

AMERICAN NATIONAL BANKSHARES INC
Form 10-Q
August 10, 2006

**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, 2006**

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
(State or other jurisdiction of
incorporation or organization)

54-1284688
(I.R.S. Employer
Identification No.)

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

24541
(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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Act.

Edgar Filing: AMERICAN NATIONAL BANKSHARES INC - Form 10-Q

Large accelerated filer Accelerated filer Non-accelerated filer

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 9, 2006, the Corporation had 6,158,290 shares Common Stock outstanding, \$1 par value.

AMERICAN NATIONAL BANKSHARES INC.

Index		Page
Part I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited)	
	<u>Consolidated Balance Sheets as of June 30, 2006 and December 31, 2005</u>	3
	<u>Consolidated Statements of Income for the three months ended June 30, 2006 and 2005</u>	4
	<u>Consolidated Statements of Income for the six months ended June 30, 2006 and 2005</u>	5
	<u>Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2006 and 2005</u>	6
	<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2006 and 2005</u>	7
	<u>Notes to Consolidated Financial Statements</u>	9
Item 2.	<u>Management's Discussion and Analysis of the Financial Condition and Results of Operations</u>	18
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	29
Item 4.	<u>Controls and Procedures</u>	29
Part II.	OTHER INFORMATION	
Item 1.	<u>Legal Proceedings</u>	30
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
Item 3.	<u>Defaults Upon Senior Securities</u>	30
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	30
Item 5.	<u>Other Information</u>	30

SIGNATURES

2

Table of Contents

American National Bankshares Inc. and Subsidiary
Consolidated Balance Sheets
(Dollars in thousands, except share data)

	(Unaudited) June 30, 2006	(Audited) December 31, 2005
ASSETS		
Cash and due from banks	\$ 19,352	\$ 18,300
Interest-bearing deposits in other banks	16,425	9,054
Securities available for sale, at fair value	157,636	147,274
Securities held to maturity (fair value of \$15,667 in 2006 and \$18,701 in 2005)	15,501	18,355
Total securities	173,137	165,629
Loans held for sale	1,005	714
Loans, net of unearned income	551,434	417,087
Less allowance for loan losses	(8,208)	(6,109)
Net loans	543,226	410,978
Bank premises and equipment, at cost, less accumulated depreciation of \$14,232 in 2006 and \$13,194 in 2005	12,640	7,769
Goodwill	22,517	-
Core deposit intangibles, net	3,071	132
Accrued interest receivable and other assets	19,195	10,927
Total assets	\$ 810,568	\$ 623,503
LIABILITIES and SHAREHOLDERS' EQUITY		
Liabilities:		
Demand deposits -- noninterest bearing	\$ 109,161	\$ 85,965
Demand deposits -- interest bearing	119,767	90,629
Money market deposits	48,111	42,425
Savings deposits	81,078	80,315
Time deposits	274,505	192,317
Total deposits	632,622	491,651
Repurchase agreements	43,667	37,203
FHLB borrowings	17,163	17,238
Trust preferred capital notes	20,619	-
Accrued interest payable and other liabilities	4,666	3,992
Total liabilities	718,737	550,084
Shareholders' equity:		
Preferred stock, \$5 par, 200,000 shares authorized,		

Edgar Filing: AMERICAN NATIONAL BANKSHARES INC - Form 10-Q

none outstanding	-	-
Common stock, \$1 par, 10,000,000 shares authorized,		
6,162,490 shares outstanding at June 30, 2006 and		
5,441,758 shares outstanding at December 31, 2005	6,162	5,442
Capital in excess of par value	26,353	9,588
Retained earnings	61,423	59,109
Accumulated other comprehensive income (loss), net	(2,107)	(720)
Total shareholders' equity	91,831	73,419
Total liabilities and shareholders' equity	\$ 810,568	\$ 623,503

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

Table of Contents

American National Bankshares Inc. and Subsidiary
Consolidated Statements of Income
(Dollars in thousands, except per share data) (Unaudited)

