LANDMARK BANCORP INC
Form 10-Q
November 10, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

xQUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2011

OR

oTRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the 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 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 o

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 o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	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 o No x

Indicate the number of shares outstanding of each of the Issuer's classes of common stock as of the latest practicable date: as of November 9, 2011, the Issuer had outstanding 2,648,050 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

LANDMARK BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	September 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Assets		
Cash and cash equivalents	$ 15,167	$ 9,735
Investment securities:		
Available-for-sale, at fair value	185,004	167,689
Other securities	8,230	8,183
Loans, net	307,059	306,668
Loans held for sale	8,590	12,576
Premises and equipment, net	14,807	15,225
Real estate owned	2,749	3,194
Bank owned life insurance	16,015	13,080
Goodwill	12,894	12,894
Other intangible assets, net	1,875	2,233
Accrued interest and other assets	7,818	10,029
Total assets	$ 580,208	$ 561,506
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing demand	$ 60,157	$ 52,683
Money market and NOW	171,356	167,815
Savings	36,517	32,369
Time, $100,000 and greater	64,108	49,390
Time, other	119,091	129,057
Total deposits	451,229	431,314
Federal Home Loan Bank borrowings	35,772	44,300
Other borrowings	27,238	26,001
Accrued interest, taxes, and other liabilities	7,949	6,074
Total liabilities	522,188	507,689
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par, 200,000 shares authorized; none issued	-	-
Common stock, $0.01 par, 7,500,000 shares authorized; 2,648,050 and 2,636,891 shares issued at September 30, 2011 and December 31, 2010, respectively	26	26
Additional paid-in capital	27,211	27,102
Retained earnings	27,449	25,767
Accumulated other comprehensive income	3,334	922
Total stockholders' equity	58,020	53,817

Total liabilities and stockholders' equity	$ 580,208	$ 561,506

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands, except per share amounts)	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Interest income:				
Loans:				
Taxable	$4,296	$4,764	$12,871	$14,398
Tax-exempt	78	61	250	207
Investment securities:				
Taxable	712	606	2,035	2,087
Tax-exempt	605	606	1,800	1,854
Other	-	2	3	4
Total interest income	5,691	6,039	16,959	18,550
Interest expense:				
Deposits	669	916	2,132	2,923
Borrowings	471	654	1,427	2,018
Total interest expense	1,140	1,570	3,559	4,941
Net interest income	4,551	4,469	13,400	13,609
Provision for loan losses	500	500	1,600	5,200
Net interest income after provision for loan losses	4,051	3,969	11,800	8,409
Non-interest income:				
Fees and service charges	1,271	1,330	3,625	3,470
Gains on sales of loans, net	841	833	1,923	2,237
Bank owned life insurance	149	124	443	372
Other	120	101	535	350
Total non-interest income	2,381	2,388	6,526	6,429
Investment securities gains (losses):				
Net impairment losses	(19)	(251)	(19)	(391)
Gains on sales of investment securities	186	-	186	563
Investment securities gains (losses), net	167	(251)	167	172
Non-interest expense:				
Compensation and benefits	2,338	2,358	7,009	6,997
Occupancy and equipment	755	731	2,183	2,123
Professional fees	159	113	1,190	433
Data processing	187	208	564	640
Amortization of intangibles	190	208	551	569
Advertising	128	137	425	374
Federal deposit insurance premiums	75	180	367	542
Foreclosure and real estate owned expense	20	67	84	278
Other	821	760	2,358	2,386
Total non-interest expense	4,673	4,762	14,731	14,342
Earnings before income taxes	1,926	1,344	3,762	668
Income tax expense (benefit)	437	241	573	(531)
Net earnings	$1,489	$1,103	$3,189	$1,199
Earnings per share:				
Basic	$0.56	$0.42	$1.21	$0.46
Diluted	$0.56	$0.42	$1.21	$0.46

Dividends per share	$0.19	$0.18	$0.57	$0.54

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net earnings	$1,489	$1,103	$3,189	$1,199
Unrealized holding (losses) gains on available-for-sale securities for which a portion of an other-than-temporary impairment has been recorded in earnings	(37)	(42)	205	(32)
Net unrealized holding gains on all other available-for-sale securities	1,326	1,030	3,794	2,120
Less reclassification adjustment for (gains) losses included in earnings	(167)	251	(167)	(172)
Net unrealized gains	1,122	1,239	3,832	1,916
Income tax expense	418	461	1,420	710
Total comprehensive income	$2,193	$1,881	$5,601	$2,405

See accompanying notes to consolidated financial statements.

