LCNB CORP
Form DEF 14A
March 06, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

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

Exchange Act of 1934

Filed by the Registrant [X]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement

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[X] Definitive Proxy Statement

[ ] Definitive Additional Materials

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LCNB Corp.

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N/A

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[X] No fee required.

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

N/A

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2) Aggregate number of securities to which transaction applies:

N/A

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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

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4) Proposed maximum aggregate value of transaction:

N/A

....

5) Total fee paid:

N/A

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[ ] 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:

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2) Form, Schedule or Registration Statement No.:

N/A

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3) Filing Party:

N/A

....

4) Date Filed:

N/A

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LCNB CORP.

P.O. Box 59

Lebanon, Ohio 45036

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

APRIL 24, 2012

TO THE SHAREHOLDERS OF LCNB CORP.:

You are cordially invited to attend the annual meeting of the shareholders of LCNB Corp. to be held on April 24, 2012 at 10:00am EDT at the principal executive offices of LCNB Corp. at 2 North Broadway, Lebanon, Ohio 45036, for the purpose of considering and acting on the following:

1.

Electing Class I directors to serve until the 2015 annual meeting.

2.

Ratifying the appointment of J.D. Cloud & Co., LLP as the independent registered public accounting firm for the Company.

3.

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, 2012 will be entitled to vote at the meeting.

By Order of the Board of Directors

Stephen P. Wilson

Chief Executive Officer

March 6, 2012

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 24, 2012

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 on April 24, 2012 at 10:00am EDT 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) electing Class I directors to serve until the 2015 annual meeting; (ii) ratifying the appointment of J.D. Cloud & Co., LLP as the independent registered public accounting firm for the Company; and (iii) transacting such other business as may properly come before the meeting or any adjournment thereof.

This Proxy Statement and the accompanying notice of meeting are being mailed to shareholders on or about March 6, 2012.

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 (the "Board") will be voted in accordance with the directions given therein. Where no instructions are indicated, properly executed proxies will be voted (i) **for** the election of the nominees for Class I directors, and (ii) **for** the ratification of the appointment of J.D. Cloud & Co., LLP as the independent registered public accounting firm for the Company. 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, 2012, the record date of the meeting, is entitled to one vote on all matters coming before the meeting. As of March 1, 2012, LCNB had 6,705,590 shares of Common Stock issued and outstanding. Only shareholders of record on the books of the Company on March 1, 2012 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, 2011, the wholly-owned subsidiary of LCNB, LCNB National Bank (the "Bank"), beneficially owned 12.95% of LCNB's Common Stock through the operations of the Bank's Trust Department. 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.

The table below further describes the beneficial ownership of Common Stock by the Bank

.

Name of Beneficial

Number of Shares of Common Stock

Percentage of

Owner	Beneficially Owned	Common Stock
LCNB National Bank	868,371(1)	12.95%

(1)

The shares of Common Stock reflected in this table are held in trust, agency or custodial capacities by LCNB National Bank. In its capacity, LCNB National Bank has shared power to vote and/or dispose of the shares reflected in this table.

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, 2011, 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 Stock Beneficially Owned(1)**	**Percent of Common Stock Outstanding**
Stephen P. Wilson[2] Chairman, CEO	142,374	2.12%
Spencer S. Cropper[3] Director	20,980	0.31%
Kathleen Porter Stolle[4] Director, Secretary	51,830	0.77%
George L. Leasure[5] Director, Assistant Secretary	34,590	0.52%
William H. Kaufman[6] Director	72,505	1.08%
Steve P. Foster Director, President	23,585	0.35%
Anne Krehbiel Director	3,500	0.05%

Rick L. Blossom Director	2,000	0.03%
Bernard H. Wright, Jr.[7] Senior Executive Vice President	68,391	1.02%
Eric J. Meilstrup Executive Vice President	7,097	0.11%
Leroy F. McKay Executive Vice President	9,431	0.14%
Robert C. Haines II Executive Vice President, Chief Financial Officer	2,866	0.04%
Matthew P. Layer Executive Vice President	4,251	0.06%
All directors and officers as a group (13 persons) (1)	443,400	6.61%

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.

(2)

Includes 110,980 shares held jointly with Mr. Wilson's spouse.

(3)

Does not include 654 shares held in a Family Limited Partnership in which Mr. Cropper owns 0.25% interest.

(4)

Includes 30,400 shares held in an irrevocable trust of which Ms. Stolle is one of several beneficiaries.

(5)

Includes 34,590 shares held in trust.

(6)

Includes 33,200 shares held in trust, 16,800 shares held jointly with Mr. Kaufman's spouse, and 6,200 shares owned by Mr. Kaufman's spouse.

(7)

Includes 3,240 shares held by Mr. Wright's spouse and 7,200 shares held in a trust of which Mr. Wright is a trustee, but not a beneficiary. Does not include 90,000 shares held as Co-Trustee of a charitable trust.

On January 9, 2009, LCNB entered into an agreement with the U.S. Department of the Treasury under the Troubled Assets Relief Program Capital Purchase Program, pursuant to which LCNB received $13.4 million in exchange for 13,400 shares of LCNB's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, and a ten-year warrant to purchase up to 217,063 shares of LCNB's common stock at an initial exercise price of $9.26 per share. On October 21, 2010, LCNB repurchased the preferred stock from the Treasury Department for $13,522,833.33, the repayment of the initial capital received from the Treasury Department by LCNB plus any dividends accrued and unpaid at that point. The Treasury Department sold its stock warrant to investors as part of an auction. The warrants were purchased by Stieven Financial Investors, L.P., which holds a warrant to purchase up to 184,985 shares of LCNB's common stock and Stieven Financial Offshore Investors, Ltd., which holds a warrant to purchase up to 32,078 shares of LCNB's common stock. The exercise price for the warrants remains $9.26 per share. For additional information regarding these transactions, see the Current Reports on Form 8-K filed by LCNB on January 9, 2009 and October 21, 2009.