	Three Months Ended June 30	
	2006	2005
Interest Income:		
Interest and fees on loans	\$ 10,089	\$ 6,382
Interest and dividends on securities:		
Taxable	1,358	1,021
Tax-exempt	430	497
Dividends	78	59
Other interest income	191	28
Total interest income	12,146	7,987
Interest Expense:		
Deposits	3,538	1,612
Repurchase agreements	335	214
Other borrowings	242	251
Trust preferred capital notes	320	-
Total interest expense	4,435	2,077
Net Interest Income	7,711	5,910
Provision for Loan Losses	354	240
Net Interest Income After Provision for Loan Losses	7,357	5,670
Noninterest Income:		
Trust fees	885	767
Service charges on deposit accounts	737	632
Other fees and commissions	292	273
Mortgage banking income	203	165
Securities gains, net	17	-
Other	133	121
Total noninterest income	2,267	1,958
Noninterest Expense:		
Salaries	2,527	2,049
Pension and other employee benefits	673	503
Occupancy and equipment	744	633
Bank franchise tax	170	134
Core deposit intangible amortization	134	113
Other	1,108	788
Total noninterest expense	5,356	4,220
Income Before Income Tax Provision	4,268	3,408
Income Tax Provision	1,266	984
Net Income	\$ 3,002	\$ 2,424
Net Income Per Common Share:		
Basic	\$ 0.49	\$ 0.44
Diluted	\$ 0.48	\$ 0.44

Average Common Shares Outstanding:

Basic	6,172,522	5,472,021
Diluted	6,207,543	5,517,736

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

Table of Contents

American National Bankshares Inc. and Subsidiary
Consolidated Statements of Income
(Dollars in thousands, except per share data) (Unaudited)

	Six Months Ended June 30	
	2006	2005
Interest Income:		
Interest and fees on loans	\$ 17,045	\$ 12,414
Interest and dividends on securities:		
Taxable	2,510	2,140
Tax-exempt	881	1,024
Dividends	135	105
Other interest income	423	70
Total interest income	20,994	15,753
Interest Expense:		
Interest on deposits	5,845	3,132
Interest on repurchase agreements	644	367
Interest on other borrowings	455	495
Trust preferred capital notes	320	-
Total interest expense	7,264	3,994
Net Interest Income	13,730	11,759
Provision for Loan Losses	480	540
Net Interest Income After Provision for Loan Losses	13,250	11,219
Noninterest Income:		
Trust fees	1,640	1,487
Service charges on deposit accounts	1,308	1,191
Other fees and commissions	601	524
Mortgage banking income	336	265
Securities gains, net	38	45
Other	245	513
Total noninterest income	4,168	4,025
Noninterest Expense:		
Salaries	4,511	3,921
Pension and other employee benefits	1,322	971
Occupancy and equipment	1,390	1,234
Bank franchise tax	310	272
Core deposit intangible amortization	173	225
Other	2,033	1,588
Total noninterest expense	9,739	8,211
Income Before Income Tax Provision	7,679	7,033
Income Tax Provision	2,271	2,026
Net Income	\$ 5,408	\$ 5,007
Net Income Per Common Share:		
Basic	\$ 0.93	\$ 0.91
Diluted	\$ 0.93	\$ 0.90

Average Common Shares Outstanding:

Basic	5,805,287	5,491,211
Diluted	5,840,871	5,538,074

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

Table of Contents

American National Bankshares Inc. and Subsidiary
Consolidated Statements of Changes in Shareholders' Equity
Six Months Ended June 30, 2006 and 2005 (Unaudited)

(Dollars in thousands)

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount				
Balance, December 31, 2004	5,521,164	\$ 5,521	\$ 9,474	\$ 55,780	\$ 225	\$ 71,000
Net income	-	-	-	5,007	-	5,007
Change in unrealized losses on securities available for sale, net of tax of \$ (293)	-	-	-	-	(569)	
Other comprehensive income (loss)					(569)	(569)
Total comprehensive income						4,438
Stock repurchased and retired	(79,350)	(79)	(136)	(1,732)	-	(1,947)
Stock options exercised	3,372	3	44	-	-	47
Cash dividends paid	-	-	-	(2,245)	-	(2,245)
Balance, June 30, 2005	5,445,186	\$ 5,445	\$ 9,382	\$ 56,810	\$ (344)	\$ 71,293
Balance, December 31, 2005	5,441,758	\$ 5,442	\$ 9,588	\$ 59,109	\$ (720)	\$ 73,419

Edgar Filing: AMERICAN NATIONAL BANKSHARES INC - Form 10-Q

Net income	-	-	-	5,408	-	5,408
Change in unrealized losses on securities available for sale, net of tax of \$ (751)	-	-	-	-	(1,361)	
Less: Reclassification adjustment for gains on securities available for sale, net of tax of \$ (13)	-	-	-	-	(26)	
Other comprehensive income (loss)					(1,387)	(1,387)
Total comprehensive income						4,021