

LANDMARK BANCORP INC
Form 10-Q
November 14, 2008
Table of Contents

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 September 30, 2008

OR

o

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

For transition period from to

Commission File Number 0-33203

LANDMARK BANCORP, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

43-1930755

(I.R.S. Employer Identification
Number)

701 Poyntz Avenue, Manhattan, Kansas

66502

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(Address of principal executive offices)

(Zip Code)

(785) 565-2000

(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, 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
(Do not check if a smaller reporting company)

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 Registrant's classes of common stock as of the latest practicable date: as of October 31, 2008, the Registrant had outstanding 2,268,859 shares of its common stock, \$.01 par value per share.

Table of Contents

LANDMARK BANCORP, INC.

Form 10-Q Quarterly Report

Table of Contents

	Page Number
PART I	
<u>Item 1.</u>	<u>Financial Statements and Related Notes</u> 2 - 10
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 11 - 21
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u> 21 - 22
<u>Item 4.</u>	<u>Controls and Procedures</u> 23
PART II	
<u>Item 1.</u>	<u>Legal Proceedings</u> 24
<u>Item 1A.</u>	<u>Risk Factors</u> 24
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 24
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u> 24
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u> 24
<u>Item 5.</u>	<u>Other Information</u> 24
<u>Item 6.</u>	<u>Exhibits</u> 24
<u>Form 10-Q Signature Page</u>	25

Table of Contents**ITEM 1. FINANCIAL STATEMENTS AND RELATED NOTES**

LANDMARK BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Cash and cash equivalents	\$ 10,525,293	\$ 14,739,148
Investment securities:		
Available for sale, at fair value	160,138,276	155,879,231
Other securities	9,024,700	8,844,950
Loans, net	373,051,161	376,156,608
Loans held for sale	3,123,699	1,723,687
Premises and equipment, net	14,111,971	14,259,172
Goodwill	12,894,167	12,894,167
Other intangible assets, net	2,584,209	3,144,001
Bank owned life insurance	11,987,421	11,634,535
Accrued interest and other assets	6,742,274	7,179,224
Total assets	\$ 604,183,171	\$ 606,454,723
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	\$ 435,362,896	\$ 452,652,306
Federal Home Loan Bank borrowings	81,239,602	69,026,525
Other borrowings	29,803,362	24,061,554
Accrued expenses, taxes and other liabilities	7,781,027	8,418,200
Total liabilities	554,186,887	554,158,585
Stockholders' equity:		
Preferred stock, \$0.01 par, 200,000 shares authorized, none issued		
Common stock, \$0.01 par, 5,000,000 shares authorized, 2,411,007 and 2,409,125 shares issued, at September 30, 2008 and December 31, 2007, respectively	24,110	24,091
Additional paid-in capital	24,434,815	24,304,144
Retained earnings	29,633,298	27,493,281
Treasury stock, at cost; 142,148 and 7,763 shares at September 30, 2008 and December 31, 2007, respectively	(3,501,696)	(205,894)
Accumulated other comprehensive income (loss)	(594,243)	680,516
Total stockholders' equity	49,996,284	52,296,138
Total liabilities and stockholders' equity	\$ 604,183,171	\$ 606,454,723

See accompanying notes to condensed consolidated financial statements.

