LAKELAND FINANCIAL CORP
Form 10-Q
August 04, 2010

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

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 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 _____________

LAKELAND FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Indiana	0-11487	35-1559596
(State or Other Jurisdiction of Incorporation or Organization)	(Commission File Number)	(IRS Employer Identification No.)

202 East Center Street, P.O. Box 1387, Warsaw, Indiana 46581-1387
(Address of Principal Executive Offices)(Zip Code)

(574) 267-6144
Registrant's Telephone Number, Including Area Code

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 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 X Non-accelerated filer (do not check if a smaller reporting company) Smaller reporting company

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

Number of shares of common stock outstanding at July 31, 2010: 16,129,519

LAKELAND FINANCIAL CORPORATION
Form 10-Q Quarterly Report
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PART II.

PART 1
LAKELAND FINANCIAL CORPORATION
ITEM 1 – FINANCIAL STATEMENTS

LAKELAND FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
As of June 30, 2010 and December 31, 2009
(in thousands except for share data)

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	June 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Cash and due from banks	$ 51,652	$ 48,964
Short-term investments	5,217	7,019
Total cash and cash equivalents	56,869	55,983
Securities available for sale (carried at fair value)	432,025	410,028
Real estate mortgage loans held for sale	1,472	1,521
Loans, net of allowance for loan losses of $37,364 and $32,073	2,020,363	1,979,937
Land, premises and equipment, net	29,249	29,576
Bank owned life insurance	37,175	36,639
Accrued income receivable	9,178	8,600
Goodwill	4,970	4,970
Other intangible assets	180	207
Other assets	42,028	44,044
Total assets	$ 2,633,509	$ 2,571,505

(continued)

LAKELAND FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
As of June 30, 2010 and December 31, 2009
(in thousands except for share data)

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	June 30, 2010 (Unaudited)	December 31, 2009
LIABILITIES AND EQUITY		
LIABILITIES		
Noninterest bearing deposits	$ 264,817	$ 259,415
Interest bearing deposits	1,866,314	1,591,710
Total deposits	2,131,131	1,851,125
Short-term borrowings		
Federal funds purchased	71,300	9,600
Securities sold under agreements to repurchase	104,958	127,118
U.S. Treasury demand notes	2,427	2,333
Other short-term borrowings	0	215,000
Total short-term borrowings	178,685	354,051
Accrued expenses payable	13,638	14,040
Other liabilities	1,034	1,236
Long-term borrowings	40,041	40,042
Subordinated debentures	30,928	30,928
Total liabilities	2,395,457	2,291,422
EQUITY		
Cumulative perpetual preferred stock: 1,000,000 shares authorized, no par value, $56,044 liquidation value		
0 shares issued and outstanding as of June 30, 2010		
56,044 shares issued and outstanding as of December 31, 2009	0	54,095
Common stock: 90,000,000 shares authorized, no par value		
16,126,619 shares issued and 16,023,797 outstanding as of June 30, 2010		
16,078,461 shares issued and 15,977,352 outstanding as of December 31, 2009	85,009	83,487
Retained earnings	153,996	149,945
Accumulated other comprehensive income (loss)	520	(5,993)

Treasury stock, at cost (2010 - 102,822 shares, 2009 - 101,109 shares)		(1,562)		(1,540)
Total stockholders' equity		237,963		279,994
Noncontrolling interest		89		89
Total equity		238,052		280,083
Total liabilities and equity	$	2,633,509	$	2,571,505

The accompanying notes are an integral part of these consolidated financial statements.

