RURBAN FINANCIAL CORP
Form 10-Q
November 16, 2010

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 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	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 that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.Yes x 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 x

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

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	4,861,779 shares
(Class)	(Outstanding at November 15, 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 nine months ended September 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 nine months ended September 30, 2010 are not necessarily indicative of results for the complete year.

Rurban Financial Corp.

Condensed Consolidated Balance Sheets
September 30, 2010 and December 31, 2009

	September 30 2010 (Unaudited)	December 31 2009
ASSETS		
Cash and due from banks	$ 60,600,672	$ 24,824,785
Available-for-sale securities	115,993,828	105,083,112
Loans held for sale	13,453,782	16,857,648
Loans, net of unearned income	424,995,825	452,557,581
Allowance for loan losses	(6,451,422)	(7,030,178)
Premises and equipment, net	14,999,354	16,993,640
Purchased software	545,606	5,338,319
Federal Reserve and Federal Home Loan Bank Stock	3,748,250	3,748,250
Foreclosed assets held for sale, net	1,946,653	1,767,953
Accrued interest receivable	2,560,938	2,324,868
Goodwill	21,414,790	21,414,790
Core deposits and other intangibles	4,377,111	4,977,513
Cash value of life insurance	13,107,086	12,792,045
Other assets	9,897,284	11,398,776
Total assets	$ 681,189,757	$ 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
September 30, 2010 and December 31, 2009

	September 30 2010 (Unaudited)	December 31 2009
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non interest bearing demand	$ 64,671,378	$ 57,229,795
Interest bearing NOW	99,647,367	87,511,973
Savings	46,092,866	43,321,364
Money Market	87,407,976	86,621,953
Time Deposits	224,501,334	216,557,067
Total deposits	522,320,921	491,242,152
Notes payable	3,368,266	2,146,776
Advances from Federal Home Loan Bank	25,429,671	35,266,510
Fed Funds Purchased	-	5,000,000
Repurchase Agreements	50,117,031	47,042,820
Trust preferred securities	20,620,000	20,620,000
Accrued interest payable	1,683,116	1,507,521
Other liabilities	3,582,414	8,515,668
Total liabilities	627,121,419	611,341,447
Shareholders' Equity		
Common stock	12,568,583	12,568,583
Additional paid-in capital	15,208,434	15,186,042
Retained earnings	25,386,403	34,415,316
Accumulated other comprehensive income (loss)	2,674,229	1,307,025
Treasury stock	(1,769,311)	(1,769,311)
Total shareholders' equity	54,068,338	61,707,655
Total liabilities and shareholders' equity	$ 681,189,757	$ 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 September 30,	
	2010	2009
Interest income		
Loans		
Taxable	$ 6,281,157	$ 6,884,515
Tax-exempt	13,664	20,944
Securities		
Taxable	596,362	944,579
Tax-exempt	353,755	294,716
Other	24	41,621
Total interest income	7,244,962	8,186,375
Interest expense		
Deposits	1,275,607	1,559,730
Other borrowings	32,367	43,745
Retail Repurchase Agreements	436,369	437,419
Federal Home Loan Bank advances	231,122	417,359
Trust preferred securities	388,854	391,407
Total interest expense	2,364,319	2,849,660
Net interest income	4,880,643	5,336,715
Provision for loan losses	898,570	898,050
Net interest income after provision for loan losses	3,982,073	4,438,665
Non-interest income		
Data service fees	2,044,400	4,806,359
Trust fees	650,511	644,427
Customer service fees	643,816	700,042
Net gain on sales of loans	1,560,703	722,234
Loan servicing fees	188,334	126,265
Loss on sale or disposal of assets	(128,985)	(52,976)
Other income	168,158	129,360
Total non-interest income	5,126,937	7,075,711

See notes to condensed consolidated financial statements (unaudited)

Rurban Financial Corp.

Condensed Consolidated Statements of Operations (Unaudited)
Three Months Ended

	Three Months Ended September 30,	
	2010	2009
Non-interest expense		
Salaries and employee benefits	$ 4,058,316	$ 5,422,005
Net occupancy expense	486,695	568,597
FDIC Insurance expense	259,646	183,935
Equipment expense	872,681	2,041,339
Data processing fees	211,129	151,320
Professional fees	619,430	705,415
Marketing expense	139,987	232,294
Printing and office supplies	111,414	104,036
Telephone and communication	267,344	406,673
Postage and delivery expense	388,666	511,525
State, local and other taxes	154,391	235,067
Employee expense	147,739	293,634
Other expenses	1,613,353	598,275
Total non-interest expense	9,330,791	11,454,115
Income (loss) before income tax expense	(221,781)	60,261
Income tax expense benefit	(247,696)	(99,421)
Net income (loss)	$ 25,915	$ 159,682
Earnings (loss) per common share:		
Basic	$ 0.01	$ 0.03
Diluted	$ 0.01	$ 0.03

See notes to condensed consolidated financial statements (unaudited)

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Rurban Financial Corp.

Condensed Consolidated Statements of Operations (Unaudited)
Nine Months Ended

	Nine Months Ended September 30,	
	2010	2009
Interest income		
Loans		
Taxable	$ 19,442,383	$ 20,554,775
Tax-exempt	49,960	71,791
Securities		
Taxable	1,679,203	3,158,649
Tax-exempt	1,055,707	766,931
Other	211	71,498
Total interest income	22,227,464	24,623,644
Interest expense		
Deposits	3,935,731	5,115,379
Other borrowings	101,145	91,548
Retail Repurchase Agreements	1,295,994	1,296,242
Federal Home Loan Bank advances	872,947	1,221,487
Trust preferred securities	1,178,502	1,185,021
Total interest expense	7,384,319	8,909,677
Net interest income	14,843,145	15,713,967
Provision for loan losses - Bank Only	5,788,713	2,192,042
Provision for loan losses - RDSI	3,000,000	-
Net interest income after provision for loan losses	6,054,432	13,521,925
Non-interest income		
Data service fees	8,682,575	14,734,942
Trust fees	1,883,994	1,869,083
Customer service fees	1,846,161	1,923,744
Net gain on sales of loans	2,886,764	2,738,626
Net realized gain on sales of securities	451,474	477,591
Investment securities recoveries	73,774	-
Loan servicing fees	472,424	298,001
Loss on sale or disposal of assets	(159,066)	(95,390)
Other income	482,691	474,410
Total non-interest income	16,620,791	22,421,007

See notes to condensed consolidated financial statements (unaudited)

Rurban Financial Corp.

Condensed Consolidated Statements of Operations (Unaudited)
Nine Months Ended

	Nine Months Ended September 30,	
	2010	2009
Non-interest expense		
Salaries and employee benefits	14,064,591	15,644,731
Net occupancy expense	1,639,386	1,764,054
FDIC Insurance expense	676,462	572,598
Equipment expense	5,423,343	5,353,637
Fixed asset impairment expense	4,892,231	-
Data processing fees	635,393	495,782
Professional fees	1,823,449	1,846,458
Marketing expense	330,213	655,597
Printing and office supplies	369,842	435,913
Telephone and communication	992,891	1,212,901
Postage and delivery expense	1,415,529	1,635,037
State, local and other taxes	118,835	701,120
Employee expense	654,968	810,776
OREO Impairment	215,000	-
Other expenses	3,959,958	1,908,592
Total non-interest expense	37,212,091	33,037,196
Income (loss) before income tax expense	(14,536,868)	2,905,736
Income tax expense (benefit)	(5,507,954)	638,915
Net income (loss)	$ (9,028,914)	$ 2,266,821
Earnings (loss) per common share:		
Basic	$ (1.86)	$ 0.46
Diluted	$ (1.86)	$ 0.46

See notes to condensed consolidated financial statements (unaudited)

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

	Three Months Ended		Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Balance at beginning of period	$ 53,201,167	$ 63,412,713	$ 61,707,655	$ 61,662,004
Net Income / (Loss)	25,915	159,682	(9,028,914)	2,266,821
Unrealized gains (losses) on securities				
Unrealized holding gains (losses) arising during the year, net of tax	811,939	1,520,345	1,665,178	2,402,777
Less: reclassification adjustment for gains realized in net income, net of tax	-	-	297,974	282,210
Total comprehensive income / (loss)	837,854	1,680,027	(7,661,710)	4,387,388
Cash dividend	-	(437,641)	-	(1,314,932)
Purchase of treasury shares	-	(16,797)	-	(156,291)
Share-based compensation	29,317	29,802	22,393	89,935
Balance at end of period	$ 54,068,338	$ 64,668,104	$ 54,068,338	$ 64,668,104
Dividends declared per share	$ -	$ 0.09	$ -	$ 0.27

See notes to condensed consolidated financial statements (unaudited)

Rurban Financial Corp.

