

NARA BANCORP INC
Form 10-Q
August 09, 2011
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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 June 30, 2011

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: 000-50245

NARA BANCORP, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

95-4849715
(IRS Employer

Identification Number)

3731 Wilshire Boulevard, Suite 1000, Los Angeles, California
(Address of Principal executive offices)

90010
(ZIP Code)

(213) 639-1700

(Registrant's telephone number, including area code)

(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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer 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

As of July 29, 2011 there were 38,097,910 outstanding shares of the issuer's Common Stock, \$0.001 par value.

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Forward-Looking Information

Certain matters discussed in this report may constitute forward-looking statements under Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. There can be no assurance that the results described or implied in such forward-looking statements will, in fact, be achieved and actual results, performance, and achievements could differ materially because our business involves inherent risks and uncertainties. The risks and uncertainties include possible deterioration in economic conditions in our areas of operation; interest rate risk associated with volatile interest rates and related asset-liability matching risk; liquidity risks; risk of significant non-earning assets, and net credit losses that could occur, particularly in times of weak economic conditions or times of rising interest rates; risks of available for sale securities declining significantly in value as interest rates rise; and regulatory risks associated with current and future regulations as well as the possibility of regulatory enforcement actions to which we are subject. For additional information concerning these and other risk factors, see Part II, Item 1A. Risk Factors herein and Part I, Item 1A. Risk Factors contained in our Annual Report on Form 10-K for the year ended December 31, 2010.

Table of Contents**PART I****FINANCIAL INFORMATION****Item 1. Financial Statements****NARA BANCORP, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

ASSETS	(Unaudited)	
	June 30, 2011	December 31, 2010
	(Dollars in thousands, except share data)	
Cash and cash equivalents:		
Cash and due from banks	\$ 29,836	\$ 23,916
Interest-bearing deposit at Federal Reserve Bank	141,293	148,415
Total cash and cash equivalents	171,129	172,331
Securities available for sale, at fair value	472,420	528,262
Loans held for sale, at the lower of cost or fair value	27,120	26,927
Loans receivable, net of allowance for loan losses (June 30, 2011 - \$59,696; December 31, 2010 - \$62,320)	2,142,750	2,085,425
Other real estate owned, net	4,404	1,581
Federal Reserve Bank stock, at cost	6,372	6,367
Federal Home Loan Bank (FHLB) stock, at cost	16,285	17,717
Premises and equipment, net	9,938	10,915
Accrued interest receivable	8,069	8,648
Deferred tax assets, net	30,727	37,072
Customers liabilities on acceptances	11,360	11,528
Bank owned life insurance	24,489	24,117
Goodwill	2,509	2,509
Other intangible assets, net	379	534
Prepaid FDIC insurance	7,583	9,639
Other assets	31,754	19,724
Total assets	\$ 2,967,288	\$ 2,963,296

Table of Contents**NARA BANCORP, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

LIABILITIES AND STOCKHOLDERS' EQUITY	(Unaudited)	
	June 30, 2011	December 31, 2010
	(Dollars in thousands, except share data)	
LIABILITIES:		
Deposits:		
Non-interest bearing	\$ 432,616	\$ 388,731
Interest bearing:		
Money market and NOW accounts	712,028	688,593
Savings deposits	126,694	126,255
Time deposits of \$100,000 or more	343,366	321,542
Other time deposits	617,476	650,993
Total deposits	2,232,180	2,176,114
Federal Home Loan Bank borrowings	300,000	350,000
Subordinated debentures	39,268	39,268
Secured borrowings	0	11,758
Accrued interest payable	3,382	4,830
Acceptances outstanding	11,360	11,528
Other liabilities	8,559	11,235
Total liabilities	2,594,749	2,604,733
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.001 par value - authorized 10,000,000 undesignated shares; issued and outstanding 67,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A with a liquidation preference of \$67,428,000 at June 30, 2011 and December 31, 2010	67,000	67,000
Preferred stock discount	(2,321)	(2,797)
Common stock, \$0.001 par value; authorized, 100,000,000 shares; issued and outstanding, 38,097,327 and 37,983,027 shares at June 30, 2011 and December 31, 2010, respectively	38	38
Capital surplus	172,066	171,364
Retained earnings	131,275	120,361
Accumulated other comprehensive income, net	4,481	2,597
Total stockholders' equity	372,539	358,563
Total liabilities and stockholders' equity	\$ 2,967,288	\$ 2,963,296

