LCNB CORP
Form 10-Q
October 29, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

(X)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2007

( )

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the transition period from

to

Commission File Number 000-26121

LCNB Corp.

(Exact name of registrant as specified in its charter)

Ohio

31-1626393

(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification Number)

2 North Broadway, Lebanon, Ohio 45036

(Address of principal executive offices, including Zip Code)

(513) 932-1414

(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.

. [X] Yes [ ] No

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. (Check one):

[ ] Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

. [ ] Yes [X] No

The number of shares outstanding of the issuer's common stock, without par value, as of October 26, 2007 was 6,345,486 shares.

LCNB Corp.

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LCNB CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

		September 30, 2007 (Unaudited)	December 31, 2006
ASSETS:			
Cash and due from banks	$	18,085	14,864
Federal funds sold and interest-bearing demand deposits		25,078	641
Total cash and cash equivalents		43,163	15,505
Securities available for sale, at estimated fair value		91,123	111,142
Federal Reserve Bank stock and Federal Home Loan Bank stock, at cost		2,332	3,332
Loans, net		394,116	388,320
Premises and equipment, net		12,780	12,090
Intangibles, net		939	1,426
Bank owned life insurance		11,330	10,979
Other assets		6,079	5,421
TOTAL ASSETS	$	561,862	548,215
LIABILITIES:			
Deposits			
Noninterest-bearing	$	83,929	82,360
Interest-bearing		414,443	396,255
Total deposits		498,372	478,615
Short-term borrowings		2,805	15,370
Long-term debt		5,000	-
Accrued interest and other liabilities		3,555	3,231
TOTAL LIABILITIES		509,732	497,216
SHAREHOLDERS EQUITY:			
Preferred stock no par value, authorized 1,000,000 shares,			

none outstanding		-	-
Common stock no par value, authorized 8,000,000 shares,			
issued 7,103,768 shares		10,560	10,560
Surplus		10,595	10,577
Retained earnings		43,655	42,245
Treasury shares at cost, 758,282 and 724,132 shares at			
September 30, 2007 and December 31, 2006, respectively		(11,737)	(11,242)
Accumulated other comprehensive loss, net of taxes		(943)	(1,141)
TOTAL SHAREHOLDERS EQUITY		52,130	50,999
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	561,862	548,215

The accompanying notes to consolidated financial statements are an integral part of these statements.

LCNB CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)

(Unaudited)

Three Months Ended

Nine Months Ended

September 30,

September 30,

2007

2006

2007

2006

INTEREST INCOME:

Interest and fees on loans	$ 6,732	6,489	20,096	18,624
Dividends on Federal Reserve Bank and Federal Home Loan Bank stock				

	27
	38
	111
	130
Interest on investment securities	
Taxable	
	533
	678

	1,719
	2,024
Non-taxable	
	452
	464
	1,417
	1,491
Other short-term investments	
	176
	154
	360
	349

TOTAL INTEREST INCOME	
	7,920
	7,823
	23,703
	22,618

INTEREST EXPENSE:

Interest on deposits	
	3,455
	3,289
	9,908
	8,856
Interest on short-term borrowings	
	11
	13

172

55

Interest on long-term debt

66

1

146

30

TOTAL INTEREST EXPENSE

3,532

3,303

10,226

8,941

NET INTEREST INCOME	
	4,388
	4,520
	13,477
	13,677
PROVISION FOR LOAN LOSSES	
	75
	66
	158
	100

NET INTEREST INCOME AFTER

PROVISION FOR LOAN LOSSES

4,313

4,454

13,319

13,577

NON-INTEREST INCOME:

Trust income	472	485	1,416	1,388
Service charges and fees	1,081	1,071	3,031	3,075

Net loss on sales of securities	-	-	-	(12)
Insurance agency income	392	391	1,228	1,239
Bank-owned life insurance income	118	117		

		351
	347	
Other operating income		
		54
		9
		194
	135	
TOTAL NON-INTEREST INCOME		
		2,117
		2,073
		6,220

6,172

NON-INTEREST EXPENSE:

Salaries and wages

		2,027
		2,009
		6,075
	5,912	
Pension and other employee benefits		
		536
		501
		1,576
	1,517	
Equipment expenses		
		274
		267
		758

	788			
Occupancy expense, net		426	367	1,147
	1,018			
State franchise tax		155	154	476
	467			
Marketing				

				108
				85
				317
	280			
Intangible amortization				
				151
				162
				466
	459			
Other non-interest expense				
				951
				965
				2,962

2,991

TOTAL NON-INTEREST EXPENSE

4,628

4,510

13,777

13,432

INCOME BEFORE INCOME TAXES

1,802

2,017

5,762

	6,317			
PROVISION FOR INCOME TAXES	432	511	1,397	1,593
NET INCOME	$ 1,370	1,506	4,365	4,724

Dividends declared per common share	$ 0.155	0.15	0.465	0.45

Earnings per common share:

Basic

$

0.22

0.23

0.69

0.73

Diluted

0.22

0.23

0.69

0.73

Average shares outstanding:

Basic	6,345,486	6,472,132	6,360,654	6,506,383
Diluted	6,345,615	6,474,569	6,361,415	6,508,862

The accompanying notes to consolidated financial statements are an integral part of these statements.

LCNB CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Net Income	$ 1,370	1,506	4,365	4,724
Other comprehensive income (loss):				
Net unrealized gain (loss) on available-for-sale securities (net of taxes of $312 and $218 for the three months ended September 30, 2007 and 2006, respectively, and net of taxes of $100 and $33 for the nine months ended September 30, 2007 and 2006, respectively)	607	423	194	(64)
Reclassification adjustment for net realized loss on sale of available-for-sale securities included in net income (net of taxes of $4 for the nine months ended September 30, 2006)	-	-	-	8
Amortization of pension plan unrecognized net loss (net of taxes of $1and $2 for the three and nine months ended September 30, 2007	1	-	4	-

TOTAL COMPREHENSIVE INCOME	$ 1,978	1,929	4,563	4,668

The accompanying notes to consolidated financial statements are an integral part of these statements.

LCNB CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
(In thousands)
(Unaudited)

		Common Shares	Surplus	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance January 1, 2007	$	10,560	10,577	42,245	(11,242)	(1,141)	50,999
Net income				4,365			4,365
Change in estimated fair value of securities available for sale, net of tax						194	194
Amortization of pension plan unrecognized net loss, net of tax						4	4
Compensation expense relating to stock options			18				18
Treasury shares purchased					(495)		(495)
Cash dividends declared, $0.465 per				(2,955)			(2,955)

share						
Balance September 30, 2007	$ 10,560	10,595	43,655	(11,737)	(943)	52,130
Balance January 1, 2006	$ 10,560	10,562	39,612	(8,011)	(701)	52,022
Net income			4,724			4,724
Change in estimated fair value of securities available for sale, net of tax and reclassification adjustment					(56)	(56)
Compensation expense relating to stock options		11				11
Treasury shares purchased				(1,877)		(1,877)
Cash dividends declared, $0.45 per share			(2,924)			(2,924)
Balance September 30, 2006	$ 10,560	10,573	41,412	(9,888)	(757)	51,900

The accompanying notes to consolidated financial statements are an integral part of these statements.

