

LCNB CORP
Form DEF 14A
March 09, 2006

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities and
Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

LCNB Corp.

.....

N/A

.....

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Edgar Filing: LCNB CORP - Form DEF 14A

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

N/A

.....

2) Aggregate number of securities to which transaction applies:

N/A

.....

3) Per unit price of other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

N/A

.....

4) Proposed maximum aggregate value of transaction:

N/A

.....

5) Total fee paid:

N/A

.....

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

N/A

.....

2) Form, Schedule or Registration Statement No.:

N/A

.....

3) Filing Party:

N/A

.....

4) Date Filed:

N/A

.....

LCNB CORP.

P.O. Box 59

Lebanon, Ohio 45036

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

April 11, 2006

TO THE SHAREHOLDERS OF LCNB CORP.:

You are cordially invited to attend the annual meeting of the shareholders of LCNB Corp. ("LCNB") to be held on Tuesday, April 11, 2006 at 10:00 a.m. at the principal executive offices of LCNB at 2 North Broadway, Lebanon, Ohio 45036, for the purpose of considering and acting on the following:

1.

Electing three Class I directors to serve until the 2009 annual meeting.

2.

Transacting such other business as may properly come before the meeting or any adjournment thereof.

Shareholders of record at the close of business on March 1, 2006 will be entitled to vote at the meeting.

By Order of the Board of Directors

Stephen P. Wilson

President

March 9, 2006

IMPORTANT

A proxy statement and proxy are submitted herewith. As a shareholder, you are urged to complete and mail the proxy promptly whether or not you plan to attend this annual meeting in person. The proxy is revocable at any time prior to the exercise thereof by written notice to the company, and shareholders who attend the annual meeting may withdraw their proxies and vote their shares personally if they so desire.

PROXY STATEMENT

LCNB CORP.

P.O. Box 59

Lebanon, Ohio 45036

ANNUAL MEETING OF SHAREHOLDERS

April 11, 2006

INTRODUCTION

The enclosed proxy is solicited by the Board of Directors of LCNB Corp. (also referred to as "LCNB" or the "Company"), in connection with the annual meeting of shareholders to be held at 10:00 A.M. on April 11, 2006 at the principal executive offices of LCNB located at 2 North Broadway, Lebanon, Ohio 45036, or at any adjournments thereof.

The meeting has been called for the following purposes: (i) to elect three Class I directors each for a three year term, and (ii) to transact any other business that may properly come before the meeting or any adjournments thereof.

This Proxy Statement and the accompanying notice of meeting are being mailed to shareholders on or about March 9, 2006.

REVOCATION OF PROXIES, DISCRETIONARY

AUTHORITY AND CUMULATIVE VOTING

LCNB Common Stock can be voted at the annual meeting only if the shareholder is represented by proxy or is present in person. Shareholders who execute proxies retain the right to revoke them at any time. Unless so revoked, the shares represented by such proxies will be voted at the meeting and all adjournments thereof. Proxies may be revoked by (i) written notice to the Secretary of LCNB (addressed to LCNB Corp., P.O. Box 59, Lebanon, Ohio 45036, Attention: Secretary); (ii) by the filing of a later dated proxy prior to a vote being taken on a particular proposal at the meeting; or (iii) in open meeting at any time before it is voted.

Proxies solicited by the Board of Directors will be voted in accordance with the directions given therein. Where no instructions are indicated, properly executed proxies will be voted **for** the nominees for directors set forth below. The proxy confers discretionary authority on the persons named therein to vote with respect to (i) the election of any person as a director where the nominee is unavailable or unable to serve, (ii) matters incident to the conduct of the meeting and (iii) any other business that may properly come before the meeting or any adjournments thereof. At this time it is not known whether there will be cumulative voting for the election of directors at the meeting. If any shareholder demands cumulative voting for the election of directors at the meeting, your proxy will give the individuals named on the proxy full discretion and authority to vote cumulatively, and in their sole discretion, to allocate votes among any or all of the nominees, unless authority to vote for any or all of the nominees is withheld.

PERSON MAKING THE SOLICITATION

The enclosed proxy is being solicited by LCNB and the cost of soliciting proxies will be borne by LCNB. In addition to use of the mails, proxies may be solicited personally or by telephone or facsimile by directors, officers and employees of LCNB who will receive no compensation in addition to their regular compensation.

VOTING SECURITIES AND PRINCIPAL HOLDERS

Each of the shares of LCNB common stock (the "Common Stock") outstanding on March 1, 2006, the record date of the meeting, is entitled to one vote on all matters coming before the meeting. As of March 1, 2006 LCNB had 3,272,908 shares of Common Stock issued and outstanding. Only shareholders of record on the books of the Company on March 1, 2006 will be entitled to vote at the meeting either in person or by proxy. The presence at the meeting of at least a majority of the shares, in person or by proxy, will be required to constitute a quorum at the meeting.

