UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010

o 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 31977

CENTRAL VALLEY COMMUNITY BANCORP

(Exact name of registrant as specified in its charter)

California (State or other jurisdiction of incorporation or organization)	**77-0539125** (I.R.S. Employer Identification No.)
7100 N. Financial Dr, Suite 101, Fresno, California (Address of principal executive offices)	**93720** (Zip code)

Registrant s telephone number **(559) 298-1775**

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 past 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 o

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 (§ 229.405 of this chapter) during the preceeding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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 o	Accelerated filer o
Non-accelerated filer o (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 o No x

As of November 10, 2010 there were 9,368,016 shares of the registrant s common stock outstanding.

Table of Contents

CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

2010 QUARTERLY REPORT ON FORM 10-Q

TABLE OF CONTENTS

Table of Contents

PART 1: FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Cash and due from banks	$ 24,403	$ 13,857
Interest-earning deposits in other banks	36,607	34,544
Federal funds sold	562	279
Total cash and cash equivalents	61,572	48,680
Available-for-sale investment securities (Amortized cost of $184,633 at September 30, 2010 and $199,744 at December 31, 2009)	189,079	197,319
Loans, less allowance for credit losses of $11,106 at September 30, 2010 and $10,200 at December 31, 2009	448,046	449,007
Bank premises and equipment, net	5,837	6,525
Other real estate owned	3,277	2,832
Bank owned life insurance	11,291	10,998
Federal Home Loan Bank stock	3,050	3,140
Goodwill	23,577	23,577
Core deposit intangibles	1,301	1,612
Accrued interest receivable and other assets	18,007	21,798
Total assets	$ 765,037	$ 765,488
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits:		
Non-interest bearing	$ 161,690	$ 159,630
Interest bearing	474,827	480,537
Total deposits	636,517	640,167
Short-term borrowings	10,000	5,000
Long-term debt	4,000	14,000
Junior subordinated deferrable interest debentures	5,155	5,155
Accrued interest payable and other liabilities	10,871	9,943
Total liabilities	666,543	674,265
Commitments and contingencies (Note 8)		
Shareholders equity:		
Preferred stock, no par value, $1,000 per share liquidation preference; 10,000,000 shares authorized;		
Series A, no par value, 7,000 issued and outstanding	6,853	6,819
Series B, no par value, issued and outstanding: none at September 30, 2010 and 1,359 at December 31, 2009		1,317
Common stock, no par value; 80,000,000 authorized; issued and outstanding: 9,109,154 at September 30, 2010 and 8,949,754 at December 31, 2009	38,361	37,611
Non-voting common stock, no par value, 1,000,000 authorized; issued and outstanding: 258,862 at September 30, 2010 and none at December 31, 2009	1,317	

Retained earnings		49,296		46,931
Accumulated other comprehensive income (loss), net of tax		2,667		(1,455)
Total shareholders equity		98,494		91,223
Total liabilities and shareholders equity	$	765,037	$	765,488

See notes to unaudited consolidated financial statements.

Table of Contents

CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except earnings per share amounts)	**For the Three Months Ended September 30, 2010**	**2009**	**For the Nine Months Ended September 30, 2010**	**2009**
INTEREST INCOME:				
Interest and fees on loans	$ 7,112	$ 7,660	$ 20,816	$ 22,715
Interest on Federal funds sold		15	1	29
Interest and dividends on investment securities:				
Taxable	1,327	1,748	4,344	6,087
Exempt from Federal income taxes	761	779	2,277	2,292
Total interest income	9,200	10,202	27,438	31,123
INTEREST EXPENSE:				
Interest on deposits	876	1,369	2,912	4,650
Interest on junior subordinated deferrable interest debentures	36	28	84	105
Other	115	151	353	481
Total interest expense	1,027	1,548	3,349	5,236
Net interest income before provision for credit losses	8,173	8,654	24,089	25,887
PROVISION FOR CREDIT LOSSES	1,300	3,233	2,900	7,650
Net interest income after provision for credit losses	6,873	5,421	21,189	18,237
NON-INTEREST INCOME:				
Service charges	763	900	2,487	2,578
Appreciation in cash surrender value of bank owned life insurance	98	96	293	291
Loan placement fees	89	43	193	164
Net realized (loss) gains on sales and calls of investment securities	(19)	237	32	748
Total impairment on investment securities	(478)		(1,896)	
Increase in fair value recognized in other comprehensive income	478		1,196	
Net impairment loss recognized in earnings			(700)	
Federal Home Loan Bank dividends	3	7	8	7
Other income	359	325	1,062	959
Total non-interest income	1,293	1,608	3,375	4,747
NON-INTEREST EXPENSES:				
Salaries and employee benefits	3,961	3,451	11,544	10,781
Occupancy and equipment	976	977	2,890	2,866
Regulatory assessments	281	294	887	1,305
Data processing expense	310	398	878	1,044
Advertising	183	182	557	551
Audit and accounting fees	114	111	342	339
Legal fees	78	96	367	260
Other real estate owned	318	100	759	116
Amortization of core deposit intangibles	104	104	311	311
Loss on sale of assets	10	67	10	67
Other expense	1,074	1,166	3,210	3,275
Total non-interest expenses	7,409	6,946	21,755	20,915
Income before provision for income taxes	757	83	2,809	2,069
(BENEFIT FROM) PROVISION FOR INCOME TAXES	(107)	(296)	149	(33)

