LCNB CORP
Form 10-Q
July 30, 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 June 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 July __, 2007 was 6,345,486 shares.

LCNB CORP. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2007 (Unaudited)	December 31, 2006
ASSETS:		
Cash and due from banks	$ 13,690	14,864
Federal funds sold and interest-bearing demand deposits	4,783	641
Total cash and cash equivalents	18,473	15,505
Securities available for sale, at estimated fair value	95,650	111,142
Federal Reserve Bank stock and Federal Home Loan Bank stock, at cost	2,332	3,332
Loans, net	392,590	388,320
Premises and equipment, net	12,941	12,090
Intangibles, net	1,100	1,426
Bank owned life insurance	11,212	10,979
Other assets	5,994	5,421
TOTAL ASSETS	$ 540,292	548,215
LIABILITIES:		
Deposits		
Noninterest-bearing	$ 82,532	82,360
Interest-bearing	397,314	396,255
Total deposits	479,846	478,615
Short-term borrowings	1,253	15,370
Long-term debt	5,000	-
Accrued interest and other liabilities	3,064	3,231
TOTAL LIABILITIES	489,163	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	10,588	10,577
Retained earnings	43,269	42,245
Treasury shares at cost, 758,282 and 724,132 shares at June 30, 2007 and December 31, 2006, respectively	(11,737)	(11,242)

Accumulated other comprehensive income (loss), net of taxes		(1,551)	(1,141)
TOTAL SHAREHOLDERS EQUITY		51,129	50,999
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	540,292	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 June 30,		Six Months Ended June 30,	
		2007	2006	2007	2006
INTEREST INCOME:					
Interest and fees on loans	$	6,704	6,159	13,364	12,135
Dividends on Federal Reserve Bank					
and Federal Home Loan Bank stock		47	56	84	92
Interest on investment securities					
Taxable		545	649	1,186	1,346
Non-taxable		476	486	965	1,027
Other short-term investments		159	121	184	195
TOTAL INTEREST INCOME		7,931	7,471	15,783	14,795
INTEREST EXPENSE:					
Interest on deposits		3,292	2,898	6,453	5,567
Interest on short-term borrowings		14	10	161	42
Interest on long-term debt		66	1	80	29
TOTAL INTEREST EXPENSE		3,372	2,909	6,694	5,638
NET INTEREST INCOME		4,559	4,562	9,089	9,157
PROVISION FOR LOAN LOSSES		23	146	83	34
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES		4,536	4,416	9,006	9,123
NON-INTEREST INCOME:					

Trust income		513	426	944	903
Service charges and fees		1,018	1,084	1,950	2,004
Net gain (loss) on sales of securities		-	-	-	(12)
Insurance agency income		430	466	836	848
Bank owned life insurance income		119	116	233	230
Other operating income		77	62	140	126
TOTAL NON-INTEREST INCOME		2,157	2,154	4,103	4,099
NON-INTEREST EXPENSE:					
Salaries and wages		2,021	1,988	4,048	3,903
Pension and other employee benefits		487	481	1,040	1,016
Equipment expenses		243	266	484	521
Occupancy expense, net		350	317	721	651
State franchise tax		162	153	321	313
Marketing		113	103	209	195
Intangible amortization		157	151	315	297
Other non-interest expense		1,027	947	2,011	2,026
TOTAL NON-INTEREST EXPENSE		4,560	4,406	9,149	8,922
INCOME BEFORE INCOME TAXES		2,133	2,164	3,960	4,300
PROVISION FOR INCOME TAXES		536	555	965	1,082
NET INCOME	$	1,597	1,609	2,995	3,218
Dividends declared per common share	$	0.155	0.15	0.31	0.30
Earnings per common share:					
Basic	$	0.25	0.25	0.47	0.49
Diluted		0.25	0.25	0.47	0.49
Average shares outstanding:					
Basic		6,360,845	6,512,264	6,368,322	6,523,890
Diluted		6,361,771	6,514,809	6,369,632	6,526,388