LCNB CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

		Nine Months Ended September 30, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$	4,365	4,724
Adjustments to reconcile net income to net cash flows from operating activities			
Depreciation, amortization, and accretion		1,640	1,680
Provision for loan losses		158	100
Federal Home Loan Bank stock dividends		-	(111)
Bank-owned life insurance income		(351)	(347)
Realized loss on sales of securities available for sale		-	12
Realized loss (gain) on sale of premises and equipment		(6)	32
Mortgage loans originated for sale		(2,517)	(2,471)
Realized gains from sales of mortgage loans		(42)	(41)
Proceeds from sales of mortgage loans		2,532	2,485
Compensation expense related to stock options		18	11
Increase (decrease) due to changes in assets and liabilities:			
Income receivable		(255)	(238)
Other assets		525	(886)
Other liabilities		(695)	34
NET CASH FLOWS FROM OPERATING ACTIVITIES		5,372	4,984
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of securities available for sale		-	8,204
Proceeds from maturities of securities available for sale		27,842	34,162
Purchases of securities available for sale		(7,629)	(16,218)

Proceeds from redemption of Federal Home Loan Bank stock		1,000	-
Net decrease (increase) in loans		(6,190)	(29,754)
Net cash paid for acquisition		-	(515)
Proceeds from sale of other real estate acquired through foreclosure		-	84
Additions to other real estate acquired through foreclosure		(5)	-
Purchases of premises and equipment		(1,480)	(332)
Proceeds from sales of premises and equipment		6	6
NET CASH FLOWS FROM INVESTING ACTIVITIES		13,544	(4,363)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in deposits		19,757	11,725
Net change in short-term borrowings		(12,565)	921
Proceeds from long-term debt		5,000	-
Principal payments on long-term debt		-	(2,050)
Cash dividends paid		(2,955)	(2,924)
Purchases of treasury shares		(495)	(1,877)
NET CASH FLOWS FROM FINANCING ACTIVITIES		8,742	5,795
NET CHANGE IN CASH AND CASH EQUIVALENTS		27,658	6,416
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		15,505	15,324
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	43,163	21,740
SUPPLEMENTAL CASH FLOW INFORMATION:			
CASH PAID DURING THE YEAR FOR:			
Interest	$	10,200	8,947
Income taxes		1,809	1,646
NON-CASH INVESTING ACTIVITY:			
Transfer from loans to real estate acquired through foreclosure		-	752

The accompanying notes to consolidated financial statements are an integral part of these statements.

LCNB CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 - Basis of Presentation

Substantially all of the assets, liabilities and operations of LCNB Corp. ("LCNB") are attributable to its wholly-owned subsidiaries, LCNB National Bank (formerly Lebanon Citizens National Bank) (the "Bank"), and Dakin Insurance Agency, Inc. ("Dakin"). The accompanying unaudited consolidated financial statements include the accounts of LCNB, the Bank, and Dakin.

The unaudited interim consolidated financial statements, which have been reviewed by J.D. Cloud & Co. L.L.P., LCNB s independent registered public accounting firm, in accordance with standards established by the Public Company Accounting Oversight Board, as indicated by their report included herein and which does not express an opinion on those statements, have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the rules and regulations of the Securities and Exchange Commission (the SEC). Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited interim consolidated financial statements include all adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation of financial position, results of operations, and cash flows for the interim periods, as required by Regulation S-X, Rule 10-01.

Certain prior period data presented in the financial statements have been reclassified to conform with the current year presentation.

Share and per share data have been restated to reflect a 100% stock dividend, accounted for as a stock split, declared by the Board of Directors on April 10, 2007 and paid on May 10, 2007 to shareholders of record on April 25, 2007.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Results of operations for the three and nine months ended September 30, 2007 are not necessarily indicative of the results to be expected for the full year ending December 31, 2007. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements, accounting policies, and financial notes thereto included in LCNB's 2006 Form 10-K filed with the SEC.

Note 2   Acquisition

On August 13, 2007, LCNB signed a definitive agreement to acquire Sycamore National Bank (Sycamore) in a stock and cash transaction valued at approximately $9.7 million. Sycamore operates two full service branches in Cincinnati, Ohio. As of September 30, 2007, Sycamore had total assets of $49.1 million, deposits of $44.2 million, loans of $44.0 million and shareholders   equity of $4.6 million.

LCNB CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

Note 2 Acquisition (continued)

Under the terms of the agreement, Sycamore will be merged with and into the Bank and Sycamore s two offices will become branches of the Bank. Each share of Sycamore common stock will be exchanged for, at the election of each shareholder, $33.75 in cash, 2.444 shares of LCNB common stock, or a combination of cash and shares. A Sycamore shareholder s election to receive cash or stock is subject to allocation procedures that will ensure that, in the aggregate, 50% of the shares of Sycamore common stock will be exchanged for cash and 50% will be exchanged for stock. Subject to regulatory approvals and Sycamore shareholder approval, the transaction is anticipated to be completed during the fourth quarter, 2007.

Note 3 - Earnings Per Share

Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is adjusted for the dilutive effects of stock options. The diluted average number of common shares outstanding has been increased for the assumed exercise of stock options with proceeds used to purchase treasury shares at the average market price for the period. The computations were as follows for the three and nine months ended September 30 (dollars in thousands, except share and per share data):

		For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
		2007	2006	2007	2006
Net income	$	1,370	1,506	4,365	4,724
Weighted average number of shares outstanding used in the calculation of basic earnings per common share					

		6,345,486	6,472,132	6,360,654	6,506,383
Add- Dilutive effect of stock options		129	2,437	761	2,479
Adjusted weighted average number of shares outstanding used in the calculation of diluted earnings per common share		6,345,615	6,474,569	6,361,415	6,508,862
Basic earnings per common share	$	0.22	0.23	0.69	0.73
Diluted earnings per common share	$	0.22	0.23	0.69	0.73

LCNB CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

Note 4 - Investment Securities

The amortized cost and estimated fair value of available-for-sale investment securities at September 30, 2007 and December 31, 2006 are summarized as follows (in thousands):

	September 30, 2007			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury notes	$ 1,200	-	2	1,198
U.S. Agency notes	19,124	1	78	19,047
U.S. Agency mortgage-backed securities	20,745	-	401	20,344
Municipal securities:				
Non-taxable	45,311	252	166	45,397
Taxable	5,137	28	49	5,116
Marketable equity securities	15	6	-	21
	$ 91,532	287	696	91,123

