

CAMCO FINANCIAL CORP

Form 10-Q

May 11, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 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 0-25196
CAMCO FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware

51-0110823

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

6901 Glenn Highway, Cambridge, Ohio 43725-9757

(Address of principal executive office) (Zip code)

Registrant's telephone number, including area code: (740) 435-2020

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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

(Do not check if a smaller reporting company)

Indicate by checkmark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes No

As of May 5, 2009, the latest practicable date, 7,155,595 shares of the registrant's common stock, \$1.00 par value, were outstanding.

Camco Financial Corporation
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Camco Financial Corporation
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands, except share data)

	March 31, 2009	December 31, 2008
	(unaudited)	
ASSETS		
Cash and due from banks	\$ 20,284	\$ 17,013
Interest-bearing deposits in other financial institutions	35,724	35,272
Cash and cash equivalents	56,008	52,285
Securities available for sale, at fair value	85,168	85,352
Securities held to maturity, at cost, approximate fair value of \$10,421 and \$13,530 as of March 31, 2009 and December 31, 2008, respectively	10,338	13,406
Loans held for sale at lower of cost or fair value	4,340	2,185
Loans receivable net	723,575	756,641
Office premises and equipment net	11,651	11,868
Real estate acquired through foreclosure	6,041	5,841
Federal Home Loan Bank stock at cost	29,888	29,888
Accrued interest receivable	4,414	4,118
Mortgage servicing rights at lower of cost or fair value	3,790	3,731
Prepaid expenses and other assets	7,020	10,785
Cash surrender value of life insurance	22,749	22,532
Prepaid and refundable federal income taxes	1,907	1,814
Total assets	\$ 966,889	\$ 1,000,446
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	\$ 720,264	\$ 723,956
Advances from the Federal Home Loan Bank and other borrowings	158,564	183,833
Advances by borrowers for taxes and insurance	917	2,458
Accounts payable and accrued liabilities	13,213	16,942
Deferred federal income taxes net	1,669	1,557
Total liabilities	\$ 894,627	\$ 928,746
Commitments		
Stockholders' equity:		
Preferred stock \$1 par value; authorized 100,000 shares; no shares outstanding	\$	\$
Common stock \$1 par value; authorized 14,900,000 shares; 8,884,509 and 8,834,508 shares issued at March 31, 2009 and December 31, 2008	8,885	8,835
Unearned compensation; 50,000 shares	(100)	
Additional paid-in capital	60,124	59,896

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Retained earnings	26,218	26,055
Accumulated other comprehensive income net of related tax effects	1,249	1,028
Treasury stock - 1,678,913 shares at March 31, 2009 and December 31, 2008, at cost	(24,114)	(24,114)
Total stockholders' equity	72,262	71,700
Total liabilities and stockholders' equity	\$ 966,889	\$ 1,000,446

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Camco Financial Corporation
CONSOLIDATED STATEMENTS OF EARNINGS

For the three months ended March 31,

(In thousands, except per share data)

	2009	2008
Interest and dividend income		
Loans	\$ 10,567	\$ 13,524
Investment securities	975	1,076
Other interest-earning accounts	345	484
Total interest and dividend income	11,887	15,084
Interest Expense		
Deposits	4,473	6,401
Borrowings	1,569	2,203
Total interest expense	6,042	8,604
Net interest income	5,845	6,480
Provision for losses on loans	648	2,322
Net interest income after provision for losses on loans	5,197	4,158
Other income		
Late charges, rent and other	461	352
Loan servicing fees	316	330
Service charges and other fees on deposits	501	581
Gain on sale of loans	369	119
Mortgage servicing rights net	60	(309)
Gain on sale of mortgage-backed securities and fixed assets		3
Income on cash surrender value life	256	243
Total other income	1,963	1,319
General, administrative and other expenses		
Employee compensation and benefits	3,476	3,569
Occupancy and equipment	782	893
Data processing	307	228
Advertising	172	196
Franchise taxes	268	346
Postage, supplies and office expenses	360	370
Travel, training and insurance	347	249
Professional services	444	408
Transaction processing	274	246
Real estate owned and other expenses	277	336

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Loan expenses	296	298
Total general, administrative and other expense	7,003	7,139
Earnings (Loss) before federal income taxes	157	(1,662)
Federal income taxes	(78)	(659)
NET EARNINGS (LOSS)	\$ 235	\$ (1,003)
EARNINGS (LOSS) PER SHARE		
Basic	\$.03	\$ (.14)
Diluted	\$.03	\$ (.14)
Dividends declared per share	\$.01	\$.15

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Camco Financial Corporation
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the three months ended March 31,

(In thousands)

	2009	2008
Net earnings (loss)	\$ 235	\$ (1,003)
Other comprehensive income, net of tax:		
Unrealized holding gains on securities during the period, net of tax effects of \$114 and \$350 in 2009 and 2008, respectively	221	679
Reclassification adjustment for realized gains included in net earnings, net of taxes of \$0 and \$1 in 2009 and 2008, respectively		(2)
Comprehensive income (loss)	\$ 456	\$ (326)

