

LANDMARK BANCORP INC
Form 10-Q
August 13, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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, 2009

OR

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

(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 has submitted electronically and posted on its 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 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

(Do not check if a smaller reporting company)

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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 July 31, 2009, the Registrant had outstanding 2,371,450 shares of its common stock, \$.01 par value per share.

LANDMARK BANCORP, INC.
Form 10-Q Quarterly Report

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ITEM 1. FINANCIAL STATEMENTS AND RELATED NOTES

LANDMARK BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Dollars in thousands)	June 30, 2009	December 31, 2008
Assets		
Cash and cash equivalents	\$ 18,853	\$ 13,788
Investment securities:		
Available for sale, at fair value	170,062	162,245
Other securities	7,909	9,052
Loans, net	355,306	365,772
Loans held for sale	7,544	1,487
Premises and equipment, net	16,614	13,956
Goodwill	12,894	12,894
Other intangible assets, net	2,609	2,407
Bank owned life insurance	12,242	11,996
Accrued interest and other assets	9,107	8,617
Total assets	\$ 613,140	\$ 602,214
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing demand	\$ 57,290	\$ 49,823
Money market and NOW	154,635	150,116
Savings	28,926	26,203
Time, \$100,000 and greater	61,461	49,965
Time, other	159,266	163,439
Total deposits	461,578	439,546
Federal Home Loan Bank borrowings	61,117	77,319
Other borrowings	28,855	27,047
Accrued expenses, taxes and other liabilities	9,041	6,896
Total liabilities	560,591	550,808
Stockholders' equity:		
Preferred stock, \$0.01 par, 200,000 shares authorized, none issued	-	-
Common stock, \$0.01 par, 7,500,000 shares authorized, 2,411,412 shares issued, at June 30, 2009 and December 31, 2008	24	24
Additional paid-in capital	23,951	23,873
Retained earnings	28,939	27,819
Treasury stock, at cost; 39,962 and 39,162 shares at June 30, 2009 and December 31, 2008, respectively	(947)	(935)
Accumulated other comprehensive income	582	625
Total stockholders' equity	52,549	51,406
Total liabilities and stockholders' equity	\$ 613,140	\$ 602,214

See accompanying notes to condensed consolidated financial statements.

LANDMARK BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

(Dollars in thousands, except per share data)	Three months ended June		Six months ended June 30,	
	2009	2008	2009	2008
Interest income:				
Loans:				
Taxable	\$ 5,170	\$ 6,113	\$ 10,303	\$ 12,727
Tax-exempt	64	56	113	99
Investment securities:				
Taxable	1,069	1,198	2,185	2,421
Tax-exempt	621	599	1,230	1,195
Other	4	19	7	37
Total interest income	6,928	7,985	13,838	16,479
Interest expense:				
Deposits	1,558	2,615	3,197	5,737
Borrowed funds	811	897	1,690	1,808
Total interest expense	2,369	3,512	4,887	7,545
Net interest income	4,559	4,473	8,951	8,934
Provision for loan losses	800	300	1,100	900
Net interest income after provision for loan losses	3,759	4,173	7,851	8,034
Non-interest income:				
Fees and service charges	1,142	1,115	2,098	2,081
Gains on sale of loans	1,199	394	1,907	739
Gain on prepayment of FHLB borrowings	-	-	-	246
Bank owned life insurance	124	118	247	234
Other	174	136	287	278
Total non-interest income	2,639	1,763	4,539	3,578
Investment securities gains (losses), net:				
Impairment losses on investment securities	(60)	-	(910)	-
Less noncredit-related losses	(189)	-	334	-
Net impairment losses	(249)	-	(576)	-
Gains on sales of investment securities	-	497	-	497
Investment securities gains (losses), net	(249)	497	(576)	497
Non-interest expense:				
Compensation and benefits	2,203	2,097	4,379	4,225
Occupancy and equipment	663	673	1,314	1,434
Federal deposit insurance premiums	447	13	480	26
Data processing	204	206	394	403
Amortization of intangibles	191	205	378	409
Professional fees	192	121	364	233
Advertising	119	89	240	177
Other	926	859	1,851	1,645

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Total non-interest expense	4,945	4,263	9,400	8,552
Earnings before income taxes	1,204	2,170	2,414	3,557
Income tax expense	192	594	393	914
Net earnings	\$ 1,012	\$ 1,576	\$ 2,021	\$ 2,643
Earnings per share:				
Basic	\$ 0.43	\$ 0.66	\$ 0.85	\$ 1.09
Diluted	\$ 0.43	\$ 0.66	\$ 0.85	\$ 1.08
Dividends per share	\$ 0.19	\$ 0.18	\$ 0.38	\$ 0.36

See accompanying notes to condensed consolidated financial statements.