Shareholders of LCNB have cumulative voting rights in connection with the election of directors if notice is given to the president, a vice-president or the secretary of LCNB, not less than 48 hours before the time fixed for holding the meeting, that any shareholder desires that the voting be cumulative. Cumulative voting rights enable a shareholder to cumulate his or her voting power to give one candidate as many votes as the number of directors to be elected multiplied by the number of shares of Common Stock owned by that person, or to distribute his votes on the same principal among two or more candidates as the shareholder sees fit. If any shareholder demands cumulative voting for the election of directors at the meeting, your proxy will give the individuals named on the proxy full discretion and authority to vote cumulatively, and in their sole discretion, to allocate votes among any or all of the nominees, unless authority to vote for any or all of the nominees is withheld.

As of December 31, 2005, the wholly-owned subsidiary of LCNB, Lebanon Citizens National Bank (the "Bank"), beneficially owned 13.75% of LCNB's Common Stock through the operations of the Bank's Trust Department. As of the same date, Ralcor Investors Limited Partnership, an Ohio limited partnership, owned 5.02% of LCNB. Its general partners are Robert C. Cropper, a director of LCNB, and his wife, Mary Jo Cropper. Under Section 13(d) of the Securities Exchange Act of 1934 and the rules promulgated thereunder, a beneficial owner of a security is any person who directly or indirectly has or shares voting power or investment power over such security.

There has been no change in control of LCNB since the date of the holding company conversion in 1999 effected through the merger between LC Interim Bank, a wholly-owned subsidiary of the Company, and the Bank pursuant to which all of the shareholders of the Bank became all of the shareholders of the Company in the same proportion as

their prior interests in the Bank.

The following table sets forth, as of December 31, 2005, the ownership of Common Stock by management of LCNB, including (i) the Common Stock beneficially owned by each director, nominee for director and named executive officer of LCNB and (ii) the Common Stock beneficially owned by all officers, directors and nominees for director as a group.

Name, Position(s) of Beneficial Owner or Director	Number of Shares of Common <u>Stock Beneficially Owned</u>⁽¹⁾	Percent of Common Stock <u>Outstanding</u>
Stephen P. Wilson Chairman, CEO, President	51,686 ⁽²⁾	1.58%
David S. Beckett Director	10,380	0.32%
Robert C. Cropper ⁽⁸⁾ Director	164,670 ⁽³⁾	5.02%
Marvin E. Young Director	54,125	1.65%
Kathleen Porter Stolle Director, Secretary	26,665 ⁽⁴⁾	0.81%
George L. Leasure Director, Assistant Secretary	12,460 ⁽⁵⁾	0.38%
William H. Kaufman Director	35,935 ⁽⁶⁾	1.10%
Steve P. Foster Director, Executive Vice President	5,888	0.18%

Joseph W. Schwarz	2,600	0.08%
Director		
Rick L. Blossom	500	0.02%
Director		
D.J. Benjamin Jackson	16,424	0.50%
Executive Vice President		
Bernard H. Wright, Jr.	22,061 ⁽⁷⁾	0.67%
Executive Vice President		
Eric J. Meilstrup		
Executive Vice President	253	0.01%
Leroy F. McKay		
Executive Vice President	3,240	0.10%

Spencer S. Cropper	5,740 ⁽⁸⁾	0.18%
Nominee for Director		
All directors and		
officers as a group	406,887	12.42%
(14 persons)		

(1) The Securities and Exchange Commission has defined "beneficial owner" of a security to include any person who has or shares voting power or investment power with respect to any such security or who has the right to acquire beneficial ownership of any such security within 60 days. The number of shares listed for each person includes shares held in the name of spouses, minor children, certain relatives, trusts or estates whose share ownership under the beneficial ownership rules of the Securities and Exchange Commission is to be aggregated with that of the Director or officer whose share ownership is shown. Includes shares subject to outstanding options which are exercisable by such individuals within 60 days as follows: Stephen P. Wilson, 1,848 shares, D.J. Benjamin Jackson, 1,024 shares, Bernard H. Wright, Jr., 923 shares, Steve P. Foster, 970 shares, and Eric J. Meilstrup, 173 shares.

(2) Includes 45,338 shares held jointly with Mr. Wilson's spouse. Does not include 79,600 shares held as Trustee of revocable grantor trusts created by family members.

(3) Includes 164,670 shares owned by a family Limited Partnership in which Mr. Cropper is a managing partner of which he and his spouse have a beneficial ownership.

(4) Includes 15,200 shares held in an irrevocable trust of which Ms. Stolle is one of several beneficiaries.

(5) Includes 9,860 shares held jointly with Mr. Leasure's spouse and 800 shares owned by Mr. Leasure's spouse.

(6) Includes 15,600 shares held in trust, 8,400 shares held jointly with Mr. Kaufman's spouse, and 3,100 shares owned by Mr. Kaufman's spouse.

(7) Includes 1,620 shares held by Mr. Wright's spouse. Does not include 52,800 shares held as Co-Trustee of a charitable trust, 3,000 shares held as Co-trustee of an irrevocable family trust or 1,000 shares held by an investment partnership in which Mr. Wright holds a 12.8% general partnership interest.

(8) Mr. Cropper will retire from the Board with the election of new directors at the 2005 annual meeting.

