 30	
	2013	2012
Interest and Dividend Income:		
Interest and fees on loans	\$22,753	\$25,803
Interest and dividends on securities:		
Taxable	1,729	2,135
Tax-exempt	2,097	2,159
Dividends	109	103
Other interest income	68	28
Total interest and dividend income	26,756	30,228
Interest Expense:		
Interest on deposits	2,805	3,566
Interest on short-term borrowings	35	94
Interest on long-term borrowings	164	168
Interest on trust preferred capital notes	377	412
Total interest expense	3,381	4,240
Net Interest Income	23,375	25,988
Provision for Loan Losses	294	1,466
Net Interest Income After Provision for Loan Losses	23,081	24,522
Noninterest Income:		
Trust fees	1,532	1,848
Service charges on deposit accounts	838	901
Other fees and commissions	922	902
Mortgage banking income	1,249	1,050
Securities gains, net	199	160
Other	716	1,173
Total noninterest income	5,456	6,034
Noninterest Expense:		
Salaries	6,942	7,920
Employee benefits	1,766	1,877
Occupancy and equipment	1,788	2,013
FDIC assessment	322	446
Bank franchise tax	372	365
Core deposit intangible amortization	841	1,093
Foreclosed real estate, net	436	18
Merger related expenses	-	49
Other	4,279	4,979
Total noninterest expense	16,746	18,760
Income Before Income Taxes	11,791	11,796
Income Taxes	3,430	3,347

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Net Income	\$8,361	\$8,449
Net Income Per Common Share:		
Basic	\$1.06	\$1.08
Diluted	\$1.06	\$1.08
Average Common Shares Outstanding:		
Basic	7,862,719	7,827,195
Diluted	7,872,351	7,839,364

The accompanying notes are an integral part of the consolidated financial statements.

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Consolidated Statements of Comprehensive Income (Loss)
(Dollars in thousands) (Unaudited)

	Three Months Ended June 30	
	2013	2012
Net income	\$ 4,210	\$ 4,274
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale	(7,299)	1,285
Income tax benefit (expense)	2,554	(450)
Reclassification adjustment for (gains) on securities	(1)	(160)
Income tax expense	1	56
Other comprehensive income (loss)	(4,745)	731
Comprehensive income (loss)	\$ (535)	\$ 5,005
	Six Months Ended June 30	
	2013	2012
Net income	\$ 8,361	\$ 8,449
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale	(8,181)	608
Income tax benefit (expense)	2,863	(213)
Reclassification adjustment for (gains) on securities	(199)	(160)
Income tax expense	70	56
Other comprehensive income (loss)	(5,447)	291
Comprehensive income	\$ 2,914	\$ 8,740

The accompanying notes are an integral part of the consolidated financial statements.

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American National Bankshares Inc. and Subsidiaries
 Consolidated Statements of Changes in Shareholders' Equity
 Six Months Ended June 30, 2013 and 2012
 (Dollars in thousands) (Unaudited)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2011	\$ 7,807	\$ 56,395	\$ 81,797	\$ 6,830	\$ 152,829
Net income	-	-	8,449	-	8,449
Other comprehensive income	-	-	-	291	291
Stock options exercised	3	42	-	-	45
Equity based compensation	26	388	-	-	414
Cash dividends declared, \$0.46 per share	-	-	(3,604)	-	(3,604)
Balance, June 30, 2012	\$ 7,836	\$ 56,825	\$ 86,642	\$ 7,121	\$ 158,424
Balance, December 31, 2012	\$ 7,847	\$ 57,211	\$ 90,591	\$ 7,597	\$ 163,246
Net income	-	-	8,361	-	8,361
Other comprehensive loss	-	-	-	(5,447)	(5,447)
Stock options exercised	6	96	-	-	102
Equity based compensation	19	274	-	-	293
Cash dividends declared, \$0.46 per share	-	-	(3,619)	-	(3,619)
Balance, June 30, 2013	\$ 7,872	\$ 57,581	\$ 95,333	\$ 2,150	\$ 162,936

The accompanying notes are an integral part of the consolidated financial statements.