LANDMARK BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Nine months ended September 30, 2011	2010
Cash flows from operating activities:		
Net earnings	$3,189	$1,199
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Provision for loan losses	1,600	5,200
Provision for valuation allowance on real estate owned	27	-
Amortization of intangibles	551	569
Depreciation	669	730
Stock-based compensation	76	82
Deferred income taxes	(347)	(606)
Net gains on investment securities	(167)	(172)
Net gains on sales of premises and equipment and real estate owned	(166)	(27)
Net gains on sales of loans	(1,923)	(2,237)
Proceeds from sales of loans	90,209	109,986
Origination of loans held for sale	(84,300)	(113,208)
Changes in assets and liabilities:		
Accrued interest and other assets	640	705
Accrued expenses, taxes, and other liabilities	1,700	(2,947)
Net cash provided by (used in) operating activities	11,758	(726)
Cash flows from investing activities:		
Net (increase) decrease in loans	(3,051)	10,457
Maturities and prepayments of investment securities	40,913	27,360
Purchases of investment securities	(59,643)	(30,993)
Proceeds from sales of investment securities	4,740	10,097
Purchase of bank owned life insurance	(2,500)	-
Proceeds from sales of real estate owned	2,317	1,036
Purchases of premises and equipment, net	(252)	(164)
Net cash (used in) provided by investing activities	(17,476)	17,793
Cash flows from financing activities:		
Net increase (decrease) in deposits	19,915	(2,428)
Federal Home Loan Bank advance repayments	(28)	(15,028)
Change in Federal Home Loan Bank line of credit, net	(8,500)	600
Proceeds from other borrowings	1,237	1,705
Proceeds from issuance of common stock under stock option plans	28	143
Excess tax benefit related to stock option plans	5	31
Payment of dividends	(1,507)	(1,427)
Net cash provided by (used in) financing activities	11,150	(16,404)
Net increase in cash and cash equivalents	5,432	663
Cash and cash equivalents at beginning of period	9,735	12,379
Cash and cash equivalents at end of period	$15,167	$13,042
Supplemental disclosure of cash flow information:		
Cash (refunds) payments for income taxes	$(445)	$942

Cash paid for interest	3,666	5,192
Supplemental schedule of noncash investing and financing activities:		
Transfer of loans to real estate owned	1,221	3,973

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands, except per share amounts)	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total
Balance at December 31, 2010	$26	$27,102	$25,767	$ 922	$53,817
Net earnings	-	-	3,189	-	3,189
Change in fair value of investment securities available-for-sale, net of tax	-	-	-	2,412	2,412
Dividends paid ($0.57 per share)	-	-	(1,507)	-	(1,507)
Stock-based compensation	-	76	-	-	76
Exercise of stock options, 2,559 shares, including excess tax benefit of $5	-	33	-	-	33
Balance at September 30, 2011	$26	$27,211	$27,449	$ 3,334	$58,020
Balance at December 31, 2009	$25	$24,844	$27,523	$ 1,503	$53,895
Net earnings	-	-	1,199	-	1,199
Change in fair value of investment securities available-for-sale, net of tax	-	-	-	1,206	1,206
Dividends paid ($0.54 per share)	-	-	(1,427)	-	(1,427)
Stock-based compensation	-	82	-	-	82
Exercise of stock options, 14,486 shares, including excess tax benefit of $31	-	174	-	-	174
Balance at September 30, 2010	$25	$25,100	$27,295	$ 2,709	$55,129

See accompanying notes to consolidated financial statements.

LANDMARK BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Interim Financial Statements

The 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 ("GAAP") 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, 2010, 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 results of the interim period ended September 30, 2011 are not necessarily indicative of the results expected for the year ending December 31, 2011. The Company evaluates subsequent events and transactions that occur after the balance sheet date up to the date that financial statements are filed for potential recognition or disclosure.

2. Goodwill and Other Intangible Assets

The Company tests goodwill for impairment annually or more frequently if circumstances warrant. The Company's annual impairment test as of December 31, 2010 concluded that its goodwill was not impaired, however the Company can make no assurances that future impairment tests will not result in goodwill impairments. The Company concluded there were no triggering events during the first nine months of 2011 that required an interim goodwill impairment test.