	December 31, 2006			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury notes	$ 1,198	-	19	1,179
U.S. Agency notes	30,749	16	272	30,493
	22,792	26	518	22,300

U.S. Agency mortgage-backed securities				
Municipal securities:				
Non-taxable	50,409	351	247	50,513
Taxable	6,683	32	79	6,636
Marketable equity securities	14	7	-	21
	$ 111,845	432	1,135	111,142

Information concerning securities with gross unrealized losses at September 30, 2007, aggregated by length of time that individual securities have been in a continuous loss position, is as follows (in thousands):

	Less than Twelve Months		Twelve Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury notes	$ -	-	1,198	2
U.S. Agency notes	8,956	21	9,091	57
U.S. Agency mortgage-backed securities	7,108	14	13,072	387
Municipal securities:				
Non-taxable	3,908	18	19,087	148
Taxable	-	-	2,277	49
	$ 19,972	53	44,725	643

LCNB CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

Note 4 - Investment Securities (continued)

The decline in fair values is primarily due to increases in market interest rates. Unrealized losses on securities at September 30, 2007 have not been recognized into income currently because management has the intent and ability to hold the securities for a period of time sufficient to allow for any anticipated recovery in fair values. Therefore, no individual declines are deemed to be other than temporary.

Note 5 - Loans

Major classifications of loans at September 30, 2007 and December 31, 2006 are as follows (in thousands):

		September 30, 2007	December 31, 2006
Commercial and industrial	$	29,056	26,952
Commercial, secured by real estate		144,181	141,863
Residential real estate		175,912	173,890
Consumer		33,248	36,471
Agricultural		3,636	2,232
Other loans, including deposit overdrafts		9,352	8,101
Lease financing		-	16
		395,385	389,525
Deferred net origination costs		782	845
		396,167	390,370
Less allowance for loan losses		2,051	2,050
Loans, net	$	394,116	388,320

LCNB CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

Note 5 - Loans (continued)

Changes in the allowance for loan losses for the nine months ended September 30, 2007 and 2006 were as follows (in thousands):

	Nine Months Ended September 30,	
	2007	2006
Balance, beginning of period	$ 2,050	2,150
Provision for loan losses	158	100
Charge-offs	(434)	(495)
Recoveries	277	296
Balance, end of period	$ 2,051	2,051

Charge-offs for the nine months ended September 30, 2007 and 2006 consisted primarily of consumer loans, and checking and NOW account overdrafts, but also included some residential and commercial real estate loans.

Non-accrual, past-due, and restructured loans as of September 30, 2007 and December 31, 2006 were as follows (in thousands):

	September 30, 2007	December 31, 2006
Non-accrual loans	$ 1,480	872
Past-due 90 days or more and still accruing	210	126
Restructured loans	2,198	-

Total	$	3,888	998

Non-accrual loans at September 30, 2007 consisted of two home equity line of credit loans, one residential real estate mortgage loan, and one commercial real estate mortgage loan. Non-accrual loans at December 31, 2006 consisted of a residential real estate mortgage loan and a home equity line of credit loan made to the same borrower, and a loan secured by farmland. The residential real estate mortgage loan and home equity loan were paid current during the second quarter, 2007 and the loan secured by farmland was paid in full during the second quarter, 2007.

The commercial real estate mortgage loan included in non-accrual loans at September 30, 2007 had a balance of $1,277,000 at that date. This loan was previously classified as a restructured loan and was removed from that classification during the fourth quarter, 2006 because it was current at that time and had a market interest rate.

LCNB CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

Note 5 - Loans (continued)

Loans past-due 90 days or more and still accruing interest at September 30, 2007 and December 31, 2006 consisted of consumer loans and residential mortgage loans.

Restructured loans at September 30, 2007 consisted of a commercial loan secured by commercial real estate. It was previously classified as restructured and was removed from that classification during the fourth quarter, 2006 because it was current and had a market interest rate. It was returned to the restructured classification during the second quarter, 2007 because of the Bank s agreement to waive the required principal payments for a period of one year, pending the sale of the underlying collateral property.

Real estate acquired through foreclosure was $757,000 and $752,000 at September 30, 2007 and December 31, 2006, respectively, and is included in other assets in the consolidated balance sheets. Real estate acquired at September 30, 2007 and December 31, 2006 consisted of one single-family residential home.

Mortgage loans sold to and serviced for the Federal Home Loan Mortgage Corporation ("FHLMC") are not included in the accompanying balance sheets. The unpaid principal balances of those loans at September 30, 2007 and December 31, 2006 were $40,809,000 and $42,431,000, respectively. Loans sold to the FHLMC during the three and nine months ended September 30, 2007 totaled $511,000 and $2,517,000, respectively, and $346,000 and $2,471,000 during the three and nine months ended September 30, 2006, respectively.

Note 6 Borrowings

During March, 2007, LCNB obtained a $5 million advance from the Federal Home Loan Bank of Cincinnati. The term of the advance is ten years and interest is payable monthly at a fixed rate of 5.25%. The loan is secured by a blanket pledge of LCNB s 1-4 family first lien mortgage loans.

At September 30, 2007, short-term borrowings included U.S. Treasury demand note borrowings of approximately $2,805,000. The interest rate on the U.S. Treasury demand note borrowings is variable and was 4.52% at September 30, 2007.

At December 31, 2006, short-term borrowings included federal funds borrowed of $14,100,000 and U.S. Treasury demand note borrowings of approximately $1,264,000. The interest rate on federal funds borrowed was 5.25% and the interest rate on the U.S. Treasury demand note borrowings was 5.04% at December 31, 2006.

LCNB CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

Note 7 Regulatory Capital

The Bank and LCNB are required by regulators to meet certain minimum levels of capital adequacy. These are expressed in the form of certain ratios. Capital is separated into Tier 1 capital (essentially shareholders' equity less goodwill and other intangibles) and Tier 2 capital (essentially the allowance for loan losses limited to 1.25% of risk-weighted assets). The first two ratios, which are based on the degree of credit risk in LCNB's assets, provide for weighting assets based on assigned risk factors and include off-balance sheet items such as loan commitments and stand-by letters of credit. The ratio of Tier 1 capital to risk-weighted assets must be at least 4.0% and the ratio of Total capital (Tier 1 capital plus Tier 2 capital) to risk-weighted assets must be at least 8.0%. The capital leverage ratio supplements the risk-based capital guidelines. Banks are required to maintain a minimum ratio of Tier 1 capital to adjusted quarterly average total assets of 3.0%.

