LANDMARK BANCORP INC
Form 10-Q
August 10, 2007

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 June 30, 2007

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	**43-1930755**
(State or other jurisdiction of incorporation or organization)	(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 x No o

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.

Large accelerated filer o Accelerated filer o Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the Registrant s classes of common stock as of the latest practicable date: as of August 3, 2007, the Registrant had outstanding 2,313,154 shares of its common stock, $.01 par value per share.

LANDMARK BANCORP, INC.

Form 10-Q Quarterly Report

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PART I

ITEM 1. FINANCIAL STATEMENTS AND RELATED NOTES

LANDMARK BANCORP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
Cash and cash equivalents	$ 12,265,581	$ 14,751,914
Investment securities available for sale, at fair value	157,981,549	145,884,168
Loans, net	380,179,102	379,323,581
Loans held for sale	3,372,926	1,364,474
Premises and equipment, net	14,440,831	13,767,075
Goodwill	13,009,167	13,009,167
Other intangible assets, net	3,571,044	4,030,709
Bank owned life insurance	11,377,362	11,144,796
Accrued interest and other assets	7,156,726	7,292,352
Total assets	$ 603,354,288	$ 590,568,236
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits	$ 446,061,446	$ 444,485,370
Federal Home Loan Bank borrowings	70,223,473	61,920,421
Other borrowings	29,789,545	28,495,643
Accrued expenses, taxes and other liabilities	8,058,070	6,430,787
Total liabilities	554,132,534	541,332,221
Stockholders equity:		
Common stock, $0.01 par, 5,000,000 shares authorized, 2,342,925 and 2,341,744 shares issued, respectively	23,429	23,417
Additional paid-in capital	22,693,887	22,607,510
Retained earnings	28,469,937	26,758,056
Treasury stock, at cost; 29,771 and 5,000 shares, respectively	(839,195)	(138,506)
Accumulated other comprehensive loss	(1,126,304)	(14,462)
Total stockholders equity	49,221,754	49,236,015
Total liabilities and stockholders equity	$ 603,354,288	$ 590,568,236

See accompanying notes to condensed consolidated financial statements.

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LANDMARK BANCORP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

	Three months ended June 30,		**Six months ended June 30,**	
	2007	**2006**	**2007**	**2006**
Interest income:				
Loans	$ 7,212,091	$ 6,860,807	$ 14,348,373	$ 13,511,515
Investment securities	1,780,664	1,455,327	3,459,943	2,870,664
Other	9,124	30,108	24,295	101,394
Total interest income	9,001,879	8,346,242	17,832,611	16,483,573
Interest expense:				
Deposits	3,362,111	2,616,379	6,612,276	5,043,714
Borrowed funds	1,173,313	1,182,976	2,254,680	2,247,585
Total interest expense	4,535,424	3,799,355	8,866,956	9,192,274
Net interest income	4,466,455	4,546,887	8,965,655	9,192,274
Provision for loan losses	60,000	15,000	125,000	75,000
Net interest income after provision for loan losses	4,406,455	4,531,887	8,840,655	9,117,274
Non-interest income:				
Fees and service charges	1,010,384	1,128,463	1,911,515	2,135,335
Gains on sale of loans	256,116	322,983	439,408	586,364
Losses on sale of investments		(443,797)		(300,356)
Gains on sale of other assets		681,630		728,453
Bank owned life insurance	114,143	112,300	229,967	157,654
Other	133,715	139,746	262,337	325,316
Total non-interest income	1,514,358	1,941,325	2,843,227	3,632,866
Non-interest expense:				
Compensation and benefits	2,033,323	2,112,612	4,076,558	4,248,576
Occupancy and equipment	676,389	687,102	1,375,358	1,396,022
Amortization of intangibles	236,188	259,679	470,097	524,172
Data processing	202,290	187,543	405,610	348,990
Professional fees	134,412	126,349	252,319	210,726
Advertising	106,475	111,219	215,363	218,737
Other	768,702	732,650	1,519,867	1,506,785
Total non-interest expense	4,157,779	4,217,154	8,315,172	8,454,008
Earnings before income taxes	1,763,034	2,256,058	3,368,710	4,296,132
Income tax expense	409,431	659,968	770,487	1,279,128
Net earnings	$ 1,353,603	$ 1,596,090	$ 2,598,223	$ 3,017,004
Earnings per share:				
Basic	$ 0.58	$ 0.68	$ 1.11	$ 1.29
Diluted	$ 0.58	$ 0.68	$ 1.11	$ 1.28
Dividends per share	$ 0.1900	$ 0.1619	$ 0.3800	$ 0.3238

See accompanying notes to condensed consolidated financial statements.

