PACIFIC PREMIER BANCORP INC
Form 10-Q
August 12, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
(X) QUARTERLY REPORT PURSUANT TO 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 _______

Commission File Number 0-22193

(Exact name of registrant as specified in its charter)

DELAWARE	33-0743196
(State or other jurisdiction of incorporation or organization)	(I.R.S Employer Identification No.)

1600 SUNFLOWER AVENUE, 2ND FLOOR, COSTA MESA, CALIFORNIA 92626
(Address of principal executive offices and zip code)

(714) 431-4000
(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 (§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 definition of "accelerated filer", "large accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act).

Large accelerated filer	[ ]	Accelerated filer	[ ]	Non-accelerated filer	[ ]	Smaller reporting company	[X]
				(Do not check if a smaller reporting company)			

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

The number of shares outstanding of the registrant's common stock as of August 12, 2010 was 10,033,836.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
FORM 10-Q
INDEX
FOR THE QUARTER ENDED JUNE 30, 2010

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands, except share data)

ASSETS	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)	June30, 2009 (Unaudited)
Cash and due from banks	$ 34,645	$ 59,677	$ 59,241
Federal funds sold	29	29	30
Cash and cash equivalents	34,674	59,706	59,271
Investment securities available for sale	163,470	123,407	81,779
FHLB stock/Federal Reserve Bank stock, at cost	14,277	14,330	14,330
Loans held for sale, net	-	-	635
Loans held for investment	552,192	575,489	602,597
Allowance for loan losses	(9,169)	(8,905)	(7,158)
Loans held for investment, net	543,023	566,584	595,439
Accrued interest receivable	3,680	3,520	3,814
Other real estate owned	1,860	3,380	1,026
Premises and equipment	8,543	8,713	9,182
Deferred income taxes	10,989	11,465	10,560
Bank owned life insurance	12,195	11,926	11,660
Other assets	4,531	4,292	726
TOTAL ASSETS	$ 797,242	$ 807,323	$ 788,422
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES:			
Deposit accounts:			
Noninterest bearing	$ 38,973	$ 33,885	$ 33,713
Interest bearing:			

Transaction accounts	198,906	161,872	89,606
Retail certificates of deposit	392,191	417,377	417,301
Wholesale/brokered certificates of deposit	1,973	5,600	8,487
Total deposits	632,043	618,734	549,107
FHLB advances and other borrowings	66,500	91,500	166,500
Subordinated debentures	10,310	10,310	10,310
Accrued expenses and other liabilities	12,885	13,277	4,490
TOTAL LIABILITIES	721,738	733,821	730,407
STOCKHOLDERS' EQUITY			
Preferred Stock, $.01 par value; 1,000,000 shares authorized; no shares outstanding	-	-	-
Common stock, $.01 par value; 15,000,000 shares authorized; 10,033,836 shares at June 30, 2010 and December 31, 2009, and 5,003,451 shares at June 30, 2009 issued and outstanding	100	100	50
Additional paid-in capital	79,917	79,907	64,589
Accumulated deficit	(3,971)	(4,764)	(4,480)
Accumulated other comprehensive loss, net of tax of $379 at June 30, 2010, $1,218 at December 31, 2009, and $1,498 at June 30, 2009	(542)	(1,741)	(2,144)
TOTAL STOCKHOLDERS' EQUITY	75,504	73,502	58,015
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 797,242	$ 807,323	$ 788,422

Accompanying notes are an integral part of these consolidated financial statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except per share data)
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
INTEREST INCOME				
Loans	$ 8,842	$ 10,055	$ 17,997	$ 20,220
Investment securities and other interest-earning	1,148	1,240	2,177	2,027

