

CONSUMERS BANCORP INC /OH/

Form 10-Q

May 17, 2010

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

FORM 10-Q

x QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

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

for the transition period from ____ To ____

Commission File No. 033-79130

CONSUMERS BANCORP, INC.

(Exact name of registrant as specified in its charter)

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OHIO (State or other jurisdiction of incorporation or organization)	34-1771400 (I.R.S. Employer Identification No.)
614 East Lincoln Way, P.O. Box 256, Minerva, Ohio (Address of principal executive offices)	44657 (Zip Code)
(330) 868-7701 (Registrant's telephone number)	
Not applicable (Former name, former address and former fiscal year, if changed since last report)	

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 (232.05 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.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input checked="" type="checkbox"/>

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 issuer's classes of common stock, as of the latest practicable date.

Common Stock, no par value	Outstanding at May 14, 2010
	2,035,301 Common Shares

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CONSUMERS BANCORP, INC.

FORM 10-Q

QUARTER ENDED March 31, 2010

Part I Financial Information

Item 1 Financial Statements (Unaudited)

Interim financial information required by Rule 10-01 of Regulation S-X is included in this Form 10-Q as referenced below:

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(Dollars in thousands, except per share data)

	Unaudited March 31, 2010	June 30, 2009
ASSETS		
Cash on hand and noninterest-bearing deposits in other banks	\$ 5,557	\$ 5,961
Interest-bearing deposits in other banks	4,906	12,930
Total cash and cash equivalents	10,463	18,891
Certificates of deposit in other financial institutions	589	2,012
Securities, available-for-sale	66,310	60,775
Federal bank and other restricted stocks, at cost	1,186	1,186
Total loans	170,195	160,141
Less allowance for loan losses	(2,270)	(1,992)
Net Loans	167,925	158,149
Cash surrender value of life insurance	4,753	4,622
Premises and equipment, net	3,605	3,776
Intangible assets	290	411
Other real estate owned	102	181
Accrued interest receivable and other assets	2,722	1,859
Total assets	\$ 257,945	\$ 251,862
LIABILITIES		
Deposits		
Non-interest bearing demand	\$ 45,381	\$ 42,855
Interest bearing demand	13,884	12,570
Savings	62,842	58,196
Time	89,153	90,430
Total deposits	211,260	204,051
Short-term borrowings	13,431	15,055
Federal Home Loan Bank advances	8,373	9,373
Accrued interest and other liabilities	1,901	1,922
Total liabilities	234,965	230,401
SHAREHOLDERS' EQUITY		
Preferred stock (no par value, 350,000 shares authorized)		
Common stock (no par value, 3,500,000 shares authorized; 2,160,000 issued)	4,864	4,869
Retained earnings	19,125	18,244

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Treasury stock, at cost (124,699 and 130,442 common shares at March 31, 2010 and June 30, 2009, respectively)	(1,586)	(1,659)
Accumulated other comprehensive income	577	7
Total shareholders' equity	22,980	21,461
Total liabilities and shareholders' equity	\$ 257,945	\$ 251,862

See accompanying notes to consolidated financial statements

Table of Contents**CONSUMERS BANCORP, INC.****CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

	Three Months ended March 31,		Nine Months ended March 31,	
(Dollars in thousands, except per share amounts)	2010	2009	2010	2009
Interest income				
Loans, including fees	\$ 2,451	\$ 2,409	\$ 7,392	\$ 7,607
Securities				
Taxable	445	533	1,415	1,683
Tax-exempt	200	189	580	583
Federal funds sold	9	4	54	62
Total interest income	3,105	3,135	9,441	9,935
Interest expense				
Deposits	499	745	1,732	2,324
Short-term borrowings	11	33	37	194
Federal Home Loan Bank advances	70	77	225	250
Total interest expense	580	855	1,994	2,768
Net interest income	2,525	2,280	7,447	7,167
Provision for loan losses	110	165	453	441
Net interest income after provision for loan losses	2,415	2,115	6,994	6,726
Non-interest income				
Service charges on deposit accounts	333	372	1,184	1,266
Debit card interchange income	133	105	377	323
Bank owned life insurance income	43	42	131	126
Securities gains, net		177	213	185
Other-than-temporary loss				
Total impairment loss	(100)		(280)	
Loss recognized in other comprehensive income				
Net impairment loss recognized in earnings	(100)		(280)	
Loss on sale of OREO	(51)		(46)	
Other	41	26	110	109
Total non-interest income	399	722	1,689	2,009
Non-interest expenses				
Salaries and employee benefits	1,141	1,105	3,347	3,278
Occupancy and equipment	266	262	800	817
Data processing expenses	135	136	399	402
Professional and director fees	74	81	265	320
FDIC Assessments	77	65	236	139
Franchise taxes	57	54	164	161
Telephone and network communications	54	62	176	182
Debit card processing expenses	73	68	215	198
Amortization of intangible	40	40	121	121
Other	375	353	1,061	1,085

