

RURBAN FINANCIAL CORP

Form 10-Q

August 11, 2006

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**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, 2006**

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
incorporation or organization)

(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 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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerate Filer Accelerated Filer Non-Accelerated Filer

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)**

**5,027,433 shares
(Outstanding at August 11, 2006)**

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- Exhibit 2.1 Stock Purchase Agreement
- Exhibit 10.1 First Amendment to Employment Agreement, executed May 19, 2006 and effective as of March 1, 2006, by and between Rurban Financial Corp. and Kenneth A. Joyce
- Exhibit 10.2 First Amendment to Supplemental Executive Retirement Plan Agreement, executed May 16, 2006 and effective as of March 1, 2006, by and between Rurban Financial Corp. and Kenneth A. Joyce
- Exhibit 10.3 Schedule A to Exhibit 10.2 identifying other substantially identical First Amendments to Supplemental Executive Retirement Plan Agreements with executive officers of Rurban Financial Corp. and its subsidiaries
- Exhibit 10.4 First Amendment to Change in Control Agreement, executed May 17, 2006 and effective as of March 1, 2006, by and between Rurban Financial Corp. and Duane L. Sinn
- Exhibit 10.5 Schedule A to Exhibit 10.4 identifying other substantially identical First Amendments to Change in Control Agreements with executive officers of Rurban Financial Corp. and its subsidiaries
- Exhibit 31.1 Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)

Exhibit 31.2 Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer)

Exhibit 32.1 Section 1350 Certification (Principal Executive Officer)

Exhibit 32.2 Section 1350 Certification (Principal Financial Officer)

Signatures

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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, 2006 are not necessarily indicative of results for the complete year.

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Rurban Financial Corp.
Condensed Consolidated Balance Sheets
June 30, 2006 and December 31, 2005

	(Unaudited) June 30, 2006	December 31, 2005
Assets		
Cash and due from banks	\$ 11,366,725	\$ 12,650,839
Federal funds sold		
Cash and cash equivalents	11,366,725	12,650,839
Interest-bearing deposits	150,000	150,000
Available-for-sale securities	129,963,320	139,353,329
Loans held for sale		224,000
Loans, net of unearned income	359,853,906	327,048,229
Allowance for loan losses	(4,438,139)	(4,699,827)
Premises and equipment	13,532,028	13,346,632
Purchased software	4,685,608	3,916,913
Federal Reserve and Federal Home Loan Bank stock	3,692,400	3,607,500
Foreclosed assets held for sale, net	25,000	2,309,900
Interest receivable	3,068,283	3,010,355
Goodwill	8,805,347	8,917,373
Core deposits and other intangibles	3,508,813	3,742,333
Cash value of life insurance	10,615,978	10,443,487
Other	7,015,886	6,521,213
Total assets	\$ 551,845,155	\$ 530,542,276

See notes to condensed consolidated financial statements (unaudited)

Note: The balance sheet at December 31, 2005 has been derived from the audited consolidated financial statements at that date.

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Rurban Financial Corp.
Condensed Consolidated Balance Sheets (continued)
June 30, 2006 and December 31, 2005

	(Unaudited) June 30, 2006	December 31, 2005
Liabilities and Stockholders Equity		
Liabilities		
Deposits		
Demand	\$ 48,533,636	\$ 52,073,751
Savings, interest checking and money market	121,840,243	124,206,115
Time	230,582,090	208,558,046
Total deposits	400,955,969	384,837,912
Notes payable		938,572
Federal Home Loan Bank advances	53,500,000	45,500,000
Federal funds purchased		4,600,000
Retail repurchase agreements	17,441,076	6,080,420
Trust preferred securities	20,620,000	20,620,000
Interest payable	1,704,731	1,373,044
Deferred income taxes	245,644	1,140,001
Other liabilities	3,351,609	11,001,679
Total liabilities	497,819,029	476,091,628
Commitments and Contingent Liabilities		
Stockholders Equity		
Common stock, \$2.50 stated value; authorized 10,000,000 shares; issued 5,027,433; outstanding June 30, 2006 5,027,433 and December 31, 2005 5,027,433	12,568,583	12,568,583
Additional paid-in capital	14,846,990	14,835,110
Retained earnings	29,436,142	28,702,817
Accumulated other comprehensive loss	(2,825,589)	(1,655,862)
Total stockholders equity	54,026,126	54,450,648
Total liabilities and stockholders equity	\$ 551,845,155	\$ 530,542,276

See notes to condensed consolidated financial statements (unaudited)

Note: The balance sheet at December 31, 2005 has been derived from the audited consolidated financial statements at that date.

