

LCNB CORP
Form 10-Q
May 09, 2013

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 March 31, 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 000-26121

LCNB Corp.

(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction of
incorporation or organization)

31-1626393
(I.R.S. Employer
Identification Number)

2 North Broadway, Lebanon, Ohio 45036
(Address of principal executive offices, including Zip Code)

(513) 932-1414
(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 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,

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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 (Do not check if a smaller reporting company) 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

The number of shares outstanding of the issuer's common stock, without par value, as of May 6, 2013 was 7,625,920 shares.

LCNB CORP. AND SUBSIDIARIES
FOR THE THREE MONTHS ENDED MARCH 31, 2013

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements
 LCNB CORP. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 (Dollars in thousands)

	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS:		
Cash and due from banks	\$ 24,500	11,260
Interest-bearing demand deposits	3,813	2,215
Total cash and cash equivalents	28,313	13,475
Investment securities:		
Available-for-sale, at fair value	277,559	258,506
Held-to-maturity, at cost	22,831	15,424
Federal Reserve Bank stock, at cost	1,106	949
Federal Home Loan Bank stock, at cost	2,854	2,091
Loans, net	546,263	450,346
Premises and equipment, net	20,156	16,564
Goodwill	14,319	5,915
Bank owned life insurance	20,774	16,915
Other assets	12,229	8,452
TOTAL ASSETS	\$ 946,404	788,637
LIABILITIES:		
Deposits:		
Noninterest-bearing	\$ 158,648	133,848
Interest-bearing	662,222	537,623
Total deposits	820,870	671,471
Short-term borrowings	11,609	13,756
Long-term debt	13,128	13,705
Accrued interest and other liabilities	6,593	7,699
TOTAL LIABILITIES	852,200	706,631
SHAREHOLDERS' EQUITY:		
Preferred shares - no par value, authorized 1,000,000 shares, none outstanding	-	-
Common shares - no par value, authorized 12,000,000 shares, issued 8,379,387 and 7,485,527 shares at March 31, 2013 and December 31, 2012, respectively	39,517	27,107
Retained earnings	62,352	61,843
Treasury shares at cost, 753,627 shares at March 31, 2013 and December 31, 2012	(11,665)	(11,665)
Accumulated other comprehensive income, net of taxes	4,000	4,721
TOTAL SHAREHOLDERS' EQUITY	94,204	82,006
TOTAL LIABILITES AND SHAREHOLDERS' EQUITY	\$ 946,404	788,637

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

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LCNB CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
INTEREST INCOME:		
Interest and fees on loans	\$ 6,580	6,208
Interest on investment securities:		
Taxable	834	887
Non-taxable	623	606
Other investments	39	30
TOTAL INTEREST INCOME	8,076	7,731
INTEREST EXPENSE:		
Interest on deposits	983	1,165
Interest on short-term borrowings	3	3
Interest on long-term debt	112	154
TOTAL INTEREST EXPENSE	1,098	1,322
NET INTEREST INCOME	6,978	6,409
PROVISION FOR LOAN LOSSES	149	215
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,829	6,194
NON-INTEREST INCOME:		
Trust income	575	766
Service charges and fees on deposit accounts	979	878
Net gain on sales of securities	587	380
Bank owned life insurance income	172	148
Gains from sales of mortgage loans	129	107
Other operating income	65	57
TOTAL NON-INTEREST INCOME	2,507	2,336
NON-INTEREST EXPENSE:		
Salaries and employee benefits	3,294	2,982
Equipment expenses	292	262
Occupancy expense, net	506	407
State franchise tax	216	206
Marketing	144	111
FDIC premiums	128	111
Other non-interest expense	2,511	1,369
TOTAL NON-INTEREST EXPENSE	7,091	5,448
INCOME BEFORE INCOME TAXES	2,245	3,082
PROVISION FOR INCOME TAXES	517	805
NET INCOME	\$ 1,728	2,277
Dividends declared per common share	\$ 0.16	0.16

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Earnings per common share:

Basic	\$	0.23	0.34
Diluted		0.23	0.34

Weighted average common shares outstanding:

