OLD POINT FINANCIAL CORP
Form 10-Q
August 09, 2010

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

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2010
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: 000-12896

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

VIRGINIA	54-1265373
(State or other jurisdiction of incorporation or organization)	(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. x Yes o 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).
o 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 o	Accelerated filer x
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 Exchange Act).
o Yes x 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 July 30, 2010

OLD POINT FINANCIAL CORPORATION

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PART I - FINANCIAL INFORMATION

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Balance Sheets

	June 30, 2010 (unaudited)	December 31, 2009
Assets		
Cash and due from banks	$ 16,049,456	$ 13,223,901
Federal funds sold	21,019,836	34,412,097
Cash and cash equivalents	37,069,292	47,635,998
Securities available-for-sale, at fair value	186,015,876	173,774,953
Securities held-to-maturity (fair value approximates $2,846,208 and $2,233,133)	2,812,000	2,212,000
Restricted securities	4,814,700	4,814,700
Loans, net of allowance for loan losses of $11,706,850 and $7,864,451	612,688,971	627,378,089
Premises and equipment, net	29,880,768	30,397,444
Bank owned life insurance	17,646,947	16,290,838
Foreclosed assets, net of valuation allowance of $761,500 and $860,000	9,883,600	7,623,500
Other assets	11,557,096	11,294,719
	$ 912,369,250	$ 921,422,241
Liabilities & Stockholders' Equity		
Deposits:		
Noninterest-bearing deposits	$ 121,596,214	$ 111,636,590
Savings deposits	214,857,402	205,647,611
Time deposits	350,232,976	345,216,588
Total deposits	686,686,592	662,500,789
Federal funds purchased and other borrowings	1,093,177	1,018,559
Overnight repurchase agreements	48,858,124	49,560,402
Term repurchase agreements	57,018,425	59,858,542
Federal Home Loan Bank advances	35,000,000	65,000,000
Accrued expenses and other liabilities	1,718,346	1,875,496
Total liabilities	830,374,664	839,813,788
Commitments and contingencies		
Stockholders' equity:		
Common stock, $5 par value, 10,000,000 shares authorized; 4,925,910 and 4,916,535 shares issued and outstanding	24,629,550	24,582,675
Additional paid-in capital	15,915,198	15,768,840
Retained earnings	41,820,625	42,518,889
Accumulated other comprehensive loss, net	(370,787)	(1,261,951)

Total stockholders' equity	81,994,586	81,608,453
Total liabilities and stockholders' equity	$ 912,369,250	$ 921,422,241

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation and Subsidiaries

Consolidated Statements of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(unaudited)		(unaudited)	
Interest and Dividend Income:				
Interest and fees on loans	$ 9,258,835	$ 9,400,770	$ 18,745,051	$ 18,817,376
Interest on federal funds sold	28,137	8,770	48,483	22,027
Interest on securities:				
Taxable	849,035	710,202	1,653,291	1,369,784
Tax-exempt	73,643	154,319	167,526	313,633
Dividends and interest on all other securities	11,581	119,959	22,367	266,842
Total interest and dividend income	10,221,231	10,394,020	20,636,718	20,789,662
Interest Expense:				
Interest on savings deposits	98,479	98,375	193,458	193,066
Interest on time deposits	1,703,128	2,607,016	3,564,055	5,435,088
Interest on federal funds purchased, securities sold under agreements to repurchase and other borrowings	182,823	144,056	361,148	241,419
Interest on Federal Home Loan Bank advances	710,632	853,454	1,540,257	1,748,829
Total interest expense	2,695,062	3,702,901	5,658,918	7,618,402
Net interest income	7,526,169	6,691,119	14,977,800	13,171,260
Provision for loan losses	1,300,000	3,000,000	6,000,000	4,000,000
Net interest income, after provision for loan losses	6,226,169	3,691,119	8,977,800	9,171,260
Noninterest Income:				
Income from fiduciary activities	780,963	763,482	1,601,848	1,528,220
Service charges on deposit accounts	1,280,064	1,375,733	2,594,741	2,712,672
Other service charges, commissions and fees	753,989	655,888	1,444,806	1,268,262
Income from bank owned life insurance	210,478	176,014	599,323	352,029
Gain on available-for-sale securities, net	0	0	76	0
Other operating income	102,272	129,350	184,820	204,010
Total noninterest income	3,127,766	3,100,467	6,425,614	6,065,193
Noninterest Expense:				
Salaries and employee benefits	4,621,668	4,348,441	9,152,750	8,814,453
Occupancy and equipment	1,050,934	1,011,600	2,150,317	2,046,503
FDIC insurance	316,905	750,897	646,181	853,062
Data processing	305,153	274,045	601,808	523,295
Customer development	217,931	183,813	440,230	382,160
Advertising	174,296	180,086	350,281	351,580
Loan expenses	241,583	166,802	363,873	300,974
Postage and courier expense	134,781	131,376	270,402	268,579
Employee professional development	117,139	130,107	260,039	271,820
Legal and audit expenses	214,607	95,056	319,738	199,423
Loss (gain) on write-down/sale of foreclosed assets	(4,787)	73,893	(51,047)	141,209
Other	585,255	544,729	1,205,506	1,141,874

