

RURBAN FINANCIAL CORP
Form 10-Q
August 13, 2009

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, 2009

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)	4,862,679 shares (Outstanding at August 13, 2009)
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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 and six months ended June 30, 2009 are not necessarily indicative of results for the complete year.

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Rurban Financial Corp.
Condensed Consolidated Balance Sheets
June 30, 2009 and December 31, 2008

	(Unaudited)	
	June 30, 2009	December 31, 2008
Assets		
Cash and due from banks	\$ 25,617,514	\$ 18,059,532
Federal funds sold	-	10,000,000
Cash and cash equivalents	25,617,514	28,059,532
Available-for-sale securities	109,988,049	102,606,475
Loans held for sale	13,310,045	3,824,499
Loans, net of unearned income	441,217,413	450,111,653
Allowance for loan losses	(5,873,146)	(5,020,197)
Premises and equipment	16,636,308	17,621,262
Purchased software	5,567,099	5,867,395
Federal Reserve and Federal Home Loan Bank stock	3,748,250	4,244,100
Foreclosed assets held for sale, net	1,346,449	1,384,335
Interest receivable	2,512,786	2,964,663
Goodwill	21,414,790	21,414,790
Core deposits and other intangibles	5,392,114	5,835,936
Cash value of life insurance	12,845,586	12,625,015
Other	7,821,698	6,079,451
Total assets	\$ 661,544,955	\$ 657,618,909

See notes to condensed consolidated financial statements (unaudited)

Note: The balance sheet at December 31, 2008 has been derived from the audited consolidated financial statements at that date

Rurban Financial Corp.
Condensed Consolidated Balance Sheets
June 30, 2009 and December 31, 2008

	June 30, 2009	(Unaudited) December 31, 2008
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Demand	\$ 52,755,779	\$ 52,242,626
Savings, interest checking and money market	200,679,708	189,461,755
Time	219,558,052	242,516,203
Total deposits	472,993,539	484,220,584
Notes payable	2,563,687	1,000,000
Federal Home Loan Bank advances	40,466,373	36,646,854
Fed Funds Purchased	10,000,000	-
Repurchase agreements	42,703,632	43,425,978
Trust preferred securities	20,620,000	20,620,000
Interest payable	1,750,093	1,965,842
Other liabilities	7,034,918	8,077,647
Total liabilities	598,132,242	595,956,905
Commitments and Contingent Liabilities		
Stockholders' Equity		
Common stock, \$2.50 stated value; authorized 10,000,000 shares; issued 5,027,433 shares; outstanding June 2009 – 4,863,979 shares, December 2008 – 4,881,452 shares	12,568,583	12,568,583
Additional paid-in capital	15,102,913	15,042,781
Retained earnings	37,015,166	35,785,317
Accumulated other comprehensive income (loss)	478,565	(121,657)
Treasury Stock, at cost		
Common; June 2009 – 163,454 shares, December 2008 – 145,981 shares	(1,752,514)	(1,613,020)
Total stockholders' equity	63,412,713	61,662,004
Total liabilities and stockholders' equity	\$ 661,544,955	\$ 657,618,909

See notes to condensed consolidated financial statements (unaudited)

Note: The balance sheet at December 31, 2008 has been derived from the audited consolidated financial statements at that date.

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

	June 30, 2009	June 30, 2008
Interest Income		
Loans		
Taxable	\$ 6,855,627	\$ 7,023,308
Tax-exempt	25,390	20,469
Securities		
Taxable	1,134,573	1,090,570
Tax-exempt	244,331	165,798
Other	29,745	15,380
Total interest income	8,289,666	8,315,525
Interest Expense		
Deposits	1,657,345	2,623,590
Other borrowings	33,411	9,483
Repurchase agreements	431,336	450,763
Federal Home Loan Bank advances	411,556	377,146
Trust preferred securities	394,629	422,385
Total interest expense	2,928,277	3,883,367
Net Interest Income	5,361,389	4,432,158
Provision for Loan Losses	798,850	212,997
Net Interest Income After Provision for Loan Losses	4,562,539	4,219,161
Non-interest Income		
Data service fees	4,956,034	4,948,783
Trust fees	641,033	815,734
Customer service fees	649,003	612,825
Net gains on loan sales	938,345	183,145
Net realized gain on sales of securities	423,784	-
Loan servicing fees	103,863	55,220
Gain (loss) on sale of assets	16,241	(390)
Other	169,488	185,841
Total non-interest income	\$ 7,897,791	\$ 6,801,158

See notes to condensed consolidated financial statements (unaudited)

