GREAT SOUTHERN BANCORP INC
Form 10-Q
November 09, 2009

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 ACT OF 1934

For the Quarterly Period ended September 30, 2009

Commission File Number 0-18082

GREAT SOUTHERN BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland (State of Incorporation)	43-1524856 (IRS Employer Identification Number)
1451 E. Battlefield, Springfield, Missouri (Address of Principal Executive Offices)	65804 (Zip Code)

(417) 887-4400
(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 proceeding 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.

(Check one):

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 Rule 12b-2 of the Exchange Act). Yes / / No /X/

The number of shares outstanding of each of the registrant's classes of common stock: 13,406,303 shares of common stock, par value $.01, outstanding at November 6, 2009.

PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS.

GREAT SOUTHERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands, except number of shares)

	SEPTEMBER 30, 2009 (Unaudited)	DECEMBER 31, 2008
ASSETS		
Cash	$ 362,942	$ 135,043
Interest-bearing deposits in other financial institutions	189,124	32,877
Cash and cash equivalents	552,066	167,920
Available-for-sale securities	728,598	647,678
Held-to-maturity securities (fair value $16,430 – September 2009; $1,422 - December 2008)	16,290	1,360
Mortgage loans held for sale	8,557	4,695
Loans receivable, net of allowance for loan losses of $38,630 – September 2009; $29,163 - December 2008	2,072,443	1,716,996
FDIC indemnification asset	187,359	--
Interest receivable	15,961	13,287
Prepaid expenses and other assets	40,575	14,179
Foreclosed assets held for sale, net	45,616	32,659
Premises and equipment, net	38,272	30,030
Goodwill and other intangible assets	6,443	1,687
Investment in Federal Home Loan Bank stock	14,816	8,333
Current and deferred income taxes	--	21,099
Total Assets	$ 3,726,996	$ 2,659,923
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 2,740,982	$ 1,908,028
Securities sold under reverse repurchase agreements with customers	335,990	215,261
Federal Home Loan Bank advances	234,413	120,472
Structured repurchase agreements	53,211	50,000
Short-term borrowings	319	83,368
Subordinated debentures issued to capital trust	30,929	30,929
Accrued interest payable	7,630	9,225
Advances from borrowers for taxes and insurance	2,031	334
Accounts payable and accrued expenses	26,532	8,219
Current and deferred income taxes	8,699	--
Total Liabilities	3,440,736	2,425,836
Stockholders' Equity:		
Capital stock		
Serial preferred stock, $.01 par value; authorized 1,000,000 shares; issued and outstanding September 2009 and December 2008 – 58,000 shares	55,905	55,580

Common stock, $.01 par value; authorized 20,000,000 shares; issued and outstanding September 2009 - 13,398,385 shares; December 2008 - 13,380,969 shares		134		134
Stock warrants; September 2009 and December 2008 – 909,091 shares		2,452		2,452
Additional paid-in capital		20,074		19,811
Retained earnings		196,685		156,247
Accumulated other comprehensive income (loss)		11,010		(137)
Total Stockholders' Equity		286,260		234,087
Total Liabilities and Stockholders' Equity	$	3,726,996	$	2,659,923