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LANDMARK BANCORP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six months ended June 30, 2007	2006
Net cash provided by (used in) operating activities	$ 3,533,569	$ (3,961,226)
Cash flows from investing activities:		
Net increase in loans	(1,306,378)	(9,682,317)
Maturities and prepayments of investments	7,680,469	22,388,576
Purchase of investment securities	(21,648,983)	(25,420,476)
Proceeds from sale of investment securities		17,943,322
Net cash paid in FMB acquisition		(9,147,605)
Proceeds from sales of premises and equipment and foreclosed assets	339,357	564,923
Purchases of premises and equipment, net	(1,274,862)	(1,979,916)
Net cash used in investing activities	(16,210,397)	(5,333,493)
Cash flows from financing activities:		
Net increase (decrease) in deposits	1,677,743	(8,401,243)
Federal Home Loan Bank advance repayments	(18,384)	(1,018,384)
Federal Home Loan Bank line of credit, net	8,800,000	10,000,000
Other borrowings, net	1,293,902	1,802,446
Purchase of treasury stock	(700,689)	
Proceeds from issuance of common stock under stock option plans	20,491	9,491
Tax benefit related to stock option plans	3,774	2,503
Payment of dividends	(886,342)	(757,721)
Net cash provided by financing activities	10,190,495	1,637,092
Net decrease in cash and cash equivalents	(2,486,333)	(7,657,627)
Cash and cash equivalents at beginning of period	14,751,914	21,490,512
Cash and cash equivalents at end of period	$ 12,265,581	$ 13,832,885
Supplemental disclosure of cash flow information:		
Cash paid during period for interest	$ 8,640,000	$ 6,329,000
Cash paid during period for taxes	$	$ 560,000
Supplemental schedule of non-cash investing activities:		
Transfer of loans to real estate owned	$ 189,000	$ 25,000
FMB acquisition:		
Fair value of liabilities assumed	$	$ 123,965,000
Fair value of assets acquired, including goodwill	$	$ 133,112,000

See accompanying notes to condensed consolidated financial statements.

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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 loss	Total
Balance December 31, 2005	$ 22,443	19,868,567	25,322,019	(414,514)	(725,908)	44,072,607
Net earnings			3,017,004			3,017,004
Change in fair value of investment securities available-for-sale and interest rate swap, net of tax					(719,360)	(719,360)
Dividends paid ($0.3238 per share)			(757,722)			(757,722)
Stock-based compensation		62,543				62,543
Exercise of stock options, 667 shares, including tax benefit of $2,503	7	11,987				11,994
Balance June 30, 2006	$ 22,450	19,943,097	27,581,301	(414,514)	(1,445,268)	45,687,066
Balance December 31, 2006	$ 23,417	22,607,510	26,758,056	(138,506)	(14,462)	49,236,015
Net earnings			2,598,223			2,598,223
Change in fair value of investment securities available-for-sale, net of tax					(1,111,842)	(1,111,842)
Dividends paid ($0.38 per share)			(886,342)			(886,342)
Stock-based compensation		62,124				62,124
Exercise of stock options, 1,181 shares, including tax benefit of $3,774	12	24,253				24,265
Purchase of 24,771 treasury shares				(700,689)		(700,689)
Balance June 30, 2007	$ 23,429	22,693,887	28,469,937	(839,195)	(1,126,304)	49,221,754

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, 2006, 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, 2006, 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, 2007 are not necessarily indicative of the results expected for the year ending December 31, 2007.

