GENERAC HOLDINGS INC.
Form 10-Q
August 12, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

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 001-34627

GENERAC HOLDINGS INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	20-5654756 (IRS Employer Identification No.)
S45 W29290 Hwy. 59, Waukesha, WI (Address of principal executive offices)	53189 (Zip Code)

(262) 544-4811
(Registrant's telephone number, including area code)
Not Applicable
(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 R 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 R No £

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer £	Accelerated filer £	Non-accelerated filer R (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 R

As of August 8, 2011, there were 67,579,525 shares of the Registrant's common stock outstanding.

GENERAC HOLDINGS INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Generac Holdings Inc.
Condensed Consolidated Balance Sheets
(Dollars in Thousands, Except Share and Per Share Data)

	June 30, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$78,746	$78,583
Accounts and notes receivable, less allowance for doubtful accounts	79,810	63,154
Inventories	139,728	127,137
Prepaid expenses and other assets	3,043	3,645
Total current assets	301,327	272,519
Property and equipment, net	74,729	75,287
Customer lists, net	77,913	96,944
Patents, net	81,055	84,933
Other intangible assets, net	5,809	6,483
Deferred financing costs, net	4,640	5,822
Trade names	140,050	140,050
Goodwill	527,136	527,148
Other assets	116	697
Total assets	$1,212,775	$1,209,883
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$44,736	$41,809
Accrued wages and employee benefits	6,814	6,833
Other accrued liabilities	39,386	38,043
Current portion of long-term debt	–	–
Total current liabilities	90,936	86,685
Long-term debt	632,498	657,229
Other long-term liabilities	26,261	24,902
Total liabilities	749,695	768,816
Stockholders' equity:		
Common stock (formerly Class A non-voting common stock), par value $0.01, 500,000,000 shares authorized, 67,579,525 and 67,524,596 shares issued at June 30, 2011 and December 31, 2010, respectively	675	675

Additional paid-in capital	1,137,945	1,133,918
Excess purchase price over predecessor basis	(202,116)	(202,116)
Accumulated deficit	(461,525)	(481,658)
Accumulated other comprehensive loss	(11,899)	(9,752)
Total stockholders' equity	463,080	441,067
Total liabilities and stockholders' equity	$ 1,212,775	$ 1,209,883

See notes to condensed consolidated financial statements.

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Generac Holdings Inc.
Condensed Consolidated Statements of Operations
(Dollars in Thousands, Except Share and Per Share Data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net sales	$161,363	$140,455	$285,344	$271,173
Costs of goods sold	101,010	85,710	177,814	165,010
Gross profit	60,353	54,745	107,530	106,163
Operating expenses:				
Selling and service	17,317	13,809	31,622	28,121
Research and development	3,608	3,482	7,493	7,204
General and administrative	5,772	5,679	11,889	10,838
Amortization of intangibles	11,856	12,921	23,583	25,682
Total operating expenses	38,553	35,891	74,587	71,845
Income from operations	21,800	18,854	32,943	34,318
Other (expense) income:				
Interest expense	(5,934)	(5,720)	(11,935)	(14,212)
Investment income	23	36	59	110
Write-off of deferred financing costs related to debt extinguishment	(186)	–	(186)	(4,180)
Other, net	(327)	(259)	(568)	(575)
Total other expense, net	(6,424)	(5,943)	(12,630)	(18,857)
Income before provision for income taxes	15,376	12,911	20,313	15,461
Provision for income taxes	87	77	180	159
Net income	15,289	12,834	20,133	15,302
Preferential distribution to:				
Series A preferred stockholders	–	–	–	(2,042)
Class B common stockholders	–	–	–	(12,133)
Beneficial conversion	–	–	–	(140,690)
Net income (loss) attributable to common stockholders (formerly Class A common stockholders)	$15,289	$12,834	$20,133	$(139,563)
Net income (loss) per common share - basic:				
Common stock (formerly Class A common stock)	$0.23	$0.19	$0.30	$(2.71)
Class B common stock	n/a	n/a	n/a	$505
Net income (loss) per common share - diluted:				
Common stock (formerly Class A common stock)	$0.23	$0.19	$0.30	$(2.71)
Class B common stock	n/a	n/a	n/a	$505

Weighted average common shares outstanding - basic:				
Common stock (formerly Class A common stock)	67,134,999	67,093,250	67,121,356	51,507,358
Class B common stock	n/a	n/a	n/a	24,018
Weighted average common shares outstanding - diluted:				
Common stock (formerly Class A common stock)	67,718,654	67,200,565	67,463,440	51,507,358
Class B common stock	n/a	n/a	n/a	24,018

See notes to condensed consolidated financial statements.