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 June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Net Income	$ 1,597	1,609	2,995	3,218
Other comprehensive income (loss):				
Net unrealized loss on available-for-sale securities (net of taxes of $256 and $161 for the three months ended June 30, 2007 and 2006, respectively, and net of taxes of $212 and $251 for the six months ended June 30, 2007 and 2006, respectively)	(498)	(311)	(413)	(487)
Reclassification adjustment for net realized loss on sale of available-for-sale securities included in net income (net of taxes $4 for the six months ended June 30, 2006)	-	-	-	8
Amortization of pension plan unrecognized net loss (net of taxes of $1 for the three and six months ended June 30, 2007)	3	-	3	-

TOTAL COMPREHENSIVE INCOME	$ 1,102	1,298	2,585	2,739

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				2,995			2,995
Change in estimated fair value of securities available-for-sale, net of tax						(413)	(413)
Amortization of pension plan unrecognized net loss						3	3
Compensation expense relating to stock options			11				11
Treasury shares purchased					(495)		(495)
Cash dividends declared, $0.31 per share				(1,971)			(1,971)
Balance June 30, 2007	$	10,560	10,588	43,269	(11,737)	(1,551)	51,129

Balance January 1, 2006	$ 10,560	10,562	39,612	(8,011)	(701)	52,022
Net income			3,218			3,218
Change in estimated fair value of securities available-for-sale, net of tax					(479)	(479)
Compensation expense relating to stock options		7				7
Treasury shares purchased				(896)		(896)
Cash dividends declared, $0.30 per share			(1,956)			(1,956)
Balance June 30, 2006	$ 10,560	10,569	40,874	(8,907)	(1,180)	51,916

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)

	Six Months Ended June 30, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,995	3,218
Adjustments to reconcile net income to net cash flows from operating activities-		
Depreciation, amortization, and accretion	1,076	1,114
Provision for loan losses	83	34
Federal Home Loan Bank stock dividends	-	(73)
Bank owned life insurance income	(233)	(230)
Realized loss on sales of securities available for sale	-	12
Mortgage loans originated for sale	(2,006)	(2,125)
Realized gains from sales of mortgage loans	(35)	(35)
Proceeds from sales of mortgage loans	2,018	2,137
Compensation expense related to stock options	11	7
Increase (decrease) due to changes in assets and liabilities:		
Income receivable	55	145
Other assets	(417)	(444)
Other liabilities	(167)	64
NET CASH FLOWS FROM OPERATING ACTIVITIES	3,380	3,824
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available for sale	-	8,204
Proceeds from maturities of securities available for sale	17,681	20,270
Purchases of securities available for sale	(2,881)	(7,848)
Proceeds from redemption of Federal Home Loan Bank stock	1,000	-
Net decrease (increase) in loans	(4,516)	(14,739)

Net cash paid for acquisition		-	(514)
Proceeds from sale of other real estate acquired through foreclosure		-	84
Additions to other real estate acquired through foreclosure		(2)	-
Purchases of premises and equipment		(1,348)	(174)
Proceeds from sales of premises and equipment		7	-
NET CASH FLOWS FROM INVESTING ACTIVITIES		9,941	5,283
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in deposits		1,231	9,435
Net change in short-term borrowings		(14,118)	(780)
Proceeds from long-term debt		5,000	-
Principal payments on long-term debt		-	(2,033)
Cash dividends paid		(1,971)	(1,956)
Purchases of treasury shares		(495)	(896)
NET CASH FLOWS FROM FINANCING ACTIVITIES		(10,353)	3,770
NET CHANGE IN CASH AND CASH EQUIVALENTS		2,968	12,877
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		15,505	15,324
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	18,473	28,201
SUPPLEMENTAL CASH FLOW INFORMATION:			
CASH PAID DURING THE YEAR FOR:			
Interest	$	6,713	5,605
Income taxes		1,214	1,031
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, Lebanon Citizens National Bank ("Lebanon Citizens") and Dakin Insurance Agency, Inc. ("Dakin"). The accompanying unaudited consolidated financial statements include the accounts of LCNB, Lebanon Citizens, 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 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 six months ended June 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.