PROPOSAL 1. ELECTION OF DIRECTORS

Edgar Filing: LCNB CORP - Form DEF 14A

LCNB's Regulations provide that its business shall be managed by a board of directors of ten persons. The Board has nominated one new candidate to stand for election to the Board this year. LCNB's Regulations divide such directors into three classes as nearly equal in number as possible and set their terms at three years. A Board of ten directors results in two classes of three members and one with four members.

Assuming that at least a majority of the issued and outstanding Common Shares are present at the meeting so that a quorum exists, the nominees for director of LCNB receiving the most votes will be elected as directors.

The Board of Directors has nominated:

Stephen P. Wilson

David S. Beckett

Spencer S. Cropper

The nominees have been nominated to serve as Class I directors until the 2009 annual meeting of shareholders and until their respective successors are elected and qualified. Mr. Wilson and Mr. Beckett are incumbent directors whose present terms will expire at the 2006 annual meeting. Mr. Cropper is a new nominee, and as such, the Board of Directors has included a brief biography below.

Spencer S. Cropper:

Spencer S. Cropper is employed by Stolle Properties, Inc., a subsidiary of the Ralph J. Stolle Company. Prior to this, Mr. Cropper worked from 1996 to 2000 as an auditor with KPMG, LLP in Cincinnati, Ohio. Currently, he serves on the Board of Directors of the Ralph J. Stolle Company.

Mr. Cropper is a Certified Public Accountant. He is a member of the Ohio Society of Certified Public Accountants as well as a member of the American Institute of Certified Public Accountants.

Mr. Cropper is active in serving on a number of local organizations including Member of the Board of Trustees and Treasurer of the Board for the Ralph J. Stolle Countryside YMCA; Treasurer and Board Member of the Warren County Foundation; Treasurer and Board Member of the Lebanon Rotary Club.

Mr. Cropper received his B.S. in Business degree with majors in Accounting and Finance from Indiana University in 1995. He is a 2002 graduate of Leadership Warren County. He and his wife, Dana, have three children Josie, Sophie, and Lily and reside in Lebanon, Ohio. They are active in the Lebanon Presbyterian Church.

Current director Mr. Robert C. Cropper's term expires at the annual meeting and has decided to retire and not stand for election for another term. Spencer S. Cropper is Mr. Cropper's son.

It is intended that common shares represented by the accompanying form of proxy will be voted **for** the election of the nominees, unless contrary instructions are indicated as provided on the proxy card. (If you do not wish your shares to be voted for particular nominees, please so indicate on the proxy card.) If one or more of the nominees should at the time of the meeting be unavailable or unable to serve as a director, the shares represented by the proxies will be voted

to elect the remaining nominees and any substitute nominee or nominees designated by the Board of Directors. The Board of Directors knows of no reason why any of the nominees will be unavailable or unable to serve. At this time it is not known whether there will be cumulative voting for the election of directors at the meeting. If any shareholder properly demands cumulative voting for the election of directors at the meeting, your proxy will give the individuals named on the proxy full discretion and authority to vote cumulatively and in their sole discretion to allocate votes among any or all of the nominees, unless authority to vote for any or all of the nominees is withheld.

The following table sets forth information concerning the nominees for Class I directors of LCNB.

Nominees for Directors

<u>Name</u>	<u>Age</u>	<u>Principal Occupation</u>	<u>Positions Held with LCNB</u>	<u>Director of LCNB or Bank Since</u>	<u>Term to Expire</u>
Stephen P. Wilson	55	Banker and President, CEO and Chairman of the Board of the Bank	Director, President, Chairman of the Board	1982	2009
				2000	2009
David S. Beckett	34	President and Director of Dakin Insurance Agency, Inc.	Director		
Spencer S. Cropper	33	Certified Public Accountant for Stolle Properties, Inc.	None	N/A	2009

The Board of Directors recommends that shareholders vote **for** the election of the nominees.

DIRECTORS AND EXECUTIVE OFFICERS

To LCNB's knowledge, no director, officer or affiliate of LCNB, owner of record or beneficially of more than 5% of LCNB's Common Stock, or any associate of any such director, officer, affiliate of LCNB or security holder, is an adverse party to LCNB or any of its subsidiaries or has a material interest that is adverse to LCNB or any of its subsidiaries.

The following table sets forth information concerning the directors of LCNB and the executive officers of LCNB. Included in the table is information regarding each person's principal occupation or employment during the past five years.

Directors and Executive Officers

<u>Name, Age</u>	<u>Principal Occupation</u>	<u>Positions Held with LCNB</u>	<u>Director of LCNB or Bank Since</u>	<u>Term to Expire</u>
Stephen P. Wilson, 55	Banker and President, CEO and Chairman of the Board of the Bank	Director, President, Chairman of the Board	1982	2006
Marvin E. Young, 90	Attorney at Law	Director	1958	2007
Kathleen Porter Stolle, 58	Attorney at Law and President of Elkay Projects, Inc.	Director, Secretary	1994	2007
George L. Leasure, 73	President and Director of Ghent Manufacturing, Inc.	Director, Assistant Secretary	1994	2008
William H. Kaufman, 62	Attorney at Law	Director	1982	2008
Rick L. Blossom, 58	Consultant, managing partner of Reality Check LLC and former CEO, President and Chairman of the Board of Second Bancorp, Inc. and Second National Bank of Warren, Ohio	Director	2004	2008
Robert C. Cropper, 65	Private investor; retired Director and Vice President of Ralph J. Stolle Co.	Director	2000	2006
David S. Beckett, 34	President and Director of Dakin Insurance Agency, Inc.	Director	2000	2006
Joseph W. Schwarz, 70	Real Estate Developer	Director	2004	2007

