

SUSSEX BANCORP
Form 10-Q
November 16, 2009

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 September 30, 2009

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

For the transition period from _____ to _____

Commission File Number 0-29030

SUSSEX BANCORP
(Exact name of registrant as specified in its charter)

New Jersey 22-3475473
(State or other jurisdiction of (I.R.S. Employer Identification
incorporation or organization) No.)

200 Munsonhurst Rd., Franklin, 07416
NJ (Address of principal executive (Zip Code)
offices)

(973) 827-2914
(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 and 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

Edgar Filing: SUSSEX BANCORP - Form 10-Q

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 SD-T 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, 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 Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

As of November 13, 2009 there were 3,262,934 shares of common stock, no par value, outstanding.

SUSSEX BANCORP
FORM 10-Q

INDEX

<u>PART I - FINANCIAL INFORMATION</u>	3
<u>Item 1 - Financial Statements</u>	3
<u>Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
<u>Item 3 - Quantitative and Qualitative Disclosures about Market Risk</u>	27
<u>Item 4 (T) - Controls and Procedures</u>	27
<u>PART II – OTHER INFORMATION</u>	28
<u>Item 1 - Legal Proceedings</u>	28
<u>Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
<u>Item 3 - Defaults upon Senior Securities</u>	28
<u>Item 4 - Submission of Matters to a Vote of Security Holders</u>	28
<u>Item 5 - Other Information</u>	28
<u>Item 6 - Exhibits</u>	28

Index

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

SUSSEX BANCORP
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Dollars in thousands, except share data)	September 30, 2009	December 31, 2008
ASSETS		
Cash and due from banks	\$ 13,240	\$ 7,602
Federal funds sold and interest bearing deposits with other banks	2,038	13,310
Cash and cash equivalents	15,278	20,912
Interest bearing time deposits with other banks	100	100
Trading securities	3,974	13,290
Securities available for sale	80,040	62,272
Federal Home Loan Bank Stock, at cost	2,046	1,975
Loans receivable, net of unearned income	330,404	320,880
Less: allowance for loan losses	5,064	5,813
Net loans receivable	325,340	315,067
Foreclosed real estate	4,380	3,864
Premises and equipment, net	7,165	8,526
Accrued interest receivable	2,120	2,115
Goodwill	2,820	2,820
Other assets	9,271	9,654
Total Assets	\$ 452,534	\$ 440,595
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 39,037	\$ 34,784
Interest bearing	330,100	325,297
Total Deposits	369,137	360,081
Borrowings	33,104	33,146

Edgar Filing: SUSSEX BANCORP - Form 10-Q

Accrued interest payable and other liabilities	2,717	2,571
Junior subordinated debentures	12,887	12,887
Total Liabilities	417,845	408,685
Stockholders' Equity:		
Common stock, no par value, authorized 5,000,000 shares; issued shares 3,261,034 in 2009 and 3,261,362 in 2008; outstanding shares 3,245,811 in 2009 and 3,248,417 in 2008	27,795	27,783
Retained earnings	6,311	4,665
Accumulated other comprehensive income (loss)	583	(538)
Total Stockholders' Equity	34,689	31,910
Total Liabilities and Stockholders' Equity	\$ 452,534	\$ 440,595

See Notes to Unaudited Consolidated Financial Statements

Index

SUSSEX BANCORP
CONSOLIDATED STATEMENTS OF INCOME
(Dollars In Thousands Except Per Share Data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
INTEREST INCOME				
Loans receivable, including fees	\$ 4,923	\$ 4,887	\$ 14,520	\$ 14,335
Securities:				
Taxable	651	631	2,032	1,698
Tax-exempt	308	248	897	710
Federal funds sold	5	111	26	223
Interest bearing deposits	1	1	15	2
Total Interest Income	5,888	5,878	17,490	16,968
INTEREST EXPENSE				
Deposits	1,264	2,219	5,166	6,417
Borrowings	359	377	1,067	1,132
Junior subordinated debentures	64	135	251	459
Total Interest Expense	1,687	2,731	6,484	8,008
Net Interest Income	4,201	3,147	11,006	8,960
PROVISION FOR LOAN LOSSES	520	279	1,583	569
Net Interest Income after Provision for Loan Losses	3,681	2,868	9,423	8,391
OTHER INCOME				
Service fees on deposit accounts	380	409	1,095	1,111
ATM and debit card fees	126	123	354	348
Insurance commissions and fees	548	576	1,757	1,972
Investment brokerage fees	30	22	111	117
Unrealized holding gains (losses) on trading securities	2	(8)	21	13
Gain on sale of securities, available for sale	55	-	55	152
Gain on sale of premises and equipment	-	-	203	-
Loss on sale of foreclosed real estate	(34)	-	(35)	-
Impairment write-down on equity securities	-	(3,526)	-	(3,526)
Other	173	129	509	445
Total Other Income	1,280	(2,275)	4,070	632
OTHER EXPENSES				
Salaries and employee benefits	2,070	1,842	5,624	5,697
Occupancy, net	320	315	981	977
Furniture, equipment and data processing	314	372	991	1,119