See Notes to Consolidated Financial Statements

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GREAT SOUTHERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	THREE MONTHS ENDED SEPTEMBER 30, 2009	2008
	(Unaudited)	
INTEREST INCOME		
Loans	$ 31,346	$ 28,992
Investment securities and other	8,340	6,032
TOTAL INTEREST INCOME	39,686	35,024
INTEREST EXPENSE		
Deposits	12,641	13,708
Federal Home Loan Bank advances	1,452	1,140
Short-term borrowings and repurchase agreements	1,647	1,473
Subordinated debentures issued to capital trust	171	336
TOTAL INTEREST EXPENSE	15,911	16,657
NET INTEREST INCOME	23,775	18,367
PROVISION FOR LOAN LOSSES	16,500	4,500
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	7,275	13,867
NON-INTEREST INCOME		
Commissions	1,596	1,964
Service charges and ATM fees	4,730	4,067
Net realized gains on sales of loans	729	369
Net realized gains (losses) on sales and impairments of available-for-sale securities	1,966	(5,293)
Late charges and fees on loans	202	259
Change in interest rate swap fair value net of change in hedged deposit fair value	--	32
Initial gain recognized on business acquisition	45,919	--
Accretion of income related to business acquisitions	1,367	--
Other income	496	391
TOTAL NON-INTEREST INCOME	57,005	1,789
NON-INTEREST EXPENSE		
Salaries and employee benefits	11,077	7,561
Net occupancy and equipment expense	3,509	2,027
Postage	755	558
Insurance	1,041	542
Advertising	365	247
Office supplies and printing	318	209
Telephone	512	320
Legal, audit and other professional fees	850	515
Expense on foreclosed assets	2,935	1,868
Other operating expenses	1,295	803
TOTAL NON-INTEREST EXPENSE	22,657	14,650
INCOME BEFORE INCOME TAXES	41,623	1,006

PROVISION FOR INCOME TAXES		14,058		182
NET INCOME		27,565		824
PREFERRED STOCK DIVIDENDS AND DISCOUNT ACCRETION		851		--
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$	26,714	$	824
BASIC EARNINGS PER COMMON SHARE	$	1.99	$	.06
DILUTED EARNINGS PER COMMON SHARE	$	1.91	$	.06
DIVIDENDS DECLARED PER COMMON SHARE	$	.18	$	.18

See Notes to Consolidated Financial Statements

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GREAT SOUTHERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	NINE MONTHS ENDED SEPTEMBER 30, 2009	2008
	(Unaudited)	
INTEREST INCOME		
Loans	$89,913	$91,393
Investment securities and other	24,292	17,635
TOTAL INTEREST INCOME	114,205	109,028
INTEREST EXPENSE		
Deposits	41,655	45,471
Federal Home Loan Bank advances	3,890	3,864
Short-term borrowings and repurchase agreements	4,953	4,255
Subordinated debentures issued to capital trust	626	1,097
TOTAL INTEREST EXPENSE	51,124	54,687
NET INTEREST INCOME	63,081	54,341
PROVISION FOR LOAN LOSSES	28,300	47,200
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	34,781	7,141
NON-INTEREST INCOME		
Commissions	5,209	7,036
Service charges and ATM fees	12,671	11,603
Net realized gains on sales of loans	2,070	1,127
Net realized gains (losses) on sales and impairments of available-for-sale securities	(1,843)	(5,286)
Late charges and fees on loans	512	632
Change in interest rate swap fair value net of change in hedged deposit fair value	1,184	5,287
Initial gain recognized on business acquisitions	74,757	--
Accretion of income related to business acquisitions	2,733	--
Other income	766	1,437
TOTAL NON-INTEREST INCOME	98,059	21,836
NON-INTEREST EXPENSE		
Salaries and employee benefits	29,129	23,807
Net occupancy and equipment expense	9,004	6,212
Postage	1,997	1,690
Insurance	4,567	1,662
Advertising	1,005	866
Office supplies and printing	795	654
Telephone	1,309	1,052
Legal, audit and other professional fees	2,187	1,236
Expense on foreclosed assets	4,285	2,484
Other operating expenses	3,002	2,661
TOTAL NON-INTEREST EXPENSE	57,280	42,324

INCOME (LOSS) BEFORE INCOME TAXES	75,560	(13,347)
PROVISION (CREDIT) FOR INCOME TAXES	25,600	(5,350)
NET INCOME (LOSS)	49,960	(7,997)
PREFERRED STOCK DIVIDENDS AND DISCOUNT ACCRETION	2,516	--
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	$47,444	$(7,997)
BASIC EARNINGS (LOSS) PER COMMON SHARE	$3.54	$(.60)
DILUTED EARNINGS (LOSS) PER COMMON SHARE	$3.43	$(.60)
DIVIDENDS DECLARED PER COMMON SHARE	$.54	$.54