Net income	$	864	$	379	$	2,660	$	2,102
Net income	$	864	$	379	$	2,660	$	2,102
Preferred stock dividends and accretion		99		111		296		295
Net income available to common shareholders	$	765	$	268	$	2,364	$	1,807
Net income per common share:								
Basic earnings per common share	$	0.08	$	0.04	$	0.26	$	0.24
Weighted average common shares used in basic computation		9,363,908		7,664,802		9,156,561		7,653,084
Diluted earnings per common share	$	0.08	$	0.03	$	0.26	$	0.23
Weighted average common shares used in diluted computation		9,432,301		7,781,789		9,244,289		7,771,048

See notes to unaudited consolidated financial statements.

CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

(Unaudited) (In thousands)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,660	$ 2,102
Adjustments to reconcile net income to net cash provided by operating activities:		
Net increase in deferred loan fees	143	149
Depreciation	949	1,038
Accretion	(758)	(1,936)
Amortization	1,437	604
Stock-based compensation	172	217
Tax benefit from exercise of stock options	(28)	(8)
Provision for credit losses	2,900	7,650
Net other than temporary impairment losses on investment securities	700	
Net realized gains on sales and calls of available-for-sale investment securities	(32)	(924)
Net realized losses on sales of held-to-maturity investment securities		176
Net loss on sale and disposal of equipment	10	66
Net loss on sale of other real estate owned	14	
Write down of other real estate owned	453	86
Increase in bank owned life insurance, net of expenses	(293)	(282)
Net decrease (increase) in accrued interest receivable and other assets	750	(354)
Net decrease in prepaid FDIC Assessments	730	
Net increase (decrease) in accrued interest payable and other liabilities	913	(1,096)
Provision for deferred income taxes	(456)	(2)
Net cash provided by operating activities	10,264	7,486
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available-for-sale investment securities	(21,869)	(43,097)
Purchases of held-to-maturity investment securities		(410)
Proceeds from sales or calls of available-for-sale investment securities	16,718	39,021
Proceeds from sales or calls of held-to-maturity investment securities		1,474
Proceeds from maturity of available-for-sale investment securities	157	2,885
Proceeds from principal repayments of available-for-sale investment securities	19,069	24,297
Proceeds from principal repayments of held-to-maturity investment securities		2,582
Net increase in loans	(5,488)	(4,559)
Proceeds from sale of other real estate owned	2,555	
Purchases of premises and equipment	(276)	(656)
FHLB stock redeemed	90	
Proceeds from bank owned life insurance		430
Proceeds from sale of premises and equipment	5	
Net cash provided by investing activities	10,961	21,967
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand, interest bearing and savings deposits	18,467	1,619
Net (decrease) increase in time deposits	(22,117)	1,386
Proceeds from issuance of Series A Preferred Stock and warrants		7,000
Proceeds from short-term borrowings from Federal Home Loan Bank		10,000
Repayments of short-term borrowings to Federal Home Loan Bank	(5,000)	(10,000)
Repayments of borrowings from other financial institutions		(6,368)

Proceeds from exercise of stock options		550		97
Tax benefit from exercise of stock options		28		8
Cash paid for preferred stock dividends		(261)		(190)
Net cash (used in) provided by financing activities		(8,333)		3,552
Increase in cash and cash equivalents		12,892		33,005
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		48,680		19,518
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	61,572	$	52,523
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:				
Cash paid during the year for:				
Interest	$	3,674	$	5,649
Income taxes	$	301	$	450
Non-Cash Investing Activities:				
Net pre-tax change in unrealized gain (losses) on available-for-sale investment securities	$	6,871	$	857
Non-Cash Financing Activities:				
Transfer of loans to other real estate owned	$	3,467	$	3,188
Accrued preferred stock dividends	$	44	$	44

See notes to unaudited consolidated financial statements.

