AMERICAN RIVER BANKSHARES
Form 10-Q
November 02, 2011

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, 2011

or

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: 0-31525

AMERICAN RIVER BANKSHARES
(Exact name of registrant as specified in its charter)

California (State or other jurisdiction of incorporation or organization)	68-0352144 (I.R.S. Employer Identification No.)
3100 Zinfandel Drive, Suite 450, Rancho Cordova, California (Address of principal executive offices)	95670 (Zip Code)

(916) 851-0123
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No 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 x (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

No par value Common Stock – 9,890,909 shares outstanding at November 1, 2011.

AMERICAN RIVER BANKSHARES

INDEX TO QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2011

PART I-FINANCIAL INFORMATION

Item 1. Financial Statements.

AMERICAN RIVER BANKSHARES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(dollars in thousands)	September 30, 2011	December 31, 2010
ASSETS		
Cash and due from banks	$ 50,562	$ 31,871
Interest-bearing deposits in banks	1,749	2,248
Investment securities:		
Available-for-sale (amortized cost: 2011--$167,235; 2010--$151,667)	173,309	154,515
Held-to-maturity (fair value: 2011--$4,759; 2010--$6,472)	4,505	6,149
Loans and leases, less allowance for loan and lease losses of $7,888 at September 30, 2011 and $7,585 at December 31, 2010	306,614	338,533
Premises and equipment, net	2,238	2,026
Federal Home Loan Bank stock	3,093	3,486
Goodwill and other intangible assets	16,557	16,723
Other real estate owned	3,827	2,696
Accrued interest receivable and other assets	19,266	20,693
	$ 581,720	$ 578,940
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Deposits:		
Noninterest bearing	$ 132,145	$ 126,636
Interest-bearing	331,444	338,486
Total deposits	463,589	465,122
Short-term borrowings	5,000	7,000
Long-term borrowings	14,000	10,000
Accrued interest payable and other liabilities	6,019	7,274
Total liabilities	488,608	489,396
Commitments and contingencies		
Shareholders’ equity:		
Preferred stock, no par value; 20,000,000 shares authorized; none outstanding		
Common stock, no par value; 20,000,000 shares authorized; issued and outstanding –9,890,909 shares at September 30, 2011 and 9,874,867 shares at December 31, 2010	71,970	71,814
Retained earnings	17,497	16,021
Accumulated other comprehensive income, net of taxes	3,645	1,709

Total shareholders’ equity	93,112	89,544
	$ 581,720	$ 578,940

See Notes to Unaudited Consolidated Financial Statements

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AMERICAN RIVER BANKSHARES
CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

(dollars in thousands, except per share data) For the periods ended September 30,	Three months 2011	Three months 2010	Nine months 2011	Nine months 2010
Interest income:				
Interest and fees on loans	$4,777	$5,466	$14,619	$16,883
Interest on deposits in banks	7	—	18	—
Interest and dividends on investment securities:				
Taxable	1,099	721	3,251	2,160
Exempt from Federal income taxes	187	157	503	488
Dividends	—	—	—	—
Total interest income	6,070	6,344	18,391	19,531
Interest expense:				
Interest on deposits	541	718	1,764	2,277
Interest on borrowings	99	120	279	394
Total interest expense	640	838	2,043	2,671
Net interest income	5,430	5,506	16,348	16,860
Provision for loan and lease losses	550	2,025	3,625	5,677
Net interest income after provision for loan and lease losses	4,880	3,481	12,723	11,183
Noninterest income:				
Service charges on deposit accounts	185	201	568	666
Gain (loss) on sale of securities	326	1	353	(4)
Other noninterest income	239	239	716	700
Total noninterest income	750	441	1,637	1,362
Noninterest expense:				
Salaries and employee benefits	2,219	1,926	6,342	5,900
Occupancy	275	314	842	979
Furniture and equipment	167	169	528	546
Federal Deposit Insurance Corporation assessments	172	383	712	1,061
Other real estate owned expense	260	159	969	743
Other expense	893	1,021	2,841	2,983
Total noninterest expense	3,986	3,972	12,234	12,212
Income (loss) before provision for (benefit from) income taxes	1,644	(50)	2,126	333
Provision for (benefit from) income taxes	595	(89)	650	(66)