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

	June 30, 2006	June 30, 2005
Interest Income		
Loans		
Taxable	\$ 6,043,057	\$ 3,997,200
Tax-exempt	15,157	14,823
Securities		
Taxable	1,333,858	984,949
Tax-exempt	136,570	52,173
Other	14,046	83,959
Total interest income	7,542,688	5,133,104
Interest Expense		
Deposits	2,556,180	1,293,323
Other borrowings	26,148	66,929
Retail repurchase agreements	159,276	18,806
Federal Home Loan Bank advances	533,845	554,324
Trust preferred securities	436,776	272,402
Total interest expense	3,712,225	2,205,784
Net Interest Income	3,830,463	2,927,320
Provision for Loan Losses	56,321	352,000
Net Interest Income After Provision for Loan Losses	3,774,142	2,575,320
Non-interest Income		
Data service fees	3,286,586	3,094,022
Trust fees	792,227	779,047
Customer service fees	542,687	446,286
Net gains on loan sales	71,664	9,278
Loan servicing fees	117,785	79,297
Gains on sale of assets	78,558	56,034
Other	378,745	175,981
Total non-interest income	5,268,252	4,639,945

See notes to condensed consolidated financial statements (unaudited)

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

Condensed Consolidated Statements of Operations (continued)

	June 30, 2006	June 30, 2005
Non-interest Expense		
Salaries and employee benefits	\$ 3,795,252	\$ 3,501,021
Net occupancy expense	425,918	294,243
Equipment expense	1,347,634	1,283,692
Data processing fees	119,368	113,499
Professional fees	524,902	710,539
Marketing expense	242,498	83,254
Printing and office supplies	173,361	130,591
Telephone and communications	407,648	385,393
Postage and delivery expense	122,267	83,975
State, local and other taxes	190,436	88,825
Employee expense	260,523	265,459
Other	470,068	525,708
 Total non-interest expense	 8,079,875	 7,466,199
 Income (Loss) Before Income Tax	 962,519	 (250,934)
 Provision for Income Taxes	 248,996	 (137,232)
 Net Income (Loss)	 \$ 713,523	 \$ (113,702)
 Basic Earnings (Loss) Per Share	 \$ 0.14	 \$ (0.02)
 Diluted Earnings (Loss) Per Share	 \$ 0.14	 \$ (0.02)
 Dividends Declared Per Share	 \$ 0.05	 \$ 0.05

See notes to condensed consolidated financial statements (unaudited)

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

	June 30, 2006	June 30, 2005
Interest Income		
Loans		
Taxable	\$ 11,597,211	\$ 7,911,166
Tax-exempt	27,392	30,329
Securities		
Taxable	2,646,459	2,039,407
Tax-exempt	268,403	94,198
Other	50,312	102,217
Total interest income	14,589,777	10,177,317
Interest Expense		
Deposits	4,677,394	2,396,744
Other borrowings	52,447	137,204
Retail repurchase agreements	283,553	36,453
Federal Home Loan Bank advances	1,016,666	1,140,876
Trust preferred securities	865,198	541,810
Total interest expense	6,895,258	4,253,087
Net Interest Income	7,694,519	5,924,230
Provision for Loan Losses	302,321	352,000
Net Interest Income After Provision for Loan Losses	7,392,198	5,572,230
Non-interest Income		
Data service fees	6,527,720	6,269,965
Trust fees	1,607,678	1,583,540
Customer service fees	1,092,754	883,002
Net gains on loan sales	132,710	17,348
Net realized losses on sales of available-for-sale securities		(8,750)
Loan servicing fees	204,479	146,140
Gains on sale of assets	59,432	17,076
Other	651,778	362,386
Total non-interest income	10,276,551	9,270,707