For various regulatory purposes, financial institutions are classified into categories based upon capital adequacy. The highest "well-capitalized" category requires capital ratios of at least 10% for total risk-based, 6% for Tier 1 risk-based, and 5% for leverage. As of the most recent notification from their regulators, the Bank and LCNB were categorized as "well-capitalized" under the regulatory framework for prompt corrective action. Management believes that no conditions or events have occurred since the last notification that would change the Bank's or LCNB's category. A summary of the regulatory capital and capital ratios of LCNB follows:

		At September 30, 2007	At December 31, 2006
		(Dollars in thousands)	
Regulatory Capital:			
Shareholders' equity	$	52,130	50,999
Goodwill and other intangibles		(770)	(1,238)
Accumulated other comprehensive loss		943	1,141
Tier 1 risk-based capital		52,303	50,902

Eligible allowance for loan losses		2,051	2,050
Total risk-based capital	$	54,354	52,952
Capital ratios:			
Total risk-based (required 8.00%)		14.04%	13.95%
Tier 1 risk-based (required 4.00%)		13.51%	13.41%
Leverage (required 3.00%)		9.54%	9.27%

Note 8 - Commitments and Contingent Liabilities

LCNB is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments included commitments to extend credit and stand-by letters of credit. They involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. Exposure to credit loss in the event of nonperformance by the other parties to financial instruments for commitments to extend credit and stand-by letters of credit is represented by the contract amount of those instruments.

LCNB uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Financial instruments whose contract amounts represent off-balance-sheet credit risk at September 30, 2007 and December 31, 2006 were as follows (in thousands):

	September 30, 2007	December 31, 2006
Commitments to extend credit:		

Fixed rate	$	1,228	679
Adjustable rate		836	1,425
Unused lines of credit:			
Fixed rate		4,050	5,201
Adjustable rate		68,232	65,845
Unused overdraft protection amounts on demand and NOW accounts		9,932	10,082
Standby letters of credit		8,615	5,728
	$	92,893	88,960

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Unused lines of credit include amounts not drawn in line of credit loans. Commitments to extend credit and unused lines of credit generally have fixed expiration dates or other termination clauses.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. At September 30, 2007 and December 31, 2006, outstanding guarantees of $2,276,000 and $1,674,000, respectively, were issued to developers and contractors. These guarantees generally are fully secured and have varying maturities. In addition, LCNB has a participation in a letter of credit securing payment of principal and interest on a bond issue. The participation amount at September 30, 2007 and December 31, 2006 were approximately $6.3 million and $4.1 million, respectively. The letter of credit balance is greater at September 30, 2007 because it was re-written in April, 2007. At that time, LCNB s participation amount was increased to the higher amount. The new agreement has a final maturity date of January, 2012.

LCNB CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

Note 8 Commitments and Contingent Liabilities (continued)

LCNB evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable; inventory; property, plant and equipment; residential realty; and income-producing commercial properties.

At September 30, 2007, LCNB is committed under various contracts to expend approximately $720,000 to complete certain building and office acquisition and/or renovation projects and computer upgrades. Management believes that LCNB has sufficient liquidity to fund its lending and capital expenditure commitments.

LCNB and its subsidiaries are parties to various claims and proceedings arising in the normal course of business. Management, after consultation with legal counsel, believes that the liabilities, if any, arising from such proceedings and claims will not be material to the consolidated financial position or results of operations.

Note 9 - Stock Options

Under the Ownership Incentive Plan (the "Plan"), LCNB may grant stock-based awards to eligible employees. The awards may be in the form of stock options, share awards, and/or appreciation rights. The Plan provides for the issuance of up to 200,000 shares. As of September 30, 2007, only stock options have been granted under the Plan. Options granted to date vest ratably over a five year period and expire ten years after the date of grant. Stock options outstanding at September 30, 2007, as adjusted for the 100% stock dividend paid May 10, 2007, were as follows:

Outstanding	Exercisable

Exercise Price	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number Exercised	*Expiration Date*
$ 13.09	11,056	$ 13.09	8,845	$ 13.09	-	*Feb, 2013*
17.66	8,108	17.66	4,865	17.66	-	*Jan, 2014*
18.95	7,934	18.95	1,587	18.95	-	*Jan, 2016*
17.88	8,116	17.88	-	17.88	-	*Feb, 2017*
	35,214	*16.57*	*15,297*	*15.15*	-	

LCNB CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

Note 9 - Stock Options (continued)

The following table summarizes stock option activity for the periods indicated, as restated for the 100% stock dividend paid May 10, 2007:

	Nine Months ended September 30,			
	2007		2006	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, January 1,	27,098	$16.17	19,164	$15.02
Granted	8,116	17.88	7,934	18.95
Exercised	-	-	-	-
Outstanding, September 30,	35,214	$16.57	27,098	$16.17
Exercisable, September 30,	15,297	$15.15	9,877	$14.59

At September 30, 2007, the aggregate intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) for options outstanding at that date and that were in the money (market price greater than exercise price) was approximately $10,000. The aggregate intrinsic value at that date for only the options that were exercisable was approximately $8,000. The intrinsic value changes based on changes in the market value of the Company s stock.

The estimated weighted-average fair value of the options granted in the first quarter of 2007 and 2006 were $3.76 and $4.51 per option, respectively. The fair value was estimated at the dates of grant using the Black-Scholes option-pricing model and the following assumptions:

	2007	2006
Risk-free interest rate	4.83%	4.64%
Average dividend yield	3.68%	3.04%
Volatility factor of the expected market		
price of LCNB s common stock	22.41%	22.70%
Average life	8.3 years	8.5 years

Total expense related to options included in salaries and wages in the consolidated statements of income for the three and nine months ended September 30, 2007 were $6,000 and $18,000, respectively and $4,000 and $11,000 for the three and nine months ended September 30, 2006, respectively.

LCNB CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

Note 10 Employee Benefits

LCNB has a noncontributory defined benefit retirement plan that covers all regular full-time employees. The components of net periodic pension cost for the three and nine months ended September 30, 2007 and 2006, are summarized as follows (in thousands):

		For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
		2007	2006	2007	2006
Service cost	$	171	162	512	484
Interest cost		97	83	288	248
Expected return on plan assets		(107)	(92)	(316)	(273)
Amortization of net loss		2	-	6	1
Net periodic pension cost		163	153	490	460

LCNB previously disclosed in its consolidated financial statements for the year ended December 31, 2006, that it expected to contribute $975,000 to its pension plan in 2007. A contribution of $1,004,000 was made to the pension plan on October 1, 2007. LCNB expects to contribute another $52,000 during the fourth quarter, 2007.

At September 30, 2007, accumulated other comprehensive income included $673,000, net of tax, of unrecognized net actuarial loss.