Table of Contents

CENTRAL VALLEY COMMUNITY BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

The interim unaudited consolidated financial statements of Central Valley Community Bancorp and subsidiary have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). These interim consolidated financial statements include the accounts of Central Valley Community Bancorp and its wholly owned subsidiary Central Valley Community Bank (the Bank) (collectively, the Company). All significant intercompany accounts and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The Company believes that the disclosures are adequate to make the information presented not misleading. These interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company s 2009 Annual Report to Shareholders on Form 10-K. In the opinion of management, all adjustments, consisting of only normal recurring adjustments, necessary to present fairly the Company s financial position at September 30, 2010 and December 31, 2009, and the results of its operations for the three and nine month interim periods ended September 30, 2010 and September 30, 2009 and its cash flows for the nine month interim periods ended September 30, 2010 and September 30, 2009 have been included. Certain reclassifications have been made to prior year amounts to conform to the 2010 presentation. The results of operations for interim periods are not necessarily indicative of results for the full year.

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Management has determined that since all of the banking products and services offered by the Company are available in each branch of the Bank, all branches are located within the same economic environment and management does not allocate resources based on the performance of different lending or transaction activities, it is appropriate to aggregate the Bank branches and report them as a single operating segment. No customer accounts for more than 10 percent of revenues for the Company or the Bank.

Recent Accounting Pronouncements

Fair Value Measurements and Disclosures

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements (ASU 10-06). ASU 10-06 revises two disclosure requirements concerning fair value measurements and clarifies two others. It requires separate presentation of significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and disclosure of the reasons for such transfers. It will also require the presentation of purchases, sales, issuances and settlements within Level 3 on a gross basis rather than a net basis. The amendments also clarify that disclosures should be disaggregated by class of asset or liability and that disclosures about inputs and valuation techniques should be provided for both recurring and non-recurring fair value measurements. The Company s disclosures about fair value measurements are presented in Note 5: Fair Value Measurements. These new disclosure requirements were adopted by the Company in the first quarter of 2010, with the exception of the requirement concerning gross presentation of Level 3 activity, which is effective for fiscal years beginning after December 15, 2010. These requirements have not had a material impact on its financial condition or results of operations. Management does not believe that the adoption of the remaining portion of this ASU will have a material impact on the Company s financial position, results of operations, cash flows, or disclosures.

Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses

In July 2010, the FASB issued Accounting Standards Update No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.* This standard expands disclosures about credit quality of financing receivables and the allowance for loan losses. The standard will require the Company to expand disclosures about the credit quality of our loans and the related reserves against them. The extra disclosures will include disaggregated matters related to our past due loans, credit quality indicators, and modifications of loans. The Company will adopt the standard beginning with our December 31, 2010 financial statements. This standard is not expected to have an impact on the Company s financial position or results of operations.

Table of Contents

Impact of New Financial Accounting Standards

Accounting for Transfers of Financial Assets

In June 2009, the FASB issued ASC Topic 860 (previously SFAS No. 166), *Accounting for Transfers of Financial Assets, an amendment of SFAS No. 140.* This standard amends the derecognition accounting and disclosure guidance included in previously issued standards. This standard eliminates the exemption from consolidation for qualifying special-purpose entities (SPEs) and also requires a transferor to evaluate all existing qualifying SPEs to determine whether they must be consolidated in accordance with ASC Topic 810. This standard also provides more stringent requirements for derecognition of a portion of a financial asset and establishes new conditions for reporting the transfer of a portion of a financial asset as a sale. This standard is effective as of the beginning of the first annual reporting period that begins after November 15, 2009. The Company adopted the provisions of this standard January 1, 2010 and they did not have a material impact on its financial condition or results of operations.

Transfers and Servicing

In December 2009, the FASB issued Accounting Standards Update (ASU) 2009-16, *Transfers and Servicing (ASC Topic 860): Accounting for Transfers of Financial Assets,* which updates the derecognition guidance in ASC Topic 860 for previously issued SFAS No. 166. This update reflects the Board s response to issues entities have encountered when applying ASC 860, including: (1) requires that all arrangements made in connection with a transfer of financial assets be considered in the derecognition analysis, (2) clarifies when a transferred asset is considered legally isolated from the transferor, (3) modifies the requirements related to a transferee s ability to freely pledge or exchange transferred financial assets, and (4) provides guidance on when a portion of a financial asset can be derecognized. This update is effective for financial asset transfers occurring after the beginning of an entity s first fiscal year that begins after November 15, 2009. The Company adopted the provisions of this standard January 1, 2010 and they did not have a material impact on its financial condition or results of operations.