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Generac Holdings Inc.
Condensed Consolidated Statements of Cash Flows
(Dollars in Thousands)
(Unaudited)

	Six Months Ended June 30,	
	2011	2010
Operating activities		
Net income	$20,133	$15,302
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,940	3,829
Amortization	23,583	25,682
Write-off of deferred financing costs related to debt extinguishment	186	4,180
Amortization of deferred financing costs	996	1,301
Provision for losses on accounts receivable	(29)	(69)
Loss on disposal of property and equipment	18	–
Share-based compensation	3,717	2,959
Net changes in operating assets and liabilities:		
Accounts receivable	(16,627)	(14,211)
Inventories	(12,591)	12,264
Other assets	1,183	1,999
Accounts payable	2,927	9,346
Accrued wages and employee benefits	(19)	(860)
Other accrued liabilities	567	(15,077)
Net cash provided by operating activities	27,984	46,645
Investing activities		
Proceeds from sale of property and equipment	4	–
Expenditures for property and equipment	(3,404)	(3,035)
Net cash used in investing activities	(3,400)	(3,035)
Financing activities		
Proceeds from issuance of common stock	–	248,309
Payment of long-term debt	(24,731)	(360,117)
Proceeds from exercise of stock options	310	–
Net cash used in financing activities	(24,421)	(111,808)
Net increase (decrease) in cash and cash equivalents	163	(68,198)
Cash and cash equivalents at beginning of period	78,583	161,307
Cash and cash equivalents at end of period	$78,746	$93,109

See notes to condensed consolidated financial statements

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Generac Holdings Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

Description of Business

Generac Holdings Inc. (the Company) owns all of the common stock of Generac Acquisition Corp., which in turn, owns all of the common stock of Generac Power Systems, Inc. (the Subsidiary). The Company designs, manufactures, and markets a complete line of backup power generation products for residential, light-commercial, and industrial markets.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany amounts and transactions have been eliminated in consolidation.

The condensed consolidated balance sheet as of June 30, 2011, the condensed consolidated statements of cash flows for the six months ended June 30, 2011 and 2010, and the condensed consolidated statements of operations for the three and six months ended June 30, 2011 and 2010 have been prepared by the Company and have not been audited. In the opinion of management, all adjustments, consisting of only normal recurring adjustments necessary for the fair presentation of the financial position, results of operation and cash flows, have been made. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full year.

Expenses are charged to operations in the year incurred. However, for interim reporting purposes certain expenses are charged to operations based on a proportionate share of annual amounts rather than as they are actually incurred.

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain information and footnote disclosure normally included in consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (OCI) includes unrealized losses on certain cash flow hedges and the pension liability. The components of OCI at June 30, 2011 and December 31, 2010 were (dollars in thousands):

	June 30, 2011	December 31, 2010
Pension liability	$(5,607)	$(5,607)
Unrealized losses on cash flow hedges	(6,292)	(4,145)

Accumulated other comprehensive loss	$(11,899)	$(9,752)

Comprehensive income is comprised of the following:

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	2011	2010
Net earnings	$ 15,289	$ 12,834	$ 20,133	$ 15,302
Net unrealized loss on cash flow hedges	(2,702)	(1,961)	(2,147)	(3,110)
Balance at end of period	$ 12,587	$ 10,873	$ 17,986	$ 12,192

2. Derivative Instruments and Hedging Activities

The Company records all derivatives in accordance with ASC 815, Derivatives and Hedging, which requires all derivative instruments be reported on the consolidated balance sheets at fair value and establishes criteria for designation and effectiveness of hedging relationships. The Company is exposed to market risk such as changes in commodity prices, foreign currencies, and interest rates. The Company does not hold or issue derivative financial instruments for trading purposes.

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Commodities

The primary objectives of our commodity risk management activities are to understand and mitigate the impact of potential price fluctuations on the Company's financial results and its economic well-being. While the Company's risk management objectives and strategies will be driven from an economic perspective, the Company attempts, where possible and practical, to ensure that the hedging strategies it engages in can be treated as "hedges" from an accounting perspective or otherwise result in accounting treatment where the earnings effect of the hedging instrument provides substantial offset (in the same period) to the earnings effect of the hedged item. Generally, these risk management transactions will involve the use of commodity derivatives to protect against exposure resulting from significant price fluctuations.