ITEMS OF BUSINESS TO BE VOTED ON BY SHAREHOLDERS

PROPOSAL 1. ELECTION OF DIRECTORS

LCNB's Regulations provide that its business shall be managed by a board of directors of not less than five nor more than fifteen persons. LCNB's Articles of Incorporation divide such directors into three classes as nearly equal in number as possible and set their terms at three years. The board of directors currently has eight members, with Class I having two members, Class II having three members, and Class III having three 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

Spencer S. Cropper

The nominees have been nominated to serve as Class I directors until the 2015 annual meeting of shareholders and until their respective successors are elected and qualified. Messrs. Wilson and Cropper are incumbent directors whose present terms will expire at the 2012 annual meeting.

Please see the narrative under the heading "Director and Nominee Qualifications" beginning on page 8 of this proxy statement for additional discussion of the qualifications of each director nominee and continuing director.

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 the Class I directors of LCNB.

Name	Age	Principal Occupation	Positions Held with LCNB	Director of LCNB or Bank Since	Term to Expire
Stephen P. Wilson	61			1982	2012

		Banker, CEO and Chairman of the Board of the Bank	Director, CEO, Chairman of the Board		
Spencer S. Cropper	39	Certified Public Accountant for Stolle Properties, Inc.	Director	2006	2012

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

PROPOSAL 2. RATIFICATION OF THE APPOINTMENT OF J.D, CLOUD & CO., LLP AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE COMPANY

The Audit Committee of the Board of Directors of the Company has selected J.D. Cloud & Co., LLP, 1100 Mercantile Center, 120 East Fourth Street, Cincinnati, Ohio, as the Company's independent registered public accounting firm to perform the audit of the Company's financial statements and internal controls over financial reporting for the fiscal year ending December 31, 2012. J.D. Cloud was the Company's independent registered public accounting firm for the fiscal year ended December 31, 2011 and has served the Company in that role since the 1940s.

Representatives from J.D. Cloud are expected to attend the 2012 annual meeting. They will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate shareholder questions.

We are asking our shareholders to ratify the selection of J.D. Cloud as the Company's independent registered public accounting firm. Although ratification of the appointment is not required by law, the Company's Regulations, or otherwise, the Board is submitting the selection of J.D. Cloud to our shareholders for ratification as a matter of good corporate practice. Even if the selection is ratified, the Audit Committee, in its discretion, may select a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interest of the Company and our shareholders.

It is intended that the common shares represented by the accompanying form of proxy will be voted **for** the resolution ratifying the appointment of J.D. Cloud as LCNB's independent registered public accounting firm, unless contrary instructions are indicated as provided on the proxy card. If you do not wish your shares to be voted for the resolution, please so indicate on the proxy card.

*The Board of Directors recommends that shareholders vote **FOR** the following resolution*:

"RESOLVED, That action by the Audit Committee appointing J.D. Cloud & Co., LLP, 1100 Mercantile Center, 120 East Fourth Street, Cincinnati, Ohio, as the Company's independent registered public accounting firm to conduct the annual audit of the financial statements of the Company and its subsidiaries for the fiscal year ending December 31, 2012 is hereby ratified, confirmed and approved."

DIRECTORS AND EXECUTIVE OFFICERS

Except for the beneficial ownership by the Bank of 12.95% of LCNB's Common Stock previously discussed in this Proxy Statement, to LCNB's knowledge, no director, officer or affiliate of LCNB is the 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.

Name, Age	Principal Occupation	Positions Held with LCNB	Director of LCNB or Bank Since	Term to Expire
Stephen P. Wilson, 61	Banker, CEO and Chairman of the Board of the Bank	Director, CEO, Chairman of the Board	1982	2012
Kathleen Porter Stolle, 64	Attorney at Law	Director, Secretary	1994	2013
George L. Leasure, 79	Chairman and Director of GMi Companies	Director, Assistant Secretary	1994	2014
William H. Kaufman, 68	Attorney at Law, Kaufman & Florence	Director	1982	2014
Rick L. Blossom, 64	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	2014
Spencer S. Cropper, 39	Certified Public Accountant for Stolle Properties, Inc.	Director	2006	2012
Anne E. Krehbiel, 56	Attorney at Law, Krehbiel Law Office	Director	2010	2013
Steve P. Foster, 59	Banker	Director, President	2005	2013

Bernard H. Wright, Jr., 63	Banker	Senior ExecutiveVice President, Trust Officer	NA	NA
Eric J. Meilstrup, 44	Banker	Executive Vice President, Cashier	NA	NA
Leroy F. McKay, 60	Banker	Executive VicePresident, Trust Officer	NA	NA
Robert C. Haines II, 39	Banker	Executive Vice President, Chief Financial Officer	NA	NA
Matthew P. Layer, 49	Banker	Executive Vice President	NA	NA

Director and Nominee Qualifications

The Nominating Committee of our Board of Directors considers candidates to fill new directorships created by expansion and vacancies that may occur and makes recommendations to the Board of Directors with respect to such candidates. The Board has not adopted a policy with respect to minimum qualifications for directors, rather the Nominating Committee evaluates each individual in the context of the board as a whole and with the objective of recommending a group of persons that can best implement our business plan, perpetuate our business and represent shareholder interests. The committee, in making its nominations, considers all relevant qualifications of candidates for board membership, including, among other things, factors such as an individual's business experience, industry knowledge and experience, financial background, breadth of knowledge about issues affecting the Company, public company experience, regulatory experience, diversity, current employment and other board memberships, and whether the candidate will be independent under the listing standards of the Nasdaq Stock Market. In some cases, the Nominating Committee may require certain skills or attributes, such as financial or accounting experience, to meet specific Board needs that arise from time to time. In the case of incumbent directors whose terms of office are set to expire, the committee also reviews such director's overall service to the Company during his or her term and any relationships and transactions that might impair such director's independence.

While the Company does not have a formal diversity policy for Board membership, the Board seeks directors who represent a mix of backgrounds and experiences that will enhance the quality of the Board's deliberations and decisions. The Nominating Committee considers, among other factors, diversity with respect to viewpoint, skills, experience and community involvement in its evaluation of candidates for Board membership. Such diversity considerations are discussed by the Nominating Committee in connection with the general qualifications of each potential nominee.