Table of Contents

LANDMARK BANCORP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Interest income:				
Loans:				
Taxable	\$ 5,900,113	\$ 7,243,570	\$ 18,626,509	\$ 21,528,360
Tax-exempt	52,300	43,307	151,718	106,890
Investment securities:				
Taxable	1,213,140	1,179,661	3,634,256	3,494,657
Tax-exempt	596,446	608,164	1,791,560	1,753,111
Other	1,781	11,203	38,777	35,498
Total interest income	7,763,780	9,085,905	24,242,820	26,918,516
Interest expense:				
Deposits	2,259,732	3,505,464	7,996,167	10,117,740
Borrowed funds	983,885	1,119,529	2,792,187	3,374,209
Total interest expense	3,243,617	4,624,993	10,788,354	13,491,949
Net interest income	4,520,163	4,460,912	13,454,466	13,426,567
Provision for loan losses	500,000	70,000	1,400,000	195,000
Net interest income after provision for loan losses	4,020,163	4,390,912	12,054,466	13,231,567
Non-interest income:				
Fees and service charges	1,092,320	1,047,395	3,173,785	2,958,910
Gains on sale of loans	398,265	300,661	1,136,781	740,069
Gain on prepayment of FHLB borrowings			246,033	
Gains on sales of investment securities			497,134	
Bank owned life insurance	120,036	117,468	353,959	347,435
Other	130,307	109,925	408,245	372,262
Total non-interest income	1,740,928	1,575,449	5,815,937	4,418,676
Non-interest expense:				
Compensation and benefits	2,213,656	2,120,127	6,438,812	6,196,685
Occupancy and equipment	687,175	671,494	2,121,466	2,046,852
Amortization of intangibles	195,710	228,259	604,965	698,356
Data processing	182,848	184,472	585,837	590,082
Professional fees	109,153	81,124	341,730	333,443
Advertising	87,945	106,629	264,936	321,992
Other	834,609	769,349	2,505,443	2,289,216
Total non-interest expense	4,311,096	4,161,454	12,863,189	12,476,626
Earnings before income taxes	1,449,995	1,804,907	5,007,214	5,173,617
Income tax expense	299,970	367,341	1,214,268	1,137,828
Net earnings	\$ 1,150,025	\$ 1,437,566	\$ 3,792,946	\$ 4,035,789

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Earnings per share:

Basic	\$	0.51	\$	0.59	\$	1.65	\$	1.65
Diluted	\$	0.51	\$	0.59	\$	1.65	\$	1.64
Dividends per share	\$	0.19	\$	0.18	\$	0.57	\$	0.54

See accompanying notes to condensed consolidated financial statements.

Table of Contents

LANDMARK BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine months ended September 30,	
	2008	2007
Net cash provided by operating activities	\$ 3,628,011	\$ 4,518,469
Cash flows from investing activities:		
Net increase (decrease) in loans	382,849	(1,560,689)
Maturities and prepayments of investments	13,377,266	12,582,401
Purchase of investment securities	(29,792,606)	(21,742,912)
Proceeds from sales of investment securities	10,407,572	
Proceeds from sales of foreclosed assets	1,409,106	363,961
Purchases of premises and equipment, net	(572,301)	(1,380,257)
Net cash used in investing activities	(4,788,114)	(11,737,496)
Cash flows from financing activities:		
Net increase (decrease) in deposits	(17,289,410)	5,798,792
Federal Home Loan Bank advance borrowings	35,000,000	
Federal Home Loan Bank advance repayments	(13,527,576)	(27,576)
Federal Home Loan Bank line of credit, net	(8,400,000)	4,000,000
Other borrowings, net	5,741,808	(1,027,197)
Purchase of treasury stock	(3,295,802)	(964,894)
Proceeds from issuance of common stock under stock option plans	30,432	41,117
Excess tax benefit related to stock option plans	5,010	7,543
Payment of dividends	(1,318,214)	(1,325,842)
Net cash (used in) provided by financing activities	(3,053,752)	6,501,943
Net decrease in cash and cash equivalents	(4,213,855)	(717,084)
Cash and cash equivalents at beginning of period	14,739,148	14,751,914
Cash and cash equivalents at end of period	\$ 10,525,293	\$ 14,034,830
Supplemental disclosure of cash flow information:		
Cash paid during period for interest	\$ 11,187,000	\$ 13,319,000
Cash paid during period for taxes	\$ 578,000	\$ 350,000
Supplemental schedule of non-cash investing activities:		
Transfer of loans to real estate owned	\$ 1,346,000	\$ 368,000

See accompanying notes to condensed consolidated financial statements.