2. Income Tax

The Company adopted the provisions of the Financial Accounting Standards Board (FASB) Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) on January 1, 2007. FIN 48 provides a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. Unrecognized tax benefits represent tax positions for which reserves have been established. The Company s adoption of FIN 48 did not have any effect on its consolidated financial statements. As of the date of adoption, our gross unrecognized tax benefits totaled approximately $1.2 million. The anticipated amount of unrecognized tax benefits that, if recognized, would favorably impact our effective tax rate was $777,000. Included in this unrecognized tax benefit, are interest and penalties of $245,000. We recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense in our consolidated statements of earnings.

Tax years that remain open and subject to audit include the years 2003 through 2006 for both federal and state. We believe that it is reasonably possible that a reduction in unrecognized tax benefits of approximately $200,000 is possible during the next 12 months.

3. Stock Based Compensation

A summary of option activity during the first six months of 2007 is presented below.

	Shares	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value
Outstanding at December 31, 2006	246,226	$ 24.18	7.77 years	$ 755,000
Granted				n/a
Cancelled				n/a
Exercised	1,181	17.35		$ 11,101
Outstanding at June 30, 2007	245,045	$ 24.22	7.30 years	$ 1,005,000
Exercisable at June 30, 2007	130,695	$ 22.90	6.39 years	$ 709,000
Vested and expected to vest at June 30, 2007	235,015	$ 24.16	7.27 years	$ 978,000

Additional information about stock options exercised is presented below.

	Six months ended June 30, 2007	2006
Intrinsic value of options exercised	$ 11,101	$ 7,360
Cash received from options exercised	$ 20,491	$ 9,491
Tax benefit realized from options exercised	$ 3,774	$ 2,503

As of June 30, 2007, there was $287,000 of total unrecognized compensation cost related to outstanding options. That cost is expected to be recognized over a weighted-average period of 4 years. The total fair value (at vest date) of shares vested during the six month periods ended June 30, 2007 and 2006 was $348,000 and $103,000 respectively.

4. Earnings per Share

Basic earnings per share have been computed based upon the weighted average number of common shares outstanding during each period. Diluted earnings per share include the effect of all potential common shares outstanding during each period. Earnings and dividends per share for prior periods have been adjusted to give effect to the 5% stock dividend paid by the Company in December 2006.

The shares used in the calculation of basic and diluted earnings per share are shown below:

	Three months ended June 30, 2007	2006	Six months ended June 30, 2007	2006
Net earnings available to common stockholders	$ 1,353,603	$ 1,596,090	$ 2,598,223	$ 3,017,004
Weighted average common shares outstanding (basic)	2,325,858	2,340,374	2,330,765	2,340,199
Dilutive stock options	19,726	12,981	19,050	10,265
Weighted average common shares (diluted)	2,345,584	2,353,355	2,349,815	2,350,464
Net earnings per share:				
Basic	$ 0.58	$ 0.68	$ 1.11	$ 1.29
Diluted	$ 0.58	$ 0.68	$ 1.11	$ 1.28

5. Other Comprehensive Income

The Company s other comprehensive loss consists of the unrealized holding gains and losses on available-for-sale securities and an unrealized gain on an interest rate swap, which was terminated in December 2006, as shown below.

	Three months ended June 30, 2007	2006	Six months ended June 30, 2007	2006
Unrealized holding losses on securities and interest rate swap	$ (2,070,828)	$ (1,392,755)	$ (1,793,293)	$ (1,460,516)
Less reclassification adjustment for net losses included in income		(443,797)		(300,256)
Net unrealized losses	(2,070,828)	(948,958)	(1,793,293)	(1,160,260)
Income tax benefit	(786,914)	(360,605)	(681,451)	(440,900)
Other comprehensive loss	$ (1,283,914)	$ (588,353)	$ (1,111,842)	$ (719,360)

Accumulated other comprehensive loss related entirely to investment securities at June 30, 2007. The components at June 30, 2006 were $113,000 in cash flow hedging activities and ($1,558,000) in available for sale investment securities.

