UNITED SECURITY BANCSHARES
Form 10-Q
August 16, 2010

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, 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: 000-32987

UNITED SECURITY BANCSHARES
(Exact name of registrant as specified in its charter)

CALIFORNIA (State or other jurisdiction of incorporation or organization)	91-2112732 (I.R.S. Employer Identification No.)
2126 Inyo Street, Fresno, California (Address of principal executive offices)	93721 (Zip Code)

Registrants telephone number, including area code (559) 248-4943

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No x

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 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 o No x

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).
Large accelerated filer o Accelerated filer o Non-accelerated filer x Small reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

Aggregate market value of the Common Stock held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter - June 30, 2010: $32,434,746

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

Common Stock, no par value

(Title of Class)

Shares outstanding as of July 31, 2010: 12,747,642

TABLE OF CONTENTS

PART I. Financial Information

United Security Bancshares and Subsidiaries
Consolidated Balance Sheets – (unaudited)
June 30, 2010 and December 31, 2009

(in thousands except shares)	June 30, 2010	December 31, 2009
Assets		
Cash and due from banks	$ 38,886	$ 17,644
Federal funds sold	40,665	11,585
Cash and cash equivalents	79,551	29,229
Interest-bearing deposits in other banks	1,480	3,313
Investment securities available for sale (at fair value)	59,796	71,411
Loans and leases	495,199	508,573
Unearned fees	(737)	(865)
Allowance for credit losses	(12,057)	(15,016)
Net loans	482,405	492,692
Accrued interest receivable	2,277	2,497
Premises and equipment – net	12,822	13,296
Other real estate owned	32,810	36,217
Intangible assets	1,577	2,034
Goodwill	5,977	7,391
Cash surrender value of life insurance	15,228	14,972
Investment in limited partnership	2,062	2,274
Deferred income taxes - net	6,484	7,534
Other assets	9,085	9,708
Total assets	$ 711,554	$ 692,568
Liabilities & Shareholders' Equity		
Liabilities		
Deposits		
Noninterest bearing	$ 123,630	$ 139,724
Interest bearing	460,127	421,936
Total deposits	583,757	561,660
Other borrowings	37,000	40,000
Accrued interest payable	234	376
Accounts payable and other liabilities	2,412	3,995
Junior subordinated debentures (at fair value)	10,209	10,716
Total liabilities	633,612	616,747
Shareholders' Equity		
Common stock, no par value 20,000,000 shares authorized, 12,747,642 and 12,496,499 issued and outstanding, in 2010 and 2009, respectively	38,792	37,575
Retained earnings	40,259	40,499
Accumulated other comprehensive loss	(1,109)	(2,253)
Total shareholders' equity	77,942	75,821
Total liabilities and shareholders' equity	$ 711,554	$ 692,568

See notes to consolidated financial statements

United Security Bancshares and Subsidiaries
Consolidated Statements of Operations and Comprehensive Income

(In thousands except shares and EPS)	Quarter Ended June 30, 2010	Quarter Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Interest Income:				
Loans, including fees	$ 7,769	$ 7,476	$ 15,309	$ 15,543
Investment securities – AFS – taxable	717	1,114	1,570	2,304
Investment securities – AFS – nontaxable	14	14	29	29
Federal funds sold	7	0	15	0
Interest on deposits in other banks	10	37	20	77
Total interest income	8,517	8,641	16,943	17,953
Interest Expense:				
Interest on deposits	1,063	1,569	2,221	3,274
Interest on other borrowings	78	278	185	737
Total interest expense	1,141	1,847	2,406	4,011
Net Interest Income Before Provision for Credit Losses	7,376	6,794	14,537	13,942
Provision for Credit Losses	519	6,807	2,150	8,158
Net Interest Income	6,857	(13)	12,387	5,784
Noninterest Income:				
Customer service fees	1,016	1,019	1,964	2,008
Gain (loss) on sale of other real estate owned	164	(68)	108	(145)
Gain on sale of securities	70	0	70	0
Gain (loss) on fair value of financial liability	467	(46)	624	(105)
Gain on sale of loans	511	0	511	0
Shared appreciation income	0	14	0	23
Other	452	359	716	638
Total noninterest income	2,680	1,278	3,993	2,419
Noninterest Expense:				
Salaries and employee benefits	2,107	2,063	4,388	4,286
Occupancy expense	961	939	1,874	1,881
Data processing	13	23	32	65
Professional fees	632	411	1,019	811
FDIC/DFI insurance assessments	515	470	906	616
Director fees	60	62	117	128
Amortization of intangibles	198	223	401	451
Correspondent bank service charges	82	101	158	208
Impairment loss on core deposit intangible	0	0	57	57
Impairment loss on goodwill	1,414	3,026	1,414	3,026
Impairment loss on investment securities (cumulative total other-than-temporary loss of $3.6 million, net of $3.1 million recognized in other comprehensive loss, pre-tax)	458	240	702	403
Impairment loss on OREO	405	337	1,226	503
Loss on California tax credit partnership	106	107	212	214
OREO expense	485	538	767	843
Other	612	555	1,100	1,272
Total noninterest expense	8,048	9,095	14,373	14,764
Income (Loss) Before Taxes on Income	1,489	(7,830)	2,007	(6,561)

Provision for Taxes on Income		974		(2,104)		1,050		(1,756)
Net Income (Loss)	$	515	$	(5,726)	$	957	$	(4,805)
Other comprehensive income (loss), net of tax:								
Unrealized gain (loss) on available for sale securities, and past service costs of employee benefit plans – net income tax expense (benefit) of $385, $(85), $763 and $(574)		578		(128)		1,145		(861)
Comprehensive Income (Loss)	$	1,093	$	(5,854)	$	2,102	$	(5,666)
Net Income (Loss) per common share								
Basic	$	0.04	$	(0.45)	$	0.08	$	(0.38)
Diluted	$	0.04	$	(0.45)	$	0.08	$	(0.38)
Shares on which net income per common shares were based								
Basic		12,747,642		12,621,452		12,747,642		12,747,642
Diluted		12,747,642		12,621,452		12,747,642		12,747,642