See accompanying notes to condensed consolidated financial statements (unaudited)

Table of Contents**NARA BANCORP, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)**

For the three and six months ended June 30, 2011 and 2010

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
INTEREST INCOME:				
Interest and fees on loans	\$ 33,150	\$ 33,510	\$ 66,235	\$ 66,858
Interest on securities	3,965	2,884	7,895	7,972
Interest on federal funds sold and other investments	179	199	358	424
Total interest income	37,294	36,593	74,488	75,254
INTEREST EXPENSE:				
Interest on deposits	5,090	6,279	10,221	16,226
Interest on FHLB advances	2,412	3,012	4,984	5,997
Interest on other borrowings	461	494	1,069	980
Total interest expense	7,963	9,785	16,274	23,203
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	29,331	26,808	58,214	52,051
PROVISION FOR LOAN LOSSES	10,047	42,323	15,309	67,730
NET INTEREST INCOME (LOSS) AFTER PROVISION FOR LOAN LOSSES	19,284	(15,515)	42,905	(15,679)
NON-INTEREST INCOME:				
Service fees on deposit accounts	1,413	1,572	2,910	3,191
International service fees	669	613	1,239	1,152
Loan servicing fees, net	418	443	881	900
Wire transfer fees	348	302	670	595
Other income and fees	557	517	1,064	870
Net gains on sales of SBA loans	4,354	329	5,514	372
Net gains on sales of other loans	0	650	0	650
Net gains on sales and calls of securities available for sale	6	96	6	6,392
Net valuation losses on interest rate swaps and caps	(106)	(495)	(117)	(726)
Net gains on sales of OREO	25	(567)	27	(552)
Total non-interest income	7,684	3,460	12,194	12,844
NON-INTEREST EXPENSE:				
Salaries and employee benefits	7,625	5,977	14,779	11,570
Occupancy	2,445	2,424	4,882	4,851
Furniture and equipment	934	884	1,869	1,662
Advertising and marketing	594	612	1,173	1,071
Data processing and communications	923	1,051	1,906	1,984
Professional fees	769	756	1,478	1,458
FDIC assessments	877	1,191	2,166	2,558
Credit related expenses	1,004	1,742	1,748	2,305
Other	1,715	1,330	3,580	2,692

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Total non-interest expense	16,886	15,967	33,581	30,151
INCOME (LOSS) BEFORE INCOME TAX PROVISION (BENEFIT)	10,082	(28,022)	21,518	(32,986)
INCOME TAX PROVISION (BENEFIT)	3,764	(12,145)	8,454	(14,577)
NET INCOME (LOSS)	\$ 6,318	\$ (15,877)	\$ 13,064	\$ (18,409)
DIVIDENDS AND DISCOUNT ACCRETION ON PREFERRED STOCK	\$ (1,075)	\$ (1,073)	\$ (2,150)	\$ (2,144)
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	\$ 5,243	\$ (16,950)	\$ 10,914	\$ (20,553)
EARNINGS (LOSS) PER COMMON SHARE				
Basic	\$ 0.14	\$ (0.45)	\$ 0.29	\$ (0.54)
Diluted	\$ 0.14	\$ (0.45)	\$ 0.29	\$ (0.54)

See accompanying notes to condensed consolidated financial statements (unaudited)

Table of Contents**NARA BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY****SIX MONTHS ENDED JUNE 30, 2011 AND 2010****(Unaudited)**