Basic	7,513,101	6,706,295
Diluted	7,610,626	6,773,451

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

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LCNB CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Net income	\$1,728	2,277
Other comprehensive income:		
Net unrealized gain (loss) on available-for-sale securities (net of taxes of \$176 and \$259 for the three months ended March 31, 2013 and 2012, respectively)	(342)	(505)
Reclassification adjustment for net realized gain on sales of available-for-sale securities included in net income, net of taxes	(387)	(251)
Change in nonqualified pension plan unrecognized net loss and unrecognized prior service cost (net of taxes of \$5 and \$5 for the three months ended March 31, 2013 and 2012, respectively)	8	7
Total comprehensive income	\$1,007	1,528

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

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LCNB CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Dollars in thousands, except per share amounts)
(Unaudited)

	Common Shares Outstanding	Common Stock	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance December 31, 2011	6,704,723	\$26,753	57,877	(11,698)	5,028	77,960
Net income			2,277			2,277
Net unrealized gain (loss) on available-for-sale securities, net of taxes					(505)	(505)
Reclassification adjustment for net realized gain on sales of available-for-sale securities included in net income, net of taxes					(251)	(251)
Change in nonqualified pension plan unrecognized net gain and unrecognized prior service cost, net of taxes					7	7
Dividend Reinvestment and Stock Purchase Plan	6,968	89				89
Compensation expense relating to stock options		9				9
Common stock dividends, \$0.16 per share			(1,073)			(1,073)
Balance March 31, 2012	6,711,691	26,851	59,081	(11,698)	4,279	78,513
Balance December 31, 2012	6,731,900	\$27,107	61,843	(11,665)	4,721	82,006
Net income			1,728			1,728
Net unrealized gain (loss) on available-for-sale securities, net of tax					(342)	(342)
Reclassification adjustment for net realized gain on sales of available-for-sale securities included in net income, net of taxes					(387)	(387)
Change in nonqualified pension plan unrecognized net gain and unrecognized prior service cost, net of taxes					8	8
Dividend Reinvestment and Stock Purchase Plan	5,049	80				80
	888,811	12,321				12,321

Acquisition of First Capital Bancshares, Inc.						
Compensation expense relating to stock options		9				9
Common stock dividends, \$0.16 per share			(1,219)			(1,219)
Balance March 31, 2013	7,625,760	39,517	62,352	(11,665)	4,000	94,204

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

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LCNB CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$1,728	2,277
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation, amortization and accretion	740	775
Provision for loan losses	149	215
Increase in cash surrender value of bank owned life insurance	(172)	(148)
Realized gain from sales of securities available-for-sale	(587)	(380)
Realized (gain) loss from sales and write-downs of other real estate owned and repossessed assets	(230)	81
Origination of mortgage loans for sale	(7,175)	(5,866)
Realized gains from sales of mortgage loans	(129)	(107)
Proceeds from sales of mortgage loans	7,241	5,914
Compensation expense related to stock options	9	9
(Increase) decrease due to changes in assets and liabilities:		
Accrued income receivable	(671)	(578)
Other assets	(53)	144
Other liabilities	(928)	(178)
TOTAL ADJUSTMENTS	(1,806)	(119)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(78)	2,158
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investment securities available-for-sale	23,337	29,944
Proceeds from maturities and calls of investment securities:		
Available-for-sale	5,059	5,514
Held-to-maturity	1,353	413
Purchases of investment securities:		
Available-for-sale	(26,725)	(34,944)
Held-to-maturity	(8,376)	(131)
Purchase of Federal Reserve Bank stock	-	(8)
Net decrease in loans	2,865	3,458
Proceeds from sale of other real estate owned and repossessed assets	865	14
Purchases of premises and equipment	(204)	(47)
Net cash acquired from acquisition	9,771	-
NET CASH FLOWS FROM INVESTING ACTIVITIES	7,945	4,213
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	12,626	12,004
Net decrease in short-term borrowings	(2,147)	(11,006)
Principal payments on long-term debt	(2,369)	(642)
Proceeds from issuance of common stock	11	15
Cash dividends paid on common stock	(1,150)	(999)

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NET CASH FLOWS FROM FINANCING ACTIVITIES	6,971	(628)
NET CHANGE IN CASH AND CASH EQUIVALENTS	14,838	5,743
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	13,475	19,535
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$28,313	25,278

SUPPLEMENTAL CASH FLOW INFORMATION:

CASH PAID DURING THE YEAR FOR:

Interest	\$1,171	1,361
Income taxes	440	-

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:

Transfer from loans to other real estate owned and repossessed assets	6	543
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The accompanying notes to consolidated financial statements are an integral part of these statements.