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American National Bankshares Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Six Months Ended June 30, 2013 and 2012

(Dollars in thousands) (Unaudited)

	2013		2012
Cash Flows from			
Operating Activities:			
Net income	\$ 8,361		\$ 8,449
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	294		1,466
Depreciation	854		865
Net accretion of purchase accounting adjustments	(4,050)		(5,306)
Core deposit intangible amortization	841		1,093
Net amortization (accretion) of securities	1,617		1,667
Net gain on sale or call of securities	(199)		(160)
Gain on sale of loans held for sale	(1,099)		(926)
Proceeds from sales of loans held for sale	58,268		41,030
Originations of loans held for sale	(47,415)		(42,989)
Net gain on foreclosed real estate Valuation allowance on foreclosed real estate	(139)		(381)
	294		219
Net gain on sale of premises and equipment	-		(495)
Equity based compensation expense	293		414
Deferred income tax expense (benefit)	(1,874)		2,238
Net change in interest receivable	(99)		(12)
	1,619		(4,596)

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Net change in other assets		
Net change in interest payable	(51)	(71)
Net change in other liabilities	(53)	(597)
Net cash provided by operating activities	17,462	1,908
Cash Flows from Investing Activities:		
Proceeds from sales of securities available for sale	2,627	4,209
Proceeds from maturities, calls and paydowns of securities available for sale	32,216	33,574
Purchases of securities available for sale	(49,530)	(39,999)
Net change in restricted stock	407	(249)
Net (increase) decrease in loans	(2,222)	19,186
Proceeds from sale of premises and equipment	-	563
Purchases of premises and equipment	(580)	(573)
Proceeds from sales of foreclosed real estate	1,518	3,489
Net cash (used in) provided by investing activities	(15,564)	20,200
Cash Flows from Financing Activities:		
Net change in demand, money market, and savings deposits	22,413	(29,597)
Net change in time deposits	(3,477)	13,602
Net change in customer repurchase agreements	(7,970)	538
Net change in other short-term	-	(3,000)

borrowings				
Net change in long-term borrowings	(75)	(76)
Common stock dividends paid	(3,619)	(3,604)
Proceeds from exercise of stock options	102		45	
Net cash provided by (used in) financing activities	7,374		(22,092)
Net Increase in Cash and Cash Equivalents	9,272		16	
Cash and Cash Equivalents at Beginning of Period	47,442		28,893	
Cash and Cash Equivalents at End of Period	\$ 56,714		\$ 28,909	

The accompanying notes are an integral part of the consolidated financial statements.

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AMERICAN NATIONAL BANKSHARES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation

The consolidated financial statements include the accounts of American National Bankshares Inc. (the “Company”) and its wholly owned subsidiary, American National Bank and Trust Company (the “Bank”). The Bank offers a wide variety of retail, commercial, secondary market mortgage lending, and trust and investment services which also include non-deposit products such as mutual funds and insurance policies.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, pension obligations, the valuation of foreclosed real estate, goodwill and intangible assets, the valuation of deferred tax assets, other-than-temporary impairments of securities, acquired loans with specific credit-related deterioration, and the fair value of financial instruments.

In April 2006, AMNB Statutory Trust I, a Delaware statutory trust (the “AMNB Trust”) and a wholly owned subsidiary of the Company, was formed for the purpose of issuing preferred securities (the “Trust Preferred Securities”) in a private placement pursuant to an applicable exemption from registration. Proceeds from the securities were used to fund the acquisition of Community First Financial Corporation (“Community First”) which occurred in April 2006.

On July 1, 2011, the Company completed its merger with MidCarolina Financial Corporation (“MidCarolina”). MidCarolina was headquartered in Burlington, North Carolina, and engaged in banking operations through its subsidiary bank, MidCarolina Bank.

In July 2011, and in connection with its acquisition of MidCarolina, the Company assumed the liabilities of the MidCarolina I and MidCarolina Trust II, two separate Delaware statutory trusts (the “MidCarolina Trusts”), which were also formed for the purpose of issuing preferred securities. Refer to Note 9 for further details concerning these entities.

