

OLD POINT FINANCIAL CORP  
Form 10-Q  
May 07, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

or

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: 000-12896

OLD POINT FINANCIAL CORPORATION  
(Exact name of registrant as specified in its charter)

VIRGINIA  
(State or other jurisdiction of  
incorporation or organization)

54-1265373  
(I.R.S. Employer  
Identification No.)

1 West Mellen Street, Hampton, Virginia 23663  
(Address of principal executive offices) (Zip Code)

(757) 728-1200  
(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  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

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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  (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  No

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

4,925,910 shares of common stock (\$5.00 par value) outstanding as of April 30, 2010

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## OLD POINT FINANCIAL CORPORATION

## FORM 10-Q

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements.

Old Point Financial Corporation and Subsidiaries  
Consolidated Balance Sheets

	March 31, 2010 (unaudited)	December 31, 2009
<b>Assets</b>		
Cash and due from banks	\$ 11,990,803	\$ 13,223,901
Federal funds sold	56,475,149	34,412,097
Cash and cash equivalents	68,465,952	47,635,998
Securities available-for-sale, at fair value	188,892,924	173,774,953
Securities held-to-maturity (fair value approximates \$3,131,568 and \$2,233,133)	3,112,000	2,212,000
Restricted securities	4,814,700	4,814,700
Loans, net of allowance for loan losses of \$11,143,532 and \$7,864,451	620,763,756	627,378,089
Premises and equipment, net	30,272,703	30,397,444
Bank owned life insurance	16,495,861	16,290,838
Foreclosed assets, net of valuation allowance of \$745,000 and \$860,000	7,570,500	7,623,500
Other assets	11,475,510	11,294,719
	\$ 951,863,906	\$ 921,422,241
<b>Liabilities &amp; Stockholders' Equity</b>		
<b>Deposits:</b>		
Noninterest-bearing deposits	\$ 122,888,141	\$ 111,636,590
Savings deposits	206,752,693	205,647,611
Time deposits	356,834,253	345,216,588
Total deposits	686,475,087	662,500,789
Federal funds purchased and other borrowings	1,312,958	1,018,559
Overnight repurchase agreements	52,664,621	49,560,402
Term repurchase agreements	63,864,042	59,858,542
Federal Home Loan Bank advances	65,000,000	65,000,000
Accrued expenses and other liabilities	2,033,063	1,875,496
Total liabilities	871,349,771	839,813,788
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
Common stock, \$5 par value, 10,000,000 shares authorized; 4,925,910 and 4,916,535 shares issued	24,629,550	24,582,675
Additional paid-in capital	15,886,726	15,768,840
Retained earnings	41,058,825	42,518,889
Accumulated other comprehensive loss	(1,060,966)	(1,261,951)

Total stockholders' equity	80,514,135	81,608,453
Total liabilities and equity	\$ 951,863,906	\$ 921,422,241

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation and Subsidiaries  
Consolidated Statements of Operations

	Three Months Ended March 31,	
	2010	2009
	(unaudited)	
<b>Interest and Dividend Income:</b>		
Interest and fees on loans	\$ 9,486,216	\$ 9,416,606
Interest on federal funds sold	20,346	13,257
<b>Interest on securities:</b>		
Taxable	804,256	659,582
Tax-exempt	93,883	159,314
Dividends and interest on all other securities	10,786	146,883
<b>Total interest and dividend income</b>	<b>10,415,487</b>	<b>10,395,642</b>
<b>Interest Expense:</b>		
Interest on savings deposits	94,979	94,691
Interest on time deposits	1,860,927	2,828,072
Interest on federal funds purchased, securities sold under agreements to repurchase and other borrowings	178,325	97,363
Interest on Federal Home Loan Bank advances	829,625	895,375
<b>Total interest expense</b>	<b>2,963,856</b>	<b>3,915,501</b>
<b>Net interest income</b>	<b>7,451,631</b>	<b>6,480,141</b>
Provision for loan losses	4,700,000	1,000,000
<b>Net interest income, after provision for loan losses</b>	<b>2,751,631</b>	<b>5,480,141</b>
<b>Noninterest Income:</b>		
Income from fiduciary activities	820,885	764,738
Service charges on deposit accounts	1,314,677	1,336,939
Other service charges, commissions and fees	690,817	612,374
Income from bank owned life insurance	388,845	176,015
Gain on available-for-sale securities, net	76	0
Other operating income	82,548	74,660
<b>Total noninterest income</b>	<b>3,297,848</b>	<b>2,964,726</b>
<b>Noninterest Expense:</b>		
Salaries and employee benefits	4,531,082	4,466,012
Occupancy and equipment	1,099,383	1,034,903
FDIC insurance	329,276	102,165
Data processing	296,655	249,250
Customer development	222,299	198,347
Advertising	175,985	171,494
Loan expenses	122,290	134,172
Postage and courier expense	135,621	137,203
Employee professional development	142,900	141,713
Loss (gain) on write-down/sale of foreclosed assets	(46,260)	67,316
Other	725,382	701,512