assets				
Total interest income	9,990	11,295	20,174	22,247
INTEREST EXPENSE				
Interest-bearing deposits:				
Interest on transaction accounts	476	310	889	565
Interest on certificates of deposit	1,910	3,027	4,078	6,483
Total interest-bearing deposits	2,386	3,337	4,967	7,048
FHLB advances and other borrowings	685	1,871	1,553	3,732
Subordinated debentures	77	98	152	201
Total interest expense	3,148	5,306	6,672	10,981
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	6,842	5,989	13,502	11,266
PROVISION FOR LOAN LOSSES	639	2,374	1,695	3,534
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,203	3,615	11,807	7,732
NONINTEREST INCOME				
Loan servicing fees	142	126	212	285
Deposit fees	208	211	396	423
Net loss from sales of loans	(1,625)	-	(2,640)	-
Net gain from sales of investment securities	287	303	374	303
Other-than-temporary impairment loss on investment securities, net	(330)	(1,203)	(656)	(1,201)
Other income	280	235	550	492
Total noninterest income (loss)	(1,038)	(328)	(1,764)	302
NONINTEREST EXPENSE				
Compensation and benefits	2,052	2,077	4,065	4,086
Premises and occupancy	645	656	1,271	1,314
Data processing and communications	229	173	413	328
Other real estate owned operations, net	537	5	832	(1)
FDIC insurance premiums	334	558	682	844
Legal and audit	264	348	389	480
Marketing expense	208	155	357	344
	128	89	251	169

Office and postage expense				
Other expense	411	531	870	958
Total noninterest expense	4,808	4,592	9,130	8,522
NET INCOME (LOSS) BEFORE INCOME TAX	357	(1,305)	913	(488)
INCOME TAX (BENEFIT)	20	(592)	120	(312)
NET INCOME (LOSS)	$ 337	$ (713)	$ 793	$ (176)
EARNINGS (LOSS) PER SHARE				
Basic	$ 0.03	$ (0.15)	$ 0.08	$ (0.04)
Diluted	$ 0.03	$ (0.15)	$ 0.07	$ (0.04)
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	10,033,836	4,900,154	10,033,836	4,876,655
Diluted	11,059,994	4,900,154	11,040,612	4,876,655

Accompanying notes are an integral part of these consolidated financial statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(dollars in thousands)
(unaudited)

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2009	10,033,836	$ 100	$ 79,907	$ (4,764)	$ (1,741)		$ 73,502
Comprehensive Income:							
Net income				793		793	793
Unrealized holding gains on securities arising during the period, net of tax						1,122	
Reclassification adjustment for net loss on sale of securities included in net income, net of tax						77	

Net unrealized gain on securities, net of tax					1,199	1,199	1,199
Total comprehensive income						1,992	
Share-based compensation expense			10				10
Balance at June 30, 2010	10,033,836	$ 100	$ 79,917	$ (3,971)	$ (542)		$ 75,504
Balance at December 31, 2008	4,903,451	$ 49	$ 64,679	$ (4,304)	$ (2,876)		$ 57,548
Comprehensive Income:							
Net loss				(176)		(176)	(176)
Unrealized holding gains on securities arising during the period, net of tax						786	
Reclassification adjustment for gain on sale of securities included in net income, net of tax						(54)	
Net unrealized gain on securities, net of tax					732	732	732
Total comprehensive income						556	
Share-based compensation expense			145				145
Warrants exercised	200,000	2	148				150
Common stock repurchased and retired	(100,000)	(1)	(383)				(384)
Balance at June 30, 2009	5,003,451	$ 50	$ 64,589	$ (4,480)	$ (2,144)		$ 58,015

Accompanying notes are an integral part of these consolidated financial statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

Six Months Ended

	June 30, 2010	June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 793	$ (176)
Adjustments to net income (loss):		
Depreciation and amortization expense	489	507
Provision for loan losses	1,695	3,534
Share-based compensation expense	10	145
Loss on sale and disposal of premises and equipment	12	25
Loss (gain) on sale of other real estate owned	191	(8)
Write down of other real estate owned	504	-
Amortization of premium/discounts on securities held for sale, net	233	189
Gain on sale of investment securities available for sale	(374)	(303)
Other-than-temporary impairment loss on investment securities, net	656	1,201
Loss on sale of loans held for investment	2,640	-
Proceeds from the sales of and principal payments from loans held for sale	-	33
Deferred income tax provision (benefit)	476	(56)
Change in accrued expenses and other liabilities, net	(392)	(580)
Income from bank owned life insurance, net	(269)	(265)
Change in accrued interest receivable and other assets, net	(1,067)	161
Net cash provided by operating activities	5,597	4,407
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and principal payments on loans held for investment	54,431	35,936
Net change in undisbursed loan funds	(4,326)	(5,813)
Purchase and origination of loans held for investment	(34,196)	(8,581)

