iBio, Inc.
Form 10-Q
February 23, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington , D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2014

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 001-35023

iBio, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**26-2797813**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9 Innovation Way, Suite 100 , Newark, DE	**19711**
(Address of principal executive offices)	(Zip Code)

(302) 355-0650

(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 (or for such shorter period that the registrant was required to submit and post such files).

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. (Check one):

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

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

Yes ¨ No x

Shares of Common Stock outstanding as of February 23, 2015: 73,981,358

iBio, Inc.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

iBio, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In Thousands, except share and per share amounts)

	December 31, 2014 (Unaudited)	June 30, 2014 (See Note 2)
Assets		
Current assets:		
Cash	$ 7,363	$ 3,590
Accounts receivable - trade	584	205
Accounts receivable - unbilled	338	-
Prepaid expenses and other current assets	277	118
Total current assets	8,562	3,913
Fixed assets, net of accumulated depreciation	17	6
Intangible assets, net of accumulated amortization	2,463	2,575
Total Assets	$ 11,042	$ 6,494
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable (related party of $75 and $38 as of December 31, 2014 and June 30, 2014, respectively)	$ 984	$ 297
Accrued expenses	491	98
Total Current Liabilities	1,475	395
Total Liabilities	1,475	395
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock - no par value; 1,000,000 shares authorized; no shares issued and outstanding	-	-

Common stock - $0.001 par value; 175,000,000 shares authorized; 71,981,358 and 65,642,095 shares issued and outstanding as of December 31, 2014 and June 30, 2014, respectively	72	66
Additional paid-in capital	53,774	47,235
Accumulated other comprehensive loss	(14)	-
Accumulated deficit	(44,265)	(41,202)
Total Stockholders' Equity	9,567	6,099
Total Liabilities and Stockholders' Equity	$ 11,042	$ 6,494

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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iBio, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations and Comprehensive Loss

(Unaudited; In Thousands, except per share amounts)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Revenues	$367	$-	$1,186	$-
Operating expenses:				
Research and development (related party of $258, $153, $480 and $306)	731	585	1,916	1,137
Research and development - effect of Settlement Agreement (Note 6)	-	-	-	(1,041)
General and administrative	1,302	1,051	2,352	1,999
General and administrative - effect of Settlement Agreement (Note 6)	-	-	-	(700)
Total operating expenses	2,033	1,636	4,268	1,395
Operating loss	(1,666)	(1,636)	(3,082)	(1,395)
Other income (expense):				
Interest income	3	2	4	4
Interest expense - effect of Settlement Agreement Note 6)	-	-	-	122
Royalty income	10	10	15	25
Loss on disposal of fixed assets	-	(1)	-	(1)
Total other income (expense)	13	11	19	150
Net loss	$(1,653)	$(1,625)	$(3,063)	$(1,245)
Comprehensive loss:				
Net loss	$(1,653)	$(1,625)	$(3,063)	$(1,245)
Foreign currency translation adjustments	(11)	-	(14)	-
Comprehensive loss	$(1,664)	$(1,625)	$(3,077)	$(1,245)
Loss per common share - basic and diluted	$(0.02)	$(0.03)	$(0.04)	$(0.02)
Weighted-average common shares outstanding - basic and diluted	70,957	63,984	68,408	60,338

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

iBio, Inc. and Subsidiaries

Condensed Consolidated Statement of Stockholders' Equity

Six Months Ended December 31, 2014

(Unaudited; In Thousands)

	Preferred Stock		Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Loss	Deficit	Total
Balance as of July 1, 2014	-	$ -	65,642	$ 66	$ 47,235	$ -	$ (41,202)	$ 6,099
Sale of common stock	-	-	3,995	5	5,207	-	-	5,212
Commitment fee	-	-	682	-	-	-	-	-
Exercises of warrants	-	-	1,663	1	866	-	-	867
Share-based compensation	-	-	-	-	466	-	-	466
Foreign currency adjustment	-	-	-	-	-	(14)	-	(14)
Net loss	-	-	-	-	-	-	(3,063)	(3,063)
Balance as of December 31, 2014	-	$ -	71,982	$ 72	$ 53,774	$ (14)	$ (44,265)	$ 9,567

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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iBio, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited; In Thousands)

