CoroWare, Inc,
Form 10-Q
January 06, 2015

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

FORM 10-Q

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

For the quarterly period ended March 31, 2014

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: 000-33231

COROWARE, INC.
(EXACT NAME OF THE COMPANY AS SPECIFIED IN ITS CHARTER)

Delaware	95-4868120
(State or Other Jurisdiction of Incorporation)	(I.R.S. Employer Identification No.)

601 108th Avenue NE, Suite 1900
Bellevue, WA 98004
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(800) 641-2676
(ISSUER REGISTRANT TELEPHONE NUMBER)

Indicate by check mark whether the Company (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 Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. o 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). x Yes o No

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

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

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

As of December 31, 2014 there were 8,414,279,084 shares of the issuer's $0.0001 par value common stock outstanding.

COROWARE, INC.
March 31, 2014 QUARTERLY REPORT ON FORM 10-Q

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PART I – FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STQATEMENTS

COROWARE, INC.

Consolidated Balance Sheets

ASSETS

	March 31, 2014 (Unaudited)	December 31, 2013
CURRENT ASSETS		
Cash	$ 1,963	$ -
Accounts receivable, net	50,759	-
Inventory, net	11,358	23,601
Other current assets	1,109	1,109
Total Current Assets	65,189	24,710
PROPERTY AND EQUIPMENT, net	10,737	12,820
OTHER ASSETS		
Other assets, net	10,356	10,356
Total Other Assets	10,356	10,356
TOTAL ASSETS	$ 86,282	$ 47,886
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 6,294,889	$ 6,133,491
Accrued expenses- related parties	171,090	183,929
Obligations collateralized by receivables	190,013	149,637
Bank overdraft	-	1,635
Notes payable	515,082	515,082
Notes payable-related parties	226,309	218,275
Dividend payable	15,969	-
Derivative liability	6,267,852	4,780,032
Current maturities of convertible debt, net of discount	2,372,928	2,452,430
Total Current Liabilities	16,054,132	14,434,511
LONG-TERM LIABILITIES		
Small business administration loan	980,450	980,450

Total Long-Term Liabilities	980,450	980,450
Total Liabilities	17,034,582	15,414,961
Commitments and contingencies		
STOCKHOLDERS' DEFICIT		
Redeemable preferred stock, Series B, $0.001 par value, 525,000 shares authorized, 159,666 shares issued and outstanding	160	160
Redeemable preferred stock, Series D, $0.001 par value, 500,000 shares authorized, 100,000 shares issued and outstanding	100	100
Redeemable preferred stock, Series E, $0.001 par value, 500,000 shares authorized, 932,003 and 339,559 shares issued and outstanding, respectively	932	340
Redeemable preferred stock, Series F, $0.001 par value, 500,000 shares authorized, 350,000 and 0 shares issued and outstanding, respectively	350	-
Common stock; 13,000,000,000 shares authorized at $0.0001 par value, 1,663,235,311 and 23,842,311 shares issued and outstanding, respectively	166,325	2,383
Additional paid-in capital	26,978,172	25,948,063
Non controlling interest	92,207	91,553
Treasury stock	(35,700)	(35,700)
Accumulated deficit	(44,150,846)	(41,373,974)
Total Stockholders' Deficit	(16,948,300)	(15,367,075)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 86,282	$ 47,886