A summary of the other intangible assets that continue to be subject to amortization is as follows:

(Dollars in thousands)	As of September 30, 2011		
	Gross Carrying Amount	Accumulated amortization	Net Carrying Amount
Core deposit intangible assets	$ 4,665	$ (3,807)	$ 858
Mortgage servicing rights	1,980	(963)	1,017
Total other intangible assets	$ 6,645	$ (4,770)	$ 1,875

(Dollars in thousands)	As of December 31, 2010		
	Gross Carrying Amount	Accumulated amortization	Net Carrying Amount
Core deposit intangible assets	$ 5,445	$ (4,272)	$ 1,173
Mortgage servicing rights	1,880	(820)	1,060
Total other intangible assets	$ 7,325	$ (5,092)	$ 2,233

Aggregate core deposit and mortgage servicing rights amortization expense was $190,000 and $208,000 for the third quarter of 2011 and 2010, respectively. For the nine months ended September 30, 2011 and 2010, aggregate amortization expense was $551,000 and $569,000, respectively. The following sets forth estimated amortization expense for other intangible assets for the remainder of 2011 and in successive years ending December 31:

(Dollars in thousands)	Amortization expense

Remainder of 2011	$	173
2012		629
2013		545
2014		453
2015		68
Thereafter		7
Total	$	1,875

3. Investments

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

	As of September 30, 2011			
(Dollars in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U. S. federal agency obligations	$ 13,175	$ 63	$ -	$ 13,238
Municipal obligations, tax exempt	63,895	3,566	-	67,461
Municipal obligations, taxable	10,224	166	(14)	10,376
Mortgage-backed securities	82,928	2,127	(8)	85,047
Common stocks	674	159	(86)	747
Pooled trust preferred securities	1,109	-	(684)	425
Certificates of deposit	7,710	-	-	7,710
Total	$ 179,715	$ 6,081	$ (792)	$ 185,004

	As of December 31, 2010			
(Dollars in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U. S. federal agency obligations	$ 22,060	$ 147	$ (20)	$ 22,187
Municipal obligations, tax exempt	63,725	1,907	(345)	65,287
Municipal obligations, taxable	4,232	12	(56)	4,188
Mortgage-backed securities	60,238	847	(281)	60,804
Common stocks	693	190	(55)	828
Pooled trust preferred securities	1,125	-	(889)	236
Certificates of deposit	14,159	-	-	14,159
Total	$ 166,232	$ 3,103	$ (1,646)	$ 167,689

Certain of the Company's investment securities have unrealized losses, or are temporarily impaired. This temporary impairment represents the estimated amount of loss that would be realized if the securities were sold on the valuation date. Securities which are temporarily impaired are shown below, along with the length of the impairment period.

As of September 30, 2011

(Dollars in thousands)		Less than 12 months		12 months or longer		Total	
	No. of securities	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Municipal obligations, taxable	5	$ 2,478	$ (14)	$ -	$ -	$ 2,478	$ (14)
Mortgage-backed securities	4	2,353	(8)	-	-	2,353	(8)
Common stocks	4	380	(86)	-	-	380	(86)
Pooled trust preferred securities	2	-	-	425	(684)	425	(684)
Total	15	$ 5,211	$ (108)	$ 425	$ (684)	$ 5,636	$ (792)

As of December 31, 2010

(Dollars in thousands)		Less than 12 months		12 months or longer		Total	
	No. of securities	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U. S. federal agency obligations	4	$ 3,104	$ (20)	$ -	$ -	$ 3,104	$ (20)
Municipal obligations, tax exempt	28	8,645	(278)	439	(67)	9,084	(345)
Municipal obligations, taxable	10	2,922	(56)	-	-	2,922	(56)
Mortgage-backed securities	11	15,331	(281)	-	-	15,331	(281)
Common stocks	4	445	(55)	-	-	445	(55)
Pooled trust preferred securities	2	-	-	236	(889)	236	(889)
Total	59	$ 30,447	$ (690)	$ 675	$ (956)	$ 31,122	$ (1,646)

The Company performs quarterly reviews of the investment portfolio to determine if investment securities have any declines in fair value which might be considered other-than-temporary. The initial review begins with all securities in an unrealized loss position. The Company's assessment of other-than-temporary impairment is based on the specific facts and circumstances impacting each individual security. The Company reviews and considers all available information, including expected cash flows, the structure of the security, the credit quality of the underlying assets and the current and anticipated market conditions. Any credit-related impairment on debt securities is realized through a charge to earnings. If an equity security is determined to be other-than-temporarily impaired, the entire impairment is realized through a charge to earnings.