	Six Months Ended December 31,	
	2014	2013
Cash flows from operating activities:		
Net loss	$(3,063)	$(1,245)
Adjustments to reconcile net loss to net cash used in operating activities:		
Effect of Settlement Agreement	-	(1,863)
Share-based compensation	466	510
Amortization of intangible assets	178	175
Depreciation	2	1
Loss on disposal of fixed assets	-	1
Loss on abandonment of intangible assets	30	-
Changes in operating assets and liabilities		
Accounts receivable - trade	(379)	-
Accounts receivable - unbilled	(338)	-
Prepaid expenses and other current assets	(160)	(42)
Accounts payable	664	(48)
Accrued expenses	407	306
Net cash used in operating activities	(2,193)	(2,205)
Cash flows from >		

Premises and equipment	**14,579**			14,926		
Allowance for Loan Losses	**(5,614)**			(5,877)		
Other assets (3)	**8,515**			7,400		
Total Assets	**$ 800,933**			$ 816,063		

INTEREST-BEARING LIABILITIES

Time deposits	**$ 267,170**	**$ 3,184**	**4.73%**	$ 273,158	$ 2,886	4.19%
Savings deposits	**164,382**	**825**	**1.99**	173,578	944	2.16
Demand deposits	**96,957**	**136**	**0.56**	104,973	183	0.69
Repurchase agreements	**79,012**	**739**	**3.71**	82,856	729	3.49
Borrowings	**56,136**	**664**	**4.69**	44,270	513	4.60
Total Interest-Bearing Liabilities	**663,657**	**5,548**	**3.32**	678,835	5,255	3.07

NONINTEREST-BEARING LIABILITIES AND STOCKHOLDERS EQUITY

Demand deposits	**58,197**			57,588		
Other Liabilities	**5,616**			5,457		
Stockholders equity	**73,463**			74,183		
Total Liabilities and Stockholders Equity	**$ 800,933**			$ 816,063		
Net interest income and interest rate spread		**$ 6,442**	**2.92%**		$ 6,360	2.87%
Net interest margin			**3.35%**			3.25%

(1) Rates are calculated on an annualized basis.

(2) Equity securities include restricted stock, which is included in other assets on the consolidated balance sheets.

(3) Non-accrual loans and overdraft deposits are included in other assets.

(4) Interest on loans includes fee income of $439 thousand and $389 thousand for 2007 and 2006 respectively.

(5) For 2007, adjustments of $86 thousand, $341 thousand, and $20 thousand respectively are made to tax

equate income on tax exempt loans, tax exempt securities and to reflect a dividends received deduction on equity securities. For 2006, adjustments of $92 thousand, $318 thousand, and $34 thousand respectively are made to tax equate income on tax exempt loans, tax exempt securities and to reflect a dividends received deduction on equity securities. These adjustments are based on a marginal federal income tax rate of 35%, less disallowances.

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Average Balance Sheets and Related Yields and Rates
(Dollar Amounts in Thousands)

	Nine Months Ended September 30, 2007			Nine Months Ended September 30, 2006		
	AVERAGE BALANCE	INTEREST	RATE (1)	AVERAGE BALANCE	INTEREST	RATE (1)
EARNING ASSETS						
Loans (3) (4) (5)	**$ 507,198**	**$ 26,202**	**6.91%**	$ 509,118	$ 24,919	6.54%
Taxable securities	**171,428**	**5,337**	**4.16**	189,254	5,620	3.97
Tax-exempt securities (5)	**69,996**	**3,065**	**5.85**	61,708	2,740	5.94
Equity Securities (2) (5)	**9,465**	**492**	**6.95**	11,512	525	6.10
Federal funds sold	**5,133**	**196**	**5.11**	7,590	278	4.90
Total earning assets	**763,220**	**35,292**	**6.18**	779,182	34,082	5.85
NONEARNING ASSETS						
Cash and due from banks	**21,752**			24,618		
Premises and equipment	**14,652**			14,968		
Allowance for Loan Losses	**(5,598)**			(5,884)		
Other assets (3)	**9,324**			7,764		
Total Assets	**$ 803,350**			$ 820,648		
INTEREST-BEARING LIABILITIES						
Time deposits	**$ 268,981**	**$ 9,361**	**4.65%**	$ 279,006	$ 8,334	3.99%
Savings deposits	**169,199**	**2,555**	**2.02**	165,136	2,217	1.79
Demand deposits	**97,739**	**418**	**0.57**	115,029	681	0.79
Repurchase agreements	**75,958**	**2,062**	**3.63**	77,392	1,896	3.28
Borrowings	**52,449**	**1,864**	**4.75**	46,732	1,596	4.57
Total Interest-Bearing Liabilities	**664,326**	**16,260**	**3.27**	683,295	14,724	2.88
NONINTEREST-BEARING LIABILITIES AND STOCKHOLDERS EQUITY						
Demand deposits	**58,678**			57,390		
Other Liabilities	**5,613**			5,079		
Stockholders equity	**74,733**			74,884		
Total Liabilities and Stockholders Equity	**$ 803,350**			$ 820,648		