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

	June 30, 2009	June 30, 2008
Non-interest Expense		
Salaries and employee benefits	\$ 5,298,604	\$ 4,435,657
Net occupancy expense	911,719	511,179
Equipment expense	1,698,905	1,625,708
Data processing fees	208,726	104,792
Professional fees	642,988	284,536
Marketing expense	234,557	156,090
Printing and office supplies	117,335	119,686
Telephone and communications	399,835	421,858
Postage and delivery expense	514,490	535,813
State, local and other taxes	233,157	186,418
Employee expense	257,204	303,372
Other	590,537	425,237
Total non-interest expense	11,108,057	9,110,346
Income Before Income Tax	1,352,273	1,909,973
Provision for Income Taxes	348,687	554,149
Net Income	\$ 1,003,586	\$ 1,355,824
Basic Earnings Per Share	\$ 0.20	\$ 0.28
Diluted Earnings Per Share	\$ 0.20	\$ 0.28
Dividends Declared Per Share	\$ 0.09	\$ 0.08

See notes to consolidated financial statements (unaudited)

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

	June 30, 2009	June 30, 2008
Interest Income		
Loans		
Taxable	\$ 13,670,260	\$ 13,831,504
Tax-exempt	50,847	41,819
Securities		
Taxable	2,214,070	2,130,464
Tax-exempt	472,215	324,165
Other	29,877	112,789
Total interest income	16,437,269	16,440,741
Interest Expense		
Deposits	3,555,649	5,715,492
Other borrowings	47,803	26,989
Repurchase agreements	858,823	911,315
Federal Home Loan Bank advances	804,128	679,482
Trust preferred securities	793,614	858,089
Total interest expense	6,060,017	8,191,367
Net Interest Income	10,377,252	8,249,374
Provision for Loan Losses	1,293,992	405,215
Net Interest Income After Provision for Loan Losses	9,083,260	7,844,159
Non-interest Income		
Data service fees	9,928,583	10,213,348
Trust fees	1,224,656	1,670,841
Customer service fees	1,223,702	1,199,032
Net gains on loan sales	2,016,392	457,748
Net realized gain on sales of securities	477,591	-
Net proceeds from VISA IPO	-	132,106
Investment securities recoveries	-	197,487
Loan servicing fees	171,736	118,160
Loss on sale of assets	(42,414)	(71,422)
Other	345,050	399,371
Total non-interest income	\$ 15,345,296	\$ 14,316,671

See notes to condensed consolidated financial statements (unaudited)

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

	June 30, 2009	June 30, 2008
Non-interest Expense		
Salaries and employee benefits	\$ 10,222,726	\$ 8,874,421
Net occupancy expense	1,584,120	1,077,195
Equipment expense	3,312,298	3,193,345
Data processing fees	344,462	201,359
Professional fees	1,141,043	855,223
Marketing expense	423,303	337,837
Printing and office supplies	331,877	305,738
Telephone and communications	806,228	843,787
Postage and delivery expense	1,123,512	1,138,447
State, local and other taxes	466,053	367,186
Employee expense	517,142	533,983
Other	1,310,317	983,185
Total non-interest expense	21,583,081	18,711,706
Income Before Income Tax	2,845,475	3,449,124
Provision for Income Taxes	738,336	983,944
Net Income	\$ 2,107,139	\$ 2,465,180
Basic Earnings Per Share	\$ 0.43	\$ 0.50
Diluted Earnings Per Share	\$ 0.43	\$ 0.50
Dividends Declared Per Share	\$ 0.18	\$ 0.16

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, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Balance at beginning of period	\$ 63,620,510	\$ 59,870,312	\$ 61,662,004	\$ 59,325,235
Cumulative effect adjustment for split dollar BOLI	-	-	-	(116,303)
Net Income	1,003,586	1,355,824	2,107,139	2,465,180
Unrealized gains (losses) on securities				
Unrealized holding gains (losses) arising during the year	(464,173)	(1,193,931)	915,432	(843,737)
Less: reclassification adjustment for gains (losses) realized in net income	279,697	-	315,210	-
Total comprehensive income	259,716	161,893	2,707,361	1,621,443
Cash dividend	(438,333)	(395,356)	(877,291)	(793,269)
Purchase of treasury shares	(59,246)	(295,600)	(139,494)	(716,600)
Share-based compensation	30,066	20,480	60,133	41,223
Balance at end of period	\$ 63,412,713	\$ 59,361,729	\$ 63,412,713	\$ 59,361,729

