

RURBAN FINANCIAL CORP
Form 10-Q
May 16, 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 March 31, 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

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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 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 May 13, 2011)

RURBAN FINANCIAL CORP.

FORM 10-Q

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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 months ended March 31, 2011 are not necessarily indicative of results for the complete year.

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

	March 2011 (Unaudited)	December 2010
ASSETS		
Cash and due from banks	\$ 38,090,470	\$ 30,417,813
Available-for-sale securities	131,052,629	132,762,058
Loans held for sale	5,423,901	9,055,268
Loans, net of unearned income	422,166,393	427,544,414
Allowance for loan losses	(6,593,279)	(6,715,397)
Premises and equipment, net	14,361,382	14,622,541
Purchased software	947,061	1,021,036
Federal Reserve and Federal Home Loan Bank Stock	3,748,250	3,748,250
Foreclosed assets held for sale, net	921,660	1,538,307
Accrued interest receivable	2,363,645	2,068,965
Goodwill	16,733,830	16,733,830
Core deposits and other intangibles	2,387,920	2,585,132
Cash value of life insurance	11,951,006	13,211,247
Mortgage Servicing Rights	3,316,228	3,190,389
Other assets	8,096,914	8,503,832
Total assets	\$ 654,968,010	\$ 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 Balance Sheets
March 31, 2011 and December 31, 2010

	March 2011 (Unaudited)	December 2010
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non interest bearing demand	\$64,027,818	\$62,745,906
Interest bearing NOW	107,940,091	105,708,472
Savings	48,983,184	47,662,315
Money Market	77,481,943	84,635,537
Time Deposits	214,528,353	214,925,512
Total deposits	512,961,389	515,677,742
Notes payable		
Advances from Federal Home Loan Bank	3,218,211	3,290,471
Repurchase Agreements	16,679,942	22,807,351
Trust preferred securities	49,499,424	45,785,254
Accrued interest payable	20,620,000	20,620,000
Other liabilities	2,195,926	1,971,587
Total liabilities	3,528,328	4,111,182
Shareholders' Equity		
Common stock	12,568,583	12,568,583
Additional paid-in capital	15,258,113	15,235,206
Retained earnings	18,813,030	18,802,106
Accumulated other comprehensive income	1,394,375	1,187,514
Treasury stock	(1,769,311)	(1,769,311)
Total shareholders' equity	46,264,790	46,024,098
Total liabilities and shareholders' equity	\$654,968,010	\$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 Months Ended

	Three Months Ended March 31	
	2011	2010
Interest income		
Loans		
Taxable	\$5,852,367	\$6,411,582
Tax-exempt	11,494	18,915
Securities		
Taxable	610,524	702,255
Tax-exempt	335,969	319,063
Other	83	31,448
Total interest income	6,810,437	7,483,263
Interest expense		
Deposits	1,049,393	1,374,291
Other borrowings	24,629	38,083
Retail Repurchase Agreements	425,519	426,967
Federal Home Loan Bank advances	133,016	352,817
Trust preferred securities	344,578	386,624
Total interest expense	1,977,135	2,578,782
Net interest income	4,833,302	4,904,481
Provision for loan losses	498,840	1,391,433
Net interest income after provision for loan losses	4,334,462	3,513,048
Non-interest income		
Data service fees	912,254	4,029,406
Trust fees	695,321	642,786
Customer service fees	580,942	587,401
Net gain on sales of loans	467,909	717,014
Net realized gain on sales of securities	-	451,474
Investment securities recoveries	-	73,774
Loan servicing fees	161,406	122,208
Loss on sale or disposal of assets	(100,209)	(28,652)
Other income	145,203	155,981
Total non-interest income	2,862,826	6,751,392

See notes to condensed consolidated financial statements (unaudited)