Note 11 Recent Accounting Pronouncements

SFAS No. 157, *Fair Value Measurements,* was issued by the FASB in September, 2006. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements, but increases consistency and comparability in the use of fair value measurements and calculations. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and for interim periods within those fiscal years. Management does not anticipate that the adoption of SFAS No. 157 will have a material effect on LCNB s consolidated balance sheet or income statement.

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* was issued by the FASB in February, 2007. It permits, but does not require, corporations to measure many financial instruments and certain other items at fair value. The decision to elect the fair value option is made individually for each instrument and is irrevocable once made. Changes in fair value will be recorded in earnings. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. Early adoption is permitted. Management intends to adopt SFAS No. 159 in the year beginning January 1, 2008 and does not anticipate that adoption of this standard will have a material effect on LCNB s consolidated balance sheet or income statement.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

LCNB Corp. and subsidiaries

Lebanon, Ohio

We have reviewed the accompanying consolidated balance sheet of LCNB Corp. and subsidiaries as of September 30, 2007, and the related consolidated statements of income and comprehensive income for the three-month and nine-month periods ended September 30, 2007 and 2006, and the related consolidated statements of shareholders equity and cash flows for the nine-month periods ended September 30, 2007 and 2006. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of LCNB Corp. and subsidiaries as of December 31, 2006 (presented herein), and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended (not presented herein), and in our report dated February 21, 2007, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2006, is fairly stated in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ J.D. Cloud & Co. L.L.P.

Cincinnati, Ohio

October 26, 2007

LCNB Corp. and Subsidiaries

Item 2. Management's Discussion and Analysis of Financial Condition and Results of

Operations

Forward Looking Statements

Certain matters disclosed herein may be deemed to be forward-looking statements that involve risks and uncertainties. Forward looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often characterized by the use of qualifying words and their derivatives such as expects, anticipates, believes, estimates, plans, projects, or c statements concerning opinions or judgments of the Company and its management about future events. Factors that could influence the accuracy of such forward looking statements include, but are not limited to, regulatory policy changes, interest rate fluctuations, loan demand, loan delinquencies and losses, general economic conditions and other risks. Such forward-looking statements represent management's judgment as of the current date. Actual strategies and results in future time periods may differ materially from those currently expected. LCNB disclaims, however, any intent or obligation to update such forward-looking statements. LCNB intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Acquisition

On May 31, 2006, Dakin purchased the existing book of business of Altemeier Oliver & Company Agency, Inc. (AOC), an independent insurance agency located in Blue Ash, Ohio. The acquisition of AOC was accounted for using the purchase accounting method and the results of operations of AOC have been included in the consolidated financial statements of LCNB since the acquisition date. The acquired assets consisted solely of a customer list intangible asset. This intangible asset is being amortized on a straight-line basis over a ten year period.

Results of Operations

LCNB earned $1,370,000 or $0.22 per diluted share for the three months ended September 30, 2007, compared to $1,506,000 or $0.23 per diluted share for the three months ended September 30, 2006. The return on average assets (ROAA) for the third quarter, 2007 was 0.99% and the return on average equity (ROAE) was 10.47%, compared with an ROAA of 1.08% and an ROAE of 11.47% for the third quarter of 2006. The decrease in net income for the third quarter, 2007 is primarily attributable to a decrease in net interest income and an increase in non-interest expense.

LCNB earned $4,365,000 or $0.69 per diluted share during the first nine months of 2007 compared to $4,724,000 or $0.73 per diluted share for the first nine months of 2006. The ROAA and ROAE for the first nine months of 2007 were 1.07% and 11.28%, respectively. The comparable ratios for the first nine months of 2006 were 1.16% and 12.09%, respectively. The decrease in net income for the nine months ended September 30, 2007 is primarily attributable to a decrease in net interest income, an increase in the provision for loan losses, and an increase in non-interest expense.

LCNB Corp. and Subsidiaries

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Net Interest Income

Three Months Ended September 30, 2007 vs. 2006.

LCNB's primary source of earnings is net interest income, which is the difference between earnings from loans and other investments and interest paid on deposits and other liabilities. The following table presents, for the three months ended September 30, 2007 and 2006, average balances for interest-earning assets and interest-bearing liabilities, the income or expense related to each item, and the resulting average yields earned or rates paid.

	Three Months Ended September 30,					
	2007			2006		
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
	(Dollars in thousands)					
Loans (1)	$ 395,202	$ 6,732	6.76%	$ 381,228	$ 6,489	6.75%
Federal funds sold and interest-bearing demand deposits	14,096	176	4.95%	11,433	154	5.34%
Federal Reserve Bank stock	648	-	-%	647	-	-%
Federal Home Loan Bank stock	1,685	27	6.36%	2,607	38	5.78%
Investment securities:						
Taxable	47,491	533	4.45%	65,730	678	4.09%
Non-taxable (2)	44,917	685	6.05%	47,115	703	5.92%
Total earnings assets	504,039	8,153	6.42%	508,760	8,062	6.29%

Non-earning assets		45,334					45,696		
Allowance for loan losses		(2,055)					(2,052)		
Total assets	$	547,318				$	552,404		
Interest-bearing deposits	$	406,559		3,455	3.37%	$	417,017	3,289	3.13%
Short-term borrowings		980		11	4.45%		1,046	13	4.93%
Long-term debt		5,000		66	5.24%		32	1	12.40%
Total interest-bearing liabilities		412,539		3,532	3.40%		418,095	3,303	3.13%
Demand deposits		79,510					78,863		
Other liabilities		3,367					3,361		
Capital		51,902					52,085		
Total liabilities and capital	$	547,318				$	552,404		
Net interest rate spread (3)					3.02%				3.16%
Net interest income and net interest margin on a taxable-equivalent basis (4)			$	4,621	3.64%			$ 4,759	3.71%
Ratio of interest-earning assets to interest-bearing liabilities		122.18%					121.69%		

(1)

Includes nonaccrual loans, if any.

(2)

Income from tax-exempt securities is included in interest income on a taxable-equivalent basis. Interest income has been divided by a factor comprised of the complement of the incremental tax rate of 34%.

(3)

The net interest spread is the difference between the average rate on total interest-earning assets and interest-bearing liabilities.

(4)

The net interest margin is the taxable-equivalent net interest income divided by average interest-earning assets.

LCNB Corp. and Subsidiaries

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

The following table presents the changes in taxable-equivalent basis interest income and expense for each major category of interest-earning assets and interest-bearing liabilities and the amount of change attributable to volume and rate changes for the three months ended September 30, 2007 as compared to the same period in 2006. Changes not solely attributable to rate or volume have been allocated to volume and rate changes in proportion to the relationship of absolute dollar amounts of the changes in each.

