UNITED SECURITY BANCSHARES
Form 10-Q
May 11, 2009

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 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: 000-32987

UNITED SECURITY BANCSHARES
(Exact name of registrant as specified in its charter)

CALIFORNIA (State or other jurisdiction of incorporation or organization)	91-2112732 (I.R.S. Employer Identification No.)
2126 Inyo Street, Fresno, California (Address of principal executive offices)	93721 (Zip Code)

Registrants telephone number, including area code (559) 248-4943

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ¨ No x

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 for the past 90 days.
Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes o No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).
Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Small reporting company ¨

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

Aggregate market value of the Common Stock held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter - June 30, 2008: $121,168,727

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

Common Stock, no par value
(Title of Class)

Shares outstanding as of April 30, 2009: 12,129,506

TABLE OF CONTENTS

Facing Page			
Table of Contents			
PART I. Financial Information			
	Item 1.	Financial Statements	
		Consolidated Balance Sheets	3
		Consolidated Statements of Income and Comprehensive Income	4
		Consolidated Statements of Changes in Shareholders' Equity	5
		Consolidated Statements of Cash Flows	6
		Notes to Consolidated Financial Statements	7
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	21
		Overview	21
		Results of Operations	24
		Financial Condition	28
		Asset/Liability Management – Liquidity and Cash Flow	35
		Regulatory Matters	36
	Item 3.	Quantitative and Qualitative Disclosures about Market Risk	37
		Interest Rate Sensitivity and Market Risk	37
	Item 4.	Controls and Procedures	39
PART II. Other Information			
	Item 1.	Legal Proceedings	40
	Item 1A.	Risk Factors	40
	Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	40
	Item 3.	Defaults Upon Senior Securities	40
	Item 4.	Submission of Matters to a Vote of Security Holders	40
	Item 5.	Other Information	40
	Item 6.	Exhibits	41
Signatures			42

PART I. Financial Information

United Security Bancshares and Subsidiaries
Consolidated Balance Sheets – (unaudited)
March 31, 2009 and December 31, 2008

(in thousands except shares)	March 31, 2009	December 31, 2008
Assets		
Cash and due from banks	$ 14,610	$ 19,426
Federal funds sold	0	0
Cash and cash equivalents	14,610	19,426
Interest-bearing deposits in other banks	3,968	20,431
Investment securities available for sale (at fair value)	87,621	92,749
Loans and leases	542,969	544,551
Unearned fees	(1,054)	(1,234)
Allowance for credit losses	(10,448)	(11,529)
Net loans	531,467	531,788
Accrued interest receivable	2,757	2,394
Premises and equipment – net	13,959	14,285
Other real estate owned	29,116	30,153
Intangible assets	2,716	3,001
Goodwill	10,417	10,417
Cash surrender value of life insurance	14,596	14,460
Investment in limited partnership	2,595	2,702
Deferred income taxes - net	8,297	7,138
Other assets	11,272	12,133
Total assets	$ 733,391	$ 761,077
Liabilities & Shareholders' Equity		
Liabilities		
Deposits		
Noninterest bearing	$ 142,832	$ 149,529
Interest bearing	379,308	358,957
Total deposits	522,140	508,486
Federal funds purchased	49,185	66,545
Other borrowings	64,000	88,500
Accrued interest payable	480	648
Accounts payable and other liabilities	5,859	5,362
Junior subordinated debentures (at fair value)	11,887	11,926
Total liabilities	653,551	681,467
Shareholders' Equity		
Common stock, no par value 20,000,000 shares authorized, 12,129,506 and 12,010,372 issued and outstanding, in 2009 and 2008, respectively	35,776	34,811
Retained earnings	47,720	47,722
Accumulated other comprehensive loss	(3,656)	(2,923)
Total shareholders' equity	79,840	79,610
Total liabilities and shareholders' equity	$ 733,391	$ 761,077

See notes to consolidated financial statements

United Security Bancshares and Subsidiaries
Consolidated Statements of Income and Comprehensive Income (unaudited)

