

RURBAN FINANCIAL CORP  
Form 10-Q  
May 09, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

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 34-1395608  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

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  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 9, 2012)
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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 months ended March 31, 2012 are not necessarily indicative of results for the complete year.

**Rurban Financial Corp.**Condensed Consolidated Balance Sheets  
March 31, 2012 and December 31, 2011

	March 31, 2012 (Unaudited)	December 31, 2011
(\$'s in Thousands)		
<b>ASSETS</b>		
Cash and due from banks	\$ 29,602	\$ 14,846
Investment Securities:		
Securities available for sale, at fair value	110,603	111,978
Other securities - FRB and FHLB Stock	3,685	3,685
Total investment securities	114,288	115,663
Loans held for sale	11,384	5,238
Loans, net of unearned income	439,721	442,554
Allowance for loan losses	(6,609 )	(6,529 )
Net loans	433,112	436,025
Premises and equipment, net	13,282	13,773
Purchased software	386	159
Cash surrender value of life insurance	12,312	12,224
Goodwill	16,353	16,353
Core deposits and other intangibles	1,691	1,849
Foreclosed assets held for sale, net	1,807	1,830
Mortgage servicing rights	3,359	2,820
Accrued interest receivable	1,802	1,635
Other assets	5,598	6,249
Total assets	\$ 644,976	\$ 628,664
<b>LIABILITIES AND EQUITY</b>		
Deposits		
Non interest bearing demand	\$ 71,077	\$ 65,963
Interest bearing demand	118,898	107,446
Savings	52,599	49,665
Money market	82,799	74,244
Time deposits	210,119	221,447
Total deposits	535,492	518,765
Notes payable	2,519	2,788

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Advances from Federal Home Loan Bank	12,611	12,776
Repurchase agreements	17,771	18,779
Trust preferred securities	20,620	20,620
Accrued interest payable	3,556	2,954
Other liabilities	3,381	4,050
Total liabilities	595,950	580,732
Equity		
Preferred stock	-	-
Common stock	12,569	12,569
Additional paid-in capital	15,338	15,323
Retained earnings	21,438	20,466
Accumulated other comprehensive income	1,450	1,343
Treasury stock	(1,769 )	(1,769 )
Total equity	49,026	47,932
Total liabilities and equity	\$ 644,976	\$ 628,664

See notes to condensed consolidated financial statements (unaudited)

Note: The balance sheet at December 31, 2011 has been derived from the audited consolidated financial statements at that date

**Rurban Financial Corp.****Condensed Consolidated Statements Income (Unaudited)**

(\$'s in Thousands)	Three Months Ended	
	March 31, 2012	March 31, 2011
Interest income		
Loans		
Taxable	\$ 5,928	\$ 5,852
Nontaxable	23	11
Securities		
Taxable	399	611
Nontaxable	147	336
Total interest income	6,497	6,810
Interest expense		
Deposits	854	1,049
Other borrowings	34	25
Repurchase agreements	68	426
Federal Home Loan Bank advances	74	133
Trust preferred securities	592	344
Total interest expense	1,622	1,977
Net interest income	4,875	4,833
Provision for loan losses	450	499
Net interest income after provision for loan losses	4,425	4,334
Noninterest income		
Data service fees	643	912
Trust fees	642	695
Customer service fees	631	581
Gain on sale of mortgage loans and OMSR's	1,181	425
Mortgage loan servicing fees, net	329	139
Gain on sale of non-mortgage loans	-	43
Loss on sale or disposal of assets	(56 )	(100 )
Other income	211	168
Total non-interest income	3,581	2,863
Noninterest expense		
Salaries and employee benefits	3,499	3,530
Net occupancy expense	548	584
Equipment expense	711	711

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FDIC insurance expense	214	318
Data processing fees	113	144
Professional fees	385	474
Marketing expense	90	56
Printing and office supplies	78	76
Telephone and communication	144	157
Postage and delivery expense	229	344
State, local and other taxes	120	144
Employee expense	106	96
Other intangible amortization expense	157	197
Other expenses	282	229
Total non-interest expense	6,676	7,060
Income before income tax expense	1,330	137
Income tax expense	358	126
Net income	\$ 972	\$ 11
Common share data:		
Basic earnings per common share	\$ 0.20	\$ 0.00
Diluted earnings per common share	\$ 0.20	\$ 0.00
Average shares outstanding:		
Basic:	4,862	4,862
Diluted:	4,862	4,862

