REPUBLIC FIRST BANCORP INC
Form 10-Q
August 13, 2012

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

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2012.

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: 000-17007

Republic First Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Pennsylvania (State or other jurisdiction of incorporation or organization)	23-2486815 (I.R.S. Employer Identification No.)
50 South 16th Street, Philadelphia, Pennsylvania (Address of principal executive offices)	19102 (Zip code)

215-735-4422
(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 [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 [X] NO [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES [ ] NO [X]

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the Registrant’s classes of common stock, as of the latest practicable date.

Common Stock, $0.01 per share	25,972,897
Title of Class	Number of Shares Outstanding as of August 10, 2012

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Republic First Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
June 30, 2012 and December 31, 2011
(Dollars in thousands, except per share data)
(unaudited)

	June 30, 2012	December 31, 2011
ASSETS		
Cash and due from banks	$8,713	$13,221
Interest bearing deposits with banks	90,409	217,734
Cash and cash equivalents	99,122	230,955
Investment securities available for sale, at fair value	179,794	174,323
Investment securities held to maturity, at amortized cost (fair value of $69 and $144, respectively)	66	140
Restricted stock, at cost	4,816	5,321
Loans held for sale	975	925
Loans receivable (net of allowance for loan losses of $9,385 and $12,050, respectively)	595,528	577,442
Premises and equipment, net	22,772	23,507
Other real estate owned, net	6,135	6,479
Accrued interest receivable	3,127	3,003
Bank owned life insurance	10,452	10,417
Other assets	15,604	14,841
Total Assets	$938,391	$1,047,353
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Demand – non-interest bearing	$130,143	$226,287
Demand – interest bearing	144,754	109,242
Money market and savings	420,701	400,141
Time Deposits	145,716	216,941
Total Deposits	841,314	952,611
Accrued interest payable	753	1,049
Other liabilities	6,588	6,366
Subordinated debt	22,476	22,476
Total Liabilities	871,131	982,502
Shareholders' Equity		
Preferred stock, par value $0.01 per share: 10,000,000 shares authorized; no shares issued as of June 30, 2012 and December 31, 2011	-	-
Common stock, par value $0.01 per share: 50,000,000 shares authorized; shares issued 26,501,742 as of June 30, 2012 and December 31, 2011	265	265
Additional paid in capital	106,575	106,383
Accumulated deficit	(35,530)	(37,842)
Treasury stock at cost (416,303 shares)	(3,099)	(3,099)

Stock held by deferred compensation plan	(809)	(809)
Accumulated other comprehensive loss	(142)	(47)
Total Shareholders' Equity	67,260	64,851
Total Liabilities and Shareholders' Equity	$938,391	$1,047,353

(See notes to consolidated financial statements)

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Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Operations
For the Three and Six Months Ended June 30, 2012 and 2011
(Dollars in thousands, except per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Interest income:				
Interest and fees on taxable loans	$8,114	$8,306	$16,134	$16,449
Interest and fees on tax-exempt loans	65	81	135	149
Interest and dividends on taxable investment securities	1,269	1,122	2,538	2,118
Interest and dividends on tax-exempt investment securities	117	114	233	227
Interest on federal funds sold and other interest-earning assets	84	34	185	48
Total interest income	9,649	9,657	19,225	18,991
Interest expense:				
Demand- interest bearing	185	168	356	266
Money market and savings	722	860	1,585	1,659
Time deposits	433	825	1,014	1,546
Other borrowings	284	278	569	574
Total interest expense	1,624	2,131	3,524	4,045
Net interest income	8,025	7,526	15,701	14,946
Provision (credit) for loan losses	500	1,500	(250)	5,050
Net interest income after provision (credit) for loan losses	7,525	6,026	15,951	9,896
Non-interest income:				
Loan advisory and servicing fees	329	119	540	156
Gain on sales of SBA loans	1,110	1,657	2,196	2,354
Service fees on deposit accounts	226	201	436	370
Gain on sale of investment securities	774	-	774	-
Other-than-temporary impairment losses	(16)	(4)	(33)	(4)
Portion recognized in other comprehensive income (before taxes)	2	2	2	2
Net impairment loss on investment securities	(14)	(2)	(31)	(2)
Bank owned life insurance income	16	36	35	66
Other non-interest income	58	65	195	259
Total non-interest income	2,499	2,076	4,145	3,203
Non-interest expenses:				
Salaries and employee benefits	3,963	3,807	8,097	7,145
Occupancy	872	789	1,716	1,644
Depreciation and amortization	506	533	1,024	1,061
Legal	898	579	1,787	874
Other real estate owned	104	65	202	1,424
Advertising	100	85	150	190
Data processing	311	271	575	518
Insurance	176	220	310	437
Professional fees	298	454	591	888
Regulatory assessments and costs	351	560	689	1,043

Taxes, other	277	232	537	445
Other operating expenses	1,154	1,416	2,168	2,334
Total non-interest expense	9,010	9,011	17,846	18,003
Income (loss) before provision (benefit) for income taxes	1,014	(909)	2,250	(4,904)
Provision (benefit) for income taxes	7	(429)	(62)	(1,916)
Net income (loss)	$1,007	$(480)	$2,312	$(2,988)
Net income (loss) per share:				
Basic	$0.04	$(0.02)	$0.09	$(0.12)
Diluted	$0.04	$(0.02)	$0.09	$(0.12)