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

(Dollars in thousands)	Six months ended June 30,	
	2009	2008
Net cash used in operating activities	\$ (712)	\$ (1,220)
Cash flows from investing activities:		
Net decrease (increase) in loans	12,247	(2,241)
Maturities and prepayments of investment securities	29,101	7,097
Purchase of investment securities	(37,707)	(25,901)
Proceeds from sales of investment securities	1,210	10,407
Proceeds from sales of premises and equipment and foreclosed assets	1,095	668
Purchases of premises and equipment, net	(552)	(472)
Net cash paid in branch acquisition	(130)	-
Net cash provided by (used in) investing activities	5,264	(10,442)
Cash flows from financing activities:		
Net increase (decrease) in deposits	15,636	(4,855)
Federal Home Loan Bank advance borrowings	-	35,000
Federal Home Loan Bank advance repayments	(10,018)	(13,518)
Federal Home Loan Bank line of credit, net	(6,000)	(6,400)
Other borrowings, net	1,808	3,903
Purchase of treasury stock	(12)	(3,296)
Proceeds from issuance of stock under stock option plans	-	30
Excess tax benefit related to stock option plans	-	5
Payment of dividends	(901)	(887)
Net cash provided by financing activities	513	9,982
Net increase (decrease) in cash and cash equivalents	5,065	(1,680)
Cash and cash equivalents at beginning of period	13,788	14,739
Cash and cash equivalents at end of period	\$ 18,853	\$ 13,059
Supplemental disclosure of cash flow information:		
Cash paid during period for interest	\$ 4,832	\$ 7,776
Cash paid during period for taxes, net	312	213
Supplemental schedule of non-cash investing and financing activities:		
Transfer of loans to real estate owned	\$ 1,140	\$ 1,346
Branch acquisition:		
Fair value of liabilities assumed	6,650	-
Fair value of assets acquired	6,520	-

See accompanying notes to condensed consolidated financial statements.

LANDMARK BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME
(Unaudited)

(Dollars in thousands, except per share data)	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive income	Total
Balance at December 31, 2007	\$ 24	\$ 24,304	\$ 27,493	\$ (206)	\$ 680	\$ 52,295
Comprehensive income:						-
Net earnings	-	-	2,643	-	-	2,643
Change in fair value of investment securities available-for-sale, net of tax	-	-	-	-	(931)	(931)
Total comprehensive income	-	-	2,643	-	(931)	1,712
Dividends paid (\$0.36 per share)	-	-	(887)	-	-	(887)
Stock-based compensation	-	57	-	-	-	57
Exercise of stock options, 1,882 shares, including tax benefit of \$5,010	-	35	-	-	-	35
Purchase of 134,385 treasury shares	-	-	-	(3,296)	-	(3,296)
Adoption of EITF 06-4	-	-	(335)	-	-	(335)
Balance June 30, 2008	\$ 24	\$ 24,396	\$ 28,914	\$ (3,502)	\$ (251)	\$ 49,581
Balance at December 31, 2008	\$ 24	\$ 23,873	\$ 27,819	\$ (935)	\$ 625	\$ 51,406
Comprehensive income:						
Net earnings	-	-	2,021	-	-	2,021
Change in fair value of investment securities available-for-sale for which a portion of an other than temporary impairment has been recorded in net earnings, net of tax	-	-	-	-	246	246
Change in fair value of all other investment securities available-for-sale, net of tax	-	-	-	-	(289)	(289)
Total comprehensive income	-	-	2,021	-	(43)	1,978
Dividends paid (\$0.38 per share)	-	-	(901)	-	-	(901)
Stock-based compensation	-	78	-	-	-	78
Purchase of 800 shares treasury shares	-	-	-	(12)	-	(12)
Balance at June 30, 2009	\$ 24	\$ 23,951	\$ 28,939	\$ (947)	\$ 582	\$ 52,549

See accompanying notes to condensed consolidated financial statements.