Edgar Filing: LCNB CORP - Form DEF 14A

Steve P. Foster, 53	Banker	Director, Executive Vice President, Chief Financial Officer	2005	2008
D.J. Benjamin Jackson, 58	Banker	Executive Vice President, Senior Lending Officer	NA	NA

7

<u>Name, Age</u>	<u>Principal Occupation</u>	<u>Positions Held with LCNB</u>	<u>Director of LCNB or Bank Since</u>	<u>Term to Expire</u>
Bernard H. Wright, Jr., 57	Banker	Executive Vice President, Trust Officer	NA	NA
Eric J. Meilstrup, 38	Banker	Executive Vice President, Cashier	NA	NA
Leroy F. McKay, 54	Banker	Executive Vice President, Trust Officer	NA	NA

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

LCNB has engaged and intends to continue to engage in the lending of money through the Lebanon Citizens National Bank (the "Bank"), its wholly-owned subsidiary, to various directors and officers of the Company. These loans to such persons were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as prevailing at the time for comparable transactions with other persons and did not involve more than a normal risk of collectibility or other unfavorable features.

In addition to those banking transactions conducted in the ordinary course, the following related transactions were conducted. Each of these transactions was made on terms similar to those that could have been negotiated with an unaffiliated third party.

The Bank retained the law firm of Kaufman & Florence during 2005 for legal services in connection with various matters arising in the course of the Bank's business. William H. Kaufman is a partner in Kaufman & Florence. Additionally, customers of the Bank are charged for certain legal services provided by Mr. Kaufman's firm in the preparation of various documents. The Bank contemplates using Mr. Kaufman's firm in the future on similar terms, as needed.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires LCNB's officers and directors and persons who own more than 10% of a registered class of LCNB's equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than 10% shareholders are required to furnish LCNB with copies of all Section 16(a) forms they file. Based solely on LCNB's review of the section 16(a) forms received by it and by statements of officers and directors concerning their compliance with the applicable filing requirements, the officers, directors and greater than 10% beneficial owners of LCNB have complied with all applicable filing requirements.

BOARD OF DIRECTORS MEETINGS AND COMMITTEES

In the fiscal year ended December 31, 2005 the Board of Directors met on 8 occasions. The directors attended at least 95% of such meetings. Mr. Marvin E. Young was properly excused by the Board of Directors from attending board meetings due to health issues and has not been included in the directors' percentage total. Directors do not receive any compensation from LCNB for their service on the Board of Directors of LCNB. Each director of LCNB also serves as a director of Lebanon Citizens National Bank of Lebanon Ohio, the banking subsidiary of LCNB, which meets on a weekly basis, for which each is compensated at a rate of \$1,363.00 per month.

The Company has an Audit Committee that serves in a dual capacity as the Audit Committee of the Bank. The members of the Audit Committee are Robert C. Cropper, George L. Leasure, and Rick L. Blossom. The Audit Committee met a total of 6 times in 2005. All of the members of the Audit Committee are independent directors. Mr. Blossom serves as the financial expert as defined by the Sarbanes-Oxley Act. The Audit Committee is responsible for engaging independent auditors, reviews with the independent auditors the plans and results of the audit, and reviews the adequacy of the Bank's internal accounting controls. The Board of Directors of the Company have adopted a written charter for the Audit Committee.

The Bank also has a Building Committee, Appraisal Committee, Nominating Committee, Trust Committee, Bond Committee, Pension Committee, and Loan Committee. Each of these committees meet as needed. The Building Committee reviews the facility needs and repair and improvement issues of the Bank and its branch and other office buildings. The members of the Building Committee are Stephen P. Wilson, David S. Beckett, Joseph W. Schwarz, and William H. Kaufman. The Appraisal Committee reviews the appraisals conducted by the Bank's real estate appraisers to insure that the appraisals are consistent and accurate. The members of the Appraisal Committee are Stephen P. Wilson, D.J. Benjamin Jackson, Peter Berninger, and Timothy Sheridan. The Trust Committee reviews the various trusts accepted by the Trust Department of the Bank, reviews trust investments and advises the trust officers in department operations. The members of the Trust Committee are Stephen P. Wilson, Kathleen Porter Stolle, Marvin E. Young, Bernard H. Wright, Jr., Leroy F. McKay, Joseph W. Schwarz, S. Diane Ingram, Melanie K. Crane, and Steve P. Foster. The Bond Committee reviews the adequacy of the Bank's blanket bond coverage and recommends any changes in coverage to the Board of Directors of the Bank. The Bond Committee consists of the entire Board of Directors of the Bank. The Pension Committee reviews the Bank's defined benefit pension plan. The members of the Pension Committee are Stephen P. Wilson, Marvin E. Young, and Steve P. Foster. The Loan Committee reviews the lending procedures of the Bank and reviews and approves requests for loans in excess of the established lending authority of the officers of the Bank. The Loan Committee consists of the entire Board of Directors of the Bank.