See Notes to Consolidated Financial Statements

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GREAT SOUTHERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	NINE MONTHS ENDED SEPTEMBER 30, 2009	2008
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 49,960	$ (7,997)
Proceeds from sales of loans held for sale	128,670	75,665
Originations of loans held for sale	(135,057)	(68,236)
Items not requiring (providing) cash:		
Depreciation	1,999	1,833
Amortization	489	293
Provision for loan losses	28,300	47,200
Net gains on loan sales	(2,070)	(1,127)
Net losses on sale or impairment of available-for-sale investment securities	1,843	5,286
Net gains on sale of premises and equipment	(22)	(175)
Loss on sale of foreclosed assets	2,982	1,235
Gain on purchase of additional business units	(74,757)	--
Amortization of deferred income, premiums and discounts	1,206	(1,647)
Change in interest rate swap fair value net of change in hedged deposit fair value	(1,184)	(5,287)
Deferred income taxes	16,747	(4,227)
Changes in:		
Interest receivable	1,537	3,338
Prepaid expenses and other assets	7,176	(6,177)
Accounts payable and accrued expenses	13,874	2,852
Income taxes refundable/payable	6,989	(5,551)
Net cash provided by operating activities	48,682	37,278
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (increase) decrease in loans	81,131	(21,549)
Purchase of loans	(15,832)	(3,506)
Proceeds from sale of student loans	8,071	634
Cash received from purchase of additional business units	261,911	--
Purchase of premises and equipment	(10,223)	(3,992)
Proceeds from sale of premises and equipment	178	413
Proceeds from sale of foreclosed assets	8,911	8,065
Capitalized costs on foreclosed assets	(404)	(394)
Proceeds from sales of available-for-sale investment securities	110,418	85,242
Proceeds from maturing available-for-sale investment securities	--	21,000
Proceeds from maturing held-to-maturity investment securities	70	60
Proceeds from called investment securities	61,225	120,500
Principal reductions on mortgage-backed securities	133,977	48,937
Purchase of available-for-sale securities	(213,522)	(371,034)
Purchase of held-to-maturity securities	(40,000)	--
Redemption of Federal Home Loan Bank stock	3,331	5,109
Net cash provided by (used in) investing activities	389,242	(110,515)
CASH FLOWS FROM FINANCING ACTIVITIES		

Net increase (decrease) in certificates of deposit		(120,717)		205,078
Net increase (decrease) in checking and savings deposits		92,021		(106,985)
Proceeds from Federal Home Loan Bank advances		--		503,000
Repayments of Federal Home Loan Bank advances		(40,794)		(594,020)
Net increase in short-term borrowings and structured repo		23,806		115,072
Advances from borrowers for taxes and insurance		660		854
Stock repurchase		--		(408)
Dividends paid		(9,240)		(7,227)
Stock options exercised		486		376
Net cash provided by (used in) financing activities		(53,778)		115,740
INCREASE IN CASH AND CASH EQUIVALENTS		384,146		42,503
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		167,920		80,525
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	552,066	$	123,028

See Notes to Consolidated Financial Statements

GREAT SOUTHERN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements of Great Southern Bancorp, Inc. (the "Company" or "Great Southern") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The financial statements presented herein reflect all adjustments which are, in the opinion of management, necessary to fairly present the financial condition, results of operations and cash flows of the Company for the periods presented. Those adjustments consist only of normal recurring adjustments. Operating results for the three and nine months ended September 30, 2009 and 2008 are not necessarily indicative of the results that may be expected for the full year. The consolidated statement of financial condition of the Company as of December 31, 2008, has been derived from the audited consolidated statement of financial condition of the Company as of that date.

Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for 2008 filed with the Securities and Exchange Commission.

NOTE 2: OPERATING SEGMENTS

The Company's banking operation is its only reportable segment. The banking operation is principally engaged in the business of originating residential and commercial real estate loans, construction loans, commercial business loans and consumer loans and funding these loans through deposits attracted from the general public and correspondent account relationships, brokered deposits and borrowings from the Federal Home Loan Bank ("FHLBank") and others. The operating results of this segment are regularly reviewed by management to make decisions about resource allocations and to assess performance.