Proceeds from sale of other real estate owned		4,355		45
Principal payments on securities available for sale		6,328		7,068
Purchase of securities available for sale		(106,048)		(43,083)
Proceeds from sale or maturity of securities available for sale		60,796		11,466
Purchases of premises and equipment		(331)		(76)
Purchase of Federal Reserve Bank stock		(420)		-
Redemption of Federal Home Loan Bank of San Francisco stock		473		-
Net cash used in investing activities		(18,938)		(3,038)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase in deposit accounts		13,309		91,979
Repayment of FHLB advances and other borrowings		(25,000)		(43,400)
Repurchase of common stock		-		(384)
Net cash provided by (used in) financing activities		(11,691)		48,195
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(25,032)		49,564
CASH AND CASH EQUIVALENTS, beginning of period		59,706		9,707
CASH AND CASH EQUIVALENTS, end of period	$	34,674	$	59,271
SUPPLEMENTAL CASH FLOW DISCLOSURES				
Interest paid	$	6,658	$	10,862
Income taxes paid	$	1,035	$	810
NONCASH OPERATING ACTIVITIES DURING THE PERIOD				
Restricted stock vested	$	-	$	96
NONCASH INVESTING ACTIVITIES DURING THE PERIOD				
	$	3,530	$	1,029

Transfers from loans to other real estate owned		
Investment securities available for sale purchased and not settled	$ 8,275	$ -

Accompanying notes are an integral part of these consolidated financial statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010
(UNAUDITED)

Note 1 - Basis of Presentation

The consolidated financial statements include the accounts of Pacific Premier Bancorp, Inc. (the “Corporation”) and its wholly owned subsidiary, Pacific Premier Bank (the “Bank”) (collectively, the “Company,” “we,” “our” or “us”). All significa intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company’s financial position as of June 30, 2010, December 31, 2009, and June 30, 2009 and the results of its operations, changes in stockholders’ equity, comprehensive income and cash flows for the three and six months ended June 30, 2010 and 2009. Operating results for the three and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for any other interim period or the full year ending December 31, 2010.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K, as amended, for the year ended December 31, 2009.

The Company accounts for its investments in its wholly owned special purpose entity, PPBI Trust I, under the equity method whereby the subsidiary’s net earnings are recognized in the Company’s statement of income.

Note 2 – Recently Issued Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, “Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements.” ASU 2010-06 revises two disclosure requirements concerning fair value measurements and clarifies two others. It requires separate presentation of significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and disclosure of the reasons for such transfers. It will also require the presentation of purchases, sales, issuances, and settlements within Level 3 on a gross basis rather than a net basis. The amendments also clarify that disclosures should be disaggregated by class of asset or liability and that disclosures about inputs and valuation techniques should be provided for both recurring and non-recurring fair value measurements. The Company’s disclosures about fair value measurements are presented in Note 6 – Fair Value Disclosures. These new disclosure requirements were effective for the period ended June 30, 2010, except for the requirement concerning gross presentation of Level 3 activity, which is effective for fiscal years beginning after December 15, 2010. There was no significant effect to the Company's financial statement disclosure upon adoption of this ASU.

Future Application of Accounting Pronouncements

In July 2010, the FASB issued ASU No. 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," which will require the Company to provide a greater level of disaggregated information about the credit quality of the Company's loans and leases and the Allowance for Loan and Lease Losses (the "Allowance"). This ASU will also require the Company to disclose additional information related to credit quality indicators, past due information, and information related to loans modified in a troubled debt restructuring. The provisions of this ASU are effective for the Company's reporting period ending December 31, 2010. As this ASU amends only the disclosure requirements for loans and leases and the Allowance, the adoption will have no impact on the Company's statements of income and condition.

Note 3 – Subordinated Debentures

In March 2004, the Corporation issued $10.3 million of Floating Rate Junior Subordinated Deferrable Interest Debentures (the "Subordinated Debentures") to PPBI Trust I, which funded the payment of $10.0 million of Floating Rate Trust Preferred Securities issued by PPBI Trust I in March 2004. The net proceeds from the offering of Trust Preferred Securities were contributed as capital to the Bank to support further growth. Interest is payable quarterly on the Subordinated Debentures at three-month LIBOR plus 2.75% per annum, for an effective rate of 3.05% per annum as of June 30, 2010.

The Corporation is not allowed to consolidate PPBI Trust I into the Company's financial statements. The resulting effect on the Company's consolidated financial statements is to report the Subordinated Debentures as a component of liabilities.