LCNB CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

Note 2 - 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 six months ended June 30 (in thousands, except share and per share data):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
Net income	$ 1,597	1,609	2,995	3,218
Weighted average number of shares outstanding used in the calculation of basic earnings per common share	6,360,845	6,512,264	6,368,322	6,523,890
Add dilutive effect of stock options	926	2,545	1,310	2,498
Adjusted weighted average number of shares outstanding used in the calculation of diluted earnings per common share	6,361,771	6,514,809	6,369,632	6,526,388
Basic earnings per common share	$ 0.25	0.25	0.47	0.49

Diluted earnings per common share	$	0.25	0.25	0.47	0.49

Note 3 - Investment Securities

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

	June 30, 2007			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury notes	$ 1,199	-	9	1,190
U.S. Agency notes	21,341	-	240	21,101
U.S. Agency mortgage-backed securities	21,993	-	728	21,265
Municipal securities:				
Non-taxable	47,028	216	494	46,750
Taxable	5,402	1	80	5,323
Marketable equity securities	15	6	-	21
	$ 96,978	223	1,551	95,650

LCNB CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

Note 3 - Investment Securities (continued)

	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
U.S. Agency mortgage-backed securities		22,792	26	518	22,300
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 June 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	$	-	-	1,190	9

U.S. Agency notes	6,076	118	15,025	122
U.S. Agency mortgage-				
backed securities	7,380	134	13,759	594
Municipal securities:				
Non-taxable	8,625	182	19,706	312
Taxable	810	3	2,257	77
	$ 22,891	437	51,937	1,114

The decline in fair values is primarily due to increases in market interest rates. Unrealized losses on securities at June 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.

LCNB CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

Note 4 - Loans

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

	June 30, 2007	December 31, 2006
Commercial and industrial	$ 30,981	26,952
Commercial, secured by real estate	141,794	141,863
Residential real estate	174,388	173,890
Consumer	33,961	36,471
Agricultural	3,467	2,232
Other loans, including deposit overdrafts	9,237	8,101
Lease financing	16	16
	393,844	389,525
Deferred net origination costs	796	845
	394,640	390,370
Less allowance for loan losses	2,050	2,050
Loans, net	$ 392,590	388,320

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

	Six Months Ended June 30,	
	2007	2006

Balance, beginning of period	$	2,050	2,150
Provision for loan losses		83	34
Charge-offs		(271)	(324)
Recoveries		188	191
Balance, end of period	$	2,050	2,051

LCNB CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

Note 4 - Loans (continued)

Charge-offs for the six months ended June 30, 2007 and 2006 consisted primarily of consumer loans and checking and NOW account overdrafts.

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

		June 30, 2007	December 31, 2006
Non-accrual loans	$	183	872
Past-due 90 days or more and still accruing		131	126
Restructured loans		2,198	-
Total	$	2,512	998

Non-accrual loans at June 30, 2007 consisted of one real estate mortgage loan and one home equity line of credit loan. Non-accrual loans at December 31, 2006 consisted of a real estate mortgage loan and a home equity line of credit loan made to the same borrower, and a loan secured by farmland. The 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.

Loans past-due 90 days or more and still accruing interest at June 30, 2007 consisted of two residential mortgage loans totaling $91,000 and 7 consumer loans totaling $40,000. Loans past-due 90 days or more at December 31, 2006 consisted of six consumer loans totaling $52,000 and two residential mortgage loans totaling $74,000.

Restructured loans at June 30, 2007 consist 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.

Not included in the above table is a commercial loan with a balance of $1,277,000 secured by a combination of mortgages and other collateral that was past-due 72 days at June 30, 2007. This loan was also 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.

Real estate acquired through foreclosure was $754,000 and $752,000 at June 30, 2007 and December 31, 2006, respectively, and is included in other assets in the consolidated balance sheets. Real estate acquired at June 30, 2007 and December 31, 2006 consisted of one single-family residential home.

LCNB CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

Note 4 - Loans (continued)

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 June 30, 2007 and December 31, 2006 were $41,608,000 and $42,431,000, respectively. Loans sold to the FHLMC during the three and six months ended June 30, 2007 totaled $1,364,000 and $2,006,000, respectively, and $902,000 and $2,125,000 during the three and six months ended June 30, 2006, respectively.

Note 5 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 June 30, 2007, short-term borrowings included U.S. Treasury demand note borrowings of approximately $1,253,000. The interest rate on the U.S. Treasury demand note borrowings is variable and was 5.10% at June 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.

