C & F FINANCIAL CORP
Form 10-Q
August 07, 2009
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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 June 30, 2009

¨ **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 000-23423

C&F Financial Corporation

(Exact name of registrant as specified in its charter)

Virginia	**54-1680165**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

802 Main Street West Point, VA 23181

(Address of principal executive offices) (Zip Code)

(804) 843-2360

(Registrant s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ 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 ¨ No

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

At August 5, 2009, the latest practicable date for determination, 3,043,741 shares of common stock, $1.00 par value, of the registrant were outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(In thousands, except for share and per share amounts)

	June 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Cash and due from banks	$ 10,309	$ 9,727
Interest-earning deposits in other banks	322	161
Total cash and cash equivalents	10,631	9,888
Securities-available for sale at fair value, amortized cost of $110,755 and $100,778, respectively	110,834	100,603
Loans held for sale, net	62,115	37,042
Loans, net of allowance for loan losses of $21,532 and $19,806, respectively	615,179	633,017
Federal Home Loan Bank stock	3,887	5,284
Corporate premises and equipment, net	30,206	31,131
Other real estate owned	10,542	1,967
Accrued interest receivable	5,122	5,096
Goodwill	10,724	10,724
Other assets	20,202	20,905
Total assets	$ 879,442	$ 855,657
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Noninterest-bearing demand deposits	$ 90,613	$ 77,634
Savings and interest-bearing demand deposits	193,802	204,193
Time deposits	296,784	268,898
Total deposits	581,199	550,725
Short-term borrowings	39,564	56,024
Long-term borrowings	133,283	142,816
Trust preferred capital notes	20,620	20,620
Accrued interest payable	1,778	1,921
Other liabilities	16,685	18,694
Total liabilities	793,129	790,800
Commitments and contingent liabilities		
Shareholders equity		
Preferred stock ($1.00 par value, 3,000,000 shares authorized, 20,000 and 0 issued and outstanding, respectively)	20	
Common stock ($1.00 par value, 8,000,000 shares authorized, 3,043,741 and 3,037,441 shares issued and outstanding, respectively)	2,992	2,992
Additional paid-in capital	20,605	551
Retained earnings	63,499	62,361

Warrant to purchase common stock	792	
Discount on preferred stock	(726)	
Accumulated other comprehensive loss, net	(869)	(1,047)
Total shareholders equity	86,313	64,857
Total liabilities and shareholders equity	$ 879,442	$ 855,657

The accompanying notes are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except for share and per share amounts)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Interest income				
Interest and fees on loans	$ 14,933	$ 14,854	$ 29,218	$ 29,743
Interest on money market investments		6		19
Interest and dividends on securities				
U.S. government agencies and corporations	98	122	229	220
Tax-exempt obligations of states and political subdivisions	1,042	787	2,009	1,539
Corporate bonds and other	52	139	106	291
Total interest income	16,125	15,908	31,562	31,812
Interest expense				
Savings and interest-bearing deposits	444	698	1,009	1,402
Certificates of deposit, $100 or more	902	1,009	1,768	2,101
Other time deposits	1,355	1,691	2,753	3,471
Borrowings	1,013	1,652	2,082	3,413
Trust preferred capital notes	274	312	561	674
Total interest expense	3,988	5,362	8,173	11,061
Net interest income	12,137	10,546	23,389	20,751
Provision for loan losses	4,400	3,175	8,500	5,572
Net interest income after provision for loan losses	7,737	7,371	14,889	15,179
Noninterest income				
Gains on sales of loans	7,374	4,706	13,917	8,391
Service charges on deposit accounts	790	948	1,586	1,917
Other service charges and fees	1,334	964	2,503	1,867
Gains on calls of available for sale securities	23	20	30	53
Other income	437	544	1,163	1,022
Total noninterest income	9,958	7,182	19,199	13,250
Noninterest expenses				
Salaries and employee benefits	9,395	7,623	18,311	15,208
Occupancy expenses	1,471	1,533	2,927	3,087
Other expenses	4,439	3,567	8,553	6,481
Total noninterest expenses	15,305	12,723	29,791	24,776