(In thousands except shares and EPS)	Quarters Ended March 31, 2009	2008
Interest Income:		
Loans, including fees	$ 8,067	$ 11,352
Investment securities – AFS – taxable	1,190	1,318
Investment securities – AFS – nontaxable	15	24
Federal funds sold	0	16
Interest on deposits in other banks	40	34
Total interest income	9,312	12,744
Interest Expense:		
Interest on deposits	1,705	4,201
Interest on other borrowings	459	558
Total interest expense	2,164	4,759
Net Interest Income Before Provision for Credit Losses	7,148	7,985
Provision for Credit Losses	1,351	265
Net Interest Income	5,797	7,720
Noninterest Income:		
Customer service fees	989	1,197
Gain on redemption of securities	0	24
Loss on sale of other real estate owned	(77)	0
Loss on swap ineffectiveness	0	9
(Loss) gain on fair value of financial liability	(59)	540
Shared appreciation income	9	110
Other	279	453
Total noninterest income	1,141	2,333
Noninterest Expense:		
Salaries and employee benefits	2,223	2,842
Occupancy expense	942	964
Data processing	42	80
Professional fees	400	309
Director fees	66	64
Amortization of intangibles	228	278
Correspondent bank service charges	107	130
Impairment loss on core deposit intangible	57	624
Impairment loss on investment securities (total other-than temporary loss of $3.9 million, net of $3.7 million recognized in other comprehensive income, pre-tax)	163	0
Impairment loss on OREO	166	0
Loss on California tax credit partnership	107	108
OREO expense	305	32
Other	863	685
Total noninterest expense	5,669	6,116
Income Before Taxes on Income	1,269	3,937
Provision for Taxes on Income	348	1,437
Net Income	$ 921	$ 2,500
Other comprehensive loss, net of tax:		
	(733)	(227)

Unrealized loss on available for sale securities, interest rate swap, and past service costs of employee benefit plans - net income tax benefit of $(489) and $(131)				
Comprehensive Income	$	188	$	2,273
Net income per common share				
Basic	$	0.08	$	0.20
Diluted	$	0.08	$	0.20
Shares on which net income per common shares were based				
Basic		12,129,723		12,204,870
Diluted		12,129,723		12,214,490

See notes to consolidated financial statements

4

United Security Bancshares and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Periods Ended March 31, 2009

(In thousands except shares)	Common stock Number of Shares	Common stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance January 1, 2008	11,855,192	32,587	49,997	(153)	82,431
Director/Employee stock options exercised	8,000	70			70
Net changes in unrealized loss on available for sale securities (net of income tax benefit of $147)				(250)	(250)
Net changes in unrealized loss on interest rate swaps (net of income tax of $1)				2	2
Net changes in unrecognized past service cost on employee benefit plans (net of income tax of $14)				21	21
Dividends on common stock ($0.13 per share)			(1,539)		(1,539)
Repurchase and cancellation of common shares	(29,626)	(452)			(452)
Stock-based compensation expense		32			32
Net Income			2,500		2,500
Balance March 31, 2008 (Unaudited)	11,833,566	32,237	50,958	(380)	82,815
Net changes in unrealized loss on available for sale securities (net of income tax benefit of $1,763)				(2,615)	(2,615)
Net changes in unrecognized past service cost on employee benefit plans (net of income tax of $48)				72	72
Dividends on common stock ($0.13 per share)			(1,542)		(1,542)
1% common stock dividend	236,181	3,264	(3,264)		0
Repurchase and cancellation of common shares	(59,375)	(767)			(767)
Stock-based compensation expense		77			77
Net Income			1,570		1,570
Balance December 31, 2008	12,010,372	34,811	47,722	(2,923)	79,610
Net changes in unrealized loss on available for sale securities (net of income tax benefit of $489)				(733)	(733)
Dividends on common stock (cash-in-lieu)			(4)		(4)
1% common stock dividend	119,622	919	(919)		0
Repurchase and cancellation of common shares	(488)	(4)			(4)