The Nominating Committee consists of the independent directors: Robert C. Cropper, Marvin E. Young, Kathleen Porter Stolle, George L. Leasure, Joseph W. Schwarz, and Rick L. Blossom. The Nominating Committee does not have a charter. Decisions concerning nominees for the Board of Directors will be made by the nominating committee

and ratified by the entire Board. The Board has not adopted a policy with respect to minimum qualifications for board members. However, in making its nominations, the committee considers, among other things, an individual's business experience, industry experience, financial background, breadth of knowledge about issues affecting the Company, time available for meetings and consultation regarding Company matters and other particular skills and experience possessed by the individual.

Historically, the Company has not engaged third parties to assist in identifying and evaluating potential nominees, but would do so in those situations where particular qualifications are required to fill a vacancy and the Board's contacts are not sufficient to identify an appropriate candidate.

The Company has not received director candidate recommendations from its shareholders and, as such, does not have a formal policy regarding consideration of such recommendations. However, any recommendations received from shareholders will be evaluated in the same manner that potential nominees suggested by Board members are evaluated. The Company does not intend to treat shareholder recommendations in any manner different from other recommendations. Shareholders may send director nomination recommendations to Stephen P. Wilson at P.O. Box 59, Lebanon, Ohio 45036.

The Bank has a designated compensation committee. This committee consists of the independent directors of the Bank: Robert C. Cropper, Marvin E. Young, Kathleen Porter Stolle, George L. Leasure, Joseph W. Schwarz, and Rick L. Blossom. The committee makes compensation recommendations to the Board of Directors for consideration.

SHAREHOLDER COMMUNICATION WITH BOARD MEMBERS

The Company maintains contact information, both telephone and email, on its website under the heading "Contact LCNB." By following the Contact link, a shareholder will be given access to the Company's toll-free telephone number and mailing address as well as a link to the Corporate email address for providing email correspondence. Communications sent to that Corporate email address and specifically marked as a communication for the Board will be forwarded to the Board or specific members of the Board as directed in the shareholder communication. In addition, communications received via telephone for the Board of Directors are forwarded to the Board by an officer of the Company. In addition, shareholders may send communications to the Board or any of its members by sending such communications to the Company, c/o Secretary at P.O. Box 59, Lebanon, Ohio 45036.

CODE OF ETHICS

The Board of Directors has adopted a Code of Business Conduct and Ethics applicable to all directors, officers, employees and a Code of Ethics applicable to the Company's Chief Executive Officer, Chief Financial Officer and Controller. These codes of ethics are included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors of the Company is composed of three independent directors. The responsibilities of the Audit Committee are set forth in the revised charter of the Audit Committee which was adopted by the Board of Directors of the Company on February 17, 2004. The Audit Committee, among other matters, is responsible for the annual appointment and supervision of the independent public accountants, and reviews the arrangements for and the results of the auditors' examination of the Company's books and records and auditors' compensation. The Audit Committee reviews the Company's accounting policies, internal control procedures and systems and compliance activities. The Audit Committee also reviews the charter of the Audit Committee.

The Audit Committee has reviewed and discussed the audited consolidated financial statements with management. The committee has also reviewed and discussed with J.D. Cloud & Co. LLP ("J.D. Cloud") their independence as auditors, as required to be discussed by SAS 61, as it may be modified or supplemented.

The Audit Committee also has received the written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1 (Independence Standards Board Standard No. 1, Independence Discussions with Audit Committee), as may be modified or supplemented, and, as required, has discussed with J.D. Cloud its independence.

Based on the foregoing discussions, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

This report has been submitted by the Audit Committee:

Rick L. Blossom

Robert C. Cropper

George L. Leasure

MARKET PRICE OF STOCK AND DIVIDEND DATA

LCNB had approximately 635 registered holders of its Common Stock as of December 31, 2005. The number of shareholders includes banks and brokers who act as nominees, each of whom may represent more than one shareholder. The Common Stock is currently traded on the Nasdaq Over-The-Counter Bulletin Board service under the symbol LCNB . Several market-makers facilitate the trading of the shares of Common Stock. Trade prices for shares of LCNB Common Stock, reported through registered securities dealers, are set forth below. Trades have occurred during the periods indicated without the knowledge of LCNB. The trade prices shown below are interdealer without retail markups, markdowns or commissions. Prices have been restated to reflect a 100% stock dividend, which was accounted for as a stock split, paid on April 30, 2004.

2005	High	Low
First Quarter	\$45.00	\$36.50
Second Quarter	40.00	37.25
Third Quarter	38.50	36.60
Fourth Quarter	38.25	36.75

2004	High	Low
First Quarter	\$36.25	\$34.53
Second Quarter	40.00	35.25
Third Quarter	40.00	36.00
Fourth Quarter	38.90	37.00

The following table presents cash dividends per share declared and paid in the periods shown.

Amounts have been restated to reflect the 100% stock dividend referred to above.