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

	June 30, 2006	June 30, 2005
Non-interest Expense		
Salaries and employee benefits	\$ 7,652,985	\$ 6,732,345
Net occupancy expense	865,867	584,398
Equipment expense	2,723,461	2,536,791
Data processing fees	255,958	204,697
Professional fees	1,044,267	1,229,070
Marketing expense	368,946	163,971
Printing and office supplies	326,345	281,833
Telephone and communications	810,015	755,434
Postage and delivery expense	254,260	158,027
State, local and other taxes	324,293	233,353
Employee expense	509,912	501,530
Other	893,597	824,888
 Total non-interest expense	 16,029,906	 14,206,337
 Income Before Income Tax	 1,638,843	 636,600
 Provision for Income Taxes	 402,775	 111,838
 Net Income	 \$ 1,236,068	 \$ 524,762
 Basic Earnings Per Share	 \$ 0.25	 \$ 0.11
 Diluted Earnings Per Share	 \$ 0.25	 \$ 0.11
 Dividends Declared Per Share	 \$ 0.10	 \$ 0.10

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

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Balance at beginning of period	\$ 54,051,932	\$ 49,776,761	\$ 54,450,648	\$ 50,305,795
Net Income	713,523	(113,702)	1,236,068	524,762
Other comprehensive income (loss): Net change in unrealized gains (losses) on securities available for sale, net	(493,897)	1,129,671	(1,169,727)	189,266
Total comprehensive income	219,626	1,015,969	66,341	714,028
Cash dividend	(251,372)	(228,456)	(502,741)	(456,882)
Stock options exercised		35,262		36,595
Stock option expense	5,940		11,878	
Balance at end of period	\$ 54,026,126	\$ 50,599,536	\$ 54,026,126	\$ 50,599,536

See notes to condensed consolidated financial statements (unaudited)

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

	June 30, 2006	June 30, 2005
Operating Activities		
Net income	\$ 1,236,068	\$ 524,762
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,717,743	1,496,096
Provision for loan losses	302,321	352,000
Expense of stock option plan	11,878	
Amortization of premiums and discounts on securities	125,158	63,769
Amortization of intangible assets	233,520	43,088
Deferred income taxes	(613,792)	(346,014)
Gain from sale of loans	(132,710)	(17,348)
Gain on sales of foreclosed assets	(66,454)	(7,296)
FHLB Stock Dividends	(84,900)	(53,600)
(Gain) loss on sales of premises and equipment	7,022	(9,780)
Net realized losses on available-for-sale securities		8,750
Changes in		
Proceeds from sale of loans held for sale	6,864,003	1,486,148
Originations of loans held for sale	(6,507,295)	(1,706,700)
Interest receivable	(57,928)	(81,318)
Other assets	(560,973)	234,024
Interest payable and other liabilities	(865,297)	374,229
Net cash provided by operating activities	1,608,364	2,360,810
Investing Activities		
Purchases of available-for-sale securities	(12,727,731)	(11,780,508)
Proceeds from maturities of available-for-sale securities	5,008,771	7,878,122
Proceeds from the sales of available-for-sale securities	15,562,738	4,117,695
Net change in loans	(33,623,712)	(4,381,054)
Purchase of premises and equipment	(2,702,597)	(1,924,199)
Proceeds from assumption of net liabilities in business acquisition		48,645,686
Cash paid to shareholders of Exchange Bank Acquisition	(6,453,084)	
Proceeds from sales of premises and equipment	23,741	197,706
Proceeds from the sale of foreclosed assets	2,581,996	1,234,417
Net cash provided by (used in) investing activities	(32,329,878)	43,987,865

See notes to condensed consolidated financial statements (unaudited)

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

	June 30, 2006	June 30, 2005
Financing Activities		
Net increase (decrease) in demand deposits, money market, interest checking and savings accounts	\$ (5,905,987)	\$ 5,051,433
Net increase (decrease) in certificates of deposit		