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Total non-interest expenses	2,292	2,226	6,784	6,703
Income before income taxes	522	611	1,899	2,032
Income tax expense	97	130	408	455
Net Income	\$ 425	\$ 481	\$ 1,491	\$ 1,577
Basic earnings per share	\$ 0.21	\$ 0.24	\$ 0.73	\$ 0.78

See accompanying notes to consolidated financial statements

Table of Contents**CONSUMERS BANCORP, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

(Dollars in thousands)

	Three Months ended March 31,		Nine Months ended March 31,	
	2010	2009	2010	2009
Net Income	\$ 425	\$ 481	\$ 1,491	\$ 1,577
Other comprehensive income (loss), net of tax:				
Net change in unrealized gains (losses):				
Other-than-temporarily impaired securities:				
Unrealized gains (losses) on other-than-temporarily impaired securities	(22)		115	
Reclassification adjustment for losses included in income	100		280	
Net unrealized gain (losses)	78		395	
Income tax effect	27		134	
	51		261	
Available-for-sale securities:				
Unrealized gains (losses) arising during the period	145	(431)	682	1,012
Reclassification adjustment for gains included in income		(177)	(213)	(185)
Net unrealized gain (losses)	145	(608)	469	827
Income tax effect	50	(207)	160	281
	95	(401)	309	546
Other comprehensive income (loss)	146	(401)	570	546
Total comprehensive income	\$ 571	\$ 80	\$ 2,061	\$ 2,123

See accompanying notes to consolidated financial statements.

Table of Contents**CONSUMERS BANCORP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY****(Unaudited)**

(Dollars in thousands, except per share data)

	Three Months ended March 31,		Nine Months ended March 31,	
	2010	2009	2010	2009
Balance at beginning of period	\$ 22,582	\$ 21,208	\$ 21,461	\$ 19,571
Comprehensive income				
Net Income	425	481	1,491	1,577
Other comprehensive income (loss)	146	(401)	570	546
Total comprehensive income	571	80	2,061	2,123
Issuance of 2,587 and 5,743 shares for the three and nine month periods ending March 31, 2010, respectively for dividend reinvestment and stock purchase plan	30		68	
Common cash dividends	(203)	(203)	(610)	(609)
Balance at the end of the period	\$ 22,980	\$ 21,085	\$ 22,980	\$ 21,085
Common cash dividends per share	\$ 0.10	\$ 0.10	\$ 0.30	\$ 0.30

See accompanying notes to consolidated financial statements.

Table of Contents**CONSUMERS BANCORP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