Revenue from segments below the reportable segment threshold is attributable to three operating segments of the Company. These segments include insurance services, travel services and investment services. Selected information is not presented separately for the Company's reportable segment, as there is no material difference between that information and the corresponding information in the consolidated financial statements.

For the three months ended September 30, 2009, the travel, insurance and investment divisions reported gross revenues of $1.2 million, $390,000 and $62,000, respectively, and net income (loss) of $(119,000), $44,000 and $3,000, respectively. For the three months ended September 30, 2008, the travel, insurance and investment divisions reported gross revenues of $1.3 million, $377,000 and $264,000, respectively, and net income (loss) of $(110,000), $39,000 and $115,000, respectively.

For the nine months ended September 30, 2009, the travel, insurance and investment divisions reported gross revenues of $4.0 million, $1.1 million and $225,000, respectively, and net income (loss) of $(28,000), $144,000 and $56,000, respectively. For the nine months ended September 30, 2008, the travel, insurance and investment divisions reported gross revenues of $5.0 million, $1.1 million and $1.0 million, respectively, and net income of $77,000, $129,000 and $259,000, respectively.

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The decrease in gross revenues in the investment division for the three and nine months ended September 30, 2009, was a result of the alliance formed with Ameriprise Financial Services through Penney, Murray and Associates. As a result of this change, Great Southern now records most of its investment services activity on a net basis in non-interest income. Thus, non-interest expense related to the investment services division is also reduced. The decrease in gross revenues in the travel division for the three and nine months ended September 30, 2009, was a result of customers reducing their travel in light of current economic conditions.

NOTE 3: COMPREHENSIVE INCOME

The FASB's Accounting Standards Codification ("FASB ASC") Topic 220 (Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income) requires the reporting of comprehensive income and its components. Comprehensive income is defined as the change in equity from transactions and other events and circumstances from non-owner sources, and excludes investments by and distributions to owners. Comprehensive income includes net income and other items of comprehensive income meeting the above criteria. The Company's only component of other comprehensive income is the unrealized gains and losses on available-for-sale securities.

	Three Months Ended September 30,	
	2009	2008
	(In thousands)	
Net income	$ 27,565	$ 824
Unrealized holding gains (losses), net of income taxes	5,498	(5,274)
Less: reclassification adjustment for gains (losses) included in net income, net of income taxes	1,278	(3,440)
	4,220	(1,834)
Comprehensive income (loss)	$ 31,785	$ (1,010)

	Nine Months Ended September 30,	
	2009	2008
	(In thousands)	
Net income (loss)	$ 49,960	$ (7,997)
Unrealized holding gains (losses), net of income taxes	9,949	(9,270)
Less: reclassification adjustment for gains (losses) included in net income, net of income taxes	(1,198)	(3,436)
	11,147	(5,834)
Comprehensive income (loss)	$ 61,107	$ (13,831)

NOTE 4: RECENT ACCOUNTING PRONOUNCEMENTS

In August 2009, the FASB issued Accounting Standards Update No. 2009-05, Fair Value Measurements and Disclosures (FASB ASU 2009-05). This Update provides amendments to Subtopic 820-10, Fair Value Measurements and Disclosures – Overall, for the fair value measurement of liabilities. This Update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more specified valuation techniques. The amendments in this Update also clarify that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other

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inputs relating to the existence of a restriction that prevents the transfer of the liability. It also clarifies that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. This new guidance is effective for the first reporting period (including interim periods) beginning after issuance. The adoption of this Update did not have a material impact on the Company’s financial position or results of operations.

In August 2009, the FASB issued Accounting Standards Update No. 2009-04, Accounting for Redeemable Equity Instruments (FASB ASU 2009-04). This guidance amends Section 480-10-S99, Distinguishing Liabilities from Equity, per EITF Topic D-98, Classification and Measurement of Redeemable Securities. The adoption of this guidance did not have a material impact on the Company’s financial position or results of operations.

