

OLD POINT FINANCIAL CORP
Form 10-Q
August 04, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2006

or

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: 000-12896

OLD POINT FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

VIRGINIA
(State or other jurisdiction of
incorporation or organization)

54-1265373
(I.R.S. Employer
Identification No.)

1 West Mellen Street, Hampton, Virginia 23663
(Address of principal executive offices) (Zip Code)
(757) 722-7451

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(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 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 Exchange Act. (Check one):

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

3,991,531 shares of common stock (\$5.00 par value) outstanding as of July 31, 2006

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****Old Point Financial Corporation and Subsidiaries**

Consolidated Balance Sheets

	June 30, 2006 (unaudited)	December 31, 2005
Assets		
Cash and due from banks	\$ 17,594,483	\$ 13,601,677
Federal funds sold	5,450,975	2,004,347
Cash and cash equivalents	23,045,458	15,606,024
Securities available-for-sale, at fair value	186,064,965	192,942,880
Securities held-to-maturity (fair value approximates \$3,308,280 and \$3,140,957)	3,323,000	3,122,994
Loans, net of allowance for loan losses of \$4,548,937 and \$4,447,524	544,905,460	490,248,868
Premises and equipment, net	21,477,609	21,276,974
Bank owned life insurance	10,324,950	9,660,818
Other assets	7,879,148	7,134,661
	\$ 797,020,590	\$ 739,993,219
Liabilities & Stockholders Equity		
Deposits:		
Noninterest-bearing deposits	\$ 97,951,492	\$ 98,685,836
Savings and interest-bearing demand deposits	200,145,477	195,833,551
Time deposits	258,712,364	242,224,814
Total deposits	556,809,333	536,744,201
Federal funds purchased, repurchase agreements and other borrowings	51,186,216	50,621,569
Federal Home Loan Bank advances	115,000,000	80,000,000
Accrued expenses and other liabilities	2,437,853	1,571,403
Total liabilities	725,433,402	668,937,173
Commitments and contingencies		
Stockholders Equity:		
Common stock, \$5 par value, 10,000,000 shares authorized; 3,991,305 and 4,013,553 shares issued	19,956,525	20,067,765
Additional paid-in capital	14,619,872	14,319,580
Retained earnings	40,264,975	39,074,325
Accumulated other comprehensive loss, net	(3,254,184)	(2,405,624)
Total stockholders equity	71,587,188	71,056,046
	\$ 797,020,590	\$ 739,993,219

See Notes to Consolidated Financial Statements.

Table of Contents**Old Point Financial Corporation and Subsidiaries**

Consolidated Statements of Income

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	(unaudited)			
Interest and Dividend Income:				
Interest and fees on loans	\$ 9,005,132	\$ 6,908,074	\$ 17,304,167	\$ 13,662,452
Interest on federal funds sold	80,839	50,740	133,164	86,273
Interest on securities:				
Taxable	1,277,567	1,312,857	2,565,640	2,687,887
Tax-exempt	366,956	425,946	755,240	869,482
Dividends and interest on all other securities	91,649	49,787	178,998	104,905
Total interest and dividend income	10,822,143	8,747,404	20,937,209	17,410,999
Interest Expense:				
Interest on savings and interest-bearing demand deposits	571,012	342,557	1,064,605	664,624
Interest on time deposits	2,526,873	1,597,555	4,805,638	3,082,898
Interest on federal funds purchased, securities sold under agreement to repurchase and other borrowings	464,393	278,405	872,214	502,133
Interest on Federal Home Loan Bank advances	1,153,712	549,982	2,138,046	1,134,103
Total interest expense	4,715,990	2,768,499	8,880,503	5,383,758
Net interest income	6,106,153	5,978,905	12,056,706	12,027,241
Provision for loan losses	300,000	225,000	600,000	450,000
Net interest income, after provision for loan losses	5,806,153	5,753,905	11,456,706	11,577,241
Noninterest Income:				
Income from fiduciary activities	661,486	696,730	1,338,900	1,413,464
Service charges on deposit accounts	1,391,562	1,185,227	2,725,497	2,257,805
Other service charges, commissions and fees	718,288	401,050	1,253,637	899,202
Income from bank owned life insurance	133,575	124,933	266,728	247,477
Net gain on available-for-sale securities	550	3,775	1,896	8,918
Other operating income	119,456	139,845	225,612	230,481
Total noninterest income	3,024,917	2,551,560	5,812,270	5,057,347
Noninterest Expense:				
Salaries and employee benefits	3,825,051	3,563,821	7,536,647	6,975,042
Occupancy and equipment	885,790	744,172	1,777,310	1,501,085
Supplies	255,398	234,117	255,398	234,117
Postage and courier	128,953	115,994	268,426	234,250
Service fees	200,459	147,457	369,186	276,782
Data processing	186,249	146,661	355,272	293,809
Advertising	189,364	187,501	331,207	251,765
Customer development	126,924	133,898	294,329	265,602
Employee professional development	160,248	164,330	291,284	279,634
Other	387,006	343,433	1,006,355	967,663
Total noninterest expenses	6,345,442	5,781,384	12,485,414	11,279,749