Total noninterest expense	7,975,465	7,890,845	15,710,078	15,294,932
Income (loss) before income taxes	1,378,470	(1,099,259)	(306,664)	(58,479)
Income tax expense (benefit)	370,374	(477,341)	(369,133)	(206,265)
Net income (loss)	$ 1,008,096	$ (621,918)	$ 62,469	$ 147,786
Basic Earnings (Loss) per Share:				
Average shares outstanding	4,925,910	4,908,216	4,923,025	4,907,616
Net income (loss) per share of common stock	$ 0.21	$ (0.13)	$ 0.01	$ 0.03
Diluted Earnings (Loss) per Share:				
Average shares outstanding	4,932,233	4,940,606	4,933,023	4,937,085
Net income (loss) per share of common stock	$ 0.20	$ (0.13)	$ 0.01	$ 0.03

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
FOR THE SIX MONTHS ENDED JUNE 30, 2010						
Balance at beginning of period	4,916,535	$ 24,582,675	$ 15,768,840	$ 42,518,889	$ (1,261,951)	$ 81,608,453
Comprehensive income:						
Net income	0	0	0	62,469	0	62,469
Unrealized holding gains arising during the period(net of tax, $459,059)	0	0	0	0	891,114	891,114
Reclassification adjustment (net of tax, $26)	0	0	0	0	50	50
Total comprehensive income	0	0	0	62,469	891,164	953,633
Exercise of stock options	9,375	46,875	89,450	(32,724)	0	103,601
Tax benefit from disqualification of stock options	0	0	0	10,503	0	10,503
Stock compensation expense	0	0	56,908	0	0	56,908
Cash dividends ($0.15 per share)	0	0	0	(738,512)	0	(738,512)
Balance at end of period	4,925,910	$ 24,629,550	$ 15,915,198	$ 41,820,625	$ (370,787)	$ 81,994,586
FOR THE SIX MONTHS ENDED JUNE 30, 2009						
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	147,786	0	147,786
Unrealized holding losses arising during the period (net of tax benefit, $52,825)	0	0	0	0	(102,542)	(102,542)
Total comprehensive income	0	0	0	147,786	(102,542)	45,244
	(1,818)	(9,090)	0	(27,189)	0	(36,279)

Repurchase and retirement of common stock						
Exercise of stock options	5,624	28,120	77,308	(41,541)	0	63,887
Stock compensation expense	0	0	54,782	0	0	54,782
Cash dividends ($0.27 per share)	0	0	0	(1,325,171)	0	(1,325,171)
Balance at end of period	4,909,035	$ 24,545,175	$ 15,638,412	$ 42,004,791	$ (488,005)	$ 81,700,373