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

COROWARE, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

	For the Three Months Ended March 31, 2014	2013
REVENUES	$ 291,538	$ 318,588
COST OF SALES	232,556	198,628
GROSS PROFIT	58,982	119,960
OPERATNG EXPENSES		
General and administrative	156,744	345,379
Sales and marketing	7,389	-
Research and Development	16,569	-
Depreciation and amortization	2,083	4,231
Total Operating Expenses	182,785	349,610
LOSS FROM OPERATIONS	(123,803)	(229,650)
OTHER INCOME (EXPENSE)		
Derivative Income (Expense)	(1,771,818)	741,568
Interest expense	(888,744)	(54,506)
Gain on extinguishment of debt	4,700	-
TOTAL OTHER INCOME (EXPENSE)	(2,655,862)	687,062
INCOME (LOSS) BEFORE NON CONTROLLING INTEREST	(2,779,665)	457,412
Net income (loss) attributable to non controlling interest	2,793	12,633
INCOME (LOSS) BEFORE INCOME TAXES	(2,776,872)	470,045
INCOME TAX EXPENSE	-	-
INCOME (LOSS) FROM CONTINUING OPERATIONS	(2,776,872)	470,045
NET INCOME (LOSS)	$ (2,776,872)	$ 470,045
BASIC AND DILUTED INCOME (LOSS) PER SHARE	$ (0.01)	$ 0.07
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED	330,631,438	6,572,775

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

COROWARE, INC.
Consolidated Statements of Cash Flows
(Unaudited)

	For the Three Months Ended March 31, 2014	2013
OPERATING ACTIVITIES		
Net income (loss)	$ (2,779,665)	$ 457,412
Net income (loss) attributable to non controlling interest	2,793	12,633
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,083	4,231
(Gain) loss on derivative valuation	2,190,919	(741,568)
Amortization of debt discount	33,366	5,542
Preferred Stock issued for services and compensation	217,012	-
Common Stock issued for services and compensation	-	28,659
Changes in operating assets and liabilities:		
Accounts receivable	(50,759)	(80,452)
Other current assets	-	20,000
Inventory	12,243	(789)
Dividends payable	15,969	-
Accounts payable and accrued expenses	148,559	(77,536)
Net Cash Used in Operating Activities	(207,480)	(371,868)
INVESTING ACTIVITIES		
Net Cash Used in Investing Activities	-	-
FINANCING ACTIVITIES		
Net proceeds from obligations collateralized by receivables	40,376	47,651
Proceeds from related party loans		1,532
Payments on related party loans	12,669	-
Proceeds from convertible debt financings	162,014	350,142
Net payments on line of credit	-	11,608
Proceeds from non controlling interest	654	12,000
Payments on notes payable	(4,635)	(47,232)
Net Cash Provided by Financing Activities	211,078	375,701
NET INCREASE IN CASH	3,598	3,833
CASH AT BEGINNING OF PERIOD	(1,635)	2,754
CASH AT END OF PERIOD	$ 1,963	$ 6,587

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

COROWARE, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
(Unaudited)

Other comprehensive income

Unrealized holding gains on securities available for sale

673,527

5,191,291

159,166

4,443,919

Change in unrealized losses on securities available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings, net of reclassification

-

-

-

-

Reclassification adjustment gains realized in net income

(299,919
)

(679,209
)

(2,750
)

(485,811
)

Net unrealized gains

373,608

4,512,082

156,416

3,958,108

Less: Tax effect	
	175,792
	1,745,544
	60,126
	1,531,234
Net of tax amount	
	197,816
	2,766,538
	96,290
	2,426,874
Change in funded status of defined benefit pension plan and other benefit plans	
	629,524
	309,398
	314,762
	154,699
Less: Tax effect	
	241,988
	119,694
	120,994
	59,847
Net of tax amount	
	387,536
	189,704
	193,768
	94,852

Total other comprehensive income	585,352	2,956,242	290,058	2,521,726
Comprehensive income	$ 6,643,925	$ 7,241,361	$ 2,734,098	$ 5,141,830

See accompanying notes to unaudited consolidated financial statements.