Improvements to Financial Reporting of Interests in Variable Interest Entities

In June 2009, the FASB issued ASC Topic 810 (previously SFAS No. 167), *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities.* This standard amends the consolidation guidance applicable to variable interest entities. The amendments to the consolidation guidance affect all entities currently within the scope of ASC Topic 810, as well as qualifying special-purpose entities that are currently excluded from the scope of ASC Topic 810. This standard is effective as of the beginning of the first annual reporting period that begins after November 15, 2009. The Company adopted the provisions of this standard January 1, 2010 and they did not have a material impact on its financial condition or results of operations.

Note 2. Share-Based Compensation

On September 30, 2010, the Company has three stock-based compensation plans which are described below.

During 1992, the Bank established a Stock Option Plan for which shares are reserved for issuance to employees and directors under incentive and nonstatutory agreements. The Company assumed all obligations under this plan as of November 15, 2000, and options to purchase shares of the Company s common stock were substituted for options to purchase shares of common stock of the Bank. Outstanding options under this plan are exercisable until their expiration, however, no new options will be granted under this plan.

On November 15, 2000, the Company adopted, and subsequently amended on December 20, 2000, the Central Valley Community Bancorp 2000 Stock Option Plan for which 599,664 shares remain reserved for issuance for options already granted to employees and directors under incentive and nonstatutory agreements and 18,431 remain reserved for future grants as of September 30, 2010. The plan requires that the option price may not be less than the fair market value of the stock at the date the option is granted, and that the option price must be paid in full at the time it is exercised. The options under the plan expire on dates determined by the Board of Directors, but not later than ten years from the date of grant. The vesting period is determined by the Board of Directors and is generally over five years.

In May 2005, the Company adopted the Central Valley Community Bancorp 2005 Omnibus Incentive Plan (2005 Plan). The plan provides for awards in the form of incentive stock options, non-statutory stock options, stock appreciation rights, and restricted stock. The plan also allows for performance awards that may be in the form of cash or shares of the Company, including restricted stock. The maximum number of shares that can be issued with respect to all awards under the plan is 476,000. Currently under the 2005 Plan, there are 108,600 shares reserved for issuance for options already granted to employees and 367,400 remain reserved for future grants as of September 30, 2010. The plan requires that the exercise price may not be less than 100% of the market value of the stock at the date the option is granted, and that the option price must be paid in full at the time it is exercised. The options and awards under the plan expire on dates determined by the Board of Directors, but not later than 10 years from the date of grant. The vesting period for the options and option related stock appreciation rights is determined by the Board of Directors and is generally over five years.

For the nine month periods ended September 30, 2010 and 2009, the compensation cost recognized for stock option compensation was $172,000 and $217,000, respectively. For the quarter ended September 30, 2010 and 2009, compensation cost recognized was $59,000 and $68,000, respectively. The recognized tax benefit for stock option compensation expense was $31,000, for the nine month periods ended September 30, 2010 and 2009. For the three month periods ended September 30, 2010 and 2009, recognized tax benefits were $5,000 and $13,000, respectively.

Table of Contents

The Company bases the fair value of the options granted on the date of grant using a Black-Scholes Merton option pricing model that uses assumptions based on expected option life and the level of estimated forfeitures, expected stock volatility, risk free interest rate, and dividend yield. The expected term of the Company s options was determined under the applicable guidance for estimating expected term of options. Stock volatility is based on the historical volatility of the Company s stock. The risk-free rate is based on the U. S. Treasury yield curve for the periods within the contractual life of the options in effect at the time of grant. The compensation cost for options granted is based on the weighted average grant date fair value per share.

