

FARMERS NATIONAL BANC CORP /OH/
Form 10-Q
August 10, 2009

**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, 2009

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, 2009

Common Stock, No Par Value

13,415,384 shares

PART I FINANCIAL INFORMATION

Item 1 Financial Statements (Unaudited)

Included in Part I of this report:

Farmers National Banc Corp. and Subsidiary

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

	(In Thousands of Dollars)	
	June 30, 2009	December 31, 2008
ASSETS		
Cash and due from banks	\$ 22,655	\$ 23,803
Federal funds sold	18,632	246
TOTAL CASH AND CASH EQUIVALENTS	41,287	24,049
Securities available for sale	281,837	271,605
Loans	593,396	552,005
Less allowance for loan losses	6,640	5,553
NET LOANS	586,756	546,452
Premises and equipment, net	14,105	14,139
Bank owned life insurance	11,278	11,021
Goodwill	3,679	0
Other intangibles	4,092	0
Other assets	14,814	13,104
TOTAL ASSETS	\$ 957,848	\$ 880,370
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Noninterest-bearing	\$ 63,055	\$ 61,499
Interest-bearing	650,561	586,511
TOTAL DEPOSITS	713,616	648,010
Short-term borrowings	117,838	105,435
Long-term borrowings	44,055	46,464
Other liabilities	4,290	3,359
TOTAL LIABILITIES	879,799	803,268
Commitments and contingent liabilities		

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Stockholders' Equity:

Common Stock Authorized 25,000,000 shares; issued 15,468,459 in 2009 and 15,283,520 in 2008	95,163	94,217
Retained earnings	6,249	6,096
Accumulated other comprehensive income (loss)	2,140	2,292
Treasury stock, at cost; 2,053,075 shares in 2009 and 2,053,058 in 2008	(25,503)	(25,503)
TOTAL STOCKHOLDERS' EQUITY	78,049	77,102
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 957,848	\$ 880,370

See accompanying notes

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,
	2009	2008	2009	2008
INTEREST AND DIVIDEND INCOME				
Loans, including fees	\$ 9,357	\$ 8,524	\$ 18,393	\$ 17,142
Taxable securities	2,284	1,955	4,580	3,532
Tax exempt securities	613	705	1,199	1,403
Dividends	67	86	137	229
Federal funds sold	8	77	14	239
TOTAL INTEREST AND DIVIDEND INCOME	12,329	11,347	24,323	22,545
INTEREST EXPENSE				
Deposits	3,133	3,995	6,422	8,167
Short-term borrowings	467	390	972	985
Long-term borrowings	501	569	1,018	1,166
TOTAL INTEREST EXPENSE	4,101	4,954	8,412	10,318
NET INTEREST INCOME	8,228	6,393	15,911	12,227
Provision for loan losses	1,050	100	1,500	210
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	7,178	6,293	14,411	12,017
NONINTEREST INCOME				
Service charges on deposit accounts	653	643	1,252	1,287
Bank owned life insurance income	126	133	257	265
Trust income	1,003	0	1,003	0
Security gains	509	0	509	194
Impairment of equity securities	(74)	(551)	(74)	(551)
Other operating income	426	419	814	844
TOTAL NONINTEREST INCOME	2,643	644	3,761	2,039
NONINTEREST EXPENSES				
Salaries and employee benefits	4,078	2,802	7,098	5,613
Occupancy and equipment	817	733	1,667	1,454
State and local taxes	238	205	451	416
Professional fees	228	143	443	287

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Advertising	155	102	255	223
FDIC insurance	697	17	928	34
Merger related costs	0	0	453	0
Intangible amortization	148	0	148	0
Other operating expenses	1,442	1,093	2,616	2,074
TOTAL NONINTEREST EXPENSES	7,803	5,095	14,059	10,101
INCOME BEFORE INCOME TAXES	2,018	1,842	4,113	3,955
INCOME TAXES	361	308	772	697
NET INCOME	\$ 1,657	\$ 1,534	\$ 3,341	\$ 3,258
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Change in net unrealized gains (losses) on securities, net of reclassifications	(944)	(2,889)	(152)	(1,165)
COMPREHENSIVE INCOME (LOSS)	\$ 713	(\$1,355)	\$ 3,189	\$ 2,093
NET INCOME PER SHARE basic and diluted	\$ 0.12	\$ 0.12	\$ 0.25	\$ 0.25
DIVIDENDS PER SHARE	\$ 0.12	\$ 0.12	\$ 0.24	\$ 0.28