See notes to consolidated financial statements

United Security Bancshares and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Periods Ended June 30, 2010 (unaudited)

(In thousands except shares)	Common stock Number of Shares	Common stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance January 1, 2009	12,010,372	$ 34,811	$ 47,722	$ (2,923)	$ 79,610
Net changes in unrealized loss on available for sale securities (net of income tax benefit of $574)				(861)	(861)
Dividends on common stock (cash-in-lieu)			(6)		(6)
Repurchase and cancellation of common shares	(488)	(4)			(4)
Common stock dividends	240,410	1,493	(1,493)		0
Other		35			35
Stock-based compensation expense		27			27
Net Income			(4,805)		(4,805)
Balance June 30, 2009	12,250,294	36,362	41,418	(3,784)	73,996
Net changes in unrealized loss on available for sale securities (net of income tax expense of $1,131)				1,696	1,696
Net changes in unrecognized past service Cost on employee benefit plans (net of income tax benefit of $116)				(165)	(165)
Common stock dividends	249,205	1,187	(1,187)		0
Stock-based compensation expense		26			26
Net Income			268		268
Balance December 31, 2009	12,499,499	37,575	40,499	(2,253)	75,821
Net changes in unrealized loss on available for sale securities (net of income tax expense of $763)				1,144	1,144
Common stock dividends	248,143	1,197	(1,197)		0
Stock-based compensation expense		20			20
Net Income			957		957
Balance June 30, 2010	12,747,642	$ 38,792	$ 40,259	$ (1,109)	$ 77,942

See notes to consolidated financial statements

United Security Bancshares and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)

(In thousands)	Six Months Ended June 30, 2010	2009
Cash Flows From Operating Activities:		
Net (loss) income	$ 957	$ (4,805)
Adjustments to reconcile net income:		
to cash provided by operating activities:		
Provision for credit losses	2,150	8,158
Depreciation and amortization	1,133	1,251
Accretion of investment securities	(3)	(36)
Decrease (increase) in accrued interest receivable	219	(191)
Decrease in accrued interest payable	(142)	(118)
Decrease (decrease) in unearned fees	(128)	(287)
Increase (decrease) in income taxes payable	(999)	(2,166)
Stock-based compensation expense	20	27
Decrease in accounts payable and accrued liabilities	(246)	(78)
Gain on sale of other real estate owned	(108)	145
Gain on sale of investment securities	(70)	0
Impairment loss on other real estate owned	1,226	503
Impairment loss on core deposit intangible	57	57
Impairment loss on investment securities	702	403
Increase in surrender value of life insurance	(255)	(264)
Impairment loss on goodwill	1,414	3,026
Gain on proceeds from life insurance	(174)	0
(Gain) loss on fair value option of financial liabilities	(624)	105
Loss on tax credit limited partnership interest	212	214
Net (increase) decrease in other assets	(50)	342
Net cash provided by operating activities	5,291	6,286
Cash Flows From Investing Activities:		
Net decrease in interest-bearing deposits with banks	1,833	16,827
Redemption of correspondent bank stock	153	0
Purchases of available-for-sale securities	(10,160)	0
Maturities and calls of available-for-sale securities	8,495	9,100
Proceeds from sales of available-for-sale securities	14,701	0
Proceeds from sale of investment in title company	0	99
Net redemption from limited partnerships	0	7
Proceeds from life insurance settlement	846	0
Net decrease (increase) in loans	4,909	(20,485)
Net proceeds from settlement of other real estate owned	5,299	2,650
Capital expenditures for premises and equipment	(217)	(120)
Net cash provided by investing activities	25,859	8,078
Cash Flows From Financing Activities:		
Net increase (decrease) in demand deposit and savings accounts	10,917	(3,934)
Net increase in certificates of deposit	11,180	6,320
Net decrease in federal funds purchased	0	4,760

Net decrease in FHLB term borrowings	(3,000)	(24,500)
Proceeds from note payable	75	0
Repurchase and retirement of common stock	0	31
Payment of dividends on common stock	0	(9)
Net cash provided (used in) by financing activities	19,172	(17,332)
Net increase (decrease) in cash and cash equivalents	50,322	(2,968)
Cash and cash equivalents at beginning of period	29,229	19,426
Cash and cash equivalents at end of period	$ 79,551	$ 16,458

See notes to consolidated financial statements

6

United Security Bancshares and Subsidiaries - Notes to Consolidated Financial Statements - (Unaudited)

1. Organization and Summary of Significant Accounting and Reporting Policies

The consolidated financial statements include the accounts of United Security Bancshares, and its wholly owned subsidiary United Security Bank (the "Bank") and two bank subsidiaries, USB Investment Trust (the "REIT") and United Security Emerging Capital Fund, (collectively the "Company" or "USB"). Intercompany accounts and transactions have been eliminated in consolidation.

These unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information on a basis consistent with the accounting policies reflected in the audited financial statements of the Company included in its 2009 Annual Report on Form 10-K. These interim financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of a normal recurring, nature) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for any other interim period or for the year as a whole.

Certain reclassifications have been made to the 2009 financial statements to conform to the classifications used in 2010.

New Accounting Standards:
In June 2009, the FASB revised ACS Topic 860 "Transfers and Servicing" to amend existing guidance by eliminating the concept of a qualifying special-purpose entity (QSPE), creating more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifying other sale-accounting criteria and changing the initial measurement of a transferor's interest in transferred financial assets. The new guidance is effective as of the beginning of a company's first fiscal year that begins after November 15, 2009 and for subsequent interim and annual periods. The adoption of this standard as of January 1, 2010 did not have a material impact on the Company's consolidated financial condition or results of operations.