Condensed Consolidated Statements of Cash Flows (Unaudited)
Nine Months Ended

	Nine Months Ended	
	September 30, 2010	September 30, 2009
Operating Activities		
Net Income/(loss)	$ (9,028,914)	$ 2,266,821
Items not requiring (providing) cash		
Depreciation and amortization	3,554,271	3,077,533
Provision for loan losses	8,788,713	2,192,042
Expense of share-based compensation plan	22,392	89,935
Amortization of premiums and discounts on securities	1,091,077	476,693
Amortization of intangible assets	600,402	658,428
Deferred income taxes	(3,537,222)	(1,231,352)
Proceeds from sale of loans held for sale	171,718,730	258,045,357
Originations of loans held for sale	(165,428,100)	(262,853,116)
Gain from sale of loans	(2,886,764)	(2,738,626)
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	139,699	66,116
Loss on sale of fixed assets	19,367	29,274
Changes in		
Interest receivable	(236,070)	112,729
Other assets	1,069,273	(1,017,991)
Interest payable and other liabilities	(2,041,941)	(2,101,088)
Net cash from / (used in) operating activities	8,500,670	(3,404,836)
Investing Activities		
Purchase of available-for-sale securities	(52,231,341)	(49,982,386)
Proceeds from maturities of available-for-sale securities	32,756,818	28,400,454
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	13,572,294	(494,016)
Purchase of premises and equipment and software	(1,564,571)	(2,167,462)
Proceeds from sales of premises and equipment	(94,932)	58,962
Proceeds from sale of foreclosed assets	4,303,594	405,230
Net cash from / (used in) investing activities	$ 6,737,586	$ (7,492,581)

See notes to condensed consolidated financial statements (unaudited)

Rurban Financial Corp.

Condensed Consolidated Statements of Cash Flows (Unaudited) (continued)
Nine Months Ended

	Nine Months Ended	
	September 30, 2010	September 30, 2009
Financing Activities		
Net increase (decrease) in demand deposits, money market, interest checking and savings accounts	$ 23,134,502	$ 26,183,827
Net decrease in certificates of deposit	7,944,267	(18,112,198)
Net decrease in securities sold under agreements to repurchase	3,074,211	2,712,668
Net decrease in federal funds purchased	(5,000,000)	-
Proceeds from Federal Home Loan Bank advances	2,000,000	7,500,000
Repayment of Federal Home Loan Bank advances	(11,836,839)	(4,277,970)
Proceeds from notes payable	2,250,000	4,200,000
Repayment of notes payable	(1,028,510)	(2,842,184)
Purchase of treasury stock	-	(156,291)
Dividends paid	-	(1,314,932)
Net cash from / (used in) financing activities	20,537,631	13,892,920
Increase in Cash and Cash Equivalents	35,775,887	2,995,503
Cash and Cash Equivalents, Beginning of Year	24,824,785	28,059,532
Cash and Cash Equivalents, End of Period	$ 60,600,672	$ 31,055,035
Supplemental Cash Flows Information		
Interest Paid	$ 7,208,724	$ 9,493,504
Transfer of loans to foreclosed assets	$ 4,621,993	$ 822,113

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 nine months ended September 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 nine months ended September 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 September 30, 2010 and 2009, share based awards totaling 365,102 and 311,713 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 September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Basic earnings per share	4,861,779	4,862,574	4,861,779	4,868,800
Diluted earnings per share	4,861,779	4,866,563	4,861,779	4,871,574

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

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

	September 30, 2010	December 31, 2009
Commercial	$ 72,402,590	$ 84,462,860
Commercial real estate	177,048,827	179,909,135
Agricultural	37,222,877	41,485,301
Residential real estate	86,134,638	92,971,599
Consumer	52,206,188	53,655,238
Lease financing	249,273	221,190
Total loans	425,264,393	452,885,323
Less		
Net deferred loan fees, premiums and discounts	(268,568)	(327,742)
Loans, net of unearned income	$ 424,995,825	$ 452,557,581
Allowance for loan losses	$ (6,451,422)	$ (7,030,178)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Balance, beginning of period	$ 7,000,513	$ 5,873,146	$ 7,030,178	$ 5,020,197
Provision charged to expense	898,570	898,050	8,788,713	2,192,042
Recoveries	134,869	45,528	375,375	127,443
Loans charged off	(1,582,530)	(882,559)	(9,742,844)	(1,405,517)
Balance, end of period	$ 6,451,422	$ 5,934,165	$ 6,451,422	$ 5,934,165

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

	September 30, 2010	December 31, 2009
Non-accrual loans	$ 10,106,547	$ 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	$ 10,106,547	$ 18,543,368

Individual loans determined to be impaired were as follows:

	September 30, 2010	December 31, 2009
Loans with no allowance for loan losses allocated	$ 3,549,173	$ 1,099,912
Loans with allowance for loan losses allocated	4,147,730	14,912,035
Total impaired loans	$ 7,696,903	$ 16,011,947
Amount of allowance for loan losses allocated	$ 1,616,351	$ 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., which provides management and operational services to its subsidiaries. Segment results for the three and nine months ended September 30, 2010 and 2009 were as follows:

NOTE E — SEGMENT INFORMATION

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

Income statement information	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidated Totals
Net interest income (expense)	$ 5,336,846	$ (95,642)	$ (360,561)	$ 4,880,643		$ 4,880,643
Non-interest income - external customers	3,072,667	2,033,803	20,466	5,126,936		5,126,936
Non-interest income - other segments	23,399	297,671	-	321,070	(321,070)	-
Total revenue	8,432,912	2,235,832	(340,095)	10,328,649	(321,070)	10,007,579
Non-interest expense	6,985,683	2,317,726	348,452	9,651,861	(321,070)	9,330,791
Significant non-cash items:						
Depreciation and amortization	235,390	555,208	12,977	803,575	-	803,575
Provision for loan losses	898,570	-	-	898,570	-	898,570
Income tax expense (benefit)	244	(27,803)	(220,137)	(247,696)	-	(247,696)
Segment profit (loss)	$ 548,415	$ (54,091)	$ (468,410)	$ 25,914	$ -	$ 25,914
Balance sheet information						
Total assets	$ 668,817,793	$ 12,150,499	$ 5,439,547	$ 686,407,839	$ (5,218,082)	$ 681,189,757
Goodwill and intangibles	$ 18,991,531	$ 6,800,370	$ -	$ 25,791,901	$ -	$ 25,791,901
Premises and equipment expenditures	$ 253,022	$ 17,250	$ -	$ 270,272	$ -	$ 270,272

NOTE E — SEGMENT INFORMATION

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

Income statement information	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidated Totals
Net interest income (expense)	$ 5,771,303	$ (43,344)	$ (391,244)	$ 5,336,715		$ 5,336,715
Non-interest income - external customers	2,249,206	4,806,359	20,146	7,075,711		7,075,711
Non-interest income - other segments	23,560	395,071	388,747	807,378	(807,378)	-
Total revenue	8,044,069	5,158,086	17,649	13,219,804	(807,378)	12,412,426
Non-interest expense	6,256,451	5,144,578	860,464	12,261,493	(807,378)	11,454,115
Significant non-cash items:						
Depreciation and amortization	254,768	966,758	25,037	1,246,563	-	1,246,563
Provision for loan losses	898,050	-	-	898,050	-	898,050
Income tax expense (benefit)	177,837	5,459	(282,717)	(99,421)	-	(99,421)
Segment profit (loss)	$ 711,731	$ 8,049	$ (560,098)	$ 159,682	$ -	$ 159,682
Balance sheet information						
Total assets	$ 652,343,870	$ 22,658,239	$ 3,211,396	$ 678,213,505	$ (4,464,379)	$ 673,749,126
Goodwill and intangibles	$ 19,632,662	$ 6,959,636	$ -	$ 26,592,298	$ -	$ 26,592,298
Premises and equipment expenditures	$ 157,579	$ 1,388,936	$ 7,350	$ 1,553,865	$ -	$ 1,553,865