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Total noninterest expense	7,734,613	7,404,087
Income (loss) before income taxes	(1,685,134)	1,040,780
Income tax expense (benefit)	(739,507)	271,076
Net income (loss)	\$ (945,627)	\$ 769,704
Basic Earnings (Loss) per Share:		
Average shares outstanding	4,920,108	4,907,010
Net income (loss) per share of common stock	\$ (0.19)	\$ 0.16
Diluted Earnings (Loss) per Share:		
Average shares outstanding	4,933,582	4,933,018
Net income (loss) per share of common stock	\$ (0.19)	\$ 0.16

See Notes to Consolidated Financial Statements.



Old Point Financial Corporation and Subsidiaries  
Consolidated Statements of Changes in Stockholders' Equity

(unaudited)	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
<b>FOR THE THREE MONTHS ENDED MARCH 31, 2010</b>						
Balance at beginning of period	4,916,535	\$ 24,582,675	\$ 15,768,840	\$ 42,518,889	\$ (1,261,951)	\$ 81,608,453
Comprehensive loss:						
Net loss	0	0	0	(945,627)	0	(945,627)
Unrealized holding gains arising during the period (net of tax, \$103,512)	0	0	0	0	200,935	200,935
Reclassification adjustment (net of tax, \$26)	0	0	0	0	50	50
Total comprehensive loss	0	0	0	(945,627)	200,985	(744,642)
Exercise of stock options	9,375	46,875	89,450	(32,724)	0	103,601
Disqualification of stock options	0	0	0	10,503	0	10,503
Stock compensation expense	0	0	28,436	0	0	28,436
Cash dividends (\$0.10 per share)	0	0	0	(492,216)	0	(492,216)
Balance at end of period	4,925,910	\$ 24,629,550	\$ 15,886,726	\$ 41,058,825	\$ (1,060,966)	\$ 80,514,135
<b>FOR THE THREE MONTHS ENDED MARCH 31, 2009</b>						
Balance at beginning of period	4,905,229	\$ 24,526,145	\$ 15,506,322	\$ 43,250,906	\$ (385,463)	\$ 82,897,910
Comprehensive income:						
Net income	0	0	0	769,704	0	769,704
Unrealized holding losses arising during the period (net of tax benefit, \$150,616)	0	0	0	0	(292,373)	(292,373)
	0	0	0	769,704	(292,373)	477,331

Total comprehensive  
income

Exercise of stock options	2,812	14,060	35,253	(21,719)	0	27,594
Stock compensation expense	0	0	27,569	0	0	27,569
Cash dividends (\$0.17 per share)	0	0	0	(834,367)	0	(834,367)
Balance at end of period	4,908,041	\$ 24,540,205	\$ 15,569,144	\$ 43,164,524	\$ (677,836)	\$ 82,596,037

See Notes to Consolidated Financial Statements.