	Preferred Stock	Preferred Stock Discount	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (loss), net	Comprehensive Income (loss)
BALANCE, JANUARY 1, 2010	\$ 67,000	\$ (3,737)	37,824,007	\$ 38	\$ 169,806	\$ 131,891	\$ 2,977	
Issuance of additional shares pursuant to various stock plans			132,520		1,055			
Tax effects of stock plans					(21)			
Stock-based compensation					240			
Preferred stock cash dividends accrued (5%)						(1,676)		
Accretion on preferred stock discount		468				(468)		
Comprehensive income:								
Net loss						(18,409)		\$ (18,409)
Other comprehensive income (loss):								
Change in unrealized gain (loss) on securities available for sale, net of tax							2,477	2,477
Change in unrealized gain (loss) on interest-only strips, net of tax							1	1
Change in unrealized gain (loss) on interest rate swaps, net of tax							(13)	(13)
Total comprehensive income (loss)								\$ (15,944)
BALANCE, JUNE 30, 2010	\$ 67,000	\$ (3,269)	37,956,527	\$ 38	\$ 171,080	\$ 111,338	\$ 5,442	

	Preferred Stock	Preferred Stock Discount	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (loss), net	Comprehensive Income (loss)
BALANCE, JANUARY 1, 2011	\$ 67,000	\$ (2,797)	37,983,027	\$ 38	\$ 171,364	\$ 120,361	\$ 2,597	
Issuance of additional shares pursuant to various stock plans			114,300		524			
Stock-based compensation					39			
Tax effects of stock plans					139			
Preferred stock cash dividends accrued (5%)						(1,674)		
Accretion of preferred stock discount		476				(476)		
Comprehensive income:								
Net income						13,064		13,064
Other comprehensive income (loss):								
Change in unrealized gain on securities available for sale, net of tax							1,892	1,892
							5	5

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Change in unrealized gain on interest-only strips, net of tax									
Change in unrealized gain (loss) on interest rate swaps, net of tax								(13)	(13)
Total comprehensive income (loss)									14,948
BALANCE, JUNE 30, 2011	\$ 67,000	\$ (2,321)	38,097,327	\$ 38	\$ 172,066	\$ 131,275	\$	4,481	

See accompanying notes to consolidated financial statements.

Table of Contents**NARA BANCORP, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****SIX MONTHS ENDED JUNE 30, 2011 AND 2010****(Unaudited)**

	Six Months Ended June 30,	
	2011	2010
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 13,064	\$ (18,409)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation, amortization, net of discount accretion	4,329	6,433
Stock-based compensation expense	39	240
Provision for loan losses	15,309	67,730
Valuation adjustment of loans held for sale	35	0
Valuation adjustment of OREO	105	942
Proceeds from sales of loans	65,602	44,884
Originations of loans held for sale	(43,007)	(8,055)
Deferred gain on transfer of assets	0	(249)
Net gains on sales of SBA and other loans	(5,514)	(1,022)
Net change in bank owned life insurance	(372)	(197)
Net gains on sales and calls of securities available for sale	(6)	(6,392)
Net (gains) losses on sales of OREO	(27)	552
Net losses on dispositions of furniture and equipment	18	0
Net valuation losses on interest rate swaps	117	726
Tax benefits from stock options exercised	139	0
Change in accrued interest receivable	579	2,989
Change in deferred income taxes	5,131	(4,702)
Change in prepaid FDIC insurance	2,056	2,293
Change in other assets	(12,165)	(7,694)
Change in accrued interest payable	(1,448)	(8,811)
Change in other liabilities	(2,676)	(4,107)
Net cash provided by operating activities	41,308	67,151
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in loans receivable	(95,082)	(52,209)
Proceeds from sales of securities available for sale	0	208,141
Proceeds from sales of OREO	2,238	6,329
Purchase of premises and equipment	(586)	(1,447)
Purchase of securities available for sale	(19,808)	0
Purchase of Federal Reserve Bank stock	(5)	(1,963)
Redemption of Federal Home Loan Bank Stock	1,432	741
Proceeds from matured, called, or paid down securities available for sale	76,143	151,918
Net cash provided by (used in) investing activities	(35,668)	311,510
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	56,066	(303,801)
Net change in secured borrowings	(11,758)	3,325