Class I Directors (Terms Expire in 2012)

Stephen P. Wilson is a current director and Chairman and CEO of LCNB Corp. and LCNB National Bank. He joined the LCNB staff in 1975 and the LCNB Board of Directors in 1982. He is the Immediate Past Chairman of the American Bankers Association and a former board member of the Federal Reserve Bank of Cleveland. Mr. Wilson serves on the Appraisal Committee, Trust Investment Committee, Bond Committee, Bank Building Committee, Loan Committee, and the Pension Committee.

Mr. Wilson is a board member and treasurer of AAA Cincinnati, a board member of Harmon Civic Trust, a trustee of the Ralph J. Stolle Countryside YMCA, a board member of the Warren County Foundation, and a member of the Area Progress Council. He is an active member of the Lebanon United Methodist Church.

Through his extensive tenure on the Board and as an executive with the Company, Mr. Wilson has developed unique insights into the business activities of the Company and its subsidiary and provides the Board with information as to the operations of each, identifying near and long-term challenges and opportunities for the Company.

Spencer S. Cropper is a current director and is employed by Stolle Properties, Inc., a subsidiary of the Ralph J. Stolle Company, and currently serves on the company's Board of Directors. He joined the LCNB Board of Directors in 2006. Mr. Cropper serves on the Audit Committee, the Bond Committee, the Pension Committee, the Loan Committee, and the Nominating and Compensation Committee.

Mr. Cropper is a Certified Public Accountant, a member of the Ohio Society of Certified Public Accountants and a member of the American Institute of Certified Public Accounts. He serves on the Board of Directors for the Ralph J. Stolle Countryside YMCA, as well as Chairman of the Board of Trustees of the Warren County Foundation.

Mr. Cropper brings to the Board relevant experience in accounting and financial matters.

Class II Directors (Terms Expire in 2013)

Steve P. Foster is a current director and President of both LCNB Corp. and LCNB National Bank. He joined the LCNB staff in 1977 and has served as internal auditor, branch manager, and loan officer. He started the Information Technology Department and, more recently, served as Chief Financial Officer. He was elected to the LCNB Board of Directors in 2005 and serves on the Trust Investment Committee, the Building Committee, the Bond Committee, the Pension Committee, and the Loan Committee.

Through his long management tenure with the Company and the Bank, Mr. Foster provides the Board with information gained from direct management of the operations of the Company and the Bank. Further, in his leadership positions in financial areas, he has developed business knowledge and understanding across our operations.

Kathleen Porter Stolle is a current director and was elected to the Board of Directors in 1994. She serves as Secretary as well as being a member of the Trust Investment Committee, the Bond Committee, the Loan Committee, the Compensation Committee and the Nominating Committee.

Mrs. Stolle is an attorney and formerly served as a Judge in the Warren County Court. Additionally, Mrs. Stolle is active in many Warren County civic and charitable organizations.

Mrs. Stolle provides the Board relevant experience in legal matters and an institutional knowledge of the operations and business activities of the Company gained through her long tenure on the board.

Anne E. Krehbiel is a current director who joined the Board in 2010. Ms. Krehbiel is an attorney, who received her law degree from the University of Cincinnati in 1980, and has practiced law at her firm, Krehbiel Law Office, in Lebanon, Ohio since 1989. She is certified as an Estate Planning, Trust and Probate Law Specialist. Ms. Krehbiel serves on the Audit Committee, the Building Committee, Bond Committee, Loan Committee, the Nominating Committee and the Compensation Committee.

Ms. Krehbiel serves on a number of organizations including: Harmon Civic Trust; the Warren County Bar Association, of which she is a former president; and Lebanon Rotary International. She also volunteers as a swimming official in Southwestern Ohio.

Ms. Krehbiel brings to the Board relevant experience in legal matters, valuable insights and business experience from running her own law firm and an extensive involvement in the communities served by the Company and its subsidiaries.

Class III Directors (Terms Expire in 2014)

George L. Leasure is a current director who joined the Board in 1994. He founded Ghent Mfg., Inc. in 1976 and now serves as its Chairman and director. The company manufactures chalkboards, markerboards and related products. Mr. Leasure serves on the Bond Committee, the Loan Committee, the Compensation Committee, the Nominating Committee, and the Trust Investment Committee.

Mr. Leasure is active in many Warren County civic and charitable organizations including serving on the Board of Trustees for the Countryside YMCA and as a member of the Area Progress Council.

Mr. Leasure’s executive and management experience have equipped him to contribute to the Board’s oversight of management and business activities.

William H. Kaufman is a current director and an attorney and senior partner of Kaufman and Florence Law Office located in Lebanon. He began his legal career as an attorney with the law firm of Young and Jones, whose office was located in the Bank building. He is also a partner in William & Mary Antiques and Jewelry.

Mr. Kaufman joined the LCNB Board of Directors in 1982 and serves on the Bond, Loan, and Bank Building Committee's. He also oversees all normal legal matters and real estate closings for the Bank.

Mr. Kaufman provides the Board with relevant experience in legal matters and, through his long tenure on the board, an institutional knowledge of the operations of the Company and its subsidiaries.

Rick L. Blossom is a current director and has spent 24 years in the banking and financial industry. Prior to joining the Board in November, 2004, he served as President and Chief Executive

Officer of First National Bank of Southwestern Ohio in Hamilton, and senior vice president of the parent company, First Financial Bancorp. He retired from that position and joined Second Bancorp, Inc. where he served as chairman, president, and chief executive officer of Second National Bank of Warren, Ohio. He now serves as managing partner of Reality Check LLC, which provides consulting services to financial institutions and private enterprises. Mr. Blossom serves on the Audit Committee, the Bond Committee, the Pension Committee, the Loan Committee, and the Nominating and Compensation Committee.

With over two decades of experience in the banking and financial services industries, Mr. Blossom provides valuable insights and industry knowledge that assist with management of the business and the development of customer relationships. Additionally, Mr. Blossom serves as the Company's financial expert as defined by the Sarbanes-Oxley Act.