LAKELAND FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
For the Three Months and Six Months Ended June 30, 2010 and 2009
(in thousands except for share and per share data)

(Unaudited)

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
NET INTEREST INCOME				
Interest and fees on loans				
Taxable	$ 25,945	$ 23,751	$ 51,295	$ 46,540
Tax exempt	19	30	38	100
Interest and dividends on securities				
Taxable	4,113	4,433	8,341	8,896
Tax exempt	708	604	1,353	1,207
Interest on short-term investments	27	12	41	28
Total interest income	30,812	28,830	61,068	56,771
Interest on deposits	6,933	8,278	13,448	18,033
Interest on borrowings				
Short-term	188	265	437	573
Long-term	539	749	1,070	1,612
Total interest expense	7,660	9,292	14,955	20,218
NET INTEREST INCOME	23,152	19,538	46,113	36,553
Provision for loan losses	5,750	4,936	11,276	9,452
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	17,402	14,602	34,837	27,101
NONINTEREST INCOME				
Wealth advisory fees	833	727	1,625	1,466
Investment brokerage fees	471	432	1,016	890
Service charges on deposit accounts	2,202	2,110	4,060	4,020
Loan, insurance and service fees	1,074	860	1,994	1,644
Merchant card fee income	303	840	583	1,643
Other income	483	437	1,015	953
Mortgage banking income	74	616	165	976
Other than temporary impairment on available-for-sale securities:				
	(81)	0	(252)	0

Total impairment losses recognized on securities				
Loss recognized in other comprehensive income	0	0	0	0
Net impairment loss recognized in earnings	(81)	0	(252)	0
Total noninterest income	5,359	6,022	10,206	11,592

(continued)

LAKELAND FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
For the Three Months and Six Months Ended June 30, 2010 and 2009
(in thousands except for share and per share data)

(Unaudited)

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
NONINTEREST EXPENSE				
Salaries and employee benefits	7,559	7,089	15,070	13,189
Occupancy expense	699	720	1,488	1,641
Equipment costs	522	517	1,051	1,017
Data processing fees and supplies	960	1,005	1,926	1,984
Credit card interchange	49	523	113	1,051
Other expense	3,636	4,299	6,825	7,958
Total noninterest expense	13,425	14,153	26,473	26,840
INCOME BEFORE INCOME TAX EXPENSE	9,336	6,471	18,570	11,853
Income tax expense	3,117	2,011	6,330	3,523
NET INCOME	$ 6,219	$ 4,460	$ 12,240	$ 8,330
Dividends and accretion of discount on preferred stock	2,382	800	3,187	1,090
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 3,837	$ 3,660	$ 9,053	$ 7,240
BASIC WEIGHTED AVERAGE COMMON SHARES	16,114,408	12,416,710	16,103,080	12,409,146
BASIC EARNINGS PER COMMON SHARE	$ 0.24	$ 0.29	$ 0.56	$ 0.58
DILUTED WEIGHTED AVERAGE COMMON SHARES	16,212,460	12,515,196	16,195,254	12,512,890
DILUTED EARNINGS PER COMMON SHARE	$ 0.24	$ 0.29	$ 0.56	$ 0.58

The accompanying notes are an integral part of these consolidated financial statements.

LAKELAND FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Six Months Ended June 30, 2010 and 2009
(in thousands except for share and per share data)
(Unaudited)

	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2009	$ 0	$ 22,085	$ 141,371	$ (12,024)	$ (1,552)	$ 149,880
Comprehensive income:						
Net income			8,330			8,330
Other comprehensive income (loss), net of tax				2,065		2,065
Comprehensive income						10,395
Common stock cash dividends declared, $.31 per share			(3,844)			(3,844)
Treasury shares purchased under deferred directors' plan (5,669 shares)		123			(123)	0
Treasury stock sold and distributed under deferred directors' plan (16,547 shares)		(243)			243	0
Stock activity under stock compensation plans (44,250 shares)		476				476
Stock compensation expense		125				125
Issuance of 56,044 shares of preferred stock at discount	53,759					53,759

