

RURBAN FINANCIAL CORP
Form 10-Q
October 25, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2010
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

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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 October 25, 2010)

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, results of operations and cash flows for the interim periods presented. Results for the three and six months ended June 30, 2010 are impacted by significant software and equipment impairments related to the Company’s data processing subsidiary. Results of operations for the three and six months ended June 30, 2010 are not necessarily indicative of results for the complete year.

Rurban Financial Corp.
Condensed Consolidated Balance Sheets
June 30, 2010 and December 31, 2009

	June 30 2010 (Unaudited)	December 31 2009
ASSETS		
Cash and cash equivalents	\$ 20,278,740	\$ 24,824,785
Available-for-sale securities	111,140,374	105,083,112
Loans held for sale	11,649,780	16,857,648
Loans, net of unearned income	437,275,407	452,557,581
Allowance for loan losses	(7,000,513)	(7,030,178)
Premises and equipment, net	15,135,862	16,993,640
Purchased software	600,827	5,338,319
Federal Reserve and Federal Home Loan Bank Stock	3,748,250	3,748,250
Foreclosed assets held for sale, net	1,648,026	1,767,953
Accrued interest receivable	2,339,958	2,324,868
Goodwill	21,414,790	21,414,790
Core deposits and other intangibles	4,577,245	4,977,513
Cash value of life insurance	13,001,493	12,792,045
Other assets	10,536,672	11,398,776
Total assets	\$ 646,346,911	\$ 673,049,102

See notes to condensed consolidated financial statements (unaudited)

Note: The balance sheet at December 31, 2009 has been derived from the audited consolidated financial statements at that date

Rurban Financial Corp.
Condensed Consolidated Balance Sheets
June 30, 2010 and December 31, 2009

	June 30 2010 (Unaudited)	December 31 2009
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non interest bearing demand	\$ 57,301,649	\$ 57,229,795
Interest bearing NOW	90,283,830	87,511,973
Savings	45,069,665	43,321,364
Money Market	79,045,113	86,621,953
Time Deposits	210,062,500	216,557,067
Total deposits	481,762,757	491,242,152
Notes payable	3,415,856	2,146,776
Advances from Federal Home Loan Bank	26,046,944	35,266,510
Fed Funds Purchased	10,500,000	5,000,000
Repurchase Agreements	45,602,027	47,042,820
Trust preferred securities	20,620,000	20,620,000
Accrued interest payable	1,378,388	1,507,521
Other liabilities	3,819,772	8,515,668
Total liabilities	593,145,744	611,341,447
Shareholders' Equity		
Common stock	12,568,583	12,568,583
Additional paid-in capital	15,179,118	15,186,042
Retained earnings	25,360,487	34,415,316
Accumulated other comprehensive income	1,862,290	1,307,025
Treasury stock	(1,769,311)	(1,769,311)
Total shareholders' equity	53,201,167	61,707,655
Total liabilities and shareholders' equity	\$ 646,346,911	\$ 673,049,102

See notes to condensed consolidated financial statements (unaudited)

Note: The balance sheet at December 31, 2009 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 June 30	
	2010	2009
Interest income		
Loans		
Taxable	\$ 6,749,644	\$ 6,855,627
Tax-exempt	17,381	25,390
Securities		
Taxable	380,586	1,134,573
Tax-exempt	382,889	244,331
Other	(31,261)	29,745
Total interest income	7,499,239	8,289,666
Interest expense		
Deposits	1,285,833	1,657,345
Other borrowings	30,695	33,411
Retail Repurchase Agreements	432,658	431,336
Federal Home Loan Bank advances	289,008	411,556
Trust preferred securities	403,024	394,629
Total interest expense	2,441,218	2,928,277
Net interest income	5,058,021	5,361,389
Provision for loan losses - Bank Only	3,498,710	798,850
Provision for loan losses - RDSI	3,000,000	-
Net interest income / (expense) after provision for loan losses	(1,440,689)	4,562,539
Non-interest income		
Data service fees	2,608,769	4,956,034
Trust fees	590,697	641,033
Customer service fees	614,944	649,003
Net gain on sales of loans	609,047	938,345
Net realized gain on sales of securities	-	423,784
Loan servicing fees	130,248	103,863
Gain (loss) on sale or disposal of assets	(1,429)	16,241
Other income	158,552	169,488
Total non-interest income	4,710,828	7,897,791