Edgar Filing: SUSSEX BANCORP - Form 10-Q

Stationary and supplies	37	50	127	141
Professional fees	216	140	585	337
Advertising and promotion	49	92	145	379
Insurance	54	42	140	127
FDIC assessment	172	95	687	280
Postage and freight	33	34	110	118
Amortization of intangible assets	4	14	14	43
Write-down on foreclosed real estate	-	-	456	-
Expenses related to foreclosed real estate	77	75	353	132
Other	367	368	1,050	1,129
Total Other Expenses	3,713	3,439	11,263	10,479
Income (Loss) before Income Taxes	1,248	(2,846)	2,230	(1,456)
PROVISION FOR INCOME TAXES	351	181	485	575
Net Income (Loss)	\$ 897	\$ (3,027)	\$ 1,745	\$ (2,031)
EARNINGS (LOSS) PER SHARE				
Basic	\$ 0.28	\$ (0.92)	\$ 0.54	\$ (0.62)
Diluted	\$ 0.28	\$ (0.92)	\$ 0.54	\$ (0.62)

See Notes to Unaudited Consolidated Financial Statements

Index

SUSSEX BANCORP
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Nine Months Ended September 30, 2009 and 2008
(Unaudited)

(Dollars In thousands, except per share amounts)	Number of Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance December 31, 2007	3,093,699	\$26,651	\$7,774	\$ 15	\$-	\$ 34,440
Comprehensive income:						
Net loss	-	-	(2,031)	-	-	(2,031)
Change in unrealized gains (losses) on securities available for sale, net of tax	-	-	-	(1,011)	-	(1,011)
Total Comprehensive Loss						(3,042)
Treasury shares purchased	(4,765)	-	-	-	(40)	(40)
Treasury shares retired	-	(40)	-	-	40	-
Exercise of stock options	3,606	34	-	-	-	34
Income tax benefit of stock options exercised	-	1	-	-	-	1
Restricted stock vested during the period (a)	4,025	-	-	-	-	-
Compensation expense related to stock option and restricted stock grants	-	60	-	-	-	60
Dividends on common stock (\$0.20 per share)	-	-	(654)	-	-	(654)
6.5% stock dividend	201,802	1,413	(1,413)	-	-	-
Balance September 30, 2008	3,298,367	\$28,119	\$3,676	\$ (996)	\$-	\$ 30,799
Balance December 31, 2008	3,248,417	\$27,783	\$4,665	\$ (538)	\$-	\$ 31,910
Comprehensive income:						
Net income	-	-	1,745	-	-	1,745
Change in unrealized gains (losses) on securities available for sale, net of tax	-	-	-	1,121	-	1,121
Total Comprehensive Income						2,866
Treasury shares purchased	(7,500)	-	-	-	(30)	(30)

Edgar Filing: SUSSEX BANCORP - Form 10-Q

Treasury shares retired	-	(30)	-	-	30	-
Restricted stock vested during the period (a)	4,894	-	-	-	-	-
Compensation expense related to restricted stock grants	-	42	-	-	-	42
Dividends on common stock (\$0.03 per share)	-	-	(99)	-	-	(99)
Balance September 30, 2009	3,245,811	\$27,795	\$6,311	\$ 583	\$-	\$ 34,689

(a) Balance of unvested shares of restricted stock; 15,223 in 2009 and 12,945 in 2008