Income before income taxes	2,390	1,830	4,297	3,653
Income tax expense	640	413	1,039	808
Net income	1,750	1,417	3,258	2,845
Effective dividends on preferred stock	288		548	
Net income available to common shareholders	$ 1,462	$ 1,417	$ 2,710	$ 2,845
Per common share data				
Net income basic	$ 0.48	$ 0.47	$ 0.89	$ 0.94
Net income assuming dilution	$ 0.48	$ 0.46	$ 0.89	$ 0.93
Cash dividends declared	$ 0.25	$ 0.31	$ 0.56	$ 0.62
Weighted average number of shares basic	3,042,233	3,026,249	3,040,504	3,024,114
Weighted average number of shares assuming dilution	3,042,233	3,071,465	3,040,504	3,074,456

The accompanying notes are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Unaudited)

(In thousands)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Comprehensive Income	Retained Earnings	Warrant	Discount on Preferred Stock	Accumulated Other Comprehensive Income (Loss)	Total
December 31, 2008	$	$ 2,992	$ 551		$ 62,361	$	$	$ (1,047)	$ 64,857
Comprehensive income:									
Net income				$ 3,258	3,258				3,258
Other comprehensive income, net of tax									
Changes in defined benefit plan assets and benefit obligations, net of tax				14				14	14
Unrealized gains on securities, net of reclassification adjustment				164				164	164
Comprehensive income				$ 3,436					
Issuance of preferred stock	20		19,894			792	(792)		19,914
Amortization of preferred stock discount					(66)		66		
Share-based compensation			160						160
Cash dividends:									
Preferred stock					(350)				(350)
Common stock					(1,704)				(1,704)
June 30, 2009	$ 20	$ 2,992	$ 20,605		$ 63,499	$ 792	$ (726)	$ (869)	$ 86,313
Disclosure of Reclassification Amount:									
Unrealized net holding gains arising during period, net of tax				$ 184					
Less: reclassification adjustment for gains included in net income, net of tax				20					
Unrealized gains on securities, net of reclassification adjustment				$ 164					

The accompanying notes are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Unaudited)

(In thousands)

	Common Stock	Additional Paid-In Capital	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
December 31, 2007	$ 2,979	$		$ 62,048	$ 197	$ 65,224
Comprehensive income						
Net income			$ 2,845	2,845		2,845
Other comprehensive income, net of tax:						
Changes in defined benefit plan assets and benefit obligations, net of tax			1		1	1
Unrealized loss on securities, net of reclassification adjustment			(1,001)		(1,001)	(1,001)
Comprehensive income			$ 1,845			
Purchase of common stock	(1)	(17)				(18)
Stock options exercised	9	160				169
Share-based compensation		156				156
Cash dividends				(1,875)		(1,875)
June 30, 2008	$ 2,987	$ 299		$ 63,018	$ (803)	$ 65,501
Disclosure of Reclassification Amount:						
Unrealized net holding losses arising during period, net of tax			$ (967)			
Less: reclassification adjustment for gains included in net income, net of tax			34			
Unrealized losses on securities, net of reclassification adjustment			$ (1,001)			

The accompanying notes are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended June 30, 2009	2008
Operating activities:		
Net income	$ 3,258	$ 2,845
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	1,108	1,291
Provision for loan losses	8,500	5,572
Share-based compensation	160	156
Amortization of prepaid pension transition costs	14	1
Accretion of discounts and amortization of premiums on investment securities, net	60	39
Net realized gain on securities	(30)	(53)
Proceeds from sales of loans	627,258	391,553
Origination of loans held for sale	(652,331)	(392,185)
Gain on sales of corporate premises and equipment		(16)
Change in other assets and liabilities:		
Accrued interest receivable	(26)	113
Other assets	1,516	169
Accrued interest payable	(143)	(168)
Other liabilities	(2,009)	(2,184)
Net cash (used in) provided by operating activities	(12,665)	7,133
Investing activities:		
Proceeds from maturities and calls of securities available for sale	14,974	8,452
Purchases of securities available for sale	(24,982)	(19,046)
Net redemptions (purchases) of Federal Home Loan Bank stock	1,397	(1,462)
Net increase in customer loans	(139)	(50,532)
Purchases of corporate premises and equipment	(209)	(372)
Disposals of corporate premises and equipment	26	58
Net cash used in investing activities	(8,933)	(62,902)
Financing activities:		
Net increase in demand, interest-bearing demand and savings deposits	2,588	20,047
Net increase in time deposits	27,886	2,126
Net (decrease) increase in borrowings	(25,993)	39,636
Purchase of common stock		(18)
Proceeds from exercise of stock options		169
Net proceeds from issuance of preferred stock	19,914	
Cash dividends	(2,054)	(1,875)
Net cash provided by financing activities	22,341	60,085
Net increase in cash and cash equivalents	743	4,316
Cash and cash equivalents at beginning of period	9,888	12,263