Net interest income and interest rate spread	**$ 19,032**	**2.91%**	$ 19,358	2.97%
Net interest margin		**3.33%**		3.32%

(1) Rates are calculated on an annualized basis.

(2) Equity securities include restricted stock, which is included in other assets on the consolidated balance sheets.

(3) Non-accrual loans and overdraft deposits are included in other assets.

(4) Interest on loans includes fee income of $1,306 thousand and $1,232 thousand for 2007 and 2006 respectively.

(5) For 2007, adjustments of $265 thousand, $1,019 thousand, and $62 thousand respectively are made to tax equate income on tax exempt loans, tax exempt securities and to reflect a

dividends received deduction on equity securities. For 2006, adjustments of $261 thousand, $909 thousand, and $79 thousand respectively are made to tax equate income on tax exempt loans, tax exempt securities and to reflect a dividends received deduction on equity securities. These adjustments are based on a marginal federal income tax rate of 35%, less disallowances.

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Taxable equivalent net interest income. Taxable equivalent net interest income for the first nine-months ended September 30, 2007 totaled $19.03 million, a decrease of $326 thousand or 1.68% compared to the first nine-months of 2006. Although the yield on earning assets increased by 33 basis points over the past 12 months, this benefit was offset by a 39 basis point increase in the cost of interest-bearing liabilities. The net interest margin and net interest income continues to be affected by the shape of the yield curve and aggressive competitive pricing in our market areas, which has caused the yield on earning assets to lag behind the increasing cost of interest-bearing liabilities. The effect of these pressures was mitigated somewhat by the greater proportion of interest-earning assets being relatively higher-yielding loans and tax-exempt securities in the current year-to-date period compared to the prior year. Average time deposits decreased by $10.03 million or 3.59% over the prior year nine-month period but remained proportionately the same as a component of interest-bearing liabilities. The interest rate paid on time deposits was up 66 basis points over the prior year comparable period, which is consistent with the market increase in short-term interest rates.

Taxable equivalent net interest income for the quarter ended September 30, 2007 totaled $6.44 million, a slight increase of $82 thousand or 1.29% compared to the quarter ended September 30, 2006. The same dynamic that compressed margins in the year-to-date period made it difficult to increase net interest income for the quarter, but a larger proportion of interest-earning assets is comprised of loans and tax-exempt securities, which are higher yielding than other interest-earning assets. The increase in interest expense is partly attributable to the 54 basis point increase in interest costs associated with time deposits. Time deposit balances decreased but remained proportionately the same as a component of interest-bearing liabilities.

Noninterest Income. Total noninterest income for the nine-month period ended September 30, 2007 decreased slightly by $68 thousand or 1.72% compared to the same period in 2006.

Total noninterest income for the quarter ended September 30, 2007 decreased by $181 thousand from the prior year comparable quarter. This decrease is mainly due to a $113 thousand decrease in gains on the sale of investment securities.

Noninterest Expense. Noninterest expense was $15.30 million for the first nine months of 2007 compared to $14.67 million for the same period in 2006. This amounts to an increase of 4.33%. Most of this increase is the result of a $252 thousand increase in salaries and employee benefits mainly attributable to higher health insurance costs.

Noninterest expense was $5.02 million for both quarters ended September 30, 2007 and September 30, 2006.

The efficiency ratio increased to 68.44% for the first nine months of 2007 compared to 64.34% for the first nine months of 2006. The efficiency ratio was adversely impacted by the $326 thousand decline in taxable equivalent net interest income.