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows

	Six Months Ended June 30, 2010	2009
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 62,469	$ 147,786
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	992,608	914,978
Provision for loan losses	6,000,000	4,000,000
Net gain on sale of available-for-sale securities	(76)	0
Net accretion and amortization of securities	7,208	(11,792)
Net (gain) loss on disposal of premises and equipment	(3,773)	152
Net (gain) loss on write-down/sale of foreclosed assets	(51,047)	141,209
Income from bank owned life insurance	(599,323)	(352,029)
Stock compensation expense	56,908	54,782
Deferred tax benefit	(1,368,017)	(297,243)
Increase in other assets	(2,380,833)	(8,378,041)
Decrease in other liabilities	(157,150)	(134,279)
Net cash provided by (used in) operating activities	2,558,974	(3,914,477)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(94,172,153)	(98,911,221)
Purchases of held-to-maturity securities	(1,200,000)	(600,000)
Purchases of restricted securities	0	(23,650)
Proceeds from maturities and calls of securities	76,290,349	58,494,528
Proceeds from sales of available-for-sale securities	7,584,000	2,295,000
Decrease in loans made to customers	8,689,118	1,900,825
Proceeds from sales of foreclosed assets	1,001,547	2,972,418
Purchase of Bank Owned Life Insurance	(940,000)	0
Purchases of premises and equipment	(472,159)	(2,664,019)
Net cash used in investing activities	(3,219,298)	(36,536,119)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in noninterest-bearing deposits	9,959,624	(14,210,384)
Increase (decrease) in savings deposits	9,209,791	(1,354,727)
Increase (decrease) in time deposits	5,016,388	(4,349,934)
Increase (decrease) in federal funds purchased, repurchase agreements and other borrowings	(3,467,777)	44,346,008
Decrease in Federal Home Loan Bank advances	(30,000,000)	(5,000,000)
Proceeds from exercise of stock options	103,601	63,887
Repurchase and retirement of common stock	0	(36,279)
Tax benefit from disqualification of stock options	10,503	0
Cash dividends paid on common stock	(738,512)	(1,325,171)
Net cash provided by (used in) financing activities	(9,906,382)	18,133,400

Net decrease in cash and cash equivalents	(10,566,706)	(22,317,196)
Cash and cash equivalents at beginning of period	47,635,998	47,324,713
Cash and cash equivalents at end of period	$ 37,069,292	$ 25,007,517
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$ 5,893,247	$ 7,732,570
Income tax	$ 950,000	$ 650,000
SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS		
Unrealized gain (loss) on investment securities	$ 1,350,249	$ (155,367)
Loans transferred to foreclosed assets	$ 3,210,600	$ 8,485,524

See Notes to Consolidated Financial Statements.

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 June 30, 2010 and December 31, 2009, the results of operations for the three and six months ended June 30, 2010 and 2009 and statements of cash flows and changes in stockholders' equity for the six months ended June 30, 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. 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.

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)		
June 30, 2010				
Obligations of U.S. Government agencies	$ 2,400	$ 12	$ 0	$ 2,412
Obligations of state and political subdivisions	412	22	0	434
Total	$ 2,812	$ 34	$ 0	$ 2,846
December 31, 2009				
Obligations of U.S. Government agencies	$ 1,800	$ 4	$ (7)	$ 1,797
Obligations of state and political subdivisions	412	24	0	436
Total	$ 2,212	$ 28	$ (7)	$ 2,233

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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)		
June 30, 2010				
U.S. Treasury securities	$ 599	$ 0	$ 0	$ 599
Obligations of U.S. Government agencies	177,324	1,289	0	178,613
Obligations of state and political subdivisions	4,787	98	0	4,885
Mortgage-backed securities	525	12	0	537
Money market investments	1,382	0	0	1,382
Total	$ 184,617	$ 1,399	$ 0	$ 186,016
December 31, 2009				
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
Total	$ 173,726	$ 496	$ (447)	$ 173,775

Temporarily Impaired Securities

The following table shows the gross unrealized losses and fair value at December 31, 2009 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. The Company had no securities with unrealized losses as of June 30, 2010.

	December 31, 2009					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
			(in thousands)			
Securities Available-for-Sale						
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
Securities Held-to-Maturity						

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 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 management believes 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 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 management believes 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 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 and the first and second quarters of 2010. 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. On July 29, 2010, the FHLB issued a press release on its earnings for the second quarter of 2010. Net income for the quarter ended June 30, 2010 was approximately $75 million, down from $192 million in the second quarter of 2009. The decrease in net income was mainly due to net losses on derivatives and hedging activities in the second 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 June 30, 2010.

