

RURBAN FINANCIAL CORP
Form 10-Q
November 14, 2011

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 September 30, 2011

OR

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

For the transition period from _____ to _____

Commission file number 0-13507

RURBAN FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction of
incorporation or organization)

34-1395608
(I.R.S. Employer Identification No.)

401 Clinton Street, Defiance, Ohio 43512
(Address of principal executive offices)
(Zip Code)

(419) 783-8950
(Registrant's telephone number, including area code)

None
(Former name, former address and former fiscal year, if changed since last report.)

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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large Accelerate Filer Accelerated Filer Non-Accelerated Filer

Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

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 each of the issuer's classes of common stock, as of the latest practicable date.

Common Shares, without par value
(class)

4,861,779 shares
(Outstanding at November 14, 2011)

RURBAN FINANCIAL CORP.

FORM 10-Q

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1.	Financial Statements	3
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	32
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	42
Item 4.	Controls and Procedures	42

PART II – OTHER INFORMATION

Item 1.	Legal Proceedings	42
Item 1A.	Risk Factors	43
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	43
Item 3.	Defaults Upon Senior Securities	43
Item 4.	[Reserved]	43
Item 5.	Other Information	43
Item 6.	Exhibits	44
Signatures		45

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The interim condensed consolidated financial statements of Rurban Financial Corp. (“Rurban” or the “Company”) are unaudited; however, the information contained herein reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of financial condition and results of operations for the interim periods presented. All adjustments reflected in these financial statements are of a normal recurring nature in accordance with Rule 10-01 of Regulation S-X. Results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of results for the complete year.

Rurban Financial Corp.
Condensed Consolidated Balance Sheets
September 30, 2011 and December 31, 2010

	September 2011 (unaudited)	December 2010
ASSETS		
Cash and due from banks	\$13,764,025	\$30,417,813
Investment Securities:		
Securities available for sale, at fair value	104,614,877	132,762,058
Non-marketable securities - FRB and FHLB Stock	3,748,250	3,748,250
Total investment securities	108,363,127	136,510,308
Loans held for sale	10,589,706	9,055,268
Loans, net of unearned income	438,926,037	427,544,414
Allowance for loan losses	(6,235,230)	(6,715,397)
Net Loans	432,690,807	420,829,017
Premises and equipment, net	14,120,118	14,622,541
Purchased software	805,286	1,021,036
Cash surrender value of life insurance	12,133,693	13,211,247
Goodwill	16,733,830	16,733,830
Core deposits and other intangibles	2,005,945	2,585,132
Foreclosed assets held for sale, net	1,970,028	1,538,307
Mortgage servicing rights	2,709,222	3,190,389
Accrued interest receivable	2,061,201	2,068,965
Other assets	5,846,400	8,503,832
Total assets	\$623,793,388	\$660,287,685
LIABILITIES AND EQUITY		
Deposits		
Non interest bearing demand	\$62,079,685	\$62,745,906
Interest bearing NOW	103,229,318	105,708,472
Savings	48,145,958	47,662,315
Money Market	79,163,033	84,635,537
Time Deposits	221,730,681	214,925,512
Total deposits	514,348,675	515,677,742
Notes payable	2,865,123	3,290,471
Advances from Federal Home Loan Bank	12,939,598	22,807,351
Repurchase Agreements	18,777,909	45,785,254
Trust preferred securities	20,620,000	20,620,000
Accrued interest payable	2,704,466	1,971,587
Other liabilities	3,985,333	4,111,182
Total liabilities	576,241,104	614,263,587

Equity		
Common stock	12,568,583	12,568,583
Additional paid-in capital	15,302,194	15,235,206
Retained earnings	20,192,317	18,802,106
Accumulated other comprehensive income (loss)	1,258,501	1,187,514
Treasury stock	(1,769,311)	(1,769,311)
Total Equity	47,552,284	46,024,098
Total liabilities and equity	\$623,793,388	\$660,287,685

See notes to condensed consolidated financial statements (unaudited)

Note: The balance sheet at December 31, 2010 has been derived from the audited consolidated financial statements at that date

Rurban Financial Corp.
Condensed Consolidated Statements of Operations (Unaudited)
Three and Nine Months Ended