	2005	2004
First Quarter	\$0.290	\$0.275
Second Quarter	0.290	0.280
Third Quarter	0.290	0.280
Fourth Quarter	0.290	0.280
Total	\$1.160	\$1.115

It is expected that LCNB will continue to pay dividends on a similar schedule, to the extent permitted by business and other factors beyond management's control. 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.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The following table summarizes, for the fiscal years indicated, all annual compensation earned by or granted to the Company's Chief Executive Officer and the most highly compensated executive officers whose salary exceeds \$100,000, for all services rendered to the Company in all capacities (the "named executives"). The named executives are employees of the Bank, except Mr. Beckett, who is President of Dakin Insurance Agency. The Bank and Dakin Insurance are wholly-owned subsidiaries of LCNB. This table reflects annual compensation earned by each of the named executives as a result of their service to LCNB, the Bank, or the Dakin Insurance Agency.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards			
		Salary(\$)	Bonus(\$)	Other Annual Comp. (1)	Rest. Stock Award	Securities Underlying Options/SAR (#)	LTIP Payouts	All Other Compensation
Stephen P. Wilson, Chairman, President and Chief Executive Officer	2005	\$205,000	\$ 29,145	\$124,992 ⁽²⁾	NA	0	NA	NA
	2004	\$201,000	\$ 30,855	\$108,824	NA	1,410	NA	NA
	2003	\$196,000	\$ 29,450	\$90,662	NA	2,140	NA	NA
D.J. Benjamin Jackson, Executive Vice President	2005	\$118,650	\$ 16,624	\$ 34,028 ⁽³⁾	NA	0	NA	NA
	2004	\$114,650	\$ 16,997	\$ 25,168	NA	776	NA	NA
	2003	\$109,650	\$ 16,376	\$ 19,871	NA	1,190	NA	NA

Edgar Filing: LCNB CORP - Form DEF 14A

Bernard H. Wright, Jr., Executive Vice President	2005	\$107,100	\$ 15,080	\$ 35,201 ⁽³⁾	NA	0	NA	NA
	2004	\$104,000	\$	\$ 27,135	NA	700	NA	NA
	2003	\$	15,360	\$ 24,452	NA	1,072	NA	NA
		99,100	\$					
			14,741					
Steve P. Foster, Executive Vice President	2005	\$113,000	\$ 15,805	\$ 48,261 ⁽³⁾	NA	0	NA	NA
	2004	\$109,000	\$	\$ 30,525	NA	736	NA	NA
	2003	\$104,000	16,120	\$ 27,419	NA	1,126	NA	NA
			\$					
			15,500					
David S. Beckett, President, Dakin Insurance Agency	2005	\$105,563	\$ 10,418	\$ 32,446 ⁽⁴⁾	NA	NA	NA	NA
	2004	\$	\$	\$ 23,843	NA	NA	NA	NA
	2003	98,846	9,171	\$ 22,673	NA	NA	NA	NA
		\$	\$					
		90,075	9,335					

(1)

Other Annual Compensation includes amounts for health and long-term disability insurance and Dakin Insurance Directors fees for the named executives.

(2)

Includes amounts paid to Mr. Wilson for: Bank Directors fees of \$15,073; Defined Benefit Pension Plan of \$36,699; Supplemental Retirement Plan of \$35,040; personal use of a vehicle owned by the Bank of \$3,643; and interest paid on a Deferred Compensation Plan of \$28,976.

(3)

Includes amounts paid to Mr. Jackson, Mr. Wright, and Mr. Foster for the Defined Benefit Pension Plan of \$18,666, \$15,947, and \$18,922 respectively and interest paid on a Deferred Compensation Plan of \$11,418, \$13,955, and \$16,082 respectively.

(4)

Includes amounts paid to Mr. Beckett for Bank Directors fees of \$15,073; and Defined Benefit Pension Plan of \$4,978.

13

Option Grants in Last Fiscal Year

No options were granted to any officers, directors, employees, or any other persons during the 2005 fiscal year. The following table summarizes the number and value of all outstanding options exercised in 2005, and the number and value of all other exercisable and non-exercisable outstanding options.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year End Options Values

Name	Total Exercised (#)	Realized Value (\$)	Exercisable (#)	Non Exercisable (#)	Exercisable Value (\$)	Non Exercisable Value (\$)
Stephen P. Wilson	0	0	1,138	2,412	\$9,901.37	\$16,145.73
D.J. Benjamin Jackson	0	0	631	1,335	\$5,502.94	\$8,966.39
Bernard H. Wright, Jr.	0	0	569	1,203	\$4,957.62	\$8,078.68
Steve P. Foster	0	0	598	1,264	\$5,207.62	\$8,486.71
Eric J. Meilstrup	0	0	86	346	\$158.54	\$634.18