Net income	$1,049	$39	$1,476	$399
Basic earnings per share	$0.11	$0.00	$0.15	$0.04
Diluted earnings per share	$0.11	$0.00	$0.15	$0.04
Cash dividends per share	$0.00	$0.00	$0.00	$0.00

See notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(dollars in thousands)	Common Stock Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Total Comprehensive Income
Balance, January 1, 2010	9,845,533	$ 71,578	$ 15,545	$ 222	$ 87,345	
Comprehensive income:						
Net income			476		476	$ 476
Other comprehensive income, net of tax:						
Net change in unrealized gains on available-for-sale investment securities				1,487	1,487	1,487
Total comprehensive income						$ 1,963
Restricted stock awarded and related compensation expense	29,334	47			47	
Stock option compensation expense		189			189	
Balance, December 31, 2010	9,874,867	71,814	16,021	1,709	89,544	
Comprehensive income:						
Net income			1,476		1,476	$ 1,476
Other comprehensive income, net of tax:						
Net change in unrealized gains on available-for-sale investment securities				1,936	1,936	1,936
Total comprehensive income						$ 3,412
Restricted stock awarded, net of forfeitures, and related compensation expense	16,042	63			63	
Stock option compensation expense		93			93	
Balance, September 30, 2011	9,890,909	$ 71,970	$ 17,497	$ 3,645	$ 93,112	

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(dollars in thousands)

For the nine months ended September 30,	2011	2010
Cash flows from operating activities:		
Net income	$1,476	$399
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	3,625	5,677
Decrease in deferred loan origination fees, net	(111)	(172)
Depreciation and amortization	546	566
(Gain) loss on sale and call of investment securities	(353)	4
Amortization of investment security premiums and discounts, net	1,678	1,842
Increase in cash surrender value of life insurance policies	(206)	(201)
Stock based compensation expense	156	177
Loss on sale and write-down of other real estate owned	449	528
Decrease in accrued interest receivable and other assets	344	3,891
Decrease in accrued interest payable and other liabilities	(1,255)	(1,679)
Net cash provided by operating activities	6,349	11,032
Cash flows from investing activities:		
Proceeds from the sale of available-for-sale investment securities	9,706	6,526
Proceeds from matured available-for-sale investment securities	315	2,725
Proceeds from called available-for-sale investment securities	1,180	620
Purchases of available-for-sale investment securities	(47,157)	(56,444)
Proceeds from principal repayments for available-for-sale investment securities	19,048	12,927
Proceeds from principal repayments for held-to-maturity investment securities	1,659	5,250
Net decrease in interest-bearing deposits in banks	499	
Net decrease in loans	25,936	22,473
Proceeds from sale of other real estate	888	2,261
Purchases of equipment	(592)	(280)
Net decrease in FHLB stock	393	331
Net cash provided by (used in) investing activities	11,875	(3,611)
Cash flows from financing activities:		
Net increase in demand, interest-bearing and savings deposits	$9,456	$17,670
Net decrease in time deposits	(10,989)	(17,626)
Net decrease in short-term borrowings	(2,000)	(7,500)
Net increase (decrease) in long-term borrowings	4,000	(7,000)
Payment of cash dividends	—	—
Exercise of stock options	—	—
Tax benefit from exercise of stock options	—	—
Net cash provided by (used in) financing activities	467	(14,456)

Increase (decrease) increase in cash and cash equivalents	18,691	(7,035)
Cash and cash equivalents at beginning of year	31,871	58,493
Cash and cash equivalents at end of period	$50,562	$51,458

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

1. CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management, the unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the consolidated financial position of American River Bankshares (the "Company") at September 30, 2011 and December 31, 2010, and the results of its operations and its cash flows for nine-month periods ended September 30, 2011 and 2010 and its statement of changes in shareholders' equity for the year ended December 31, 2010 and the nine months ended September 30, 2011 in conformity with accounting principles generally accepted in the United States of America.