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
For the Three and Six Months Ended June 30, 2012 and 2011
(Dollars in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income (loss)	$1,007	$(480)	$2,312	$(2,988)
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on securities (pre-tax $376, $1,838, $605, and $2,868, respectively)	241	1,178	388	1,838
Reclassification adjustment for securities gains (pre-tax $774, $-, $774, and $-, respectively)	(503)	-	(503)	-
Reclassification adjustment for impairment charge (pre-tax $14, $2, $31, and $2, respectively)	9	1	20	1
Total other comprehensive income (loss)	(253)	1,179	(95)	1,839
Total comprehensive income (loss)	$754	$699	$2,217	(1,149)

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2012 and 2011
(Dollars in thousands)
(unaudited)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income (loss)	$2,312	$(2,988)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision (credit) for loan losses	(250)	5,050
Loss on sale of other real estate owned	10	-
Writedown of other real estate owned	-	1,118
Depreciation and amortization	1,024	1,061
Stock based compensation	192	168
Gain on sale of investment securities	(774)	-
Impairment charges on investment securities	31	2
Amortization of premiums/(discounts) on investment securities	160	45
Proceeds from sales of SBA loans	23,066	25,895
SBA loans originated for sale	(20,920)	(29,368)
Gains on sales of SBA loans originated for sale	(2,196)	(2,354)
Increase in value of bank owned life insurance	(35)	(66)
Increase in accrued interest receivable and other assets	(823)	(1,456)
(Decrease) increase in accrued interest payable and other liabilities	(74)	404
Net cash provided by (used in) operating activities	1,723	(2,489)
Cash flows from investing activities:		
Purchase of investment securities available for sale	(40,902)	(24,886)
Proceeds from the sale of securities available for sale	22,590	-
Proceeds from the maturity or call of securities available for sale	13,265	8,924
Proceeds from the maturity or call of securities held to maturity	74	8
Proceeds from redemption of FHLB stock	505	620
Net increase in loans	(17,836)	(20,419)
Net proceeds from sale of other real estate owned	334	1,010
Premises and equipment expenditures	(289)	(373)
Net cash used in investing activities	(22,259)	(35,116)
Cash flows from financing activities:		
Net (decrease) increase in demand, money market and savings deposits	(40,072)	8,158
Net (decrease) increase in time deposits	(71,225)	17,214
Net cash (used in) provided by financing activities	(111,297)	25,372
Net decrease in cash and cash equivalents	(131,833)	(12,233)
Cash and cash equivalents, beginning of year	230,955	35,865
Cash and cash equivalents, end of period	$99,122	$23,632

Supplemental disclosures:		
Interest paid	$3,820	$3,567

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
For the Six Months Ended June 30, 2012 and 2011
(Dollars in thousands)
(unaudited)

	Common Stock	Additional Paid in Capital	Accumulated Deficit	Treasury Stock	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance January 1, 2012	$ 265	$ 106,383	$ (37,842)	$ (3,099)	$ (809)	$ (47)	$ 64,851
Total comprehensive income			2,312			(95)	2,217
Stock based compensation		192					192
Balance June 30, 2012	$ 265	$ 106,575	$ (35,530)	$ (3,099)	$ (809)	$ (142)	$ 67,260
Balance January 1, 2011	$ 265	$ 106,024	$ (13,140)	$ (3,099)	$ (809)	$ (1,095)	$ 88,146
Total comprehensive loss			(2,988)			1,839	(1,149)
Stock based compensation		168					168
Balance June 30, 2011	$ 265	$ 106,192	$ (16,128)	$ (3,099)	$ (809)	$ 744	$ 87,165

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)

Note 1: Basis of Presentation

Republic First Bancorp, Inc. (the "Company") is a corporation incorporated under the laws of the Commonwealth of Pennsylvania and a registered bank holding company. The Company offers a variety of retail and commercial banking services to individuals and businesses throughout the Greater Philadelphia and Southern New Jersey area through its wholly-owned subsidiary, Republic First Bank ("Republic" or "the Bank") which does business under the name Republic Bank. The Company also has three unconsolidated subsidiaries, which are statutory trusts established by the Company in connection with its sponsorship of three separate issuances of trust preferred securities.

The Company and Republic encounter vigorous competition for market share in the geographic areas they serve from bank holding companies, national, regional and other community banks, thrift institutions, credit unions and other non-bank financial organizations, such as mutual fund companies, insurance companies and brokerage companies.

The Company and Republic are subject to regulations of certain state and federal agencies. These regulatory agencies periodically examine the Company and Republic for adherence to laws and regulations. As a consequence, the cost of doing business may be affected.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Republic. The Company follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("U.S. GAAP") that are followed to ensure consistent reporting of financial condition, results of operations, and cash flows.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions to United States Securities and Exchange Commission ("SEC") Form 10-Q and Article 10 of SEC Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for financial statements for a complete fiscal year. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. All significant inter-company accounts and transactions have been eliminated in the consolidated financial statements. The Company has evaluated subsequent events through the date of issuance of the financial data included herein.