See accompanying notes

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

	(In Thousands except Per Share Data)	
	Six Months Ended	
	June 30, 2009	June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 3,341	\$ 3,258
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	1,500	210
Depreciation and amortization	671	522
Net amortization of securities	170	126
Security gains	(509)	(194)
Impairment of securities	74	551
Federal Home Loan Bank dividends	0	(115)
Increase in bank owned life insurance	(257)	(265)
Net change in other assets and liabilities	22	(1,003)
NET CASH FROM OPERATING ACTIVITIES	5,012	3,090
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and repayments of securities available for sale	37,874	31,868
Proceeds from sales of securities available for sale	9,530	6,417
Purchases of securities available for sale	(55,535)	(73,941)
Purchase of trust entity, net	(10,511)	0
Loan originations and payments, net	(42,240)	4,297
Proceeds from sale of other real estate owned	146	43
Additions to premises and equipment	(395)	(311)
NET CASH FROM INVESTING ACTIVITIES	(61,131)	(31,627)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	65,606	40,418
Net change in short-term borrowings	12,403	(10,373)
Proceeds from Federal Home Loan Bank borrowings and other debt	0	5,000
Repayment of Federal Home Loan Bank borrowings and other debt	(2,409)	(7,828)
Repurchase of common stock	0	(493)
Cash dividends paid	(3,189)	(3,648)
Proceeds from dividend reinvestment	946	1,415
NET CASH FROM FINANCING ACTIVITIES	73,357	24,491
NET CHANGE IN CASH AND CASH EQUIVALENTS	17,238	(4,046)
Beginning cash and cash equivalents	24,049	31,105

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Ending cash and cash equivalents	\$	41,287	\$	27,059
Supplemental cash flow information:				
Interest paid	\$	8,473	\$	10,482
Income taxes paid	\$	1,165	\$	640

Supplemental noncash disclosures:

Transfer of loans to other real estate	\$	436	\$	113
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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 are itemized in the Acquisition footnote on page 9 of this report.

See accompanying notes

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Principles of Consolidation:

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, The Farmers National Bank of Canfield and Farmers Trust Company. 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 2008 Annual Report to Shareholders included in the Company's 2008 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. Management has evaluated events occurring subsequent to the balance sheet date through August 10, 2009 (the final statement issuance date), determining no events require adjustment to or additional disclosure in the consolidated financial statements. 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 is particularly subject to change.

Segments:

The Company provides a broad range of financial services to individuals and companies in northeastern Ohio. The Corporation's chief decision makers monitor the revenue streams of the various products and services, which are all financial in nature.

Quantitative thresholds of SFAS 131, *Disclosures about Segments of an Enterprise and Related Information* are monitored. For the quarter ended June 30, 2009, the reported revenue for Farmers Trust Company was 9.23% of total revenue for Farmers National Banc Corp. Total revenue includes net interest income (before provision for loan losses) plus non-interest income. Net income for Farmers Trust Company for the quarter and year to date period ended June 30, 2009 was 1.23% and .61% of consolidated net income. Total assets of Farmers Trust Company at June 30, 2009 were 1.30% of total assets. Farmers Trust Company does not meet any of the quantitative thresholds of SFAS 131. Accordingly, all the Corporation's banking and trust operations are considered by management to be aggregated in one reportable operating segment.

Securities:

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities portfolio at June 30, 2009 and December 31, 2008 and the corresponding amounts of unrealized gains and losses:

(In Thousands of Dollars)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
June 30, 2009				
U.S. government-sponsored entities	\$ 73,106	\$ 952	\$ (711)	\$ 73,347
States and political subdivisions	65,531	562	(1,124)	64,969
Mortgage-backed securities residential	139,102	3,525	(46)	142,581
Collateralized mortgage obligations	408	11	0	419
Equity securities	149	126	(14)	261
Other securities	250	10	0	260
Totals	\$ 278,546	\$ 5,186	\$ (1,895)	\$ 281,837

(In Thousands of Dollars)

December 31, 2008

U.S. government-sponsored entities	\$ 42,611	\$ 2,089	\$ (19)	\$ 44,681
States and political subdivisions	61,749	536	(1,379)	60,906
Mortgage-backed securities	163,497	2,722	(397)	165,822
Equity securities	222	34	(60)	196
Totals	\$ 268,079	\$ 5,381	\$ (1,855)	\$ 271,605

The amortized cost and fair value of the debt securities portfolio are shown by contractual maturity. Mortgage-backed and CMO securities are not due at a single maturity date and are shown separately.

(In Thousands of Dollars)	June 30, 2009	
Maturity	Amortized Cost	Fair Value
Within one year	\$ 2,600	\$ 2,634
One to five years	62,741	63,301
Five to ten years	40,938	40,729
Beyond ten years	32,608	31,912
Mortgage-backed and CMO securities	139,510	143,000
Total	\$ 278,397	\$ 281,576

The following table summarizes the investment securities with unrealized losses at June 30, 2009 by aggregated 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, 2009						
Available-for-sale U.S.						
government- sponsored entities	\$ 34,832	\$ (694)	\$ 502	\$ (17)	\$ 35,334	\$ (711)
States and political	23,831	(600)	4,864	(524)	28,695	(1,124)
Mortgage-backed securities						
residential	274	(28)	2,194	(18)	2,468	(46)
Equity securities	0	0	9	(14)	9	(14)
Total	\$ 58,937	\$ (1,322)	\$ 7,569	\$ (573)	\$ 66,506	\$ (1,895)

Proceeds from sales of securities were \$9.53 million and \$6.42 million for the six months ended June 30, 2009 and 2008, respectively. Gross gains of \$509 thousand and \$194 thousand were realized on these sales during 2009 and 2008, respectively.

Proceeds from sales of securities were \$9.53 million for the three months ended June 30, 2009. Gross gains of \$509 thousand were realized on these sales during 2009. There were no security sales during the three-month period ended June 30, 2008.

Other-Than-Temporary-Impairment

Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic or market conditi