Table of Contents

LANDMARK BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME

(Unaudited)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)	Total
Balance at December 31, 2006	\$ 23,417	22,607,510	26,758,056	(138,506)	(14,462)	49,236,015
Net earnings			4,035,789			4,035,789
Change in fair value of investment securities available-for-sale, net of tax					85,578	85,578
Dividends paid (\$0.54 per share)			(1,325,842)			(1,325,842)
Stock-based compensation		90,219				90,219
Exercise of stock options, 2,374 shares, including tax benefit of \$7,543	24	48,636				48,660
Purchase of 34,477 treasury shares				(964,894)		(964,894)
Balance at September 30, 2007	\$ 23,441	22,746,365	29,468,003	(1,103,400)	71,116	51,205,525
Balance at December 31, 2007	\$ 24,091	24,304,144	27,493,281	(205,894)	680,516	52,296,138
Net earnings			3,792,946			3,792,946
Change in fair value of investment securities available-for-sale, net of tax					(1,274,759)	(1,274,759)
Dividends paid (\$0.57 per share)			(1,318,214)			(1,318,214)
Stock-based compensation		95,248				95,248
Exercise of stock options, 1,882 shares, including tax benefit of \$5,010	19	35,423				35,442
Purchase of 134,385 treasury shares				(3,295,802)		(3,295,802)
Adoption of Emerging Issues Task Force Issue 06-4			(334,715)			(334,715)
Balance at September 30, 2008	\$ 24,110	24,434,815	29,633,298	(3,501,696)	(594,243)	49,996,284

See accompanying notes to condensed consolidated financial statements.

Table of Contents

LANDMARK BANCORP, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Interim Financial Statements

The condensed consolidated financial statements of Landmark Bancorp, Inc. (the Company) and subsidiary have been prepared in accordance with the instructions to Form 10-Q. To the extent that information and footnotes required by U.S. generally accepted accounting principles for complete financial statements are contained in or consistent with the consolidated audited financial statements incorporated by reference in the Company's Form 10-K for the year ended December 31, 2007, such information and footnotes have not been duplicated herein. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation of financial statements have been reflected herein. The December 31, 2007, condensed consolidated balance sheet has been derived from the audited consolidated balance sheet as of that date. The results of the interim period ended September 30, 2008 are not necessarily indicative of the results expected for the year ending December 31, 2008.

2. Fair Value

On January 1, 2008, the Company adopted the provisions of FASB Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements. SFAS No. 157 requires the use of a hierarchy of fair value techniques based upon whether the inputs to those fair values reflect assumptions other market participants would use based upon market data obtained from independent sources or reflect the company's own assumptions of market participant valuation. In accordance with SFAS No. 157, the fair value hierarchy is as follows:

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2: Quoted prices for similar assets in active markets, quoted prices in markets that are not active or quoted prices that contain observable inputs such as yield curves, volatilities, prepayment speeds and other inputs derived from market data.
- Level 3: Quoted prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

The Company's fair value disclosures exclude certain nonfinancial assets and liabilities which are deferred under the provisions of FASB Staff Position 157-2. These include foreclosed real estate, long-lived assets, goodwill, and core deposit premium, which are recorded at fair value only

upon impairment. The FASB's deferral is intended to allow additional time to consider the effect of various implementation issues relating to these non-financial instruments, and defers disclosures under SFAS No. 157 until January 1, 2009.

Valuation methods for instruments measured at fair value on a recurring basis

The Company's investment securities classified as available-for-sale includes agency securities, municipal obligations, mortgage-backed securities, corporate bonds, certificates of deposits and common stock. Quoted exchange prices are available for the common stock investments, which are classified as Level 1. Agency securities and mortgage-backed obligations are priced utilizing industry-standard models that consider various assumptions, including time value, yield curves, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace and are classified as Level 2. Municipal and corporate securities are valued using a type of matrix, or grid, pricing in which securities are benchmarked against the treasury rate based on credit rating. These model and matrix measurements are classified as Level 2 in the fair value hierarchy. The Company's investments in fixed rate certificates of deposits are valued using a net present value model that discounts the future cash flows at the current market rates and are classified as Level 2.

Table of Contents

The following table represents the Company's investment securities that are measured at fair value on a recurring basis at September 30, 2008 allocated to the appropriate fair value hierarchy:

Assets (in thousands):	Total	Fair value hierarchy		
		Level 1	Level 2	Level 3
Available-for-sale securities	\$ 160,138	\$ 1,066	\$ 159,072	