Note 2: Summary of Significant Accounting Policies

Risks and Uncertainties

The earnings of the Company depend primarily on the earnings of Republic. The earnings of Republic are dependent primarily upon the level of net interest income, which is the difference between interest earned on its interest-earning assets, such as loans and investments, and the interest paid on its interest-bearing liabilities, such as deposits and borrowings. Accordingly, the Company's results of operations are subject to risks and uncertainties surrounding Republic's exposure to changes in the interest rate environment.

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Prepayments on residential real estate mortgage and other fixed rate loans and mortgage-backed securities vary significantly, and may cause significant fluctuations in interest margins.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Significant estimates are made by management in determining the allowance for loan losses, carrying values of other real estate owned, assessment of other than temporary impairment ("OTTI") of investment securities, impairment of restricted stock and the realization of deferred income tax assets. Consideration is given to a variety of factors in establishing these estimates.

In estimating the allowance for loan losses, management considers current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, borrowers' perceived financial and managerial strengths, the adequacy of underlying collateral, if collateral dependent, or present value of future cash flows, and other relevant factors. Because the allowance for loan losses and carrying value of other real estate owned are dependent, to a great extent, on the general economy and other conditions that may be beyond the Company's and Republic's control, the estimates of the allowance for loan losses and the carrying values of other real estate owned could differ materially in the near term.

In estimating OTTI of investment securities, securities are evaluated on at least a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether a decline in their value is other than temporary. To determine whether a loss in value is other than temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline, the intent to hold the security and the likelihood of the Company not being required to sell the security prior to an anticipated recovery in the fair value. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospect for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of investment. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

In estimating impairment of restricted stock, management's determination of whether these investments are impaired is based on the assessment of the ultimate recoverability of the cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of the cost is influenced by criteria such as (1) the significance of the decline in net assets of the Federal Home Loan Bank of Pittsburgh ("FHLB") and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and accordingly, on the customer base of the FHLB.

In evaluating the Company's ability to recover deferred tax assets, management considers all available positive and negative evidence. Management also makes assumptions on the amount of future taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require management to make judgments that are consistent with the plans and estimates used to manage the Company's business. As a result of cumulative losses in recent years and the uncertain nature of the current economic environment, the Company has decided to currently exclude future taxable income from its analysis on the ability to recover deferred tax assets and has recorded a valuation allowance against its deferred tax assets. An increase or decrease in the valuation allowance would result in an adjustment to income tax expense in the period and could have a significant impact on the Company's future earnings.

Stock-Based Compensation

The Company has a Stock Option and Restricted Stock Plan ("Plan"), under which the Company may grant options, restricted stock or stock appreciation rights to the Company's employees, directors, and certain consultants. Under the terms of the Plan, 1.5 million shares of common stock, plus an annual increase equal to the number of shares needed to restore the maximum number of shares that may be available for grant under the Plan to 1.5 million shares, are available for such grants. As of June 30, 2012, the only grants under the Plan have been option grants. The Plan provides that the exercise price of each option granted equals the market price of the Company's stock on the date of the grant. Any option granted vests within one to five years and has a maximum term of ten years.

The Company utilizes the Black-Scholes option pricing model to calculate the estimated fair value of each stock option granted on the date of the grant. A summary of the assumptions used in the Black-Scholes option pricing model for 2012 and 2011 are as follows:

	2012	2011
Dividend yield(1)	0.0%	0.0%
Expected volatility(2)	53.12% to 54.21%	49.11%
Risk-free interest rate(3)	1.01% to 1.61%	2.84%
Expected life(4)	7.0 years	7.0 years

(1) A dividend yield of 0.0% is utilized because cash dividends have never been paid.
(2) Expected volatility is based on Bloomberg's seven year volatility calculation for "FRBK" stock.
(3) The risk-free interest rate is based on the seven year Treasury bond.
(4) The expected life reflects a 3 to 4 year "all or nothing" vesting period, the maximum ten year term and review of historical behavior.

During the six months ended June 30, 2012 and 2011, 21,000 shares and 53,500 shares vested, respectively. Expense is recognized ratably over the period required to vest. At June 30, 2012 the intrinsic value of the 974,530 options outstanding was $51,315, while the intrinsic value of the 128,930 exercisable (vested) options was $0.

Information regarding stock based compensation for the periods ended June 30, 2012 and 2011 is set forth below:

	2012	2011
Stock based compensation expense recognized	$192,000	$168,000
Number of unvested stock options	845,600	562,700
Fair value of unvested stock options	$1,562,050	$1,235,096
Amount remaining to be recognized as expense	$638,125	$640,857

Earnings per Share

Earnings per share ("EPS") consists of two separate components: basic EPS and diluted EPS. Basic EPS is computed by dividing net income (loss) by the weighted average number of common shares outstanding for each period presented. Diluted EPS is calculated by dividing net income (loss) by the weighted average number of common shares outstanding plus dilutive common stock equivalents ("CSEs"). CSEs consist of dilutive stock options granted through the Company's Plan and convertible securities related to the trust preferred securities issued in 2008. In the diluted EPS computation, the after tax interest expense on the trust preferred securities issuance is added back to the net income. For the three and six months ended June 30, 2012 and 2011, the effect of CSEs and the related add back of after tax interest expense was considered anti-dilutive and therefore was not included in the EPS calculation.