Certain disclosures normally presented in the notes to 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 not misleading. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2010 annual report on Form 10-K. The results of operations for the three-month and nine-month periods ended September 30, 2011 may not necessarily be indicative of the operating results for the full year.

In preparing such financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan and lease losses, the provision for taxes, the valuation of goodwill and the estimated fair value of investment securities, impaired loans and other real estate owned.

Management has determined that since all of the banking products and services offered by the Company are available in each branch office of American River Bank, all branch offices 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 all of the branch offices and report them as a single operating segment. No client accounts for more than ten percent (10%) of revenues for the Company or American River Bank.

2. STOCK-BASED COMPENSATION

Equity Plans

On March 17, 2010, the Board of Directors adopted the 2010 Equity Incentive Plan (the "2010 Plan"). The 2010 Plan was approved by the Company's shareholders on May 20, 2010. In 2000, the Board of Directors adopted and the Company's shareholders approved a stock option plan (the "2000 Plan"), under which 359,569 options remain outstanding at September 30, 2011. The total number of authorized shares that remain available for issuance under the 2010 Plan is 1,431,453. The 2010 Plan provides for the following types of stock-based awards: incentive stock options; nonqualified stock options; stock appreciation rights; restricted stock; restricted performance stock; unrestricted Company stock; and performance units. Awards granted under the 2000 Plan were either incentive stock options or nonqualified stock options. Under the 2010 Plan, the awards may be granted to employees and directors under incentive and nonstatutory agreements and other awards agreements. The 2010 Plan and the 2000 Plan (collectively the "Plans") require that the option price may not be less than the fair market value of the stock at the date the option is granted. The option awards under the Plans expire on dates determined by the Board of Directors, but not later than ten years from the date of award. The vesting period is generally five years; however, the vesting period can be modified at the discretion of the Company’s Board of Directors. Outstanding option awards under the Plans are exercisable until their expiration, however, no new options will be awarded under the 2000 Plan. New shares are issued upon exercise of an option.

During the third quarter of 2011, the Company awarded 18,902 shares of restricted common stock under the Company's 2010 Equity Incentive Plan to certain employees and to directors. During the third quarter of 2010, the Company awarded 29,334 shares of restricted common stock under the Company's 2010 Equity Incentive Plan to certain employees and to directors. Grant date fair value is determined by the market price of the Company's common stock on the date of grant. The aggregate value of these shares at the grant date amounted to approximately $99,000 for the awards in 2011 and $205,000 for the awards in 2010 and is recognized ratably as compensation expense or director expense over the vesting periods. The shares of common stock granted pursuant to such agreements vest in increments over one to five years from the date of grant. The shares awarded to employees and directors under the restricted stock agreements vest on the applicable vesting dates only to the extent the recipient of the shares is then an employee or a director of the Company or one of its subsidiaries, and each recipient will forfeit all of the shares that have not vested on the date his or her employment or service is terminated. New shares are issued upon vesting of the restricted common stock.

Equity Compensation

For the three-month periods ended September 30, 2011 and 2010, the compensation cost recognized for equity compensation was $48,000 and $67,000, respectively. The recognized tax benefit for equity compensation expense was $15,000 and $17,000, for the three-month periods ended September 30, 2011 and 2010, respectively. For the nine-month periods ended September 30, 2011 and 2010, the compensation cost recognized for equity compensation was $156,000 and $177,000, respectively. The recognized tax benefit for equity compensation expense was $44,000 and $34,000, for the nine-month periods ended September 30, 2011 and 2010, respectively.

At September 30, 2011, the total compensation cost related to nonvested stock option awards not yet recorded is $86,000. This amount will be recognized over the next 3.5 years and the weighted average period of recognizing these costs is expected to be 1.06 years. At September 30, 2011, the total compensation cost related to restricted stock awards not yet recorded is $174,000. This amount will be recognized over the next 5.0 years and the weighted average period of recognizing these costs is expected to be 1.82 years.