Effective July 1, 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. (SFAS) 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162 (FASB ASC 105-10, Generally Accepted Accounting Principles). The FASB Accounting Standards Codification (“FASB ASC”) will be the single source of authoritative nongovernmental generally accepted accounting principles (“GAAP”) in the United States of America. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative guidance for SEC registrants. All guidance contained in the Codification carries an equal level of authority. All non-grandfathered, non-SEC accounting literature not included in the Codification is superseded and deemed non-authoritative. SFAS No. 168 is effective for the Company’s interim and annual financial statements for periods ending after September 15, 2009. Other than resolving certain minor inconsistencies in current GAAP, the FASB ASC is not intended to change GAAP, but rather to make it easier to review and research GAAP applicable to a particular transaction or specific accounting issue. The adoption of this Statement did not have a material impact on the Company’s financial position or results of operations. Technical references to GAAP included in these Notes to Consolidated Financial Statements are provided under the new FASB ASC structure with the prior terminology included parenthetically when first used.

In June 2009, the FASB issued an Exposure Draft of a proposed guidance on disclosure about the credit quality of financing receivables and the allowance for credit losses. The purpose of the proposed guidance is to improve the quality of financial reporting by providing disclosure information that allows financial statement users to understand the nature of credit risk inherent in the creditor’s portfolio of financing receivables; how that risk is analyzed and assessed in arriving at the allowance for credit losses; and the changes, and reasons for those changes, in both the receivables and the allowance for credit losses. To achieve this objective, this guidance would require disclosure of a creditor’s accounting policies for estimating the allowance for credit losses, qualitative and quantitative information about the credit risk inherent in its financing receivables portfolio, the methods used in determining the components of the allowance for credit losses, and quantitative disaggregated information about the change in receivables and the related allowance for credit losses. If approved as written, this proposed guidance would be effective beginning with the first interim or annual reporting period ending after December 15, 2009.

In June 2009, the FASB issued guidance impacting FASB ASC 860 (SFAS No. 166, Accounting for Transfers of Financial Assets - an Amendment of FASB Statement No. 140). The guidance amends FASB ASC 860 (SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities), to enhance reporting about transfers of financial assets, including securitizations and where companies have continuing exposure to the risks related to transferred financial assets. The new guidance eliminates the concept of a “qualifying special-purpose entity” and changes the requirements for derecognizing financial assets. It also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from

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transfers during the period. This guidance will be effective for the Company January 1, 2010. The Company does not expect the adoption of this guidance to have a material impact on the Company’s financial position or results of operations.

In June 2009, the FASB issued guidance impacting FASB ASC 810 (SFAS No. 167, Amendments to FASB Interpretation No. 46(R)). The guidance changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity’s purpose and design and a company’s ability to direct the activities of the entity that most significantly impact the entity’s economic performance. The new guidance requires additional disclosures about the reporting entity’s involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its affect on the entity’s financial statements. The guidance will be effective for the Company January 1, 2010. The Company does not expect the adoption of this guidance to have a material impact on the Company’s financial position or results of operations.

In June 2009, the SEC issued SAB No. 112. This SAB amends or rescinds portions of the interpretive guidance included in the Staff Accounting Bulletin Series in order to make the relevant interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The staff is updating the Series in order to bring existing guidance into conformity with recent pronouncements by the FASB, specifically, amendments to FASB ASC 815 and FASB ASC 810.

In May 2009, the FASB issued proposed guidance impacting FASB ASC 829 (FASB Staff Position No. 157-f, Measuring Liabilities under FASB Statement No. 157). This proposed guidance would clarify the principles in FASB ASC 820 on the measurement of liabilities. This guidance, if adopted as it is currently written, will be effective for the first reporting period (including interim periods) beginning after issuance. In the period of adoption, entities must disclose any change in valuation technique resulting from the application of this guidance, and quantify its effect, if practicable. The FASB continues to deliberate this proposed guidance at this time.