The calculation of EPS for the three and six months ended June 30, 2012 and 2011 is as follows (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income (loss)	$1,007	$(480)	$2,312	$(2,988)
Weighted average shares outstanding	25,973	25,973	25,973	25,973
Net income (loss) per share – basic and diluted	$0.04	$(0.02)	$0.09	$(0.12)

Recent Accounting Pronouncements

ASU 2011-12
In December 2011, the FASB issued Accounting Standards Update ("ASU") 2011-12, Deferral of the Effective Date to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update 2011-05. In response to stakeholder concerns regarding the operational ramifications of the presentation of these reclassifications for current and previous years, the FASB has deferred the implementation date of this provision to allow time for further consideration. The requirement in ASU 2011-05, Presentation of Comprehensive Income, for the presentation of a combined statement of comprehensive income or separate, but consecutive, statements of net income and other comprehensive income is still effective for fiscal years and interim periods beginning after December 15, 2011 for public companies, and fiscal years ending after December 15, 2011 for nonpublic companies. The adoption of this guidance did not have a material effect on its consolidated financial statements.

ASU 2011-05
In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income, which amends FASB ASC Topic 220, Comprehensive Income. The FASB has issued this ASU to facilitate the continued alignment of U.S. GAAP with International Accounting Standards.

The Update prohibits the presentation of the components of comprehensive income in the statement of stockholders' equity. Reporting entities are allowed to present either: a statement of comprehensive income, which reports both net income and other comprehensive income; or separate statements of net income and other comprehensive income. Under previous GAAP, all three presentations were acceptable. Regardless of the presentation selected, the Company is required to present all reclassifications between other comprehensive and net income on the face of the new statement or statements.

The Update is effective for fiscal years and interim periods beginning after December 31, 2011. The adoption of this guidance did not have a material effect on its consolidated financial statements but expanded related disclosures.

ASU 2011-04
In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. The FASB has issued this ASU to amend ASC Topic 820, Fair Value Measurements, in order to bring U.S. GAAP for fair value measurements in line with International Accounting Standards.

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The Update clarifies existing guidance for items such as: the application of the highest and best use concept to non-financial assets and liabilities; the application of fair value measurement to financial instruments classified in a reporting entity's stockholders' equity; and disclosure requirements regarding quantitative information about unobservable inputs used in the fair value measurements of level 3 assets.

The Update also creates an exception to Topic 820 for entities, which carry financial instruments within a portfolio or group, under which the entity is now permitted to base the price used for fair valuation upon a price that would be received to sell the net asset position or transfer a net liability position in an orderly transaction. The Update also allows for the application of premiums and discounts in a fair value measurement if the financial instrument is categorized in level 2 or 3 of the fair value hierarchy.

Lastly, the ASU contains new disclosure requirements regarding fair value amounts categorized as level 3 in the fair value hierarchy such as: disclosure of the valuation process used; effects of and relationships between unobservable inputs; usage of nonfinancial assets for purposes other than their highest and best use when that is the basis of the disclosed fair value; and categorization by level of items disclosed at fair value, but not measured at fair value for financial statement purposes.

The Update is effective for interim and annual periods beginning after December 15, 2011. The adoption of this guidance did not have a material effect on its consolidated financial statements but expanded disclosures surrounding fair value.

Note 3: Legal Proceedings

The Company and Republic are from time to time parties (plaintiff or defendant) to lawsuits in the normal course of business. While any litigation involves an element of uncertainty, management, after reviewing pending actions with its legal counsel, is of the opinion that the liability of the Company and Republic, if any, resulting from such actions will not have a material effect on the financial condition or results of operations of the Company and Republic.

Note 4: Segment Reporting

The Company has one reportable segment: community banking. The community bank segment primarily encompasses the commercial loan and deposit activities of Republic, as well as consumer loan products in the area surrounding its stores.

Note 5: Investment Securities

A summary of the amortized cost and market value of securities available for sale and securities held to maturity at June 30, 2012 and December 31, 2011 is as follows:

	At June 30, 2012			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	$98,389	$2,077	$(36)	$100,430
Mortgage-backed securities	21,573	1,177	-	22,750
Municipal securities	11,005	690	(125)	11,570
Corporate bonds	32,259	36	(726)	31,569
Asset-backed securities	10,407	-	(241)	10,166
Trust Preferred Securities	6,251	-	(3,076)	3,175
Other securities	131	3	-	134
Total securities available for sale	$180,015	$3,983	$(4,204)	$179,794
U.S. Government agencies	$2	$-	$-	$2
Other securities	64	3	-	67
Total securities held to maturity	$66	$3	$-	$69

	At December 31, 2011			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	$117,382	$2,629	$-	$120,011
Mortgage-backed securities	12,764	1,352	-	14,116
Municipal securities	10,863	494	(323)	11,034
Corporate bonds	26,881	17	(1,281)	25,617
Trust Preferred Securities	6,375	-	(2,965)	3,410
Other securities	131	4	-	135
Total securities available for sale	$174,396	$4,496	$(4,569)	$174,323
U.S. Government agencies	$2	$-	$-	$2
Other securities	138	4	-	142
Total securities held to maturity	$140	$4	$-	$144