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LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Basis of Presentation

Substantially all of the assets, liabilities and operations of LCNB Corp. ("LCNB" or the "Company") are attributable to its wholly-owned subsidiary, LCNB National Bank (the "Bank"). The accompanying unaudited consolidated financial statements include the accounts of LCNB and the Bank.

The unaudited interim consolidated financial statements, which have been reviewed by J.D. Cloud & Co. L.L.P., LCNB's independent registered public accounting firm, in accordance with standards established by the Public Company Accounting Oversight Board, as indicated by their report included herein and which does not express an opinion on those statements, have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited interim consolidated financial statements include all adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation of financial position, results of operations, and cash flows for the interim periods, as required by Regulation S-X, Rule 10-01.

Certain prior period data presented in the financial statements have been reclassified to conform with the current year presentation.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Results of operations for the three months ended March 31, 2013 are not necessarily indicative of the results to be expected for the full year ending December 31, 2013. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements, accounting policies, and financial notes thereto included in LCNB's 2012 Annual Report on Form 10-K filed with the SEC.

Note 2 – Acquisition

On October 9, 2012, LCNB and First Capital Bancshares, Inc. ("First Capital") entered into an Agreement and Plan of Merger ("Merger Agreement") pursuant to which First Capital was merged into LCNB on January 11, 2013 in a stock and cash transaction valued at approximately \$20.2 million. Immediately following the merger of First Capital into LCNB, Citizens National Bank ("Citizens"), a wholly-owned subsidiary of First Capital, was merged into LCNB National Bank. Citizens operated six full-service branches with a main office and two other facilities in Chillicothe, Ohio and one branch in each of Frankfort, Ohio, Clarksburg, Ohio, and Washington Court House, Ohio. These offices became branches of the Bank after the merger.

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LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Continued)

Note 2 – Acquisition (continued)

Under the terms of the Merger Agreement, each shareholder of First Capital common stock was entitled to elect to receive, for each share of First Capital Common Stock, (i) \$30.76 in cash, (ii) 2.329 common shares of LCNB (subject to an adjustment based upon the average closing price of LCNB common shares for the 25 trading days prior to the effective date of the merger), or (iii) a combination of cash and LCNB common stock. A First Capital shareholder's election to receive cash or stock was subject to allocation procedures that ensured that no more than 50% and no less than 40% of the outstanding First Capital shares were exchanged for cash and that no more than 60% and no less than 50% of the outstanding First Capital shares were exchanged for LCNB common shares.

The merger with First Capital 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, as summarized in the following table (in thousands):

Consideration Paid:

Common shares issued (888,811)	\$12,354
Cash paid to shareholders	7,828
Total value of consideration paid	20,182

Identifiable Assets Acquired:

Cash and cash equivalents	17,632
Investment securities:	
Available-for-sale	21,606
Held-to-maturity	384
Federal Reserve Bank stock	157
Federal Home Loan Bank stock	763
Loans, net	98,899
Premises and equipment, net	3,729
Bank owned life insurance	3,687
Core deposit intangible	2,574
Other real estate owned	127
Deferred income taxes	504
Other assets	1,150
Total identifiable assets acquired	151,212

Liabilities Assumed:

Deposits	136,823
Long-term debt	1,792
Other liabilities	819
Total liabilities assumed	139,434

Total Identifiable Net Assets Acquired	11,778
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Goodwill resulting from merger	\$8,404
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LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Continued)

Note 2 – Acquisition (continued)

The amount of goodwill recorded reflects LCNB’s entrance into a new market and related synergies that are expected to result from the acquisition and represents the excess purchase price over the estimated fair value of the net assets acquired. The goodwill will not be amortizable and is not deductible for tax purposes. The core deposit intangible will be amortized over nine years using the straight-line method.

The following table details the acquired loans that are accounted for in accordance with FASB ASC 310-30 (in thousands):

Contractually required principal at acquisition	\$ 103,456
Contractual cash flows not expected to be collected (nonaccretable difference)	(3,409)
Expected cash flows at acquisition	100,047
Interest component of expected cash flows (accretable discount)	(1,148)
Fair value of acquired loans	\$98,899

In accordance with U.S. GAAP, there was no carryover of the allowance for loan losses that had been previously recorded by Citizens.