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Income before income taxes	2,485,628	2,524,081	4,783,562	5,354,839
Income tax expense	679,807	669,925	1,287,372	1,444,025
Net income	\$ 1,805,821	\$ 1,854,156	\$ 3,496,190	\$ 3,910,814

Basic Earnings per Share

Average shares outstanding	3,988,674	4,016,144	3,991,815	4,015,763
Net income per share of common stock	\$ 0.45	\$ 0.46	\$ 0.88	\$ 0.97

Diluted Earnings per Share

Average shares outstanding	4,049,006	4,095,746	4,052,729	4,098,913
Net income per share of common stock	\$ 0.45	\$ 0.45	\$ 0.86	\$ 0.95

See Notes to Consolidated Financial Statements.

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Consolidated Statements of Changes in Stockholders' Equity

(Unaudited)	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
FOR SIX MONTHS ENDED JUNE 30, 2006						
Balance at beginning of period	4,013,553	\$ 20,067,765	\$ 14,319,580	\$ 39,074,325	\$ (2,405,624)	\$ 71,056,046
Comprehensive income:						
Net income				3,496,190		3,496,190
Unrealized holding losses arising during the period (net of tax, \$436,492)					(847,309)	(847,309)
Reclassification adjustment, (net of tax, \$645)					(1,251)	(1,251)
Total comprehensive income				3,496,190	(848,560)	2,647,630
Sale of common stock	10,070	50,350	280,835	(180,768)		150,417
Repurchase and retirement of common stock	(32,318)	(161,590)		(769,203)		(930,793)
Nonqualified stock options			19,457			19,457
Cash dividends (\$.34 per share)				(1,355,569)		(1,355,569)
 Balance at end of period	 3,991,305	 \$ 19,956,525	 \$ 14,619,872	 \$ 40,264,975	 \$ (3,254,184)	 \$ 71,587,188
FOR SIX MONTHS ENDED JUNE 30, 2005						
Balance at beginning of period	4,013,644	\$ 20,068,220	\$ 14,074,162	\$ 34,803,848	\$ 193,092	\$ 69,139,322
Comprehensive income:						
Net income				3,910,814		3,910,814
Unrealized holding losses arising during the period (net of tax, \$474,939)					(921,941)	(921,941)
Reclassification adjustment, (net of tax, \$3,032)					(5,886)	(5,886)
Total comprehensive income				3,910,814	(927,827)	2,982,987
Sale of common stock	2,500	12,500	69,210	(27,583)		54,127
Nonqualified stock options			9,378			9,378
Cash dividends (\$.32 per share)				(1,285,174)		(1,285,174)
 Balance at end of period	 4,016,144	 \$ 20,080,720	 \$ 14,152,750	 \$ 37,401,905	 \$ (734,735)	 \$ 70,900,640

See Notes to Consolidated Financial Statements.

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Consolidated Statements of Cash Flows

	Six Months Ended June 30, 2006 (unaudited) 2005 (unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 3,496,190	\$ 3,910,814
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	777,825	663,002
Provision for loan losses	600,000	450,000
Net gain on sale of available-for-sale securities	(1,896)	(8,918)
Net amortization (accretion) of securities	(24,079)	10,203
Loss (gain) on disposal of equipment	(180)	1,969
Increase in bank-owned life insurance	(866,728)	(923,085)
Increase in other assets	(104,754)	(206,275)
Increase in other liabilities	866,450	658,923
Net cash provided by operating activities	4,742,828	4,556,633
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(4,028,813)	(2,421,647)
Purchases of held-to-maturity securities	(300,000)	(400,000)
Proceeds from maturities and calls of securities	8,472,000	9,013,450
Proceeds from sales of available-for-sale securities	1,275,000	3,454,300
Loans made to customers	(168,455,656)	(111,062,057)
Principal payments received on loans	113,199,064	106,623,923
Purchases of premises and equipment	(978,280)	(1,746,967)
Net cash provided by (used in) investing activities	(50,816,685)	3,461,002
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in non-interest bearing deposits	(734,344)	3,021,117
Increase (decrease) in savings deposits	4,311,926	(8,679,395)
Proceeds from the sale of time deposits	86,971,384	76,910,120
Payments for maturing time deposits	(70,483,834)	(74,087,423)
Increase in federal funds purchased and repurchase agreements	1,018,878	1,341,707
Increase in Federal Home Loan Bank advances	35,000,000	15,000,000
Decrease in interest-bearing demand notes and other borrowed money	(454,231)	(1,898,985)
Proceeds from issuance of common stock	150,417	54,127
Repurchase and retirement of common stock	(930,793)	
Effect of nonqualified stock options	19,457	9,378
Cash dividends paid on common stock	(1,355,569)	(1,285,174)
Net cash provided by financing activities	53,513,291	10,385,472
Net increase in cash and cash equivalents	7,439,434	18,403,107
Cash and cash equivalents at beginning of period	15,606,024	13,572,813
Cash and cash equivalents at end of period	\$ 23,045,458	\$ 31,975,920
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	\$ 8,571,212	\$ 5,290,524

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Income tax	1,175,000	1,450,000
SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS		
Unrealized loss on investment securities	(1,285,697)	(1,405,798)

See Notes to Consolidated Financial Statements.