The Company primarily utilizes commodity contracts with maturities of less than 12 months. These are intended to offset the effect of price fluctuations on actual inventory purchases. There were three outstanding commodity contracts in place to hedge the Company's projected commodity purchases at June 30, 2011. There was one outstanding commodity contract in place to hedge the Company's projected commodity purchases at December 31, 2010. In November 2010, the Company entered into a commodity forward contract to purchase $2,296,000 of copper. The swap was effective from January 1, 2011, and terminated on April 30, 2011. In February 2011, the Company entered into a commodity forward contract to purchase a notional amount of $2,378,000 of copper. The contract is effective from March 1, 2011, and terminates on December 31, 2011. In March 2011, the Company entered into commodity forward contracts to purchase a notional amount of $2,100,000 of copper. The contract is effective from April 1, 2011, and terminates on December 31, 2011. In May 2011, the Company entered into commodity forward contracts to purchase a notional amount of $1,808,000 of copper. The contract is effective from May 5, 2011, and terminates on December 31, 2011. Total gains and losses recognized in the consolidated statements of operations on commodity contracts were gains of $15,000 and $14,000 for the three and six months ended June 30, 2011 and losses of $181,000 and $196,000 for the three and six months ended June 30, 2010, respectively.

Foreign Currencies

The Company is exposed to foreign currency exchange risk as a result of transactions in other currencies. The Company periodically utilizes foreign currency forward purchase and sales contracts to manage the volatility associated with foreign currency purchases in the normal course of business. Contracts typically have maturities of one year or less.

There were no foreign currency hedge contracts outstanding during the three and six month period ending June 30, 2011. The Company had one foreign currency hedge contract in place at June 30, 2010. The primary objective of that transaction was to mitigate the impact of potential currency fluctuations of the Euro on our financial results. The impact on operations for the three and six months ended June 30, 2010 was a loss of $209,000.

Interest Rates

We have four interest rate swap agreements outstanding as of June 30, 2011. In 2010, the Company entered into two new interest rate swap agreements. The first was entered into on January 21, 2010. The effective date of this swap was July 1, 2010 with a notional amount of $200,000,000, a fixed LIBOR rate of 1.73% and an expiration date of July 1, 2012. The second was entered into on June 29, 2010. The effective date of that swap was October 1, 2010 with a notional amount of $100,000,000, a fixed LIBOR rate of 1.025% and an expiration date of October 1, 2012. The Company entered into two new interest rate swap agreements on April 1, 2011. The effective date of the first swap is July 1, 2012 with a notional amount of $200,000,000, a fixed LIBOR rate of 1.905% and an expiration date of July 1, 2013. The effective date of the second swap is October 1, 2012 with a notional amount of $100,000,000, a fixed LIBOR rate of 2.22% and an expiration date of October 1, 2013. We maintain the swaps as highly effective in

accordance with ASC 815 (formerly SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities) and, therefore, any changes in the fair value of the swap would be recorded in accumulated other comprehensive income (loss).

The following table presents, in thousands, the fair value of the Company's derivatives:

	June 30, 2011	December 31, 2010
Derivatives designated as hedging instruments:		
Interest rate swaps	$(6,292)	$ (4,145)
	(6,292)	(4,145)
Derivatives not designated as hedging instruments:		
Commodity contracts	42	627
Total derivatives liability	$(6,250)	$ (3,518)

As of June 30, 2011 and December 31, 2010, all derivatives that are not designated as hedging instruments are included in other assets in the condensed consolidated balance sheet. As of June 30, 2011 and December 31, 2010, all derivatives designated as hedging instruments are included in other long-term liabilities in the condensed consolidated balance sheet.

The fair value of the derivative contracts considers the Company's credit risk as of June 30, 2011 and December 31, 2010, respectively. Excluding the impact of credit risk, the fair value of the derivatives at June 30, 2011 and December 31, 2010 was a $6,393,000 and a $3,642,000 net liability, respectively, which represented the amount the Company would need to pay to exit the agreements on those dates.

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The following presents the impact of interest rate swaps, commodity contracts and foreign currency contracts on the condensed consolidated statement of operations for the six months ended June 30, 2011 and 2010 (dollars in thousands):

	Amount of gain (loss) recognized in AOCI for the six months ended June 30,		Location of gain (loss) reclassified from AOCI into net income (loss)	Amount of loss reclassified from AOCI into net income (loss) for the six months ended June 30,		Amount of gain (loss) recognized in net income (loss) on hedges (ineffective portion) for six months ended June 30,	
	2011	2010		2011	2010	2011	2010
Derivatives designated as hedging instruments							
Interest rate swaps	$ (2,147)	$ (3,110)	Interest expense	$ —	$ —	$ —	$ —
Derivatives not designated as hedging instruments							
Commodity and foreign currency contracts	—	—	Cost of goods sold	—	—	14	(405)