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Old Point Financial Corporation and Subsidiaries  
Consolidated Statements of Cash Flows

	Three Months Ended March 31,	
	2010	2009
	(unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ (945,627)	\$ 769,704
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	500,371	458,359
Provision for loan losses	4,700,000	1,000,000
Net gain on sale of available-for-sale securities	(76)	0
Net accretion and amortization of securities	4,625	(1,792)
Net (gain) loss on disposal of premises and equipment	207	(648)
Net (gain) loss on write-down/sale of foreclosed assets	(46,260)	67,316
Income from bank owned life insurance	(388,845)	(176,015)
Stock compensation expense	28,436	27,569
Deferred tax (benefit) expense	14,025	(170,000)
Increase in other assets	(551,533)	(922,901)
Increase in other liabilities	157,567	929,340
Net cash provided by operating activities	3,472,890	1,980,931
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of available-for-sale securities	(58,478,191)	(66,665,868)
Purchases of held-to-maturity securities	(1,200,000)	0
Purchases of restricted securities	0	(23,650)
Proceeds from maturities and calls of securities	37,273,195	25,116,192
Proceeds from sales of available-for-sale securities	6,687,000	1,350,000
Decrease in loans made to customers	1,914,333	7,318,522
Proceeds from sales of foreclosed assets	536,260	540,591
Purchases of premises and equipment	(375,837)	(1,573,015)
Net cash used in investing activities	(13,643,240)	(33,937,228)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in noninterest-bearing deposits	11,251,551	(8,286,689)
Increase (decrease) in savings deposits	1,105,082	(2,731,485)
Increase in time deposits	11,617,665	9,866,759
Increase in federal funds purchased, repurchase agreements and other borrowings	7,404,118	46,402,099
Proceeds from exercise of stock options	103,601	27,595
Disqualification of stock options	10,503	0
Cash dividends paid on common stock	(492,216)	(834,367)
Net cash provided by financing activities	31,000,304	44,443,912
Net increase in cash and cash equivalents	20,829,954	12,487,615
Cash and cash equivalents at beginning of period	47,635,998	47,324,713

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Cash and cash equivalents at end of period	\$ 68,465,952	\$ 59,812,328
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SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash payments for:

Interest	\$ 3,030,651	\$ 3,838,331
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SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS

Unrealized gain (loss) on investment securities	\$ 304,523	\$ (442,989)
Loans transferred to foreclosed assets	\$ 437,000	\$ 1,012,445

See Notes to Consolidated Financial Statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

## Note 1. General

The accompanying unaudited consolidated financial statements of Old Point Financial Corporation (the Company) and its subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information. All significant intercompany balances and transactions have been eliminated. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments and reclassifications of a normal and recurring nature considered necessary to present fairly the financial positions at March 31, 2010 and December 31, 2009, the results of operations, statements of cash flows and changes in stockholders' equity for the three months ended March 31, 2010 and 2009. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year.

These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2009 annual report on Form 10-K. Certain previously reported amounts have been reclassified to conform to current period presentation.

## Available Information

The Company maintains a website on the Internet at [www.oldpoint.com](http://www.oldpoint.com). The Company makes available free of charge, on or through its website, its proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission (SEC). The information available on the Company's Internet website is not part of this Form 10-Q or any other report filed by the Company with the SEC. The public may read and copy any documents the Company files at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Company's SEC filings can also be obtained on the SEC's website on the Internet at [www.sec.gov](http://www.sec.gov).

## Note 2. Securities

Amortized costs and fair values of securities held-to-maturity are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
<b>March 31, 2010</b>				
Obligations of U.S.				
Government agencies	\$ 2,700	\$ 5	\$ (8)	\$ 2,697
Obligations of state and political subdivisions	412	23	0	435
<b>Total</b>	<b>\$ 3,112</b>	<b>\$ 28</b>	<b>\$ (8)</b>	<b>\$ 3,132</b>
<b>December 31, 2009</b>				
Obligations of U.S.				
Government agencies	\$ 1,800	\$ 4	\$ (7)	\$ 1,797
Obligations of state and political subdivisions	412	24	0	436
<b>Total</b>	<b>\$ 2,212</b>	<b>\$ 28</b>	<b>\$ (7)</b>	<b>\$ 2,233</b>