In January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820)—Improving Disclosures about Fair Value Measurements. FASB ASU No. 2010-06 requires (i) fair value disclosures by each class of assets and liabilities (generally a subset within a line item as presented in the statement of financial position) rather than major category, (ii) for items measured at fair value on a recurring basis, the amounts of significant transfers between Levels 1 and 2, and transfers into and out of Level 3, and the reasons for those transfers, including separate discussion related to the transfers into each level apart from transfers out of each level, and (iii) gross presentation of the amounts of purchases, sales, issuances, and settlements in the Level 3 recurring measurement reconciliation. Additionally, the ASU clarifies that a description of the valuation techniques(s) and inputs used to measure fair values is required for both recurring and nonrecurring fair value measurements. Also, if a valuation technique has changed, entities should disclose that change and the reason for the change. Disclosures other than the gross presentation changes in the Level 3 reconciliation are effective for the first reporting period beginning after December 15, 2009. The requirement to present the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis will be effective for fiscal years beginning after December 15, 2010. This update became effective for the Company in the quarter ended March 31, 2010, except that the disclosure on the roll forward activities for Level 3 fair value measurements will become effective with the reporting period beginning January 1, 2011. Other than requiring additional disclosures, adoption of this new guidance did not have a material impact on the Company's financial statements.

New authoritative accounting guidance under ASC Topic 310, "Receivables," (ASC Topic 310 "Receivables") amended prior guidance to provide a greater level of disaggregated information about the credit quality of loans and leases and the Allowance for Loan and Lease Losses (the “Allowance”). The new authoritative guidance also requires additional disclosures related to credit quality indicators, past due information, and information related to loans modified in a troubled debt restructuring. The provisions of the new authoritative guidance under ASC Topic 310 will be effective in the reporting period ending December 31, 2010. The new authoritative guidance amends only the disclosure requirements for loans and leases and the Allowance; the adoption will have no impact on the Company’s statements of income and condition.

2. Investment Securities Available for Sale

Following is a comparison of the amortized cost and fair value of securities available-for-sale, as of June 30, 2010 and December 31, 2009:

(In thousands) June 30, 2010:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Amount)
U.S. Government agencies	$ 35,580	$ 1,449	$ (1)	$ 37,028
U.S. Government agency CMO's	10,244	484	(14)	10,714
Residential mortgage obligations	12,902	0	(3,190)	9,712
Obligations of state and political subdivisions	1,252	30	0	1,282
Other investment securities	1,060	0	0	1,060
	$ 61,038	$ 1,963	$ (3,205)	$ 59,796
December 31, 2009:				
U.S. Government agencies	$ 35,119	$ 1,469	$ (2)	$ 36,586
U.S. Government agency CMO's	14,954	376	(10)	15,320
Residential mortgage obligations	14,273	0	(4,559)	9,714
Obligations of state and political subdivisions	1,252	33	0	1,285
Other investment securities	9,004	0	(498)	8,506
	$ 74,602	$ 1,878	$ (5,069)	$ 71,411

Other investment securities at June 30, 2010 consist of a money-market mutual fund totaling $1.0 million. Included in other investment securities at December 31, 2009, is a short-term government securities mutual fund totaling $7.5 million, and an overnight money-market mutual fund totaling $1.0 million. The short-term government securities mutual fund invests in debt securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities, with a maximum duration equal to that of a 3-year U.S. Treasury Note.

The amortized cost and fair value of securities available for sale at June 30, 2010, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties. Contractual maturities on collateralized mortgage obligations cannot be anticipated due to allowed paydowns.

	June 30, 2010	
(In thousands)	Amortized Cost	Fair Value (Carrying Amount)
Due in one year or less	$ 9,606	$ 9,645
Due after one year through five years	6,211	6,298
Due after five years through ten years	4,334	4,573
Due after ten years	17,741	18,855
Collateralized mortgage obligations	23,146	20,425
	$ 61,038	$ 59,796

There were realized gains of $518,000 and realized losses of $448,000 on sales of available-for-sale securities during the six months and quarter ended June 30, 2010. There were no realized gains or losses on sales of available-for-sale securities during the six months ended June 30, 2009. There were other-than-temporary impairment losses on certain of the Company's residential mortgage obligations (private label collateralized mortgage obligations) totaling $702,000 and $403,000 for the six months ended June 30, 2010 and 2009, respectively.

Securities that have been temporarily impaired less than 12 months at June 30, 2010 are comprised of one U.S. government agency security with a weighted average life of 3.3 years and three collateralized mortgage obligations with a weighted average life of 1.8 years. As of June 30, 2010, there were three residential mortgage obligations with a total weighted average life of 3.3 years that have been temporarily impaired for twelve months or more.

The following summarizes the total of temporarily impaired and other-than-temporarily impaired investment securities at June 30, 2010 (see discussion below for other than temporarily impaired securities included here):

(In thousands) Securities available for sale:	Less than 12 Months Fair Value (Carrying Amount)	Less than 12 Months Unrealized Losses	12 Months or More Fair Value (Carrying Amount)	12 Months or More Unrealized Losses	Total Fair Value (Carrying Amount)	Total Unrealized Losses
U.S. Government agencies	$ 138	$ (1)	$ 0	$ 0	$ 138	$ (1)
U.S. Government agency CMO's	2,952	(14)	0	0	2,952	(14)
Residential mortgage obligations	0	0	9,712	(3,190)	9,712	(3,190)
Obligations of state and political subdivisions	0	0	0	0	0	0
Other investment securities	0	0	0	0	0	0
Total impaired securities	$ 3,090	$ (15)	$ 9,712	$ (3,190)	$ 12,802	$ (3,205)

Securities that have been temporarily impaired less than 12 months at June 30, 2009 are comprised of two U.S. government agency securities with a total weighted average life of 3.3 years. As of June 30, 2009, there were three residential mortgage obligations and two other investment securities with a total weighted average life of 2.8 years that have been temporarily impaired for twelve months or more.