3. Fair Value Measurements

ASC 820-10 Fair Value Measurements and Disclosures among other things, defines fair value, establishes a consistent framework for measuring fair value, and expands disclosure for each major asset and liability category measured at fair value on either a recurring basis or nonrecurring basis. ASC 820-10 clarifies that fair value is an exit price, representing the amount that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the pronouncement establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value are based on the market approach, which uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

The Company believes the carrying amount of its financial instruments (cash and cash equivalents, accounts receivable, notes receivable, accounts payable, and accrued liabilities), excluding long-term debt, approximates the fair value of these instruments based upon their short-term nature. The fair value of long-term debt was approximately $629,335,000 (level 2) at June 30, 2011, as calculated based on current quotations.

Assets and (liabilities) measured at fair value on a recurring basis are as follows (dollars in thousands):

		Fair Value Measurement Using	
	Total June 30, 2011	Quoted Prices in Active Markets for Identical Contracts (Level 1)	Significant Other Observable Inputs (Level 2)
Interest rate swaps	$(6,292)	$–	$(6,292)
Commodity and foreign currency contracts	$42	$–	$42

	Fair Value Measurement Using		
	Total December 31, 2010	Quoted Prices in Active Markets for Identical Contracts (Level 1)	Significant Other Observable Inputs (Level 2)
Interest rate swaps	$(4,145)	$–	$(4,145)
Commodity and foreign currency contracts	$627	$–	$627

The valuation techniques used to measure the fair value of derivative contracts classified as level 2, all of which have counterparties with high credit ratings, were valued based on quoted market prices or model driven valuations using significant inputs derived from or corroborated by observable market data. The fair value of derivative contracts above takes into account the Company’s credit risk in accordance with ASC 820-10.

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4. Segment Reporting

The Company operates in and reports as a single operating segment, which is the manufacture and sale of power products. Net sales are predominantly generated through the sale of generators and service parts to distributors and retailers. The Company manages and evaluates its operations as one segment primarily due to similarities in the nature of the products, production processes and methods of distribution. All of the Company’s identifiable assets are located in the United States. The Company’s sales outside North America represent approximately 1% of net sales.

The Company's product offerings consist primarily of power products with a range of power output. Residential power products and industrial/commercial power products are each a similar class of products based on similar power output and customer usage. The breakout of net sales between residential, industrial/commercial, and other products is as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Residential power products	$92,206	$87,867	$161,392	$171,866
Industrial/Commercial power products	57,322	43,308	101,632	81,626
Other	11,835	9,280	22,320	17,681
Total	$161,363	$140,455	$285,344	$271,173

5. Balance Sheet Details

Inventories consist of the following (dollars in thousands):

	June 30, 2011	December 31, 2010
Raw material	$82,096	$66,936
Work-in-process	389	315
Finished goods	61,558	63,945
Reserves for excess and obsolescence	(4,315)	(4,059)
	$139,728	$127,137

Property and equipment consists of the following (dollars in thousands):

	June 30, 2011	December 31, 2010
Land and improvements	$3,950	$3,950
Buildings and improvements	49,227	48,986
Leasehold improvements	4	—
Machinery and equipment	34,771	32,672
Dies and tools	12,040	11,301
Vehicles	804	827
Office equipment	7,120	6,836
Gross property and equipment	107,916	104,572
Less accumulated depreciation	(33,187)	(29,285)

Property and equipment, net	$74,729	$75,287

Other accrued liabilities consist of the following (dollars in thousands):

	June 30, 2011	December 31, 2010
Accrued commissions	$5,037	$4,578
Accrued interest	4,795	5,018
Accrued warranties – short term	19,205	17,155
Other accrued liabilities	10,349	11,292
	$39,386	$38,043

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6. Product Warranty Obligations

The Company records a liability for product warranty obligations at the time of sale to a customer based upon historical warranty experience. The Company also records a liability for specific warranty matters when they become known and are reasonably estimable. The Company's product warranty obligations are included in other accrued liabilities and other long-term liabilities in the balance sheets. The Company recognizes extended warranties over the life of the contracts.