Note 3. Loans

The Company's loan portfolio is summarized as follows:

	June 30, 2010	December 31, 2009
	(in thousands)	
Mortgage loans on real estate:		
Residential 1-4 family	$ 99,141	$ 100,788
Commercial	356,279	345,753
Construction	20,913	30,696
Second mortgages	17,635	19,997
Equity lines of credit	39,898	39,192
Total mortgage loans on real estate	533,866	536,426
Commercial loans	56,067	60,353
Consumer installment loans	29,163	33,371
Other	4,801	4,626
Total loans	623,897	634,776
Net deferred loan costs *	499	466
Less: Allowance for loan losses	(11,707)	(7,864)
Loans, net	$ 612,689	$ 627,378

* 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:

	June 30, 2010	December 31, 2009
	(in thousands)	
Impaired loans without a valuation allowance	$ 4,001	$ 0
Impaired loans with a valuation allowance	13,578	1,105
Total impaired loans	$ 17,579	$ 1,105
Valuation allowance related to impaired loans	$ 3,597	$ 387
Total nonaccrual loans	$ 18,677	$ 4,917
Total loans past-due ninety days or more and still accruing interest	$ 659	$ 389

Note 4. Allowance for Loan Losses

The following summarizes activity in the allowance for loan losses for the six months ended June 30, 2010 and the year ended December 31, 2009:

	June 30, 2010	December 31, 2009
	(in thousands)	
Balance, beginning of year	$ 7,864	$ 6,406
Recoveries	403	937
Provision for loan losses	6,000	6,875
Loans charged off	(2,560)	(6,354)
Balance, end of period	$ 11,707	$ 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 the first six months of 2010 or in 2009.

On March 9, 2008, the Company's 1998 stock option plan expired. Options to purchase 255,025 shares of common stock were outstanding under the Company's 1998 stock option plan at June 30, 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 six months ended June 30, 2010 is summarized below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Options outstanding, January 1, 2010	271,275	$ 18.59		
Granted	0	0		
Exercised	(9,375)	11.05		
Canceled or expired	(6,875)	19.48		
Options outstanding, June 30, 2010	255,025	$ 18.84	4.48	$ 72
Options exercisable, June 30, 2010	192,049	$ 18.45	3.55	$ 72

The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on June 30, 2010. This amount changes based on changes in the market value of the Company's stock.

The total proceeds of the in-the-money options exercised during the six months ended June 30, 2010 were $103,601. The total intrinsic value of options exercised during the same period was $32,724.

As of June 30, 2010, there was $256 thousand of unrecognized compensation cost related to nonvested options. This cost is expected to be recognized over a weighted-average period of 27 months.

Note 6. Pension Plan

The Company provides pension benefits for eligible participants through a non-contributory defined benefits pension plan. The plan was frozen effective September 30, 2006; therefore, no additional participants will be added to the plan. The components of net periodic pension plan cost are as follows:

Quarter ended June 30,	2010	2009
	Pension Benefits	
Interest cost	$ 78,431	$ 71,058
Expected return on plan assets	(97,296)	(82,666)
Amortization of prior service cost	0	0
Amortization of net loss	31,701	25,861
Net periodic pension plan cost	$ 12,836	$ 14,253

Six months ended June 30,	2010	2009
	Pension Benefits	
Interest cost	$ 156,862	$ 142,116
Expected return on plan assets	(194,591)	(165,333)
Amortization of prior service cost	0	0
Amortization of net loss	63,403	51,722
Net periodic pension plan cost	$ 25,674	$ 28,505

At June 30, 2010, management had not yet determined how much, if any, the Company will contribute to the plan in the year ending December 31, 2010.

Note 7. Earnings per Share

Basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common shares outstanding during the period, including the effect of dilutive potential common shares attributable to outstanding stock options.

The Company did not include 181 thousand potential common shares attributable to outstanding stock options in the diluted earnings per share calculation at June 30, 2010 because they were antidilutive.

Note 8. Recent Accounting Pronouncements

In June 2009, the FASB issued new guidance relating to the accounting for transfers of financial assets. The new guidance, which was issued as Statement of Financial Accounting Standards No. 166 (SFAS 166), Accounting for Transfers of Financial Assets, an amendment to SFAS No. 140, was adopted into Codification in December 2009 through the issuance of Accounting Standards Updated (ASU) 2009-16. The new standard provides guidance to improve the relevance, representational faithfulness and comparability of the information that an entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor’s continuing involvement, if any, in transferred financial assets. The Company adopted the new guidance in 2010. This guidance is not expected to have a significant impact on the Company’s consolidated financial statements.

In June 2009, the FASB issued new guidance relating to variable interest entities (VIEs). The new guidance, which was issued as SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167), was adopted into Codification in December 2009. The objective of the guidance is to improve financial reporting by enterprises involved with VIEs and to provide more relevant and reliable information to users of financial statements. SFAS 167 is effective as of January 1, 2010. The Company does not expect the adoption of the new guidance to have a material impact on its consolidated financial statements.