Options to purchase 67,800 shares of the Company s common stock were issued in 2010 from the 2005 Plan and 15,200 were issued from the 2000 Plan. In the same period of 2009, options to purchase 13,500 shares of the Company s common stock were issued from the 2005 Plan. All options were issued at an exercise price equal to the fair market value at the grant date

A summary of the combined activity of the Plans for the nine month period ended September 30, 2010 follows:

	Shares	Weighted Average Exercise Price		Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value	
Options outstanding at January 1, 2010	789,934					
Options granted	83,000	$	5.75			
Options exercised	(159,400)	$	3.45			
Options canceled	(5,270)	$	3.48			
Options outstanding at September 30, 2010	708,264	$	7.30	4.04	$	414
Options vested or expected to vest at September 30, 2010	699,170	$	7.25	5.56	$	383
Options exercisable at September 30, 2010	563,473	$	7.62	2.83	$	399

The weighted-average grant-date fair value of options granted in the nine month period ended September 30, 2010 and 2009 was $2.59 and $1.33 respectively.

The total intrinsic value of 159,400 options exercised in the nine months ended September 30, 2010 was $349,000. The intrinsic value of 22,522 options exercised in the nine months ended September 30, 2009 was $18,000.

Cash received from options exercised for the nine months ended September 30, 2010 was $550,000. The actual tax benefit realized for the tax deductions from options exercised totaled $28,000 for nine months ended September 30, 2010

As of September 30, 2010, there was $480,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all plans. The cost is expected to be recognized over a weighted average period of 3.4 years.

Note 3. Earnings per share

Basic earnings per share (EPS), which excludes dilution, is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options or warrants, stock appreciation rights settled in stock or restricted stock awards, result in the issuance of common stock which shares in the earnings of the Company. There was no difference in the net income used in the calculation of basic earnings per share and diluted earnings per share for the nine month periods ended September 30, 2010 and 2009.

Table of Contents

A reconciliation of the numerators and denominators of the basic and diluted EPS computations is as follows:

Basic Earnings Per share In thousands (except share and per share amounts)	Three Months Ended September 30, 2010	2009	For the Nine Months Ended September 30, 2010	2009
Net Income	$ 864	$ 379	$ 2,660	$ 2,102
Less: Preferred stock dividends and accretion	99	111	296	295
Income available to common shareholders	$ 765	$ 268	$ 2,364	$ 1,807
Weighted average shares outstanding	9,363,908	7,664,802	9,156,561	7,653,084
Net income per common share	$ 0.08	$ 0.04	$ 0.26	$ 0.24

Diluted Earnings Per share In thousands (except share and per share amounts)	Three Months Ended September 30, 2010	2009	For the Nine Months Ended September 30, 2010	2009
Net Income	$ 864	$ 379	$ 2,660	$ 2,102
Less: Preferred stock dividends and accretion	99	111	296	295
Income available to common shareholders	$ 765	$ 268	$ 2,364	$ 1,807
Weighted average shares outstanding	9,363,908	7,664,802	9,156,561	7,653,084
Effect of dilutive stock options	68,393	116,987	87,728	117,964
Weighted average shares of common stock and common stock equivalents	9,432,301	7,781,789	9,244,289	7,771,048
Net income per diluted common share	$ 0.08	$ 0.03	$ 0.26	$ 0.23

Note 4. Investments

The investment portfolio consists primarily of agency securities, mortgage backed securities, and municipal securities all of which are classified available-for-sale. As of September 30, 2010, $141,026,000 was held as collateral for borrowing arrangements, public funds, and for other purposes.

The fair value of the available-for-sale investment portfolio reflected an unrealized gain of $4,446,000 at September 30, 2010 compared to an unrealized loss of $2,425,000 at December 31, 2009.

The following table sets forth the carrying values and estimated fair values of our investment securities portfolio at the dates indicated:

	September 30, 2010			
Available-for-Sale Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt Securities:				
U.S. Government agencies	$ 208	$ 7	$	$ 215
Obligations of states and political subdivisions	69,245	6,240	(235)	75,250
	82,719	1,372	(461)	83,630

U.S. Government agencies collateralized by mortgage obligations								
Other collateralized mortgage obligations		24,260		271		(2,971)		21,560
Corporate debt securities		500		11				511
Other equity securities		7,701		212				7,913
	$	184,633	$	8,113	$	(3,667)	$	189,079

	December 31, 2009							
Available-for-Sale Securities	**Amortized Cost**		**Gross Unrealized Gains**		**Gross Unrealized Losses**		**Estimated Fair Value**	
Debt Securities:								
U.S. Government agencies	$	353	$	10	$		$	363
Obligations of states and political subdivisions		68,708		3,050		(946)		70,812
U.S. Government agencies collateralized by mortgage obligations		85,530		1,283		(858)		85,955
Other collateralized mortgage obligations		36,280		403		(5,413)		31,270
Corporate debt securities		1,228		86				1,314
Other equity securities		7,645				(40)		7,605
	$	199,744	$	4,832	$	(7,257)	$	197,319