Changes in product warranty obligations are as follows (dollars in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	2011	2010
Balance at beginning of period	$22,250	$20,774	$22,478	$20,729
Payments, net of extended warranties	(2,769)	(3,007)	(6,427)	(6,333)
Charged to operations	5,047	3,411	8,477	6,782
Balance at end of period	$24,528	$21,178	$24,528	$21,178

The product warranty obligations are included in the balance sheets as follows (dollars in thousands):

	June 30, 2011	December 31, 2010
Other accrued liabilities	$19,205	$17,155
Other long-term liabilities	5,323	5,323
Balance at end of period	$24,528	$22,478

7. Credit Agreements

Long-term debt consists of the following (dollars in thousands):

	June 30, 2011	December 31, 2010
First lien term loan	$639,372	$664,372
Less: treasury debt – first lien	(6,874)	(7,143)
	$632,498	$657,229

At June 30, 2011 and December 31, 2010, the Company had a credit agreement which provided for borrowings under a revolving credit facility (the Revolving Credit Facility) and a first lien term loan (collectively, the Credit Agreement). The Credit Agreement of the Company is secured by the associated collateral agreements which pledge virtually all assets of the Subsidiary. The Credit Agreement requires the Company, among other things, to meet certain financial and nonfinancial covenants and maintain financial ratios in such amounts and for such periods as set forth therein. The Company is required to maintain a leverage ratio (net debt (debt less cash and cash equivalents) divided by EBITDA, as defined in the Credit Agreement) of 5.50 as of June 30, 2011. The leverage ratio decreases quarterly, and for 2011, the Company has been or will be required to maintain a leverage ratio of 5.75, 5.50, 5.25, and 4.75 for the first, second, third, and fourth quarters, respectively. The Company was in compliance with all requirements as of June 30, 2011 and December 31, 2010.

The Credit Agreement restricts the circumstances in which distributions and dividends can be paid by its Subsidiary. Payments can be made to the Company for certain expenses, and dividends can be used to repurchase equity interests, subject to an annual limitation. Additionally, the Credit Agreement restricts the aggregate amount of dividends and distributions that can be paid and requires the maintenance of certain leverage ratios in order to pay certain dividends or distributions.

A voluntary debt repayment of $24,731,000 was made in April 2011. At that time the Company wrote off $186,000 of deferred financing costs.

8. Earnings Per Share

The Company's capitalization prior to its' initial public offering (completed on February 17, 2010) consisted of Series A Preferred Stock, Class B Common Stock and Class A Common Stock. The Series A Preferred stock and Class B Common stock were redeemable in a deemed liquidation in the event of a change of control. The redemption features were considered to be outside the control of the Company and therefore, all shares of Series A Preferred stock and Class B Common stock were recorded outside of permanent equity in accordance with guidance originally issued under EITF Topic D-98, Classification and Measurement of Redeemable Securities (codified under Accounting Standards Codification 480, Distinguishing Liabilities from Equity). Upon closing of the IPO, all shares of convertible Class B Common stock and Series A preferred stock were automatically converted into 88,476,530 and 19,511,018 Class A Common shares, respectively. The 88,476,530 shares of Class A Common stock were subject to a 3.294 for 1 reverse stock split, resulting in 26,859,906 Class A Common shares relative to the Class B Common stock conversion, and the Class A Common stock was re-designated as "Common Stock". Subsequent to the IPO, the Company has one class of common stock. The share and per share data used in basic and diluted earnings per share has been retrospectively restated to reflect only the 3.294 for 1 reverse stock split immediately prior to the IPO.

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The Class B Common stock was considered a participating stock security requiring use of the “two-class” method for the computation of basic net income (loss) per share in accordance with provision of ASC 260-10 Earnings per share. Losses were not allocated to the Class B Common stock in the computation of basic earnings per share as the Class B Common stock was not obligated to share in losses.

Basic earnings per share excludes the effect of common stock equivalents and is computed using the “two-class” computation method, which subtracts earnings attributable to the Class B preference from total earnings. In addition, earnings attributable to the Series A Preferred preference and the Class B and Series A Preferred beneficial conversion are subtracted from total earnings. Any remaining loss is attributed to the Class A Common shares.

For the six month period ended June 30, 2010, diluted earnings per share are identical to basic earnings per share because the impact of common stock equivalents on earnings per share is anti-dilutive. Had the impact not been anti-dilutive, the effect of stock compensation awards on weighted average diluted shares outstanding would have been 177,664 shares.

	Three months ended June 30,		Six months ended June 30,	
(Dollars in Thousands, Except Share and Per Share Data)	2011	2010	2011	2010
Net income	$15,289	$12,834	$20,133	$15,302
Less: accretion of Series A Preferred stock	-	-	-	(2,042)
Less: accretion of Class B Common stock	-	-	-	(12,133)
Less: beneficial conversion	-	-	-	(140,690)
Net income (loss) attributable to Common stock (formerly Class A Common stock)	15,289	12,834	20,133	(139,563