Note 4 – Earnings Per Share

Basic earnings per share excludes dilution and is computed by dividing net income or loss available to common stockholders by the weighted average number of common shares outstanding for the period, excluding common shares in treasury. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted from the issuance of common stock that would then share in earnings and excludes common shares in treasury. For the three months, ended June 30, 2010, stock options of 492,742 shares were not included in the computation of earnings per share because their exercise price exceeded the average market price during the period. For the six months, ended June 30, 2010, stock options of 512,124 shares were not included in the computation of earnings per share because their exercise price exceeded the average market price for the period. For the three and six months ended June 30, 2009, all stock options and warrants were excluded from the computations of diluted earnings per share because they were anti-dilutive.

The following table sets forth the Company's unaudited earnings per share calculations for the periods indicated:

	Three Months Ended June 30,					
	2010			2009		
	Net Income	Shares	Per Share Amount	Net Loss	Shares	Per Share Amount
	(dollars in thousands, except per share data)					

Net income (loss)	$ 337			$ (713)		
Basic income (loss) available to common stockholders	337	10,033,836	$ 0.03	(713)	4,900,154	$ (0.15)
Effect of warrants and dilutive stock options	-	1,026,158		-	-	
Diluted income (loss) available to common stockholders plus assumed conversions	$ 337	11,059,994	$ 0.03	$ (713)	4,900,154	$ (0.15)

	Six Months Ended June 30,					
	2010			2009		
	Net Income	Shares	Per Share Amount	Net Loss	Shares	Per Share Amount
	(dollars in thousands, except per share data)					
Net income (loss)	$ 793			$ (176)		
Basic income (loss) available to common stockholders	$ 793	10,033,836	$ 0.08	$ (176)	4,876,655	$ (0.04)
Effect of warrants and dilutive stock options	-	1,006,776		-	-	
Diluted income (loss) available to common stockholders plus assumed conversions	$ 793	11,040,612	$ 0.07	$ (176)	4,876,655	$ (0.04)

Note 5 – Fair Value of Financial Instruments

Fair Value of Financial Instruments—The Company’s estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies.

However, considerable judgment is required to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts the Company could have realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since the balance sheet date and, therefore, current estimates of fair value may differ significantly from the amounts presented.

Cash and Cash Equivalents—The carrying amount approximates fair value due to their short-term repricing characteristics.

Securities Available for Sale—Fair values are based on quoted market prices from securities dealers or readily available market quote systems.

FHLB and Federal Reserve Bank Stock – The carrying value approximates the fair value based upon the redemption provisions of the stock.

Loans Held for Sale—Fair values are based on quoted market prices or dealer quotes.

Loans Held for Investment—The fair value of gross loans receivable has been estimated using the present value of cash flow method, discounting expected future cash flows by estimated market interest rates for loans with similar characteristics, including credit ratings and maturities. Consideration is also given to estimated prepayments and credit losses.

Accrued Interest Receivable/Payable—The carrying amount approximates fair value.

Deposit Accounts—The fair value disclosed for checking, passbook and money market accounts is the amount payable on demand at the reporting date. The fair value of certificates of deposit accounts is estimated using a discounted cash flow calculation based on interest rates currently offered for certificate of deposits of similar remaining maturities.

FHLB Advances and Other Borrowings—The fair value disclosed for FHLB advances and other borrowings is determined by discounting contractual cash flows at current market interest rates for similar instruments with similar terms.

Subordinated Debentures – The fair value of subordinated debentures is estimated by discounting the balance by the current three-month LIBOR rate plus the current market spread. The fair value is determined based on the maturity date as the Company does not currently have intentions to call the debenture.

Off-balance sheet commitments and standby letters of credit – The notional amount disclosed for off-balance sheet commitments and standby letters of credit is the amount available to be drawn down all lines and letters of credit. The cost to assume is calculated at 10% of the notional amount.