Note 6 Regulatory Capital

Lebanon Citizens 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, Lebanon Citizens 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 Lebanon Citizens' or LCNB's category. A summary of the regulatory capital and capital ratios of LCNB follows (dollars in thousands):

LCNB CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

Note 6 Regulatory Capital (continued)

	At June 30, 2007	At December 31, 2006
Regulatory Capital:		
Shareholders' equity	$ 51,129	50,999
Goodwill and other intangibles	(921)	(1,238)
Accumulated other comprehensive loss	1,551	1,141
Tier 1 risk-based capital	51,759	50,902
Eligible allowance for loan losses	2,050	2,050
Total risk-based capital	$ 53,809	52,952
Capital ratios:		
Total risk-based (required 8.00%)	14.02%	13.95%
Tier 1 risk-based (required 4.00%)	13.48%	13.41%
Leverage (required 3.00%)	9.51%	9.27%

Note 7 - 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. 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 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 June 30, 2007 and December 31, 2006 were as follows (in thousands):

LCNB CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

Note 7 Commitments and Contingent Liabilities (continued)

	June 30, 2007	December 31, 2006
Commitments to extend credit:		
Fixed rate	$ 1,455	679
Adjustable rate	4,012	1,425
Unused lines of credit:		
Fixed rate	4,302	5,201
Adjustable rate	64,624	65,845
Unused overdraft protection amounts on		

Demand and NOW accounts	10,000	10,082
Standby letters of credit	8,594	5,728
	$ 92,987	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 June 30, 2007 and December 31, 2006, outstanding guarantees of $2,256,000 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 June 30, 2007 and December 31, 2006 were approximately $6.3 million and $4.1 million, respectively. The letter of credit balance is greater at June 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 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.

LCNB CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

Note 7 Commitments and Contingent Liabilities (continued)

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 8 - 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 March 31, 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 June 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*	-	

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

	Six Months ended June 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, June 30,	35,214	$16.57	27,098	$16.17
Exercisable, June 30,	15,297	$15.15	9,877	$14.59

LCNB CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

Note 8 - Stock Options (continued)

At June 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 six months ended June 30, 2007 were $6,000 and $11,000, respectively and $4,000 and $7,000 for the three and six months ended June 30, 2006, respectively.

Note 9 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 six months ended June 30, 2007 and 2006, are summarized as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
Service cost	$ 171	161	341	322
Interest cost	96	83	191	165
Expected return on plan assets	(105)	(91)	(209)	(181)
Amortization of net loss	2	1	4	1
Net periodic pension cost	164	154	327	307

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. As of June 30, 2007, no contributions have been made.

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

LCNB CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

Note 10 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 June 30, 2007, and the related consolidated statements of income and comprehensive income for each of the three-month and six-month periods ended June 30, 2007 and 2006, and the related consolidated statements of shareholders equity and cash flows for each of the six-month periods ended June 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 review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements 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

July 27, 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 Corp. 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 $1,597,000 or $0.25 basic and diluted earnings per share for the three months ended June 30, 2007, compared to $1,609,000 or $0.25 basic and diluted earnings per share for the three months ended June 30, 2006. The return on average assets (ROAA) for the second quarter, 2007 was 1.18% and the return on average equity (ROAE) was 12.35%, compared with an ROAA of 1.19% and an ROAE of 12.35% for the second quarter of 2006. The decrease in net income for the second quarter, 2007 is primarily attributable to an increase in non-interest expense, partially offset by a decrease in the provision for loan losses.

LCNB earned $2,995,000 or $0.47 basic and diluted earnings per share during the first six months of 2007 compared to $3,218,000 or $0.49 basic and diluted earnings per share for the first six months of 2006. The ROAA and ROAE for the first six months of 2007 were 1.11% and 11.69%, respectively. The comparable ratios for the first six months of 2006 were 1.20% and 12.41%, respectively. The decrease in net income for the first half of 2007 is primarily attributable to decreased net interest income, increased non-interest expenses, and an increase in the provision for loan losses.