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CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balances at December 31, 2010	$ 43,001	$ 22,022,122	$ 94,407,620	$ (19,166,655)	$ 102,475	$ 97,408,563
Net income	-	-	4,285,119	-	-	4,285,119
Other comprehensive income	-	-	-	-	2,956,242	2,956,242
Restricted stock awards	-	12,660	-	-	-	12,660
Restricted stock units for directors' deferred compensation plan	-	42,924	-	-	-	42,924
Cash dividends declared ($.50 per share)	-	-	(2,033,380)	-	-	(2,033,380)
Distribution of 10,378 shares of treasury stock for directors' Compensation	-	(33,831)	-	265,262	-	231,431
Distribution of 2,392 shares of treasury stock for employee Compensation	-	(6,140)	-	61,140	-	55,000
Distribution of 286 shares of treasury stock for deferred directors' Compensation	-	(7,364)	-	7,310		(54)
Distribution of 3,387 shares of treasury stock for employee restricted stock awards	-	(35,260)	-	86,550	-	51,290
	-	-	-	(183,542)	-	(183,542)

Purchase of 7,844 shares of treasury stock						
Issuance of 1,009,942 shares related to FOFC Merger	10,100	23,723,538	-	-	-	23,733,638
Balances at June 30, 2011	$ 53,101	$ 45,718,649	$ 96,659,359	$ (18,929,935)	$ 3,058,717	$ 126,559,891
Balances at December 31, 2011	$ 53,101	$ 45,582,861	$ 100,628,900	$ (18,894,044)	$ (1,441,378)	$ 125,929,440
Net income	-	-	6,058,573	-	-	6,058,573
Other comprehensive income	-	-	-	-	585,352	585,352
Restricted stock awards	-	44,743	-	-	-	44,743
Restricted stock units for directors' deferred compensation plan	-	42,982	-	-	-	42,982
Cash dividends declared ($.50 per share)	-	-	(2,286,005)	-	-	(2,286,005)
Distribution of 10,238 shares of treasury stock for directors' Compensation	-	(28,121)	-	261,069	-	232,948
Distribution of 3,453 shares of treasury stock for employee Compensation	-	(8,052)	-	88,052	-	80,000
Distribution of 3,240 shares of treasury stock for deferred directors' Compensation	-	(81,747)	-	82,588		841
Distribution of 1,079 shares of treasury stock for employee	-	(27,514)	-	27,514	-	-

restricted stock awards						
Purchase of 19,098 shares of treasury stock	-	-	-	(480,073)	-	(480,073)
Balances at June 30, 2012	$ 53,101	$ 45,525,152	$ 104,401,468	$ (18,914,894)	$ (856,026)	$ 130,208,801

See accompanying notes to unaudited consolidated financial statements.

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CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
Six Months Ended June 30

CASH FLOWS FROM OPERATING ACTIVITIES:	2012	2011
Net income	$ 6,058,573	$ 4,285,119
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	548,190	465,192
Provision for loan losses	528,897	250,000
Depreciation and amortization of fixed assets	1,497,490	1,450,227
Amortization of premiums on securities, net	894,292	557,177
Gains on sales of loans held for sale, net	(144,380)	(79,332)
Proceeds from sales of loans held for sale	5,360,780	3,480,239
Loans originated and held for sale	(5,303,317)	(3,264,965)
Net losses (gains) on sale of other real estate owned	4,502	(87,290)
Net gains on trading assets	(17,369)	(11,851)
Net gains on securities transactions	(299,919)	(679,209)
Proceeds from sales of trading assets	92,584	-
Purchase of trading assets	(32,939)	(249,568)
Decrease in other assets	4,919,260	3,916,406
Decrease (increase) in prepaid FDIC assessment	372,601	(323,836)
Decrease in accrued interest payable	(144,225)	(160,511)
Expense related to restricted stock units for directors' deferred compensation plan	42,982	42,924

Expense related to employee stock compensation	80,000	55,000
Expense related to employee stock awards	44,743	12,660
Decrease in other liabilities	(104,425)	(2,255,146)
Income from bank owned life insurance	(43,269)	(43,611)
Net cash provided by operating activities	14,355,051	7,359,625
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and calls of securities available for sale	69,367,438	56,656,054
Proceeds from maturities and principal collected on securities available for sale	14,616,579	14,554,015
Proceeds from maturities and principal collected on securities held to maturity	3,518,840	2,579,275
Purchases of securities available for sale	(64,276,418)	(80,994,140)
Purchases of securities held to maturity	(1,541,250)	(2,905,024)
Purchase of Federal Home Loan Bank and Federal Reserve Bank stock	(26,250)	(45,000)
Redemption of Federal Home Loan Bank and Federal Reserve Bank stock	176,900	228,450
Purchases of premises and equipment	(1,452,526)	(722,734)
Cash paid Fort Orange Financial Corporation acquisition	-	(8,137,816)
Cash received Fort Orange Financial Corporation acquisition	-	33,284,995
Proceeds from sales of other real estate owned	132,273	323,143