Other		37			37
Stock-based compensation expense		13			13
Net Income			921		921
Balance March 31, 2009 (Unaudited)	12,129,506	$ 35,776	$ 47,720	$ (3,656)	$ 79,840

See notes to consolidated financial statements

United Security Bancshares and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)

(In thousands)	Three Months Ended March 31, 2009	2008
Cash Flows From Operating Activities:		
Net income	$ 921	$ 2,500
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for credit losses	1,351	265
Depreciation and amortization	640	703
Accretion of investment securities	(20)	(37)
Gain on redemption of securities	0	(24)
Decrease (increase) in accrued interest receivable	(363)	425
Decrease in accrued interest payable	(168)	(647)
Decrease in unearned fees	(179)	(228)
Increase in income taxes payable	894	1,435
Stock-based compensation expense	13	33
Decrease in accounts payable and accrued liabilities	(476)	(622)
Loss on sale of other real estate owned	77	0
Impairment loss on other real estate owned	166	0
Impairment loss on core deposit intangible	57	624
Impairment loss on investment securities	163	0
Gain on swap ineffectiveness	0	(9)
Increase in surrender value of life insurance	(136)	(193)
Loss (gain) on fair value option of financial liabilities	59	(540)
Loss on tax credit limited partnership interest	107	108
Net decrease (increase) in other assets	337	(1,210)
Net cash provided by operating activities	3,443	2,583
Cash Flows From Investing Activities:		
Net decrease in interest-bearing deposits with banks	16,464	169
Purchases of available-for-sale securities	0	(24,666)
Maturities and calls of available-for-sale securities	3,784	11,096
Net redemption from limited partnerships	0	(42)
Investment in other bank stock	0	(72)
Proceeds from sale of investment in title company	99	0
Net (increase) decrease in loans	(1,883)	18,948
Proceeds from sales of foreclosed assets	0	43
Net proceeds from settlement of other real estate owned	1,515	0
Capital expenditures for premises and equipment	(59)	(178)
Net cash provided by investing activities	19,920	5,298
Cash Flows From Financing Activities:		
Net increase in demand deposit and savings accounts	1,561	13,950
Net increase (decrease) in certificates of deposit	12,092	(34,072)
Net decrease in federal funds purchased	(17,360)	(7,280)
Net (decrease) increase in FHLB term borrowings	(24,500)	18,000
Proceeds from Director/Employee stock options exercised	0	70
Repurchase and retirement of common stock	33	(452)
Payment of dividends on common stock	(5)	(1,483)

Net cash used in financing activities		(28,179)		(11,267)
Net decrease in cash and cash equivalents		(4,816)		(3,386)
Cash and cash equivalents at beginning of period		19,426		25,300
Cash and cash equivalents at end of period	$	14,610	$	21,914

See notes to consolidated financial statements

United Security Bancshares and Subsidiaries - Notes to Consolidated Financial Statements - (Unaudited)

1. Organization and Summary of Significant Accounting and Reporting Policies

The consolidated financial statements include the accounts of United Security Bancshares, and its wholly owned subsidiary United Security Bank (the “Bank”) and two bank subsidiaries, USB Investment Trust (the “REIT”) and United Security Emerging Capital Fund, (collectively the “Company” or “USB”). Intercompany accounts and transactions have been eliminated in consolidation.

These unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information on a basis consistent with the accounting policies reflected in the audited financial statements of the Company included in its 2008 Annual Report on Form 10-K. These interim financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of a normal recurring, nature) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for any other interim period or for the year as a whole.

Certain reclassifications have been made to the 2008 financial statements to conform to the classifications used in 2009. Effective January 1, 2009, the Company reclassified a contingent asset that represents a claim from an insurance company related to a charged-off lease portfolio, including specific reserves, from loans to other assets. Management believes the asset is better reflected, given its nature, as an asset other than loans. In periods prior to March 31, 2009, the contingent asset had been included in impaired and nonaccrual loan balances. All periods presented have been retroactively adjusted for the reclassification to other assets and therefore amounts have been excluded from loans and reserves for credit losses, including impaired and nonaccrual balances for periods prior to March 31, 2009. The amounts reclassified for reporting purposes for the various periods presented in this 10-Q are shown below.