See Notes to Unaudited Consolidated Financial Statements

Index

SUSSEX BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Dollars in thousands)	Nine Months Ended September 30,	
	2009	2008
Cash Flows from Operating Activities		
Net income (loss)	\$ 1,745	\$ (2,031)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	1,583	569
Provision for depreciation and amortization	609	775
Net change in trading securities	9,316	740
Impairment charge on preferred equity securities	-	3,526
Net amortization of securities premiums and discounts	75	8
Net realized gain on sale of securities	(55)	(152)
Net realized gain on sale of premises and equipment	(203)	-
Net realized loss on sale of foreclosed real estate	35	-
Provision for foreclosed real estate	456	-
Earnings on investment in life insurance	(122)	(78)
Compensation expense for stock options and restricted stock awards	42	60
(Increase) decrease in assets:		
Accrued interest receivable	(5)	(23)
Other assets	(256)	107
Decrease in accrued interest payable and other liabilities	146	106
Net Cash Provided by Operating Activities	13,366	3,607
Cash Flows from Investing Activities		
Securities available for sale:		
Purchases	(38,074)	(33,720)
Proceeds from sale of securities	8,119	5,240
Maturities, calls and principal repayments	14,035	7,322
Net increase in loans	(13,310)	(16,560)
Proceeds from sale of premises and equipment	1,089	
Proceeds from sale of foreclosed real estate	469	316
Purchases of premises and equipment	(142)	(317)
Increase in FHLB stock	(71)	(79)
Net Cash Used in Investing Activities	(27,885)	(37,798)
Cash Flows from Financing Activities		
Net increase in deposits	9,056	48,123
Proceeds from borrowings	-	3,000

Edgar Filing: SUSSEX BANCORP - Form 10-Q

Repayments of borrowings	(42)	(2,040)
Proceeds from the exercise of stock options	-	34
Purchase of treasury stock	(30)	(40)
Dividends paid	(99)	(654)
Net Cash Provided by Financing Activities	8,885	48,423
Net Increase (Decrease) in Cash and Cash Equivalents	(5,634)	14,232
Cash and Cash Equivalents - Beginning	20,912	11,775
Cash and Cash Equivalents - Ending	\$ 15,278	\$ 26,007
Supplementary Cash Flows Information		
Interest paid	\$ 6,851	\$ 8,207
Income taxes paid	\$ 557	\$ 384
Supplementary Schedule of Noncash Investing and Financing Activities		
Foreclosed real estate acquired in settlement of loans	\$ 1,454	\$ 4,247

See Notes to Unaudited Consolidated Financial Statements

Index

SUSSEX BANCORP
Notes to Consolidated Financial Statements (Unaudited)

Note 1 - Basis of Presentation

The consolidated financial statements include the accounts of Sussex Bancorp (the "Company") and its wholly-owned subsidiary Sussex Bank (the "Bank"). The Bank's wholly-owned subsidiaries are SCB Investment Company, Inc., SCBNY Company, Inc., and Tri-State Insurance Agency, Inc. ("Tri-State") a full service insurance agency located in Sussex County, New Jersey. Tri-State's operations are considered a separate segment for financial disclosure purposes. All inter-company transactions and balances have been eliminated in consolidation. Sussex Bank is also a 49% partner in SussexMortgage.com LLC, an Indiana limited liability company and mortgage banking joint venture with PNC Mortgage, Inc. The Bank operates ten banking offices, eight located in Sussex County, New Jersey and two in Orange County, New York. The Bank has also received regulatory approval for a branch location in Pike County, Pennsylvania.

The Company is subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (the "FRB"). The Bank's deposits are insured by the Deposit Insurance Fund ("DIF") of the Federal Deposit Insurance Corporation ("FDIC") up to applicable limits. The operations of the Company and the Bank are subject to the supervision and regulation of the FRB, FDIC and the New Jersey Department of Banking and Insurance (the "Department") and the operations of Tri-State are subject to supervision and regulation by the Department.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for full year financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal, recurring nature. Operating results for the nine-month period ended September 30, 2009, are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto that are included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

The Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Codification (ASC) effective for financial statements issued for interim and annual periods ending after September 15, 2009. The ASC is an aggregation of previously issued authoritative U.S. generally accepted accounting principles (GAAP) in one comprehensive set of guidance organized by subject area. In accordance with the ASC, references to previously issued accounting standards have been replaced by ASC references. Subsequent revisions to GAAP will be incorporated into the ASC through Accounting Standards Updates (ASU).

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of September 30, 2009 through November 13, 2009 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date these financial statements were issued.