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Payment of cash dividends on Preferred Stock	(1,674)	(1,676)
Proceeds from FHLB borrowings	0	10,000
Repayment of FHLB borrowings	(50,000)	(10,000)
Issuance of additional stock pursuant to various stock plans	524	1,055
Tax effects on issuance of shares from stock plan	0	(21)
Net cash used in financing activities	(6,842)	(301,118)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,202)	77,543
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	172,331	125,592
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 171,129	\$ 203,135
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	\$ 17,722	\$ 32,014
Income taxes paid	\$ 15,169	\$ 819
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTMENT ACTIVITIES		
Transfer from loans receivable to other real estate owned	\$ 5,139	\$ 10,488
Transfer from loan receivables to loans held for sale	\$ 17,309	\$ 72,274
Investment securities paydowns pending future settlement	0	\$ (2,134)
See accompanying notes to condensed consolidated financial statements (unaudited)		

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Nara Bancorp, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Nara Bancorp, Inc.

Nara Bancorp, Inc. (Nara Bancorp), on a parent-only basis, and Company, we or our on a consolidated basis), incorporated under the laws of the State of Delaware in 2000, is a bank holding company, headquartered in Los Angeles, California, offering a full range of commercial banking and certain consumer financial services through its wholly owned subsidiary, Nara Bank (Nara Bank or the Bank). The Bank has branches in California, New York and New Jersey as well as a Loan Production Office in Texas.

On December 9, 2010, we entered into a definitive agreement to merge with Center Financial in an all stock transaction valued at \$285.7 million, or approximately \$7.16 per Center Financial share based on the closing price on December 8, 2010. As of August 5, 2011, the transaction was valued at \$232.1 million, or approximately \$5.81 per Center Financial share. The boards of directors of both companies each unanimously approved the Center Merger. While there can be no assurance as to the exact timing, or that the Center Merger will be completed at all, we are working to complete the Center Merger in the second half of 2011. The consummation of the Center Merger is subject to regulatory approval, the approval of the shareholders of both Nara Bancorp and Center Financial, and other customary closing conditions.

Upon consummation of the Center Merger, each share of common stock of Center Financial issued and outstanding immediately prior to the effective time of the Center Merger (the Effective Time) will be converted into and become exchangeable for 0.7804 of a share of common stock of Nara Bancorp, subject to the payment of cash in lieu of the issuance of fractional shares. Based on the number of shares Center Financial common stock outstanding on the date of the Merger Agreement and not including the effect of outstanding in-the-money options, this will result in approximately 31.1 million Nara Bancorp shares being exchanged for approximately 39.9 million outstanding Center Financial shares, subject to adjustment in certain limited circumstances. Nara Bancorp shareholders will own 55% of the combined company and Center Financial shareholders will own 45%, not including shares of Nara common stock to be issued in a common stock offering Nara expects to make prior to the merger for the benefit of the combined company.

We cannot assure you that the Center Merger will be consummated as scheduled, or at all. See Item 1.A. Risk Factors Risks Relating to the Center Merger included in our 2010 Annual Report on Form 10-K for a description of risks relating to the Center Merger.

2. Basis of Presentation

Our condensed consolidated financial statements included herein have been prepared without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such SEC rules and regulations.

The condensed consolidated financial statements include the accounts of Nara Bancorp and its wholly owned subsidiaries, principally Nara Bank. All intercompany transactions and balances have been eliminated in consolidation.

We believe that we have made all adjustments, consisting solely of normal recurring accruals, necessary to fairly present our financial position at June 30, 2011 and the results of our operations for the three- and six-month periods then ended. Certain reclassifications have been made to prior period amounts to conform to the current year presentation. The results of operations for the interim periods are not necessarily indicative of results to be anticipated for the full year.

These unaudited condensed consolidated financial statements should be read along with the audited consolidated financial statements and accompanying notes included in our 2010 Annual Report on Form 10-K.