The efficiency ratio improved slightly to 66.09% for the three months ended September 30, 2007 compared with 66.28% for the same three-month period in 2006. The ratio was positively affected by the slight improvement in taxable equivalent net interest income. The efficiency ratio is calculated as follows: non-interest expense divided by the sum of fully taxable equivalent net interest income plus non-interest income, excluding security gains. This ratio is a measure of the expense incurred to generate a dollar of revenue. Management will continue to closely monitor the efficiency ratio.

Income Taxes. Income tax expense totaled $1.13 million for the first nine months of 2007 and $1.60 million for the first nine months of 2006, a decrease of $472 thousand or 29.52%. The effective tax rate for the first nine months of 2007 was 18.51% compared to 22.20% for the same time in 2006. The effective tax rate for the nine-month period ended September 30, 2007 was impacted by the Corporation s increased purchases of tax-exempt municipal securities and a decrease in pretax income resulted in the lower tax rate.

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Income tax expense totaled $432 thousand for the quarter ended September 30, 2007 and $454 thousand for the quarter ended September 30, 2006, a decrease of 4.85%.

Other Comprehensive Income. For the first nine months of 2007, the change in net unrealized gains on securities, net of reclassifications, resulted in an unrealized gain of $81 thousand compared to an unrealized gain of $955 thousand for the same period in 2006. The quarter ended September 30, 2007 also had an unrealized gain of $1.45 million compared to an unrealized gain of $3.12 million for the same quarter in 2006. The fair value of these securities should continue to recover as principal payments are received and they approach their maturity date. Management has the intent and ability to hold these securities for the foreseeable future.

Financial Condition

Total assets decreased $15.98 million or 1.94% since December 31, 2006, as the Corporation also saw a decline in deposit balances. Capital ratios remain strong, as shown by the ratio of equity to total assets at September 30, 2007 of 9.19%.

Securities. Securities available for sale decreased $22.84 million. Matured securities were used to partially fund the decrease of $32.89 million in deposits. During the first quarter of 2007, the Corporation sold $2.7 million in market value of FNMA preferred stock, resulting in a gain of $552 thousand.

Loans. Gross loans increased $6.16 million since December 31, 2006. Commercial Real Estate loans grew $8.08 million or 4.46% since December 31, 2006. The growth in commercial real estate loans offset the decline in balance in indirect installment loans, which decreased $6.82 million or 6.70%. Commercial Real Estate loans have grown as the Corporation has used a combination of experienced personnel and marketing strategies to build this section of the portfolio as the local economy continues to recover. On a fully tax equivalent basis, loans contributed 74.24% of total interest income for the nine months ended September 30, 2007 and 73.11% for the nine months ended September 30, 2006.

Allowance for Loan Losses. The following table indicates key asset quality ratios that management evaluates on an ongoing basis.

Asset Quality History

(In Thousands of Dollars)

	9/30/07	6/30/07	3/31/07	12/31/06	9/30/06
Nonperforming loans	$ 2,890	$ 2,567	$ 2,458	$ 1,722	$ 1,853
Nonperforming loans as a % of total loans	.56%	.50%	.48%	.34%	.36%
Allowance for loan losses	$ 5,591	$ 5,593	$ 5,556	$ 5,594	$ 5,845
Allowance for loan losses as a % of loans	1.09%	1.09%	1.10%	1.10%	1.14%
Allowance for loan losses as a % of nonperforming loans	193.46%	217.88%	226.04%	324.85%	315.39%

The allowance for loan losses as a percentage of loans at September 30, 2007 was slightly down from the December 31, 2006 amount of 1.10%. The provision for loan losses for the first nine months of 2007 and 2006 was $185 thousand and $200 thousand, respectively. Net charge-offs totaled $189 thousand for the first nine months of 2007 down from $213 thousand for the first nine months of 2006. The provision closely tracks net charge-offs. During 2007 approximately 69% of gross charge-offs

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have occurred in the indirect loan portfolio compared to 80% in 2006. Non-performing loans to total loans have increased from .34% as of December 31, 2006 to .56% as of September 30, 2007. While the number of non-performing loans remains low, the bulk of the increase can be attributed to a single relationship. The ratio of the allowance for loan losses (ALLL) to non-performing loans was 193%.