Cash and cash equivalents at end of period	$	10,631	$	16,579
Supplemental disclosure				
Interest paid	$	8,316	$	11,229
Income taxes paid		1,142		1,560
Supplemental disclosure of noncash investing activities and financing activities				
Unrealized gains (losses) on securities available for sale	$	253	$	(1,540)
Loans transferred to other real estate owned		9,477		1,924

The accompanying notes are an integral part of the consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and with applicable quarterly reporting regulations of the Securities and Exchange Commission (the SEC). They do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. Therefore, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the C&F Financial Corporation Annual Report on Form 10-K for the year ended December 31, 2008.

In the opinion of C&F Financial Corporation s management, all adjustments, consisting only of normal recurring accruals, necessary to present fairly the financial position as of June 30, 2009, the results of operations for the three and six months ended June 30, 2009 and 2008, and cash flows for the six months ended June 30, 2009 and 2008 have been made. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

The consolidated financial statements include the accounts of C&F Financial Corporation (the Corporation) and its subsidiary, Citizens and Farmers Bank (the Bank), with all significant intercompany transactions and accounts being eliminated in consolidation. In addition, the Corporation owns C&F Financial Statutory Trust I and C&F Financial Statutory Trust II, which are unconsolidated subsidiaries. The subordinated debt owed to these trusts is reported as a liability of the Corporation.

Share-Based Compensation: Compensation expense for the second quarter and first six months of 2009 included $80,000 ($49,000 after tax) and $160,000 ($99,000 after tax), respectively, for restricted stock granted during 2006 through 2009. Compensation expense for the second quarter and first six months of 2008 included $79,000 ($49,000 after tax) and $156,000 ($97,000 after tax), respectively, for options and restricted stock granted during 2006 through 2008. As of June 30, 2009, there was $958,000 of total unrecognized compensation expense related to unvested restricted stock that will be recognized over the remaining requisite service periods.

Stock option activity for the six months ended June 30, 2009 is summarized below:

	Shares	Exercise Price*	Remaining Contractual Life (in years)*	Intrinsic Value of Unexercised In-The Money Options (in 000 s)
Options outstanding, January 1, 2009	455,017	$ 32.71	5.1	$
Expired	(7,500)	$ 19.00		
Options exercisable at June 30, 2009	447,517	$ 32.94	4.7	$ 18

* *Weighted average*

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Note 2

On January 9, 2009, as part of the Capital Purchase Program (Capital Purchase Program) established by the U.S. Department of the Treasury (Treasury) under the Emergency Economic Stabilization Act of 2008 (EESA), the Corporation issued and sold to Treasury for an aggregate purchase price of $20.0 million in cash (1) 20,000 shares of the Corporation s fixed rate cumulative perpetual preferred stock, Series A, par value $1.00 per share, having a liquidation preference of $1,000 per share (Series A Preferred Stock) and (2) a ten-year warrant to purchase up to 167,504 shares of the Corporation s common stock, par value $1.00 per share (Common Stock), at an initial exercise price of $17.91 per share (Warrant). The Series A Preferred Stock may be treated as Tier 1 capital for regulatory capital adequacy determination purposes.