Issuance of warrant to purchase 396,538 shares of common stock		2,285				2,285
Accretion of preferred stock discount	132		(132)			0
Preferred stock dividend paid and/or accrued			(972)			(972
Balance at June 30, 2009	$ 53,891	$ 24,851	$ 144,753	$ (9,959)	$ (1,432)	$ 212,104
Balance at January 1, 2010	$ 54,095	$ 83,487	$ 149,945	$ (5,993)	$ (1,540)	$ 279,994
Comprehensive income:						
Net income			12,240			12,240
Other comprehensive income (loss), net of tax				6,513		6,513
Comprehensive income						18,753
Common stock cash dividends declared, $.31 per share			(4,989)			(4,989
Treasury shares purchased under deferred directors' plan (6,190 shares)		112			(112)	0
Treasury shares sold and distributed under deferred directors' plan (4,477 shares)		(90)			90	0
Stock activity under stock compensation plans (48,158 shares)		530				530
Stock compensation expense		970				970
Redemption of 56,044 shares of preferred stock	(56,044)					(56,044

Accretion of preferred stock discount	1,949		(1,949)			0
Preferred stock dividend paid and/or accrued			(1,251)			(1,251
Balance at June 30, 2010	$ 0	$ 85,009	$ 153,996	$ 520	$ (1,562)	$ 237,963

The accompanying notes are an integral part of these consolidated financial statements.

LAKELAND FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2010 and 2009
(in thousands)
(Unaudited)
(Page 1 of 2)

	2010	2009
Cash flows from operating activities:		
Net income	$ 12,240	$ 8,330
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	1,110	1,107
Provision for loan losses	11,276	9,452
Loss on sale and write down of other real estate owned	17	70
Amortization of intangible assets	27	103
Amortization of loan servicing rights	291	289
Net change in loan servicing rights valuation allowance	130	125
Loans originated for sale	(25,735)	(71,018)
Net gain on sales of loans	(600)	(1,174)
Proceeds from sale of loans	26,154	66,333
Impairment on available for sale securities	252	0
Net securities amortization	707	81
Stock compensation expense	970	125
Earnings on life insurance	(522)	(327)
Tax benefit of stock option exercises	(160)	(115)
Net change:		
Accrued income receivable	(578)	(115)
Accrued expenses payable	(377)	1,947
Other assets	(2,909)	882
Other liabilities	260	(453)
Total adjustments	10,313	7,312
Net cash from operating activities	22,553	15,642
Cash flows from investing activities:		
Proceeds from maturities, calls and principal paydowns of securities available for sale	48,311	62,987
Purchases of securities available for sale	(60,374)	(62,746)
Purchase of life insurance	(14)	(84)
Net increase in total loans	(51,900)	(51,994)
Proceeds from sales of land, premises and equipment	0	0
Purchases of land, premises and equipment	(783)	(923)
Proceeds from sales of other real estate	670	172
Net cash from investing activities	(64,090)	(52,588)

(Continued)

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LAKELAND FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2010 and 2009
(in thousands)
(Unaudited)
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	2010	2009
Cash flows from financing activities:		
Net increase (decrease) in total deposits	280,006	(150,163)
Net increase (decrease) in short-term borrowings	(175,366)	162,955
Payments on long-term borrowings	(1)	(50,001)
Common dividends paid	(4,989)	(3,844)
Preferred dividends paid	(1,601)	(622)
Redemption of preferred stock	(56,044)	0
Proceeds from issuance of preferred stock and warrant	0	56,044
Proceeds from stock option exercise	530	476
Purchase of treasury stock	(112)	(123)
Net cash from financing activities	42,423	14,722
Net change in cash and cash equivalents	886	(22,224)
Cash and cash equivalents at beginning of the period	55,983	64,007
Cash and cash equivalents at end of the period	$ 56,869	$ 41,783
Cash paid during the period for:		
Interest	$ 14,415	$ 18,104
Income taxes	10,740	3,700
Supplemental non-cash disclosures:		
Loans transferred to other real estate	198	0

The accompanying notes are an integral part of these consolidated financial statements.

LAKELAND FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010

(Table amounts in thousands except for share and per share data)

(Unaudited)

NOTE 1. BASIS OF PRESENTATION

This report is filed for Lakeland Financial Corporation (the “Company”) and its wholly owned subsidiary, Lake City Bank (the “Bank”). All significant inter-company balances and transactions have been eliminated in consolidation. Also included is the Bank’s wholly owned subsidiary, LCB Investments II, Inc. (“LCB Investments”). LCB Investments also owns LCB Funding, Inc. (“LCB Funding”), a real estate investment trust.

The unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (all of which are normal and recurring in nature) considered necessary for a fair presentation have been included. Operating results for the three-month and six-month periods ending June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. The 2009 Lakeland Financial Corporation Annual Report on Form 10-K should be read in conjunction with these statements.

NOTE 2. EARNINGS PER SHARE

Basic earnings per common share is net income available to common shareholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options, stock awards and warrants.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income	$ 6,219	$ 4,460	$ 12,240	$ 8,330
Dividends and accretion of discount on preferred stock	2,382	800	3,187	1,090
Net income available to common shareholders	$ 3,837	$ 3,660	$ 9,053	$ 7,240

Weighted average shares outstanding for basic earnings per common share	16,114,408	12,416,710	16,103,080	12,409,146
Dilutive effect of stock options and awards	98,052	98,486	92,174	103,744
Weighted average shares outstanding for diluted earnings per common share	16,212,460	12,515,196	16,195,254	12,512,890
Basic earnings per common share	$ 0.24	$ 0.29	$ 0.56	$ 0.58
Diluted earnings per common share	$ 0.24	$ 0.29	$ 0.56	$ 0.58

Stock options for 89,918 and 120,000 shares for the three month periods ended June 30, 2010 and June 30, 2009, respectively, were not considered in computing diluted earnings per common share because they were antidilutive. Stock options for 109,000 and 120,000 shares for the six month periods ended June 30, 2010 and June 30, 2009, respectively, were not considered in computing diluted earnings per common share because they were antidilutive. In addition, warrants for 198,269 shares for the periods ended June 30, 2010 and 2009, were not considered in computing diluted earnings per share because they were antidilutive.

NOTE 3. LOANS

	June 30, 2010	December 31, 2009
Commercial and industrial loans	$ 727,047	$ 693,579
Commercial real estate – owner occupied	361,618	348,812
Commercial real estate – nonowner occupied	253,158	257,374
Commercial real estate - multifamily loans	25,153	26,558
Commercial real estate construction loans	195,990	166,959
Agri-business and agricultural loans	183,137	206,252
Residential real estate mortgage loans	90,118	95,211
Home equity loans	167,420	161,594
Installment loans and other consumer loans	55,280	57,478
Subtotal	2,058,921	2,013,817
Less: Allowance for loan losses	(37,364)	(32,073)
Net deferred loan fees	(1,194)	(1,807)
Loans, net	$ 2,020,363	$ 1,979,937
Impaired loans (including troubled debt restructurings)	$ 41,008	$ 31,838
Amount of the allowance for loan losses allocated	$ 8,457	$ 6,658
Nonperforming loans	$ 30,725	$ 30,708
Nonperforming troubled debt restructured loans	$ 6,219	$ 6,521
Performing troubled debt restructured loans	8,417	0
Total troubled debt restructured loans	$ 14,636	$ 6,521
Allowance for loan losses to total loans	1.82%	1.59%

Changes in the allowance for loan losses are summarized as follows:

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Balance at beginning of period	$ 32,073	$ 18,860
Provision for loan losses	11,276	9,452
Charge-offs	(6,377)	(3,450)
Recoveries	392	228
Net loans charged-off	(5,985)	(3,222)
Balance at end of period	$ 37,364	$ 25,090

NOTE 4. SECURITIES

Information related to the fair value of securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) is provided in the tables below.