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

	Three Months Ended March 31	
	2011	2010
Non-interest expense		
Salaries and employee benefits	3,530,106	5,103,540
Net occupancy expense	584,057	586,223
FDIC Insurance expense	317,639	218,903
Equipment expense	711,051	2,165,101
Software impairment expense	-	568,535
Data processing fees	143,744	194,786
Professional fees	473,536	642,810
Marketing expense	55,976	77,601
Printing and office supplies	76,148	161,102
Telephone and communication	156,640	386,206
Postage and delivery expense	344,309	570,433
State, local and other taxes	143,568	121,039
Employee expense	95,884	279,925
Other expenses	427,033	683,860
Total non-interest expense	7,059,691	11,760,064
Income (loss) before income tax expense	137,597	(1,495,624)
Income tax expense (benefit)	126,672	(647,686)
Net income (loss)	\$ 10,925	\$(847,938)
Earnings (loss) per common share:		
Basic	\$0.00	\$(0.17)
Diluted	\$0.00	\$(0.17)

See notes to condensed consolidated financial statements (unaudited)

RURBAN FINANCIAL CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS'
EQUITY (UNAUDITED)

	Three Months Ended	
	Mar. 31, 2011	Mar. 31, 2010
Balance at beginning of period	\$46,024,098	\$ 61,707,655
Net Income (Loss)	10,925	(847,938)
Unrealized gains on securities		
Unrealized holding gains arising during the year, net of tax	206,861	249,171
Less: reclassification adjustment for gains realized in net income, net of tax	-	297,972
Total comprehensive income (loss)	217,786	(896,739)
Share-based compensation	22,906	43,627
Balance at end of period	\$46,264,790	\$ 60,854,543

See notes to condensed consolidated financial statements (unaudited)

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

	March 31, 2011	March 31, 2010
Operating Activities		
Net Income/(loss)	\$ 10,925	\$ (847,938)
Items not requiring (providing) cash		
Depreciation and amortization	453,858	1,422,548
Provision for loan losses	498,840	1,391,433
Expense of share-based compensation plan	22,906	43,627
Amortization of premiums and discounts on securities	431,539	201,935
Amortization of intangible assets	197,212	200,134
Deferred income taxes	(106,563)	(20,568)
Proceeds from sale of loans held for sale	29,634,009	69,929,801
Originations of loans held for sale	(25,534,733)	(64,824,772)
Gain from sale of loans	(467,909)	(717,014)
Gain on available for sale securities	-	(451,474)
Software and fixed asset impairment	-	568,535
Loss on sale of foreclosed assets	100,274	22,841
(Gain) / Loss on sale of fixed assets	(65)	5,811
Income from bank owned life insurance	(93,521)	(104,047)
Changes in		
Interest receivable	(294,680)	(638,251)
Other assets	274,191	409,687
Interest payable and other liabilities	(358,515)	(1,745,332)
Net cash from operating activities	4,767,768	4,846,956
Investing Activities		
Purchase of available-for-sale securities	(4,039,486)	(23,365,873)
Proceeds from maturities of available-for-sale securities	5,630,800	11,773,761
Proceeds from sales of available-for-sale-securities	-	9,995,724
Proceeds from bank owned life insurance	1,353,762	-
Net change in loans	4,357,295	3,478,042
Purchase of premises and equipment and software	(118,724)	(753,269)
Proceeds from sales of premises and equipment	65	477,941
Proceeds from sale of foreclosed assets	923,029	2,727,528
Net cash from investing activities	\$ 8,106,741	\$ 4,333,854

See notes to condensed consolidated financial statements (unaudited)