Reclassification Amount (in 000's)	12/31/2008	3/31/2008	12/31/2007
Lease principal claim included in gross loans	$ 5,425	$ 5,425	$ 5,425
Allowance for credit losses	(3,542)	(3,526)	(3,470)
Net balance transferred to other assets	$ 1,883	$ 1,899	$ 1,955

New Accounting Standards:

In April of 2009, the FASB issued Staff Position No. FAS 107-1, “Interim Disclosures About Fair Value of Financial Instruments.” This position extends the disclosure requirements of SFAS No. 107, “Disclosures About Fair Value of Financial Instruments,” to interim financial statements of publicly traded companies. Staff Position No. FAS 107-1 is effective for interim periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. The Company is evaluating the enhanced disclosure requirements around fair value of financial instruments and does not anticipate a material impact on the Consolidated Financial Statements. The Company will adopt Staff Position No. FAS 107-1 for the period ending June 30, 2009.

In April 2009, the FASB issued Staff Position No. FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments.” This FASB staff position amends the other-than-temporary impairment guidance in U.S. generally accepted accounting principles for debt securities. If an entity determines that it has other-than-temporary impairment on its securities, it must recognize the credit loss on the securities in the income statement. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. The staff position expands disclosures about other-than-temporary impairment and requires that the annual disclosures in FASB Statement No. 115 and FSP FAS 115-1 and FAS 124-1 be made for interim reporting periods. This FASB staff position becomes effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted this

FASB staff position for the interim reporting period ending March 31, 2009. See Note 2 to the consolidated financial statements for the impact on the Company of adopting FSP No. FAS 115-2 and FAS 124-2.

In April 2009, the FASB issued Staff Position No. FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly.” This FASB staff position provides additional guidance on determining fair value when the volume and level of activity for the asset or liability have significantly decreased when compared with normal market activity for the asset or liability. A significant decrease in the volume or level of activity for the asset of liability is an indication that transactions or quoted prices may not be determinative of fair value because transactions may not be orderly. In that circumstance, further analysis of transactions or quoted prices is needed, and an adjustment to the transactions or quoted prices may be necessary to estimate fair value. This FASB staff position becomes effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted this FASB staff position for the interim reporting period ending March 31, 2009 and it did not have a material impact on the Company’s consolidated financial position or results of operations.

In April 2009, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 111 (“SAB 111”). SAB 111 amends Topic 5.M. in the Staff Accounting Bulletin series entitled “Other Than Temporary Impairment of Certain Investments Debt and Equity Securities.” On April 9, 2009, the FASB issued Staff Position No. FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments.” SAB 111 maintains the previous views related to equity securities and amends Topic 5.M. to exclude debt securities from its scope. SAB 111 was effective for the Company as of March 31, 2009. There was no material impact to the Company’s consolidated financial position or results of operations upon adoption.

2. Investment Securities Available for Sale

Following is a comparison of the amortized cost and approximate fair value of securities available-for-sale, as of March 31, 2009 and December 31, 2008:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Amount)
March 31, 2009:				
U.S. Government agencies	$ 41,449	$ 1,776	$ (1)	$ 43,224
Collateralized mortgage obligations	36,773	556	(7,468)	29,861
Obligations of state and political subdivisions	1,252	29	0	1,281
Other investment securities	13,909	0	(654)	13,255
	$ 93,383	$ 2,361	$ (8,123)	$ 87,621
December 31, 2008:				
U.S. Government agencies	$ 43,110	$ 1,280	$ (204)	$ 44,186
Collateralized mortgage obligations	39,068	189	(4,991)	34,266
Obligations of state and political subdivisions	1,252	28	0	1,280
Other investment securities	13,880	0	(863)	13,017
	$ 97,310	$ 1,497	$ (6,058)	$ 92,749

Included in other investment securities at March 31, 2009 are a short-term government securities mutual fund totaling $7.4 million, a CRA-qualified mortgage fund totaling $4.9 million, and a money-market mutual fund totaling $909,000. Included in other investment securities at December 31, 2008, is a short-term government securities mutual fund totaling $7.2 million, a CRA-qualified mortgage fund totaling $4.9 million, and an overnight money-market mutual fund totaling $880,000. The short-term government securities mutual fund invests in debt securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities, with a maximum duration equal to that of a 3-year U.S. Treasury Note.