6. Other Intangible Assets

The following is an analysis of changes in the core deposit intangible assets:

	Six months ended June, 30, 2007 Fair value at acquisition	Accumulated Amortization	2006 Fair value at acquisition	Accumulated Amortization
Balance at beginning of period	$ 5,396,065	$ (1,667,478)	$ 2,818,602	$ (774,588)
Additions			2,577,463	
Amortization		(404,880)		(453,937)
Balance at end of period	$ 5,396,065	$ (2,072,358)	$ 5,396,065	$ (1,228,525)

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

	Six months ended June, 30, 2007 Cost	Accumulated Amortization	2006 Cost	Accumulated Amortization
Balance at beginning of period	$ 791,840	$ (489,718)	$ 775,666	$ (401,467)
Additions	10,432		40,616	
Prepayments/maturities	(27,691)	27,691	(24,591)	24,591
Amortization		(65,217)		(70,235)
Balance at end of period	$ 774,581	$ (527,244)	$ 791,691	$ (447,111)

The Company adopted the provisions of FASB Statement of Financial Accounting Standards (SFAS) No. 156, *Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140* on January 1, 2007 and elected to maintain the amortized cost method and carry the mortgage servicing rights at the lower of cost or market value. The balance of the mortgage servicing rights can fluctuate based on the performance of the underlying loans serviced. The mortgage servicing rights correspond to loans serviced by the Company for unrelated third parties with outstanding principal balances of $95.6 million and $101.8 million at June 30, 2007 and December 31, 2006, respectively. Gross service fee income related to such loans was $62,000 and $67,000 for the quarters ended June 30, 2007 and June 30, 2006, respectively, which is included in fees and service charges in the condensed consolidated statements of earnings. Gross service fee income related to such loans was $126,000 and $135,000 for the six months ended June 30, 2007 and June 30, 2006, respectively.

Aggregate amortization expense for the quarters ended June 30, 2007 and 2006, was $236,000 and $260,000, respectively and $470,000 and $524,000 for the six months ended June 30, 2007 and 2006, respectively. The following depicts estimated amortization expense for the Company s core deposit intangible assets and mortgage servicing rights for the remainder of 2007 and in successive years ending December 31:

Year	**Amount**
2007	$ 460,000
2008	832,000
2009	631,000
2010	500,000
2011	402,000
Thereafter	736,000

7. Impact of Recent Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140* . SFAS No. 155 permits fair value remeasurement for certain hybrid financial instruments containing embedded derivatives, and clarifies the derivative accounting requirements for interest and principal-only strip securities and interests in securitized financial assets. It also clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and eliminates a previous prohibition on qualifying special-purpose entities from holding certain derivative financial instruments. SFAS No. 155 became effective for all financial instruments acquired or issued after January 1, 2007. The adoption of SFAS No. 155 did not have any effect on our consolidated financial statements.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140* . SFAS No. 156 specifies situations in which servicing assets and servicing liabilities must be recognized. It requires these assets and liabilities to be initially measured at fair value and specifies acceptable measurement methods subsequent to their recognition. Separate presentation in the financial statements and additional disclosures are also required. The Company adopted SFAS No. 156 effective January 1, 2007. The adoption of the SFAS No. 156 did not have any effect on our consolidated financial statements.

Also in March 2006, the FASB issued Staff Position 85-4-1 (Position), *Accounting for Life Settlement Contracts by Third Party Investors* . The Position provides initial and subsequent measurement guidance and financial statement presentation and disclosure guidance for investments by third-party investors in life settlement contracts. The investments must be accounted for by either (a) recognizing the initial investment at transaction price plus direct external costs and capitalizing continuing costs, with no gain recognized in earnings until the insured event occurs, or (b) recognizing the initial investment at transaction price and remeasuring the investment at fair value at each reporting period, with fair value changes recognized in earnings as they occur. The Company began applying the guidance in the Position beginning January 1, 2007. The adoption of the Position did not have any effect on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* . SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. It does not require any new fair value measurements for existing financial instruments. For calendar year companies, SFAS

No. 157 is effective beginning January 1, 2008. We do not expect that adoption of SFAS No. 157 will have a material effect on our consolidated financial statements.