The maturity distribution of the amortized cost and estimated market value of investment securities by contractual maturity at June 30, 2012 is as follows:

	Available for Sale		Held to Maturity	
(dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in 1 year or less	$625	$699	$-	$-
After 1 year to 5 years	80,644	82,291	66	69
After 5 years to 10 years	73,388	70,729	-	-
After 10 years	25,358	26,075	-	-
No stated maturity	-	-	-	-
Total	$180,015	$179,794	$66	$69

Expected maturities will differ from contractual maturities because borrowers have the right to call or prepay obligations with or without prepayment penalties.

As of June 30, 2012 and December 31, 2011, the collateralized mortgage obligations and mortgage backed securities included in the investment securities portfolio consist solely of securities issued by U.S. government sponsored agencies. There were no private label mortgage securities held in the investment securities portfolio as of those dates. The Company did not hold any mortgage-backed securities that were rated “Alt-A” or “Subprime” as of June 30, 2012 and December 31, 2011. In addition, the Company did not hold any private issued CMO’s as June 30, 2012 and December 31, 2011. As of June 30, 3012, the asset-backed securities consist solely of a Sallie Mae bond collateralized by student loans which are guaranteed by the U.S. Department of Education. There were no asset backed securities in the portfolio as of December 31, 2011.

In instances when a determination is made that an other-than-temporary impairment exists with respect to a debt security but the investor does not intend to sell the debt security and it is more likely than not that the investor will not be required to sell the debt security prior to its anticipated recovery, FASB Accounting Standards Codification (“ASC”) 320-10, Investments – Debt and Equity Securities, requires the other-than-temporary impairment to be separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to other factors is recognized in other comprehensive income. Impairment charges (credit losses) on trust preferred securities for the three and six months ended June 30, 2012 amounted to $14,000 and $31,000 respectively. Impairment charges (credit losses) on trust preferred securities for the three and six months ended June 30, 2011 amounted to $2,000 for both periods.

The company realized gross gains on the sale of securities of $774,000 during the three and six months ended June 30, 2012. The related sale proceeds amounted to $22.6 million. The tax provision applicable to these gross gains in 2012 amounted to approximately $271,000. No securities were sold during the three and six months ended June 30, 2011.

The following table presents a roll-forward of the balance of credit-related impairment losses on securities held at June 30, 2012 and 2011 for which a portion of OTTI was recognized in other comprehensive income:

(dollars in thousands)	2012	2011
Beginning Balance, January 1st	$3,925	$3883
Additional credit-related impairment loss on securities for which an other-than-temporary impairment was previously recognized	31	2
Reductions for securities sold during the period (realized)	-	-
Reductions for securities for which the amount previously recognized in other comprehensive income was recognized in earnings because the Company intends to sell the security	-	-
Ending Balance, June 30,	$3,956	$3,885

The following tables show the fair value and gross unrealized losses associated with the investment portfolio, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	At June 30, 2012					
	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Collateralized mortgage obligations	$9,826	$36	$-	$-	$9,826	$36
Municipal securities	-	-	2,576	125	2,576	125
Corporate bonds	19,270	726	-	-	19,270	726
Asset-backed securities	10,166	241	-	-	10,166	241
Trust Preferred Securities	-	-	3,175	3,076	3,175	3,076
Total	$39,262	$1,003	$5,751	$3,201	$45,013	$4,204

	At December 31, 2011					
	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$-	$-	$9	$-	$9	$-
Municipal securities	-	-	4,490	323	4,490	323
Corporate bonds	18,714	1,281	-	-	18,714	1,281
Trust Preferred Securities	-	-	3,410	2,965	3,410	2,965
Total	$18,714	$1,281	$7,909	$3,288	$26,623	$4,569

The impairment of the investment portfolio totaled $4.2 million with a total fair value of $45.0 million at June 30, 2012. The unrealized loss associated with the trust preferred securities was due to the secondary market for such securities becoming inactive and is considered temporary at June 30, 2012.

At June 30, 2012, the investment portfolio included twenty-five municipal securities with a total market value of $11.6 million. These securities are reviewed quarterly for impairment. Research on each issuer is completed to ensure the financial stability of the municipal entity. The largest geographic concentration was in California where thirteen municipal securities had a market value of $5.9 million. As of June 30, 2012, management found no evidence of OTTI on any of the municipal securities held in the investment securities portfolio.

The unrealized losses on the remaining securities are due to changes in market value resulting from changes in market interest rates and are also considered temporary.

Note 6: Loans Receivable and Allowance for Loan Losses

The following table sets forth the Company's gross loans by major categories as of June 30, 2012 and December 31, 2011:

(dollars in thousands)	June 30, 2012	December 31, 2011
Commercial real estate	$333,961	$344,377
Construction and land development	36,306	35,061
Commercial and industrial	102,382	87,668
Owner occupied real estate	112,338	102,777
Consumer and other	17,707	16,683
Residential mortgage	2,488	3,150
Total loans receivable	605,182	589,716
Deferred costs (fees)	(269)	(224)
Allowance for loan losses	(9,385)	(12,050)
Net loans receivable	$595,528	$577,442

A loan is considered impaired, in accordance with ASC 310, Receivables, when based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans, but also include internally classified accruing loans.