The following summarizes temporarily impaired investment securities at June 30, 2009:

(In thousands) Securities available for sale:	Less than 12 Months Fair Value (Carrying Amount)	Less than 12 Months Unrealized Losses	12 Months or More Fair Value (Carrying Amount)	12 Months or More Unrealized Losses	Total Fair Value (Carrying Amount)	Total Unrealized Losses
U.S. Government agencies	$ 1,560	$ (69)	$ 0	$ 0	$ 1,560	$ (69)
Residential mortgage obligations	0	0	9,026	(6,955)	9,026	(6,955)
Obligations of state and political subdivisions	0	0	0	0	0	0
Other investment securities	0	0	12,407	(593)	12,407	(593)
Total impaired securities	$ 1,560	$ (69)	$ 21,433	$ (7,548)	$ 22,993	$ (7,617)

At June 30, 2010 and December 31, 2009, available-for-sale securities with an amortized cost of approximately $54.0 million and $66.5 million (fair value of $54.1 million and $65.4 million) were pledged as collateral for public funds, and treasury tax and loan balances.

The Company evaluates investment securities for other-than-temporary impairment ("OTTI") at least quarterly, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. Investment securities classified as available for sale or held-to-maturity are generally evaluated for OTTI under ASC Topic 320, "Investments – Debt and Equity Instruments." Certain purchased beneficial interests, including non-agency mortgage-backed securities, asset-backed securities, and collateralized debt obligations, are evaluated under ASC Topic 325-40 "Beneficial Interest in Securitized Financial Assets.")

In the first segment, the Company considers many factors in determining OTTI, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to the Company at the time of the evaluation.

The second segment of the portfolio uses the OTTI guidance that is specific to purchased beneficial interests including non-agency collateralized mortgage obligations. Under this model, the Company compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. An OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

Effective the first quarter 2009, the Company adopted an amendment to existing guidance on other-than-temporary impairments for debt securities, which establishes a new model for measuring and disclosing OTTI for all debt securities. Other-than-temporary-impairment occurs under the new guidance when the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If an entity intends to sell or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary-impairment shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the other-than-temporary-impairment shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total other-than-temporary-impairment related to the credit loss is recognized in earnings, and is determined based on the difference between the present value of cash flows expected to be collected and the current amortized cost of the security. The amount of the total other-than-temporary-impairment related to other factors shall be recognized in other comprehensive (loss) income, net of applicable taxes. The previous amortized cost basis less the other-than-temporary-impairment recognized in earnings shall become the new amortized cost basis of the investment.

At June 30, 2010, the decline in market value for all but three (see below) of the impaired securities is attributable to changes in interest rates and illiquidity, and not credit quality. Because the Company does not have the intent to sell these impaired securities and it is more likely than not it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2010.

At June 30, 2010, the Company had three non-agency collateralized mortgage obligations which have been impaired more than twelve months. The three non-agency collateralized mortgage obligations had a market value of $9.7 million and unrealized losses of approximately $3.2 million at June 30, 2010. All three non-agency mortgage-backed securities were rated less than high credit quality at June 30, 2010. The Company evaluated these three non-agency collateralized mortgage obligations for OTTI by comparing the present value of expected cash flows to previous estimates to determine whether there had been adverse changes in cash flows during the period. The OTTI evaluation was conducted utilizing the services of a third party specialist and consultant in MBS and CMO products. The cash flow assumptions used in the evaluation at June 30, 2010 utilized a discounted cash flow valuation technique using a "Liquidation Scenario" whereby loans are evaluated by delinquency and are assigned probability of default and loss factors deemed appropriate in the current economic environment. The liquidation scenarios assume that all loans 60 or more days past due are liquidated and losses are realized over a period of between six and twenty four months based upon current 3-month trailing loss severities obtained from Bloomberg Financial data. As a result of the impairment evaluation, the Company determined that there had been adverse changes in cash flows in all three of the three non-agency collateralized mortgage obligations reviewed, and concluded that these three non-agency collateralized mortgage obligations were other-than-temporarily impaired. During the quarter ended June 30, 2010, the three CMO securities had other-than-temporary-impairment losses of $3.6 million, of which $457,000 was recorded as expense and $3.1 million was recorded in other comprehensive loss. These three non-agency collateralized mortgage obligations remained classified as available for sale at June 30, 2010.

The following table details the three non-agency collateralized mortgage obligations with other-than-temporary-impairment, their credit rating at June 30, 2010, the related credit losses recognized in earnings during the quarter, and impairment losses in other comprehensive loss:

	RALI 2006-QS1G A10 Rated D	RALI 2006 QS8 A1 Rated D	CWALT 2007-8CB A9 Rated CCC	Total

Amortized cost – before OTTI	$ 4,368,127	$ 1,329,004	$ 7,661,771	$ 13,358,902
Credit loss – Quarter ended June 30, 2010	(280,473)	(87,468)	(89,233)	(457,174)
Other impairment (OCI)	(1,110,821)	(262,183)	(1,816,440)	(3,189,443)
Carrying amount – June 30, 2010	$ 2,976,833	$ 979,353	$ 5,756,099	$ 9,712,285
Total impairment - YTD June 30, 2010	$ (1,391,294)	$ (349,651)	$ (1,905,672)	$ (3,646,617)

The total other comprehensive loss (OCI) balance of $3.2 million in the above table is included in unrealized losses of 12 months or more at June 30, 2010.

The following table summarizes amounts related to credit losses recognized in earnings for the six months and quarter ended June 30, 2010 and 2009.