See notes to condensed consolidated financial statements (unaudited)

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

	Three Months Ended June 30	
	2010	2009
Non-interest expense		
Salaries and employee benefits	4,902,735	5,298,604
Net occupancy expense	566,468	865,599
FDIC Insurance expense	197,913	46,120
Equipment expense	2,385,561	1,698,905
Software and fixed asset impairment	4,323,696	-
Data processing fees	229,478	208,726
Professional fees	561,209	642,988
Marketing expense	112,625	234,557
Printing and office supplies	97,326	117,335
Telephone and communication	339,341	399,835
Postage and delivery expense	456,430	514,490
State, local and other taxes	(156,595)	233,157
Employee expense	227,304	257,204
OREO Impairment	215,000	-
Other expenses	1,631,111	590,537
Total non-interest expense	16,089,602	11,108,057
Income / (loss) before income tax expense / (benefit)	(12,819,463)	1,352,273
Income tax expense/(benefit)	(4,612,572)	348,687
Net income (loss)	\$ (8,206,891)	\$ 1,003,586
Earnings (loss) per common share:		
Basic	\$ (1.69)	\$ 0.20
Diluted	\$ (1.69)	\$ 0.20

See notes to condensed consolidated financial statements (unaudited)

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

	Six Months Ended June 30	
	2010	2009
Interest income		
Loans		
Taxable	\$ 13,161,226	\$ 13,670,260
Tax-exempt	36,296	50,847
Securities		
Taxable	1,082,841	2,214,070
Tax-exempt	701,952	472,215
Other	187	29,877
Total interest income	14,982,502	16,437,269
Interest expense		
Deposits	2,660,124	3,555,649
Other borrowings	68,778	47,803
Retail Repurchase Agreements	859,625	858,823
Federal Home Loan Bank advances	641,825	804,128
Trust preferred securities	789,648	793,614
Total interest expense	5,020,000	6,060,017
Net interest income	9,962,502	10,377,252
Provision for loan losses - Bank Only	4,890,143	1,293,992
Provision for loan losses - RDSI	3,000,000	-
Net interest income after provision for loan losses	2,072,359	9,083,260
Non-interest income		
Data service fees	6,638,175	9,928,583
Trust fees	1,233,483	1,224,656
Customer service fees	1,202,345	1,223,702
Net gain on sales of loans	1,326,061	2,016,392
Net realized gain on sales of securities	451,474	477,591
Investment securities recoveries	73,774	-
Loan servicing fees	284,090	171,736
(Loss) on sale or disposal of assets	(30,081)	(42,414)
Other income	314,533	345,050
Total non-interest income	11,493,854	15,345,296

See notes to condensed consolidated financial statements (unaudited)

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

	Six Months Ended June 30	
	2010	2009
Non-interest expense		
Salaries and employee benefits	10,006,275	10,222,726
Net occupancy expense	1,152,691	1,195,457
FDIC Insurance expense	416,816	388,663
Equipment expense	4,550,662	3,312,298
Software and fixed asset impairment	4,892,231	-
Data processing fees	424,264	344,462
Professional fees	1,204,019	1,141,043
Marketing expense	190,226	423,303
Printing and office supplies	258,428	331,877
Telephone and communication	725,547	806,228
Postage and delivery expense	1,026,863	1,123,512
State, local and other taxes	(35,556)	466,053
Employee expense	507,229	517,142
OREO Impairment	215,000	-
Other expenses	2,346,605	1,310,317
Total non-interest expense	27,881,300	21,583,081
Income (loss) before income tax expense / (benefit)	(14,315,087)	2,845,475
Income tax expense/(benefit)	(5,260,258)	738,336
Net income (loss)	\$ (9,054,829)	\$ 2,107,139
Earnings (loss) per common share:		
Basic	\$ (1.86)	\$ 0.43
Diluted	\$ (1.86)	\$ 0.43