Equity Plans Activity

Stock Options

There were no stock options awarded during the three and nine-month periods ended September 30, 2011 and 2010. A summary of option activity under the Plans as of September 30, 2011 and changes during the period then ended is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2011	379,571	$17.18	5.5 years	$—
Granted	—	—	—	—
Exercised	—	—	—	—
Cancelled	(20,002)	$16.47	—	—
Outstanding at September 30, 2011	359,569	$17.22	4.7 years	$—
Exercisable at September 30, 2011	293,104	$18.09	4.2 years	$—

Restricted Stock

There were 18,902 shares of restricted stock awarded during the three and nine-month periods ended September 30, 2011. Of the 18,902 restricted common shares, 13,335 will vest one year from the date of the award and 5,567 will vest over five years at 20% per year from the date of the award. There were 29,334 shares of restricted stock awarded during the three and nine-month periods ended September 30, 2010. Grant date fair value is determined by the market price of the Company's common stock on the date of grant ($5.25 on August 17, 2011 and $6.99 on July 21, 2010). Of the 29,334 restricted common shares awarded in 2010, 13,298 vested on July 21, 2011, 2,860 were forfeited and 13,176 will vest 20% per year. The intrinsic value of unvested restricted stock at September 30, 2011 was $160,000.

Restricted Stock	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2011	29,334	$ 6.99
Awarded	18,902	5.25
Vested	(13,298)	6.99
Cancelled	(2,860)	6.99
Nonvested at September 30, 2011	32,078	$ 5.96

Other Equity Awards

There were no stock appreciation rights, restricted performance stock, unrestricted Company stock, or performance units awarded during the three or nine month periods ended September 30, 2011 or 2010. The intrinsic value used for stock options and restricted stock was derived from the market price of the Company's common stock of $4.97 as of September 30, 2011.

3. COMMITMENTS AND CONTINGENCIES

In the normal course of business there are outstanding various commitments to extend credit which are not reflected in the financial statements, including loan commitments of approximately $39,250,000 and standby letters of credit of approximately $10,086,000 at September 30, 2011. Such commitments relate primarily to real estate construction loans, revolving lines of credit and other commercial loans. However, all such commitments will not necessarily culminate in actual extensions of credit by the Company during 2011 as some of these are expected to expire without being fully drawn upon.

Standby letters of credit are commitments issued to guarantee the performance or financial obligation of a client to a third party. These guarantees are issued primarily relating to purchases of inventory or as security for real estate rents by commercial clients and are typically short-term in nature. Credit risk is similar to that involved in extending loan commitments to clients and accordingly, evaluation and collateral requirements similar to those for loan commitments are used. The majority of all such commitments are collateralized. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at September 30, 2011 or December 31, 2010.

4. EARNINGS PER SHARE COMPUTATION

Basic earnings per share is computed by dividing net income by the weighted average common shares outstanding for the period (9,849,040 shares for the three-month and nine-month periods ended September 30, 2011, and 9,845,533 for the three-month and nine-month periods ended September 30, 2010). Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options or restricted stock, result in the issuance of common stock. Diluted earnings per share is computed by dividing net income by the weighted average common shares outstanding for the period plus the dilutive effect of stock based awards. There were 2,938 and 7,979 diluted shares, respectively, for the three-month and nine-month periods ended September 30, 2011 and 142 and 48 diluted shares, respectively, for the three-month and nine-month periods ended September 30, 2010. Earnings per share is retroactively adjusted for stock dividends and stock splits, if applicable, for all periods presented.

5. COMPREHENSIVE INCOME

Comprehensive income is reported in addition to net income for all periods presented. Comprehensive income is comprised of net income plus other comprehensive income. Other comprehensive income, net of taxes, was comprised of the unrealized gains on available-for-sale investment securities of $828,000 and $1,936,000, respectively, for the three-month and nine-month periods ended September 30, 2011 and $143,000 and $2,073,000, respectively, for the three-month and nine-month periods ended September 30, 2010. Comprehensive income was $1,877,000 and $3,412,000, respectively, for the three-month and nine-month periods ended September 30, 2011 and $182,000 and $2,472,000, respectively, for the three-month and nine-month periods ended September 30, 2010. Reclassification adjustments resulting from realized gains or losses on sale of investment securities were $326,000 and $353,000, respectively, for the three-month and nine-month periods ended September 30, 2011 and $1,000 and $(4,000), respectively, for the three three-month and nine-month periods ended September 30, 2010.

6. INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities at September 30, 2011 and December 31, 2010 consisted of the following (dollars in thousands):

Available-for-Sale

	September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Mortgage-backed securities	$141,743	$5,122	$(54)	$146,811
Obligations of states and political subdivisions	25,428	1,027	(29)	26,426
Equity securities:				
Corporate stock	64	8	—	72
	$167,235	$6,157	$(83)	$173,309

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Mortgage-backed securities	$135,915	$3,156	$(427)	$138,644
Obligations of states and political subdivisions	15,675	242	(125)	15,792
Equity securities:				
Corporate stock	77	8	(6)	79
	$151,667	$3,406	$(558)	$154,515

Net unrealized gains on available-for-sale investment securities totaling $6,074,000 were recorded, net of $2,429,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at September 30, 2011. Proceeds and gross realized gains from the sale and call of available-for-sale investment securities for the three-month period ended September 30, 2011 totaled $9,294,000 and $326,000, respectively and for the nine-month period ended September 30, 2011 totaled $10,886,000 and $353,000, respectively. There were no transfers of available-for-sale investment securities for the nine-month period ended September 30, 2011.

Net unrealized gains on available-for-sale investment securities totaling $2,848,000 were recorded, net of $1,139,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2010. Proceeds and gross realized gains (losses) from the sale and call of available-for-sale investment securities for the three-month period ended September 30, 2010 totaled $3,076,000 and $1,000, respectively and for the nine-month period ended September 30, 2010 totaled $6,921,000 and $(4,000), respectively. There were no transfers of available-for-sale investment securities during the year ended December 31, 2010.

Held-to-Maturity

	September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Mortgage-backed securities	$4,505	$254	$—	$4,759

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Mortgage-backed securities	$6,149	$323	$—	$6,472

There were no sales or transfers of held-to-maturity investment securities for the periods ended September 30, 2011 and December 31, 2010.

Investment securities with unrealized losses at September 30, 2011 and December 31, 2010 are summarized and classified according to the duration of the loss period as follows (dollars in thousands):

	2011					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
Debt securities:						
Mortgage-backed securities	$ 12,948	$ (54)			$ 12,948	$ (54)
Obligations of states and political subdivisions	2,633	(29)			2,633	(29)
	$ 15,581	$ (83)	$ —	$ —	$ 15,581	$ (83)

	2010					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
Debt securities:						
Mortgage-backed securities	$ 29,535	$ (427)			$ 29,535	$ (427)
Obligations of states and political subdivisions	5,169	(125)			5,169	(125)
Equity Securities:						
Corporate stock	5	(2)	$ 5	$ (4)	10	(6)

$ 34,709	$ (554)	$ 5	$ (4)	$ 34,714	$ (558)

There were no held-to-maturity investment securities with unrealized losses as of September 30, 2011 or December 31, 2010.

At September 30, 2011, the Company held 169 securities of which 9 were in a loss position for less than twelve months and none were in a loss position for twelve months or more. Of the 9 securities in a loss position, 6 are mortgage-backed securities and 3 are obligations of states and political subdivisions. At December 31, 2010, the Company held 168 securities of which 29 were in a loss position for less than twelve months and 5 were in a loss position for twelve months or more. Of the 34 securities in a loss position, 15 were mortgage-backed securities, 11 were obligations of states and political subdivisions and 8 were corporate stocks.

The unrealized loss on the Company’s investments in mortgage-backed securities and obligations of states and political subdivisions at September 30, 2011 is primarily driven by interest rates. Because the decline in market value is attributable to a change in interest rates and not credit quality, and because the Company has the ability and intent to hold these investments until recovery of fair value, which may be until maturity, management does not consider these investments to be other-than-temporarily impaired.