(in thousands)	Quarter Ended June 30, 2010	Quarter Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Beginning balance - credit losses	$ 1,087	$ 163	$ 843	$ 0
Additions:				
Initial credit impairments	0	0	0	163
Subsequent credit impairments	458	240	702	240
Reductions:				
For securities sold or credit losses realized on principal payments	(100)	0	(100)	0
Due to change in intent or requirement to sell	0	0	0	0
For increase expected in cash flows	0	0	0	0
Ending balance - credit losses	$ 1,445	$ 403	$ 1,445	$ 403

3. Loans and Leases

Loans include the following:

(In thousands)	June 30, 2010	% of Loans	December 31, 2009	% of Loans
Commercial and industrial	$ 171,875	34.7%	$ 167,930	33.0%
Real estate – mortgage	160,324	32.4%	165,629	32.6%
RE construction and development	93,056	18.8%	105,220	20.7%
Agricultural	54,622	11.0%	50,897	10.0%
Installment/other	14,739	3.0%	18,191	3.6%
Lease financing	583	0.1%	706	0.1%
Total Gross Loans	$ 495,199	100.0%	$ 508,573	100.0%

The Company had $1.2 million in loans over 90 days past due and still accruing at June 30, 2010. Loans over 90 days past due and still accruing totaled $486,000 at December 31, 2009. Nonaccrual loans totaled $31.5 million and $34.8 million at June 30, 2010 and December 31, 2009, respectively.

An analysis of changes in the allowance for credit losses is as follows:

(In thousands)	June 30, 2010	December 31, 2009	June 30, 2009
Balance, beginning of year	$ 15,016	$ 11,529	$ 11,529
Provision charged to operations	2,150	13,375	8,158
Losses charged to allowance	(6,048)	(10,145)	(4,085)
Recoveries on loans previously charged off	939	257	240
Balance at end-of-period	$ 12,057	$ 15,016	$ 15,842

The allowance for credit losses represents management's estimate of the risk inherent in the loan portfolio based on the current economic conditions, collateral values and economic prospects of the borrowers. The formula allowance for unfunded loan commitments totaling $183,000 and $234,000 at June 30, 2010 and December 31, 2009, respectively, is carried in other liabilities. The Company’s market areas of the San Joaquin Valley, the greater Oakhurst area, East Madera County, and Santa Clara County, have all been impacted by the economic downturn related to depressed real estate markets and the tightening of liquidity markets. The Company has taken these events into account when reviewing estimates of factors that may impact the allowance for credit losses.

The Company grades “problem” or “classified” loans according to certain risk factors associated with individual loans within the loan portfolio. Classified loans consist of loans which have been graded substandard, doubtful, or loss based upon inherent weaknesses in the individual loans or loan relationships. Classified loans also include impaired loans (as defined under SFAS No. 114). The following table summarizes the Company’s classified loans at June 30, 2010 and December 31, 2009.

(in 000's)	June 30, 2010	December 31, 2009
Impaired loans	$ 46,653	$ 53,794
Classified loans not considered impaired	7,963	15,816
Total classified loans	$ 54,616	$ 69,610

The following table summarizes the Company's investment in loans for which impairment has been recognized for the periods presented:

(in thousands)	June 30, 2010	December 31, 2009	June 30, 2009
Total impaired loans at period-end	$ 46,653	$ 53,794	$ 67,158
Impaired loans which have specific allowance	31,874	26,266	34,984
Total specific allowance on impaired loans	5,119	7,974	7,819
Total impaired loans which as a result of write-downs or the fair value of the collateral, did not have a specific allowance	14,779	27,528	32,174

(in thousands)	YTD – 6/30/10	YTD - 12/31/09	YTD – 6/30/09
Average recorded investment in impaired loans during period	$ 50,793	$ 59,595	$ 59,853
Income recognized on impaired loans during period	$ 297	$ 326	$ 0

Included in impaired loans are loans modified in troubled debt restructurings ("TDR's"), where concessions have been granted to borrowers experiencing financial difficulties, in an attempt to maximize collection. The following table summarizes TDR's by type included in impaired loans at June 30, 2010 and December 31, 2009.

(in thousands)	June 30, 2010	Dec 31, 2009
Commercial and industrial	$ 3,552	$ 3,878
Real estate - mortgage:		
Commercial real estate	6,013	3,593
Residential mortgages	3,386	3,961
Home equity loans	96	51
Total real estate mortgage	9,495	7,605
RE construction & development	15,969	14,405
Agricultural	0	0
Installment/other	82	178
Lease financing	0	0
Total Troubled Debt Restructurings	$ 29,098	$ 26,066

Of the $29.1 million in total TDR's at June 30, 2010, $13.8 million were on nonaccrual status at period-end. Of the $26.1 million in total TDR's at December 31, 2009, $10.0 million were on nonaccrual status at period-end In order for these loan balances to return to accrual status, the borrower must demonstrate a sustained period of timely payments.

4. Deposits

Deposits include the following:

(In thousands)	June 30, 2010	December 31, 2009
Noninterest-bearing deposits	$ 123,630	$ 139,724
Interest-bearing deposits:		
NOW and money market accounts	185,474	158,795
Savings accounts	34,478	34,146
Time deposits:		
Under $100,000	61,390	64,481
$100,000 and over	178,785	164,514
Total interest-bearing deposits	460,127	421,936
Total deposits	$ 583,757	$ 561,660
Total brokered deposits included in time deposits above	$ 112,945	$ 129,352

5. Short-term Borrowings/Other Borrowings

At June 30, 2010, the Company had collateralized and uncollateralized lines of credit with the Federal Reserve Bank of San Francisco totaling $124.7 million, as well as Federal Home Loan Bank ("FHLB") lines of credit totaling $41.0 million. All lines of credit are on an "as available" basis and can be revoked by the grantor at any time. There are currently no restrictions on these lines of credit, although under the current written Agreement with the Federal Reserve, the Bank's liquidity position as well as its use of borrowing lines is monitored closely. These lines of credit generally have interest rates tied to the Federal Funds rate or are indexed to short-term U.S. Treasury rates or LIBOR. FHLB advances are collateralized by all of the Company's stock in the FHLB and certain qualifying mortgage loans. At June 30, 2010, the Company had total outstanding balances of $37.0 million drawn against its FHLB line of credit. The weighted average cost of borrowings outstanding at June 30, 2010 was 0.19%. The $37.0 million in FHLB borrowings outstanding at June 30, 2010 are summarized in the table below.