Net increase in loans	(58,445,477)	(10,752,681)
Net cash (used) provided by investing activities	(37,929,891)	4,068,537
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits, NOW accounts, savings accounts, and insured money market accounts	72,097,856	29,819,077
Net decrease in time deposits and individual retirement accounts	(16,911,987)	(2,684,163)
Net decrease in securities sold under agreements to repurchase	(5,356,414)	(13,124,903)
Repayments of Federal Home Loan Bank long term advances	(2,216,124)	(157,983)
Purchase of treasury stock	(480,073)	(183,542)
Cash dividends paid	(2,285,005)	(1,772,606)
Net cash provided by financing activities	44,848,253	11,895,880
Net increase in cash and cash equivalents	21,273,413	23,324,042
Cash and cash equivalents, beginning of period	52,901,853	60,619,777
Cash and cash equivalents, end of period	$ 74,175,266	$ 83,943,819

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(continued)

Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$3,068,390	$3,272,153
Income Taxes	$ 3,500	$2,204,866
Supplemental disclosure of non-cash activity:		
Transfer of loans to other real estate owned	$ 223,071	$ 32,621

See accompanying notes to unaudited consolidated financial statements.

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Chemung Financial Corporation (the "Corporation"), through its wholly owned subsidiaries, Chemung Canal Trust Company (the "Bank") and CFS Group, Inc., a financial services company, provides a wide range of banking, financing, fiduciary and other financial services to its local market area. The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries. All material intercompany accounts and transactions are eliminated in consolidation.

The data in the consolidated balance sheet as of December 31, 2011 was derived from the audited consolidated financial statements in the Corporation's 2011 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 28, 2012. That data, along with the other interim financial information presented in the consolidated balance sheets, statements of income, shareholders' equity and comprehensive income, and cash flows should be read in conjunction with the audited consolidated financial statements, including the notes thereto, contained in the 2011 Annual Report on Form 10-K. Amounts in prior periods' consolidated interim financial statements are reclassified whenever necessary to conform to the current period's presentation.

The consolidated financial statements included herein reflect all adjustments which are, in the opinion of management, of a normal recurring nature and necessary to present fairly the Corporation's financial position as of June 30, 2012 and December 31, 2011, and results of operations for the three and six-month periods ended June 30, 2012 and 2011, and changes in shareholders' equity and cash flows for the six-month periods ended June 30, 2012 and 2011. Subsequent events were evaluated for any required recognition or disclosure. The results for the periods presented are not necessarily indicative of results to be expected for the entire fiscal year or any other interim period.

2. Earnings Per Common Share

Basic earnings per share is net income divided by the weighted average number of common shares outstanding during the period. Issuable shares, including those related to directors’ restricted stock units and directors’ stock compensation, are considered outstanding and are included in the computation of basic earnings per share. All outstanding unvested share based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Restricted stock awards are grants of participating securities. The impact of the participating securities on earnings per share is not material. Earnings per share information is adjusted to present comparative results for stock splits and stock dividends that occur. Earnings per share were computed by dividing net income by 4,639,204 and 4,127,969 weighted average shares outstanding for the six-month periods ended June 30, 2012 and 2011, and 4,636,395 and 4,631,504 weighted average shares outstanding for the three-month periods ended June 30, 2012 and 2011, respectively. There were no dilutive common stock equivalents during the three and six-month periods ended June 30, 2012 or 2011.