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The accompanying unaudited consolidated financial statements of Old Point Financial Corporation (the Company) and its subsidiaries have been prepared in accordance with U. S. generally accepted accounting principles for interim financial information. All significant intercompany balances and transactions have been eliminated. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments and reclassifications consisting of a normal and recurring nature considered necessary to present fairly the financial positions at June 30, 2006 and December 31, 2005, the results of operations for the three months and six months ended June 30, 2006 and 2005, and statements of changes in stockholders' equity and cash flows for the six months ended June 30, 2006 and 2005. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year.

These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2005 annual report on Form 10-K. Certain previously reported amounts have been reclassified to conform to current period presentation.

The Company maintains a website on the Internet at www.oldpoint.com. The Company makes available free of charge, on or through its website, its proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission (SEC). The information available at the Company's Internet address is not part of this Form 10-Q or any other report filed by the Company with the SEC. The public may read and copy any documents the Company files at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Company's SEC filings can also be obtained on the SEC's website on the Internet at www.sec.gov.

Note 2. Securities

Amortized costs and fair values of securities held-to-maturity at June 30, 2006 and December 31, 2005 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
June 30, 2006				
Obligations of U. S. Government agencies	\$ 2,500	\$	\$ (52)	\$ 2,448
Obligations of state and political subdivisions	823	37		860
	\$ 3,323	\$ 37	\$ (52)	\$ 3,308
December 31, 2005				
Obligations of U. S. Government agencies	\$ 2,300	\$	\$ (41)	\$ 2,259
Obligations of state and political subdivisions	823	59		882
	\$ 3,123	\$ 59	\$ (41)	\$ 3,141

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Amortized costs and fair values of securities available-for-sale at June 30, 2006 and December 31, 2005 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
June 30, 2006				
United States Treasury securities	\$ 981	\$	\$ (1)	\$ 980
Obligations of U. S. Government agencies	150,971		(5,255)	145,716
Obligations of state and political subdivisions	31,255	381	(27)	31,609
Money market investments	783			783
Federal Home Loan Bank stock - restricted	6,644			6,644
Federal Reserve Bank stock - restricted	169			169
Other marketable equity securities	193		(29)	164
Total	\$ 190,996	\$ 381	\$ (5,312)	\$ 186,065
December 31, 2005				
United States Treasury securities	\$ 984	\$ 1	\$	\$ 985
Obligations of U. S. Government agencies	154,761	1	(4,370)	150,392
Obligations of state and political subdivisions	34,832	763	(12)	35,583
Money market investments	686			686
Federal Home Loan Bank stock - restricted	4,963			4,963
Federal Reserve Bank stock - restricted	169			169
Other marketable equity securities	193		(28)	165
Total	\$ 196,588	\$ 765	\$ (4,410)	\$ 192,943

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Information pertaining to securities with gross unrealized losses at June 30, 2006 and December 31, 2005, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Quarter Ended June 30, 2006				Total	
	Less Than Twelve Months		More Than Twelve Months		Gross Unrealized Losses	Fair Value
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)					
Securities Available-for-Sale						
Debt securities:						
United States Treasury securities	\$ 1	\$ 980	\$	\$	\$ 1	\$ 980
Obligations of U. S. Government Agencies			5,255	145,716	5,255	145,716
Obligations of state and political subdivisions	12	1,003	15	250	27	1,253
Total debt securities	13	1,983	5,270	145,966	5,283	147,949
Other marketable equity securities			29	21	29	21
Total securities available-for-sale	\$ 13	\$ 1,983	\$ 5,299	\$ 145,987	\$ 5,312	\$ 147,970
Securities Held-to-Maturity						
Obligations of U. S. Government Agencies	\$ 6	\$ 594	\$ 46	\$ 1,854	\$ 52	\$ 2,448
Total securities held-to-maturity	\$ 6	\$ 594	\$ 46	\$ 1,854	\$ 52	\$ 2,448
Total	\$ 19	\$ 2,577	\$ 5,345	\$ 147,841	\$ 5,364	\$ 150,418

	Year Ended December 31, 2005		Total
	Less Than Twelve Months	More Than Twelve Months	