In September 2006, the Emerging Issues Task Force (EITF) Issue 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* , was ratified. EITF Issue 06-4 addresses accounting for separate agreements that split life insurance policy benefits between an employer and employee. The EITF Issue 06-4 requires the employer to recognize a liability for future benefits payable to an employee under these agreements. The effects of applying EITF Issue 06-4 must be recognized through either a change in accounting principle through an adjustment to equity or through the retrospective application to all prior periods. For calendar year companies, the EITF Issue 06-4 is effective beginning January 1, 2008. We do not expect that adoption of the EITF Issue 06-4 will have a material effect on our consolidated financial statements.

In September 2006, the EITF Issue 06-5, *Accounting for Purchases of Life Insurance Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4* , was ratified. The EITF Issue 06-5 addresses accounting for what could be realized as an asset and provides clarification regarding additional amounts included in the contractual terms of an individual policy in determining the amount that could be realized under the insurance contract. The effects of applying this issue must be recognized through an adjustment to equity or through the retrospective application to all prior periods. The Company adopted EITF issue 06-5 effective beginning January 1, 2007. The adoption of EITF Issue 06-5 did not have any effect on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 allows companies to elect fair-value measurement of specified financial instruments and warranty and insurance contracts when an eligible asset or liability is initially recognized or when an event, such as a business combination triggers a new basis of accounting for that asset or liability. The election, called the fair-value option, will enable companies to reduce the volatility in reported earnings caused by measuring related assets and liabilities differently. The election is available for eligible assets or liabilities on a contract-by-contract basis without electing it for identical assets or liabilities under certain restrictions. For calendar year companies, SFAS No. 159 is effective beginning January 1, 2008. We do not expect that adoption of SFAS No. 159 will have a material effect on our consolidated financial statements.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview. Landmark Bancorp, Inc. is a bank holding company incorporated under the laws of the State of Delaware and is engaged in the banking business through its wholly-owned subsidiary, Landmark National Bank. Landmark Bancorp is listed on the NASDAQ Global Market under the symbol LARK . Landmark National Bank is dedicated to providing quality financial and banking services to its local communities. Landmark National Bank originates commercial, commercial real estate, one-to-four family residential mortgage loans, consumer loans, multi-family residential mortgage loans and home equity loans.

Our results of operations depend primarily on net interest income, which is the difference between interest income from interest-earning assets and interest expense on interest-bearing liabilities. Net interest income is affected by regulatory, economic and competitive factors that influence interest rates, loan demand and deposit flows. In addition, we are subject to interest rate risk to the degree that our interest-earning assets mature or reprice at different times, or at different speeds, than our interest-bearing liabilities. Our results of operations are also affected by non-interest income, such as service charges, loan fees and gains and losses from the sale of newly originated loans and investments. Our principal operating expenses, aside from interest expense, consist of compensation and employee benefits, occupancy costs, federal deposit insurance costs, data processing expenses and provision for loan losses.

We are significantly impacted by prevailing economic conditions including federal monetary and fiscal policies and federal regulations of financial institutions. Deposit balances are influenced by numerous factors such as competing personal investments, the level of personal income and the personal rate of savings within our market areas. Factors influencing lending activities include the demand for housing and the interest rate pricing competition from other lending institutions.

Critical Accounting Policies. Critical accounting policies are those which are both most important to the portrayal of our financial condition and results of operations, and require our 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. Our critical accounting policies relate to the allowance for loan losses, the valuation of investment securities, accounting for income taxes and the accounting related to business acquisitions, all of which involve significant judgment by our management.

We perform periodic and systematic detailed reviews of our lending portfolio to assess overall collectability. The level of the allowance for loan losses reflects our estimate of the collectability of the loan portfolio. While these estimates are based on substantive methods for determining allowance requirements, nevertheless, actual outcomes may differ significantly from estimated results. Additional explanation of the methodologies used in establishing this reserve is provided in the Asset Quality and Distribution section.

We report our investment securities at estimated fair values based on published market ascertainable values, which are obtained from independent sources. We perform periodic reviews of the fair value of investment securities to determine if any declines in value might be considered other than temporary. Our most recent review showed that the decrease in fair value of the securities, resulting in an unrealized loss position