There were no realized gains on sales of available-for-sale securities during the three months ended March 31, 2009. There were no realized losses on sales or calls of available-for-sale securities during the three months ended March 31, 2009, but there were other-than-temporary impairment losses totaling $163,000 on two of the Company’s collateralized mortgage obligations (see discussion below.) There were realized gains totaling $24,000 on calls of available-for-sale securities during the three months ended March 31, 2008. There were no realized gains or losses on sales of available-for-sale securities during the three months ended March 31, 2008.

Securities that have been temporarily impaired less than 12 months at March 31, 2009 are comprised of two collateralized mortgage obligations and one U.S. government agency security with a total weighted average life of 0.5 years. As of March 31, 2009, there were three collateralized mortgage obligations and two other investment securities with a total weighted average life of 2.8 years that have been temporarily impaired for twelve months or more.

The following summarizes the total of temporarily impaired and other-than-temporarily impaired investment securities at March 31, 2009 (see discussion below for other than temporarily impaired securities included here):

(In thousands)	Less than 12 Months		12 Months or More		Total	
	Fair Value (Carrying Amount)	Unrealized Losses	Fair Value (Carrying Amount)	Unrealized Losses	Fair Value (Carrying Amount)	Unrealized Losses
Securities available for sale:						
U.S. Government agencies	$ 143	$ (1)	$ 0	$ 0	$ 143	$ (1)
Collateralized mortgage obligations	6,870	(68)	9,350	(7,400)	16,220	(7,468)
Obligations of state and political subdivisions	0	0	0	0	0	0
Other investment securities	0	0	12,346	(654)	12,346	(654)
Total impaired securities	$ 7,013	$ (69)	$ 21,696	$ (8,054)	$ 28,709	$ (8,123)

Securities that have been temporarily impaired less than 12 months at March 30, 2008 are comprised of three collateralized mortgage obligations with a total weighted average life of 4.7 years. As of March 31, 2008, there were two U.S. government agency securities and two municipal agency securities with a total weighted average life of 1.6 years that have been temporarily impaired for twelve months or more.

The following summarizes temporarily impaired investment securities at March 31, 2008:

(In thousands)	Less than 12 Months		12 Months or More		Total	
	Fair Value (Carrying Amount)	Unrealized Losses	Fair Value (Carrying Amount)	Unrealized Losses	Fair Value (Carrying Amount)	Unrealized Losses
Securities available for sale:						
U.S. Government agencies	$ 0	$ 0	$ 5,971	$ (65)	$ 5,971	$ (65)
U.S. Government agency collateralized mortgage obligations	18,363	(990)	0	0	18,363	(990)
Obligations of state and political subdivisions	0	0	0	0	0	0
Other investment securities	0	0	12,623	(377)	12,623	(377)
Total impaired securities	$ 18,363	$ (990)	$ 18,594	$ (442)	$ 36,957	$ (1,432)

At March 31, 2009 and December 31, 2008, available-for-sale securities with an amortized cost of approximately $78.1 million and $81.4 million (fair value of $76.1 million and $79.6 million) were pledged as collateral for public funds, and treasury tax and loan balances.

The Company evaluates investment securities for other-than-temporary impairment ("OTTI") at least quarterly, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. Investment securities classified as available for sale or held-to-maturity are generally evaluated for OTTI under Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." However, certain purchased beneficial interests, including non-agency mortgage-backed securities, asset-backed securities, and collateralized debt obligations, are evaluated using the model outlined in EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transfer in Securitized Financial Assets."