	Fair Value	Gross Unrealized Gain	Gross Unrealized Losses	Amortized Cost
June 30, 2010				
U.S. Treasury securities	$ 1,033	$ 28	$ 0	$ 1,005
Residential mortgage-backed securities	293,487	12,279	(75)	281,283
Non-agency residential mortgage-backed securities	68,883	169	(11,057)	79,771
State and municipal securities	68,622	2,055	(104)	66,671
Total	$ 432,025	$ 14,531	$ (11,236)	$ 428,730
December 31, 2009				
U.S. Treasury securities	$ 992	$ 0	$ (13)	$ 1,005
U.S. Government agencies	4,610	22	0	4,588
Residential mortgage-backed securities	270,796	7,598	(1,078)	264,276
Non-agency residential mortgage-backed securities	72,495	46	(15,933)	88,382
State and municipal securities	61,135	1,898	(138)	59,375
Total	$ 410,028	$ 9,564	$ (17,162)	$ 417,626

Information regarding the fair value of available for sale debt securities by maturity as of June 30, 2010 is presented below. Maturity information is based on contractual maturity for all securities other than mortgage-backed securities. Actual maturities of securities may differ from contractual maturities because borrowers may have the right to prepay the obligation without prepayment penalty.

	Fair Value	Amort Cost
Due in one year or less	$ 215	$ 215
Due after one year through five years	8,960	8,584
Due after five years through ten years	42,593	41,338
Due after ten years	17,887	17,539
	69,655	67,676
Mortgage-backed securities	362,370	361,054
Total debt securities	$ 432,025	$ 428,730

There were no security sales for the first six months in 2010 and 2009. All of the gains and losses were from calls or maturities.

Purchase premiums or discounts are recognized in interest income using the interest method over the terms of the securities or over estimated lives for mortgage-backed securities. Gains and losses on sales are based on the amortized cost of the security sold and recorded on the trade date.

Securities with carrying values of $258.8 million and $226.9 million were pledged as of June 30, 2010 and 2009, as collateral for deposits of public funds, securities sold under agreements to repurchase, borrowings from the FHLB and for other purposes as permitted or required by law.

Information regarding securities with unrealized losses as of June 30, 2010 and December 31, 2009 is presented below. The tables distribute the securities between those with unrealized losses for less than twelve months and those with unrealized losses for twelve months or more.

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2010						
Mortgage-backed securities	$ 11,913	$ 75	$ 5	$ 0	$ 11,918	$ 75
Non-agency mortgage-backed securities	0	0	62,950	11,057	62,950	11,057
State and municipal securities	5,374	60	1,866	44	7,240	104
Total temporarily impaired	$ 17,287	$ 135	$ 64,821	$ 11,101	$ 82,108	$ 11,236

December 31, 2009	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 months or more Fair Value	12 months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
U.S. Treasury securities	$ 992	$ 13	$ 0	$ 0	$ 992	$ 13
Residential mortgage-backed securities	58,792	1,075	851	3	59,643	1,078
Non-agency residential mortgage-backed securities	0	0	69,022	15,933	69,022	15,933
State and municipal securities	7,257	102	445	36	7,702	138
Total temporarily impaired	$ 67,041	$ 1,190	$ 70,318	$ 15,972	$ 137,359	$ 17,162

The number of securities with unrealized losses as of June 30, 2010 and December 31, 2009 is presented below.

	Less than 12 months	12 months or more	Total
June 30, 2010			
Mortgage-backed securities	10	1	11
Non-agency mortgage-backed securities	0	21	21
State and municipal securities	12	3	15
Total temporarily impaired	22	25	47
December 31, 2009			
U.S. Treasury securities	1	0	1
Mortgage-backed securities	18	4	22
Non-agency mortgage-backed securities	0	23	23
State and municipal securities	15	1	16
Total temporarily impaired	34	28	62

All of the following are considered to determine whether or not the impairment of these securities is other-than-temporary. Eighty two percent of the securities are backed by the U.S. Government, government agencies, government sponsored agencies or are A rated or better, except for certain non-local municipal securities. Mortgage-backed securities which are not issued by the U.S. Government or government sponsored agencies (non-agency mortgage-backed securities) met specific criteria set by the Asset Liability Management Committee at their time of purchase, including having the highest rating available by either Moody's or S&P. None of the securities have call provisions (with the exception of the municipal securities) and payments as originally agreed have been received. For the government, government-sponsored agency and municipal securities, management had no concerns of credit losses and there was nothing to indicate that full principal will not be received. Management considered the unrealized losses on these securities to be primarily interest rate driven and did not expect material losses given current market conditions unless the securities are sold, which at this time management does not have the intent to sell nor will it more likely than not be required to sell these securities before the recovery of their amortized cost basis.