The provision for loan losses is based on management s judgment after taking into consideration all factors connected with the collectibility of the existing loan portfolio. Management evaluates the loan portfolio in light of economic conditions, changes in the nature and volume of the loan portfolio, industry standards and other relevant factors. Specific factors considered by management in determining the amounts charged to operating expenses include previous credit loss experience, the status of past due interest and principal payments, the quality of financial information supplied by loan customers and the general condition of the industries in the community to which loans have been made.

Deposits. Total deposits decreased $32.89 million since December 31, 2006. Balances in the Corporation s time deposits decreased $11.80 million or 4.21% between December 31, 2006 and September 30, 2007. Money market accounts decreased $8.38 million since December 31, 2006. Given the modest loan demand and the keen competition for time deposits, efforts have been concentrated to better manage the margin rather than grow the balance sheet in the current interest rate environment. The Company prices deposit rates to remain competitive within the market and to retain customers.

Borrowings. Total borrowings increased $20.96 million or 17.56% since December 31, 2006. The Corporation partially offset the drop in deposits with an increase in securities sold under repurchase agreements, which grew $18.13 million during the nine-month period.

Capital Resources. Total stockholders equity decreased from $76.22 million at December 31, 2006 to $74.04 million at September 30, 2007. During the first nine months of 2007, the mark to market adjustment of securities increased accumulated other comprehensive income by $81 thousand and the repurchase of treasury stock decreased stockholders equity by $3.55 million.

The capital management function is a regular process, which consists of providing capital for both the current financial position and the anticipated future growth of the Corporation. As of September 30, 2007 the Corporation s total risk-based capital ratio stood at 15.27%, and the Tier I risk-based capital ratio and Tier I leverage ratio were at 14.16% and 9.36%, respectively. Management believes, as of September 30, 2007, that the Corporation and Bank meet all capital adequacy requirements to which they are subject.

Critical Accounting Policies

The Company follows financial accounting and reporting policies that are in accordance with U.S. GAAP. These policies are presented in Note A to the consolidated audited financial statements in Farmers National Banc Corp. s 2006 Annual Report to Shareholders included in Farmers National Banc Corp. s Annual Report on Form 10-K. Critical accounting policies are those policies that require management s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company has identified two accounting policies that are critical accounting policies and an understanding of these policies is necessary to understand our financial statements. These policies relate to determining the adequacy of the allowance for loan losses and other-than-temporary impairment of securities. Additional information regarding these policies is included in the notes to the aforementioned 2006 consolidated financial statements, Note A (Summary of Significant Accounting Policies), Note B (Securities), Note C (Loans), and the sections captioned Loan Portfolio and Investment Securities .

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Liquidity

The Corporation maintains, in the opinion of management, liquidity sufficient to satisfy depositors requirements and meet the credit needs of customers. The Corporation depends on its ability to maintain its market share of deposits as well as acquiring new funds. The Corporation s ability to attract deposits and borrow funds depends in large measure on its profitability, capitalization and overall financial condition. The Company s objective in liquidity management is to maintain the ability to meet loan commitments, purchase securities or to repay deposits and other liabilities in accordance with their terms without an adverse impact on current or future earnings. Principal sources of liquidity for the Company include assets considered relatively liquid, such as federal funds sold, cash and due from banks, as well as cash flows from maturities and repayments of loans, and securities.

The primary investing activities of the Company are originating loans and purchasing securities. During the first nine months of 2007, net cash from investing activities amounted to $16.44 million compared to $16.57 million provided by investing activities for the same period in 2006. Purchases of securities available for sale amounted to $11.58 million in 2007 compared to $36.19 million in 2006. Net loans increased by $6.35 million during this year s first nine-month period and increased $667 thousand over the same nine-month period in 2006.

The primary financing activities of the Company are obtaining deposits, repurchase agreements and other borrowings. Net cash used by financing activities amounted to $19.16 million for the first nine months of 2007 compared to $20.36 million used by financing activities for the same period in 2006. Most of this change is a result of the net decrease in deposits. Deposits decreased $32.89 million for the nine-month period ended September 30, 2007 compared to a $26.31 million decrease for the same period in 2006. The variability in deposits is a result of normal customer deposit activity and the Corporation s effort to manage the margin rather than grow the balance sheet. Proceeds from Federal Home Loan Bank borrowings amounted to $20 million in 2007 compared to $10 million in 2006.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company s ability to maximize net income is dependent, in part, on management s ability to plan and control net interest income through management of the pricing and mix of assets and liabilities. Because a large portion of assets and liabilities of the Company are monetary in nature, changes in interest rates and monetary or fiscal policy affect its financial condition and can have significant impact on the net income of the Company.