The Company's U.S. federal agency portfolio consists of securities issued by the government-sponsored agencies of Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA") and Federal Home Loan Bank ("FHLB"). The receipt of principal and interest on U.S. federal agency obligations is guaranteed by the respective government-sponsored agency guarantor, such that the Company believes that its U.S. federal agency obligations do not expose the Company to credit-related losses. Based on these factors, along with the Company's intent to not sell the securities and that it is more likely than not that the Company will not be required to sell the securities before recovery of their cost basis, the Company believes that the U.S. federal agency obligations identified in the tables above are temporarily impaired.

The Company's portfolio of municipal obligations consists of both tax-exempt and taxable general obligations securities issued by various municipalities. As of September 30, 2011, the Company does not intend to sell and it is more likely than not that the Company will not be required to sell its municipal obligations in an unrealized loss position until the recovery of its cost. Due to the issuers' continued satisfaction of the securities' obligations in accordance with their contractual terms and the expectation that they will continue to do so, the evaluation of the fundamentals of the issuers' financial condition and other objective evidence, the Company believes that the municipal obligations identified in the tables above are temporarily impaired.

The Company's mortgage-backed securities portfolio consists of securities underwritten to the standards of and guaranteed by the government-sponsored agencies of FHLMC, FNMA and Government National Mortgage Association ("GNMA"). The receipt of principal, at par, and interest on mortgage-backed securities is guaranteed by the respective government-sponsored agency guarantor, such that the Company believes that its mortgage-backed securities do not expose the Company to credit-related losses. Based on these factors, along with the Company's intent to not sell the securities and the Company's belief that it is more likely than not that the Company will not be required to sell the securities before recovery of their cost basis, the Company believes that the mortgage-backed securities identified in the tables above are temporarily impaired.

Based on the analysis of its common stock investments in unrealized loss positions at September 30, 2011, the Company determined that the impairments on two of the securities were other-than-temporary and recorded a charge to reduce the cost of the two investments to fair value at September 30, 2011. The Company determined that the remaining securities in unrealized loss positions in the tables above are temporarily impaired.

As of September 30, 2011, the Company owned three pooled trust preferred securities with an original cost basis of $2.5 million, which represent investments in pools of collateralized debt obligations issued by financial institutions and insurance companies. The market for these securities is considered to be inactive. Two of the Company’s three investments in pooled trust preferred securities, Preferred Term Security (“PreTSL”) VIII and PreTSL IX, have a remaining aggregate cost basis of $1.1 million and non-credit-related, unrealized losses of $684,000. The Company uses discounted cash flow models on these two securities to assess if the present value of the cash flows expected to be collected is less than the amortized cost, which would result in an other-than-temporary impairment associated with the credit of the underlying collateral. The assumptions used in preparing the discounted cash flow models include the following: estimated discount rates, estimated deferral and default rates on collateral, assumed recoveries, and estimated cash flows including all information available through the date of issuance of these financial statements. The discounted cash flow analysis includes a review of all issuers within the collateral pool and incorporates higher deferral and default rates, as compared to historical rates, in the cash flow projections through maturity. The Company also reviews a stress test of these securities to determine the additional estimated deferrals or defaults in the collateral pool in excess of what the Company believes is likely, before the payments on the individual securities are negatively impacted.

As of September 30, 2011, the analysis of the Company’s PreTSL VIII and PreTSL IX investments indicated that the unrealized losses are not credit-related. The Company performs a discounted cash flow analysis, using the factors noted above to determine the amount of the other-than-temporary impairment that is applicable to either credit losses or other factors. During 2010, the Company’s analysis indicated that its investment in a third pooled trust preferred security, PreTSL XVII, had no value and a credit-related, other-than-temporary impairment charge was recorded for the remaining cost basis of that security. The Company has recorded credit losses on all three PreTSL securities totaling $1.3 million through charges to earnings during 2010 and 2009.

The following table provides additional information related to the Company’s portfolio of investments in pooled trust preferred securities as of September 30, 2011:

(Dollars in thousands)

Investment	Class	Moody's rating	Original par	Principal payments	Cumulative credit losses	Cost basis	Unrealized loss	Fair value
PreTSL VIII	B							