*See notes to condensed consolidated financial statements (unaudited)*



**Rurban Financial Corp.**

**Condensed Consolidated Statements of Other Comprehensive Income (Unaudited)**

**Three Months Ended March 31,**

(\$'s in thousands)	2012	2011
Net income	\$972	\$11
Other comprehensive income		
Investment securities available for sale		
Change in net unrealized gains during the period	162	313
Tax expense	(55 )	(106 )
Comprehensive income	\$1,079	\$218
Accumulated other comprehensive income	\$1,450	\$1,343

*See notes to condensed consolidated financial statements (unaudited)*

**Rurban Financial Corp.**

**Condensed Consolidated Statements of Changes in**

**Stockholders' Equity (unaudited)**

(\$'s in thousands)	Three Months Ended March 31,	
	2012	2011
Balance at beginning of period	\$ 47,932	\$ 46,024
Net income	972	11
Unrealized holding gains arising during the year, net of tax	107	207
Share-based compensation	15	23
Balance at end of period	\$ 49,026	\$ 46,265

See notes to condensed consolidated financial statements (unaudited)

Rurban Financial Corp.

## Condensed Consolidated Statements of Cash Flows (Unaudited)

Three Months Ended March 31,

(\$'s in thousands)	2012	2011
<b>Operating Activities</b>		
Net Income	\$972	\$11
Items not requiring (providing) cash		
Depreciation and amortization	334	454
Provision for loan losses	450	499
Expense of share-based compensation plan	15	23
Amortization of premiums and discounts on securities	368	432
Amortization of intangible assets	157	197
Amortization of originated mortgage servicing rights	349	71
Deferred income taxes	(55 )	(107 )
Proceeds from sale of loans held for sale	62,897	31,865
Originations of loans held for sale	(68,331)	(28,005)
Gain on sale of loans	(1,181 )	(425 )
Loss on sale of foreclosed assets	15	100
Recapture of originated mortgage servicing rights impairment	(419 )	-
Income from bank owned life insurance	(88 )	(94 )
Changes in		
Interest receivable	(167 )	(295 )
Other assets	665	400
Interest payable and other liabilities	(68 )	(359 )
<b>Net cash provided by (used in) operating activities</b>	<b>(4,086 )</b>	<b>4,768</b>
<b>Investing Activities</b>		
Purchase of available-for-sale securities	(11,295)	(4,039 )
Proceeds from maturities of available-for-sale securities	12,463	5,631
Proceeds from bank owned life insurance	-	1,354
Net change in loans	2,432	4,357
Purchase of premises and equipment and software	(771 )	(119 )
Proceeds from sales or disposal of premises and equipment	701	-
Proceeds from sale of foreclosed assets	27	923
<b>Net cash from investing activities</b>	<b>\$3,557</b>	<b>\$8,107</b>

See notes to condensed consolidated financial statements (unaudited)



Rurban Financial Corp.

Condensed Consolidated Statements of Cash Flows (Unaudited) *(continued)*  
Three Months Ended March 31,

(\$'s in thousands)	2012	2011
<b>Financing Activities</b>		
Net increase (decrease) in demand deposits, money market, interest checking and savings accounts	\$28,055	\$(2,319)
Net decrease in certificates of deposit	(11,328)	(397)
Net (decrease) increase in securities sold under agreements to repurchase	(1,008)	3,714
Repayment of Federal Home Loan Bank advances	(165)	(6,127)
Repayment of notes payable	(269)	(72)
Net cash provided by (used in) financing activities	15,285	(5,202)
Increase in Cash and Cash Equivalents	14,756	7,673
Cash and Cash Equivalents, Beginning of Year	14,846	30,418
Cash and Cash Equivalents, End of Period	\$29,602	\$38,090
<b>Supplemental Cash Flows Information</b>		
Interest Paid	\$1,020	\$1,753
Transfer of loans to foreclosed assets	\$14	\$400

See notes to condensed consolidated financial statements (unaudited)

RURBAN FINANCIAL CORP.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTE A—BASIS OF PRESENTATION**

Rurban Financial Corp. (the “Company”) is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiaries, The State Bank and Trust Company (“State Bank”), RFCBC, Inc. (“RFCBC”), Rurbanc Data Services, Inc. dba RDSI Banking Systems (“RDSI”), Rurban Statutory Trust I (“RST I”), and Rurban Statutory Trust II (“RST II”). State Bank owns all the outstanding stock of Rurban Mortgage Company (“RMC”), Rurban Investments, Inc. (“RII”) and State Bank Insurance, LLC (“SBI”).