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 June 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 June 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 June 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)	$ 390,468	$ 6,704	6.89%	$ 368,541	$ 6,160	6.70%
Federal funds sold and interest-bearing demand deposits	11,862	159	5.38%	9,903	121	4.90%
Federal Reserve Bank stock	648	19	11.76%	647	19	11.78%
Federal Home Loan Bank stock	1,685	28	6.67%	2,571	37	5.77%
Investment securities:						
Taxable	50,226	545	4.35%	66,080	649	3.94%
Non-taxable (2)	47,489	721	6.09%	50,658	736	5.83%
Total earnings assets	502,378	8,176	6.53%	498,400	7,722	6.21%

Non-earning assets		43,348				43,860			
Allowance for loan losses		(2,055)				(2,052)			
Total assets	$	543,671			$	540,208			
Interest-bearing deposits	$	402,689		3,292	3.28%	$	404,434	2,898	2.87%
Short-term debt		1,090		14	5.15%		854	10	4.70%
Long-term debt		5,000		66	5.29%		48	1	8.36%
Total interest-bearing liabilities		408,779		3,372	3.31%		405,336	2,909	2.88%
Demand deposits		80,038					79,779		
Other liabilities		3,014					2,813		
Capital		51,840					52,280		
Total liabilities and capital	$	543,671				$	540,208		
Net interest rate spread (3)					3.22%				3.33%
Net interest income and net interest margin on a taxable-equivalent basis (4)			$	4,804	3.84%		$	4,813	3.87%
Ratio of interest-earning assets to interest-bearing liabilities		122.90%					122.96%		

(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 June 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 June 30, 2007 vs. 2006 Increase (decrease) due to:		
	Volume	Rate	Total
	(In thousands)		
Interest-earning Assets:			
Loans	$ 373	171	544
Federal funds sold and interest-bearing demand deposits	25	13	38
Federal Home Loan Bank stock	(14)	5	(9)
Investment securities:			
Taxable	(167)	63	(104)
Nontaxable	(47)	32	(15)
Total interest income	170	284	454
Interest-bearing Liabilities:			
Deposits	(13)	407	394
Short-term borrowings	3	1	4
Long-term debt	66	(1)	65
Total interest expense	56	407	463
Net interest income	$ 114	(123)	(9)

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 June 30, 2007 totaled $4,804,000, a decrease of $9,000 from the comparable period in 2006. Total interest income increased $454,000, which was more than offset by an increase in total interest expense of $463,000.

The increase in total interest income was due to a 32 basis point (one basis point equals 0.01%) increase in the average rate earned on earning assets and to a $4.0 million increase in average interest earning assets, from $498.4 million for the three months ended June 30, 2006 to $502.4 million for the same period in 2007. The increase in interest earning assets was primarily from loan growth, which increased by $21.9 million on an average basis, partially offset by a $19.0 million decrease in investment securities. The increase in the average rate earned on earning assets was primarily due to general increases in market interest rates.

The increase in total interest expense was primarily due to a 43 basis point increase in the average rate paid and secondarily due to a new $5.0 million advance obtained from the Federal Home Loan Bank (FHLB) of Cincinnati during March, 2007. The increase in the average rate paid on interest-bearing liabilities was primarily due to general increases in market interest rates.

The net interest margin narrowed 3 basis points in the second quarter, 2007 compared to the second quarter, 2006. The lower margin reflects highly competitive market pricing conditions for both loans and deposits and a relatively flat yield curve between short-term and long-term interest rates. As a result, average deposit rates increased faster than average loan rates.

<u>Six Months Ended June 30, 2007 vs. 2006.</u>

The following table presents, for the six months ended June 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)

	Six Months Ended June 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)	$ 390,430	$ 13,364	6.90%	$ 365,520	$ 12,136	6.70%
Federal funds sold and interest-bearing demand deposits	6,920	184	5.36%	8,273	195	4.75%
Federal Reserve Bank stock	647	19	5.92%	647	19	5.92%
Federal Home Loan Bank stock	2,011	65	6.52%	2,553	73	5.77%
Investment securities:						
Taxable	53,489	1,186	4.47%	68,401	1,346	3.97%
Non-taxable (2)	48,385	1,462	6.09%	52,862	1,556	5.94%
Total earnings assets	501,882	16,280	6.54%	498,256	15,325	6.20%
Non-earning assets	44,354			44,289		
Allowance for loan losses	(2,056)			(2,106)		
Total assets	$ 544,180			$ 540,439		
Interest-bearing deposits	$ 400,942	6,453	3.25%	$ 402,796	5,567	2.79%
Short-term debt	5,931	161	5.47%	1,823	42	4.65%
Long-term debt	3,066	80	5.26%	1,040	29	5.62%
Total interest-bearing liabilities	409,939	6,694	3.29%	405,659	5,638	2.80%
Demand deposits	79,531			79,698		
Other liabilities	3,068			2,766		
Capital	51,642			52,316		