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As of June 30, 2010, the Company had $68.9 million of collateralized mortgage obligations which were not issued by the federal government or government sponsored agencies, but were rated AAA by S&P and/or Aaa by Moody's at the time of purchase. At December 31, 2009, the Company had $72.5 million of these collateralized mortgage obligations. Five of the 24 non-agency mortgage backed securities were still rated AAA/Aaa as of June 30, 2010, but 19 were downgraded by S&P, Fitch and/or Moody's, including 16 which were ranked below investment grade by one or more rating agencies. Since December 31, 2009, there have not been any downgrades on the five securities still rated AAA/Aaa and of the 19 that were below AAA/Aaa, four incurred further downgrades.

For these non-agency mortgage-backed securities, additional analysis is performed to determine if the impairment is temporary or other-than-temporary in which case impairment would need to be recorded for these securities. The Company performs an independent analysis of the cash flows of the individual securities based upon assumptions as to collateral defaults, prepayment speeds, expected losses and the severity of potential losses. Based upon the initial review, securities may be identified for further analysis computing the net present value using an appropriate discount rate (the current accounting yield) and comparing it to the book value of the security to determine if there is any other-than-temporary impairment that must be recorded. Based on this analysis of the non-agency mortgage-backed securities, the Company recorded an other-than-temporary impairment of $252,000 and $81,000, respectively, relating to four separate securities in the six-months and three-months ended June 30, 2010, which is equal to the credit loss, establishing a new, lower amortized cost basis. Because management did not have the intent to sell nor did management believe that it was more likely than not they would be required to sell these securities before the recovery of their new, lower amortized cost basis, management did not consider the remaining unrealized losses of the investment securities to be other-than-temporarily impaired at June 30, 2010.

The following table provides information about debt securities for which only a credit loss was recognized in income and other losses are recorded in other comprehensive income. The table represents the three months and six months ended June 30, 2010.

Three Months Ended June 30, 2010	Accumulated Credit Losses
Balance April 1, 2010	$ 396
Additions related to other-than-temporary impairment losses not previously recognized	81
Balance June 30, 2010	$ 477

Six Months Ended June 30, 2010	Accumulated Credit Losses
Balance January 1, 2010	$ 225
Additions related to other-than-temporary impairment losses not previously recognized	252
Balance June 30, 2010	$ 477

Information on securities with at least one rating below investment grade as of June 30, 2010 is presented below.

Description	CUSIP	Other Than Temporary Impairment	Par Value	June 30, 2010 Amortized Cost	June 30, 2010 Fair Value	Unrealized Gain/(Loss)	June 30, 2010 Lowest Credit Rating	1-Month Constant Default Rate	3-Month Constant Default Rate	6-Month Constant Default Rate	Credit Support
CWALT 2006-32CB A16	02147XAR8	No	$ 2,035	$ 1,939	$ 1,149	$ (790)	CCC	3.68	4.88	3.91	10.03
CWHL 2006-18 2A7	12543WAJ7	No	4,291	4,208	3,620	(588)	CCC	2.73	1.92	2.01	4.31
CWALT 2005-J10 1A7	12667G4N0	No	5,011	4,961	4,180	(781)	CCC	0.00	3.54	2.59	7.57
CWALT 2005-46CB A1	12667G6U2	No	4,411	4,205	3,101	(1,104)	CCC	2.00	1.85	2.00	4.65
CWALT 2005-J8 1A3	12667GJ20	No	6,182	5,927	5,184	(743)	Caa2	0.00	0.00	0.00	6.95
CHASE 2006-S3 1A5	16162XAE7	No	3,114	3,108	2,796	(312)	CCC	1.93	5.07	3.41	4.96
CHASE 2006-S2 2A5	16163BBA1	No	2,380	2,369	2,286	(83)	CCC	2.50	1.50	2.02	5.62
FHAMS 2006-FA1 1A3	32051GS63	No	3,578	3,481	3,064	(417)	CCC	5.50	4.59	4.62	3.19
GSR 2006-10F 1A1	36266WAC6	No	6,269	5,832	5,164	(668)	CCC	0.00	0.00	0.00	4.51
MANA 2007-F1 1A1	59023YAA2	No	3,301	3,236	2,714	(522)	CC	0.00	0.00	0.00	2.65
RALI 2006-QS4 A2	749228AB8	Yes	2,664	2,495	1,592	(903)	CC	14.55	7.62	8.17	0.00
RFMSI 2006-S5 A14	74957EAP2	Yes	4,047	3,927	3,261	(666)	CCC	5.06	3.77	3.73	3.27
RALI 2005-QS7 A5	761118AE8	No	5,327	5,064	4,052	(1,012)	CCC	0.88	5.95	5.83	10.64
RALI 2006-QS3	761118XS2	Yes	3,154	2,961	2,048	(913)	D	3.32	6.58	8.19	3.73