Note 2 – Earnings (Loss) per Share

Basic earnings (loss) per share are calculated by dividing net income by the weighted average number of shares of common stock outstanding during the period, as adjusted for the 6.5% stock dividend declared October 15, 2008. Diluted earnings (loss) per share reflect additional common shares that would have been outstanding if dilutive potential common shares (nonvested restricted stock grants and stock options) had been issued, as well as any adjustment to income that would result from the assumed issuance of potential common shares that may be issued by

Edgar Filing: SUSSEX BANCORP - Form 10-Q

the Company. For the three and nine months ended September 30, 2008, the Company had 9,237 and 14,363 shares, respectively, not included in the below calculation due to their anti-dilutive effect on earnings per share. Potential common shares related to stock options are determined using the treasury stock method.

- 7 -

Index

The 2008 amounts included in the following table sets forth the computations of basic and diluted earnings (loss) per share as retroactively adjusted for the 6.5% stock dividend declared in October of 2008.

	Three Months Ended September 30, 2009			Three Months Ended September 30, 2008		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
(Dollars in thousands, except per share data)						
Basic earnings (loss) per share:						
Net income (loss) applicable to common stockholders	\$ 897	3,246	\$ 0.28	\$ (3,027)	3,299	\$ (0.92)
Effect of dilutive securities:						
Stock options	-	10		-	-	
Diluted earnings (loss) per share:						
Net income (loss) applicable to common stockholders and assumed conversions	\$ 897	3,256	\$ 0.28	\$ (3,027)	3,299	\$ (0.92)

	Nine Months Ended September 30, 2009			Nine Months Ended September 30, 2008		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
(Dollars in thousands, except per share data)						
Basic earnings (loss) per share:						
Net income (loss) applicable to common stockholders	\$ 1,745	3,249	\$ 0.54	\$ (2,031)	3,300	\$ (0.62)
Effect of dilutive securities:						
Stock options	-	11		-	-	
Diluted earnings per share:						
Net income (loss) applicable to common stockholders and assumed conversions	\$ 1,745	3,260	\$ 0.54	\$ (2,031)	3,300	\$ (0.62)

Note 3 – Comprehensive Income (Loss)

The components of other comprehensive income (loss) and related tax effects are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
(Dollars in thousands)				
Unrealized holding gain (loss) on available for sale securities	\$ 1,776	\$ (4,357)	\$ 1,923	\$ (5,060)
Reclassification adjustments for gains (losses) included in net income	55 55	(3,526)	55 55	(3,374)

Edgar Filing: SUSSEX BANCORP - Form 10-Q

Net unrealized gain (loss)	1,721	(831)	1,868	(1,686)
Tax effect	(688)	\$ 333	(747)	675
Other comprehensive income (loss), net of tax	\$ 1,033	\$ (498)	\$ 1,121	\$ (1,011)

Note 4 – Segment Information

The Company's insurance agency operations are managed separately from the traditional banking and related financial services that the Company also offers. The insurance agency operation provides commercial, individual, and group benefit plans and personal coverage.

(Dollars in thousands)	Three Months Ended September 30, 2009			Three Months Ended September 30, 2008		
	Banking and Financial Services	Insurance Services	Total	Banking and Financial Services	Insurance Services	Total
Net interest income from external sources	\$ 4,201	\$ -	\$ 4,201	\$ 3,147	\$ -	\$ 3,147
Other income from external sources	732	548	1,280	(2,851)	576	(2,275)
Depreciation and amortization	181	3	184	241	12	253
Income (loss) before income taxes	1,169	79	1,248	(2,822)	(24)	(2,846)
Income tax expense (benefit) (1)	319	32	351	191	(10)	181
Total assets	449,483	3,051	452,534	435,932	3,147	439,079

(Dollars in thousands)	Nine Months Ended September 30, 2009			Nine Months Ended September 30, 2008		
	Banking and Financial Services	Insurance Services	Total	Banking and Financial Services	Insurance Services	Total
Net interest income from external sources	\$ 11,006	\$ -	\$ 11,006	\$ 8,960	\$ -	\$ 8,960
Other income from external sources	2,313	1,757	4,070	(1,340)	1,972	632
Depreciation and amortization	600	9	609	741	34	775
Income (loss) before income taxes	2,085	145	2,230	(1,540)	84	(1,456)
Income tax expense (1)	427	58	485	541	34	575
Total assets	449,483	3,051	452,534	435,932	3,147	439,079