The fair value estimates presented below are based on pertinent information available to management as of the periods indicated:

	At June 30, 2010		At December 31, 2009		At June 30, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
			(in thousands)			
Assets:						
Cash and cash equivalents	$ 34,674	$ 34,674	$ 59,706	$ 59,706	$ 59,271	$ 59,271
Securities available for sale	163,470	163,470	123,407	123,407	81,779	81,779
Federal Reserve Bank and FHLB stock, at cost	14,277	14,277	14,330	14,330	14,330	14,330
Loans held for investment, net	543,023	545,716	566,584	558,901	595,439	593,997
Accrued interest receivable	3,680	3,680	3,520	3,520	3,814	3,814

Liabilities:						
Deposit accounts	632,043	647,373	618,734	632,135	549,107	556,150
FHLB advances	38,000	38,690	63,000	64,666	138,000	142,165
Other borrowings	28,500	29,917	28,500	35,384	28,500	25,941
Subordinated debentures	10,310	7,715	10,310	5,378	10,310	8,315
Accrued interest payable	181	181	161	161	330	330

	Notional Amount	Cost to Cede or Assume	Notional Amount	Cost to Cede or Assume	Notional Amount	Cost to Cede or Assume
Off-balance sheet commitments and standby letters of credit	$ 18,187	$ 1,819	$ 13,027	$ 1,303	$ 10,714	$ 1,071

Note 6 – Fair Value Disclosures

The Company determines the fair market values of certain financial instruments based on the fair value hierarchy established in GAAP under ASC 820, “Fair Value Measurements and Disclosures”, and as modified by ASU No. 2010-06, “Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements”. GAAP requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value and describes three levels of inputs that may be used to measure fair value.

The following provides a summary of the hierarchical levels used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices 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 2 assets and liabilities may include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and other instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts, residential mortgage and loans held-for-sale.

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. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, residential MSRs, asset-backed securities (“ABS”), highly structured or long-term derivative contracts and certain collateralized debt obligations (“CDO”) where independent pricing information was not able to be obtained for a significant portion of the underlying assets.

The Company's financial assets and liabilities measured at fair value on a recurring basis include securities available for sale. Securities available for sale include mortgage-backed securities and equity securities. Impaired loans include loans that are in a non-accrual status and where the Bank has reduced the principal to the value of the underlying collateral less the anticipated selling cost.

Marketable Securities. Where possible, the Company utilizes quoted market prices to measure debt and equity securities; such items are classified as Level 1 in the hierarchy and include equity securities, US government bonds and securities issued by federally sponsored agencies. When quoted market prices for identical assets are unavailable or the market for the asset is not sufficiently active, varying valuation techniques are used. Common inputs in valuing these assets include, among others, benchmark yields, issuer spreads, forward mortgage-backed securities trade prices and recently reported trades. Such assets are classified as Level 2 in the hierarchy and typically include private label mortgage-backed securities and corporate bonds. Pricing on these securities are provided to the Company by a pricing service vendor. In the Level 3 category, the Company is classifying all the securities that its pricing service vendor cannot price due to lack of trade activity in these securities.

Impaired Loans. A loan is considered impaired when it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. Impairment is measured based on the fair value of the underlying collateral or the discounted expected future cash flows. The Company measures impairment on all non-accrual loans for which it has reduced the principal balance to the value of the underlying collateral less the anticipated selling cost. As such, the Company records impaired loans as non-recurring Level 2 when the fair value of the underlying collateral is based on an observable market price or current appraised value. When current market prices are not available or the Company determines that the fair value of the underlying collateral is further impaired below appraised values, the Company records impaired loans as Level 3. At June 30, 2010, substantially all the Company's impaired loans were evaluated based on the fair value of their underlying collateral based upon the most recent appraisal available to management.

Other real estate owned ("OREO"). The Company generally obtains an appraisal and/or a market evaluation from a qualified third party on all OREO prior to obtaining possession. After foreclosure, an updated appraisal and/or a market evaluation is periodically performed, as deemed appropriate by management, due to changing market conditions or factors specifically attributable to the property's condition. If the carrying value of the property exceeds its fair value less estimated cost to sell, a charge to operations is recorded.

The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following fair value hierarchy table presents information about the Company's assets measured at fair value on a recurring basis at the date indicated:

	June 30, 2010 Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Securities at Fair Value
	(in thousands)			
Securities				
U.S. Treasury	$ 160	$ -	$ -	$ 160

Municipal bonds		22,035		-		-		22,035
Mortgage-backed securities:								
Government Sponsored Enterprise		136,479		-		-		136,479
Private label securities		-		4,600		196		4,796
Total securities available for sale	$	158,674	$	4,600	$	196	$	163,470
FHLB stock	$	12,258	$	-	$	-		