(Dollars in thousands)	Nine Months Ended March 31,	
	2010	2009
Cash flows from operating activities		
Net cash from operating activities	\$ 1,476	\$ 1,827
Cash flow from investing activities		
Securities available-for-sale		
Purchases	(23,218)	(25,934)
Maturities, calls and principal pay downs	12,188	9,296
Proceeds from sales of available-for-sale securities	6,009	13,436
Net decrease in certificates of deposits in other financial institutions	1,423	1,325
Net increase in loans	(10,366)	(6,554)
Acquisition of premises and equipment	(153)	(161)
Disposal of premises and equipment		8
Sale of other real estate owned	170	
Net cash from investing activities	(13,947)	(8,584)
Cash flow from financing activities		
Net increase in deposit accounts	7,209	8,795
Net change in short-term borrowings	(1,624)	3,827
Repayments of Federal Home Loan Bank advances	(1,000)	(1,130)
Proceeds from dividend reinvestment and stock purchase plan	68	
Dividends paid	(610)	(609)
Net cash from financing activities	4,043	10,883
Increase (decrease) in cash or cash equivalents	(8,428)	4,126
Cash and cash equivalents, beginning of period	18,891	6,637
Cash and cash equivalents, end of period	\$ 10,463	\$ 10,763
Supplemental disclosure of cash flow information:		
Cash paid during the period:		
Interest	\$ 2,041	\$ 2,825
Federal income taxes	605	555
Non-cash items:		
Transfer from loans to repossessed assets	\$ 137	\$ 79

See accompanying notes to consolidated financial statements.

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CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited)

(Dollars in thousands, except per share amounts)

Note 1 Summary of Significant Accounting Policies:

Nature of Operations: Consumers Bancorp, Inc. is a bank holding company headquartered in Minerva, Ohio that provides, through its banking subsidiary, a broad array of products and services throughout its primary market area of Stark, Columbiana, Carroll and contiguous counties in Ohio. The Bank's business involves attracting deposits from businesses and individual customers and using such deposits to originate commercial, mortgage and consumer loans in its primary market area.

Basis of Presentation: The consolidated financial statements for interim periods are unaudited and reflect all adjustments (consisting of only normal recurring adjustments), which, in the opinion of management, are necessary to present fairly the financial position and results of operations and cash flows for the periods presented. The unaudited financial statements are presented in accordance with the requirements of Form 10-Q and do not include all disclosures normally required by accounting principles generally accepted in the United States of America. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Consumers Bancorp, Inc.'s Form 10-K for the year ended June 30, 2009. The results of operations for the interim period disclosed herein are not necessarily indicative of the results that may be expected for a full year.

The consolidated financial statements include the accounts of Consumers Bancorp, Inc. (the Corporation) and its wholly owned subsidiary, Consumers National Bank (the Bank). All significant inter-company transactions and accounts have been eliminated in consolidation.

Segment Information: Consumers Bancorp, Inc. is a bank holding company engaged in the business of commercial and retail banking, which accounts for substantially all of the revenues, operating income, and assets. Accordingly, all of its operations are recorded in one segment, banking.

Accounting Standards Codification: The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) became effective on July 1, 2009. At that date, the ASC became FASB's officially recognized source of authoritative accounting principles generally accepted in the United States of America (GAAP) applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related literature. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. The switch to the ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

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CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

Earnings per Share: Earnings per common share are computed based on the weighted average common shares outstanding. The weighted average number of outstanding shares was 2,033,289 and 2,029,558 for the quarters ended March 31, 2010 and 2009, respectively. The weighted average number of outstanding shares was 2,031,498 and 2,029,558 for the nine months ended March 31, 2010 and 2009, respectively. The Corporation's capital structure contains no dilutive securities.

Reclassifications: Certain items in prior financial statements have been reclassified to conform to the current presentation.

New Accounting Standards Updates: *Accounting Standards Update (ASU) No. 2009-16, Transfers and Servicing (Topic 860) Accounting for Transfers of Financial Assets.* ASU 2009-16 amends prior accounting guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a qualifying special-purpose entity and changes the requirements for derecognizing financial assets. The new authoritative accounting guidance also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The provisions of ASU 2009-16 will be effective for the Corporation on July 1, 2010 and are not expected to have a significant impact on the Corporation's financial statements.

ASU No. 2009-17, Consolidations (Topic 810) - Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. ASU 2009-17 amends prior guidance to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. ASU 2009-17 requires additional disclosures about the reporting entity's involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its affect on the entity's financial statements. As further discussed below, ASU No. 2010-10, Consolidations (Topic 810), deferred the effective date of ASU 2009-17 for a reporting entity's interests in investment companies. The provisions of ASU 2009-17 will be effective for the Corporation on July 1, 2010 and are not expected to have a significant impact on the Corporation's financial statements.