Direct costs related to the acquisition were expensed as incurred and are recorded in other non-interest expense in the consolidated statements of income. During the first quarter 2013 LCNB incurred \$1,055,000 in merger and acquisition integration expenses related to the transaction, including \$496,000 in merger related costs and \$559,000 for converting Citizens data processing system to LCNB’s system.

The results of operations are included in the consolidated income statement from the date of the merger. The estimated amount of Citizens revenue and net income, excluding merger and data conversion costs, included in LCNB’s consolidated income statement for the first quarter 2013 was \$1,260,000 and \$393,000 respectively.

The following table presents unaudited pro forma information as if the merger with First Capital had occurred on January 1, 2012 (in thousands). This pro forma information gives effect to certain adjustments, including purchase accounting fair value adjustments, amortization of the core deposit intangible, and related income tax effects. It does not include merger and data conversion costs. The pro forma information does not necessarily reflect the results of operations that would have occurred had the merger with First Capital occurred in 2012. In particular, expected operational cost savings are not reflected in the pro forma amounts.

	Three Months Ended March 31,	
	2013	2012
Total revenue	\$9,688	10,466
Net income	2,115	2,555
Basic earnings per common share	0.28	0.34
Diluted earnings per common share	0.27	0.33

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LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Continued)

Note 3 - Investment Securities

The amortized cost and fair value of available-for-sale investment securities at March 31, 2013 and December 31, 2012 are summarized as follows (in thousands):

	March 31, 2013			Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	
U.S. Treasury notes	\$ 19,447	246	-	19,693
U.S. Agency notes	100,668	1,021	190	101,499
U.S. Agency mortgage-backed securities	53,116	1,166	126	54,156
Certificates of deposit with other banks	1,494	15	-	1,509
Municipal securities:				
Non-taxable	75,766	3,157	179	78,744
Taxable	16,684	919	11	17,592
Mutual funds	2,201	22	-	2,223
Trust preferred securities	149	3	4	148
Equity securities	1,751	261	17	1,995
	\$271,276	6,810	527	277,559

	December 31, 2012			Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	
U.S. Treasury notes	\$ 18,462	224	-	18,686
U.S. Agency notes	89,372	1,364	130	90,606
U.S. Agency mortgage-backed securities	51,121	1,444	24	52,541
Corporate securities	3,032	35	-	3,067
Municipal securities:				
Non-taxable	70,504	3,497	119	73,882
Taxable	14,851	993	3	15,841
Mutual fund	2,138	30	-	2,168
Trust preferred securities	250	2	7	245
Equity securities	1,390	106	26	1,470
	\$251,120	7,695	309	258,506

The fair value of held-to-maturity investment securities, consisting of non-taxable and taxable municipal securities, approximates amortized cost at March 31, 2013 and December 31, 2012.

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LCNB CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Continued)

Note 3 - Investment Securities (continued)

Information concerning securities with gross unrealized losses at March 31, 2013, aggregated by length of time that individual securities have been in a continuous loss position, is as follows (in thousands):

	N/A			N/A	N/A
May 2010		N/A	34.96	98,689	N/A
June 2010		N/A	34.36	128,575	N/A

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There have been no material changes to the procedures by which shareholders may recommend nominees to the Fund's Board of Trustees since the Fund last provided disclosure in response to this item.

ITEM 11. CONTROLS AND PROCEDURES

(a) The registrant's President and Chief Executive Officer and Treasurer, Principal Financial & Accounting Officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-2(c) under the Act (17 CFR 270.30a-3(c))), as amended are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.

(b) There were no significant changes over financial reporting (as defined in Rule 30a-3(d) under the Act (17 CFR 270.30a-3(d))) that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's control over financial reporting.

ITEM 12. EXHIBITS

(a) (1) Exhibit 99.CODE ETH Code of Ethics

(a) (2) Exhibit 99 Cert. Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(b) Exhibit 99.906 Cert. Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) The Korea Fund, Inc.

By /s/ Robert Goldstein

President and Chief Executive Officer

Date: August 31, 2010

By /s/ Brian S. Shlissel

Treasurer, Principal Financial & Accounting
Officer

Date: August 31, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/ Robert Goldstein

President and Chief Executive Officer

Date: August 31, 2010

By /s/ Brian S. Shlissel

Treasurer, Principal Financial & Accounting
Officer

Date: August 31, 2010