Total liabilities and capital	$	544,180				$	540,439		
Net interest rate spread (3)					3.25%				3.40%
Net interest income and net interest margin on a taxable-equivalent basis (4)			$	9,586	3.85%			$ 9,687	3.92%
Ratio of interest-earning assets to interest-bearing liabilities		122.43%					122.83%		

(1)

Includes nonaccrual loans, if any. Income from tax-exempt loans is included in interest income on a tax-equivalent basis, using an incremental rate of 34%.

(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 six months ended June 30, 2007 as compared to the same period in 2006.

	Six Months Ended June 30, 2007 vs. 2006 Increase (decrease) due to:		
	Volume	Rate	Total
	(In thousands)		
Interest-earning Assets:			
Loans	$ 845	383	1,228
Federal funds sold and interest-bearing demand deposits	(34)	23	(11)
Federal Home Loan Bank stock	(17)	9	(8)
Investment securities:			
Taxable	(317)	157	(160)
Nontaxable	(134)	40	(94)
Total interest income	343	612	955
Interest-bearing Liabilities:			
Deposits	(26)	912	886
Short-term borrowings	110	9	119
Long-term debt	53	(2)	51
Total interest expense	137	919	1,056
Net interest income	$ 206	(307)	(101)

Net interest income on a fully tax-equivalent basis for the first half of 2007 totaled $9,586,000, a $101,000 decrease from the first half of 2006. Total interest income increased $955,000 and was more than offset by an increase in total interest expense of $1,056,000.

The increase in total interest income was primarily due to a 34 basis point increase in the average rate earned on earning assets, from 6.20% for the first half of 2006 to 6.54% for the first half of 2007, and secondarily to a $3.6 million increase in average total earning assets. The increase in average earning assets was due to a $24.9 million increase in average loans, largely offset by a $19.4 million decrease in investment securities.

LCNB CORP. AND SUBSIDIARIES

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

Operations (continued)

The increase in total interest expense was due primarily to a 49 basis point increase in the average rate paid on interest-bearing liabilities and secondarily due to the $5.0 FHLB advance obtained during the first quarter of 2007.

The net interest margin decreased 7 basis points in the first half of 2007 compared to the first half of 2006 for substantially the same reasons previously discussed.

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 June 30, 2007 and 2006 was $23,000 and $146,000, respectively, and $83,000 and $34,000 for the six months ended June 30, 2007 and 2006, respectively. The provision for the six-month period in 2006 was less than for the three-month period because of a reduction in the allowance for loan losses of $112,000 during the three months ended March 31, 2006. This reduction was due primarily to an improvement in the credit quality of one significant loan during the quarter.

Non -Interest Income

Three Months Ended June 30, 2007 vs. 2006.

Non-interest income for the second quarter of 2007 was $3,000 greater than for the same period in 2006. Trust income was $87,000 greater, largely offset by a $66,000 decrease in service charges and fees. Trust income increased partially due to executor fees received. Service charges and fees decreased primarily due to a decrease in non-sufficient fund charges, partially offset by an increase in check card income. Check card income grew because a greater number of cards were outstanding and because of the increasing popularity of check cards as a retail payment method.

Six Months Ended June 30, 2007 vs. 2006.

Non-interest income for the first half of 2007 was $4,000 greater than for the same period in 2006. Trust income increased $41,000 and service charges and fees decreased $54,000, both for substantially the same reasons discussed above.

LCNB CORP. AND SUBSIDIARIES

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

Operations (continued)

Non-Interest Expense

Three Months Ended June 30, 2007 vs. 2006.