Defined Benefit Plan Disclosure

In 1954, the Bank adopted the Lebanon Citizens National Bank Employees Pension Plan that has been amended from time to time to comply with changes in the law (the "Plan"). The Plan is a defined benefit plan that is available to substantially all of the salaried employees of the Bank. An employee is eligible to participate in the Plan on the July 1st after the attainment of age 21, the completion of 12 months of service, and the completion of at least 1,000 hours of service with the Bank during a plan year. Participants are eligible for normal retirement after age 65 or the completion of five years of participation in the Plan, whichever is later. Participants may elect early retirement upon reaching age 60. The Plan provides a monthly retirement benefit to Bank employees upon retirement in an amount equal to 50% of the participant's average monthly compensation, reduced proportionately (a) if the participant who was hired prior to 2002 has less than 15 years of service at the age 65 or (b) if the participant who was hired after 2001 has less than 30 years of service at age 65. A participant's average monthly compensation is based on the five consecutive years of a participant's employment with the Bank that produce the highest monthly average. Benefits are not reduced by Social Security payments or by payments from other sources and are payable in the form of a life annuity (ten years certain). Stephen P. Wilson has 31 years of service under the Plan. D.J. Benjamin Jackson has 32 years of service under the Plan. Bernard H. Wright, Jr. has 29 years of service under the Plan. Steve P. Foster has 29 years of service under the Plan. David S. Beckett has 7 years of service under the Plan. The following table reflects the estimated annual benefits payable to an employee based upon the average annual compensation levels and years of service.

Years of Service at Age 65

Average Annual Compensation	(if hired prior to 2002)				
	10	15	20	25	30
\$50,000	\$16,667	\$25,000	\$25,000	\$25,000	\$25,000
\$75,000	\$25,000	\$37,500	\$37,500	\$37,500	\$37,500
\$100,000	\$33,333	\$50,000	\$50,000	\$50,000	\$50,000
\$125,000	\$41,667	\$62,500	\$62,500	\$62,500	\$62,500
\$150,000	\$50,000	\$75,000	\$75,000	\$75,000	\$75,000
\$175,000	\$58,333	\$87,500	\$87,500	\$87,500	\$87,500
\$200,000	\$66,667	\$100,000	\$100,000	\$100,000	\$100,000
\$210,000 ⁽¹⁾	\$70,000	\$105,000	\$105,000	\$105,000	\$105,000

Years of Service at Age 65

Average Annual Compensation	(if hired after 2001)				
	10	15	20	25	30
\$50,000	\$8,333	\$12,500	\$16,667	\$20,833	\$25,000
\$75,000	\$12,500	\$18,750	\$25,000	\$31,250	\$37,500
\$100,000	\$16,667	\$25,000	\$33,333	\$41,667	\$50,000
\$125,000	\$20,833	\$31,250	\$41,667	\$52,083	\$62,500
\$150,000	\$25,000	\$37,500	\$50,000	\$62,500	\$75,000
\$175,000	\$29,167	\$43,750	\$58,333	\$72,917	\$87,500
\$200,000	\$33,333	\$50,000	\$66,667	\$83,333	\$100,000
\$210,000 ⁽¹⁾	\$35,000	\$50,500	\$70,000	\$87,500	\$105,000

(1)

The maximum annual compensation under Internal Revenue Code Section 401(a)(17) for 2005 is \$210,000. Annual compensation in excess of the limitation defined in Section 401(a) (17) is not included in determining average annual compensation for benefit purposes. The annual compensation limit is subject to annual adjustments based on changes in the Consumer Price Index.

The Bank also maintains a supplemental retirement plan for the Chief Executive Officer. Stephen P. Wilson will receive an estimated annual benefit of \$88,584.00 upon retirement at the normal retirement age. Monthly benefits are determined by calculating 2½% of the executive's highest monthly average compensation and multiplying that sum by the lesser of the executive's years of service or ten. This benefit is paid in 120 monthly payments.

Equity Compensation Plan Information

The following table summarizes share and exercise price information about LCNB's equity compensation plans as of March 9, 2006.

<u>Plan Category</u>	(a) Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities remaining available for future issuance under any equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	13,629 shares	\$32.158	86,371 shares
Equity compensation plans not approved by security holders	NA	NA	NA
Total	13,629 shares	\$32.158	86,371 shares

Board of Directors of the Bank Report on Executive Compensation

LCNB has no direct employees. All officers and other persons performing services for LCNB are employees of the Bank. The Board of Directors of the Bank (the "Bank Board") is responsible for developing the Bank's executive compensation principles, policies and programs, including the compensation to be paid to the Chief Executive Officer and the amount paid to each of the other executive officers of the Company and the Bank, including the other named executives. Stephen P. Wilson, the Chief Executive Officer and President of both the Bank and the Company, participates in the deliberations of the Bank Board concerning executive officer compensation.

The Bank's compensation programs are designed to provide its executive officers with market competitive salaries and the opportunity to earn incentive compensation related to performance expectations identified by the Bank Board. The objectives of the Bank's executive compensation program are to:

(a)

Provide a direct link between executive officer compensation and the interests of LCNB, the Bank's sole shareholder, and LCNB's shareholders by making a portion of executive officer compensation dependent upon the financial performance of the Company and the Bank;

(b)

Support the achievement of the Bank's annual and long-term goals and objectives as determined annually by the Bank Board;

(c)

Establish base salaries targeted at a median level for comparable positions within a comparison group of companies in the banking industry (the "Comparison Group"), with incentive opportunities designed to pay total compensation that are above average for outstanding Bank performance; and

(d)

Provide compensation plans and arrangements that encourage the retention of better-performing executives.