NOTE E — SEGMENT INFORMATION

As of and for the nine months ended September 30, 2010

Income statement information	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidated Totals
Net interest income (expense)	$ 16,317,471	$ (367,603)	$ (1,106,723)	$ 14,843,145		$ 14,843,145
Non-interest income - external customers	7,850,469	8,671,978	98,343	16,620,790		16,620,790
Non-interest income - other segments	73,209	893,824	428,773	1,395,806	(1,395,806)	-
Total revenue	24,241,149	9,198,199	(579,607)	32,859,741	(1,395,806)	31,463,935
Non-interest expense	19,687,929	17,563,271	1,356,697	38,607,897	(1,395,806)	37,212,091
Significant non-cash items:						
Depreciation and amortization	741,837	3,120,117	44,489	3,906,443	-	3,906,443
Fixed asset & software impairment	-	4,892,231	-	4,892,231	-	4,892,231
Provision for loan losses	5,788,713	3,000,000	-	8,788,713	-	8,788,713
Income tax expense (benefit)	(842,714)	(3,986,484)	(678,756)	(5,507,954)	-	(5,507,954)
Segment profit (loss)	$ (392,779)	$ (7,378,588)	$ (1,257,548)	$ (9,028,915)	$ -	$ (9,028,915)
Balance sheet information						
Total assets	$ 668,817,793	$ 12,150,499	$ 5,439,547	$ 686,407,839	$ (5,218,082)	$ 681,189,757
Goodwill and intangibles	$ 18,991,531	$ 6,800,370	$ -	$ 25,791,901	$ -	$ 25,791,901
Premises and equipment expenditures	$ 411,571	$ 1,153,000	$ -	$ 1,564,571	$ -	$ 1,564,571

NOTE E — SEGMENT INFORMATION

As of and for the nine months ended September 30, 2009

Income statement information	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidated Totals
Net interest income (expense)	$ 17,000,819	$ (102,422)	$ (1,184,430)	$ 15,713,967		$ 15,713,967
Non-interest income - external customers	7,648,452	14,710,064	62,491	22,421,007		22,421,007
Non-interest income - other segments	67,596	1,214,526	1,122,342	2,404,464	(2,404,464)	-
Total revenue	24,716,867	15,822,168	403	40,539,438	(2,404,464)	38,134,974
Non-interest expense	19,070,894	13,723,716	2,647,050	35,441,660	(2,404,464)	33,037,196
Significant non-cash items:						
Depreciation and amortization	785,852	2,217,131	74,550	3,077,533	-	3,077,533
Provision for loan losses	2,192,042	-	-	2,192,042	-	2,192,042
Income tax expense (benefit)	832,145	714,340	(907,570)	638,915	-	638,915
Segment profit (loss)	$ 2,621,786	$ 1,384,112	$ (1,739,077)	$ 2,266,821	$ -	$ 2,266,821
Balance sheet information						
Total assets	$ 652,343,870	$ 22,658,239	$ 3,211,396	$ 678,213,505	$ (4,464,379)	$ 673,749,126
Goodwill and intangibles	$ 19,632,662	$ 6,959,636	$ -	$ 26,592,298	$ -	$ 26,592,298
Premises and equipment expenditures	$ 480,715	$ 1,640,225	$ 46,522	$ 2,167,462	$ -	$ 2,167,462

NOTE F – FAIR VALUE OF ASSETS AND LIABILITIES

The Company adopted the guidance on fair value measurements now codified as FASB ASC Topic 820, on January 1, 2008. ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1	Quoted prices in active markets for identical assets or liabilities
Level 2	Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Available-for-Sale Securities

The fair value of the Company's available-for-sale securities is determined by various valuation methodologies. Level 2 securities include U.S. treasury and government agencies, mortgage-backed securities, and obligations of political and state subdivisions. Level 2 inputs do not include quoted prices for individual securities in active markets; however, they do include inputs that are either directly or indirectly observable for the individual security being valued. Such observable inputs include interest rates and yield curves at commonly quoted intervals, volatilities, prepayment speeds, credit risks and default rates. Also included are inputs derived principally from or corroborated by observable market data by correlation or other means.

The following table presents the fair value measurements of the Company's assets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2010 and December 31, 2009:

Description	Fair Value Measurements Using: Fair Values at 9/30/2010	(Level 1)	(Level 2)	(Level 3)
Available-for-Sale Securities:				
U.S. Treasury and Government Agencies	$ 36,389,342	-	$ 36,389,342	-
Mortgage-backed securities	43,422,754	-	43,422,754	-
State and political subdivisions	34,959,582	-	34,959,582	-
Money Market Mutual Funds	1,199,150	1,199,150	-	-
Equity securities	23,000	23,000	-	-

Description	Fair Value Measurements Using: Fair Values at 12/31/2009	(Level 1)	(Level 2)	(Level 3)
Available-for-Sale Securities:				
U.S. Treasury and Government Agencies	$ 12,943,649	-	$ 12,943,649	-
Mortgage-backed securities	52,246,278	-	52,246,278	-
State and political subdivisions	31,537,006	-	31,537,006	-
Money Market Mutual Funds	8,333,179	8,333,179	-	-
Equity securities	23,000	23,000	-	-

Impaired Loans

Loans for which it is probable the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans, or where a loan is determined not to be collateral dependent, using the discounted cash flow method. If the impaired loan is collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining an independent appraisal of the collateral and applying a discount factor to the value based on the Company's loan review policy. All impaired loans held by the Company were collateral dependent at September 30, 2010 and December 31, 2009.

Mortgage Servicing Rights

Mortgage servicing rights do not trade in an active, open market with readily observable prices. Accordingly, fair value is estimated using discounted cash flow models associated with the servicing rights and discounting the cash flows using market discount rates. The servicing portfolio has been valued using all relevant positive and negative cash flows including servicing fees, miscellaneous income and float; marginal costs of servicing; the cost of carry on advances; and foreclosure losses; and applying certain prevailing assumptions used in the marketplace. Due to the nature of the valuation inputs, mortgage servicing rights are classified within Level 3 of the hierarchy.

Foreclosed Assets Held For Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value (based on current appraised value) at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Management has determined fair value measurements on other real estate owned primarily through evaluations of appraisals performed, as well as current and past offers for the other real estate under evaluation.

The following table presents the fair value measurements of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2010 and December 31, 2009:

	Fair Value Measurements Using:			
Description	Fair Values at 09/30/10	(Level 1)	(Level 2)	(Level 3)
Impaired Loans	$ 4,733,647	-	-	$ 4,733,647
Mortgage Servicing Rights	$ 2,041,698	-	-	$ 2,041,698
Foreclosed Assets HFS	$ -	-	-	$ -

	Fair Value Measurements Using:			
Description	Fair Values at 12/31/2009	(Level 1)	(Level 2)	(Level 3)
Impaired Loans	$ 9,113,369	-	-	$ 9,113,369
Mortgage Servicing Rights	$ 1,955,133	-	-	$ 1,955,133
Foreclosed Assets HFS	$ 356,455	-	-	$ 356,455

There were no changes in the inputs or methodologies used to determine fair value during the quarter ended September 30, 2010 as compared to the quarter ended December 31, 2009.

The following table presents estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments, and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

Cash and Cash Equivalents; Federal Reserve and Federal Home Loan Bank Stock; Accrued Interest Payable and Receivable

The carrying amount approximates the fair value.