Table of Contents

Investment securities with unrealized losses as of the dates indicated are summarized and classified according to the duration of the loss period as follows:

	September 30, 2010					
	Less than 12 Months		12 Months or More		Total	
Available-for-Sale Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt Securities:						
Obligations of states and political subdivisions	$ 772	$ (25)	$ 3,452	$ (210)	$ 4,224	$ (235)
U.S. Government agencies collateralized by mortgage obligations	38,954	(461)	143		39,097	(461)
Other collateralized mortgage obligations	37	(1)	16,185	(2,970)	16,222	(2,971)
	$ 39,763	$ (487)	$ 19,780	$ (3,180)	$ 59,543	$ (3,667)

	December 31, 2009					
	Less than 12 Months		12 Months or More		Total	
Available-for-Sale Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt Securities:						
Obligations of states and political subdivisions	$ 9,001	$ (295)	4,911	(651)	$ 13,912	$ (946)
U.S. Government agencies collateralized by mortgage obligations	40,691	(856)	331	(2)	41,022	(858)
Other collateralized mortgage obligations	3,474	(446)	19,878	(4,967)	23,352	(5,413)
Other equity securities	7,605	(40)			7,605	(40)
	$ 60,771	$ (1,637)	$ 25,120	$ (5,620)	$ 85,891	$ (7,257)

As of September 30, 2010, the Company performed an analysis of the investment portfolio to determine whether any of the investments held in the portfolio had an other-than-temporary impairment (OTTI). Management evaluated all available-for-sale investment securities with an unrealized loss at September 30, 2010 and identified those that had an unrealized loss for at least a consecutive 12 month period, which had an unrealized loss at September 30, 2010 greater than 10% of the recorded book value on that date, or which had an unrealized loss of more than $10,000. In addition, management reviewed all private label residential mortgage backed securities (PLRMBS) at September 30, 2010.

For those bonds that met the evaluation criteria management obtained and reviewed the most recently published national credit ratings for those bonds. For those bonds that were municipal debt securities with an investment grade rating by the rating agencies, management also evaluated the financial condition of the municipality and any applicable municipal bond insurance provider and concluded that no credit related impairment existed.

The evaluation for PLRMBS also includes estimating projected cash flows that the Company is likely to collect based on an assessment of all available information about the applicable security on an individual basis, the structure of the security, and certain assumptions, such as the remaining payment terms for the security, prepayment speeds, default rates, loss severity on the collateral supporting the security based on underlying loan-level borrower and loan characteristics, expected housing price changes, and interest rate assumptions, to determine whether the Company will recover the entire amortized cost basis of the security. In performing a detailed cash flow analysis, the Company identified the best estimate of the cash flows expected to be collected. If this estimate results in a present value of expected cash flows (discounted at the security s effective yield) that is less than the amortized cost basis of the security, an OTTI is considered to have occurred.

To assess whether it expects to recover the entire amortized cost basis of its PLRMBS, the Company performed a cash flow analysis for all of its PLRMBS as of September 30, 2010. In performing the cash flow analysis for each security, the Company uses a third-party model. The model considers borrower characteristics and the particular attributes of the loans underlying the Company s securities, in conjunction with assumptions about future changes in home prices and other assumptions, to project prepayments, default rates, and loss severities.

The month-by-month projections of future loan performance are allocated to the various security classes in each securitization structure in accordance with the structure s prescribed cash flow and loss allocation rules. When the credit enhancement for the senior securities in a securitization is derived from the presence of subordinated securities, losses are allocated first to the subordinated securities until their principal balance is reduced to zero. The projected cash flows are based on a number of assumptions and expectations, and the results of these models can vary significantly with changes in assumptions and expectations. The scenario of cash flows determined based on the model approach described above reflects a best-estimate scenario.

At each quarter end, the Company compares the present value of the cash flows expected to be collected on its PLRMBS to the amortized cost basis of the securities to determine whether a credit loss exists.

The unrealized losses associated with private residential PLRMBS are primarily driven by higher projected collateral losses, wider credit spreads, and changes in interest rates. The Company assesses for credit impairment using a discounted cash flow model. The key assumptions include default rates, severities, discount rates and prepayment rates. Losses are estimated to a security by forecasting the underlying mortgage loans in each transaction. The forecasted loan performance is used to project cash flows to the various tranches in the structure. Based upon management s assessment of the expected credit losses of the security given the performance of the underlying collateral compared with our credit enhancement (which occurs as a result of credit loss protection provided by subordinated tranches), the Company expects to recover the entire amortized cost basis of these securities, with the exception of certain securities for which OTTI was recorded.