In determining OTTI under the SFAS No. 115 model, the Company considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to the Company at the time of the evaluation.

The second segment of the portfolio uses the OTTI guidance provided by EITF 99-20 that is specific to purchased beneficial interests including non-agency collateralized mortgage obligations. Under the EITF 99-20 model, the Company compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. An OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

When other-than-temporary-impairment occurs under either model, the amount of the other-than-temporary-impairment recognized in earnings depends on whether an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If an entity intends to sell or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary-impairment shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the other-than-temporary-impairment shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total other-than-temporary-impairment related to the credit loss is recognized in earnings, and is determined based on the difference between the present value of cash flows expected to be collected and the current amortized cost of the security. The amount of the total other-than-temporary-impairment related to other factors shall be recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the other-than-temporary-impairment recognized in earnings shall become the new amortized cost basis of the investment.

At March 31, 2009, the decline in market value for all but three (see below) of the impaired securities is attributable to changes in interest rates and illiquidity, and not credit quality. Because the Company does not have the intent to sell these impaired securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at March 31, 2009.

At March 31, 2009, the Company had three non-agency collateralized mortgage obligations which have been impaired more than twelve months. The three non-agency collateralized mortgage obligations had a market value of $9.5 million and unrealized losses of approximately $7.7 million at March 31, 2009. These non-agency mortgage-backed securities were rated less than high credit quality at March 31, 2009 and are within the scope of EITF 99-20. Pursuant to EITF 99-20, the Company evaluated OTTI by comparing the present value of expected cash flows to previous estimates to determine whether there had been adverse changes in cash flows during the quarter. The OTTI evaluation was conducted utilizing the services of a third party specialist and consultant in MBS and CMO products. The cash flow assumptions used in the evaluation included a number of factors including changes in delinquency rates, anticipated prepayment speeds, loan-to-value ratios, changes in agency ratings, and market prices. As a result of the impairment evaluation, the Company determined that there had been adverse changes in cash flows in two of the three non-agency collateralized mortgage obligations reviewed, and concluded that these two non-agency collateralized mortgage obligations were other-than-temporarily impaired. The two securities had other-than-temporary-impairment losses of $3.9 million, of which $163,000 was recorded as expense and $3.7 million was recorded in other comprehensive income. These three securities remained classified as available for sale at March 31, 2009.

The following table details the two non-agency collateralized mortgage obligations with other-than-temporary-impairment, their credit rating at March 31, 2009, the related credit losses recognized in earnings, and impairment losses in other comprehensive income:

	RALI 2006-QS1G A10 Rated Caa	RALI 2006 QS8 A1 Rated Caa	Total
Amortized cost	$ 6,494,043	$ 1,901,117	$ 8,395,160

Credit loss (expense)		(131,337)		(31,956)		(163,293)
Other impairment (OCI)		(2,903,041)		(792,655)		(3,695,696)
Carrying amount		3,459,665		1,076,506		4,536,171
Total impairment	$	(3,034,378)	$	(824,611)	$	(3,858,989)

10

The total other comprehensive income (OCI) balance of $3.7 million in the above table is included in unrealized losses of 12 months or more at March 31, 2009.

3. Loans and Leases

Loans include the following:

(In thousands)	March 31, 2009	% of Loans	December 31, 2008	% of Loans
Commercial and industrial	$ 232,454	42.8%	$ 223,581	41.1%
Real estate – mortgage	124,113	22.9%	126,689	23.3%
Real estate – construction	112,825	20.8%	119,884	21.9%
Agricultural	52,280	9.6%	52,020	9.6%
Installment/other	19,971	3.7%	20,782	3.8%
Lease financing	1,326	0.2%	1,595	0.3%
Total Gross Loans	$ 542,969	100.0%	$ 544,551	100.0%

Loans over 90 days past due and still accruing totaled $838,000 and $680,000 at March 31, 2009 and December 31, 2008, respectively. Nonaccrual loans totaled $52.6 million and $45.7 million at March 31, 2009 and December 31, 2008, respectively.