Total non-interest expense increased $154,000 during the second quarter, 2007 as compared to the second quarter, 2006, primarily due to a $33,000 increase in salaries and wages, a $33,000 increase in occupancy expense, and an $80,000 increase in other non-interest expense. These increases were partially offset by a $23,000 decrease in equipment expenses. Salaries and wages increased primarily due to additional employees and routine salary and wage increases. Occupancy expense increased due to rent and real estate taxes for the new Oakwood office. Equipment expenses decreased due to lower equipment rental and depreciation expenses.

Six Months Ended June 30, 2007 vs. 2006.

Total non-interest expense increased $227,000 during the first half, 2007 as compared to the first half of 2006 primarily due to a $145,000 increase in salaries and wages and a $70,000 increase in occupancy expenses for substantially the same reasons discussed above. Equipment expenses decreased $37,000 for substantially the same reasons discussed above.

Income Taxes

LCNB s effective tax rates for the six months ended June 30, 2007 and 2006 were 24.4% 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 $95.6 million at June 30, 2007, approximately $15.5 million less than at December 31, 2006. The decrease was due to maturities and calls; no securities were sold during the first six months of 2007. These additional funds, along with a $5.0 million FHLB advance obtained in March, 2007, were primarily used to pay down short-term borrowings.

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

Short-term borrowings at June 30, 2007 were $1.3 million, a $14.1 million decrease from the December 31, 2006 balance of $15.4 million.

Net loans outstanding at June 30, 2007 totaled $392.6 million, approximately $4.3 million greater than at December 31, 2006. Commercial and industrial 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

		June 30, 2007	March 31, 2007	December 31, 2006
			(In thousands)	
ASSETS				
Interest earning:				
Federal funds sold and				
interest-bearing demand deposits	$	11,862	1,923	7,843
Investment securities		100,048	109,066	110,826
Loans		390,468	390,392	388,404
Total interest-earning assets		502,378	501,381	507,073
Noninterest-earning:				
Cash and due from banks		12,669	15,067	13,260
All other assets		30,679	30,265	30,889
Allowance for credit losses		(2,055)	(2,056)	(2,055)
TOTAL ASSETS	$	543,671	544,657	549,167
LIABILITIES				
Interest-bearing:				
Interest-bearing deposits	$	402,689	399,176	410,496
Short-term borrowings		1,090	10,825	2,579
Long-term debt		5,000	1,111	-
		408,779	411,112	413,075

Total interest-bearing liabilities			
Noninterest-bearing:			
Noninterest-bearing deposits	80,038	78,940	80,794
All other liabilities	3,014	3,164	3,181
TOTAL LIABILITIES	491,831	493,216	497,050
SHAREHOLDERS' EQUITY	51,840	51,441	52,117
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 543,671	544,657	549,167

LCNB CORP. AND SUBSIDIARIES

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Average interest-bearing deposits for the first quarter, 2007 were $399.2 million, an $11.3 million decrease from the average balance for the fourth quarter, 2006. The average balance of interest-bearing deposits for the second quarter increased $3.5 million to $402.7 million. Most of the decrease in average interest-bearing deposits during the first quarter, 2007 was in NOW and money fund deposits.

The decrease in average deposits was substantially replaced by an $8.2 million increase in average short-term borrowings and a $5.9 million decrease in federal funds sold and interest-bearing demand deposits during the first quarter, 2007, as compared to the fourth quarter, 2006.

Short-term borrowings, in turn, were paid down late in the first quarter, 2007 from the proceeds of the $5.0 million FHLB advance obtained during March, 2007 and from the proceeds from investment security maturities and calls. As a result, average investment securities for the second quarter, 2007 were $9.0 million less than for the first quarter, 2007 and average long-term debt for the second quarter, 2007 was $3.9 million greater than for the first quarter, 2007. Also comparing the second and first quarters of 2007, average short-term borrowings for the second quarter, 2007 decreased $9.7 million to an average balance of $1.1 million and average federal funds sold and interest-bearing demand deposits increased $9.9 million to an average balance of $11.9 million.