Board Leadership Structure and Risk Management

The Board currently combines the role of Chairman of the Board with the role of Chief Executive Officer. The Board believes this provides an efficient and effective leadership model for the company and facilitates Board to management communications. The Chief Executive Officer is the individual selected by the Board of Directors to manage the Company on a day to day basis, and his direct involvement in the Company's operations makes him best positioned to lead productive Board strategic planning sessions and determine the time allocated to each agenda item in discussions of the Company's short- and long-term objectives. Combining the Chairman and CEO roles fosters clear accountability, effective decision-making, and alignment on corporate strategy. However, no single leadership model is right for all companies and at all times. The Board recognizes that, depending on the circumstances, other leadership models, such as a separate independent Chairman of the Board, might be appropriate. Accordingly, the Board periodically reviews its leadership structure.

The Board of Directors is responsible for consideration and oversight of risks facing the Company and is responsible for ensuring that material risks are identified and managed appropriately. Several oversight functions are delegated to committees of the Board with such committees regularly reporting to the full Board the results of their respective oversight activities. For example, the Audit Committee meets periodically with management in order to review the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures. As part of this process, the Audit Committee reviews management's risk-assessment process and reports its findings to the full Board. Also, the Compensation Committee periodically reviews the most important enterprise risks to ensure that compensation programs do not encourage excessive risk-taking. Additional review or reporting on enterprise risks is conducted as needed or as requested by the Board or Board committee.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

LCNB has engaged and intends to continue to engage in the lending of money through the LCNB National 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 and in compliance with applicable banking laws and regulations, on substantially the same terms, including interest rates and collateral, as prevailing at the time for comparable transactions with other persons and do not involve more than a normal risk of collectability or other unfavorable features.

In addition to those banking transactions conducted in the ordinary course, the Bank was involved in the related transactions described below. 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 2011 for legal services in connection with various matters arising in the course of the Bank's business. William H. Kaufman, a director of LCNB, 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.

The Company does not have a written process of approval and ratification of related party transactions. However, the Company does adhere to an unwritten policy, whereby before the Company or the Bank enters into any transaction for which the value of the transaction is expected to be at least $120,000, and an interested party in the transaction is a director, executive officer, an immediate family member of a director or officer, or a shareholder owning 5 percent or greater of the Company's outstanding stock, the Board of Directors must review and approve the transaction. In reviewing the potential transaction, the directors will consider the fairness of the transaction to the Company, whether the transaction would or could compromise the interested party's independence and judgment, the best interests of the Company, and such other factors determined advisable by the Board of Directors. In 2011, the Board of Directors reviewed and approved of the related party transaction with Mr. Kaufman's firm, as described above.

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. During 2011, Kathleen Porter Stolle and Bernard H. Wright, Jr., and in 2012, Stephen P. Wilson inadvertently missed the deadline to file the disclosure filing of certain transactions on Form 4 (a statement reporting changes in beneficial ownership). However, such transactions were promptly disclosed by virtue of the filing of the appropriate forms with the SEC. 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, and with the exceptions as noted above, 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, 2011, the Board of Directors met on 7 occasions. The directors collectively attended 93% of such meetings and no director attended less than 75% of the meetings. The Company encourages its directors to attend the Annual Meeting of the Shareholders, and in 2011, all eight directors attended the meeting. Directors do not receive any compensation from LCNB for their service on the Board of Directors of LCNB.

However, each director of LCNB also serves as a director of LCNB National Bank, the banking subsidiary of LCNB, which meets twice per month, for which each is compensated at a rate of $14,000 annually. In addition, non-employee directors who serve on committees of the Board of Directors receive $150 for each committee meeting attended. Further, the directors participate like the employees of the Company in the Non-Equity Incentive Plan of the Company, and thus receive cash compensation based upon the success of the Company over the previous year. In 2011, the directors each received compensation under this plan equal to 11.5% of their annual base compensation and committee meeting fees earned during 2011.

The table below summarizes all compensation paid to the directors of LCNB for their services as directors during fiscal year 2011.

Director Compensation

Name	Fees Earned or Paid in Cash ($) (1)	Non-Equity Incentive Plan Compensation ($)(2)	Total ($)
Stephen P. Wilson	$14,000	$1,610	$15,610
Spencer S. Cropper	$15,050	$1,731	$16,781
Kathleen Porter Stolle	$17,450	$2,007	$19,457
George L. Leasure	$17,300	$1,989	$19,289
William H. Kaufman	$14,000	$1,610	$15,610
Steve P. Foster	$14,000	$1,610	$15,610
Anne E. Krehbiel	$15,200	$1,748	$16,948
Rick L. Blossom	$15,350	$1,765	$17,115

(1)

The compensation paid to the directors of LCNB includes committee fees as follows: S. Cropper, $1,050; K. Stolle, $3,450; G. Leasure, $3,300; A. Krehbiel, $1,200; and R. Blossom, $1,350. Mr. Wilson, Mr. Kaufman, and Mr. Foster are not independent directors and do not receive committee fees.

(2)

The directors, in addition to their base and committee fees, receive a cash award that corresponds to the Bank's Non-Equity Incentive Plan. The percentage awarded to the officers is used to calculate the directors' cash award that year. The award is paid in the following year. This percentage is multiplied by the directors' base fee plus the committee fee to arrive at the award. The percentage used for the award paid in 2011 was 11.5%.

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 Spencer S. Cropper, Anne E. Krehbiel, and Rick L. Blossom. The Audit Committee met a total of 5 times in 2011. 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, reviewing with the independent auditors the plans and results of the audit, and reviewing the adequacy of the Bank's internal accounting controls. The Board of Directors of the Company has 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, Anne E. Krehbiel, Steve P. Foster, 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, Peter Berninger, Matt Layer 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, Bernard H. Wright, Jr., Leroy F. McKay, George L. Leasure, S. Diane Ingram, Melanie K. Crane, Bradley Ruppert, Rebecca Roess, Amy Kobes 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, Rick L. Blossom, Spencer S. Cropper, Steve P. Foster, and Robert C. Haines II. 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 all five of the Company's independent directors: Spencer S. Cropper, Kathleen Porter Stolle, George L. Leasure, Anne E. Krehbiel, and Rick L. Blossom. The Nominating Committee met 2 times in 2011 and 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. Please see the narrative under the heading “Director and Nominee Qualifications” beginning on page 8 of this proxy statement for additional discussion of the nomination process.