An analysis of changes in the allowance for credit losses is as follows:

(In thousands)	March 31, 2009	December 31, 2008	March 31, 2008
Balance, beginning of year	$ 11,530	$ 7,431	$ 7,431
Provision charged to operations	1,351	9,598	265
Losses charged to allowance	(2,599)	(5,616)	(357)
Recoveries on loans previously charged off	166	117	60
Balance at end-of-period	$ 10,448	$ 11,530	$ 7,399

The allowance for credit losses represents management's estimate of the risk inherent in the loan portfolio based on the current economic conditions, collateral values and economic prospects of the borrowers. The formula allowance for unfunded loan commitments totaling $272,000 and $313,000 at March 31, 2009 and December 31, 2008, respectively, is carried in other liabilities. The Company’s market areas of the San Joaquin Valley, the greater Oakhurst area, East Madera County, and Santa Clara County, have all been impacted by the economic downturn related to depressed real estate markets and the tightening of liquidity markets. The Company has taken these events into account when reviewing estimates of factors that may impact the allowance for credit losses.

The Company grades “problem” or “classified” loans according to certain risk factors associated with individual loans within the loan portfolio. Classified loans consist of loans which have been graded substandard, doubtful, or loss based upon inherent weaknesses in the individual loans or loan relationships. Classified loans include not only impaired loans (as defined under SFAS No. 114), but also loans which based upon inherent weaknesses result in a risk grading of substandard, doubtful, or loss. The following table summarizes the Company’s classified loans at March 31, 2009 and December 31, 2008.

(in 000's)	March 31, 2009	December 31, 2008
Impaired loans	$ 58,030	$ 48,946
Classified loans not considered impaired	23,157	33,758

Total classified loans	$	81,187	$	82,704

The following table summarizes the Company’s investment in loans for which impairment has been recognized for the periods presented:

(in thousands)	March 31, 2009	December 31, 2008	March 31, 2008
Total impaired loans at period-end	$ 58,030	$ 48,946	$ 15,262
Impaired loans which have specific allowance	29,711	25,541	2,909
Total specific allowance on impaired loans	4,393	4,972	611
Total impaired loans which as a result of write-downs or the fair value of the collateral, did not have a specific allowance	28,319	23,405	12,353

(in thousands)	YTD – 3/31/09	YTD - 12/31/08	YTD – 3/31/08
Average recorded investment in impaired loans during period	$ 56,201	$ 31,677	$ 15,232
Income recognized on impaired loans during period	0	0	0

4. Deposits

Deposits include the following:

(In thousands)	March 31, 2009	December 31, 2008
Noninterest-bearing deposits	$ 142,832	$ 149,529
Interest-bearing deposits:		
NOW and money market accounts	146,567	136,612
Savings accounts	35,890	37,586
Time deposits:		
Under $100,000	64,141	66,128
$100,000 and over	132,710	118,631
Total interest-bearing deposits	379,308	358,957
Total deposits	$ 522,140	$ 508,486

5. Short-term Borrowings/Other Borrowings

At March 31, 2009, the Company had collateralized and uncollateralized lines of credit with the Federal Reserve Bank of San Francisco and other correspondent banks aggregating $207.0 million, as well as Federal Home Loan Bank (“FHLB”) lines of credit totaling $79.9 million. At March 31, 2009, the Company had total outstanding balances of $64.0 million drawn against its FHLB line of credit, and $49.2 million in overnight borrowing at the Federal Reserve Discount Window. The weighted average cost of borrowings outstanding at March 31, 2009 was 0.65%. The $64.0 million in FHLB borrowings outstanding at March 31, 2009 are summarized in the table below.