See notes to condensed consolidated financial statements (unaudited)

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

	June 30, 2009	June 30, 2008
Operating Activities		
Net income	\$ 2,107,139	\$ 2,465,180
Items not requiring (providing) cash		
Depreciation and amortization	1,830,970	1,921,112
Provision for loan losses	1,293,922	405,215
Expense of share-based compensation plan	60,133	41,224
Amortization of premiums and discounts on securities	324,964	57,364
Amortization of intangible assets	443,822	346,763
Deferred income taxes	(984,182)	434,652
FHLB Stock Dividends	-	(83,800)
Proceeds from sale of loans held for sale	204,379,921	15,212,601
Originations of loans held for sale	(211,849,075)	(15,749,144)
Gain from sale of loans	(2,016,392)	(457,748)
Gain on available for sale securities	(477,591)	-
(Gain) loss on sale of foreclosed assets	15,414	(10,097)
Loss on sales of fixed assets	27,000	71,422
Changes in		
Interest receivable	451,877	251,445
Other assets	(1,903,768)	619,093
Interest payable and other liabilities	(583,503)	630,415
Net cash provided by (used in) operating activities	(6,879,349)	6,155,697
Investing Activities		
Purchases of available-for-sale securities	(44,042,933)	(46,231,265)
Proceeds from maturities of available-for-sale securities	21,932,628	40,850,667
Proceeds from sales of available-for-sale securities	15,790,787	-
Proceeds from sales of Fed Stock	700,000	-
Purchase of FHLB Stock	(204,150)	-
Net change in loans	8,095,458	(16,955,034)
Purchase of premises and equipment and software	(613,597)	(2,582,000)
Proceeds from sales of premises and equipment	40,877	286,816
Proceeds from sale of foreclosed assets	321,231	162,385
Net cash provided by (used in) investing activities	\$ 2,020,301	\$ (24,468,431)

See notes to condensed consolidated financial statements (unaudited)

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

	June 30, 2009	June 30, 2008
Financing Activities		
Net increase in demand deposits, money market, interest checking and savings accounts	\$ 11,731,106	\$ 13,008,870
Net decrease in certificates of deposit	(22,958,151)	(16,482,135)
Net increase (decrease) in securities sold under agreements to repurchase	(722,346)	1,503,073
Net increase in federal funds purchased	10,000,000	3,600,000
Proceeds from Federal Home Loan Bank advances	7,500,000	21,000,000
Repayment of Federal Home Loan Bank advances	(3,680,481)	(7,191,736)
Proceeds from notes payable	4,200,000	-
Repayment of notes payable	(2,636,313)	(922,457)
Purchase of treasury stock	(139,494)	(716,600)
Dividends paid	(877,291)	(793,269)
Net cash provided by financing activities	2,417,030	13,005,746
Decrease in Cash and Cash Equivalents	(2,442,018)	(5,306,988)
Cash and Cash Equivalents, Beginning of Year	28,059,532	17,183,627
Cash and Cash Equivalents, End of Period	\$ 25,617,514	\$ 11,876,639
Supplemental Cash Flows Information		
Interest paid	\$ 6,275,766	\$ 8,565,333
Transfer of loans to foreclosed assets	\$ 297,042	\$ 1,640,007
Income Taxes Paid	\$ -	\$ 414,000

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 six months ended June 30, 2009 are not necessarily indicative of results for the complete year.

The condensed consolidated balance sheet of the Company as of December 31, 2008 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, 2008.

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 June 30, 2009 and 2008, share based awards totaling 327,263 and 316,263 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	
	2009	2008	2009	2008
Basic earnings per share	4,868,063	4,934,241	4,871,978	4,948,334
				4,948,334
Diluted earnings per share	4,868,063	4,934,241	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 at:

	June 30, 2009	December 31, 2008
Commercial	\$ 82,365,308	\$ 83,645,408
Commercial real estate	167,217,842	161,566,005
Agricultural	43,197,218	43,641,132
Residential real estate	94,595,196	107,905,198
Consumer	53,782,826	53,338,523
Lease financing	308,500	266,348
Total loans	441,466,890	450,362,614
Less		
Net deferred loan fees, premiums and discounts	(249,477)	(250,961)

Loans, net of unearned income	\$	441,217,413	\$	450,111,653
Allowance for loan losses	\$	(5,873,146)	\$	(5,020,197)

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The following is a summary of the activity in the allowance for loan losses account for the three and six months ended June 30, 2009 and 2008.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Balance, beginning of period	\$ 5,348,952	\$ 4,016,230	\$	\$