All significant inter-company transactions and accounts are eliminated in consolidation, with the exception of the AMNB Trust and the MidCarolina Trusts, as detailed in Note 9.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company’s financial position as of June 30, 2013; the consolidated statements of income for the three and six months ended June 30, 2013 and 2012; the consolidated statements of comprehensive income (loss) for the three and six months ended June 30, 2013 and 2012; the consolidated statements of changes in shareholders’ equity for the six months ended June 30, 2013 and 2012; and the consolidated statements of cash flows for the six months ended June 30, 2013 and 2012. Operating results for the three and six month periods ended June 30, 2013 are not necessarily indicative of the results that may occur for the year ending December 31, 2013. Certain reclassifications have been made to prior period balances to conform to the current period presentation. These statements should be read in conjunction with the Notes to Consolidated Financial Statements included in the Company’s Form 10-K for the year ended December 31, 2012.

Note 2 – Merger with MidCarolina

On July 1, 2011, the Company completed its merger with MidCarolina Financial Corporation pursuant to the Agreement and Plan of Reorganization, dated December 15, 2010, between the Company and MidCarolina (the “merger agreement”). MidCarolina was headquartered in Burlington, North Carolina, and engaged in banking operations through its subsidiary bank, MidCarolina Bank. The transaction has significantly expanded the Company’s footprint in North Carolina, adding eight branches in Alamance and Guilford Counties.

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Pursuant to the terms of the merger agreement, as a result of the merger, the holders of shares of MidCarolina common stock received 0.33 shares of the Company's common stock for each share of MidCarolina common stock held immediately prior to the effective date of the merger. Each option to purchase a share of MidCarolina common stock outstanding immediately prior to the effective date of the merger was converted into an option to purchase shares of Company common stock, adjusted for the 0.33 exchange ratio. Additionally, the holders of shares of noncumulative perpetual Series A preferred stock of MidCarolina received one share of a newly authorized noncumulative perpetual Series A preferred stock of the Company for each MidCarolina preferred share held immediately before the merger. The Company's Series A preferred stock was issued with terms, preferences, rights and limitations that are identical in all material respects to the MidCarolina Series A preferred stock.

The Company issued 1,626,157 shares of common stock in connection with the MidCarolina merger. MidCarolina Bank was merged with and into the Bank on July 1, 2011.

The merger with MidCarolina was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration paid were recorded at their estimated fair values as of the merger date. The excess of consideration paid over the fair value of net assets acquired was originally recorded as goodwill in the amount of approximately \$16.5 million, which will not be amortizable and is not deductible for tax purposes. The Company allocated the total balance of goodwill to its community banking segment. The Company also recorded \$6.6 million in core deposit intangibles which will be amortized over nine years using a declining balance method.

In connection with the merger, the consideration paid, and the fair value of identifiable assets acquired and liabilities assumed as of the merger date are summarized in the following table.

(dollars in thousands)	
Consideration Paid:	
Common shares issued (1,626,157)	\$29,905
Cash paid to Shareholders	12
Fair Value of Options	132
Preferred shares issued (5,000)	5,000
Value of consideration	35,049
Assets acquired:	
Cash and cash equivalents	34,783
Investment securities	51,442
Loans held for sale	113
Loans, net of unearned income	328,123
Premises and equipment, net	5,708
Deferred income taxes	15,310
Core deposit intangible	6,556
Other real estate owned	3,538
Other assets	13,535
Total assets	459,108
Liabilities assumed:	
Deposits	420,248
FHLB advances	9,858
Other borrowings	6,546
Other liabilities	3,982
Total liabilities	440,634
Net assets acquired	18,474

Goodwill resulting from merger with MidCarolina \$16,575

In many cases, the fair values of assets acquired and liabilities assumed were determined by estimating the cash flows expected to result from those assets and liabilities and discounting them at appropriate market rates. The most significant category of assets for which this procedure was used was that of acquired loans. The Company acquired the \$367.4 million loan portfolio at a fair value discount of \$39.9 million. The estimated fair value of the performing portion of the portfolio was \$286.5 million. The excess of expected cash flows above the fair value of the performing portion of loans will be accreted to interest income over the remaining lives of the loans in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 310-20 (formerly SFAS 91).

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Certain loans, those for which specific credit-related deterioration since origination was identified, are recorded at fair value, reflecting the present value of the amounts expected to be collected. Income recognition on these loans is based on reasonable expectations about the timing and amount of cash flows to be collected. Acquired loans deemed impaired and considered collateral dependent, with the timing of the sale of loan collateral indeterminate, remain on non-accrual status and have no accretable yield.