Loans

The estimated fair value for loans receivable, including loans held for sale, net, is based on estimates of the interest rate that the Company's wholly-owned subsidiary, The State Bank and Trust Company ("State Bank") would charge for similar loans at September 30, 2010 and December 31, 2009, applied for the time period until the loans are assumed to re-price or be paid.

Deposits and Other Borrowings

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates the fair value. The estimated fair value for fixed-maturity time deposits, as well as borrowings, is based on estimates of the interest rate State Bank could pay on similar instruments with similar terms and maturities at September 30, 2010 and December 31, 2009.

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The estimated fair value for other financial instruments and off-balance-sheet loan commitments were not material at September 30, 2010 or December 31, 2009.

	September 30, 2010	
	Carrying Amount	Fair Value
Financial assets		
Cash and cash equivalents	$ 60,600,672	$ 60,601,000
Available-for-sale securities	115,993,828	115,994,000
Loans held for sale	13,453,782	13,610,000
Loans, net of allowance for loan losses	418,544,403	422,378,000
Federal Reserve and FHLB Bank stock	3,748,250	3,748,000
Accrued interest receivable	2,560,938	2,561,000
Financial liabilities		
Deposits	$ 522,320,921	$ 525,858,000
Short-term borrowings	50,117,031	52,204,000
Notes payable	3,368,266	3,346,000
FHLB advances	25,429,671	26,169,000
Trust preferred securities	20,620,000	20,337,000
Accrued interest payable	1,683,116	1,683,000

	December 31, 2009	
	Carrying Amount	Fair Value
Financial assets		
Cash and cash equivalents	$ 24,824,785	$ 24,825,000
Available-for-sale securities	105,083,112	105,083,000
Loans held for sale	16,857,648	17,070,000
Loans, net of allowance for loan losses	445,527,403	446,266,000
Federal Reserve and FHLB Bank stock	3,748,250	3,748,000
Accrued interest receivable	2,324,868	2,325,000
Financial liabilities		
Deposits	$ 491,242,152	$ 494,536,000
Short-term borrowings	52,042,820	53,670,000
Notes payable	2,146,776	2,128,000
FHLB advances	35,266,510	36,476,000
Trust preferred securities	20,620,000	20,571,000
Accrued interest payable	1,507,521	1,508,000

NOTE G - SECURITIES

The amortized cost and approximate fair value of the Company's available-for sale securities at September 30, 2010 and December 31, 2009 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available-for-Sale Securities:				
September 30, 2010:				
U.S. Treasury and Government agencies	$ 36,037,461	$ 352,580	$ (699)	$ 36,389,342
Mortgage-backed securities	42,132,762	1,408,370	(118,378)	43,422,754
State and political subdivisions	32,549,593	2,433,189	(23,200)	34,959,582
Money Market Mutual Fund	1,199,150	-	-	1,199,150
Equity securities	23,000	-	-	23,000
	$ 111,941,966	$ 4,194,139	$ (142,277)	$ 115,993,828

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
December 31, 2009:				
U.S. Treasury and Government agencies	$ 13,215,086	$ 5,359	$ (276,796)	$ 12,943,649
Mortgage-backed securities	50,877,903	1,792,894	(424,519)	52,246,278
State and political subdivisions	30,653,604	984,833	(101,431)	31,537,006
Money Market Mutual Fund	8,333,179	-	-	8,333,179
Equity securities	23,000	-	-	23,000
	$ 103,102,772	$ 2,783,086	$ (802,746)	$ 105,083,112

The amortized cost and fair value of securities available for sale at September 30, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale	
	Amortized Cost	Fair Value
Within one year	$ 5,174,660	$ 5,195,879
Due after one year through five years	7,700,751	7,955,138
Due after five years through ten years	21,431,574	22,064,764
Due after ten years	34,280,069	36,133,143
	68,587,054	71,348,924
Mortgage-backed securities, equity securities and money market mutual funds	43,354,912	44,644,904
Totals	$ 111,941,966	$ 115,993,828

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was $29,770,401 at September 30, 2010. The carrying value of securities delivered for repurchase agreements was $58,065,608 at September 30, 2010.

Gross gains of $451,474 resulting from sales of available-for-sale securities were realized as of September 30, 2010. The tax expense for net security gains for September 30, 2010 was $153,501. For the first nine months of 2009, gross gains of $477,591 were realized with tax expense of $162,381.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. At September 30, 2010 and December 31, 2009, the total fair value of these investments was $3,781,066 and $20,140,212, respectively, which was approximately 3percent and 19 percent, respectively, of the Company's available-for-sale investment portfolio. Based on management's evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

Securities with unrealized losses at September 30, 2010 and December 31, 2009 are as follows:

September 30, 2010	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities:						
U.S. Treasury and Government agencies	$ 561,720	$ (699)	$ -	$ -	$ 561,720	$ (699)
Mortgage-backed securities	1,049,930	(7,112)	1,331,913	(111,265)	2,381,843	(118,377)
State and political subdivisions	469,431	(17,227)	368,072	(5,973)	837,503	(23,201)
	$ 2,081,081	$ (25,038)	$ 1,699,985	$ (117,238)	$ 3,781,066	$ (142,277)

December 31, 2009	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities:						
U.S. Treasury and Government agencies	$ 12,837,085	$ (276,796)	$ -	$ -	$ 12,837,085	$ (276,796)
Mortgage-backed securities	1,263,285	(15,539)	2,255,050	(408,980)	3,518,335	(424,519)
State and political subdivisions	2,792,842	(56,693)	991,950	(44,738)	3,784,792	(101,431)
	$ 16,893,212	$ (349,028)	$ 3,247,000	$ (453,718)	$ 20,140,212	$ (802,746)

The total unrealized losses on the mortgage-backed securities portfolio were derived from three private label senior tranche CMO securities. Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic or market concern warrants such evaluation. When the Company does not intend to sell a debt security, and it is more likely than not that the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an OTTI of the debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an OTTI recorded in other comprehensive income for the noncredit portion of a previous OTTI is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security. As of September 30, 2010, management has determined there to be no OTTI on these CMO securities.

The total unrealized loss on the municipal security portfolio was due to the holding of several municipal securities, all with individually insignificant losses.

NOTE H – RDSI AND NEW CORE RELATIONSHIP

On April 27, 2009, the Company announced a transaction between its data and item processing subsidiary, Rurbanc Data Services, Inc. d/b/a RDSI Banking Systems ("RDSI") and New Core Holdings, Inc. d/b/a New Core Banking Systems, headquartered in Birmingham, AL ("New Core"). As part of this transaction, RDSI and New Core entered into a Reseller Software License and Support Agreement pursuant to which RDSI was granted rights as the exclusive provider of New Core's Single Source™ software. RDSI and New Core also entered into an Agreement and Plan of Merger pursuant to which New Core would be merged with a newly-created subsidiary of RDSI and become a wholly-owned subsidiary of RDSI. A prerequisite of this merger would be the spin-off of RDSI from Rurban, resulting in RDSI becoming a separate independent public company. This would be followed immediately by the merger of RDSI and New Core. On July 28, 2010, the Company announced that it had determined that the planned spin-off of RDSI and merger with New Core cannot be successfully completed. RDSI continues to work with New Core to address a wind-down of their relationships to enable both companies to pursue their strategic directions. As a result of this determination, together with the loss of RDSI's data processing client base and associated revenue, the Company recorded a $5.6 million after-tax charge in the second quarter of 2010 for impairment and write-downs of software, hardware and development costs related to the data processing business of RDSI.

NOTE I: DEBT COVENANT

Pursuant to a loan covenant agreement between the Company and First Tennessee Bank, National Association ("FTB"), State Bank must maintain certain performance ratios, including a minimum Tier 1 Capital ratio of 6 percent, a year-to-date return on assets (ROA) of 50 basis points and a non-performing asset ratio (calculated as non-performing loans plus OREO divided by total loans plus OREO) of less than 2.25 percent. At September 30, 2010, the total amount of the loan commitment was $5 million, with $1.7 million drawn.