Amortized costs and fair values of securities available-for-sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
<b>March 31, 2010</b>				
U.S. Treasury securities	\$ 400	\$ 0	\$ 0	\$ 400
Obligations of U.S. Government agencies	178,932	603	(387)	179,148
Obligations of state and political subdivisions	6,850	113	0	6,963
Mortgage-backed securities	1,161	24	0	1,185
Money market investments	1,197	0	0	1,197
<b>Total</b>	<b>\$ 188,540</b>	<b>\$ 740</b>	<b>\$ (387)</b>	<b>\$ 188,893</b>
<b>December 31, 2009</b>				
U.S. Treasury securities	\$ 400	\$ 0	\$ 0	\$ 400
Obligations of U.S. Government agencies	161,645	341	(446)	161,540
Obligations of state and political subdivisions	8,702	124	(1)	8,825
Mortgage-backed securities	1,273	31	0	1,304
Money market investments	1,706	0	0	1,706
<b>Total</b>	<b>\$ 173,726</b>	<b>\$ 496</b>	<b>\$ (447)</b>	<b>\$ 173,775</b>

#### Temporarily Impaired Securities

The following tables show the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	Less Than Twelve Months		March 31, 2010 More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
(in thousands)						
<b>Securities Available-for-Sale</b>						
<b>Debt securities:</b>						
<b>Obligations of U.S.</b>						
Government agencies	\$ 387	\$ 77,856	\$ 0	\$ 0	\$ 387	\$ 77,856
<b>Securities Held-to-Maturity</b>						
<b>Obligations of U.S.</b>						
Government agencies	\$ 8	\$ 1,492	\$ 0	\$ 0	\$ 8	\$ 1,492

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Total	\$	395	\$	79,348	\$	0	\$	0	\$	395	\$	79,348
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	Less Than Twelve Months		December 31, 2009 More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
(in thousands)						
<b>Securities Available-for-Sale</b>						
Debt securities:						
Obligations of U. S.						
Government agencies	\$ 446	\$ 49,589	\$ 0	\$ 0	\$ 446	\$ 49,589
Obligations of state and political subdivisions	1	859	0	0	1	859
Total securities available-for-sale	\$ 447	\$ 50,448	\$ 0	\$ 0	\$ 447	\$ 50,448
<b>Securities Held-to-Maturity</b>						
Obligations of U. S.						
Government agencies	\$ 7	\$ 893	\$ 0	\$ 0	\$ 7	\$ 893
Total	\$ 454	\$ 51,341	\$ 0	\$ 0	\$ 454	\$ 51,341

#### U.S. Government and federal agency obligations

The U.S. Government agencies portfolio had fifteen investments with unrealized losses at March 31, 2010 and ten investments with unrealized losses at December 31, 2009. These unrealized losses were caused by increases in market interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is unlikely that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, the Company does not consider those investments to be other-than-temporarily impaired at March 31, 2010 or December 31, 2009.

#### Obligations of state and political subdivisions

The unrealized loss on one investment in obligations of state and political subdivisions at December 31, 2009 was caused by increases in market interest rates. Because the Company does not intend to sell the investment and it is unlikely that the Company will be required to sell the investment before recovery of its amortized cost basis, which may be at maturity, the Company does not consider the investment to be other-than-temporarily impaired at December 31, 2009.

#### Other-than-Temporarily Impaired Securities

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The 2009 and 2010 unrealized losses relate to obligations of U.S. Government agencies and state and political subdivisions. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. The unrealized losses are a result of changes in market interest rates and not credit issues. Since the

Company has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other than temporary.