The amortized cost and estimated fair value of investment securities at September 30, 2011 by contractual maturity are shown below (dollars in thousands).

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within one year	$1,126	$1,139		
After one year through five years	2,205	2,229		
After five years through ten years	8,243	8,586		
After ten years	13,854	14,472		
	25,428	26,426		
Investment securities not due at a single maturity date:				
Mortgage-backed securities	141,743	146,811	$4,505	$4,759
Corporate stock	64	72		
	$167,235	$173,309	$4,505	$4,759

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.

7. IMPAIRED AND NONPERFORMING LOANS AND LEASES AND OTHER REAL ESTATE OWNED

At September 30, 2011 and December 31, 2010, the recorded investment in nonperforming loans and leases was approximately $20,965,000 and $22,571,000, respectively. Nonperforming loans and leases include all such loans and leases that are either placed on nonaccrual status or are 90 days past due as to principal or interest but still accrue interest because such loans are well-secured and in the process of collection. The Company considers a loan to be impaired when, based on current information and events, it is probable that it will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. At September 30, 2011, the recorded investment in loans and leases that were considered to be impaired totaled $38,780,000, which includes $20,801,000 in nonperforming loans and leases and $17,979,000 in performing loans and leases. Of the total impaired loans of $38,780,000, loans totaling $16,320,000 were deemed to not require a specific reserve and loans totaling $22,460,000 were deemed to require a specific reserve of $1,465,000. At December 31, 2010, the recorded investment in loans and leases that were considered to be impaired totaled $40,237,000, which included $22,168,000 with no specific reserve and $18,069,000 were deemed to require a specific reserve of $1,619,000. If interest had been accruing on the nonperforming loans, such income would have approximated $398,000 and $1,288,000, respectively, for the three-month and nine-month periods ended September 30, 2011 and $528,000 and $1,231,000, respectively, for the three-month and nine-month periods ended September 30, 2010.

At September 30, 2011 and December 31, 2010, the recorded investment in other real estate owned ("OREO") was $3,827,000 and $2,696,000, respectively. In addition, the Company owned one repossessed mobile home classified on the balance sheet in accrued interest receivable and other assets with a book value of $55,000. For the three months ended March 31, 2011, the Company transferred six properties from four relationships with loan balances in the amount of $1,988,000 to OREO and subsequently wrote these balances down by $222,000 to $1,766,000, and sold three properties with balances of $554,000 for a net loss of $28,000. In addition to the $222,000 in write downs, the Company also adjusted the balances, through charges to the allowance for loan and lease losses, of properties obtained in the prior quarter in the amount of $166,000. For the three months ended June 30, 2011, the Company transferred two properties with loan balances in the amount of $293,000 to OREO and subsequently wrote these balances down by $31,000 to $262,000, and sold three properties with balances of $150,000 for a net gain of $2,000. The Company also adjusted the balance on two properties that were obtained in the prior quarter for which fair value evaluations were received in the current quarter in the amount of $187,000. The $187,000 had been reserved for in the allowance for loan and lease losses at March 31, 2011. The Company periodically obtains property valuations to determine whether the recorded book value is considered fair value. During the second quarter of 2011, this valuation process resulted in the Company reducing the book value of certain properties by $441,000. For the three months ended September 30, 2011, the Company transferred seven properties with loan balances in the amount of $1,109,000 to OREO and subsequently wrote these balances down by $26,000 to $1,083,000, and sold one property with a balance of $210,000 for no gain or loss. The Company also adjusted the balance on three properties that were obtained in prior quarters for which new appraisals were received in the current quarter in the amount of $156,000. The Company also had a $126,000 valuation allowance on properties that it expects to sell in the fourth quarter of 2011.