1A14												
RAST 2006-A14C 1A2	76114BAB4	Yes	1,498	1,259	902	(357)	D	12.60	5.13	5.69	0.00
TBW 2006-2 3A1	878048AG2	No	2,702	2,609	2,394	(215)	D	0.00	2.37	6.58	0.00
			$ 59,964	$ 57,581	$ 47,507	$ (10,074)					

All of these securities are super senior or senior tranche residential non-agency mortgage-backed securities. The credit support is the credit support percentage for a tranche from other subordinated tranches, which is the amount of principal in the subordinated tranches expressed as a percentage of the remaining principal in the super senior/senior tranche. The super senior/senior tranches receive the prepayments and the subordinate tranches absorb the losses. The super senior/senior tranches do not absorb losses until the subordinate tranches are gone.

The Company does not have a history of actively trading securities, but keeps the securities available for sale should liquidity or other needs develop that would warrant the sale of securities. While these securities are held in the available for sale portfolio, the current intent and ability is to hold them until a recovery in fair value or maturity.

NOTE 5. EMPLOYEE BENEFIT PLANS

Components of Net Periodic Benefit Cost

	Six Months Ended June 30,			
	Pension Benefits		SERP Benefits	
	2010	2009	2010	2009
Interest cost	$ 68	$ 70	$ 34	$ 37
Expected return on plan assets	(78)	(97)	(42)	(50)
Recognized net actuarial loss	50	47	28	23
Net pension expense	$ 40	$ 20	$ 20	$ 10

	Three Months Ended June 30,			
	Pension Benefits		SERP Benefits	
	2010	2009	2010	2009
Interest cost	$ 34	$ 35	$ 17	$ 19
Expected return on plan assets	(39)	(49)	(21)	(25)
Recognized net actuarial loss	25	23	14	12
Net pension expense	$ 20	$ 9	$ 10	$ 6

The Company previously disclosed in its financial statements for the year ended December 31, 2009 that it did not expect to contribute to its pension or SERP plans in 2010. No contributions were made to the pension plan and SERP plan as of June 30, 2010.

NOTE 6. NEW ACCOUNTING PRONOUNCEMENTS

In April 2010, the FASB amended previous guidance relating to acquired loans that have evidence of credit deterioration upon acquisition accounted for within a pool, not resulting in the removal of those loans from the pool even if modifications of those loans would otherwise be considered a troubled debt restructuring. Under the amendments, modifications of loans that are accounted for within a pool do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. This guidance is effective for modifications of acquired loans that have evidence of credit deterioration upon acquisition accounted for within a pool occurring in the first interim or annual period ending on or after July 15, 2010. The effect of adopting this new guidance is not expected to have any material effect on the Company’s operating results or financial condition.

NOTE 7. FAIR VALUE DISCLOSURES

Fair value