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 Lebanon Citizens 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, Lebanon Citizens primary regulator, would be necessary for Lebanon Citizens to pay dividends in excess of this amount. In addition, dividend payments may not reduce capital levels below minimum regulatory guidelines. Management believes Lebanon Citizens 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 June 30, 2007, LCNB s liquid assets amounted to $114.1 million or 21.1% of total gross assets, a decrease from $126.6 million or 23.1% at December 31, 2006. Liquid assets decreased, despite a $3.0 million increase in cash and cash equivalents, due to the $15.5 million decrease in securities available for sale. The decrease in liquidity was used primarily to pay down short-term borrowings.

Liquidity is also provided by access to core funding sources, primarily core depositors in the bank s market area. Approximately 79.0% of total deposits at June 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 of a $5.4 million increase in public fund deposits, while total deposits, including public fund deposits, increased only $1.2 million.

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.

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

LCNB and the Bank are exposed to interest rate risk. The banking business consists of investments in interest-earning assets, which are funded by interest-bearing liabilities, both of which have varying levels of sensitivity to changes in rates of interest. The Bank s Asset and Liability Management Committee (ALCO) meets on a regular basis and attempts to manage this interest rate risk, primarily using a combination of Interest Rate Sensitivity Analysis (IRSA) and Economic Value of Equity (EVE) analysis.

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 June 30, 2007 IRSA indicates that an increase in interest rates would have a positive effect on net interest income, and 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	$	18,577	3	0.02%
Up 200		18,586	12	0.07%
Up 100		18,589	15	0.08%
Base		18,574	-	-%
Down 100		18,485	(89)	-0.48%
Down 200		18,300	(274)	-1.47%
Down 300		18,052	(522)	-2.81%

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 June 30, 2007 is shown below. The changes in the economic value of equity for these rate assumptions are within LCNB s acceptable ranges.

Rate Shock Scenario in Basis Points	Amount (In thousands)	$ Change in EVE	% Change in EVE
Up 300	$ 66,254	(13,657)	-17.09%
Up 200	68,912	(10,999)	-13.76%
Up 100	71,418	(8,493)	-10.63%
Base	79,911	-	-%
Down 100	73,106	(6,805)	-8.52%
Down 200	72,080	(7,831)	-9.80%
Down300	71,223	(8,688)	-10.87%

LCNB CORP. AND SUBSIDIARIES

Item 3. Quantitative and Qualitative Disclosures about Market Risks (continued)

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.

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 June 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

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 200,000 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 400,000 total shares. Through June 30, 2007, 290,440 shares had been purchased under this program. No shares were purchased during the second 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. The following table shows information relating to private sale repurchases during the three months ended June 30, 2007:

	Total Number of Shares Purchased as Part of Publicly	Maximum Number of Shares that May Yet Be Purchased

	Total Number of Shares Purchased	Average Price Paid Per Share	Announced Plans or Programs	Under the Plans or Programs
April 1-30, 2007	-	$ -	-	Not Applicable
May 1-31, 2007	23,950	13.78	23,950	
June 1-30, 2007	-	-	-	
Total	23,950	13.78	23,950	

PART II. OTHER INFORMATION

LCNB CORP. AND SUBSIDIARIES

Item 3. Defaults Upon Senior Securities - None

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of the shareholders of LCNB Corp. was held on April 10, 2007. One item was voted on by the shareholders of LCNB: Election of two Class II directors to serve until the 2010 Annual Meeting.

The following nominees were elected as Class II directors by the votes indicated:

Director	For	Withheld
Joseph W. Schwarz	2,720,319	43,780
Kathleen Porter Stolle	2,614,326	149,773

The following Class III and I members of the Board of Directors have terms expiring in 2008 and 2009, respectively:

Class III: Rick L. Blossom, Steve P. Foster, William H. Kaufman, George L. Leasure

Class I: David S. Beckett, Spencer S. Cropper, Stephen P. Wilson

Item 5. Other Information - None

PART II. OTHER INFORMATION

LCNB CORP. AND SUBSIDIARIES

Item 6. Exhibits

Exhibit No.	Title
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.

July 30, 2007

/s/ Stephen P. Wilson

Stephen P. Wilson, President, CEO &

Chairman of the Board of Directors

July 30, 2007

/s/Steve P. Foster

Steve P. Foster, Executive Vice President

and Chief Financial Officer