The Company monitors its exposure to interest rate risk on a quarterly basis through simulation analysis which measures the impact changes in interest rates can have on net income. The simulation technique analyzes the effect of a presumed 100 and 200 basis points shift in interest rates and takes into account prepayment speeds on amortizing financial instruments, loan and deposit volumes and rates, non-maturity deposit assumptions and capital requirements. The results of the simulation indicate that in an environment where interest rates rise or fall 100 and 200 basis points over a 12 month period, using September 30, 2007 amounts as a base case, the Company s change in net interest income would be within the board mandated limits.

The information required by Item 3 has been disclosed in Item 7A of the Company s Annual Report to Shareholders on Form 10-K for the year ended December 31, 2006. There has been no material change in the disclosure regarding market risk due to the stability of the balance sheet.

Item 4. Controls and Procedures

Based on their evaluation, as of the end of the period covered by this quarterly report, the Company s Chief Executive Officer and Chief Financial Officer have concluded the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) are effective. There have been no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. The Company s Chief Executive Officer and Chief Financial Officer have also concluded there have been no changes over the Company s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of business, Farmers National Bank was named a defendant in a lawsuit filed in September 2005, at which time, the Plaintiff alleges that the Bank is indebted to the Plaintiff for allowing the Plaintiff s former agent to make withdrawals from the Plaintiff s account. The Plaintiff is seeking damages in excess of $423,000 to be determined by a jury trial. While there is no way to determine the ultimate success of defense of the lawsuit at this time, the Bank is defending this matter vigorously.

Item 1A. Risk Factors

For information regarding factors that could affect the Corporation s results of operations, financial condition and liquidity, see the risk factors discussion provided under Part 1, Item 1A on Form 10-K for the fiscal year ended December 31, 2006. See also, Forward-Looking Statements included in Part 1, Item 2 of this Quarterly Report on Form 10-Q. There have been no material changes in risk factors since December 31, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of equity securities by the issuer.

On June 12, 2007, the Corporation announced the adoption of a stock repurchase program that authorizes the repurchase of up to 4.9% or approximately 638 thousand shares of its outstanding common stock in the open market or in privately negotiated transactions. This program expires in June 2008.

The following table summarizes the treasury stock purchased by the issuer during the second quarter of 2007:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
July 1-31	36,535	$ 10.52	36,535	545,171
August 1-31	60,000	$ 9.80	60,000	485,171
Sept 1-30	55,000	$ 9.47	55,000	430,171
TOTAL	151,535	$ 9.85	151,535	430,171

Item 3. Defaults Upon Senior Securities

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Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

(a) The following exhibits are filed or incorporated by reference as part of this report:

2. Not applicable.

3(i). The Articles of Incorporation, including amendments thereto for the Registrant. Incorporated by reference to Exhibit 4.1 to Farmers National Banc Corp s Form S-3 Registration Statement dated October 3, 2001. (File No. 0-12055).

3(ii). The Code of Regulations, including amendments thereto for the Registrant. Incorporated by reference to Exhibit 4.2 to Farmers National Banc Corp s Form S-3 Registration Statement dated October 3, 2001. (File No. 0-12055).

4. Incorporated by reference to initial filing.

10. Not applicable.

11. Refer to notes to unaudited consolidated financial statements.

15. Not applicable.

18. Not applicable.

19. Not applicable.

22. Not applicable.

23. Not applicable.

24. Not applicable.

31.a Certification of Chief Executive Officer (Filed herewith)

31.b Certification of Chief Financial Officer (Filed herewith)

32.a 906 Certification of Chief Executive Officer (Filed herewith)

32.b 906 Certification of Chief Financial Officer (Filed herewith)

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FARMERS NATIONAL BANC CORP.

Dated: November 9, 2007

/s/Frank L. Paden

Frank L. Paden

President and Secretary

Dated: November 9, 2007

/s/Carl D. Culp

Carl D. Culp

Executive Vice President

and Treasurer