Cumulative dividends on the Series A Preferred Stock will accrue on the liquidation preference at a rate of 5% per annum for the first five years, and at a rate of 9% per annum thereafter. The Series A Preferred Stock has no maturity date and ranks senior to the Common Stock with respect to the payment of dividends. Under the terms of the certificate of designations of the Series A Preferred Stock in the Corporation s articles of incorporation, the Corporation may redeem the Series A Preferred Stock at 100% of its liquidation preference (plus any accrued and unpaid dividends) beginning on February 15, 2012. Prior to this date, the Corporation may redeem the Series A Preferred Stock at 100% of its liquidation preference (plus any accrued and unpaid dividends) if (i) the Corporation has raised aggregate gross proceeds in one or more qualified equity offerings of at least $5.0 million, and (ii) the aggregate redemption price does not exceed the aggregate net proceeds from such qualified equity offerings. The phrase qualified equity offering means the sale and issuance for cash by the Corporation, to persons other than the Corporation or any Corporation subsidiary after January 9, 2009, of shares of perpetual preferred stock, Common Stock or any combination of such stock, that, in each case, qualify as and may be included in Tier 1 capital of the Corporation at the time of issuance under the applicable risk-based capital guidelines of the Federal Deposit Insurance Corporation (FDIC) (other than any such sales and issuances made pursuant to agreements or arrangements entered into, or pursuant to financing plans which were publicly announced, on or prior to October 13, 2008). However, the American Recovery and Reinvestment Act of 2009 (ARRA) appears to change these provisions to provide that the Corporation may redeem the Series A Preferred Stock at any time, at its option, from any source of funds. Any such redemption would be at 100% of the Series A Preferred Stock liquidation preference, plus any accrued and unpaid dividends. In either event, any redemption is subject to the consent of the FDIC.

The purchase agreement pursuant to which the Series A Preferred Stock and the Warrant were sold contains limitations on the payment of dividends or distributions on the Common Stock (including the payment of cash dividends in excess of the amount per share of the Corporation s last quarterly cash dividend declared before October 14, 2008, which was 31 cents per share and on the Corporation s ability to repurchase, redeem or acquire its Common Stock or other securities, and subjects the Corporation to certain of the executive compensation limitations included in the EESA, as amended by the ARRA, until such time as Treasury no longer owns any Series A Preferred Stock acquired through the Capital Purchase Program. Accordingly, the Corporation purchased no shares of Common Stock during the first six months of 2009. During the first six months of 2008, the Corporation purchased 600 shares of Common Stock in open-market transactions at prices from $28.80 to $31.06 per share.

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Note 3

The Corporation calculates its basic and diluted earnings per common share (EPS) in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, *Earnings Per Share*. The components of the Corporation s EPS calculations for the three and six months ended June 30, 2009 and 2008 are as follows:

(in 000 s, except for share amounts)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
Net income	**$ 1,750**	$ 1,417
Accumulated dividends on Series A Preferred Stock	**(253)**	
Amortization of Series A Preferred Stock discount	**(35)**	
Net income available to common shareholders	**$ 1,462**	$ 1,417
Weighted average number of common shares used in earnings per common share basic	**3,042,233**	3,026,249
Effect of dilutive securities:		
Stock option awards		45,216
Weighted average number of common shares used in earnings per common share assuming dilution	**3,042,233**	3,071,465

(in 000 s, except for share amounts)	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net income	**$ 3,258**	$ 2,845
Accumulated dividends on Series A Preferred Stock	**(481)**	
Amortization of Series A Preferred Stock discount	**(67)**	
Net income available to common shareholders	**$ 2,710**	$ 2,845
Weighted average number of common shares used in earnings per common share basic	**3,040,504**	3,024,114
Effect of dilutive securities:		
Stock option awards		50,342
Weighted average number of common shares used in earnings per common share assuming dilution	**3,040,504**	3,074,456

In June 2008, the Financial Accounting Standards Board (FASB) finalized FASB Staff Position (FSP) No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. FSP EITF 03-6-1 affects entities that accrue cash dividends on share-based payment awards during the awards service period when the dividends do not need to be returned if the employees forfeit the awards. The FASB concluded that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. Because the awards are considered participating securities, the issuing entity is required to apply the two-class method of computing basic and diluted EPS. The transition guidance in FSP EITF 03-6-1 requires an entity to retroactively adjust all prior-period EPS computations to reflect the FSP s provisions. The retroactive adjustments encompass EPS computations included in interim financial statements. The Corporation adopted FSP EITF 03-6-1 effective January 1, 2009, and has applied its provisions to its EPS calculations for the three and six months ended June 30, 2009 and 2008 because the Corporation s unvested restricted shares outstanding contain rights to nonforfeitable dividends. Accordingly, the weighted average number of common shares used in the calculation of basic and diluted EPS includes both vested and unvested common shares outstanding. The retroactive adjustments made to the EPS computations resulted in reductions of $0.01 in diluted EPS for the three months ended June 30, 2008 and $0.01 in both basic and diluted EPS for the six months ended June 30, 2008.