As of September 30, 2010, the Company was in violation of two debt covenants related to this agreement, as State Bank's year-to-date ROA was (0.08) percent and non-performing asset ratio was 2.72 percent. The covenant violations could result in the note being called by FTB. This loan commitment was renewed on June 30, 2010 and is scheduled to mature on June 30, 2011.

NOTE J: GOODWILL

Goodwill is related to both our banking and data processing segments. We evaluate the fair value of our banking and data processing segments versus the carrying value as of each fiscal year end or more frequently if events or changes in circumstances indicate that the carrying value may exceed the fair value. The discount factors used in present value calculations are updated annually. We also use available market value information to evaluate fair value. The Company chose to evaluate the fair value of both of our segments as of June 30, 2010. The results of this independent fair value evaluation resulted in no impairment in either segment.

For State Bank, an Equity Value Analysis was completed using the expected net income and free cash flow over the next five years. Based upon this analysis, the concluded Fair Value of Equity exceeded the carrying value of equity.

For RDSI, the Fair Value of Equity was less than the carrying value of equity which required that a Step 2 Analysis of the goodwill on RDSI would need to be reviewed for impairment. After the Step 2 analysis, which used the expected future net income and cash flow for this business segment, no impairment of goodwill was indicated. Should the cash flow and net income expectations for RDSI change, a goodwill impairment may be determined.

NOTE K: TRUST PREFERRED SECURITIES

On September 15, 2005, RST II, a wholly-owned subsidiary of the Company, closed a pooled private offering of 10,000 Capital Securities with a liquidation amount of $1,000 per security. The proceeds of the offering were loaned to the Company in exchange for junior subordinated debentures with terms similar to the Capital Securities. The sole assets of RST II are the junior subordinated debentures of the Company and payments thereunder. The junior subordinated debentures and the back-up obligations, in the aggregate, constitute a full and unconditional guarantee by the Company of the obligations of RST II under the Capital Securities. Distributions on the Capital Securities are payable quarterly at an interest rate that changes quarterly and is based on the 3-month LIBOR and are included in interest expense in the consolidated financial statements. These securities are considered Tier 1 capital (with certain limitations applicable) under current regulatory guidelines.

On September 7, 2000, RST I, a wholly-owned subsidiary of the Company, closed a pooled private offering of 10,000 Capital Securities with a liquidation amount of $1,000 per security. The proceeds of the offering were loaned to the Company in exchange for junior subordinated debentures with terms similar to the Capital Securities. The sole assets of RST I are the junior subordinated debentures of the Company and payments thereunder. The junior subordinated debentures and the back-up obligations, in the aggregate, constitute a full and unconditional guarantee by the Company of the obligations of RST I under the Capital Securities. Distributions on the Capital Securities are payable semi-annually at the annual rate of 10.6 percent and are included in interest expense in the consolidated financial statements. These securities are considered Tier 1 capital (with certain limitations applicable) under current regulatory guidelines.

The junior subordinated debentures are subject to mandatory redemption, in whole or in part, upon repayment of the Capital Securities at maturity or their earlier redemption at the liquidation amount. Subject to the Company having received prior approval of the Federal Reserve, if then required, the Capital Securities are redeemable prior to the maturity date of September 7, 2030, at the option of the Company; on or after September 7, 2020 at par; or on or after September 7, 2010 at a premium; or upon occurrence of specific events defined within the trust indenture. The Company has the option to defer distributions on the RST II Capital Securities from time to time for a period not to exceed 20 consecutive quarterly periods, and the Company has the option to defer distributions on the RST I Capital Securities from time to time for a period not to exceed 10 consecutive semi-annual periods.

On August 5, 2010, the Company notified the trustees of the Capital Securities of the Company's election to defer (a) the next four quarterly interest payments on the RST II Capital Securities, beginning on September 15, 2010 and extending through September 15, 2011, and (b) the next two semi-annual interest payments on the RST I Capital Securities, beginning on September 7, 2010 and extending through September 7, 2011. During any interest deferral period, the trust preferred indentures prohibit the Company from paying common stock dividends or repurchasing shares of common stock.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Regarding Forward-Looking Information

Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that are provided to assist in the understanding of anticipated future financial performance. Forward-looking statements provide current expectations or forecasts of future events and are not guarantees of future performance. Examples of forward-looking statements include: (a) projections of income or expense, earnings per share, the payments or non-payments of dividends, capital structure and other financial items; (b) statements of plans and objectives of the Company or our management or Board of Directors, including those relating to products or services; (c) statements of future economic performance; and (d) statements of assumptions underlying such statements. Words such as "anticipates," "believes," "plans," "intends," "expects," "projects," "estimates," "should," "may, "will allow," "will likely result," "will continue," "will remain," or other similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying those statements. Forward-looking statements are based on management's expectations and are subject to a number of risks and uncertainties. Although management believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from those expressed or implied in such statements. Risks and uncertainties that could cause actual results to differ materially include, without limitation, changes in interest rates, changes in the competitive environment, and changes in banking regulations or other regulatory or legislative requirements affecting bank holding companies. Additional detailed information concerning a number of important factors which could cause actual results to differ materially from the forward-looking statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations is available in the Company's filings with the Securities and Exchange Commission, including the disclosure under the heading "Item 1A. Risk Factors" of Part I of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, in "Item 1A. Risk Factors" of Part II of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2010, in "Item 1A. Risk Factors" of Part II of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2010, and in "Item 1A. Risk Factors" of Part II of this Quarterly Report on Form 10-Q. Undue reliance should not be placed on the forward-looking statements, which speak only as of the date hereof. Except as may be required by law, the Company undertakes no obligation to update any forward-looking statement to reflect unanticipated events or circumstances after the date on which the statement is made.

Overview of Rurban

Rurban Financial Corp. ("Rurban" or the "Company") is a bank holding company registered with the Federal Reserve Board. Rurban's wholly-owned subsidiary, The State Bank and Trust Company ("State Bank"), is engaged in commercial banking. Rurban's technology subsidiary, Rurbanc Data Services, Inc. ("RDSI"), provides computerized data and item processing services to community banks and businesses.

Rurban Statutory Trust I ("RST") was established in August 2000. In September 2000, RST completed a pooled private offering of 10,000 Trust Preferred Securities with a liquidation amount of $1,000 per security. The proceeds of the offering were loaned to Rurban in exchange for junior subordinated debentures of Rurban with terms substantially similar to the Trust Preferred Securities. The sole assets of RST are the junior subordinated debentures, and the back-up obligations, in the aggregate, constitute a full and unconditional guarantee by Rurban of the obligations of RST.

Rurban Statutory Trust II ("RST II") was established in August 2005. In September 2005, RST II completed a pooled private offering of 10,000 Trust Preferred Securities with a liquidation amount of $1,000 per security. The proceeds of the offering were loaned to Rurban in exchange for junior subordinated debentures of Rurban with terms substantially similar to the Trust Preferred Securities. The sole assets of RST II are the junior subordinated debentures, and the back-up obligations, in the aggregate, constitute a full and unconditional guarantee by Rurban of the obligations of RST II.

RFCBC, Inc. ("RFCBC") is an Ohio corporation and wholly-owned subsidiary of Rurban that was incorporated in August 2004. RFCBC operates as a loan subsidiary in servicing and working out problem loans.

Rurban Investments, Inc. ("RII") is a Delaware corporation and a wholly-owned subsidiary of State Bank that was incorporated in January 2009. RII holds agency, mortgage backed and municipal securities.

Unless the context indicates otherwise, all references herein to "Rurban", "we", "us", "our", or the "Company" refer to Rurb Financial Corp. and its consolidated subsidiaries.