See notes to condensed consolidated financial statements (unaudited)

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

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Balance at beginning of period	\$ 60,854,543	\$ 63,620,510	\$ 61,707,655	\$ 61,662,004
Net Income / (Loss)	(8,206,891)	1,003,586	(9,054,829)	2,107,139
Unrealized gains (losses) on securities				
Unrealized holding gains (losses) arising during the year, net of tax	604,066	(464,173)	853,239	915,432
Less: reclassification adjustment for gains realized in net income, net of tax	-	279,697	297,974	315,210
Total comprehensive income / (loss)	(7,602,825)	259,716	(8,499,564)	2,707,361
Cash dividend	-	(438,333)	-	(877,291)
Purchase of treasury shares	-	(59,246)	-	(139,494)
Share-based compensation	(50,551)	30,066	(6,924)	60,133
Balance at end of period	\$ 53,201,167	\$ 63,412,713	\$ 53,201,167	\$ 63,412,713
Dividends declared per share	\$ -	\$ 0.09	\$ -	\$ 0.18

See notes to condensed consolidated financial statements (unaudited)

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

	June 30, 2010	June 30, 2009
Operating Activities		
Net income/(loss)	\$ (9,054,829)	\$ 2,107,139
Items not requiring (providing) cash		
Depreciation and amortization	2,492,871	1,830,970
Provision for loan losses	7,890,143	1,293,922
Expense of share-based compensation plan	(6,924)	60,133
Amortization of premiums and discounts on securities	653,169	324,964
Amortization of intangible assets	400,268	443,822
Deferred income taxes	(3,001,762)	(984,182)
Proceeds from sale of loans held for sale	117,528,701	204,379,921
Originations of loans held for sale	(110,994,772)	(211,849,075)
Gain from sale of loans	(1,326,061)	(2,016,392)
Gain on available for sale securities	(451,474)	(477,591)
Software and fixed asset impairment	4,892,231	-
OREO impairment	215,000	-
Loss on sale of foreclosed assets	17,887	15,414
Loss on sales of fixed assets	12,194	27,000
Changes in		
Interest receivable	(15,090)	451,877
Other assets	519,381	(1,903,768)
Interest payable and other liabilities	(2,109,313)	(583,503)
Net cash from / (used in) operating activities	7,661,620	(6,879,349)
Investing Activities		
Purchases of available-for-sale securities	(41,525,452)	(44,042,933)
Proceeds from maturities of available-for-sale securities	26,112,083	21,932,628
Proceeds from sales of available-for-sale securities	9,995,724	15,790,787
Proceeds from sales of Fed Stock	-	700,000
Purchase of FHLB Stock	-	(204,150)
Net change in loans	4,371,388	8,095,458
Purchase of premises and equipment and software	(1,294,300)	(613,597)
Proceeds from sales of premises and equipment	504,468	40,877
Proceeds from sale of foreclosed assets	2,999,099	321,231
Net cash from / (used in) investing activities	\$ 1,163,010	\$ 2,020,301

See notes to condensed consolidated financial statements (unaudited)

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

	June 30, 2010	June 30, 2009
Financing Activities		
Net increase/(decrease) in demand deposits, money market, interest checking and savings accounts	\$ (2,984,828)	\$ 11,731,106
Net decrease in certificates of deposit	(6,494,567)	(22,958,151)
Net decrease in securities sold under agreements to repurchase	(1,440,793)	(722,346)
Net increase in federal funds purchased	5,500,000	10,000,000
Proceeds from Federal Home Loan Bank advances	2,000,000	7,500,000
Repayment of Federal Home Loan Bank advances	(11,219,566)	(3,680,481)
Proceeds from notes payable	2,250,000	4,200,000
Repayment of notes payable	(980,920)	(2,636,313)
Purchase of treasury stock	-	(139,494)
Dividends paid	-	(877,291)
Net cash from / (used in) financing activities	(13,370,674)	2,417,030
Decrease in Cash and Cash Equivalents	(4,546,045)	(2,442,018)
Cash and Cash Equivalents, Beginning of Year	24,824,785	28,059,532
Cash and Cash Equivalents, End of Period	\$ 20,278,740	\$ 25,617,514
Supplemental Cash Flows Information		
Interest paid	\$ 5,149,133	\$ 6,275,766
Transfer of loans to foreclosed assets	\$ 2,897,059	\$ 297,042