In May 2009, the FASB issued guidance impacting FASB ASC 855 (SFAS No. 165, Subsequent Events). The guidance sets forth guidance concerning the recognition or disclosure of events or transactions that occur subsequent to the balance sheet date but prior to the release of the financial statements. The guidance sets forth that management of a public company must evaluate subsequent events for recognition and/or disclosure through the date of issuance. The guidance also defines the recognition and disclosure requirements for Recognized Subsequent Events and Non-Recognized Subsequent Events. Recognized Subsequent Events provide additional evidence about conditions that existed as of the balance sheet date and will be recognized in the entity’s financial statements. Non-Recognized Subsequent Events provide evidence about conditions that did not exist as of the balance sheet date and if material will warrant disclosure of the nature of the subsequent event and the financial impact. An entity shall disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or available to be issued. This guidance is effective for interim and annual reporting periods ending after June 15, 2009, and was adopted by the Company at June 30, 2009. The adoption of this guidance did not have a material impact on the Company’s financial position or results of operations.

In April 2009, the FASB issued guidance impacting FASB ASC 820 (FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly). This guidance provides additional guidance for estimating fair value in accordance with FASB ASC 829 (SFAS No. 157, Fair Value Measurements), when the volume and level of activity for the asset or liability have significantly decreased. The new

guidance also includes guidance on identifying circumstances that indicate a transaction is not orderly. In addition, the guidance requires additional disclosures of valuation inputs and techniques in interim periods and defines the major security types that are required to be disclosed. The guidance was effective for the Company’s financial statements for the three months ended June 30, 2009. The adoption of this guidance did not have a material effect on the Company’s financial position or results of operations.

In April 2009, the FASB issued guidance impacting FASB ASC 320 (FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments). This guidance amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This guidance requires an entity to recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the noncredit component in other comprehensive income (OCI) when the entity does not intend to sell the security and it is more likely than not that the entity will not be required to sell the security prior to recovery. The guidance also requires expanded disclosures. The new guidance was effective for the Company’s financial statements for the three months ended June 30, 2009. The adoption of this guidance did not have a material effect on the Company’s financial position or results of operations.

In conjunction with the issuance of the guidance impacting FASB ASC 320 discussed in the paragraph above, the SEC issued Staff Accounting Bulletin (“SAB”) No. 111. This SAB amends Topic 5.M. in the Staff Accounting Bulletin Series entitled Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities (Topic 5.M.) as well as FASB ASC 320. This SAB maintains the SEC’s previous views related to equity securities. It also amends Topic 5.M. to exclude debt securities from its scope.

In April 2009, the FASB issued guidance impacting FASB ASC 825 (FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments). This guidance amends guidance in FASB ASC 825 (SFAS No. 107, Disclosures about Fair Value of Financial Instruments), to require expanded disclosures for all financial instruments that are not measured at fair value through earnings as defined by FASB ASC 825 in interim periods, as well as in annual periods. The disclosures required by the new guidance were effective for the Company’s financial statements for the three months ended June 30, 2009, and are included in Note 11 to the Consolidated Financial Statements.

In April 2009, the FASB issued guidance impacting FASB ASC 805-20-25 (FASB Staff Position FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies). This guidance addresses application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. The new guidance was effective for the Company for business combinations entered into on or after January 1, 2009.

In January 2009, the FASB issued guidance impacting FASB ASC 325 (FSP EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue 99-20). This guidance amends the guidance on recognition of interest income and impairment on purchased beneficial interests and beneficial interests that continue to be held by a transferor in securitized financial assets. It also retains and emphasizes the objectives of an other-than-temporary impairment assessment and the related disclosure requirements in FASB ASC 320 (FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities). This guidance is effective for interim and annual reporting periods ending after December 15, 2008, and is applied prospectively.

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In June 2008, the FASB issued an Exposure Draft of proposed guidance on disclosure of certain loss contingencies. This guidance would amend FASB ASC 450 (SFAS No. 5, Accounting for Contingencies) and FASB ASC 805 (SFAS 141(R)). The purpose of the proposed guidance is to improve the quality of financial reporting by expanding disclosures required about certain loss contingencies. Investors and other users of financial information have expressed concerns that current disclosures required in FASB ASC 450 do not provide sufficient information in a timely manner to assist users of financial statements in assessing the likelihood, timing, and amount of future cash flows associated with loss contingencies. If approved as written, this proposed guidance would expand disclosures about certain loss contingencies in the scope of FASB ASC 450 or FASB ASC 805 and would have been effective for fiscal years ending after December 15, 2008, and interim and annual periods in subsequent fiscal years. The FASB continues to deliberate this proposed guidance at this time.