		Three Months Ended September 30, 2007 vs. 2006 Increase (decrease) due to:		
		Volume	Rate	Total
		(In thousands)		
Interest-earning Assets:				
Loans	$	238	5	243
Federal funds sold and interest-bearing demand deposits		34	(12)	22
Federal Home Loan Bank stock		(14)	3	(11)
Investment securities:				
Taxable		(201)	56	(145)
Nontaxable		(33)	15	(18)
Total interest income		24	67	91
Interest-bearing Liabilities:				
Deposits		(84)	250	166
Short-term borrowings		(1)	(1)	(2)
Long-term debt		66	(1)	65
Total interest expense		(19)	248	229
Net interest income	$	43	(181)	(138)

LCNB Corp. and Subsidiaries

Item 2. Management's Discussion and Analysis of Financial Condition and Results of

Operations (continued)

Net interest income on a fully tax-equivalent basis for the three months ended September 30, 2007 totaled $4,621,000, a decrease of $138,000 from the comparable period in 2006. Total interest expense increased $229,000, which was partially offset by an increase in total interest income of $91,000.

The increase in total interest expense was primarily due to a 27 basis point increase in the average rate paid, which was primarily due to general increases in market interest rates, slightly offset by the decrease in average interest-bearing liabilities referred to above.

The increase in total interest income was due to a 13 basis point (one basis point equals 0.01%) increase in the average rate earned on earning assets and to a $14.0 million increase in average loans, partially offset by a $20.4 million decrease in average investment securities. The increase in the average rate earned on earning assets was primarily due to general increases in market interest rates. The decrease in average investment securities was used primarily to fund the growth in average loans.

The net interest margin decreased 7 basis points in the third quarter, 2007 compared to the third quarter, 2006. The lower margin reflects highly competitive market pricing conditions for both loans and deposits. As a result, average deposit rates increased faster than average loan rates.

Nine Months Ended September 30, 2007 vs. 2006.

The following table presents, for the nine months ended September 30, 2007 and 2006, average balances for interest-earning assets and interest-bearing liabilities, the income or expense related to each item, and the resultant average yields earned or rates paid.

LCNB Corp. and Subsidiaries

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

	Nine Months Ended September 30,					
	2007			2006		
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
	(Dollars in thousands)					
Loans (1)	$ 392,038	$ 20,096	6.85%	$ 370,813	$ 18,624	6.72%
Federal funds sold and interest-bearing demand deposits	9,338	360	5.15%	9,338	349	5.00%
Federal Reserve Bank stock	648	19	3.92%	647	19	3.93%
Federal Home Loan Bank stock	1,901	92	6.47%	2,571	111	5.77%
Investment securities:						
Taxable	51,468	1,719	4.47%	67,506	2,024	4.01%
Non-taxable (2)	47,216	2,147	6.08%	50,925	2,259	5.93%
Total earnings assets	502,609	24,433	6.50%	501,800	23,386	6.23%
Non-earning assets	44,665			44,744		
Allowance for loan losses	(2,056)			(2,088)		
Total assets	$ 545,218			$ 544,456		
Interest-bearing deposits	$ 402,835	9,908	3.29%	$ 407,589	8,856	2.90%
Short-term borrowings	4,263	172	5.39%	1,561	55	4.71%
Long-term debt	3,718	146	5.25%	700	30	5.73%
Total interest-bearing liabilities	410,816	10,226	3.33%	409,850	8,941	2.92%
Demand deposits	79,510			79,399		
Other liabilities	3,163			2,969		
Capital	51,729			52,238		

Total liabilities and capital	$	545,218				$	544,456		
Net interest rate spread (3)					3.17%				3.31%
Net interest income and net interest margin on a taxable-equivalent basis (4)			$	14,207	3.78%			$ 14,445	3.85%
Ratio of interest-earning assets to interest-bearing liabilities		122.34%					122.44%		

(1)

Includes nonaccrual loans, if any.

(2)

Income from tax-exempt securities is included in interest income on a taxable-equivalent basis. Interest income has been divided by a factor comprised of the complement of the incremental tax rate of 34%.

(3)

The net interest spread is the difference between the average rate on total interest-earning assets and interest-bearing liabilities.

(4)

The net interest margin is the taxable-equivalent net interest income divided by average interest-earning assets.

LCNB Corp. and Subsidiaries

Item 2. Management's Discussion and Analysis of Financial Condition and Results of

Operations (continued)

The following table presents the changes in taxable-equivalent basis interest income and expense for each major category of interest-earning assets and interest-bearing liabilities and the amount of change attributable to volume and rate changes for the nine months ended September 30, 2007 as compared to the same period in 2006.

	Nine Months Ended September 30, 2007 vs. 2006 Increase (decrease) due to:		
	Volume	Rate	Total
	(In thousands)		
Interest-earning Assets:			
Loans	$ 1,082	390	1,472
Federal funds sold and interest-bearing demand deposits	-	11	11
Federal Home Loan Bank stock	(31)	12	(19)
Investment securities:			
Taxable	(518)	213	(305)
Nontaxable	(168)	56	(112)
Total interest income	365	682	1,047
Interest-bearing Liabilities:			
Deposits	(104)	1,156	1,052
Short-term borrowings	108	9	117
Long-term debt	119	(3)	116
Total interest expense	123	1,162	1,285
Net interest income	$ 242	(480)	(238)

Net interest income on a fully tax-equivalent basis for the first nine months of 2007 totaled $14,207,000, a $238,000 decrease from the same period in 2006. Total interest expense increased $1,285,000 and was partially offset by an increase in total interest income of $1,047,000.

The increase in total interest expense was due primarily to a 41 basis point increase in the average rate paid on interest-bearing liabilities. The net interest margin decreased 7 basis points during the first nine months of 2007 compared to the first nine months of 2006 primarily due to competitive market pricing conditions for both loans and deposits and to a flat or inverted yield curve during much of the 2007 period. As a result, average deposit rates increased faster than average loan rates.

LCNB Corp. and Subsidiaries

Item 2. Management's Discussion and Analysis of Financial Condition and Results of

Operations (continued)

The increase in total interest income was due to a 27 basis point increase in the average rate earned on earning assets, from 6.23% for the first nine months of 2006 to 6.50% for the comparable period in 2007, and to a $21.2 million increase in average loans, partially offset by a $19.7 million decrease in average investment securities. The decrease in average investment securities was used to fund the growth in average loans.

__Provision and Allowance For Loan Losses__

The total provision for loan losses is determined based upon management's evaluation as to the amount needed to maintain the allowance for loan losses at a level considered appropriate in relation to the risk of losses inherent in the portfolio. In addition to historic charge-off percentages, factors taken into consideration to determine the adequacy of the allowance for loan losses include the nature, volume, and consistency of the loan portfolio, overall portfolio quality, a review of specific problem loans, and current economic conditions that may affect borrowers ability to pay. The provision for loan losses for the three months ended September 30, 2007 and 2006 was $75,000 and $66,000, respectively, and $158,000 and $100,000 for the nine months ended September 30, 2007 and 2006, respectively.