Obligations of States and Political Subdivisions

At September 30, 2010, the Company held 159 obligations of states and political subdivision securities of which two were in a loss position for less than 12 months and seven were in a loss position and have been in a loss position for 12 months or more. The unrealized losses on the Company s investments in obligations of states and political subdivision securities were caused by interest rate changes. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell, and it is more likely than not that it will not be required to sell those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2010.

U.S. Government Agencies Collateralized by Mortgage Obligations

At September 30, 2010, the Company held 133 U.S. Government agency securities collateralized by mortgage obligation securities of which 19 were in a loss position for less than 12 months and two were in a loss position for 12 months or more. The unrealized losses on the Company s investments in U.S. government agencies collateralized by mortgage obligations were caused by interest rate changes. The contractual cash flows of those investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company s investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell, and it is more likely than not that it will not be required to sell those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2010.

Other Collateralized Mortgage Obligations

At September 30, 2010, the Company had a total of 40 PLRMBS with a remaining principal balance of $21,560,000 and a net unrealized loss of approximately $2,700,000. 13 of these securities account for $2,971,000 of the unrealized loss at September 30, 2010 offset by 27 of these securities with gains totaling $271,000. Eight of these PLRMBS with a remaining principal balance of $15,009,000 had credit

Table of Contents

ratings below investment grade. The Company continues to perform extensive analyses on these securities as well as all whole loan CMOs. Several of these investment securities continue to demonstrate cash flows and credit support as expected and the expected cash flows of the security discounted at the security s effective yield are greater than the book value of the security, therefore management does not consider these securities to be other than temporarily impaired. Based on the analyses performed, 10 PLRMBS with a remaining principal balance of $18,744,000 were considered to be other than temporarily impaired at September 30, 2010. An OTTI charge of $700,000 was recorded against earnings in the second quarter of 2010. This charge was taken to reflect ongoing and increasing deterioration of credit quality and increasing loss severities of the underlying mortgages. Based on the analyses performed, no additional OTTI charge was required for the third quarter of 2010. However, the cumulative unrealized loss on these securities decreased during the three and nine months ended September 30, 2010 primarily due to a declining interest rate environment. This change in unrealized loss was recognized in other comprehensive income and is also presented in the income statement as a component of non-interest income in the presentation of other-than-temporary impairment losses.

Investment securities as of September 30, 2010 with credit ratings below investment grade are summarized in the table below (dollars in thousands):

Description	**Book Value**	**Market Value**	**Unrealized Loss**	**Rating**	**Agency**	**12 Month Historical Prepayment Rates %**	**Projected Default Rates %**	**Projected Severity Rates %**	**Original Purchase Price %**	**Current Credit Enhancement %**
PHHAM	$ 3,191	$ 2,631	$ (560)	C	Fitch	12.61	24.24	60.00	97.25	4.64
RAST	2,743	2,091	(652)	C	Fitch	13.25	21.48	70.55	98.50	-0.05
CWALT 1	1,021	763	(258)	C	Fitch	11.71	27.09	58.98	100.73	7.41
CWALT 2	435	393	(42)	C	Fitch	10.67	27.14	56.46	101.38	6.17
CWALT 3	2,321	2,035	(286)	CCC	S&P	8.42	22.69	51.53	100.25	10.00
FHAMS	2,645	2,249	(396)	C	Fitch	12.15	20.12	60.00	95.00	2.80
GSR	2,447	2,225	(222)	C	Fitch	14.17	19.72	40.26	96.25	4.03
BOAA	206	172	(34)	CCC	Fitch	6.78	9.71	74.94	97.25	5.74
TOTALS	$ 15,009	$ 12,559	$ (2,450)							

The following tables provide a roll forward for the three and nine month periods ended September 30, 2010 of investment securities credit losses recorded in earnings. The beginning balance represents the credit loss component for which OTTI occurred on debt securities in prior periods. Additions represent the first time a debt security was credit impaired or when subsequent credit impairments have occurred on securities for which OTTI credit losses have been previously recognized.