The September 30, 2011 OREO balance of $3,827,000 consists of 22 properties including 7 residential land properties in the amount of $658,000, 1 commercial land property totaling $313,000, 5 commercial real estate properties in the amount of $1,525,000 and 9 residential real estate properties in the amount of $1,331,000. Nonperforming loans and leases, OREO, and other repossessed assets at September 30, 2011 and December 31, 2010 are summarized as follows:

(dollars in thousands)	September 30, 2011		December 31, 2010	
Nonaccrual loans and leases that are current to terms	$ 1,031		$ 3,004	
Nonaccrual loans and leases that are past due	19,934		19,567	
Loans and leases past due 90 days and accruing interest	—		—	
Other real estate owned and other repossessed assets	3,882		2,696	
Total nonperforming assets	$ 24,847		$ 25,267	
Nonperforming loans and leases to total loans and leases	6.67	%	6.52	%
Total nonperforming assets to total assets	4.27	%	4.36	%

Impaired loans and leases as of and for the periods ended September 30, 2011 and December 31, 2010 are summarized as follows:

September 30, 2011 (dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial:					
Commercial	$2,552	$2,552	—	$3,654	$116
Real estate:					
Commercial	9,627	11,085	—	9,197	224
Multi-family	18	18	—	869	6
Construction	494	494	—	3,097	1
Residential	3,490	3,490	—	2,656	16
Other:					
Agriculture	—	—	—	127	—
Consumer	139	139	—	166	12
	$16,320	$17,778	$—	$19,766	$375
With an allowance recorded:					
Commercial:					
Commercial	$2,677	$4,256	$465	$1,749	$121
Real estate:					
Commercial	13,123	15,106	463	12,254	1,745
Multi-family	1,190	1,283	6	796	26
Construction	3,831	5,002	367	1,615	19
Residential	869	869	35	1,673	16
Other:					
Agriculture	597	597	89	398	3
Consumer	173	173	40	239	22
	$22,460	$27,286	$1,465	$18,724	$1,952
Total:					
Commercial:					
Commercial	$5,229	$6,808	$465	$5,403	$237
Real estate:					
Commercial	22,750	26,191	463	21,451	1,969
Multi-family	1,208	1,301	6	1,665	32
Construction	4,325	5,496	367	4,712	20
Residential	4,359	4,359	35	4,329	32
Other:					
Agriculture	597	597	89	525	3
Consumer	312	312	40	405	34
	$38,780	$45,064	$1,465	$38,490	$2,327

December 31, 2010 (dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial:					
Commercial	$5,026	$5,418	—	$5,042	$137
Real estate:					
Commercial	9,066	12,149	—	14,013	424
Multi-family	1,382	2,382	—	1,383	70
Construction	4,695	7,064	—	6,545	43
Residential	1,663	1,835	—	1,593	50
Other:					
Agriculture	129	322	—	206	4
Consumer	207	207	—	317	16
	$22,168	$29,377	$—	$29,099	$744
With an allowance recorded:					
Commercial:					
Commercial	$3,231	$3,231	$274	$3,452	$196
Real estate:					
Commercial	12,120	12,584	1,160	9,369	456
Multi-family	1,214	1,214	22	1,321	44
Residential	1,013	1,013	152	861	51
Other:					
Consumer	491	491	11	492	24
	$18,069	$18,533	$1,619	$15,495	$771
Total:					
Commercial:					
Commercial	$8,257	$8,649	$274	$8,494	$333
Real estate:					
Commercial	21,186	24,733	1,160	23,382	880
Multi-family	2,596	3,596	22	2,704	114
Construction	4,695	7,064	—	6,545	43
Residential	2,676	2,848	152	2,454	101
Other:					
Agriculture	129	322	—	206	4
Consumer	698	698	11	809	40
	$40,237	$47,910	$1,619	$44,594	$1,515

8. TROUBLED DEBT RESTRUCTURINGS

At September 30, 2011, there were 45 loans and leases that were considered to be troubled debt restructurings. Of these loans and leases, 30 were modified and are currently performing (less than ninety days past due) totaling $14,958,000 and 15 are considered nonperforming (and included in the $20,965,000 noted above), totaling $7,148,000. At September 30, 2011 and December 31, 2010, there were no unfunded commitments on those loans considered troubled debt restructures. See also "Impaired Loans and Leases" in Item 2.