Recently Issued Not Yet Effective Accounting Pronouncements:

In April 2011, the FASB issued ASU No. 2011-02, *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*, updated to amend previous guidance with respect to troubled debt restructurings. This updated guidance is designed to assist creditors with determining whether or not a restructuring constitutes a troubled debt restructuring. In particular, additional guidance has been added to help

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creditors determine whether a concession has been granted and whether a debtor is experiencing financial difficulties. Both of these conditions are required to be met for a restructuring to constitute a troubled debt restructuring. The amendments in the update are effective for the first interim period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. The provisions of this update are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Table of Contents**3. Stock-Based Compensation**

The Company has a stock based incentive plan, the 2007 Nara Bancorp, Inc. Equity Incentive Plan (2007 Plan). The 2007 Plan, which was approved by our stockholders on May 31, 2007, provides for grants of stock options, stock appreciation rights (SARs), restricted stock, performance shares and performance units (sometimes referred to individually or collectively as awards) to non-employee directors, officers, employees and consultants of the Company. Stock options may be either incentive stock options (ISOs), as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the Code), or nonqualified stock options (NQSOs).

The 2007 Plan gives the Company flexibility to (i) attract and retain qualified non-employee directors, executives and other key employees and consultants with appropriate equity-based awards, (ii) motivate high levels of performance, (iii) recognize employee contributions to the Company's success, and (iv) align the interests of Plan participants with those of the Company's stockholders. The exercise price for shares under an ISO may not be less than 100% of fair market value (FMV) on the date the award is granted under Code Section 422. Similarly, under the terms of the 2007 Plan the exercise price for SARs and NQSOs may not be less than 100% of FMV on the date of grant. Performance units are awarded to a participant at the market price of the Company's common stock on the date of award (after the lapse of the restriction period and the attainment of the performance criteria). No minimum exercise price is prescribed for performance shares and restricted stock awarded under the 2007 Plan.

ISOs, SARs and NQSOs have vesting periods of three to five years and have 10-year contractual terms. Restricted stock, performance shares, and performance units will be granted with a restriction period of not less than one year from the grant date for performance-based awards and not less than three years from the grant date for time-based vesting of grants. Compensation expense for awards is recorded over the vesting period.

The 2007 Plan reserves 1,300,000 shares for issuance. 1,191,000 shares were available for future grants as of June 30, 2011.

The total shares reserved for issuance will serve as the underlying value for all equity awards under the 2007 Plan. With the exception of the shares underlying stock options and restricted stock awards, the board of directors may choose to settle the awards by paying the equivalent cash value or by delivering the appropriate number of shares.

The stock plan adopted in 2000, under which options and restricted units were previously granted to employees, officers, and directors of the Company, is no longer active and no additional equity awards may be granted under the plan. Options under the 2000 Plan were granted with an exercise price equal to the fair market value on the date of grant with vesting periods from three to five years and have 10-year contractual terms. Some restricted units were awarded under the 2000 plan to participants at the fair market value of the Company's common stock on the date of award and all units granted under this plan were fully vested on the third anniversary of the grant. Compensation expense for the awards was recorded over the vesting period.

The following is a summary of stock option activity under the Plan for the six months ended June 30, 2011:

	Number of Shares	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding - January 1, 2011	533,250	\$ 9.73		
Granted	0	0		
Exercised	(106,000)	5.00		
Forfeited	0	0		
Outstanding - June 30, 2011	427,250	\$ 10.90	3.21	\$ 27,000
Options exercisable - June 30, 2011	403,250	\$ 11.04	2.95	\$ 27,000
Unvested options expected to vest after June 30, 2011	24,000	\$ 8.64	7.71	0

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The following is a summary of restricted and performance unit activity under the Plan for the six months ended June 30, 2011:

	Number of Shares	Weighted- Average Grant Date Fair Value	Weighted- Average Remaining Contractual Life (Years)
Outstanding - January 1, 2011	36,200	\$ 8.25	
Granted	5,000	8.37	
Vested	(8,200)	11.97	
Forfeited	0	0	
Outstanding - June 30, 2011	33,000	\$ 7.34	8.84

The total fair value of performance units vested for the six months ending June 30, 2011 and 2010 was \$79 thousand and \$59 thousand, respectively.