In June 2008, the FASB issued an Exposure Draft of proposed guidance on accounting for hedging activities. The proposed guidance would amend FASB ASC 815. The purpose of the proposed guidance is to simplify hedge accounting resulting in increased comparability of financial results for entities that apply hedge accounting. Specifically, the proposed statement would eliminate the multiple methods of hedge accounting currently being used for the same transaction. It also would require an entity to designate all risks as the hedged risk (with certain exceptions) in the hedged item or transaction, thus better reflecting the economics of such items and transactions in the financial statements. Additional objectives of the proposed Statement are to: simplify accounting for hedging activities; improve the financial reporting of hedging activities to make the accounting model and associated disclosures more useful and easier to understand for users of financial statements; resolve major practice issues related to hedge accounting that have arisen under Statement 133, Accounting for Derivative Instruments and Hedging Activities; and address differences resulting from recognition and measurement anomalies between the accounting for derivative instruments and the accounting for hedged items or transactions. The FASB has received comments regarding this Exposure Draft and has determined to include this proposed standard under a new financial instruments project which FASB has commenced at this time.

In March 2008, the FASB issued guidance impacting FASB ASC 815 (SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133).This new guidance requires enhanced disclosures about an entity’s derivative and hedging activities intended to improve the transparency of financial reporting. Under the new guidance, entities will be required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FASB ASC 815 and its related interpretations and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows. This guidance is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company adopted this guidance effective January 1, 2009. The adoption of the guidance did not have a material effect on the Company’s financial position or results of operations. For information about the Company’s derivative financial instruments, see Note 5 to the Consolidated Financial Statements.

In December 2007, the FASB issued new guidance impacting FASB ASC 805 (SFAS No. 141 (revised), Business Combinations). FASB ASC 805 retains the fundamental requirements that the acquisition method of accounting be used for business combinations, but broadens the scope of the original guidance and contains improvements to the application of this method. The guidance requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. Costs incurred to effect the acquisition are to be recognized separately from the acquisition. Assets and liabilities arising from contractual contingencies must be measured at fair value as of the acquisition date. Contingent consideration must also be measured at fair value as of the acquisition date. FASB ASC 805 applies to business combinations occurring after January 1, 2009. The Company adopted this guidance on January 1, 2009, and applied it

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with regard to its March 20, 2009 and September 4, 2009, FDIC-assisted transactions described in Note 12 to the Consolidated Financial Statements.

In December 2007, the FASB issued guidance impacting FASB ASC 810 (SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51), which requires that a noncontrolling interest in a subsidiary be accounted for as equity in the consolidated statement of financial position and that net income include the amounts for both the parent and the noncontrolling interest, with a separate amount presented in the income statement for the noncontrolling interest share of net income. The new guidance in FASB ASC 810 also expands the disclosure requirements and provides guidance on how to account for changes in the ownership interest of a subsidiary. The new guidance in FASB ASC 810 was adopted by the Company on January 1, 2009. Based on its current activities, the adoption of this guidance did not have a material effect on the Company’s financial position or results of operations.

NOTE 5: DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Company has used derivative financial instruments (primarily interest rate swaps) to assist in its interest rate risk management. In accordance with FASB ASC 815, all derivatives are measured and reported at fair value on the Company's consolidated statement of financial condition as either an asset or a liability. For derivatives that are designated and qualify as a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings during the period of the change in the fair values. For all hedging relationships, derivative gains and losses that are not effective in hedging the changes in fair value of the hedged item are recognized immediately in current earnings during the period of the change. Similarly, the changes in the fair value of derivatives that do not qualify for hedge accounting under FASB ASC 815 are also reported currently in earnings in noninterest income.

The net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. The net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income.