	Three Months Ended		Nine Months Ended	
	September 2011	September 2010	September 2011	September 2010
Interest income				
Loans				
Taxable	\$6,250,747	\$6,281,157	\$18,273,348	\$19,442,383
Nontaxable	24,140	13,664	50,564	49,960
Securities				
Taxable	446,342	596,362	1,623,475	1,679,203
Nontaxable	171,739	353,755	809,264	1,055,707
Other	56	24	142	211
Total interest income	6,893,024	7,244,962	20,756,793	22,227,464
Interest expense				
Deposits	976,336	1,275,607	3,035,899	3,935,731
Other borrowings	24,691	32,367	73,777	101,145
Repurchase Agreements	71,900	436,369	841,634	1,295,994
Federal Home Loan Bank advances	79,033	231,122	325,428	872,947
Trust preferred securities	355,632	388,854	1,047,923	1,178,502
Total interest expense	1,507,592	2,364,319	5,324,661	7,384,319
Net interest income	5,385,432	4,880,643	15,432,132	14,843,145
Provision for loan losses	297,368	898,570	1,694,648	8,788,713
Net interest income after provision for loan losses	5,088,064	3,982,073	13,737,484	6,054,432
Noninterest income				
Data service fees	743,114	2,044,400	2,959,026	8,682,575
Trust fees	628,994	650,511	1,993,476	1,883,994
Customer service fees	663,691	643,816	1,884,784	1,846,161
Gain on sale of mortgage loans and OMSR's	1,100,557	1,435,581	2,090,736	2,653,693
Mortgage loan servicing fees, net	(795,995)	(423,939)	(661,110)	(397,577)
Gain on sale of non-mortgage loans	-	125,122	80,423	233,071
Net realized gain (loss) on sales of securities	-	-	1,871,387	451,474
Investment securities recoveries	-	-	-	73,774
Loss on sale or disposal of assets	(26,816)	(128,985)	(287,478)	(159,066)
Other income	161,377	188,055	503,469	544,094
Total non-interest income	2,474,922	4,534,561	10,434,713	15,812,193
Noninterest expense				
Salaries and employee benefits	3,582,982	4,058,316	10,686,191	14,064,591
Net occupancy expense	568,173	486,695	1,669,644	1,639,386
Equipment expense	689,662	872,681	2,118,539	5,423,343
FDIC Insurance expense	145,261	259,646	716,839	676,462

Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

Software impairment expense	-	-	-	4,892,231
Data processing fees	157,686	211,129	493,231	635,393
Professional fees	377,322	619,430	1,427,610	1,823,449
Marketing expense	89,192	139,987	235,060	330,213
Printing and office supplies	86,071	111,414	280,735	369,842
Telephone and communication	140,995	267,344	441,001	992,891
Postage and delivery expense	260,477	388,666	863,407	1,415,529
State, local and other taxes	102,577	154,391	380,133	118,835
Employee expense	143,355	147,739	411,040	654,968
Other intangible amortization expense	184,763	200,344	579,187	600,613
OREO Impairment	-	-	-	215,000
Other expenses	294,621	820,633	1,978,489	2,550,747
Total non-interest expense	6,823,137	8,738,415	22,281,106	36,403,493
Income (loss) before income tax expense	739,849	(221,781)	1,891,091	(14,536,868)
Income tax expense (benefit)	137,356	(247,696)	500,880	(5,507,954)
Net income (loss)	\$602,493	\$25,915	\$1,390,211	\$(9,028,914)
Common share data:				
Basic earnings (loss) per common share	\$0.12	\$0.01	\$0.29	\$(1.86)
Diluted earnings (loss) per common share	\$0.12	\$0.01	\$0.29	\$(1.86)

See notes to condensed consolidated financial statements (unaudited)

Rurban Financial Corp.
Condensed Consolidated Statements of Changes in
Stockholders' Equity (Unaudited)

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2011	Sept. 30, 2010	Sept. 30, 2011	Sept. 30, 2010
Balance at beginning of period	\$46,013,910	\$ 53,201,167	\$46,024,098	\$ 61,707,655
Net Income (Loss)	602,493	25,915	1,390,211	(9,028,914)
Unrealized gains on securities				
Unrealized holding gains arising during the year, net of tax	914,632	811,939	1,306,102	1,665,178
Less: reclassification adjustment for gains realized in net income, net of tax	-	-	1,235,115	297,974
Total comprehensive income (loss)	1,517,125	837,854	1,461,198	(7,661,710)
Share-based compensation				
	21,249	29,317	66,988	22,393
Balance at end of period	\$47,552,284	\$ 54,068,338	\$47,552,284	\$ 54,068,338

See notes to condensed consolidated financial statements (unaudited)

Rurban Financial Corp.
Condensed Consolidated Statements of Cash Flows (Unaudited)
Nine Months Ended