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EPS, assuming dilution, has been calculated on the basis of the weighted average number of shares of common stock and common stock equivalents outstanding for the applicable periods. Potentially-dilutive common stock had no effect on net income available to common shareholders.

Note 4

Debt and equity securities are summarized as follows:

(in 000 s)	June 30, 2009			
Available for Sale	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
U.S. government agencies and corporations	**$ 8,892**	**$ 20**	**$ (135)**	**$ 8,777**
Mortgage-backed securities	**2,528**	**51**		**2,579**
Obligations of states and political subdivisions	**97,771**	**1,249**	**(1,030)**	**97,990**
Preferred stock	**1,564**	**28**	**(104)**	**1,488**
	$ 110,755	**$ 1,348**	**$ (1,269)**	**$ 110,834**

(in 000 s)	December 31, 2008			
Available for Sale	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
U.S. government agencies and corporations	$ 11,108	$ 59	$ (5)	$ 11,162
Mortgage-backed securities	2,264	54		2,318
Obligations of states and political subdivisions	85,842	858	(1,189)	85,511
Preferred stock	1,564	146	(98)	1,612
	$ 100,778	$ 1,117	$ (1,292)	$ 100,603

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

(in 000 s)	June 30, 2009	
Available for Sale	**Amortized Cost**	**Estimated Fair Value**
Due in one year or less	**$ 10,620**	**$ 10,629**
Due after one year through five years	**29,863**	**29,852**
Due after five years through ten years	**39,306**	**39,477**
Due after ten years	**29,402**	**29,388**
Preferred stock	**1,564**	**1,488**
	$ 110,755	**$ 110,834**

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Proceeds from the maturities and calls of securities available for sale for the first six months of 2009 were $15.0 million, resulting in gross realized gains of $30,000. Securities with an aggregate amortized cost of $41.4 million and an aggregate fair value of $41.6 million were pledged at June 30, 2009 to secure public deposits, repurchase agreements, Federal Reserve Bank treasury, tax and loan deposits and borrowings from the Federal Reserve Bank.

Securities in an unrealized loss position at June 30, 2009, by duration of the period of the unrealized loss, are shown below.

(in 000 s)	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government agencies and corporations	$ 4,808	$ 135	$	$	$ 4,808	$ 135
Obligations of states and political subdivisions	31,922	541	8,702	489	40,624	1,030
Subtotal-debt securities	36,730	676	8,702	489	45,432	1,165
Preferred stock	737	70	92	34	829	104
Total temporarily impaired securities	$ 37,467	$ 746	$ 8,794	$ 523	$ 46,261	$ 1,269

There are 146 debt securities and seven equity securities totaling $45.4 million and $829,000, respectively, in a loss position at June 30, 2009. The primary cause of the temporary impairments in the Corporation s investments in debt securities was fluctuations in interest rates. Because the Corporation intends to hold these investments to maturity and it is more likely than not that the Corporation will not be required to sell these investments before a recovery of unrealized losses, the Corporation does not consider these investments to be other-than-temporarily impaired at June 30, 2009 and no impairment has been recognized. In April 2009, the FASB issued FSP Financial Accounting Standards (FAS) 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. FSP FAS 115-2 and FAS 124-2 amends other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities. The FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. FSP FAS 115-2 and FAS 124-2 became effective for interim and annual periods ending after June 15, 2009. The adoption of FSP FAS 115-2 and FAS 124-2 did not have a material effect on the Corporation s consolidated financial statements.

Securities in an unrealized loss position at December 31, 2008, by duration of the period of the unrealized loss, are shown below.