3. Adoption of New Accounting Standards

In May, 2011, the FASB issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this guidance are effective for interim and annual reporting periods beginning after December 15, 2011. The effect of adopting this standard did not have a material effect on the Corporation's operating results or financial condition, but the additional disclosures are included in Note 4.

In June 2011, the FASB amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in two separate consecutive statements. The amendments in this guidance are effective as of the beginning of a fiscal reporting year, and interim periods within that year, that begins after December 15, 2011. In connection with the adoption of this amendment, the Corporation changed the presentation of the statement of comprehensive income for the Corporation to two consecutive statements instead of presenting it as part of the consolidated statements of shareholders' equity.

4. Fair Value

Fair value is the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Corporation used the following methods and significant assumptions to estimate fair value:

Investment Securities: The fair values of securities available for sale are usually determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs), or matrix pricing, which is a mathematical technique widely used to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The Corporation's investment in collateralized debt obligations consisting of pooled trust preferred securities which are issued by financial institutions were historically priced using Level 2 inputs. The lack of observable inputs and market activity in this class of investments has been significant and resulted in unreliable external pricing. Broker pricing and bid/ask spreads, when available, have varied widely. The once active market has become comparatively inactive. As a result, these investments are now priced using Level 3 inputs.

The Corporation utilizes an external model for pricing these securities. This is the same model used in determining other-than-temporary impairment ("OTTI") as further described in Note 8. Information such as historical and current performance of the underlying collateral, deferral/default rates, collateral coverage ratios, break in yield calculations, cash flow projections, liquidity and credit premiums required by a market participant, and financial trend analysis with respect to the individual issuing financial institutions, are utilized in determining individual security valuations. Discount rates were utilized along with the cash flow projections in order to calculate an appropriate fair value. These discount rates were calculated based on industry index rates and adjusted for various credit and liquidity factors. Due to current market conditions as well as the limited trading activity of these securities, the market value of the securities is highly sensitive to assumption changes and market volatility.

Trading Assets: The fair values of trading assets are determined by quoted market prices (Level 1 inputs).

Impaired Loans: At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value have been partially charged-off or receive specific allocations as part of the allowance for loan loss accounting. For collateral dependent loans, fair value is commonly based on real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, typically resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosures are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for both collateral-dependent impaired loans and other real estate owned ("OREO") are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Corporation. Once received, appraisals are reviewed for reasonableness of assumptions, approaches utilized, Uniform Standards of Professional Appraisal Practice and other regulatory compliance, as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. Appraisals are generally completed within the previous 12 month period prior to a property being placed into OREO. On impaired loans, appraisal values are adjusted based on the age of the appraisal, the position of the lien, the type of the property and its condition.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

		Fair Value Measurement at June 30, 2012 Using		
Financial Assets:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Obligations of U.S. Government and U.S. Government sponsored enterprises	$147,351,879	$37,929,000	$109,422,879	$ -
Mortgage-backed securities, residential	40,608,180	-	40,608,180	-
Obligations of states and political subdivisions	43,427,345	-	43,427,345	-
Collateralized mortgage obligations	5,487,056	-	5,487,056	-
Corporate bonds and notes	13,711,247	-	13,711,247	-
SBA loan pools	1,863,449	-	1,863,449	-
Trust Preferred securities	2,426,785	-	2,083,750	343,035
Corporate stocks	6,065,505	5,375,502	690,003	-
Total available for sale securities	$260,941,446	$43,304,502	$217,293,909	$343,035
Trading assets	$ 252,105	$ 252,105	$ -	$ -

Fair Value Measurement at

		December 31, 2011 Using		
Financial Assets:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Obligations of U.S. Government and U.S. Government sponsored enterprises	$152,079,770	$35,950,000	$116,129,770	$ -
Mortgage-backed securities, residential	50,766,604	-	50,766,604	-
Obligations of states and political subdivisions	46,512,971	-	46,512,971	-
Trust Preferred securities	2,310,066	-	2,015,156	294,910
Corporate bonds and notes	13,684,199	-	13,684,199	-
Collateralized mortgage obligations	7,536,753	-	7,536,753	-
SBA loan pools	1,949,606	-	1,949,606	-
Corporate stocks	6,029,841	5,339,839	690,002	-
Total available for sale securities	$280,869,810	$41,289,839	$239,285,061	$294,910
Trading assets	$ 294,381	$ 294,381	$ -	$ -

There were no transfers between Level 1 and Level 2 during the three or six-month periods ending June 30, 2012 or the year ending December, 31, 2011.