The consolidated financial statements include the accounts of the Company, State Bank, RFCBC, RDSI, RMC, RII, and SBI. All significant intercompany accounts and transactions have been eliminated in consolidation.

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, 2012 are not necessarily indicative of results for the complete year.

The condensed consolidated balance sheet of the Company as of December 31, 2011 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, 2011.

**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, 2012 and 2011, share based awards totaling 303,974 and 325,951 common shares, respectively, were not considered in computing diluted 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,	
	2012	2011
Basic earnings per share	4,861,779	4,861,779
Diluted earnings per share	4,861,779	4,861,779

- one or more derivative transactions relating to the economic terms of the notes.

The internal funding rate used in the determination of the initial estimated value generally represents a discount from the credit spreads for our conventional fixed-rate debt. The value of these derivative transactions are derived from our internal pricing models. These models are based on factors such as the traded market prices of comparable derivative instruments and on other inputs, which include volatility, dividend rates, interest rates and other factors. As a result, the estimated initial value of the notes on the pricing date will be determined based on market conditions at that time.

## The Underlying Asset

We have derived the following information from publicly available documents. We have not independently verified the accuracy or completeness of the following information. We are not affiliated with the Underlying Asset and the Underlying Asset will have no obligations with respect to the notes. This pricing supplement relates only to the notes and does not relate to the shares of the Underlying Asset or any securities included in the Underlying Index. Neither we nor any of our affiliates participates in the preparation of the publicly available documents described below. Neither we nor any of our affiliates has made any due diligence inquiry with respect to the Underlying Asset in connection with the offering of the notes. There can be no assurance that all events occurring prior to the date of this pricing supplement, including events that would affect the accuracy or completeness of the publicly available documents described below and that would affect the trading price of the shares of the Underlying Asset, have been or will be publicly disclosed. Subsequent disclosure of any events or the disclosure of or failure to disclose material future events concerning the Underlying Asset could affect the price of the shares of the Underlying Asset on the Valuation Date, and therefore could affect the payment at maturity.

The selection of the Underlying Asset is not a recommendation to buy or sell the shares of the Underlying Asset. Neither we nor any of our affiliates make any representation to you as to the performance of the shares of the Underlying Asset. Information provided to or filed with the SEC under the Securities Exchange Act of 1934 and the Investment Company Act of 1940 relating to the Underlying Asset may be obtained through the SEC's website at <http://www.sec.gov>.

The Underlying Asset is an investment portfolio maintained and managed by SSFM. The Underlying Asset trades on the NYSE Arca under the ticker symbol "XOP." The inception date of the Underlying Asset is June 19, 2006. Prior to January 8, 2007, the Underlying Asset was known as the SPDR® Oil & Gas Exploration & Production ETF.

Information provided to or filed with the SEC by the SPDR® Series Trust ("SPDR") under the Securities Exchange Act of 1934 can be located by reference to its Central Index Key, or CIK, 1064642 through the SEC's website at <http://www.sec.gov>. Additional information about SSFM and the Underlying Asset may be obtained from other sources including, but not limited to, press releases, newspaper articles and other publicly disseminated documents. We have not made any independent investigation as to the accuracy or completeness of such information.

The Underlying Asset seeks to provide investment results that correspond generally to the price and yield performance, before fees and expenses, of the Underlying Index. The Underlying Index represents the oil and gas exploration and production sub-industry portion of the S&P Total Market Index ("S&P TMI"), an index that measures the performance of the U.S. equity market. The Underlying Asset is composed of companies that are in the oil and gas sector exploration and production.

The Underlying Asset utilizes a "replication" investment approach in attempting to track the performance of the Underlying Index. The Underlying Asset typically invests in substantially all of the securities which comprise the Underlying Index in approximately the same proportions as the Underlying Index. Underlying Asset will normally invest at least 80% of its total assets in common stocks that comprise the Underlying Index.

The information above was compiled from the SPDR® website. We have not independently investigated the accuracy of that information. Information contained in the SPDR® website is not incorporated by reference in, and should not be considered a part of, this document.

## The Underlying Index



We have derived all information contained in this document regarding the Underlying Index, including, without limitation, its make-up, method of calculation and changes in its components, from publicly available information. Such information reflects the policies of, and is subject to change by, S&P.