The following table summarizes information with regard to impaired loans by loan portfolio class as of June 30, 2012 and December 31, 2011:

	June 30, 2012			December 31, 2011		
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial real estate	$17,444	$17,523	$-	$11,053	$11,123	$-
Construction and land development	5,473	13,356	-	6,165	12,011	-
Commercial and industrial	5,476	8,472	-	4,781	4,895	-
Owner occupied real estate	570	753	-	506	506	-
Consumer and other	719	938	-	958	1,196	-
Total	$29,682	$41,042	$-	$23,463	$29,731	$-
With an allowance recorded:						
Commercial real estate	$4,810	$4,810	$1,126	$9,023	$9,023	$2,066
Construction and land development	242	242	40	818	1,933	98
Commercial and industrial	2,759	2,877	919	3,539	6,009	629
Owner occupied real estate	3,035	3,035	581	1,356	1,356	311
Consumer and other	146	152	24	-	-	-
Total	$10,992	$11,116	$2,690	$14,736	$18,321	$3,104
Total:						
Commercial real estate	$22,254	$22,333	$1,126	$20,076	$20,146	$2,066
Construction and land development	5,715	13,598	40	6,983	13,944	98
Commercial and industrial	8,235	11,349	919	8,320	10,904	629
Owner occupied real estate	3,605	3,788	581	1,862	1,862	311
Consumer and other	865	1,090	24	958	1,196	-
Total	$40,674	$52,158	$2,690	$38,199	$48,052	$3,104

The following table presents additional information regarding the Company's impaired loans for the three and six months ended June 30, 2012 and June 30, 2011:

	Three Months Ended June 30,			
	2012		2011	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate	$15,879	$ 205	$26,732	$ 227
Construction and land development	5,227	29	15,815	46
Commercial and industrial	4,882	36	2,713	26
Owner occupied real estate	876	-	1,576	-
Consumer and other	784	2	736	-
Total	$27,648	$ 272	$47,572	$ 299
With an allowance recorded:				
Commercial real estate	$5,707	$52	$16,342	$171
Construction and land development	869	-	7,709	18
Commercial and industrial	3,350	12	4,348	5
Owner occupied real estate	2,472	36	2,346	5
Consumer and other	98	-	-	-
Total	$12,496	$100	$30,745	$199
Commercial real estate	$21,586	$257	$43,074	$398
Construction and land development	6,096	29	23,524	64
Commercial and industrial	8,232	48	7,061	31
Owner occupied real estate	3,348	36	3,922	5
Consumer and other	882	2	736	-
Total	$40,144	$372	$78,317	$498

If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately $153,000 and $585,000 for the three months June 30, 2012 and 2011, respectively.

	Six Months Ended June 30,			
	2012		2011	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate	$14,315	$370	$32,347	$591
Construction and land development	4,980	59	16,849	99
Commercial and industrial	4,286	78	3,468	53
Owner occupied real estate	1,183	27	1,847	19
Consumer and other	850	4	694	-
Total	$25,614	$538	$55,205	$762
With an allowance recorded:				
Commercial real estate	$6,604	$135	$12,376	$252
Construction and land development	1,496	-	7,175	21
Commercial and industrial	3,941	19	3,698	11
Owner occupied real estate	1,911	48	2,882	64
Consumer and other	49	-	-	-
Total	$14,001	$202	$26,131	$348
Commercial real estate	$20,919	$505	$44,723	$843
Construction and land development	6,476	59	24,024	120
Commercial and industrial	8,227	97	7,166	64
Owner occupied real estate	3,094	75	4,729	83
Consumer and other	899	4	694	-
Total	$39,615	$740	$81,336	$1,110

If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately $320,000 and $1.2 million for the six months June 30, 2012 and 2011, respectively.

The following tables provide the activity in and ending balances of the allowance for loan losses by loan portfolio class at and for the three and six months ended June 30, 2012 and June 30, 2011:

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	Total
Three months ended June 30, 2012								
Allowance for loan losses:								
Beginning balance:	$ 4,371	$ 2,169	$ 2,219	$ 1,455	$ 106	$ 20	$ 416	$ 10,756
Charge-offs	(274)	(921)	(708)	-	(100)	-	-	(2,003)
Recoveries	-	105	-	-	27	-	-	132
Provisions (credits)	(136)	63	305	171	101	(4)	-	500
Ending balance	$ 3,961	$ 1,416	$ 1,816	$ 1,626	$ 134	$ 16	$ 416	$ 9,385
Three months ended June 30, 2011								
Allowance for loan losses:								
Beginning balance:	$ 7,407	$ 1,595	$ 2,769	$ 1,645	$ 121	$ 32	$ 881	$ 14,450
Charge-offs	(512)	(370)	-	-	-	-	-	(882)
Recoveries		2	-	-	38	-	-	40
Provisions (credits)	1,751	592	(40)	(49)	(35)	1	(720)	1,500
Ending balance	$ 8,646	$ 1,819	$ 2,729	$ 1,596	$ 124	$ 33	$ 161	$ 15,108