At the inception of the hedge and quarterly thereafter, a formal assessment is performed to determine whether changes in the fair values of the derivatives have been highly effective in offsetting the changes in the fair values of the hedged item and whether they are expected to be highly effective in the future. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking the hedge. This process includes identification of the hedging instrument, hedged item, risk being hedged and the method for assessing effectiveness and measuring ineffectiveness. In addition, on a quarterly basis, the Company assesses whether the derivative used in the hedging transaction is highly effective in offsetting changes in fair value of the hedged item and measures and records any ineffectiveness. The Company discontinues hedge accounting prospectively when it is determined that the derivative is or will no longer be effective in offsetting changes in the fair value of the hedged item, the derivative expires, is sold or terminated or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

The estimates of fair values of the Company's derivatives and related liabilities are calculated by an independent third party using proprietary valuation models. The fair values produced by these valuation models are in part theoretical and reflect assumptions which must be made in using the valuation models. Small changes in assumptions could result in significant changes in valuation. The risks inherent in the determination of the fair value of a derivative may result in income statement volatility.

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The Company uses derivatives from time to time to modify the repricing characteristics of certain assets and liabilities so that changes in interest rates do not have a significant adverse effect on net interest income and cash flows and to better match the repricing profile of its interest-sensitive assets and liabilities. As a result of interest rate fluctuations, certain interest-sensitive assets and liabilities will gain or lose market value. In an effective fair value hedging strategy, the effect of this change in value will generally be offset by a corresponding change in value on the derivatives linked to the hedged assets and liabilities.

At September 30, 2009, the notional amount of interest rate swaps outstanding was $-0-. At December 31, 2008, the notional amount of interest rate swaps outstanding was approximately $11.5 million, all of which were in a net settlement receivable position. At December 31, 2008, the Company's fair value hedges included interest rate swaps to convert the economic interest payments on certain brokered CDs from a fixed rate to a floating rate based on LIBOR. At December 31, 2008, these fair value hedges were considered to be highly effective and any hedge ineffectiveness was deemed not material. The net gains recognized in earnings on fair value hedges were $-0- and $32,000 for the three months ended September 30, 2009 and 2008, respectively, and were $1.2 million and $5.3 million for the nine months ended September 30, 2009 and 2008, respectively.

NOTE 6: STOCKHOLDERS' EQUITY

Previously, the Company's stockholders approved the Company's reincorporation to the State of Maryland. Under Maryland law, there is no concept of "Treasury Shares." Instead, shares purchased by the Company constitute authorized but unissued shares under Maryland law. Accounting principles generally accepted in the United States of America state that accounting for treasury stock shall conform to state law. The cost of shares purchased by the Company has been allocated to Common Stock and Retained Earnings balances.

NOTE 7: INVESTMENT SECURITIES

	September 30, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value	Tax Equivalent Yield
	(Dollars in thousands)				
AVAILABLE -FOR-SALE SECURITIES:					
U.S. government agencies	$ 16,809	$ 31	$ -	$ 16,840	3.84%
Collateralized mortgage obligations	55,000	1,128	1,035	55,093	4.86
Mortgage-backed securities	574,488	16,156	22	590,622	4.63
Corporate bonds	49	--	--	49	84.86
States and political subdivisions	63,939	1,348	1,310	63,977	6.15
Equity securities	1,374	643	--	2,017	-
Total available-for-sale securities	$ 711,659	$ 19,306	$ 2,367	$ 728,598	4.76%
HELD-TO-MATURITY SECURITIES:					
U.S. government agencies	$ 15,000	$ -	$ -	$ 15,000	6.00%
States and political subdivisions	1,290	140	-	1,430	7.50
Total held-to-maturity securities	$ 16,290	$ 140	$ -	$ 16,430	7.98%

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	December 31, 2008				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value	Tax Equivalent Yield
	(Dollars in thousands)				
AVAILABLE -FOR-SALE SECURITIES:					
U.S. government agencies	$ 34,968	$ 32	$ 244	$ 34,756	6.41%
Collateralized mortgage obligations	73,976				