The Underlying Index is an equal-weighted index that is designed to measure the performance of the oil and gas exploration and production sub-industry portion of the S&P TMI. The S&P TMI includes all U.S. common equities listed on the NYSE (including NYSE Arca), the NYSE MKT, the NASDAQ Global Select Market, and the NASDAQ Capital Market. Each of the component stocks in the Underlying Index is a constituent company within the oil and gas exploration and production sub-industry portion of the S&P TMI.

To be eligible for inclusion in the Underlying Index, companies must be in the S&P TMI and must be included in the relevant Global Industry Classification Standard (GICS) sub-industry. The GICS was developed to establish a global standard for categorizing companies into sectors and industries. In addition to the above, companies must satisfy one of the two following combined size and liquidity criteria:

- float-adjusted market capitalization above US\$500 million and float-adjusted liquidity ratio above 90%; or

- float-adjusted market capitalization above US\$400 million and float-adjusted liquidity ratio above 150%.

All U.S. companies satisfying these requirements are included in the Underlying Index. The total number of companies in the Underlying Index should be at least 35. If there are fewer than 35 stocks, stocks from a supplementary list of highly correlated sub-industries that meet the market capitalization and liquidity thresholds above are included in order of their float-adjusted market capitalization to reach 35 constituents. Minimum market capitalization requirements may be relaxed to ensure there are at least 22 companies in the Underlying Index as of each rebalancing effective date.

Eligibility factors include:

- **Market Capitalization:** Float-adjusted market capitalization should be at least US\$400 million for inclusion in the Underlying Index. Existing index components must have a float-adjusted market capitalization of US\$300 million to remain in the Underlying Index at each rebalancing.
- **Liquidity:** The liquidity measurement used is a liquidity ratio, defined as dollar value traded over the previous 12-months divided by the float-adjusted market capitalization as of the Underlying Index rebalancing reference date. Stocks having a float-adjusted market capitalization above US\$500 million must have a liquidity ratio greater than 90% to be eligible for addition to the Underlying Index. Stocks having a float-adjusted market capitalization between US\$400 and US\$500 million must have a liquidity ratio greater than 150% to be eligible for addition to the Underlying Index. Existing index constituents must have a liquidity ratio greater than 50% to remain in the Underlying Index at the quarterly rebalancing. The length of time to evaluate liquidity is reduced to the available trading period for IPOs or spin-offs that do not have 12 months of trading history.
- **Takeover Restrictions:** At the discretion of S&P, constituents with shareholder ownership restrictions defined in company bylaws may be deemed ineligible for inclusion in the Underlying Index. Ownership restrictions preventing entities from replicating the index weight of a company may be excluded from the eligible universe or removed from the Underlying Index.

**Turnover:** S&P believes turnover in index membership should be avoided when possible. At times, a company may appear to temporarily violate one or more of the addition criteria. However, the addition criteria are for addition to the Underlying Index, not for continued membership. As a result, an index constituent that appears to violate the criteria for addition to the Underlying Index will not be deleted unless ongoing conditions warrant a change in the composition of the Underlying Index.

## Historical Performance of the Underlying Asset

The following table sets forth the high and low closing levels for the Underlying Asset from the first quarter of 2011 through October 5, 2015.

The historical levels of the Underlying Asset are provided for informational purposes only. You should not take the historical levels of the Underlying Asset as an indication of its future performance, which may be better or worse than the levels set forth below.

		High (\$)	Low (\$)
2011	First Quarter	64.50	52.75
	Second Quarter	64.97	54.71
	Third Quarter	65.24	42.80
	Fourth Quarter	57.56	39.99
2012	First Quarter	61.34	52.67
	Second Quarter	57.85	45.20
	Third Quarter	59.35	48.73
	Fourth Quarter	57.38	50.69
2013	First Quarter	62.10	55.10
	Second Quarter	62.61	54.71
	Third Quarter	66.47	58.62
	Fourth Quarter	72.74	65.02
2014	First Quarter	71.83	64.04
	Second Quarter	83.45	71.19
	Third Quarter	82.08	68.83
	Fourth Quarter	66.84	42.75
2015	First Quarter	53.94	42.55
	Second Quarter	55.63	46.43
	Third Quarter	45.22	31.71
	Fourth Quarter (through October 5, 2015)	37.07	33.30