The Company has allocated $291,000 and $1,428,000 of specific reserves to loans whose terms have been modified in troubled debt restructurings as of September 30, 2011 and December 31, 2010. The Company has not committed to lend additional amounts to these borrowers as of September 30, 2011 and December 31, 2010.

During the nine-month period ended September 30, 2011, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

Modifications not considered troubled debt restructurings involving a reduction of the stated interest rate of the loan were for periods ranging from ten years to thirteen years. Modifications not considered troubled debt restructurings involving an extension of the maturity date were for periods ranging from ten months to ten years. The following table presents loans by class modified as troubled debt restructurings that occurred during the nine-month period ended September 30, 2011:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commercial	2	$ 2,711,000	$ 2,683,000
Real estate			
Commercial	5	2,960,000	2,719,000
Multi-family	1	78,000	78,000
Construction	1	683,000	683,000
Consumer	2	855,000	855,000
Total	11	$ 7,288,000	$ 7,019,000

The troubled debt restructurings described above increased the allowance for loan losses by $164,000 and resulted in charge offs of $269,000 during the nine-month period ended September 30, 2011.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the nine-month period ended September 30, 2011:

	Number of Loans	Recorded Investment
Troubled Debt Restructurings That Subsequently Defaulted:		
Commercial	3	$ 207,000
Real estate		

Commercia1	3		1,450,000
Residential	1		357,000
Agriculture	1		597,000
Consumer	1		68,000
Total	9	$	2,679,000

A loan is considered to be in payment default once it is ninety days contractually past due under the modified terms.

The troubled debt restructurings that subsequently defaulted described above increased the allowance for loan losses by $97,000 and resulted in no charge offs during the nine-month period ended September 30, 2011.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

9. ALLOWANCE FOR LOAN AND LEASE LOSSES

The Company's loan and lease portfolio allocated by management's internal risk ratings as of September 30, 2011 and December 31, 2010 are summarized below:

September 30, 2011 (dollars in thousands) — Credit Risk Profile by Internally Assigned Grade

	Commercial	Real Estate Commercial	Multi-Family	Construction	Residential
Grade:					
Pass	$33,372	$163,220	$6,110	$7,076	$16,334
Watch	1,516	20,548	1,190	456	811
Special mention	2,853	7,372	764	831	1,021
Substandard	4,774	16,850	—	4,197	3,847
Doubtful	393	129	—	—	—
Total	$42,908	$208,119	$8,064	$12,560	$22,013

Other Credit Exposure
Credit Risk Profile by Internally Assigned Grade

	Leases	Agriculture	Consumer
Grade:			
Pass	$2,133	$6,086	$9,730
Watch	—	860	665
Special mention	—	—	262
Substandard	19	597	769
Doubtful	—	—	35
Total	$2,152	$7,543	$11,461

December 31, 2010 (dollars in thousands) — Credit Risk Profile by Internally Assigned Grade

	Commercial	Real Estate Commercial	Multi-Family	Construction	Residential
Grade:					
Pass	$39,335	$175,319	$4,371	$7,884	$21,928
Watch	3,515	11,021	1,214	1,632	—
Special mention	4,228	11,713	—	1,178	953
Substandard	11,012	18,023	1,383	5,277	3,218
Doubtful	171	—	—	—	—
Total	$58,261	$216,076	$6,968	$15,971	$26,099

Other Credit Exposure
Credit Risk Profile by Internally Assigned Grade

	Leases	Agriculture	Consumer
Grade:			
Pass	$2,740	$6,484	$12,277

Watch	—	589	514
Special mention	—	—	178
Substandard	26	129	217
Doubtful	—	—	16
Total	$2,766	$7,202	$13,202

The allocation of the Company's allowance for loan and lease losses as of September 30, 2011 and December 31, 2010, by portfolio segment and by impairment methodology are summarized below:

September 30, 2011 (dollars in thousands)		Real Estate				Other				
	Com-mercial	Com-mercial	Multi-Family	Construc-tion	Residential	Leases	Agri-culture	Consumer	Unallocated	Total
Allowance for Loan and Lease Losses										
Beginning balance allocated to portfolio segments	$2,574	$2,715	$115	$						