See notes to condensed consolidated financial statements (unaudited)

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 Rurban Financial Corp. (the "Company"). Results for the three and six months ended June 30, 2010 are impacted by significant software and equipment impairments related to the Company's data processing subsidiary. Results of operations for the three and six months ended June 30, 2010 are not necessarily indicative of results for the complete year.

The condensed consolidated balance sheet of the Company as of December 31, 2009 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, 2009.

NOTE B—EARNINGS PER SHARE

Earnings per share (EPS) has been computed based on the weighted average number of shares outstanding during the periods presented. For the periods ended June 30, 2010 and 2009, share based awards totaling 404,213 and 327,263 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		Six Months Ended	
	June 30		June 30	
	2010	2009	2010	2009
Basic earnings per share	4,861,779	4,868,063	4,861,779	4,871,978
Diluted earnings per share	4,861,779	4,868,063	4,861,779	4,871,978

NOTE C – LOANS, RISK ELEMENTS AND ALLOWANCE FOR LOAN LOSSES

Total loans on the balance sheet are comprised of the following classifications:

	June 30, 2010	December 31, 2009
Commercial	\$ 79,129,809	\$ 84,462,860
Commercial real estate	175,054,896	179,909,135
Agricultural	39,582,159	41,485,301
Residential real estate	90,675,563	92,971,599
Consumer	52,863,188	53,655,238
Lease financing	249,273	221,190
Total loans	437,554,888	452,885,323
Less		
Net deferred loan fees, premiums and discounts	(279,481)	(327,742)
Loans, net of unearned income	\$ 437,275,407	\$ 452,557,581
Allowance for loan losses	\$ (7,000,513)	\$ (7,030,178)

The following is a summary of the activity in the allowance for loan losses account for the three and six months ended June 30, 2010 and 2009:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Balance, beginning of period	\$ 6,075,126	\$ 5,348,952	\$ 7,030,178	\$ 5,020,197
Provision charged to expense	6,498,710	798,850	7,890,143	1,293,992
Recoveries	106,770	60,921	240,503	81,915
Loans charged off	(5,680,093)	(335,577)	(8,160,311)	(522,958)
Balance, end of period	\$ 7,000,513	\$ 5,873,146	\$ 7,000,513	\$ 5,873,146

The following schedule summarizes nonaccrual, past due and impaired loans:

	June 30, 2010	December 31, 2009
Non-accrual loans	\$ 12,401,498	\$ 18,543,368
Accruing loans which are contractually past due 90 days or more as to interest or principal payments	0	0
Total non-performing loans	\$ 12,401,498	\$ 18,543,368

Individual loans determined to be impaired were as follows:

	June 30, 2010	December 31, 2009
Loans with no allowance for loan losses allocated	\$ 1,726,714	\$ 1,099,912
Loans with allowance for loan losses allocated	9,182,108	14,912,035
Total impaired loans	\$ 10,908,822	\$ 16,011,947
Amount of allowance for loan losses allocated	\$ 2,281,302	\$ 3,041,967

NOTE D – NEW ACCOUNTING PRONOUNCEMENTS

In June 2009, the Financial Accounting Standards Board (the “FASB”) issued new guidance relating to the accounting for transfers of financial assets. The new guidance was adopted into the FASB’s Accounting Standards Codification (“ASC”) in December 2009 through the issuance of Accounting Standards Update (“ASU”) 2009-16. The new standard provides guidance to improve the relevance, representational faithfulness, and comparability of the information that an entity provides in its financial statements about: a transfer of financial assets; the effects of a transfer of financial assets on the entity’s financial position, financial performance, and cash flows; and a transferor’s continuing involvement, if any, in transferred financial assets. The Company has adopted the new guidance for 2010 and has determined it to have no effect on the consolidated financial statements.

