

CSB BANCORP INC /OH
Form 10-Q
August 12, 2011

Table of Contents

CSB BANCORP, INC.
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended: **June 30, 2011**

OR

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

Commission file number: 0-21714

CSB Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Ohio

34-1687530

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

91 North Clay, P.O. Box 232, Millersburg, Ohio 44654

(Address of principal executive offices)

(330) 674-9015

(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes 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

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

Yes No

Indicate the number of shares outstanding of the registrant's common stock, as of the latest practicable date.

Common stock, \$6.25 par value

Outstanding at August 12, 2011:
2,734,799 common shares

CSB BANCORP, INC.
FORM 10-Q
QUARTER ENDED June 30, 2011
Table of Contents

	Page
<u>Part I Financial Information</u>	
<u>ITEM 1 FINANCIAL STATEMENTS (Unaudited)</u>	
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Income</u>	4
<u>Condensed Consolidated Statements of Changes in Shareholders' Equity</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to the Consolidated Financial Statements</u>	7
<u>ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	23
<u>ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	29
<u>ITEM 4T CONTROLS AND PROCEDURES</u>	30
<u>Part II Other Information</u>	
<u>ITEM 1 Legal Proceedings</u>	31
<u>1A Risk Factors</u>	31
<u>2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
<u>3 Defaults upon Senior Securities</u>	31
<u>4 Removed and Reserved</u>	31
<u>5 Other Information</u>	31
<u>6 Exhibits</u>	32
<u>Signatures</u>	33
<u>EX-10.1</u>	
<u>EX-11</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	

Table of Contents

CSB BANCORP, INC.
PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2011	December 31, 2010
ASSETS		
<i>(Dollars in thousands)</i>		
Cash and cash equivalents		
Cash and due from banks	\$ 10,004	\$ 9,798
Interest-earning deposits in other banks	23,234	38,497
Federal funds sold		65
 Total cash and cash equivalents	 33,238	 48,360
 Securities		
Available-for-sale, at fair value	82,003	75,204
Restricted stock, at cost	5,463	5,463
 Total securities	 87,466	 80,667
 Loans	 316,581	 315,647
Less allowance for loan losses	4,054	4,031
 Net loans	 312,527	 311,616
 Premises and equipment, net	 7,727	 7,878
Core deposit intangible	376	406
Goodwill	1,725	1,725
Bank-owned life insurance	3,014	2,961
Accrued interest receivable and other assets	3,479	3,443
 TOTAL ASSETS	 \$ 449,552	 \$ 457,056

LIABILITIES AND SHAREHOLDERS EQUITY**LIABILITIES**

Deposits		
Noninterest-bearing	\$ 64,670	\$ 69,151
Interest-bearing	282,588	284,340
 Total deposits	 347,258	 353,491

Short-term borrowings	32,387	32,018
Other borrowings	19,527	22,909
Accrued interest payable and other liabilities	1,842	1,484
Total liabilities	401,014	409,902
SHAREHOLDERS EQUITY		
Common stock, \$6.25 par value. Authorized 9,000,000 shares; issued 2,980,602 shares; outstanding 2,734,799 shares in 2011 and 2010	18,629	18,629
Additional paid-in capital	9,994	9,994
Retained earnings	23,557	22,673
Treasury stock at cost - 245,803 shares in 2011 and 2010	(5,015)	(5,015)
Accumulated other comprehensive income	1,373	873
Total shareholders equity	48,538	47,154
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 449,552	\$ 457,056

See notes to unaudited consolidated financial statements.