Recent Regulatory Developments

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act represents a sweeping reform of the regulatory framework for depository institutions, bank and thrift holding companies and other U.S. financial institutions. The Dodd-Frank Act includes a broad range of legislation intended to strengthen oversight and regulation of banks and nonbank financial institutions, enhance regulation of over-the-counter derivatives and asset-backed securities, impose corporate governance and executive compensation reforms on all public companies, create new requirements for hedge fund and private equity fund advisers and establish new rules for credit rating agencies. Certain of the provisions of the Dodd-Frank Act may significantly affect the business activities of State Bank and Rurban. However, the Dodd-Frank Act is one of the most far-reaching financial services laws ever enacted, and its enactment marks only the beginning of a process that will take months, if not years, to fully develop. Many of the significant provisions of the Dodd-Frank Act have extended implementation periods and delayed effective dates, and will require regulatory action and rulemaking by federal regulatory authorities to either implement the standards set out in the legislation or adopt new standards. As a result, the full scope and effect of the Dodd-Frank Act on the U.S. financial system may not be known for several years, and we cannot predict the extent to which the business activities of State Bank or Rurban could be affected by this legislation.

Critical Accounting Policies

Note 1 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 describes the significant accounting policies used in the development and presentation of the Company's financial statements. The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States and conform to general practices within the banking industry. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. The Company's financial position and results of operations can be affected by these estimates and assumptions and are integral to the understanding of reported results. Critical accounting policies are those policies that management believes are the most important to the portrayal of the Company's financial condition and results, and they require management to make estimates that are difficult, subjective, or complex.

Allowance for Loan Losses - The allowance for loan losses provides coverage for probable losses inherent in the Company's loan portfolio. Management evaluates the adequacy of the allowance for loan losses each quarter based on changes, if any, in underwriting activities, loan portfolio composition (including product mix and geographic, industry or customer-specific concentrations), trends in loan performance, regulatory guidance and economic factors. This evaluation is inherently subjective, as it requires the use of significant management estimates. Many factors can affect management's estimates of specific and expected losses, including volatility of default probabilities, rating migrations, loss severity and economic and political conditions. The allowance is increased through provisions charged to operating earnings and reduced by net charge-offs.

The Company determines the amount of the allowance based on relative risk characteristics of the loan portfolio. The allowance recorded for commercial loans is based on reviews of individual credit relationships and an analysis of the migration of commercial loans and actual loss experience. The allowance recorded for homogeneous consumer loans is based on an analysis of loan mix, risk characteristics of the portfolio, fraud loss and bankruptcy experiences, and historical losses, adjusted for current trends, for each homogeneous category or group of loans. The allowance for credit losses relating to impaired loans is based on the loan's observable market price, the collateral for certain collateral-dependent loans, or the discounted cash flows using the loan's effective interest rate.

Regardless of the extent of the Company's analysis of customer performance, portfolio trends or risk management processes, certain inherent but undetected losses are probable within the loan portfolio. This is due to several factors, including inherent delays in obtaining information regarding a customer's financial condition or changes in their unique business conditions, the subjective nature of individual loan evaluations, collateral assessments and the interpretation of economic trends. Volatility of economic or customer-specific conditions affecting the identification and estimation of losses for larger non-homogeneous credits and the sensitivity of assumptions utilized to establish allowances for homogenous groups of loans are also factors. The Company estimates a range of inherent losses related to the existence of these exposures. The estimates are based upon the Company's evaluation of imprecise risk associated with the commercial and consumer allowance levels and the estimated impact of the current economic environment. To the extent that actual results differ from management's estimates, additional loan loss provisions may be required that could adversely impact earnings for future periods.

Goodwill and Other Intangibles - The Company records all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangibles, at fair value as required. Goodwill is subject, at a minimum, to annual tests for impairment. Other intangible assets are amortized over their estimated useful lives using straight-line or accelerated methods, and are subject to impairment if events or circumstances indicate a possible inability to realize the carrying amount. The initial goodwill and other intangibles recorded and subsequent impairment analysis requires management to make subjective judgments concerning estimates of how the acquired asset will perform in the future. Events and factors that may significantly affect the estimates include, among others, customer attrition, changes in revenue growth trends, specific industry conditions and changes in competition. A decrease in earnings resulting from these or other factors could lead to an impairment of goodwill that could adversely impact earnings for future periods.

Recent Developments Related to RDSI

On April 27, 2009, the Company announced a transaction between RDSI and New Core Holdings, Inc. d/b/a New Core Banking Systems, headquartered in Birmingham, AL (“New Core”). As part of this transaction, RDSI and New Core entered into a Reseller Software License and Support Agreement pursuant to which RDSI was granted rights as the exclusive provider of New Core’s Single Source™ software. RDSI and New Core also entered into an Agreement and Plan of Merger pursuant to which New Core would be merged with a newly-created subsidiary of RDSI and become a wholly-owned subsidiary of RDSI. A prerequisite of this merger would be the spin-off of RDSI from Rurban, resulting in RDSI becoming a separate independent public company. This would be followed immediately by the merger of RDSI and New Core. On July 28, 2010, the Company announced that it had determined that the planned spin-off of RDSI and merger with New Core could not be successfully completed. RDSI continues to work with New Core to address a wind-down of their relationships.

The Company expects that RDSI will lose all of its existing data processing clients with the exception of State Bank, which intends to continue its data processing and item processing services with RDSI using RDSI’s previous data processing system. However, RDSI continues to offer item processing and network services, and expects to maintain those primary businesses going forward. These services have not been and are not expected to be materially impacted by recent developments relating to RDSI’s data processing services. As of October 31, 2010, RDSI/DCM had relationships with 44 item processing and 10 network services clients.

In view of these recent developments relating to RDSI’s data processing services, the Boards of Directors of Rurban and RDSI, and their respective management teams, continue to evaluate various strategic alternatives for RDSI to address these issues and uncertainties and to decide upon a strategic direction for RDSI which will further the interests of shareholders, customers and other relevant constituencies.

Impact of Accounting Changes

None.

Nine Months Ended September 30, 2010 compared to Nine Months Ended September 30, 2009

Net Income: For the nine months ended September 30, 2010, net loss for the Company was $(9.0) million, or $(1.86) per diluted share, compared to $2.27 million in net income, or $0.46 per diluted share, for the first nine months of 2009. This reflects an increase in non-interest expense of $4.2 million and an increase in the provision for loan losses of $3.60 million for State Bank and $3.0 million for RDSI. RDSI had a net loss for the first nine months of 2010 of $7.4 million.

Net Interest Income: Net interest income was $14.8 million, a decrease of $0.90 million, or 5.7 percent, from 2009. Earning assets decreased $16.9 million, or 3.0 percent, over the prior year third quarter. The decrease in earning assets was a result of loan pay-downs over the past twelve months and selective exit from undesirable loan relationships, offset by an increase in securities balances. Total loan balances at September 30, 2010 totaled $438.5 million.

Provision for Loan Losses: The provision for loan losses was $8.79 million for the first nine months of 2010 compared to a $2.2 million provision for the first nine months of 2009. Included in the provision was a $3.0 million provision at RDSI related to a loan for software development costs. The Company experienced an increase in losses year over year, which is reflected in net charge-offs of $9.37 million compared to $1.28 million of net charge-offs in 2009. At September 30, 2010, consolidated non-performing assets were $12.1 million, or 1.77 percent of total assets, as compared with $11.7 million, or 1.74 percent of total assets at September 30, 2009.

Non-interest Income: Non-interest income was $16.6 million for the first nine months of 2010 compared with $22.4 million for the first nine months of 2009, a decrease of $5.8 million, or 25.9 percent. Data processing fees were down $6.0 million from the prior year, reflecting the loss of data processing clients at RDSI.

Non-interest Expense: Non-interest expense was $37.2 million for the first nine months of 2010, compared with $33.0 million for the first nine months of 2009. Software and fixed asset impairment increased $4.9 million due to the write-downs at RDSI. Salary and benefit expense is down $1.5 million, or 9.6 percent, which reflects the reduction in staff of 64 from the prior year. Year over year, OMSR amortization expense is up $0.56 million.

Three Months Ended September 30, 2010 compared to Three Months Ended September 30, 2009

Net Income: For the three months ended September 30, 2010, net income for the Company was $0.03 million, or $0.01 per diluted share, compared to $0.16 million in net income, or $0.03 per diluted share, for the third quarter of 2009. This reflects a decrease in non-interest expense of $2.2 million and a decrease in non-interest income of $2.0 million. RDSI had a net loss for the quarter of $0.05 million.