ASU No. 2010-10, Consolidations (Topic 810) - Amendments for Certain Investment Funds. ASU 2010-10 defers the effective date of the amendments to the consolidation requirements made by ASU 2009-17 to a company's interest in an entity (i) that has all of the attributes of an investment company, as specified under ASC Topic 946, Financial

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CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

Services - Investment Companies, or (ii) for which it is industry practice to apply measurement principles of financial reporting that are consistent with those in ASC Topic 946. As a result of the deferral, a company will not be required to apply the ASU 2009-17 amendments to the Subtopic 810-10 consolidation requirements to its interest in an entity that meets the criteria to qualify for the deferral. ASU 2010-10 also clarifies that any interest held by a related party should be treated as though it is an entity's own interest when evaluating the criteria for determining whether such interest represents a variable interest. In addition, ASU 2010-10 also clarifies that a quantitative calculation should not be the sole basis for evaluating whether a decision maker's or service provider's fee is a variable interest. The provisions of ASU 2010-10 will be effective for the Corporation on July 1, 2010 and are not expected to have a significant impact on the Corporation's financial statements.

ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures About Fair Value Measurements.

ASU 2010-06 requires expanded disclosures related to fair value measurements including (i) the amounts of significant transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy and the reasons for the transfers, (ii) the reasons for transfers of assets or liabilities in or out of Level 3 of the fair value hierarchy, with significant transfers disclosed separately, (iii) the policy for determining when transfers between levels of the fair value hierarchy are recognized and (iv) for recurring fair value measurements of assets and liabilities in Level 3 of the fair value hierarchy, a gross presentation of information about purchases, sales, issuances and settlements. ASU 2010-06 further clarifies that (i) fair value measurement disclosures should be provided for each class of assets and liabilities (rather than major category), which would generally be a subset of assets or liabilities within a line item in the statement of financial position and (ii) company's should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for each class of assets and liabilities included in Levels 2 and 3 of the fair value hierarchy. The new disclosures and clarifications of existing disclosures about Level 1 and Level 2 securities are effective for interim and annual reporting periods beginning after December 15, 2009. The disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this update did not have a material effect on the Corporation's results of operations or financial position. See Note 5 Fair Value Measurements.

Table of Contents**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

Note 2 Securities

Description of Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2010				
Obligations of government sponsored entities	\$ 11,793	\$ 212	\$ (28)	\$ 11,977
Obligations of state and political subdivisions	20,054	254	(336)	19,972
Mortgage-backed securities - residential	32,887	1,044	(41)	33,890
Trust preferred security	702		(231)	471
Total securities	\$ 65,436	\$ 1,510	\$ (636)	\$ 66,310
June 30, 2009				
Obligations of government sponsored entities	\$ 14,278	\$ 385	\$ (1)	\$ 14,662
Obligations of state and political subdivisions	18,171	62	(608)	17,625
Mortgage-backed securities - residential	27,334	810	(12)	28,132
Trust preferred security	982		(626)	356
Total securities	\$ 60,765	\$ 1,257	\$ (1,247)	\$ 60,775

Sale of available-for-sale securities were as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Proceeds from sales	\$	\$ 7,000	\$ 6,009	\$ 13,436
Gross realized gains		177	213	238
Gross realized losses				53

The estimated fair values of securities at March 31, 2010, by contractual maturity, are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The trust preferred security has a final maturity date of September 22, 2036, with a first optional call date of June 22, 2011 and a first auction call date of June 22, 2016.

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(Dollars in thousands, except per share amounts)

	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 5,914	\$ 6,044
Due after one year through five years	4,374	4,470
Due after five years through ten years	5,521	5,451
Due after ten years	16,038	15,984
Total	31,847	31,949
Mortgage-backed securities - residential	32,887	33,890
Trust preferred security	702	471
Total	\$ 65,436	\$ 66,310

Securities with unrealized losses at March 31, 2010 and June 30, 2009, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

Less than 12 Months	12 Months or more	Total
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