(in 000 s)	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government agencies and corporations	$ 495	$ 5	$	$	$ 495	$ 5
Obligations of states and political subdivisions	32,846	1,189			32,846	1,189
Subtotal-debt securities	33,341	1,194			33,341	1,194
Preferred stock	699	88	20	10	719	98
Total temporarily impaired securities	$ 34,040	$ 1,282	$ 20	$ 10	$ 34,060	$ 1,292

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The Corporation s investment in Federal Home Loan Bank (FHLB) stock totaled $3.9 million at June 30, 2009. FHLB stock is generally viewed as a long-term investment and as a restricted investment security, which is carried at cost, because there is no market for the stock, other than the FHLBs or member institutions. Therefore, when evaluating FHLB stock for impairment, its value is based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. Despite the FHLB s temporary suspension of cash dividend payments and repurchases of excess capital stock in 2009, the Corporation does not consider this investment to be other-than-temporarily impaired at June 30, 2009 and no impairment has been recognized.

Note 5

The Bank has a non-contributory defined benefit plan for which the components of net periodic benefit cost are as follows:

(in 000 s)	Three Months Ended June 30,	
	2009	2008
Service cost	**$ 126**	$ 209
Interest cost	**93**	110
Expected return on plan assets	**(103)**	(144)
Amortization of net obligation at transition	**(1)**	(1)
Amortization of prior service cost	**(17)**	1
Amortization of net loss	**29**	
Net periodic benefit cost	**$ 127**	$ 175

(in 000 s)	Six Months Ended June 30,	
	2009	2008
Service cost	**$ 252**	$ 418
Interest cost	**186**	220
Expected return on plan assets	**(206)**	(288)
Amortization of net obligation at transition	**(2)**	(2)
Amortization of prior service cost	**(34)**	2
Amortization of net loss	**58**	
Net periodic benefit cost	**$ 254**	$ 350

The Bank made a $1.0 million contribution to this plan in the first quarter of 2009.

Note 6

The Corporation operates in a decentralized fashion in three principal business segments: Retail Banking, Mortgage Banking and Consumer Finance. Revenues from Retail Banking operations consist primarily of interest earned on loans and investment securities and service charges on deposit accounts. Mortgage Banking operating revenues consist principally of gains on sales of loans in the secondary market, loan origination fee income and interest earned on mortgage loans held for sale. Revenues from Consumer Finance consist primarily of interest earned on automobile retail installment sales contracts.

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The Corporation s other segments include an investment company that derives revenues from brokerage services, an insurance company that derives revenues from insurance services, and a title company that derives revenues from title insurance services. The results of these other segments are not significant to the Corporation as a whole and have been included in Other. Revenue and expenses of the Corporation are also included in Other, and consist primarily of dividends received on the Corporation s investment in equity securities and interest expense associated with the Corporation s trust preferred capital notes.

(in 000 s)	Three Months Ended June 30, 2009					
	Retail Banking	Mortgage Banking	Consumer Finance	Other	Eliminations	Consolidated
Revenues:						
Interest income	$ 8,485	$ 729	$ 7,707	$ 66	$ (862)	$ 16,125
Gains on sales of loans		7,374				7,374
Other	1,217	937	108	322		2,584
Total operating income	9,702	9,040	7,815	388	(862)	26,083
Expenses:						
Interest expense	3,262	85	1,224	286	(869)	3,988
Provision for loan losses	1,400	200	2,800			4,400
Personnel expenses	3,386	4,646	1,232	131		9,395
Other	2,948	2,059	815	88		5,910
Total operating expenses	10,996	6,990	6,071	505	(869)	23,693
Income (loss) before income taxes	(1,294)	2,050	1,744	(117)	7	2,390
Provision for (benefit from) income taxes	(847)	876	666	(57)	2	640
Net income (loss)	$ (447)	$ 1,174	$ 1,078	$ (60)	$ 5	$ 1,750
Total assets	$ 729,082	$ 70,025	$ 184,631	$ 2,428	$ (106,724)	$ 879,442
Capital expenditures	$ 1	$ 102	$ 2	$	$	$ 105

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(in 000 s)	Three Months Ended June 30, 2008					
	Retail Banking	Mortgage Banking	Consumer Finance	Other	Eliminations	Consolidated
Revenues:						
Interest income	$ 8,883	$ 600	$ 7,218	$ 60	$ (853)	$ 15,908
Gains on sales of loans		4,703			3	4,706
Other	1,388	566	151	371		2,476
Total operating income	10,271	5,869	7,369	431	(850)	23,090
Expenses:						
Interest expense	4,015	130	1,738	351	(872)	5,362
Provision for loan losses	540					