(1) Insurance services calculated at statutory tax rate of 40%

Index

Note 5 - Stock-Based Compensation

The Company currently has stock-based compensation plans in place for directors, officers, employees, consultants and advisors of the Company. Under the terms of these plans the Company may grant restricted shares and stock options for the purchase of the Company's common stock. The stock-based compensation is granted under terms determined by the Compensation Committee of the Board of Directors. Stock options granted have a maximum term of ten years, generally vest over periods ranging between one and four years, and are granted with an exercise price equal to the fair market value of the common stock on the date the options are granted. Restricted stock is valued at the market value of the common stock on the date of grant and generally vests between two and five years. All dividends paid on restricted stock, whether vested or unvested, are granted to the stockholder.

During the first nine months of 2009 and 2008, the Company expensed \$42 thousand and \$60 thousand, respectively, in stock-based compensation under stock option plans and restricted stock awards, including \$12 thousand in 2008 related to previous grants under stock option plans. As of September 30, 2008, all unrecognized compensation expense for stock option plans has been expensed. No stock options have been granted in 2009.

Information regarding the Company's stock option plans as of September 30, 2009 was as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Contractual Term	Aggregate Intrinsic Value
Options outstanding, beginning of year	217,371	\$ 12.34		
Options exercised	-	-		
Options forfeited	-	-		
Options outstanding, end of quarter	217,371	\$ 12.34	5.98	\$ -
Options exercisable, end of quarter	217,371	\$ 12.34	5.98	\$ -
Option price range at end of quarter	\$ 6.88 to \$16.45			
Option price range for exercisable shares	\$ 6.88 to \$16.45			

Information regarding the Company's restricted stock activity as of September 30, 2009:

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted stock, beginning of year	12,945	\$ 12.68
Granted	9,570	4.75
Forfeited	(2,398)	7.96
Vested	(4,894)	12.73
Restricted stock, end of quarter	15,223	\$ 8.31

Compensation expense recognized for restricted stock was \$42 thousand for the first nine months of 2009. At September 30, 2009, unrecognized compensation expense for non-vested restricted stock was \$96 thousand, which is expected to be recognized over an average period of 3.4 years.

Note 6 - Guarantees

The Company does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company, generally, holds collateral and/or personal guarantees supporting these commitments. The Company had \$2,193,000 of undrawn standby letters of credit outstanding as of September 30, 2009. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The amount of the liability as of September 30, 2009 for guarantees under standby letters of credit issued is not material.

Note 7 - Fair Value of Financial Instruments

We adopted FASB ASC 820, Fair Value Measurement and Disclosures, in two steps; effective January 1, 2008, we adopted it for all financial instruments and non-financial instruments accounted for at fair value on a recurring basis and effective January 1, 2009, for all non-financial instruments accounted for at fair value on a non-recurring basis. This guidance establishes a new framework for measuring fair value and expands related disclosures.

Index

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sale transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective period ends, and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period end.

Under FASB ASC 820, there is a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The three broad levels defined by the FASB ASC 820 hierarchy are as follows:

Level I - Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II- Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these asset and liabilities include items for which quoted prices are available but traded less frequently, and items that are fair valued using other financial instruments, the parameters of which can be directly observed.

Level III - Assets and liabilities that have little to no pricing observability as of reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

The following table summarizes the valuation of the Company's financial assets measured on a recurring basis by the above FASB ASC 820 pricing observability levels:

(Dollars in thousands)	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant	
			Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
At September 30, 2009:				
Trading securities	\$ 3,974	\$-	\$ 3,974	\$ -
Available for sale securities	80,040	-	80,040	-
At December 31, 2008:				
Trading securities	\$ 13,290	\$-	\$ 13,290	\$ -
Available for sale securities	62,272	-	62,272	-

The Company's trading securities and available for sale securities portfolios contain investments which are all rated within the Company's investment policy guidelines and upon review of the entire portfolio all securities are marketable and have observable pricing inputs. There was an unrealized gain on trading securities recorded on the income statement of \$21 thousand for the nine months ended September 30, 2009 and \$13 thousand unrealized gain for the

same period in 2008.

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level are as follows:

Fair	Quoted Prices in Active Markets	Significant Other	Significant
------	------------------------------------	----------------------	-------------