	Sept. 30, 2011	Sept. 30, 2010
Operating Activities		
Net Income/(loss)	\$1,390,211	\$(9,028,914)
Items not requiring (providing) cash		
Depreciation and amortization	1,344,273	3,554,271
Provision for loan losses	1,694,648	8,788,713
Expense of share-based compensation plan	66,988	22,392
Amortization of premiums and discounts on securities	1,225,101	1,091,077
Amortization of intangible assets	579,187	600,402
Amortization of mortgage servicing rights	415,771	233,597
Impairment of mortgage servicing rights	897,499	575,000
Deferred income taxes	(36,568)	(3,537,222)
Proceeds from sale of loans held for sale	135,730,072	171,718,730
Originations of loans held for sale	(135,093,351)	(165,428,100)
Gain from sale of mortgage loans	(2,090,736)	(2,653,693)
Gain from sale of non-mortgage loans	(80,423)	(233,071)
Gain on available for sale securities	(1,871,387)	(451,474)
Software and fixed asset impairment	-	4,892,231
OREO Impairment	-	215,000
Loss on sale of foreclosed assets	296,778	139,699
(Gain) / Loss on sale of fixed assets	(9,300)	19,367
Income from bank owned life insurance	(276,208)	(322,307)
Changes in		
Interest receivable	7,764	(236,070)
Other assets	1,850,553	582,983
Interest payable and other liabilities	607,030	(2,041,941)
Net cash from operating activities	6,647,902	8,500,670
Investing Activities		
Purchase of available-for-sale securities	(36,704,998)	(52,231,341)
Proceeds from maturities of available-for-sale securities	21,274,023	32,756,818
Proceeds from sales of available-for-sale-securities	44,331,997	9,995,724
Proceeds from bank owned life insurance	1,353,762	-
Net change in loans	(15,707,317)	13,572,294
Purchase of premises and equipment and software	(626,100)	(1,564,571)
Proceeds from sales of premises and equipment	9,300	(94,932)
Proceeds from sale of foreclosed assets	1,397,156	4,303,594
Net cash from investing activities	\$15,327,823	\$6,737,586

See notes to condensed consolidated financial statements (unaudited)

Rurban Financial Corp.
Condensed Consolidated Statements of Cash Flows (Unaudited) (continued)
Nine Months Ended

	Sept. 30, 2011	Sept. 30, 2010
Financing Activities		
Net (decrease)/increase in demand deposits, money market, interest checking and savings accounts	\$ (8,134,236)	\$ 23,134,502
Net increase in certificates of deposit	6,805,169	7,944,267
Net (decrease)/increase in securities sold under agreements to repurchase	(27,007,345)	3,074,211
Net decrease in federal funds purchased	-	(5,000,000)
Proceeds from Federal Home Loan Bank advances	23,000,000	2,000,000
Repayment of Federal Home Loan Bank advances	(32,867,753)	(11,836,839)
Proceeds from notes payable	-	2,250,000
Repayment of notes payable	(425,348)	(1,028,510)
Net cash (used in) / from financing activities	(38,629,513)	20,537,631
(Decrease)/Increase in Cash and Cash Equivalents	(16,653,788)	35,775,887
Cash and Cash Equivalents, Beginning of Year	30,417,813	24,824,785
Cash and Cash Equivalents, End of Period	\$ 13,764,025	\$ 60,600,672
Supplemental Cash Flows Information		
Interest Paid	\$ 4,591,782	\$ 7,208,724
Transfer of loans to foreclosed assets	\$ 2,150,879	\$ 4,621,993

See notes to condensed consolidated financial statements (unaudited)

RURBAN FINANCIAL CORP.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A—BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. The financial statements reflect all adjustments that are, in the opinion of management, necessary to fairly present the financial position, results of operations and cash flows of the Company. Those adjustments consist only of normal recurring adjustments. Results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of results for the complete year.

The condensed consolidated balance sheet of the Company as of December 31, 2010 has been derived from the audited consolidated balance sheet of the Company as of that date.

For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

NOTE B—EARNINGS PER SHARE

Earnings per share (EPS) have been computed based on the weighted average number of shares outstanding during the periods presented. For the periods ended September 30, 2011 and 2010, share based awards totaling 306,974 and 365,102 common shares, respectively, were not considered in computing EPS as they were anti-dilutive. The number of shares used in the computation of basic and diluted earnings per share were:

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Basic earnings per share	4,861,779	4,861,779	4,861,779	4,861,779
Diluted earnings per share	4,861,779	4,861,779	4,861,779	4,861,779

NOTE C – LOANS AND ALLOWANCE FOR LOAN LOSSES

The following table presents the Company's loan categories at September 30, 2011 and December 31, 2010.