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	Total
Six months ended June 30, 2012								
Allowance for loan losses:								
Beginning balance:	$ 7,372	$ 558	$ 1,928	$ 1,963	$ 113	$ 23	$ 93	$ 12,050
Charge-offs	(766)	(921)	(760)	-	(101)	-	-	(2,548)
Recoveries	-	105	-	-	28	-	-	133
Provisions (credits)	(2,645)	1,674	648	(337)	94	(7)	323	(250)
Ending balance	$ 3,961	$ 1,416	$ 1,816	$ 1,626	$ 134	$ 16	$ 416	$ 9,385
Six months ended June 30, 2011								
Allowance for loan losses:								

Beginning Balance:	$ 7,243	$ 837	$ 1,443	$ 1,575	$ 130	$ 41	$ 175	$ 11,444
Charge-offs	(1,034)	(370)	-	-	(31)	-	-	(1,435)
Recoveries	9	2	-	-	38	-	-	49
Provisions (credits)	2,428	1,350	1,286	21	(13)	(8)	(14)	5,050
Ending balance	$ 8,646	$ 1,819	$ 2,729	$ 1,596	$ 124	$ 33	$ 161	$ 15,108

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The following tables provide a summary of the allowance for loan losses and balance of loans receivable by loan class and by impairment method as of June 30, 2012 and December 31, 2011:

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	Total
June 30, 2012								
Allowance for loan losses:								
Individually evaluated for impairment	$ 1,126	$ 40	$ 919	$ 581	$ 24	$ -	$ -	$ 2,690
Collectively evaluated for impairment	2,835	1,376	897	1,045	110	16	416	6,695
Total allowance for loan losses	$ 3,961	$ 1,416	$ 1,816	$ 1,626	$ 134	$ 16	$ 416	$ 9,385
Loans receivable:								
Loans evaluated individually	$ 22,254	$ 5,715	$ 8,235	$ 3,605	$ 865	$ -	$ -	$ 40,674
Loans evaluated collectively	311,707	30,591	94,147	108,733	16,842	2,488	-	564,508
Total loans receivable	$ 333,961	$ 36,306	$ 102,382	$ 112,338	$ 17,707	$ 2,488	$ -	$ 605,182

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	Total
December 31, 2011								
Allowance for loan losses:								
Individually evaluated for impairment	$ 2,066	$ 98	$ 629	$ 311	$ -	$ -	$ -	$ 3,104
Collectively evaluated for impairment	5,306	460	1,299	1,652	113	23	93	8,946
Total allowance for loan losses	$ 7,372	$ 558	$ 1,928	$ 1,963	$ 113	$ 23	$ 93	$ 12,050
Loans receivable:								
Loans evaluated individually	$ 20,076	$ 6,983	$ 8,320	$ 1,862	$ 958	$ -	$ -	$ 38,199
Loans evaluated collectively	324,301	28,078	79,348	100,915	15,725	3,150	-	551,517

Total loans receivable	$ 344,377	$ 35,061	$ 87,668	$ 102,777	$ 16,683	$ 3,150	$ -	$ 589,716

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of June 30, 2012 and December 31, 2011:

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
At June 30, 2012:							
Commercial real estate	$6,882	$4,256	$2,450	$13,588	$320,373	$333,961	$-
Construction and land development	335	-	3,100	3,435	32,871	36,306	-
Commercial and industrial	-	-	4,184	4,184	98,198	102,382	-
Owner occupied real estate	1,020	-	505	1,525	110,813	112,338	-
Consumer and other	185	252	653	1,090	16,617	17,707	-
Residential mortgage	-	-	-	-	2,488	2,488	-
Total	$8,422	$4,508	$10,892	$23,822	$581,360	$605,182	$-
At December 31, 2011:							
Commercial real estate	$8,662	$390	$1,880	$10,932	$333,445	$344,377	$-
Construction and land development	-	-	4,022	4,022	31,039	35,061	-
Commercial and industrial	-	-	4,673	4,673	82,995	87,668	748
Owner occupied real estate	1,043	-	-	1,043	101,734	102,777	-
Consumer and other	1	-	737	738	15,945	16,683	-
Residential mortgage	-	-	-	-	3,150	3,150	-
Total	$9,706	$390	$11,312	$21,408	$568,308	$589,716	$748

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of June 30, 2012 and December 31, 2011:

(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
June 30, 2012:					
Commercial real estate	$303,766	$3,817	$26,378	$-	$333,961

Construction and land development	29,951	-	6,355	-	36,306
Commercial and industrial	93,698	246	8,438	-	102,382
Owner occupied real estate	108,690	108	3,540	-	112,338
Consumer and other	16,484	101	1,122	-	17,707
Residential mortgage	2,488	-	-	-	2,488
Total	$555,077	$4,272	$45,833	$-	$605,182
December 31, 2011:					
Commercial real estate	$310,364	$8,573	$25,440	$-	$344,377
Construction and land development	27,224	-	7,837	-	35,061
Commercial and industrial	77,888	248	9,532	-	87,668
Owner occupied real estate	99,031	-	3,746	-	102,777
Consumer and other	15,468	209	1,006	-	16,683
Residential mortgage	3,150	-	-	-	3,150
Total	$533,125	$9,030	$47,561	$-	$589,716