FHLB term borrowings at June 30, 2010 (in 000's):

Term	Balance at June 30, 2010	Fixed Rate	Maturity
6-month	$ 28,000	0.18%	7/29/10
6-month	9,000	0.21%	7/29/10
	$ 37,000	0.19%	

At December 31, 2009, the Company had collateralized and uncollateralized lines of credit with the Federal Reserve Bank of San Francisco and other correspondent banks aggregating $124.2 million, as well as Federal Home Loan Bank ("FHLB") lines of credit totaling $40.8 million. At December 31, 2009, the Company had total outstanding balances of $40.0 million in borrowings drawn against its FHLB lines of credit at an average rate of 0.86%. Of the $40.0 million in FHLB borrowings outstanding at December 31, 2009, all will mature in three months or less. The weighted average cost of borrowings for the year ended December 31, 2009 was 0.80%. As of December 31, 2009, $14.2 million in real estate-secured loans, and $42.6 million in investment securities at FHLB, were pledged as collateral for FHLB advances. Additionally, $256.7 million in real estate-secured loans were pledged at December 31, 2009 as collateral for used and unused borrowing lines with the Federal Reserve Bank totaling $120.7 million. All lines of credit are on an “as available” basis and can be revoked by the grantor at any time.

6. Supplemental Cash Flow Disclosures

	Six Months Ended June 30,			
(In thousands)	2010		2009	
Cash paid during the period for:				
Interest	$	2,548	$	4,129
Income Taxes	$	2,049		411
Noncash investing activities:				
Dividends declared not paid	$	0	$	2
Loans transferred to foreclosed assets	$	7,268	$	10,282
Loans to facilitate sale foreclosed assets	$	3,400	$	0

13

7. Common Stock Dividend

On June 22, 2010, the Company's Board of Directors declared a one-percent (1%) stock dividend on the Company's outstanding common stock. Based upon the number of outstanding common shares on the record date of July 9, 2010, an additional 126,214 shares were issued to shareholders on July 21, 2010. Because the stock dividend was considered a "small stock dividend", effective June 22, 2010, approximately $543,000 was transferred from retained earnings to common stock based upon the $4.30 closing price of the Company's common stock on the declaration date of June 22, 2010. There were no fractional shares paid. Other than for earnings-per-share calculations, shares issued for the stock dividend have been treated prospectively for financial reporting purposes. For purposes of earnings per share calculations, the Company's weighted average shares outstanding and potentially dilutive shares used in the computation of earnings per share have been restated after giving retroactive effect to a 1% stock dividend to shareholders for all periods presented.

8. Net (Loss) Income per Common Share

The following table provides a reconciliation of the numerator and the denominator of the basic EPS computation with the numerator and the denominator of the diluted EPS computation:

	Quarter Ended June 30,		Six Months Ended June 30,	
(In thousands except earnings per share data)	2010	2009	2010	2009
Net income available to common shareholders	$ 515	$ (5,726)	$ 957	$ (4,805)
Weighted average shares issued	12,748	12,748	12,748	12,748
Add: dilutive effect of stock options	0	0	0	0
Weighted average shares outstanding adjusted for potential dilution	12,748	12,748	12,748	12,748
Basic earnings per share	$ 0.04	$ (0.45)	$ 0.08	$ (0.38)
Diluted earnings per share	$ 0.04	$ (0.45)	$ 0.08	$ (0.38)
Anti-dilutive shares excluded from earnings per share calculation	207	180	201	180

The Company's average weighted shares outstanding and potentially dilutive shares used in the computation of earnings per share have been restated after giving retroactive effect to a 1% stock dividend to shareholders of record on July 9, 2010.

9. Stock Based Compensation

All share-based payments to employees, including grants of employee stock options, are recognized in the financial statements based on the grant-date fair value of the award. The fair value is amortized over the requisite service period (generally the vesting period).

Included in salaries and employee benefits for the six months ended June 30, 2010 and 2009 is $20,000 and $27,000 of share-based compensation, respectively. The related tax benefit on share-based compensation recorded in the provision for income taxes was not material to either period.

A summary of the Company's options as of January 1, 2010 and changes during the six months ended June 30, 2010 is presented below.

	2005 Plan	Weighted Average Exercise Price	1995 Plan	Weighted Average Exercise Price
Options outstanding January 1, 2010	160,820	$ 15.38	16,984	$ 11.50
Options granted during period	25,000	4.75	0	—
1% common stock dividends – 2010	3,483	(0.26)	342	(0.23)
Options outstanding June 30, 2010	189,303	$ 13.69	17,326	$ 11.27
Options exercisable at June 30, 2010	132,651	$ 15.17	16,899	$ 11.27

14

As of June 30, 2010 and 2009, there was $59,000 and $54,000, respectively, of total unrecognized compensation expense related to nonvested stock options. This cost is expected to be recognized over a weighted average period of approximately 0.7 years and 0.5 years, respectively. No options were exercised during the six months ended June 30, 2010 or 2009.

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Weighted average grant-date fair value of stock options granted	$ 2.22	n/a
Total fair value of stock options vested	$ 61,543	$ 82,823
Total intrinsic value of stock options exercised	n/a	n/a

The Bank determines fair value at grant date using the Black-Scholes-Merton pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock and the expected dividend yield and the risk-free interest rate over the expected life of the option.

The weighted average assumptions used in the pricing model are noted in the table below. The expected term of options granted is derived using the simplified method, which is based upon the average period between vesting term and expiration term of the options. The risk free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. Expected volatility is based on the historical volatility of the Bank's stock over a period commensurate with the expected term of the options. The Company believes that historical volatility is indicative of expectations about its future volatility over the expected term of the options.