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, 2008, 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, 2008, condensed consolidated balance sheet has been derived from the audited consolidated balance sheet as of that date. The results of the interim period ended June 30, 2009 are not necessarily indicative of the results expected for the year ending December 31, 2009. Subsequent events have been evaluated for potential recognition or disclosure through the time of the filing on August 13, 2009, which represents the date the consolidated financial statements were issued.

2. Goodwill and Other Intangible Assets

The Company tests goodwill for impairment annually or more frequently if circumstances warrant. During 2009, the decline in the Company’s stock price coupled with current market conditions in the financial services industry, constituted a triggering event which required an impairment test to be performed. The Company performed an impairment test as of March 31, 2009 by comparing the fair value of the Company’s single reporting unit to its carrying value. Fair value was determined using observable market data including the Company’s market capitalization and valuation multiples compared to recent financial industry acquisition multiples to estimate the fair value of the Company’s single reporting unit. Based on the results of the March 31, 2009 impairment testing which indicated no impairment, along with the Company’s conclusion that no triggering events occurred during the second quarter of 2009, the Company concluded its goodwill was not impaired as of June 30, 2009.

On May 8, 2009, the Company’s subsidiary, Landmark National Bank, assumed approximately \$6.4 million in deposits in connection with a branch acquisition. As part of the transaction, Landmark National Bank agreed to pay a deposit premium of 1.75 percent on the core deposit balance as of 270 days after the close of the transaction. As of May 8, 2009 the core deposit premium, based on the acquired core deposit balances, was \$86,000. The following is an analysis of changes in the core deposit intangible assets:

(Dollars in thousands)	Three months ended June 30,			
	2009		2008	
	Fair value at acquisition	Accumulated Amortization	Fair value at acquisition	Accumulated Amortization
Balance at beginning of period	\$ 5,396	\$ (3,314)	\$ 5,396	\$ (2,641)
Additions	86	-	-	-
Amortization	-	(153)	-	(177)
Balance at end of period	\$ 5,482	\$ (3,467)	\$ 5,396	\$ (2,818)

(Dollars in thousands)	Six months ended June 30,			
	2009		2008	
	Fair value at	Accumulated Amortization	Fair value at	Accumulated Amortization

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	acquisition		acquisition	
Balance at beginning of period	\$ 5,396	\$ (3,159)	\$ 5,396	\$ (2,462)
Additions	86	-	-	-
Amortization	-	(308)	-	(356)
Balance at end of period	\$ 5,482	\$ (3,467)	\$ 5,396	\$ (2,818)

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The following is an analysis of changes in the mortgage servicing rights:

(Dollars in thousands)	Three months ended June 30,			
	2009		2008	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Balance at beginning of period	\$ 893	\$ (600)	\$ 771	\$ (572)
Additions	339	-	19	-
Prepayments/maturities	(21)	21	(19)	19
Amortization	-	(38)	-	(28)
Balance at end of period	\$ 1,211	\$ (617)	\$ 771	\$ (581)

(Dollars in thousands)	Six months ended June 30,			
	2009		2008	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Balance at beginning of period	\$ 772	\$ (602)	\$ 770	\$ (560)
Additions	494	-	33	-
Prepayments/maturities	(55)	55	(32)	32
Amortization	-	(70)	-	(53)
Balance at end of period	\$ 1,211	\$ (617)	\$ 771	\$ (581)

The mortgage servicing rights correspond to loans serviced by the Company for unrelated third parties with outstanding principal balances of \$120.5 million and \$82.0 million at June 30, 2009 and December 31, 2008, respectively. Gross service fee income related to such loans was \$63,000 and \$56,000 for the quarters ended June 30, 2009 and 2008, respectively, which is included in fees and service charges in the condensed consolidated statements of earnings. Gross service fee income for the six months ended June 30, 2009 and 2008 was \$114,000 and \$113,000, respectively.