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Camco Financial Corporation
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31,

(In thousands)

	2009	2008
Cash flows from operating activities:		
Net earnings (loss) for the period	\$ 235	\$ (1,003)
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:		
Amortization of deferred loan origination fees	150	54
Amortization of premiums and discounts on investment and mortgage-backed securities net	(24)	35
Amortization of mortgage servicing rights net	224	425
Depreciation and amortization	317	343
Provision for losses on loans	648	2,322
Stock option expense	228	52
Restricted stock / unearned compensation	(50)	
Deferred federal income taxes	(1)	(48)
(Gain) loss on sale of real estate acquired through foreclosure	5	74
Gain on sale of investments and fixed assets		(3)
Federal Home Loan Bank stock dividends		(375)
Gain on sale of loans	(369)	(119)
Loans originated for sale in the secondary market	(28,166)	(11,233)
Proceeds from sale of loans in the secondary market	26,380	13,092
Net increase in cash surrender value of life insurance	(217)	(200)
Increase (decrease) in cash due to changes in:		
Accrued interest receivable	198	354
Prepaid expenses and other assets	(1,538)	(457)
Accrued interest and other liabilities	1,021	(589)
Federal income taxes		
Current	(93)	(802)
Net cash provided by (used in) operating activities	(1,052)	1,922
Cash flows provided by (used in) investing activities:		
Proceeds from sale of investment securities		4,254
Principal repayments, maturities on securities	15,111	14,177
Purchases of investment securities designated as available for sale	(11,501)	(20,471)
Loan principal repayments	74,966	72,126
Loan disbursements	(44,751)	(60,562)
Proceeds from sale of office premises and equipment		2
Additions to office premises and equipment	(100)	(165)
Proceeds from sale of real estate acquired through foreclosure	1,624	1,840
Net cash provided by investing activities	35,349	11,201
Net cash provided by operating and investing activities balance carried forward	34,297	13,123

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Camco Financial Corporation
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the three months ended March 31,

(In thousands)

	2009	2008
Net cash provided by operating and investing activities (balance brought forward)	\$ 34,297	\$ 13,123
Cash flows provided by (used in) financing activities:		
Net increase(decrease) in deposits	(3,692)	38,596
Proceeds from Federal Home Loan Bank advances	15,000	51,739
Repayment of Federal Home Loan Bank advances	(40,269)	(78,060)
Dividends paid on common stock	(72)	(1,074)
Decrease in advances by borrowers for taxes and insurance	(1,541)	(1,375)
Net cash provided by (used) in financing activities	(30,574)	9,826
Increase (decrease) in cash and cash equivalents	3,723	22,949
Cash and cash equivalents at beginning of period	52,285	23,004
Cash and cash equivalents at end of period	\$ 56,008	\$ 45,953
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest on deposits and borrowings	\$ 6,266	\$ 8,391
Supplemental disclosure of noncash investing activities:		
Recognition of mortgage servicing rights in accordance with SFAS No. 140	\$ 284	\$ 172
Transfers from loans to real estate acquired through foreclosure	1,917	2,538
Dividends declared but unpaid		1,073

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Camco Financial Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the three-month periods ended March 31, 2009 and 2008

1. **Basis of Presentation**

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America (US GAAP). Accordingly, these financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Camco Financial Corporation (Camco or the Corporation) included in Camco s Annual Report on Form 10-K for the year ended December 31, 2008. However, all adjustments (consisting only of normal recurring accruals) which, in the opinion of management, are necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the three month period ended March 31, 2009, are not necessarily indicative of the results which may be expected for the entire year.

2. **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of Camco and its two wholly-owned subsidiaries: Advantage Bank (Advantage or the Bank) and Camco Title Agency, Inc.

3. **Critical Accounting Policies**

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of mortgage servicing rights. Actual results could differ from those estimates.

Allowance for Loan Losses

The procedures for assessing the adequacy of the allowance for loan losses reflect our evaluation of credit risk after careful consideration and interpretation of relevant information available to us. In developing this assessment, we must rely on estimates and exercise judgment regarding matters where the ultimate outcome is unknown such as economic factors, developments affecting companies in specific industries and issues with respect to single borrowers. Depending on changes in circumstances, future assessments of credit risk may yield materially different results, which may require an increase or a decrease in the allowance for loan losses.

The allowance is regularly reviewed by management to determine whether the amount is considered adequate to absorb probable, incurred losses. This evaluation includes specific loss estimates on certain individually reviewed loans, statistical loss estimates for loan pools that are based on historical loss experience, and general loss estimates that are based upon the size, quality, and concentration characteristics of the various loan portfolios, adverse situations that may affect a borrower s ability to repay, and current economic and industry conditions. Also considered as part of that judgment is a review of the Bank s trends in delinquencies and loan losses, as well as trends in delinquencies and losses for the region and nationally, and economic factors.