The Bank expenses the fair value of options on a straight-line basis over the vesting period for each separately vesting portion of the award. The Bank estimates forfeitures and only recognizes expense for those shares expected to vest. Based upon historical evidence, the Company has determined that because options are granted to a limited number of key employees rather than a broad segment of the employee base, expected forfeitures, if any, are not material.

	Six Months Ended June 30, 2010
Risk Free Interest Rate	2.71%
Expected Dividend Yield	0.00%
Expected Life in Years	6.50 Years
Expected Price Volatility	43.07%

The Black-Scholes-Merton option valuation model requires the input of highly subjective assumptions, including the expected life of the stock based award and stock price volatility. The assumptions listed above represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if other assumptions had been used, the Bank's recorded stock-based compensation expense could have been materially different from that previously reported in proforma disclosures. In addition, the Bank is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If the Bank's actual forfeiture rate is materially different from the estimate, the share-based compensation expense could be materially different.

10. Income Taxes

The Company periodically reviews its tax positions under the guidance of ASC Topic 740, “Income Taxes”, based upon the criteria that an individual tax position would have to meet for some or all of the income tax benefit to be recognized in a taxable entity's financial statements. Under the guidelines, an entity should recognize the financial statement benefit of a tax position if it determines that it is more likely than not that the position will be sustained on examination. The term, "more likely than not", means a likelihood of more than 50 percent. In assessing whether the more-likely-than-not criterion is met, the entity should assume that the tax position will be reviewed by the applicable taxing authority and all available information is known to the taxing authority.

The Company and a subsidiary file income tax returns in the U.S federal jurisdiction, and several states within the U.S. There are no filings in foreign jurisdictions. The Company is not currently aware of any tax jurisdictions where the Company or any subsidiary is subject examination by federal, state, or local taxing authorities before 2001. The Internal Revenue Service (IRS) has not examined the Company's or any subsidiaries federal tax returns since before 2001, and the Company currently is not aware of any examination planned or contemplated by the IRS.

The Company reviewed its REIT tax position as of June 30, 2010. There have been no changes to the Company's tax position with regard to the REIT during the three and six months ended June 30, 2010. The Company had approximately $696,000 and $653,000 accrued for the payment of interest and penalties at June 30, 2010 and December 31, 2009, respectively. It is the Company's policy to recognize interest expense related to unrecognized tax benefits, and penalties, as a component tax expense. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in 000's):

Balance at January 1, 2010	$ 1,560
Additions for tax provisions of prior years	43
Balance at June 30, 2010	$ 1,603

11. Junior Subordinated Debt/Trust Preferred Securities

Effective September 30, 2009 and beginning with the quarterly interest payment due October 1, 2009, the Company elected to defer interest payments on the Company's $15.0 million of junior subordinated debentures relating to its trust preferred securities. The terms of the debentures and trust indentures allow for the Company to defer interest payments for up to 20 consecutive quarters without default or penalty. During the period that the interest deferrals are elected, the Company will continue to record interest expense associated with the debentures. Upon the expiration of the deferral period, all accrued and unpaid interest will be due and payable. During the deferral period, the Company is precluded from paying cash dividends to shareholders or repurchasing its stock.

The fair value guidance generally permits the measurement of selected eligible financial instruments at fair value at specified election dates. Effective January 1, 2008, the Company elected the fair value option for its junior subordinated debt issued under USB Capital Trust II. The rate paid on the junior subordinated debt issued under USB Capital Trust II is 3-month LIBOR plus 129 basis points, and is adjusted quarterly.

At June 30, 2010 the Company performed a fair value measurement analysis on its junior subordinated debt using a cash flow model approach to determine the present value of those cash flows. The cash flow model utilizes the forward 3-month Libor curve to estimate future quarterly interest payments due over the thirty-year life of the debt instrument, adjusted for deferrals of interest payments per the Company's election at June 30, 2010. These cash flows were discounted at a rate which incorporates a current market rate for similar-term debt instruments, adjusted for additional credit and liquidity risks associated with the junior subordinated debt. Although there is little market data in the current relatively illiquid credit markets, we believe the 7.9% discount rate used represents what a market participant would consider under the circumstances.

The fair value calculation performed at June 30, 2010 resulted in a pretax gain adjustment of $467,000 ($275,000, net of tax) for the quarter ended June 30, 2010, and a cumulative pretax gain adjustment of $624,000 ($368,000, net of tax) for the six months ended June 30, 2010. The previous year's fair value calculation performed at June 30, 2009 resulted in a pretax loss adjustment of $46,000 ($27,000 net of tax) for the quarter ended June 30, 2009, and a cumulative pretax loss adjustment of $105,000 ($62,000 net of tax) for the six months ended June 30, 2009.

12. Fair Value Measurements and Disclosure

The following summary disclosures are made in accordance with the guidance provided by ASC Topic 825 "Fair Value Measurements and Disclosures" (formerly Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments,") which requires the disclosure of fair value information about both on- and off-balance sheet financial instruments where it is practicable to estimate that value.