__Non -Interest Income__

Three Months Ended September 30, 2007 vs. 2006.

Non-interest income of $2,117,000 for the third quarter of 2007 was $44,000 greater than for the same period in 2006 primarily due to the absence of a loss on abandonment of an ATM recognized during the 2006 period, which was netted against other operating income.

Nine Months Ended September 30, 2007 vs. 2006.

Non-interest income of $6,220,000 for the first nine months of 2007 was $48,000 greater than for the same period in 2006 for primarily the same reason mentioned above. In addition trust income increased $28,000 primarily due to executor fees received during the 2007 period. Service charges and fees decreased $44,000 due to a decrease in non-sufficient fund charges, partially offset by an increase in check card income.

Non-Interest Expense

Three Months Ended September 30, 2007 vs. 2006.

Total non-interest expense increased $118,000 during the third quarter, 2007 compared to the third quarter, 2006, primarily due to an $18,000 increase in salaries and wages, a $35,000 increase in pension and other employee benefits, and a $59,000 increase in occupancy expense. Pension and other employee benefits increased primarily due to an increase in pension costs and occupancy expense increased primarily due to maintenance and repair costs and increased utilities expense.

LCNB Corp. and Subsidiaries

Item 2. Management's Discussion and Analysis of Financial Condition and Results of

Operations (continued)

Nine Months Ended September 30, 2007 vs. 2006.

Total non-interest expense increased $345,000 during the nine months ended September 30, 2007 compared to the same period in 2006 primarily due to a $163,000 increase in salaries and wages, a $59,000 increase in pension and other employee benefits, and a $129,000 increase in occupancy expense. Salaries and wages increased primarily due to additional employees and routine salary and wage increases. Pension and other employee benefits increased primarily due to an increase in pension expense. Occupancy expense increased primarily due to increased maintenance and repair costs, rent expense for the land for the new Oakwood office (opened May, 2007), and real estate taxes for the Oakwood office.

Income Taxes

LCNB s effective tax rates for the nine months ended September 30, 2007 and 2006 were 24.2% and 25.2%, respectively. The difference between the statutory rate of 34.0% and the effective tax rate is primarily due to tax-exempt interest income from municipal securities and tax-exempt earnings from bank owned life insurance.

Financial Condition

The fair value of securities available for sale was $91.1 million at September 30, 2007, approximately $20.0 million less than at December 31, 2006. The decrease was due to maturities and calls; no securities were sold during the first nine months of 2007. These additional funds, along with a $5.0 million FHLB advance obtained in March, 2007, and a $19.8 million increase in total deposits were primarily used to pay down short-term borrowings, fund loan growth, and build liquidity through investments in federal funds sold and interest-bearing demand deposits.

The term of the $5.0 million FHLB advance is ten years and interest is payable monthly at a fixed rate of 5.25%.

The $19.8 million increase in total deposits is due to public fund deposits from local governmental entities, which increased $20.5 million.

Short-term borrowings at September 30, 2007 were $2.8 million, a $12.6 million decrease from the December 31, 2006 balance of $15.4 million.

Net loans outstanding at September 30, 2007 totaled $394.1 million, approximately $5.8 million greater than at December 31, 2006. Commercial and industrial loans, commercial real estate loans, and residential real estate loans comprised most of the increase.

LCNB Corp. and Subsidiaries

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

The following table highlights the changes in the balance sheets. The analysis uses quarterly averages to give a better indication of balance sheet trends.

CONDENSED QUARTERLY AVERAGE BALANCE SHEETS

	September 30, 2007	June 30, 2007	March 31, 2007
		(In thousands)	
ASSETS			
Interest earning:			
Federal funds sold and			
interest-bearing demand deposits	$ 14,096	11,862	1,923
Investment securities	94,741	100,048	109,066
Loans	395,202	390,468	390,392
Total interest-earning assets	504,039	502,378	501,381
Noninterest-earning:			
Cash and due from banks	14,699	12,669	15,067
All other assets	30,635	30,679	30,265
Allowance for credit losses	(2,055)	(2,055)	(2,056)
TOTAL ASSETS	$ 547,318	543,671	544,657
LIABILITIES			
Interest-bearing:			
Interest-bearing deposits	$ 406,559	402,689	399,176
Short-term borrowings	980	1,090	10,825
Long-term debt	5,000	5,000	1,111
Total interest-bearing liabilities	412,539	408,779	411,112

Noninterest-bearing:				
Noninterest-bearing deposits		79,510	80,038	78,940
All other liabilities		3,367	3,014	3,164
TOTAL LIABILITIES		495,416	491,831	493,216
SHAREHOLDERS' EQUITY		51,902	51,840	51,441
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	547,318	543,671	544,657

LCNB Corp. and Subsidiaries

Item 2. Management's Discussion and Analysis of Financial Condition and Results of

Operations (continued)

Liquidity

LCNB depends on dividends from its subsidiaries for the majority of its liquid assets, including the cash needed to pay dividends to its shareholders. National banking law limits the amount of dividends the Bank may pay to the sum of retained net income, as defined, for the current year plus retained net income for the previous two years. Prior approval from the Office of the Comptroller of the Currency, the Bank s primary regulator, would be necessary for the Bank to pay dividends in excess of this amount. In addition, dividend payments may not reduce capital levels below minimum regulatory guidelines. Management believes the Bank will be able to pay anticipated dividends to LCNB without needing to request approval.

Liquidity is the ability to have funds available at all times to meet the commitments of LCNB. Asset liquidity is provided by cash and assets which are readily marketable or pledgeable or which will mature in the near future. Liquid assets include cash and cash equivalents and securities available for sale. At September 30, 2007, LCNB s liquid assets amounted to $134.3 million or 23.9% of total gross assets, a slight increase from $126.6 million or 23.1% at December 31, 2006.

Liquidity is also provided by access to core funding sources, primarily core depositors in the bank s market area. Approximately 76.2% of total deposits at September 30, 2007 were core deposits, a decrease from 80.4% at December 31, 2006. Core deposits, for this purpose, are defined as total deposits less public funds and certificates of deposit greater than $100,000. Core deposits decreased because all of the growth in total deposits during 2007 has been due to public fund deposits.

Secondary sources of liquidity include LCNB s ability to sell loan participations, borrow funds from the Federal Home Loan Bank, purchase federal funds, or use a line of credit established with another bank.

Management closely monitors the level of liquid assets available to meet ongoing funding needs. It is management s intent to maintain adequate liquidity so that sufficient funds are readily available at a reasonable cost. LCNB experienced no liquidity or operational problems as a result of the current liquidity levels.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Recent Accounting Pronouncements

SFAS No. 157, *Fair Value Measurements,* was issued by the FASB in September, 2006. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements, but increases consistency and comparability in the use of fair value measurements and calculations. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and for interim periods within those fiscal years. Management does not anticipate that the adoption of SFAS No. 157 will have a material effect on LCNB s consolidated balance sheet or income statement.