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, which met 2 times in 2011 and does not have a charter. This committee consists of the independent directors of the Bank: Spencer S. Cropper, Kathleen Porter Stolle, George L. Leasure, Anne E. Krehbiel, and Rick L. Blossom. The committee makes compensation recommendations to the Board of Directors for consideration, as further described in the "Compensation of Executive Officers" section below.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

In 2011, no executive officer of the Company served on the Board of Directors or compensation committee of any entity that compensates any member of the Company's compensation committee.

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, and 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, 2003.

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 reviews and revises if necessary the Audit Charter at least annually and presents it to the Board of Directors for approval. 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 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, 2011.

This report has been submitted by the Audit Committee:

Rick L. Blossom

Spencer S. Cropper

Anne E. Krehbiel

MARKET PRICE OF STOCK AND DIVIDEND DATA

Holders and Market Information

LCNB had approximately 667 registered holders of its Common Stock as of December 31, 2011. 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 Capital Market 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.

2011	**High**	**Low**
First Quarter	$12.25	$11.56
Second Quarter	$13.00	$11.70
Third Quarter	$14.22	$11.85
Fourth Quarter	$13.70	$12.22

2010	**High**	**Low**
First Quarter	$12.50	$10.50
Second Quarter	$13.00	$10.34
Third Quarter	$12.50	$11.25
Fourth Quarter	$12.35	$11.20

On January 9, 2009, LCNB entered into an Agreement and related Securities Purchase Agreement—Standard Terms (the "CPP Agreement") with the U.S. Department of the Treasury ("Treasury") under Treasury's Troubled Assets Relief Program Capital Purchase Program. Pursuant to the CPP Agreement, LCNB agreed to issue and sell, and Treasury agreed to purchase, (i) 13,400 shares of LCNB's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, as so designated by the Board of Directors of LCNB, having a liquidation preference of $1,000 per share (the "Senior Preferred Stock"), and (ii) a ten-year warrant to purchase up to 217,063 shares of LCNB's common stock, no par value per share, at an initial exercise price of $9.26 per share. The warrant was immediately exercisable upon its issuance and will expire on January 9, 2019.

On October 21, 2010, LCNB repurchased the preferred stock from the Treasury Department for $13,522,833.33, the repayment of the initial capital received from the Treasury Department by LCNB plus any dividends accrued and unpaid at that point. The Treasury Department sold its stock warrant to investors as part of an auction. The warrants were purchased by Stieven Financial Investors, L.P., which holds a warrant to purchase up to 184,985 shares of LCNB's common stock and Stieven Financial Offshore Investors, Ltd., which holds a warrant to purchase up to 32,078 shares of LCNB's common stock. The exercise price for the warrants remains $9.26 per share. For additional information regarding these transactions, see the Current Reports on Form 8-K filed by LCNB on January 9, 2009 and October 21, 2009.

Dividends

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

	2011	2010
First Quarter	$0.160	$0.160
Second Quarter	0.160	0.160
Third Quarter	0.160	0.160
Fourth Quarter	0.160	0.160
Total	$0.640	$0.640

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 subsidiary 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.

Equity Compensation Plan Information

The Company has an equity incentive plan that provides stock options to certain executive officers. The plan was established in 2002. The Board established the plan to provide an award to certain executive officers after reaching specific earnings and asset growth goals set at the beginning of each year.

The following table summarizes share and exercise price information about LCNB's equity compensation plans as of March 6, 2012.

Plan Category	**(a)**	**(b)**	**(c)**
	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	**Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights**	**Number of Securities remaining available for future issuance under any equity compensation plans**

(excluding securities

reflected in column
(a))

Equity compensation

plans approved by $ 57,475

E=2> 50,939

Other Comprehensive Income, net of tax:				
Foreign currency translation gain (loss)	(13,195)	3,714	13,554	8,499
Deferred gain (loss) on hedging activities	692	3,274	1,744	6,904
Total Comprehensive Income	$ 26,738	$ 46,077	$ 66,237	$ 72,878

NOTE 5: GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill for the quarter ended April 29, 2005 increased from the end of fiscal 2004 by $5.5 million to $1,002.0 million. The increase is attributable to foreign currency translation.

Total intangible amortization expense for the six months ended April 29, 2005 was $2.4 million, compared to $2.3 million for the same period last year. Estimated amortization expense for each of the five succeeding fiscal years based on the intangible assets as of April 29, 2005 is expected to be approximately $4.8 million annually.

NOTE 6: SEGMENT INFORMATION

In accordance with Statement of Financial Accounting Standards No. 131 (SFAS 131), Disclosures about Segments of an Enterprise and Related Information, and based on the nature of the Company s products, technology, manufacturing processes, customers, and regulatory environment, the Company has determined that it operates its business in two reportable segments: Paints and Coatings.

SFAS 131 requires an enterprise to report segment information in the same way that management internally organizes its business for assessing performance and making decisions regarding allocation of resources. The Company evaluates the performance of operating segments and allocates resources based on profit or loss from operations before interest expense and taxes (EBIT).

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THE VALSPAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
APRIL 29, 2005 CONTINUED

The Paints segment includes the products from the Architectural, Automotive and Specialty (AAS) product line. AAS products include interior and exterior decorative paints, primers, varnishes and specialty decorative products, such as enamels, aerosols and faux finishes for the do-it-yourself and professional markets in North America. Other Paints products include automotive refinish paints and high performance floor paints.

The Coatings segment includes the products from the Industrial and Packaging product lines. Industrial products include a broad range of decorative and protective coatings for metal, wood, plastic and glass. Packaging products include both interior and exterior coatings used in rigid packaging containers, principally food containers and beverage cans. The products of this segment are sold throughout the world.

The Company s remaining activities are included in All Other. These activities include specialty polymers and colorants that are used internally and sold to other coatings manufacturers, as well as composites (gelcoats and related products) and furniture protection plans. Also, included within All Other are the administrative expenses of the Company s corporate headquarters site. The administrative expenses include interest and amortization expense, certain environmental-related expenses and other expenses not directly allocated to any other operating segment.