The restricted security category on the balance sheets is comprised of Federal Home Loan Bank of Atlanta (FHLB) and Federal Reserve Bank (FRB) stock. These stocks are classified as restricted securities because their ownership is restricted to certain types of entities and they lack a market. Therefore, this stock is carried at cost and evaluated for impairment. When evaluating this stock for impairment, its value is determined based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

The FHLB paid a quarterly dividend for the second, third and fourth quarters of 2009. The FHLB filed its annual report on Form 10-K in late March 2010. According to the annual report, the FHLB's net income for 2009 was \$283.5 million, a \$29.7 million, or 11.70%, increase from net income for 2008. On April 29, 2010 the FHLB issued a press release on its earnings for the first quarter of 2010. Net income for the quarter ended March 31, 2010 was approximately \$48 million, compared to a loss of \$2 million for the same period in 2009. As of May 5, 2010, the FHLB had not yet made a determination on whether it would issue a dividend for the first quarter of 2010. The FHLB reported that it was in compliance with all of its regulatory capital requirements as of December 31, 2009. Restricted stock, including FHLB stock, is viewed as a long-term investment and the Company has the ability and the intent to hold this stock until its value is recovered. Therefore, the Company determined the FHLB stock was not impaired as of March 31, 2010.

### Note 3. Loans

Loans at March 31, 2010 and December 31, 2009 are summarized as follows:

	March 31, 2010	December 31, 2009
(in thousands)		
<b>Mortgage loans on real estate:</b>		
Residential 1-4 family	\$ 99,874	\$ 100,788
Commercial	355,764	345,753
Construction	25,591	30,696
Second mortgages	17,802	19,997
Equity lines of credit	39,355	39,192
<b>Total mortgage loans on real estate</b>	<b>538,386</b>	<b>536,426</b>
Commercial loans	57,765	60,353
Consumer installment loans	30,966	33,371
Other	4,321	4,626
<b>Total loans</b>	<b>631,438</b>	<b>634,776</b>
Net deferred loan costs *	470	466
<b>Less: Allowance for loan losses</b>	<b>(11,144)</b>	<b>(7,864)</b>
<b>Loans, net</b>	<b>\$ 620,764</b>	<b>\$ 627,378</b>

\* Net deferred loan costs are part of second mortgages and commercial real estate

The following is a summary of information pertaining to impaired loans, nonaccrual loans and loans ninety days or more past due and still accruing interest:

	March 31, 2010	December 31, 2009
(in thousands)		
Impaired loans without a valuation allowance	\$ 5,198	\$ 0
Impaired loans with a valuation allowance	10,971	1,105
<b>Total impaired loans</b>	<b>\$ 16,169</b>	<b>\$ 1,105</b>
Valuation allowance related to impaired loans	\$ 3,000	\$ 387
<b>Total nonaccrual loans</b>	<b>\$ 17,534</b>	<b>\$ 4,917</b>
Total loans past-due ninety days or more and still accruing interest	\$ 266	\$ 389



## Note 4. Allowance for Loan Losses

The following summarizes activity in the allowance for loan losses for the three months ended March 31, 2010 and the year ended December 31, 2009:

	March 31, 2010	December 31, 2009
	(in thousands)	
Balance, beginning of year	\$ 7,864	\$ 6,406
Recoveries	225	937
Provision for loan losses	4,700	6,875
Loans charged off	(1,645)	(6,354)
Balance, end of period	\$ 11,144	\$ 7,864

## Note 5. Share-Based Compensation

Share-based compensation arrangements include stock options, restricted stock awards, performance-based awards, stock appreciation rights and employee stock purchase plans. Accounting standards require all share-based payments to employees to be valued using a fair value method on the date of grant and to be expensed based on that fair value over the applicable vesting period.

There were no options granted in 2010, 2009 or 2008.

On March 9, 2008, the Company's 1998 stock option plan expired. Options to purchase 259,400 shares of common stock were outstanding under the Company's 1998 stock option plan at March 31, 2010. The exercise price of each option equals the market price of the Company's common stock on the date of the grant and each option's maximum term is ten years.

Stock option plan activity for the three months ended March 31, 2010 is summarized below:

Weighted Average Exercise	Weighted Average Remaining Contractual Life	Aggregate Intrinsic
---------------------------------	---	------------------------