(In thousands)	June 30, 2010 Carrying Amount	June 30, 2010 Estimated Fair Value	December 31, 2009 Carrying Amount	December 31, 2009 Estimated Fair Value
On-Balance sheet:				
Financial Assets:				
Cash and cash equivalents	$ 38,886	$ 38,886	$ 17,644	$ 17,644
Interest-bearing deposits	1,480	1,522	3,313	3,449
Investment securities	59,796	59,796	71,411	71,411
Loans, net reserves of $12,057 and $15,016	482,405	483,687	492,692	496,543
Cash surrender value of life insurance	15,228	15,228	14,972	14,972
Investment in bank stock	101	101	143	143
Financial Liabilities:				
Deposits	583,757	583,484	561,660	561,150
Borrowings	37,000	36,995	40,000	39,970
Junior Subordinated Debt	10,209	10,209	10,716	10,716
Off-Balance sheet:				
Commitments to extend credit	—	—	—	—
Standby letters of credit	—	—	—	—

ASC Topic 820 (formerly SFAS 157, "Fair Value Measurements") clarifies the definition of fair value, describes methods used to appropriately measure fair value in accordance with generally accepted accounting principles and expands fair value disclosure requirements. This statement applies whenever other accounting pronouncements require or permit fair value measurements.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (Level 1, Level 2, and Level 3). Level 1 inputs are unadjusted quoted prices in active markets (as defined) for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability, and reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

The Company performs fair value measurements on certain assets and liabilities as the result of the application of current accounting guidelines. Some fair value measurements, such as for available-for-sale securities (AFS) and junior subordinated debt are performed on a recurring basis, while others, such as impairment of loans, other real estate owned, goodwill and other intangibles, are performed on a nonrecurring basis.

The Company's Level 1 financial assets consist of money market funds and highly liquid mutual funds for which fair values are based on quoted market prices. The Company's Level 2 financial assets include highly liquid debt instruments of U.S. government agencies, collateralized mortgage obligations, and debt obligations of states and political subdivisions, whose fair values are obtained from readily-available pricing sources for the identical or similar underlying security that may, or may not, be actively traded. Level 2 financial assets also include certain impaired loans which are evaluated based on the observable inputs, specifically current appraisals. The Company's Level 3 financial assets include certain investments securities, certain impaired loans, other real estate owned, goodwill, and intangible assets where the assumptions may be made by us or third parties about assumptions that market participants would use in pricing the asset or liability. From time to time, the Company recognizes transfers between Level 1, 2, and 3 when a change in circumstances warrants a transfer. There were no significant transfers in or out of Level 1 and Level 2 fair value measurements during the three and six months ended June 30, 2010.

The following tables summarize the Company's assets and liabilities that were measured at fair value on a recurring and non-recurring basis as of June 30, 2010 (in 000's):

Description of Assets	June 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
AFS Securities (2):				
Other investment securities	$ 1,060	$ 1,060		
U.S. government agencies	37,028		$ 37,028	
U.S. government agency CMO's	10,714		10,714	
Obligations of states & political subdivisions	1,282		1,282	
Residential mortgage obligations	9,712			$ 9,712
Total AFS securities	59,796	1,060	49,024	9,712
Impaired loans (1):				
Commercial and industrial	5,224			5,224
Real estate mortgage	7,056		722	6,334
RE construction & development	13,699		1,443	12,256
Agricultural	775			775
Total impaired loans	26,754		2,165	24,589
Other real estate owned	17,350			17,350
Investment in bank stock	101			101
Goodwill (1)	4,350			4,350
Core deposit intangibles (1)	522			522
Total	$ 108,873	$ 1,161	$ 51,189	$ 56,523

(1) nonrecurring

Description of Liabilities	June 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Junior subordinated debt	$ 10,209			$ 10,209
Total	$ 10,209	$ 0	$ 0	$ 10,209

The following tables summarize the Company's assets and liabilities that were measured at fair value on a recurring and nonrecurring basis during the year ended December 31, 2009 (in 000's):

Description of Assets	December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
AFS securities (1)	$ 71,554	$ 8,648	$ 53,192	$ 9,714
Impaired loans	18,347		1,976	16,371
Goodwill	5,764			5,764
Core deposit intangible (2)	777			777
Total	$ 96,442	$ 8,648	$ 55,168	$ 32,626

(1) Includes $143 in equity securities reported in other assets
(2) Nonrecurring items

Description of Liabilities	December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Junior subordinated debt	$ 10,716			$ 10,716
Total	$ 10,716	$ 0	$ 0	$ 10,716

18

The nonrecurring fair value measurements performed during the three months ended March 31, 2010 resulted in pretax fair value impairment adjustments of $57,000 ($33,000 net of tax) to the core deposit intangible asset. The impairment adjustments are reflected as a component of noninterest expense for the six months ended June 30, 2010.

The following tables provide a reconciliation of assets and liabilities at fair value using significant unobservable inputs (Level 3) on a recurring and non-recurring basis during the six months ended June 30, 2010 and 2009 (in 000's):

Reconciliation of Assets:	6/30/10 Impaired loans	6/30/10 OREO	6/30/10 CMO's	6/30/10 Goodwill	6/30/10 Intangible assets	6/30/09 Impaired loans	6/30/09 OREO	6/30/09 CMO's	6/30/09 Goodwill	6/30/09 Intangible assets
Beginning balance	$ 16,371	$ 19,752	$ 9,714	$ 5,764	$ 777	$ 15,967	$ 21,583	$ 12,800	$ 8,790	$ 1,283
Total gains or (losses) included in earnings (or other comprehensive loss)	(1,243)	(1,118)	(2)	(1,414)	(255)	(8,831)	(648)	(3,774)	(3,026)	(290)
Transfers in and/or out of Level 3	9,461	(1,284)	0	0	0	24,075	(2,477)	0	0	0
Ending balance	$ 24,589	$ 17,350	$ 9,712	$ 4,350	$ 522	$ 31,211	$ 18,488	$ 9,026	$ 5,764	$ 993
The amount of total gains or (losses) for the period included in earnings (or other comprehensive loss) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ (568)	$ (1,173)	$ (2)	$ (1,414)	$ (255)	$ (1,256)	$ (573)	$ (3,774)	$ (3,026)	$ (290)

Reconciliation of Liabilities:	6/30/2010 Junior Sub Debt	6/30/2009 Junior Sub Debt
Beginning balance	$ 10,716	$ 11,926
Total gains included in earnings (or changes in net assets)	(507)	1
Transfers in and/or out of Level 3	0	0
Ending balance	$ 10,209	$ 11,927
The amount of total gains for the period included in earnings attributable to the change in unrealized gains or losses relating to liabilities still held at the reporting date	$	