In the following table, sales between segments are recorded at selling prices that are below market prices, generally intended to recover internal costs. Segment EBIT includes income realized on inter-segment sales. Comparative results for the three and six months ended April 29, 2005 and April 30, 2004 on this basis are as follows:

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	April 29, 2005	April 30, 2004	April 29, 2005	April 30, 2004
Net Sales:				
Paints	$ 233,779	$ 223,796	$ 392,387	$ 368,731
Coatings	399,019	356,217	739,201	668,681
All Other	103,987	82,488	185,855	144,681
Less Intersegment sales	(30,843)	(24,114)	(54,357)	(42,115)
Total Net Sales	$ 705,942	$ 638,387	$ 1,263,086	$ 1,139,978
EBIT				
Paints	$ 24,683	$ 36,310	$ 33,023	$ 50,008
Coatings	43,598	43,863	68,801	80,451
All Other	2,060	(6,536)	(2,382)	(16,777)
Total EBIT	$ 70,341	$ 73,637	$ 99,442	$ 113,682
Interest	$ 10,928	$ 10,590	$ 21,460	$ 20,980
Income before Income Taxes	$ 59,413	$ 63,047	$ 77,982	$ 92,702

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THE VALSPAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
APRIL 29, 2005 CONTINUED

NOTE 7: FINANCIAL INSTRUMENTS

The Company s involvement with derivative financial instruments is limited principally to managing well-defined interest rate and foreign currency exchange risks. Forward foreign currency exchange contracts are used primarily to hedge the impact of currency fluctuations on certain inter-company transactions.

The Company also holds interest rate swaps used to manage the interest rate risk associated with its borrowings. The interest rate swap contracts are reflected at fair value in the condensed consolidated balance sheets. Amounts to be paid or received under the contracts are accrued as interest rates change and are recognized over the life of the contracts as an adjustment to interest expense. Credit risk is only applicable to gains on derivatives.

At April 29, 2005, the Company had $100 million notional amount interest rate swap contracts designated as cash flow hedges to pay fixed rates of interest and receive variable rates of interest based on LIBOR. This contract began during fiscal 2004 and will mature during fiscal 2008. The Company also had a $100 million notional amount interest rate swap contract designated as a fair value hedge to pay floating rates of interest based on LIBOR, maturing during fiscal 2008. As the critical terms of the interest rate swaps and hedged debt match, there is an assumption of no ineffectiveness for these hedges.

Subsequent to quarter end, the Company entered into $250 million of treasury locks to hedge, or lock-in, interest rates on anticipated long-term debt the Company plans to issue during the last half of fiscal year 2005 and during fiscal year 2007. The treasury locks are derivative instruments as defined by SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and as the critical terms of the treasury locks and hedged debt match, there is an assumption of no ineffectiveness for these hedges. Once the treasury locks are terminated, any realized gain or loss will be reclassified ratably to our statements of income as a component of interest expense over the term of debt.

NOTE 8: GUARANTEES AND CONTRACTUAL OBLIGATIONS

The Company sells extended furniture protection plans and offers warranties for certain of its products. For the furniture protection plans, revenue is deferred over the contract period, generally five years, and is recognized based on the ratio of costs incurred to estimated total costs at program completion. For product warranties, the Company estimates the costs that may be incurred under these warranties based on historical claim data and records a liability in the amount of such costs at the time revenue is recognized. The Company periodically assesses the adequacy of these recorded amounts and adjusts as necessary.

Changes in the recorded amounts during the period are as follows (dollars in thousands):

Balance, October 29, 2004	$ 88,376
Additional net deferred revenue/accrual made during the period	18,599
Payments made during the period	(11,791)
Balance, April 29, 2005	$ 95,184

NOTE 9: STOCK PLANS

Under the Company s Stock Option Plans, options for the purchase of up to 10,250,000 shares of common stock may be granted to officers, employees, and non-employee directors. Options are issued at market value at the date of grant and are exercisable in full or in part over a prescribed period of time. The Company accounts for these plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations. No stock-based employee compensation is reflected in income, as all options granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation,* to stock-based employee compensation.

	Three Months Ended	Six Months Ended

	April 29, 2005	April 30, 2004	April 29, 2005	April 30, 2004
Net income, as reported	$39,241	$39,089	$50,939	$57,475
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects				
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	1,451	1,561	2,836	3,116
Pro forma net income	$37,790	$37,528	$48,103	$54,359
Earnings per share:				
Basic - as reported	$0.77	$0.76	$0.99	$1.13
Basic - pro forma	$0.74	$0.73	$0.94	$1.06
Diluted - as reported	$0.75	$0.74	$0.97	$1.09
Diluted - pro forma	$0.73	$0.73	$0.93	$1.06

NOTE 10: PENSION AND OTHER POSTRETIREMENT BENEFITS

The company sponsors a number of defined benefit pension plans for certain hourly, salaried and foreign employees. The benefits for these plans are generally based on stated amounts for each year of service. The Company funds the plans in amounts consistent with the limits of allowable tax deductions.

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THE VALSPAR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
APRIL 29, 2005 CONTINUED

The cost of the pension benefits is as follows:

(Dollars in thousands)	**Three Months Ended**		**Six Months Ended**	
Net periodic benefit cost	**April 29, 2005**	**April 30, 2004**	**April 29, 2005**	**April 30, 2004**
Service cost	$ 688	$ 526	$ 1,372	$ 1,034
Interest cost	2,747	2,593	5,488	5,158
Expected return on plan assets	(3,176)	(3,025)	(6,347)	(6,026)
Amortization of transition asset	(31)	(30)	(61)	(61)
Amortization of prior service cost	198	217	397	433
Recognized actuarial (gain)/loss	865	546	1,728	1,081
Net periodic benefit cost	$ 1,291	$ 827	$ 2,577	$ 1,619

NOTE 11: SUBSEQUENT EVENTS

In May 2005, the Company announced that it has agreed to acquire Samuel Cabot Incorporated, a privately owned manufacturer of premium quality exterior and interior stains and finishes based in Newburyport, Massachusetts. Samuel Cabot s revenues for calendar 2004 were approximately $58 million. The cash merger transaction is expected to close during June 2005, subject to regulatory approval.