	Total Loans		Non-Accrual Loans		Non-Accrual Percentage		
	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010	
Construction & Development	\$ 15,992	\$ 16,177	\$ -	\$ -	0.00 %	0.00 %	
Commercial real estate	160,204	152,508	2,210	5,428	1.38 %	3.56 %	
Commercial & Industrial	72,622	69,510	2,466	3,032	3.40 %	4.36 %	
Agricultural & Farmland	38,601	40,829	87	-	0.23 %	0.00 %	
Residential real estate	98,772	96,257	2,107	3,285	2.13 %	3.41 %	
Home Equity	38,569	38,681	440	474	1.14 %	1.23 %	
Consumer, net of deferred fees	9,475	10,653	21	64	0.22 %	0.60 %	
Other	4,691	2,929	-	-	0.00 %	0.00 %	
Total	\$ 438,926	\$ 427,544	\$ 7,331	\$ 12,283	1.67 %	2.87 %	
Residential Loans held for sale	10,590	9,055					
Allowance for loan and lease losses	\$ (6,235)	\$ (6,715)					

The following tables present the balance of the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method for both the three and nine months ended as of September 30, 2011 and the year ended as of December 31, 2010.

For the Nine Months Ended Sept. 30, 2011 (\$'s in thousands)	Commercial							Unallocated	Total
	Commercial & Industrial	RE & Construction	Agriculture & Farmland	Residential Real Estate	Home Equity & Consumer	Other			
Beginning balance	\$ 1,723	\$ 3,774	\$ 16	\$ 643	\$ 401	\$ 128	\$ 30	\$ 6,715	
Charge Offs	(607)	(1,560)	-	(238)	(350)	(4)	-	(2,759)	
Recoveries	416	27	3	115	19	4	-	584	
Provision	20	875	21	402	408	\$(29)	(2)	1,695	
Ending Balance	\$ 1,552	\$ 3,116	\$ 40	\$ 922	\$ 478	\$ 99	\$ 28	\$ 6,235	
Ending balance: individually evaluated for impairment	\$ 732	\$ 429	\$ -	\$ 153	\$ 119	\$ -	\$ -	\$ 1,433	
Ending balance: collectively evaluated for impairment	\$ 820	\$ 2,687	\$ 40	\$ 769	\$ 359	\$ 99	\$ 28	\$ 4,802	
Loans: Ending balance: individually									

Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

evaluated for impairment	\$ 2,391	\$ 2,675	\$ -	\$ 1,311	\$ 95	\$ -	\$ -	\$ 6,472
Ending balance:								
collectively evaluated for impairment	\$ 70,231	\$ 173,521	\$ 38,601	\$ 97,461	\$ 47,949	\$ 4,691	\$ -	\$ 432,454

Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

For the nine months ended September 30, 2010, the beginning balance for the allowance for loan loss was \$7.03 million. During the nine month period of 2010, the Company incurred charge-offs of \$9.74 million, received recoveries of \$0.38 million, and had provision for loan loss of \$8.79 million, for an ending balance of \$6.45 million.

For the Three Months Ended Sept. 30, 2011 (\$'s in thousands)	Commercial							Total
	Commercial & Industrial	RE & Construction	Agriculture & Farmland	Residential Real Estate	Home Equity & Consumer	Other	Unallocated	
Beginning balance	\$ 1,522	\$ 3,444	\$ 27	\$ 894	\$ 427	\$ 99	\$ 31	\$ 6,444
Charge Offs	(11)	(352)	-	(72)	(87)	(5)	-	(527)
Recoveries	2	11	1	1	1	5	-	21
Provision	39	13	12	99	137	-	(3)	297
Ending Balance	\$ 1,552	\$ 3,116	\$ 40	\$ 922	\$ 478	\$ 99	\$ 28	\$ 6,235
Ending balance: individually evaluated for impairment	\$ 732	\$ 429	\$ -	\$ 153	\$ 119	\$ -	\$ -	\$ 1,433
Ending balance: collectively evaluated for impairment	\$ 820	\$ 2,687	\$ 40	\$ 769	\$ 359	\$ 99	\$ 28	\$ 4,802
Loans: Ending balance: individually evaluated for impairment	\$ 2,391	\$ 2,675	\$ -	\$ 1,311	\$ 95	\$ -	\$ -	\$ 6,472
Ending balance: collectively evaluated for impairment	\$ 70,231	\$ 173,521	\$ 38,601	\$ 97,461	\$ 47,949	\$ 4,691	\$ -	\$ 432,454

For the three months ended September 30, 2010, the beginning balance for the allowance for loan loss was \$7.00 million. During the three month period of 2010, the Company incurred charge-offs of \$1.58 million, received recoveries of \$0.13 million, and had provision for loan loss of \$0.90 million, for an ending balance of \$6.45 million.

For the Year Ended Commercial