FASB ASU 2010-20, "Receivables: Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" (ASC Topic 310), issued on July 21, 2010, concerns improved disclosures regarding the credit quality in a financial institution's loan portfolio. The guidance requires additional disaggregation of the credit portfolio by portfolio segment and class of receivable, a revised roll forward of the allowance for credit losses, presentation of the credit portfolio by credit quality indicators, an aging schedule of past due receivables, disclosure of troubled debt restructurings and purchases and sales of receivables by portfolio segment. The period-end disclosures are effective for periods ending on or after December 15, 2010 (December 31, 2010 for the Company). The activity disclosures are effective for periods beginning on or after December 15, 2010 (January 1, 2011 for the Company). The adoption of FASB ASU 2010-20 is not expected to have a material effect on the Company's financial condition or results of operations.

NOTE E – SEGMENT INFORMATION

The Company has two reportable segments: (1) banking; and (2) data processing, which are determined by the products and services offered. "Other" segment information includes the accounts of the holding company, Rurban Financial Corp. ("Rurban"), which provides management and operational services to its subsidiaries. Segment results for the three and six months ended June 30, 2010 and 2009 were as follows:

NOTE E — SEGMENT INFORMATION (Continued)

As of and for the three months ended June 30, 2010

Income statement information:	Data			Total	Intersegment	Consolidated
	Banking	Processing	Other	Segments	Elimination	Totals
Net interest income (expense)	\$ 5,639,927	\$ (210,558)	\$ (371,348)	\$ 5,058,021		\$ 5,058,021
Non-interest income – external customers	2,081,469	2,608,768	20,591	4,710,828		4,710,828
Non-interest income - other segments	24,738	226,343	155,319	406,400	(406,400)	-
Total revenue	7,746,134	2,624,553	(195,438)	10,175,249	(406,400)	9,768,849
Non-interest expense	6,641,773	9,576,293	277,936	16,496,002	(406,400)	16,089,602
Significant non-cash items:						
Depreciation and amortization	247,925	848,212	15,648	1,111,785	-	1,111,785
Fixed asset & software impairment	-	4,323,696	-	4,323,696	-	4,323,696
Provision for loan losses	3,498,710	3,000,000	-	6,498,710	-	6,498,710
Income tax expense (benefit)	(914,787)	(3,505,992)	(191,793)	(4,612,572)	-	(4,612,572)
Segment profit (loss)	\$ (1,479,562)	\$ (6,445,748)	\$ (281,581)	\$ (8,206,891)	\$ -	\$ (8,206,891)
Balance sheet information:						
Total assets	\$ 634,047,112	\$ 13,063,769	\$ 5,456,742	\$ 652,567,623	\$ (6,220,712)	\$ 646,346,911
Goodwill and intangibles	\$ 19,151,849	\$ 6,840,186	\$ -	\$ 25,992,035	\$ -	\$ 25,992,035
Premises and equipment expenditures	\$ 25,688	\$ 515,342	\$ -	\$ 541,030	\$ -	\$ 541,030

NOTE E — SEGMENT INFORMATION (Continued)

As of and for the three months ended June 30, 2009

Income statement information:	Data			Total Segments	Intersegment Elimination	Consolidated Totals
	Banking	Processing	Other			
Net interest income (expense)	\$ 5,789,863	\$ (34,003)	\$ (394,471)	\$ 5,361,389		\$ 5,361,389
Non-interest income - external customers	2,917,326	4,959,034	21,431	7,897,791		7,897,791
Non-interest income - other segments	24,164	391,439	355,002	770,605	(770,605)	-