Table of Contents

CSB BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

<i>(Dollars in thousands, except per share data)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
INTEREST AND DIVIDEND INCOME				
Loans, including fees	\$ 4,276	\$ 4,286	\$ 8,512	\$ 8,588
Taxable securities	613	647	1,208	1,398
Nontaxable securities	102	82	200	166
Other	11	14	28	33
Total interest and dividend income	5,002	5,029	9,948	10,185
INTEREST EXPENSE				
Deposits	705	876	1,491	1,752
Other borrowings	201	320	427	719
Total interest expense	906	1,196	1,918	2,471
NET INTEREST INCOME	4,096	3,833	8,030	7,714
PROVISION FOR LOAN LOSSES	190	239	470	758
Net interest income after provision for loan losses	3,906	3,594	7,560	6,956
NONINTEREST INCOME				
Service charges on deposit accounts	279	286	524	555
Trust services	190	124	350	266
Debit card interchange fees	152	126	290	234
Gain on sale of loans, net	29	45	99	91
Securities gains, net		148		148
Other income	134	160	282	326
Total noninterest income	784	889	1,545	1,620
NONINTEREST EXPENSES				
Salaries and employee benefits	1,793	1,744	3,556	3,349
Occupancy expense	204	192	423	412
Equipment expense	123	124	243	251
Professional fees	177	170	336	324
Franchise tax expense	135	135	270	270
Software expense	35	61	126	126
Marketing and public relations	73	85	132	156
FDIC deposit insurance	108	163	218	308
Debit card expense	63	58	126	110

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Amortization of intangible assets	16	16	31	32
Other expenses	556	402	942	853
Total noninterest expenses	3,283	3,150	6,403	6,191
Income before income taxes	1,407	1,333	2,702	2,385
FEDERAL INCOME TAX PROVISION	435	412	834	727
NET INCOME	\$ 972	\$ 921	\$ 1,868	\$ 1,658
Basic and diluted net income per share	\$ 0.35	\$ 0.34	\$ 0.68	\$ 0.59

See notes to unaudited consolidated financial statements.

4

Table of Contents

CSB BANCORP, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
 (Unaudited)

<i>(Dollars in thousands, except per share data)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Balance at beginning of period	\$ 47,457	\$ 46,171	\$ 47,154	\$ 45,822
Comprehensive income:				
Net income	972	921	1,868	1,658
Change in net unrealized gain (loss) , net of reclassification adjustments and related income taxes of \$310, \$91, \$258, and \$145, respectively	601	176	500	281
Total comprehensive income	1,573	1,097	2,368	1,939
Cash dividends declared \$0.18 and \$0.36 per share in 2011 and 2010	(492)	(492)	(984)	(985)
Balance at end of period	\$ 48,538	\$ 46,776	\$ 48,538	\$ 46,776

See notes to unaudited consolidated financial statements.

Table of Contents

CSB BANCORP, INC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended	
	June 30,	
	2011	2010
<i>(Dollars in thousands, except per share data)</i>		
NET CASH FROM OPERATING ACTIVITIES	\$ 2,684	\$ 2,104
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities available-for-sale:		
Proceeds from maturities and repayments	13,264	28,004
Purchases	(19,416)	(26,800)
Proceeds from sale of securities		3,359
Loan originations, net of repayments	(1,817)	1,085
Proceeds from sale of other real estate	38	228
Property, equipment, and software acquisitions	(158)	(44)
Net cash provided by (used in) investing activities	(8,089)	5,832
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	(6,212)	378
Net change in short-term borrowings	369	2,325
Repayments of other borrowings	(3,382)	(12,933)
Cash dividends paid	(492)	(492)
Net cash used in financing activities	(9,717)	(10,722)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(15,122)	(2,786)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	48,360	42,661
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 33,238	\$ 39,875
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for:		
Interest	\$ 1,983	\$ 2,709
Income taxes	650	850
Noncash investing activities:		
Transfer of loans to other real estate owned	415	301

See notes to unaudited consolidated financial statements.

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying condensed consolidated financial statements include the accounts of CSB Bancorp, Inc. and its wholly-owned subsidiaries, The Commercial and Savings Bank and CSB Investment Services, LLC (together referred to as the Company or CSB). All significant intercompany transactions and balances have been eliminated in consolidation.