Aggregate amortization expense for the quarters ended June 30, 2009 and 2008, was \$191,000 and \$205,000, respectively and \$378,000 and \$409,000 for the six months ended June 30, 2009 and 2008, respectively. The following depicts estimated amortization expense for all intangible assets for the remainder of 2009 and in successive years ending December 31:

Year	Amount (in thousands)
Remainder of 2009	\$ 376
2010	667
2011	567
2012	471
2013	297
Thereafter	231

3. Investments

A summary of investment securities available-for-sale is as follows:

(Dollars in thousands)	Amortized cost	As of June 30, 2009		Estimated fair value
		Gross unrealized gains	Gross unrealized losses	
U. S. federal agency obligations	\$ 26,652	\$ 626	\$ (1)	\$ 27,277
Municipal obligations	67,096	1,028	(631)	67,493
Mortgage-backed securities	62,514	1,400	(3)	63,911
Pooled trust preferred securities	1,914	-	(1,595)	319
Common stocks	693	112	(17)	788
Certificates of deposit	10,274	-	-	10,274
Total	\$ 169,143	\$ 3,166	\$ (2,247)	\$ 170,062

(Dollars in thousands)	Amortized cost	As of December 31, 2008		Estimated fair value
		Gross unrealized gains	Gross unrealized losses	
U. S. federal agency obligations	\$ 28,566	\$ 950	\$ (2)	\$ 29,514
Municipal obligations	63,711	1,532	(934)	64,309
Mortgage-backed securities	55,752	934	(104)	56,582
Pooled trust preferred securities	2,488	—	(1,748)	740
Common stocks	693	389	(8)	1,074
Certificates of deposit	10,026	—	—	10,026
Total	\$ 161,236	\$ 3,805	\$ (2,796)	\$ 162,245

Included in the June 30, 2009 gross unrealized losses above, are noncredit-related losses of \$334,000, recorded in accumulated other comprehensive income, related to a \$1.0 million par investment in a pool of trust preferred securities, which was determined to be other than temporarily impaired. The amortized cost of the other than temporarily impaired investment, after recognition of \$576,000 of impairment losses, was \$424,000 at June 30, 2009. The fair value of this security was \$90,000 at June 30, 2009 compared to \$275,000 at December 31, 2008, while the unrealized losses included in accumulated other comprehensive were \$334,000 at June 30, 2009 and \$725,000 at December 31, 2008.

The summary of available-for-sale investment securities shows that some of the securities in the available-for-sale investment portfolio had unrealized losses, or were temporarily impaired, as of June 30, 2009 and December 31, 2008. This temporary impairment represents the estimated amount of loss that would be realized if the securities were sold on the valuation date. Securities which were temporarily impaired are shown below, along with the length of the impairment period.

(Dollars in thousands)

	Number of securities	Less than 12 months		As of June 30, 2009 12 months or longer		Total	
		Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U. S. federal agency obligations	3	\$ 160	\$ (1)	-	-	\$ 160	\$ (1)
Municipal obligations	51	16,184	(417)	3,073	(214)	19,257	(631)
Mortgage-backed securities	6	3,840	(3)	69	-	3,909	(3)
Pooled trust preferred securities	3	-	-	319	(1,595)	319	(1,595)
Common stocks	5	75	(17)	-	-	75	(17)
Total	68	\$ 20,259	\$ (438)	\$ 3,461	\$ (1,809)	\$ 23,720	\$ (2,247)

(Dollars in thousands)

	Number of securities	Less than 12 months		As of December 31, 2008 12 months or longer		Total	
		Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U. S. federal agency obligations	3	\$ 64	\$ -	\$ 133	\$ (2)	\$ 197	\$ (2)
Municipal obligations	56	13,282	(466)	8,542	(468)	21,824	(934)
Mortgage-backed securities	80	12,219	(78)	3,400	(26)	15,619	(104)
Pooled trust preferred securities	3	-	-	740	(1,748)	740	(1,748)
Common stocks	3	13	(2)	18	(6)	31	(8)
Total	145	\$ 25,578	\$ (546)				