NOTE 12: RECLASSIFICATION

Certain amounts in the 2004 financial statements have been reclassified to conform with the 2005 presentation.

NOTE 13: NEW PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) issued FASB Statement No. 123R, Shareholder Based Payment on December 16, 2004. This statement requires companies to measure and recognize compensation cost relating to share-based payment transactions in a company s financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. Statement No. 123R covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. Originally, this statement was effective for public companies as of the first interim or annual reporting period beginning after June 15, 2005 or the fourth quarter of fiscal year 2005. On April 14, 2005, the Securities and Exchange Commission adopted a rule that allows companies to implement Statement 123R at the beginning of their next fiscal year, instead of the next reporting period that begins after June 15, 2005. Under such rules, the Company will adopt SFAS 123R in the first quarter of fiscal 2006. At that time, we will begin recognizing compensation expense related to unvested stock-based awards and newly granted awards. The Company is currently evaluating the impact of the adoption of this statement on its financial position and results of operations.

ITEM 2: MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview: In the second quarter of fiscal 2005, our sales increased compared to the prior year as we raised selling prices to customers. However, we continued to experience increases in the cost of our raw materials, compared to the prior year period, due to issues of availability and unprecedented increases in the price of raw material feedstocks. This continues a trend of raw material cost increases that began in the second half of fiscal 2004. This factor reduced our gross margin in the second quarter from the 2004 levels, although net income for the quarter was flat compared to the prior year period. Our near-term ability to return to historical levels of gross margins depends on our ability to implement further price increases to offset future increases in raw material costs.

Critical Accounting Policies: There were no material changes in the Company s critical accounting policies during the quarter and six months ended April 29, 2005.

Operations: Consolidated net sales increased 10.6% in the quarter to $705.9 million from $638.4 million in the prior year. Excluding the positive effect of foreign currency exchange and acquisitions, net sales increased 8.5% in the quarter, (unit growth of negative 0.5% and price mix of 9.0%). Consolidated net sales increased 10.8% in the six-month period to $1,263.1 million from $1,140.0 million in the prior year. Excluding the positive effect of foreign currency exchange and acquisitions, net sales increased 7.3% in the six-month period.

Net sales for the Paints segment increased 4.5% to $233.8 million in the quarter compared to the prior year. Net sales increased 6.4% to $392.4 million year to date compared to the same period last year. Before acquisitions and excluding the positive effect of foreign currency exchange, core sales growth in Paints was 3.9% and 2.8% in the second quarter and year to date, respectively. Paints sales growth in the quarter was attributable to favorable price mix, partially offset by lower volumes in the architectural business. Net sales for the Coatings segment increased 12.0% to $399.0 million in the quarter compared to the same period last year. Net sales increased 10.5% to $739.2 million year to date compared to the prior year. Before acquisitions and excluding the positive effect of foreign currency exchange, core sales growth in Coatings was 8.7% and 6.9% in the second quarter and year to date, respectively. Coatings core sales growth in the quarter was attributable to higher selling prices to customers and stronger demand in international markets. Due to the seasonal nature of the Company s business, sales for the second quarter are not necessarily indicative of sales for the full year.

In the second quarter of 2005, consolidated gross profit increased $2.2 million from the prior year to $208.1 million. As a percent of consolidated net sales, consolidated gross profit during the second quarter of 2005 decreased to 29.5% from 32.3%. For the six-month period, consolidated gross profit decreased $1.4 million to $360.9 million. As a percent of consolidated net sales, consolidated gross profit during the six-month period of 2005 decreased to 28.6% from 31.8%. The decrease in gross profit in the second quarter was caused by significant increases in raw material costs, partially offset by price increases.

Consolidated operating expenses (research and development, selling and administrative) increased 5.8% to $139.7 million (19.8% of consolidated net sales) in the second quarter of 2005 from $132.1 million (20.7% of consolidated net sales) in 2004. For the six-month period, consolidated operating expenses increased 5.5% to $261.9 million (20.7% of consolidated net sales) from $248.2 million (21.8% of consolidated net sales) in the prior year. As a percent of consolidated net sales, expenses decreased in the second quarter primarily due to the effect of sales growing faster than expenses.

Second quarter earnings before interest and taxes (EBIT) decreased $3.3 million or 4.5% from the prior year second quarter. First half EBIT decreased $14.2 million or 12.5% from the prior year. Foreign currency exchange fluctuation had an immaterial effect on EBIT. EBIT in the Paints segment decreased to $24.7 million from $36.3 million in the prior year second quarter. Year to date EBIT in the Paints segment decreased to $33.0 million from $50.0 million. As a percent of net sales for the Paints segment, EBIT decreased to 10.6% from 16.2% in the prior year second quarter and to 8.4% from 13.6% from the prior year to date. The decrease was largely attributable to higher raw material costs and manufacturing inefficiencies due to volume declines, partially offset by higher prices to customers. EBIT in the Coatings segment decreased to $43.6 million from $43.9 million in the prior year second quarter. Year to date EBIT in the Coatings segment decreased to $68.8 million from $80.5 million. As a percent of net sales for the Coatings segment, EBIT decreased to 10.9% from 12.3% in the prior year second quarter and to 9.3% from 12.0% from the prior year to date. The decrease was primarily due to higher raw materials costs, partially offset by higher prices to customers. Due to the seasonal nature of the Company s business, EBIT for the second quarter is not necessarily indicative of EBIT for subsequent quarters or for the full year.

Interest expense increased to $10.9 million in the second quarter of 2005 from $10.6 million in the second quarter of 2004. The increase was primarily driven by higher interest rates on borrowings partly offset by lower debt levels and savings associated with the reduction in our revolving bank line of credit from $1 billion to $500 million during the first quarter. Year to date interest expense increased to $21.5 million in 2005 from $21.0 million in the prior year. The year to date increase in interest expense was driven by higher interest rates, partially offset by lower debt levels.

Other income increased to $2.0 million in the second quarter from expense of $0.2 million in the same period last year. The improvement is the result of a favorable lawsuit settlement that occurred during the quarter.