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

	March 31, 2011	March 31, 2010
Financing Activities		
Net (decrease) increase in demand deposits, money market, interest checking and savings accounts	\$ (2,319,194)	\$ 12,614,595
Net decrease in certificates of deposit	(397,159)	(4,911,086)
Net increase in securities sold under agreements to repurchase	3,714,170	2,068,279
Net increase in federal funds purchased	-	(5,000,000)
Repayment of Federal Home Loan Bank advances	(6,127,409)	(2,607,300)
Proceeds from notes payable	-	2,000,000
Repayment of notes payable	(72,260)	(765,841)
Net cash (used in) / from financing activities	(5,201,852)	3,398,647
Increase in Cash and Cash Equivalents	7,672,657	12,579,457
Cash and Cash Equivalents, Beginning of Year	30,417,813	24,824,785
Cash and Cash Equivalents, End of Period	\$ 38,090,470	\$ 37,404,242
Supplemental Cash Flows Information		
Interest Paid	\$ 1,752,796	\$ 2,885,467
Transfer of loans to foreclosed assets	\$ 399,768	\$ 2,589,970
Sale and financing of foreclosed assets	\$ -	\$ 2,249,532

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 months ended March 31, 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 March 31, 2011 and 2010, share based awards totaling 325,951 and 481,213 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 March 31	
	2011	2010
Basic earnings per share	4,861,779	4,861,779
Diluted earnings per share	4,861,779	4,861,779

NOTE C – LOANS AND ALLOWANCE FOR LOAN LOSSES

Categories of loans at March 31, 2011 and December 31, 2010 include:

	March 31, 2011	December 31, 2010
Commercial	\$ 70,619,272	\$ 72,488,678
Commercial real estate	181,750,397	177,889,619
Agricultural	37,206,059	40,762,147
Residential real estate	82,435,692	84,775,026
Consumer	50,252,550	51,710,239
Leasing	181,521	194,384
Total loans	422,445,491	427,820,093
Less		
Net deferred loan fees, premiums and discounts	(279,098)	(275,679)
Loans, net of unearned income	422,166,393	427,544,414
Allowance for loan losses	\$ (6,593,279)	\$ (6,715,397)

The following table presents the Company's nonaccrual loans at March 31, 2011 and December 31, 2010. This table excludes performing troubled debt restructurings.

(\$'s in thousands)	March 31, 2011	December 31, 2010
Commercial	\$2,950,220	\$ 3,031,716
Commercial real estate	5,335,542	6,065,058
Agricultural	86,598	-
Residential real estate	3,466,181	2,564,913
Consumer	282,055	621,000
Leasing	-	-
Total	\$12,120,596	\$ 12,282,687

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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 as of March 31, 2011 and December 31, 2010.

March 31, 2011 (\$'s in thousands)	Business Loans	Commercial Real Estate	Agricultural	Residential First Mortgage	Consumer	Other	Unallocated	Total
ALLOWANCE FOR LOAN AND LEASE LOSSES								
Beginning balance	\$ 1,723	\$ 3,774	\$ 16	\$ 643	\$ 401	\$ 128	\$ 30	\$ 6,715
Charge Offs	(209)	(100)	-	(103)	(200)	(27)	-	(639)
Recoveries	5	3	1	-	7	2	-	18
Provision	247	(354)	1	386	243	5	(29)	499
Ending Balance	\$ 1,766	\$ 3,322	\$ 18	\$ 926	\$ 451	\$ 108	\$ 1	\$ 6,593
Ending balance:								
individually evaluated for impairment	\$ 701	\$ 1,085	\$ -	\$ 300	\$ -			\$ 2,087
Ending balance:								
collectively evaluated for impairment	\$ 1,064	\$ 2,237	\$ 18	\$ 626	\$ 451	\$ 108	\$ 1	\$ 4,506
Loans:								
Ending balance:								
individually evaluated for impairment	\$ 2,864	\$ 5,306	\$ -	\$ 2,337	\$ 93			\$ 10,600
Ending balance:								
collectively evaluated for impairment	\$ 67,755	\$ 176,445	\$ 37,206	\$ 80,099	\$ 50,159	\$ 182	\$ -	\$ 411,845

For the quarter ended March 31, 2010, the allowance for loan loss beginning balance was \$7.03 million, the Company had provision of \$1.39 million, recoveries of \$0.13 million, and charge-offs of \$2.48 million for an ending balance of \$6.08 million.

December 31, 2010	Business	Commercial	Residential
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