(Dollars in thousands)	**For the three months ended September 30, 2010**	**For the nine months ended September 30, 2010**
Beginning balance	$ 700	$ 300
Amounts related to credit loss for which an OTTI charge was not previously recognized		700
Increases to the amount related to credit loss for which OTTI was previously recognized		
Realized losses for securities sold		(300)
Ending balance	$ 700	$ 700

The amortized cost and estimated fair value of investment securities at September 30, 2010 and December 31, 2009 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

September 30, 2010		**Amortized Cost**		**Estimated Fair Value**
Within one year	$	500	$	511
After one year through five years		5,997		6,573
After five years through ten years		15,849		17,127
After ten years		47,607		51,765
		69,953		75,976
Investment securities not due at a single maturity date:				
U.S. Government agencies collateralized by mortgage obligations		82,719		83,630
Other collateralized mortgage obligations		24,260		21,560
Other equity securities		7,701		7,913
	$	184,633	$	189,079

December 31, 2009		**Amortized Cost**		**Estimated Fair Value**
After one year through five years	$	1,522	$	1,571
After five years through ten years		18,573		19,365
After ten years		50,194		51,553
		70,289		72,489
Investment securities not due at a single maturity date:				
U.S. Government agencies collateralized by mortgage obligations		85,530		85,955
Other collateralized mortgage obligations		36,280		31,270
Other equity securities		7,645		7,605
Total	$	199,744	$	197,319

Table of Contents

Note 5. Fair Value Measurements

The estimated carrying and fair values of the Company s financial instruments are as follows (in thousands):

	September 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	$ 24,403	$ 24,403	$ 13,857	$ 13,857
Interest-earning deposits in other banks	36,607	36,607	34,544	34,544
Federal funds sold	562	562	279	279
Available-for-sale investment securities	189,079	189,079	197,319	197,319
Loans, net	448,046	444,220	449,007	460,238
Bank owned life insurance	11,291	11,291	10,998	10,998
FHLB stock	3,050	3,050	3,140	3,140
Accrued interest receivable	3,444	3,444	3,608	3,608
Financial liabilities:				
Deposits	$ 636,517	$ 637,943	$ 640,167	$ 641,279
Short-term borrowings	10,000	10,000	5,000	5,000
Long-term debt	4,000	4,365	14,000	14,487
Junior subordinated deferrable interest debentures	5,155	5,155	5,155	5,155
Accrued interest payable	352	352	416	416

These estimates do not reflect any premium or discount that could result from offering the Company s entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. Because no market exists for a significant portion of the Company s financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented.

The following methods and assumptions were used to estimate the fair value of financial instruments. For cash and due from banks, interest-earning deposits in other banks, Federal funds sold, variable-rate loans, bank owned life insurance, accrued interest receivable and payable, FHLB stock, demand deposits and short-term borrowings, the carrying amount is estimated to be fair value. For investment securities, fair values are based on quoted market prices, quoted market prices for similar securities and indications of value provided by brokers. The fair values for fixed-rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered at each reporting date for loans with similar terms to borrowers of comparable creditworthiness. Fair values for fixed-rate certificates of deposit are estimated using discounted cash flow analyses using interest rates offered at each reporting date by the Company for certificates with similar remaining maturities. The fair value of long-term debt and subordinated debentures was determined based on the current market for like-kind instruments of a similar maturity and structure. The fair values of commitments are estimated using the fees currently charged to enter into similar agreements and are not significant and, therefore, not included in the above table.

Fair Value Hierarchy

In accordance with applicable guidance, the Company groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Valuations within these levels are based upon:

Level 1 Quoted market prices for identical instruments traded in active exchange markets.

Level 2 Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Company s estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation which may be significant.

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, we report the transfer at the beginning of the reporting period.

Table of Contents

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings. During the three and nine months ended September 30, 2010 management transferred one CMO security totaling $3,078,00 from Level 3 to Level 2 and other equity securities totaling $7,588,000 from Level 3 to Level 1. The transfers occurred to correct misclassification errors in prior periods.

Assets Recorded at Fair Value

The following tables present information about the Company s assets and liabilities measured at fair value on a recurring and nonrecurring basis as of September 30, 2010:

Recurring Basis

The Company is required or permitted to record the following assets at fair value on a recurring basis under other accounting pronouncements as of September 30, 2010 (in thousands).

Description	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Available-for-sale securities				
Debt Securities:				
U.S. Government agencies	$ 215	$	$ 215	$
Obligations of states and political subdivisions	75,250		75,250	
U.S. Government agencies collateralized by mortgage obligations	83,630		83,630	
Other collateralized mortgage obligations	21,560		21,560	