The allowance for loan losses is maintained at a level that management believes to be adequate to absorb probable, incurred losses inherent in the loan portfolio at the balance sheet dates presented. Our evaluation of the adequacy of the allowance for loan losses is an estimate based on management s current judgment about the credit quality of the loan portfolio. While we strive to reflect all known risk factors in our evaluations, actual results may differ significantly from our estimates.

Mortgage Servicing Rights

To determine the fair value of our mortgage servicing rights (MSRs) each reporting quarter, we provide information to a third party valuation firm who assists us with determining the possible impairment of MSRs, as described below.

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Camco Financial Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three-month periods ended March 31, 2009 and 2008

Mortgage Servicing Rights (continued)

MSRs are recognized as separate assets when loans are sold with servicing retained. A pooling methodology to the servicing valuation, in which loans with similar characteristics are pooled together, is applied for valuation purposes. Once pooled, each grouping of loans is evaluated on a discounted earnings basis to determine the present value of future earnings that the bank could expect to realize from the portfolio. Earnings are projected from a variety of sources including loan service fees, interest earned on float, net interest earned on escrow balances, miscellaneous income and costs to service the loans. The present value of future earnings is the estimated fair value for the pool, calculated using consensus assumptions that a third party purchaser would utilize in evaluating a potential acquisition of the servicing.

Events that may significantly affect the estimates used are changes in interest rates and the related impact on mortgage loan prepayment speeds and the payment performance of the underlying loans. The interest rate for float, which we estimate, takes into consideration the investment portfolio average yield as well as current short duration investment yields. We believe this methodology provides a reasonable estimate. Mortgage loan prepayment speeds are calculated by the third party provider utilizing the Economic Outlook as published by the Office of Chief Economist of Freddie Mac in estimating prepayment speeds and provides a specific scenario with each evaluation. Based on the assumptions discussed, pre-tax projections are prepared for each pool of loans serviced. These earnings figures approximate the cash flow that could be received from the servicing portfolio. Valuation results are presented quarterly to management. At that time, we review the information and MSRs are marked to the lower of amortized cost or fair value for the current quarter.

4. Earnings (Loss) Per Share

Basic earnings per common share is computed based upon the weighted-average number of common shares outstanding during the year. Diluted earnings per common share is computed including the dilutive effect of additional potential common shares issuable under outstanding stock options. Diluted earnings per share is not computed for periods in which an operating loss is sustained. The computations were as follows for the period ended March 31:

(in thousands, except per share information)	For the three months ended March 31,	
	2009	2008
BASIC:		
Net earnings (loss)	\$ 235	\$ (1,003)
Weighted average common shares outstanding	7,193	7,155
Earnings (Loss) per share Basic	\$ 0.03	\$ (.14)
DILUTED:		
Net earnings (loss)	\$ 235	\$ (1,003)
Weighted average common shares outstanding	7,193	7,155

Dilutive effect of stock options

Total common shares and dilutive potential common shares	7,193	7,155
Earnings (Loss) per share Diluted	\$ 0.03	\$ (.14)

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Camco Financial Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the three-month periods ended March 31, 2009 and 2008

5. Stock Option Plans

In accordance with SFAS No. 123R, Accounting for Stock-Based Compensation, stock-based compensation is recognized based on fair value of the award.

The fair value of each option grant is estimated on the date of grant using the modified Black-Scholes options-pricing model. The following table details the fair value and assumptions used to value stock options as of the grant date that were granted during the three months ended March 31, 2009 and 2008:

	2009	2008
Fair value, calculated	\$ 1.43	\$ 0.58
Exercise Price	\$ 2.46	\$ 8.92
Risk-free interest rate	2.66%	3.52%
Expected stock price volatility	61.00%	15.75%
Expected dividend yield	1.63%	6.00%
Expected Life	10 years	10 years

A summary of the status of the Corporation's stock option plans as of March 31, 2009 and December 31, 2008, and changes during the periods ending on those dates is presented below:

	Three Months ended March 31, 2009		Year ended December 31, 2008	
	Shares	Weighted- average exercise price	Shares	Weighted- average exercise price
Outstanding at beginning of period	260,703	\$ 14.11	318,238	\$ 15.10
Granted	80,000	2.46	47,167	9.07
Exercised				
Expired				
Forfeited	(16,302)	10.18	(104,702)	14.84
Outstanding at end of period	324,401	\$ 11.44	260,703	\$ 14.11
Options exercisable at period end	221,753	\$ 11.23	195,717	\$ 15.01
Weighted-average fair value of options granted during the year		\$ 1.43		\$ 0.74

The following information applies to options outstanding at March 31, 2009:

Options outstanding Weighted-Average Remaining	Weighted- Average	Options Exercisable Weighted- Average
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Range of Exercise Prices	Number Outstanding	Contractual Life (Years)	Exercise Price	Number Exercisable	Exercise Price
\$1.89 - 2.50	80,000	9.9	\$ 2.46	80,000	\$ 2.46
8.92-11.15	31,045	6.9	\$ 8.99	16,864	9.04
11.36-14.20	93,297	4.5	13.52	79,830	13.58
14.55-18.19	120,059	4.0	16.42	120,059 &nb	