The significant unobservable inputs used in the fair value measurement of the Corporation's collateralized debt obligations are probabilities of specific-issuer defaults and deferrals and specific-issuer recovery assumptions. Significant increases in specific-issuer default assumptions or decreases in specific-issuer recovery assumptions would result in a significantly lower fair value measurement. Conversely, decreases in specific-issuer default assumptions or increases in specific-issuer recovery assumptions would result in a higher fair value measurement. The Corporation treats all interest payment deferrals as defaults and assumes no recoveries on defaults.

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six-month periods ending June 30, 2012 and 2011:

	Fair Value Measurement for Six-Months Ended June 30, 2012 Using Significant Unobservable Inputs (Level 3)	Fair Value Measurement for Six-Months Ended June 30, 2011 Using Significant Unobservable Inputs (Level 3)
Trust Preferred Securities Available for Sale		
Beginning balance	$ 294,910	$ 334,585
Total gains/losses (realized/unrealized):		
Included in earnings:		
Income on securities	-	-
Impairment charge on investment securities	-	-
Included in other comprehensive income	48,125	37,150
Transfers in and/or out of Level 3	-	-
Ending balance June 30	$ 343,035	$ 371,735

	Fair Value Measurement for Three-Months	Fair Value Measurement for Three-Months

	Ended June 30, 2012 Using Significant Unobservable Inputs (Level 3)	Ended June 30, 2011 Using Significant Unobservable Inputs (Level 3)
Trust Preferred Securities Available for Sale		
Beginning balance	$ 346,210	$ 349,035
Total gains/losses (realized/unrealized):		
Included in earnings:		
Income on securities	-	-
Impairment charge on investment securities	-	-
Included in other comprehensive income	(3,175)	22,700
Transfers in and/or out of Level 3	-	-
Ending balance June 30	$ 343,035	$ 371,735

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Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

Financial Assets:	Fair Value	Fair Value Measurement at June 30, 2012 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired Loans:				
Commercial, financial and agricultural:				
Commercial and industrial	$ 1,123,030	$ -	$ -	$ 1,123,030
Commercial mortgages:		-	-	
Other	1,005,169	-	-	1,005,169
Residential mortgages	125,136	-	-	125,136
Total Impaired Loans	$ 2,253,335	$ -	$ -	$ 2,253,335
Other real estate owned:				
Commercial, financial and agricultural:				
Commercial and industrial	$ 197,800	$ -	$ -	$ 197,800
Commercial mortgages:				
Other	316,060	-	-	316,060
Residential mortgages	419,810	-	-	419,810
Consumer loans:				
Home equity lines	36,600	-	-	36,600

& loans				
Total Other real estate owned, net	$ 970,270	$ -	$ -	$ 970,270

		Fair Value Measurement at December 31, 2011 Using		
Financial Assets:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired Loans:				
Commercial, financial and agricultural:				
Commercial and industrial	$ 831,601	$ -	$ -	$ 831,601
Commercial mortgages:		-	-	
Other	3,321,838	-	-	3,321,838
Total Impaired Loans	$ 4,153,439	$ -	$ -	$ 4,153,439
Other real estate owned:				
Commercial, financial and agricultural:				
Commercial and industrial	$ 218,040	$ -	$ -	$ 218,040
Commercial mortgages:				
Other	366,760	-	-	366,760
Residential mortgages	276,355	-	-	276,355
Consumer loans:				