The amount charged against income, before income tax benefit of \$5 thousand and \$31 thousand, in relation to the stock-based payment arrangements was \$12 thousand and \$192 thousand for the three months ending June 30, 2011 and 2010, respectively. The amount charged against income, before income tax benefit of \$16 thousand and \$15 thousand, in relation to the stock-based payment arrangements was \$39 thousand and \$240 thousand for the six months ending June 30, 2011 and 2010, respectively. At June 30, 2011, unrecognized compensation expense related to non-vested stock option grants and restricted and performance units aggregated \$197 thousand, and is expected to be recognized over a remaining weighted average vesting period of 2.45 years.

The estimated annual stock-based compensation as of June 30, 2011 for each of the succeeding years is indicated in the table below:

	Stock Based Compensation Expense (In thousands)
Remainder of 2011	\$ 25
For the year ended December 31:	
2012	52
2013	51
2014	45
2015	24
Total	\$ 197

4. Earnings Per Share (EPS)

Basic EPS does not reflect the possibility of dilution that could result from the issuance of additional shares of common stock upon exercise or conversion of outstanding securities and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised or converted to common stock that would then share in our earnings. For the three months ended June 30, 2011 and 2010, stock options and restricted shares awards for approximately 190,000 shares and 722,000 shares of common stock were excluded in computing diluted earnings per common share because they were antidilutive. For the six months ended June 30, 2011 and 2010, stock options and restricted shares awards for approximately 150,000 shares and 732,000 shares of common stock were excluded in computing diluted earnings per common share because they were antidilutive. Additionally, warrants to purchase 521,266 shares of common stock were also antidilutive and excluded for the three and six months ended June 30, 2011 and 2010.

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The following table shows the computation of basic and diluted EPS for the three and six months ended June 30, 2011 and 2010.

	For the three months ended June 30,					
	2011			2010		
	Net income available to common stockholders (Numerator)	Shares (Denominator)	Per Share (Amount)	Net income available to common stockholders (Numerator)	Shares (Denominator)	Per Share (Amount)
	(Dollars in thousands, except share and per share data)					
Net income (loss) as reported	\$ 6,318			\$ (15,877)		
Less: preferred stock dividends and accretion of preferred stock discount	(1,075)			(1,073)		
Basic EPS - common stock	\$ 5,243	38,047,371	\$ 0.14	\$ (16,950)	37,921,885	\$ (0.45)
Effect of Dilutive Securities:						
Stock Options		34,652			0	
Common stock warrants		0			0	
Diluted EPS - common stock	\$ 5,243	38,082,023	\$ 0.14	\$ (16,950)	37,921,885	\$ (0.45)

	For the six months ended June 30,					
	2011			2010		
	Net income available to common stockholders (Numerator)	Shares (Denominator)	Per Share (Amount)	Net income available to common stockholders (Numerator)	Shares (Denominator)	Per Share (Amount)
	(Dollars in thousands, except share and per share data)					
Net income (loss) as reported	\$ 13,064			\$ (18,409)		
Less: preferred stock dividends and accretion of preferred stock discount	(2,150)			(2,144)		
Basic EPS - common stock	\$ 10,914	38,017,473	\$ 0.29	\$ (20,553)	37,875,494	\$ (0.54)
Effect of Dilutive Securities:						
Stock Options		62,177			0	
Common stock warrants		0			0	
Diluted EPS - common stock	\$ 10,914	38,079,650	\$ 0.29	\$ (20,553)	37,875,494	\$ (0.54)

Table of Contents**5. Securities Available for Sale**

The following table summarizes the amortized cost, estimated fair value and distribution of our investment securities portfolio as of the dates indicated:

	Amortized Cost	At June 30, 2011		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In thousands)				
Available for Sale				
Debt securities *:				
GSE bonds	\$ 96,283	\$ 935	\$ (66)	\$ 97,152
GSE collateralized mortgage obligations	85,710	2,615	(103)	88,222
GSE mortgage-backed securities	267,988	5,297	(1,209)	272,076
Corporate note	4,480	0	(560)	3,920
Municipal bonds	5,258	216	0	5,474
Total debt securities	459,719	9,063	(1,938)	466,844
Mutual funds - GSE mortgage related securities	5,462	114	0	5,576
	\$ 465,181	\$ 9,177	\$ (1,938)	\$ 472,420
		At December 31, 2010		
	Amortized C			