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* was issued by the FASB in February, 2007. It permits, but does not require, corporations to measure many financial instruments and certain other items at fair value. The decision to elect the fair value option is made individually for each instrument and is irrevocable once made. Changes in fair value will be recorded in earnings. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. Early adoption is permitted. Management intends to adopt SFAS No. 159 in the year beginning January 1, 2008 and does not anticipate that adoption of this standard will have a material effect on LCNB s consolidated balance sheet or income statement.

LCNB Corp. and Subsidiaries

Item 3. Quantitative and Qualitative Disclosures about Market Risks

The Bank's Asset and Liability Management Committee ("ALCO") primarily uses a combination of Interest Rate Sensitivity Analysis (IRSA) and Economic Value of Equity (EVE) analysis for measuring and managing interest rate risk. The IRSA model is used to estimate the effect on net interest income during a one-year period of instantaneous and sustained movements in interest rates, also called interest rate shocks, of 100, 200, and 300 basis points. The base projection uses a current interest rate scenario. As shown below, the September 30, 2007 IRSA indicates that either an increase or a decrease in rates would have a negative effect on net interest income. The changes in net interest income for the up and down 100, 200, and 300 basis point rate assumptions are within LCNB s acceptable ranges.

Rate Shock Scenario in Basis Points		Amount (In thousands)	$ Change in Net Interest Income	% Change in Net Interest Income
Up 300	$	18,509	(41)	-0.22%
Up 200		18,530	(20)	-0.11%
Up 100		18,546	(4)	-0.02%
Base		18,550	-	-%
Down 100		18,505	(45)	-0.24%
Down 200		18,329	(221)	-1.19%
Down 300		18,049	(501)	-2.70%

IRSA shows the affect on net interest income during a one-year period only. A more long-range model is the EVE analysis, which shows the estimated present value of future cash inflows from interest-earning assets less the present value of future cash outflows for interest-bearing liabilities for the same rate shocks. The EVE analysis at September 30, 2007 is shown below. The changes in the economic value of equity for these rate assumptions are within LCNB s acceptable ranges, except for the up 300 basis points scenario. The change for the up 300 basis points scenario is slightly outside LCNB s policy range of a 25% change for this category, but management has determined the change is acceptable in the current economic environment.

Rate Shock Scenario in Basis Points	Amount (In thousands)	$ Change in EVE	% Change in EVE

Up 300	$	57,571	(19,259)	-25.07%
Up 200		60,130	(16,700)	-21.74%
Up 100		62,350	(14,480)	-18.85%
Base		76,830	-	-%
Down 100		64,138	(12,692)	-16.52%
Down 200		62,168	(14,662)	-19.08%
Down 300		60,574	(16,256)	-21.16%

The IRSA and EVE simulations discussed above are not projections of future income or equity and should not be relied on as being indicative of future operating results. Assumptions used, including the nature and timing of interest rate levels, yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, and reinvestment or replacement of asset and liability cash flows, are inherently uncertain and, as a result, the models cannot precisely measure future net interest income or equity. Furthermore, the models do not reflect actions that borrowers, depositors, and management may take in response to changing economic conditions and interest rate levels.

LCNB Corp. and Subsidiaries

Item 4. Controls and Procedures

a) **Disclosure controls and procedures.** The Chief Executive Officer and the Chief Financial Officer have carried out an evaluation of the effectiveness of LCNB's disclosure controls and procedures that ensure that information relating to LCNB required to be disclosed by LCNB in the reports that it files or submits under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Based upon this evaluation, these officers have concluded, that as of September 30, 2007, LCNB's disclosure controls and procedures were effective.

b) **Changes in internal control over financial reporting.** During the period covered by this report, there were no changes in LCNB's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, LCNB's internal control over financial reporting.

PART II. OTHER INFORMATION

LCNB Corp. and Subsidiaries

Item 1. Legal Proceedings - None

Item 1A. Risk Factors No material changes

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no sales of unregistered equity securities of LCNB during the third quarter, 2007.

On April 17, 2001, LCNB's Board of Directors authorized three separate stock repurchase programs, two phases of which continue. The shares purchased will be held for future corporate purposes.

Under the "Market Repurchase Program" LCNB was originally authorized to purchase up to 100,000 shares of its stock through market transactions with a selected stockbroker. On November 14, 2005, the Board of Directors extended the Market Repurchase Program by increasing the shares authorized for repurchase to 200,000 total shares. Through September 30, 2007, 290,440 shares had been purchased under this program. No shares were purchased under this program during the third quarter, 2007.

The "Private Sale Repurchase Program" is available to shareholders who wish to sell large blocks of stock at one time. Because LCNB's stock is not widely traded, a shareholder releasing large blocks may not be able to readily sell all shares through normal procedures. Purchases of blocks will be considered on a case-by-case basis and will be made at prevailing market prices. There is no limit to the number of shares that may be purchased under this program. A total of 466,018 shares have been purchased under this program since its inception. No shares were purchased under this program during the third quarter, 2007.

Item 3. Defaults Upon Senior Securities - None

Item 4. Submission of Matters to a Vote of Security Holders - None

Item 5. Other Information - None

PART II. OTHER INFORMATION

LCNB Corp. and Subsidiaries

Item 6. Exhibits

Exhibit No.	Title
2	Amended and Restated Affiliation Agreement dated September 24, 2007 by and among LCNB Corp., Lebanon-Citizens National Bank, and Sycamore National Bank incorporated by reference to Form S-4A filed on October 22, 2007, Annex A.
3(i)	Articles of Incorporation incorporated by reference to Form 10-Q for the quarterly period ended March 31, 2005, Exhibit 3(i).
3(ii)	Regulations incorporated by reference to Form 10-Q for the quarterly period ended March 31, 2005, Exhibit 3(ii).
10.1	LCNB Corp. Ownership Incentive Plan incorporated by reference to Registrant s Form DEF 14A Proxy Statement pursuant to Section 14(a), Dated March 15, 2002, Exhibit A (000-26121).
10.2	Form of Option Grant Agreement under the LCNB Corp. Ownership Incentive Plan incorporated by reference to Form 10-K for the fiscal year Ended December 31, 2005, Exhibit 10.2.
15	Letter regarding unaudited interim financial information.
31.1	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Financial Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LCNB Corp.

October 29, 2007

/s/ Stephen P. Wilson

Stephen P. Wilson, President, CEO &

Chairman of the Board of Directors

October 29, 2007

/s/Steve P. Foster

Steve P. Foster, Executive Vice President

and Chief Financial Officer