The following table shows non-accrual loans by class as of June 30, 2012 and December 31, 2011:

(dollars in thousands)	June 30, 2012	December 31, 2011
Commercial real estate	$2,450	$1,880
Construction and land development	3,100	4,022
Commercial and industrial	4,184	3,925
Owner occupied real estate	505	-
Consumer and other	653	737
Residential mortgage	-	-
Total	$10,892	$10,564

Troubled Debt Restructurings

The Company adopted the amendments in Accounting Standards Update No. 2011-02 during the quarter ended September 30, 2011. As required, the Company reassessed all restructurings that occurred on or after January 1, 2011 for identification as a potential troubled debt restructuring. Since the adoption of this accounting guidance, the Company has identified two loans as troubled debt restructurings for which the allowance for credit loss had previously been measured under a general allowance for credit losses methodology (ASC 450-20). Upon identifying these receivables as troubled debt restructurings, the Company also identified them as impaired under the guidance in ASC 310-10-35.

The following table summarizes information in regards to troubled debt restructurings for the period ended June 30, 2012 and December 31, 2011:

(dollars in thousands)	Accrual Status	Non-Accrual Status	Total Modifications
June 30, 2012:			
Commercial real estate	$1,837	$ -	$ 1,837
Construction and land development	2,280	-	2,280
Commercial and industrial	-	-	-
Owner occupied real estate	-	-	-
Consumer and other	-	-	-
Residential mortgage	-	-	-
Total	$4,117	$ -	$ 4,117
December 31, 2011:			
Commercial real estate	$2,383	$ -	$ 2,383
Construction and land development	2,625	-	2,625
Commercial and industrial	-	-	-
Owner occupied real estate	-	-	-
Consumer and other	-	-	-
Residential mortgage	-	-	-
Total	$5,008	$ -	$ 5,008

There were no new troubled debt restructurings identified during the six month period ended June 30, 2012. There were no troubled debt restructurings that subsequently defaulted.

The Company modified one commercial real estate loan and one construction and land development loan during the year ended December 31, 2011. As a result of the modified terms of the new commercial estate loan, the Company accelerated the maturity date of the loan. The effective interest rate of the modified commercial real estate loan was reduced when compared to the interest rate of the original loan. The commercial real estate loan has also been converted to interest only payments for a period of time. The commercial real estate loan has been and continues to be an accruing loan. The borrower has remained current since the modification. As a result of the modified terms of the new construction and land development loan, the Company extended the maturity date of such loan. The effective interest rate of the modified construction and land development loan was reduced when compared to the interest rate of the original loan. The construction and land development loan has been and continues to be an accruing loan. The borrower has remained current since the modification.

Note 7: Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

The Company follows the guidance issued under ASC 820-10, Fair Value Measurements and Disclosures, which defines fair value, establishes a framework for measuring fair value under GAAP, and identifies required disclosures on fair value measurements.

ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10 are as follows:

Level 1:	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
Level 2:	Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.
Level 3:	Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2012 and December 31, 2011 were as follows:

(dollars in thousands)	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
June 30, 2012:				
Collateralized mortgage obligations	$100,430	$-	$100,430	$ -
Mortgage-backed securities	22,750	-	22,750	-
Municipal securities	11,570	-	11,570	-
Corporate bonds	31,569	-	28,562	3,007
Asset-backed securities	10,166	-	10,166	-
Trust Preferred Securities	3,175	-	-	3,175
Other securities	134	-	134	-
Securities Available for Sale	$179,794	$-	$173,612	$ 6,182
December 31, 2011:				
Collateralized mortgage obligations	$120,011	$-	$120,011	$ -
Mortgage-backed securities	14,116	-	14,116	-
Municipal securities	11,034	-	11,034	-
Corporate bonds	25,617	-	22,613	3,004
Trust Preferred Securities	3,410	-	-	3,410
Other securities	135	-	135	-
Securities Available for Sale	$174,323	$-	$167,909	$ 6,414

The table below presents all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2012 and 2011.

	Three Months Ended June 30, 2012		Three Months Ended June 30, 2011	
Level 3 Investments Only (dollars in thousands)	Trust Preferred Securities	Corporate Bonds	Trust Preferred Securities	Corporate Bonds
Balance, April 1,	$3,399	$3,007	$3,601	$3,000
Unrealized gains (losses)	(117)	-	66	-
Paydowns	(93)	-	-	-
Impairment charges on Level 3	(14)	-	(2)	-
Balance, June 30,	$3,175	$3,007	$3,665	$3,000

	Six Months Ended June 30, 2012		Six Months Ended June 30, 2011	
Level 3 Investments Only (dollars in thousands)	Trust Preferred Securities	Corporate Bonds	Trust Preferred Securities	Corporate Bonds
Balance, January 1,	$3,410	$3,004	$3,450	$3,000
Unrealized gains (losses)	(111)	3	217	-
Paydowns	(93)	-		