Net Interest Income: Net interest income was $4.9 million, a decrease of $0.04 million, or 7.6 percent, from 2009.

Provision for Loan Losses: The provision for loan losses was $0.90 million for the third quarter of 2010, which was flat to the prior-year third quarter. The Company experienced an increase in losses year over year, which is reflected in net charge-offs for the quarter of $1.45 million compared to $0.84 million of net charge-offs in the third quarter of 2009. For the third quarter of 2010, net charge-offs as a percentage of average loans was 1.32 percent annualized, compared to .73 percent annualized for the third quarter of 2009.

($ in Thousands) (State Bank Results Only)	Sept. 30, 2010	Sept. 30, 2009
Net charge-offs	$ 1,448	$ 837
Non-performing loans	$ 10,107	$ 9,646
OREO / OAO	$ 1,947	$ 1,748
Non-performing assets	$ 12,054	$ 11,394
Non-performing assets / Total assets	1.77%	1.69%
Allowance for loan losses / Total loans	1.47%	1.29%
Allowance for loan losses / Non-performing loans	63.8%	61.5%

Non-interest Income: Non-interest income was $5.13 million for the third quarter of 2010 compared with $7.08 million for the third quarter of 2009, a decrease of $1.95 million, or 27.5 percent. Data processing fees were down $2.8 million from the prior year, reflecting the loss of data processing clients at RDSI.

Non-interest Expense: Non-interest expense was $9.3 million for the third quarter of 2010, compared with $11.5 million in 2009. Salary and benefit expense was down $1.3 million, reflecting our lower staff level and equipment expense, which was down $1.17 million due to lower RDSI depreciation expense. The quarter's results include a $0.04 million impairment of our mortgage servicing rights.

Changes in Financial Condition

September 30, 2010 vs. December 31, 2009

At September 30, 2010, total assets were $681.2 million, representing an increase of $8.2 million, or 1.22 percent, from December 31, 2009. The increase is primarily attributable to an increase of $35.8 million in cash balances.

At September 30, 2010, liabilities totaled $627.1 million, an increase of $15.8 million since December 31, 2009. Of this increase, significant changes include deposits, which increased $31.1 million. Offsetting the increase in deposits was a decrease of $5.0 million in Fed Funds purchased, advances from the Federal Home Loan Bank, which decreased $9.9 million, and other liabilities, which decreased $5.0 million.

From December 31, 2009 to September 30, 2010, total shareholders' equity decreased $7.6 million, or 12.32 percent, to $54.1 million.

Goodwill

As noted in Note K, goodwill was reviewed for impairment for both State Bank and RDSI at June 30, 2010. This independent review resulted in no impairment for either business segment. At September 30, 2010 and December 31, 2009, goodwill comprised $21.4 million of Rurban's consolidated balance sheet. This included $16.4 million at State Bank and $5.0 million at RDSI.

Capital Resources

At September 30, 2010, estimated capital levels and minimum required levels for the Company and State Bank were as follows (in millions):

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital (to risk weighted assets)						
Consolidated	$ 51.0	11.6%	$ 35.1	8.0%	$ -	N/A
State Bank	50.2	11.6	34.7	8.0	43.3	10.0

Both the Company and State Bank had capital levels qualifying them to be deemed well capitalized at September 30, 2010.

LIQUIDITY

Liquidity relates primarily to the Company's ability to fund loan demand, meet deposit customers' withdrawal requirements and provide for operating expenses. Assets used to satisfy these needs consist of cash and due from banks, federal funds sold, interest-earning deposits in other financial institutions, securities available-for-sale and loans held for sale. These assets are commonly referred to as liquid assets. Liquid assets were $190.1 million at September 30, 2010.

The cash flow statements for the periods presented provide an indication of the Company's sources and uses of cash, as well as an indication of the ability of the Company to maintain an adequate level of liquidity. A discussion of the cash flow statements for the nine months ended September 30, 2010 follows.

The Company experienced positive cash flows from operating activities for the nine months ended September 30, 2010 of $8.5 million. For the nine months ended September 30, 2009, the Company experienced negative cash flows from operations of $3.4 million.

Net cash flow from investing activities was a positive $6.7 million and a negative $7.5 million for the nine months ended September 30, 2010 and 2009, respectively. The changes in net cash from investing activities at September 30, 2010 included available-for-sale securities purchases totaling $52.2 million. These cash payments were offset by $32.8 million in proceeds from maturities of securities and $10.0 million in proceeds from sales of securities. Changes in net loans were $13.6 million. The changes in net cash from investing activities at September 30, 2009 included the purchase of securities of $50.0 million and changes in loans of a negative $0.5 million. This was partially offset by the proceeds from maturities or calls and sales of securities of $44.2 million.

Net cash flow from financing activities was a positive $20.5 million and a positive $13.9 million for the nine months ended September 30, 2010 and 2009, respectively. The 2010 financing activities included a $23.1 million increase in demand deposits, money market, interest checking and savings accounts, and a $7.9 million increase in certificates of deposit. Proceeds from advances from the Federal Home Loan Bank totaled $2.0 million, and proceeds from notes payable totaled $2.3 million. Offsetting this increase were repayments of Federal Home Loan Bank advances of $11.8

million and repayment of notes payable of $1.0 million. The net cash provided by financing activities at September 30, 2009 was primarily due to proceeds from advances from the FHLB which totaled $7.5 million, and a $4.2 million increase in notes payable. Deposits had a net increase of $8.1 million and repayment of FHLB advances totaled $4.3 million.

Off-Balance-Sheet Borrowing Arrangements:

Significant additional off-balance-sheet liquidity is available to the Company in the form of FHLB advances and unused federal funds lines from correspondent banks. Management expects the risk of changes in off-balance-sheet arrangements to be immaterial to earnings.

At September 30, 2010, the Company had unused federal funds lines and lines of credit totaling $14.8 million.

The Company's contractual obligations as of September 30, 2010 consisted of long-term debt obligations, other debt obligations, operating lease obligations and other long-term liabilities. Long-term debt obligations were comprised of FHLB advances of $26.0 million. Other debt obligations were comprised of Trust Preferred Securities of $20.6 million. The Company's operating lease obligations consisted of a lease on the RDSI operations building of $99,600 per year, a lease on the RDSI-North building of $162,000 per year, a lease on the Northtowne branch of State Bank of $60,000 per year and a lease on the RDSI/DCM Lansing facility of $61,000 per year.

ASSET LIABILITY MANAGEMENT

Asset liability management involves developing and monitoring strategies to maintain sufficient liquidity, maximize net interest income and minimize the impact that significant fluctuations in market interest rates would have on earnings. The business of the Company and the composition of its balance sheet consist of investments in interest-earning assets (primarily loans, mortgage-backed securities, and securities available for sale) which are primarily funded by interest-bearing liabilities (primarily deposits and borrowings). With the exception of specific loans, that are originated and held for sale, all of the financial instruments of the Company are for other than trading purposes. All of the Company's transactions are denominated in U.S. dollars with no specific foreign exchange exposure. In addition, the Company has limited exposure to commodity prices related to agricultural loans. The impact of changes in foreign exchange rates and commodity prices on interest rates are assumed to be insignificant. The Company's financial instruments have varying levels of sensitivity to changes in market interest rates resulting in market risk. Interest rate risk is the Company's primary market risk exposure. The Company also faces liquidity risk to a lesser extent.

Interest rate risk is the exposure of a financial institution's financial condition to adverse movements in interest rates. Successfully managing this risk can be an important source of operating results and profitability and stockholder value; however, excessive levels of interest rate risk could pose a significant threat to the Company's earnings and capital base. Accordingly, effective risk management that maintains interest rate risks at prudent levels is essential to the Company's safety and soundness.

Evaluating a financial institution's exposure to changes in interest rates includes assessing both the adequacy of the management process used to control interest rate risk and the institution's quantitative level of exposure. When assessing the interest rate risk management process, the Company seeks to ensure that appropriate policies, procedures, management information systems, and internal controls are in place to maintain interest rate risks at prudent levels of consistency and continuity. Evaluating the quantitative level of interest rate risk exposure requires the Company to assess the existing and potential future effects of changes in interest rates on its consolidated financial condition, including capital adequacy, earnings, liquidity, and asset quality (when appropriate).