The condensed consolidated financial statements have been prepared without audit. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present fairly the Company's financial position at June 30, 2011, and the results of operations and changes in cash flows for the periods presented have been made. Certain information and footnote disclosures typically included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been omitted. The Annual Report for CSB for the year ended December 31, 2010, contains consolidated financial statements and related footnote disclosures, which should be read in conjunction with the accompanying consolidated financial statements. The results of operations for the periods ended June 30, 2011 are not necessarily indicative of the operating results for the full year or any future interim period.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2010, FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. ASU 2010-20 is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. The adoption of this guidance did not have a material impact on the Company's financial position or results of operation.

In December, 2010, the FASB issued ASU 2010-28, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*. This ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments in this Update are effective for fiscal year, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities may early adopt the amendments using the effective date for public entities. This ASU is not expected to have a significant impact on the Company's financial statements.

Table of Contents

CSB BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In April 2011, the FASB issued ASU 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. The amendments in this Update provide additional guidance or clarification to help creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. The amendments in this Update are effective for the first interim or annual reporting period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning annual period of adoption. As a result of applying these amendments, an entity may identify receivables that are newly considered impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. This ASU is not expected to have a significant impact on the Company's financial statements.

In April 2011, the FASB issued ASU 2011-03, *Reconsideration of Effective Control for Repurchase Agreements*. The main objective in developing this Update is to improve the accounting for repurchase agreements (repos) and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments in this Update remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. The amendments in this Update apply to all entities, both public and nonpublic. The amendments affect all entities that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity. The guidance in this Update is effective for the first interim or annual period beginning on or after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2011. Early application by public entities is not permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

Table of Contents

CSB BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*. The amendments in this Update improve the comparability, clarity, consistency, and transparency of financial reporting and increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and IFRS, the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. All entities that report items of comprehensive income, in any period presented, will be affected by the changes in this Update. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The amendments in this Update should be applied retrospectively, and early adoption is permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

In December 2010, the FASB issued ASU 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations*. The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments in this Update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

Table of Contents

CSB BANCORP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

NOTE 2 SECURITIES

Securities consist of the following at June 30, 2011 and December 31, 2010:

<i>(Dollars in thousands)</i>	Amortized	Gross	Gross	Fair
	cost	unrealized	unrealized	value
		gains	losses	
June 30, 2011				
Available-for-sale:				
U.S. Treasury security	\$ 100	\$	\$	\$ 100
Obligations of U.S. Government corporations and agencies	22,988	35	52	22,971
Mortgage-backed securites in government sponsored entities	42,996	1,632	7	44,621
Obligations of states and political subdivisions	12,770	505	9	13,266
Corporate bonds	1,000		14	986
Total debt securities	79,854	2,172	82	81,944
Equity securities in financial institutions	69	4	14	59
Total available-for-sale	79,923	2,176	96	82,003
Restricted stock	5,463			5,463
Total securities	\$ 85,386	\$ 2,176	\$ 96	\$ 87,466
December 31, 2010				
Available-for-sale:				
U.S. Treasury security	\$ 100	\$	\$	\$ 100
Obligations of U.S. Government corporations and agencies	20,009	8	306	19,711
Mortgage-backed securites in government sponsored entities	41,005	1,374	28	42,351
Obligations of states and political subdivisions	11,699	341	46	11,994
Corporate bonds	1,000		8	992
Total debt securities	73,813	1,723	388	75,148
Equity securities in financial institutions	69	3	16	56
Total available-for-sale	73,882	1,726	404	75,204
Restricted stock	5,463			5,463
Total securities	\$ 79,345	\$ 1,726	\$ 404	\$ 80,667

Table of Contents

CSB BANCORP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

NOTE 2 SECURITIES (CONTINUED)

The amortized cost and fair value of debt securities at June 30, 2011, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

<i>(Dollars in thousands)</i>	Amortized cost	Fair value
Available-for-sale:		
Due in one year or less	\$ 1,976	\$ 1,983
Due after one through five years	6,362	6,549
Due after five through ten years	16,637	17,131