The Bank's executive compensation policies seek to provide an opportunity for compensation that varies with performance and which compares favorably to levels provided to executives within the Comparison Group.

The Bank Board seeks to set base salaries for the Company's and the Bank's executive officers at levels which are competitive with median levels for executives with similar roles and responsibilities within the Comparison Group. In setting annual salaries for individuals, the Bank Board first considers the compensation paid for similar positions in the banking industry and the executive's experience, level and scope of responsibility as a benchmark reference. The Bank Board then considers the individual performance of the executive measured against the Bank Board's expectations in developing its salary increase recommendations.

The compensation of executive officers of the Company and the Bank includes (i) base salary, (ii) annual cash bonuses, and (iii) other annual compensation in the form of fringe benefits such as use of a vehicle. Executive officers also receive various benefits generally available to all employees of the Company, such as participation in a defined benefit plan and medical plans.

The Board of Directors of Lebanon Citizens National Bank:

Stephen P. Wilson	Robert C. Cropper	William H. Kaufman	George L. Leasure
Rick L. Blossom	Marvin E. Young	Kathleen Porter Stolle	Joseph W. Schwarz
David S. Beckett	Steve P. Foster		

PERFORMANCE GRAPH

The graph below provides an indicator of cumulative total shareholder returns for the Company as compared with the Nasdaq Composite and the SNL Midwest OTC-BB and Pink Sheet Banks. This graph covers the period from December 31, 2000 through December 31, 2005. The cumulative total shareholder returns included in the graph for December 31, 2001, December 31, 2002, December 31, 2003, December 31, 2004, and December 31, 2005 reflect the returns for the shares of common stock of LCNB. The information provided in the graph assumes that \$100 was invested on December 31, 2000 in LCNB common stock, the Nasdaq Composite and the SNL Midwest OTC-BB and Pink Sheet Banks and that all dividends were reinvested.

[INSERT PERFORMANCE GRAPH]

INDEPENDENT PUBLIC ACCOUNTANTS

The principal accountant selected by the Audit Committee for the current year is J.D. Cloud & Co., LLP, 1100 Mercantile Center, 120 East Fourth Street, Cincinnati, Ohio. A representative of the principal accountant will be present at the Annual Shareholders Meeting, will have the opportunity to make a statement if they desire to do so, and will be available to respond to appropriate questions.

Audit Fees

The aggregate fees billed by J.D. Cloud for professional services rendered for the audit of the Company's financial statements and the review of the 10-K for the fiscal year 2005 were \$91,000.00 and were \$78,000.00 for fiscal year 2004.

Audit Related Fees

The aggregate fees billed by J.D. Cloud for assurance and related services that are reasonably related to the performance of the audit of the Company's financial statements and not reported under Audit Fees were \$10,740.00 for fiscal year 2005 and were \$9,945.00 for fiscal year 2004. Audit related fees consist of employee benefit plan audits, and accounting research/consultation services in fiscal year 2005, and employee benefit plan audits and accounting research/consultation services in fiscal year 2004.

Tax Fees

The aggregate fees billed by J.D. Cloud for professional services rendered for tax services, were \$20,775.00 for fiscal year 2005, and were \$17,275.00 for fiscal year 2004. Tax fees consist of \$12,000.00 for Federal, state and local income and franchise tax return preparation and \$8,775.00 for other returns and miscellaneous consulting for fiscal year 2005. Tax fees consist of compliance services of \$14,000.00 and \$3,275.00 in consulting for fiscal year 2004.

As required by the Sarbanes-Oxley Act of 2002, the Audit Committee is responsible for the approval of all audit and permitted non-audit services performed by the independent public accountants for the Company. The entire Audit Committee determines whether to approve such services and, therefore, no other pre-approval policies or procedures are currently in place. The Audit Committee approved 100% of the audit and permitted non-audit services performed by J.D. Cloud. The Audit Committee has considered and ultimately determined that the provision of any of the non-audit or other services provided by J.D. Cloud to the Company is compatible with maintaining J.D. Cloud's independence.

2007 ANNUAL MEETING

In order for any shareholder proposals for the 2007 annual meeting of shareholders to be eligible for inclusion in the Company's proxy statement relating to that meeting to be presented for shareholder action at that meeting, they must be received by the Secretary of the Company at P.O. Box 59, Lebanon, Ohio 45036, prior to November 9, 2006. The form of proxy distributed by the Company with respect to the 2007 annual meeting of shareholders may include discretionary authority to vote on any matter which is presented to the shareholders at the meeting (other than management) if the Company does not receive notice of that matter at the above address prior to January 23, 2007.

OTHER MATTERS

The Board of Directors does not know of any other business to be presented at the meeting and does not intend to bring other matters before the meeting. However, if other matters properly come before the meeting, it is intended that the persons named in the accompanying proxy will vote thereon according to their best judgment in the interests of the Company.

By Order of the Board of Directors

Stephen P. Wilson

Chairman, President and Chief Executive Office