The Federal Reserve Board, together with the Office of the Comptroller of the Currency and the Federal Deposit Insurance Company, adopted a Joint Agency Policy Statement on interest rate risk effective June 26, 1996. The policy statement provides guidance to examiners and bankers on sound practices for managing interest rate risk, which will form the basis for ongoing evaluation of the adequacy of interest rate risk management at supervised institutions. The policy statement also outlines fundamental elements of sound management that have been identified in prior Federal Reserve guidance and discusses the importance of these elements in the context of managing interest rate risk. Specifically, the guidance emphasizes the need for active Board of Director and senior management oversight and a comprehensive risk management process that effectively identifies, measures, and controls interest rate risk.

Financial institutions derive their income primarily from the excess of interest collected over interest paid. The rates of interest an institution earns on its assets and owes on its liabilities generally are established contractually for a period of time. Since market interest rates change over time, an institution is exposed to lower profit margins (or losses) if it cannot adapt to interest rate changes. For example, assume that an institution's assets carry intermediate or long-term fixed rates and that those assets are funded with short-term liabilities. If market interest rates rise by the time the short-term liabilities must be refinanced, the increase in the institution's interest expense on its liabilities may not be sufficiently offset if assets continue to earn at the long-term fixed rates. Accordingly, an institution's profits could decrease on existing assets because the institution will either have lower net interest income or possibly, net interest expense. Similar risks exist when assets are subject to contractual interest rate ceilings, or when rate sensitive assets are funded by longer-term, fixed-rate liabilities in a declining rate environment.

There are several ways an institution can manage interest rate risk including: 1) matching repricing periods for new assets and liabilities, for example, by shortening terms of new loans or investments; 2) selling existing assets or repaying certain liabilities; and 3) hedging existing assets, liabilities, or anticipated transactions. An institution might also invest in more complex financial instruments intended to hedge or otherwise change interest rate risk. Interest rate swaps, futures contacts, options on futures contracts, and other such derivative financial instruments can be used for this purpose. Because these instruments are sensitive to interest rate changes, they require management's expertise to be effective. The Company has not purchased derivative financial instruments in the past but may purchase such instruments in the future if it believes market conditions are favorable.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Management believes there has been no material change in the Company's market risk as disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

With the participation of the President and Chief Executive Officer (the principal executive officer) and the Executive Vice President and Chief Financial Officer (the principal financial officer) of the Company, the Company’s management has evaluated the effectiveness of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the quarterly period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Company’s President and Chief Executive Officer and the Company’s Executive Vice President and Chief Financial Officer have concluded that:

- information required to be disclosed by the Company in this Quarterly Report on Form 10-Q and other reports which the Company files or submits under the Exchange Act would be accumulated and communicated to the Company’s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure;

- information required to be disclosed by the Company in this Quarterly Report on Form 10-Q and other reports which the Company files or submits under the Exchange Act would be recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms; and

- the Company’s disclosure controls and procedures were effective as of the end of the quarterly period covered by this Quarterly Report on Form 10-Q.

Changes to Internal Control Over Financial Reporting

During the Company’s fiscal quarter ended September 30, 2010, the Company took certain remedial steps to address the material weakness in the Company’s internal control over financial reporting, as disclosed in “Item 4. Controls and Procedures” of Part I of the Company’s Quarterly Report on Form 10-Q for fiscal quarter ended June 30, 2010.

Other than these remedial steps, there were no changes in the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Company’s fiscal quarter ended September 30, 2010, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

There are no material pending legal proceedings against the Company or any of its subsidiaries other than ordinary, routine litigation incidental to their respective businesses. In the opinion of management, this litigation should not, individually or in the aggregate, have a material adverse effect on the Company's results of operations, financial condition, or liquidity.

Item 1A. Risk Factors

There are certain risks and uncertainties in our business that could cause our actual results to differ materially from those anticipated. A detailed discussion of our risk factors is included in "Item 1A. Risk Factors" of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2009, as updated by "Item 1A. Risk Factors" of Part II of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, and as updated by "Item 1A. Risk Factors" of Part II of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010. The following information updates certain of our risk factors and should be read in conjunction with the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, as updated by "Item 1A. Risk Factors" of Part II of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, and as updated by "Item 1A. Risk Factors" of Part II of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.

RDSI expects to lose all or substantially all of its existing data processing customers and associated revenue in connection with the wind-down of its relationship with New Core, and this loss of customers and revenue is expected to result in a net operating loss by RDSI through the remainder of 2010.

On July 28, 2010, the Company announced that it had determined that the planned spin-off of RDSI and merger with New Core cannot be successfully completed. RDSI is working with New Core to address a wind-down of their relationships to enable both companies to pursue their separate strategic directions. As a result of this determination, together with the loss of RDSI's data processing client base and associated revenue, the Company recorded a $5.6 million pre-tax charge in the second quarter of 2010 for impairment and write-downs of hardware, software and developmental costs related to the data processing business of RDSI. The Company also recorded a $3.0 million loan provision and associated charge-off at RDSI during the second quarter of 2010 relating to a loan to New Core Holdings Inc. for software development costs.

The Company expects that RDSI will lose all of its existing data processing clients with the exception of State Bank, which intends to continue its data processing and item processing services with RDSI using RDSI's previous data processing system. However, RDSI continues to offer item processing and network services, and expects to maintain those primary businesses going forward. These services have not been and are not expected to be materially impacted by recent developments relating to RDSI's data processing services. As of October 31, 2010, RDSI/DCM had relationships with 44 item processing and 10 network services clients.

In view of the expected loss of data processing clients and associated revenue by RDSI in connection with the wind-down of its relationship with New Core, it is anticipated that RDSI will experience a net operating loss through the remainder of 2010.

Changes in economic conditions could adversely affect our earnings, as our borrowers' ability to repay loans and the value of the collateral securing our loans decline.

Our success depends to a large extent upon local and national economic conditions, as well as governmental fiscal and monetary policies. Conditions such as inflation, recession, unemployment, changes in interest rates, money supply and other factors beyond our control can adversely affect our asset quality, deposit levels and loan demand and, therefore, our earnings and our capital. Because we have a significant amount of real estate loans, additional decreases in real estate values could adversely affect the value of property used as collateral and our ability to sell the collateral upon foreclosure. Adverse changes in the economy may also have a negative effect on the ability of our borrowers to make timely repayments of their loans, which would have an adverse impact on our earnings and cash flows.

We continue to experience difficult economic conditions and high unemployment in our market areas, which has impaired the ability of our customers to make payments on their loans, and a significant continued decline in the economy in our market areas could have a materially adverse effect on our financial condition and results of operations. As a result of these economic conditions, the Company's future earnings continue to be susceptible to further declining credit conditions in the markets in which we operate.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

a. Not applicable

b. Not applicable

c. The Company did not have any repurchases of common shares during the three months ended September 30, 2010. On April 12, 2007, the Company announced that its Board of Directors had authorized a stock repurchase program pursuant to which the Company could repurchase up to 250,000 of its common shares from time to time over a period of fifteen months. On July 22, 2008, the Board of Directors extended the stock repurchase program for an additional twelve months, with no change in the number of authorized shares. On July 15, 2009, the Board of Directors extended the stock repurchase program for an additional fifteen months, with no change in the number of authorized shares. The Company repurchased a total of 165,654 common shares under the stock repurchase program, which expired on October 12, 2010.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. [Reserved]

Item 5. Other Information

Not applicable

Item 6. Exhibits

Exhibits

31.1	– Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)
31.2	– Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer)
32.1	– Section 1350 Certification (Principal Executive Officer)
32.2	– Section 1350 Certification (Principal Financial Officer)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

		RURBAN FINANCIAL CORP.	
Date: November 15, 2010	By	/s/ Mark A. Klein Mark A. Klein President and Chief Executive Officer
	By	/s/ Anthony V. Cosentino Anthony V. Cosentino Executive Vice President and Chief Financial Officer