The effective tax rate decreased from 38% in the second quarter last year to 34% in the second quarter of 2005. The tax rate decreased from 38% to 35% for the six-month period in 2005. The decline in the quarter and year to date tax rate is primarily related to increased income in lower tax jurisdictions. We expect our effective tax rate from continuing operations to be approximately 36% for the remainder of 2005.

Net income in the second quarter of 2005 increased 0.4% to $39.2 million or $0.75 per diluted share. For the six-month period, net income decreased 11.4% to $50.9 million or $0.97 per diluted share.

Financial Condition: The net cash used by the Company s operations was $3.6 million for the first six months of 2005, compared with net cash provided by operations of $42.0 million for the first six months of 2004. For the first six months of 2005, $89.5 million in proceeds from bank borrowings and sale of treasury stock were used to fund $27.4 million in capital expenditures, $20.5 million in dividend payments, and $41.1 million in treasury stock purchases.

The use of cash for operations was related to increases in accounts receivable and inventories, and a decrease in accrued liabilities and accounts payable. Accounts Receivable increased $57.8 million as a result of increased sales primarily in the Architectural and Packaging product lines. Inventory increased $18.4 million due to higher raw material costs and accelerated purchases from suppliers due to availability. The decrease in accrued liabilities and accounts payable was due to timing of disbursements.

Capital expenditures for property, plant and equipment were $27.4 million in the first six months of 2005, compared with $25.1 million in the first six months of 2004. The Company expects capital spending in 2005 to be in the range of $60 to $65 million.

The ratio of total debt to capital increased to 43.8% at the end of second quarter of 2005 compared to 41.8% at the close of fiscal 2004. The total debt to capital ratio as of April 30, 2004 was 46.6%. The Company believes its cash flow from operations, existing lines of credit, access to credit facilities and access to debt and capital markets will be sufficient to meet its current and projected needs for financing. The Company has a five-year $500 million unsecured committed revolving multi-currency credit facility with a syndicate of banks maturing November 2005. The intent of the Company is to replace this facility with a new credit facility on or before November 2005.

There were no material changes in the Company s fixed cash obligations during the six months ended April 29, 2005.

Off-Balance Sheet Financing: The Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

ITEM 2: MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS CONTINUED

Forward Looking Statements: This discussion contains certain forward-looking statements. These forward-looking statements are based on management s expectations and beliefs concerning future events. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of the Company that could cause actual results to differ materially from such statements. These uncertainties and other factors include dependence of internal earnings growth on economic conditions and growth in the domestic and international coatings industry; risks related to any future significant acquisitions, including risks of adverse changes in the results of acquired businesses, risks of disruptions in business resulting from the Company s relationships with customers and suppliers; unusual weather conditions that might adversely affect sales; changes in raw materials pricing and availability; delays in passing cost increases to customers; changes in governmental regulation, including more stringent environmental, health, and safety regulations; the nature, cost and outcome of pending and future litigation and other legal proceedings; the outbreak of war and other significant national and international events; and other risks and uncertainties. The foregoing list is not exhaustive, and the Company disclaims any obligation to subsequently revise any forward-looking statements to reflect events or circumstances after the date of such statements.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company s foreign sales and results of operations are subject to the impact of foreign currency fluctuations. The Company has not hedged its exposure to translation gains and losses; however, it has reduced its exposure by borrowing funds in local currencies. A 10% adverse change in foreign currency rates would not have a material effect on the Company s results of operations or financial position.

The Company is also subject to interest rate risk. At April 29, 2005, approximately 43% of the Company s total debt consisted of floating rate debt. From time to time, the Company may enter into interest rate swaps to hedge a portion of either its variable or fixed rate debt. Assuming the current level of borrowings, a 10% increase in interest rates from those in effect at the end of the second quarter would not have a material effect on the Company s results of operations or financial position.

ITEM 4: CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) or 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this report. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective.

There have been no significant changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referenced above.

PART II. OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

During the period covered by this report, there were no legal proceedings instituted that are reportable, and there were no material developments in any of the legal proceedings that were previously reported on the Company s Form 10-K for the year ended October 29, 2004.

ITEM 2(c): ISSUER PURCHASES OF EQUITY SECURITIES

Period	**Total Number of Shares Purchased**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs**
01/29/05 - 02/25/05	800,100	46.11259	800,100	1,073,200
02/26/05 - 03/25/05	0	0	0	1,073,200
03/26/05 - 04/29/05	0	0	0	1,073,200

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Stockholders was held at the Research Center of the Corporation at 312 South 11th Avenue, Minneapolis, Minnesota, on February 23, 2005. The stockholders took the following actions:

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS CONTINUED

(i) The stockholders elected three directors to serve for three-year terms. The stockholders present in person or by proxy cast the following numbers of votes in connection with the election of directors, resulting in the election of all nominees:

	Votes For	**Votes Withheld**
Thomas R. McBurney	45,656,641	2,151,168
Richard M. Rompala	46,332,024	1,475,785
Richard L. White	47,366,959	440,850

(ii) The stockholders approved an increase in the shares reserved under the Corporation s Stock Option Plan for Non-Employee Directors. 34,767,379 votes were cast for the resolution; 7,566,267 votes were cast against the resolution; 303,879 votes abstained; and there were 5,170,284 broker non-votes.

(iii) The stockholders ratified the appointment of Ernst & Young LLP as the Company s independent auditors for fiscal 2005. 45,998,065 votes were cast for the resolution; 1,698,113 votes were cast against the resolution; shares representing 111,631 votes abstained; and there were no broker non-votes.

ITEM 6: EXHIBITS

10(a)	Amendment No. 1 to Credit Agreements between the Registrant and Barclays Bank PLC dated as of April 27, 2005
31.1	Section 302 Certification of the Chief Executive Officer
31.2	Section 302 Certification of the Chief Financial Officer
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

THE VALSPAR CORPORATION

Date: June 8, 2005

By /s/Rolf Engh

Rolf Engh
Secretary

Date: June 8, 2005

By /s/Paul C. Reyelts

Paul C. Reyelts
Executive Vice President and
Chief Financial Officer