FHLB term borrowings at March 31, 2009 (in 000’s):

Term	Balance at 3/31/09	Fixed Rate	Maturity
3-month	$ 20,000	0.38%	6/30/09
3-month	33,000	0.35%	6/30/09
2 year	11,000	2.67%	2/11/10
	$ 64,000	0.76%	

At December 31, 2008, the Company had collateralized and uncollateralized lines of credit with the Federal Reserve Bank of San Francisco and other correspondent banks aggregating $242.7 million, as well as Federal Home Loan

Bank (“FHLB”) lines of credit totaling $97.1 million. At December 31, 2008, the Company had total outstanding balances of $155.0 million in borrowings, including $66.5 million in federal funds purchased from the Federal Reserve Discount Window at an average rate of 0.50%, and $88.5 million drawn against its FHLB lines of credit.

These lines of credit generally have interest rates tied to the Federal Funds rate or are indexed to short-term U.S. Treasury rates or LIBOR. FHLB advances are collateralized by all of the Company’s stock in the FHLB and certain qualifying mortgage loans. All lines of credit are on an “as available” basis and can be revoked by the grantor at any time.

---

6. Supplemental Cash Flow Disclosures

(In thousands)	Three Months Ended March 31, 2009		2008	
Cash paid during the period for:				
Interest	$	2,232	$	5,407
Income Taxes	$	59		2
Noncash investing activities:				
Dividends declared not paid	$	4	$	1,539
Loans transferred to foreclosed assets	$	721	$	772

7. Common Stock Dividend

On March 24, 2009, the Company's Board of Directors declared a one-percent (1%) stock dividend on the Company's outstanding common stock. Based upon the number of outstanding common shares on the record date of April 10, 2009, an additional 119,622 shares were issued to shareholders on April 22, 2008. Because the stock dividend was considered a "small stock dividend", approximately $919,000 was transferred from retained earnings to common stock based upon the $7.69 closing price of the Company's common stock on the declaration date of March 24, 2009. Fractional shares were paid in cash, with a cash-in-lieu of payment of approximately $4,000. Other than for earnings-per-share calculations, shares issued for the stock dividend have been treated prospectively from March 31, 2009 for financial reporting purposes. For purposes of earnings per share calculations, the Company's weighted average shares outstanding and potentially dilutive shares used in the computation of earnings per share have been restated after giving retroactive effect to a 1% stock dividend to shareholders for all periods presented.

8. Net Income per Common Share

The following table provides a reconciliation of the numerator and the denominator of the basic EPS computation with the numerator and the denominator of the diluted EPS computation:

(In thousands except earnings per share data)	Three Months Ended March 31, 2009		2008	
Net income available to common shareholders	$	921	$	2,500
Weighted average shares issued		12,130		12,205
Add: dilutive effect of stock options		0		9
Weighted average shares outstanding adjusted for potential dilution		12,130		12,214
Basic earnings per share	$	0.08	$	0.20
Diluted earnings per share	$	0.08	$	0.20
Anti-dilutive shares excluded from earnings per share calculation		178		47

The Company's average weighted shares outstanding and potentially dilutive shares used in the computation of earnings per share have been restated after giving retroactive effect to a 1% stock dividend to shareholders of record on April 10, 2008.

9. Common Stock Repurchase Plan

Since August 2001, the Company's Board of Directors has approved three separate consecutive plans to repurchase, as conditions warrant, up to approximately 5% of the Company's common stock on the open market or in privately negotiated transactions. The duration of the stock repurchase programs has been open-ended and the timing of purchases depends on market conditions. As each new stock repurchase plan was approved, the previous plan was cancelled.

On May 16, 2007, the Board of Directors approved the third and most recent stock repurchase plan to repurchase, as conditions warrant, up to 610,000 shares of the Company's common stock on the open market or in privately negotiated transactions. The repurchase plan represents approximately 5.00% of the Company's currently outstanding common stock. The duration of the program is open-ended and the timing of purchases will depend on market conditions. Concurrent with the approval of the new repurchase plan, the Company canceled the remaining 75,733 shares available under the previous 2004 repurchase plan.

During the three months ended March 31, 2009, 488 shares were repurchased at a total cost of $3,700 and an average per share price of $7.50.

10. Stock Based Compensation

All share-based payments to employees, including grants of employee stock options, are recognized in the financial statements based on the grant-date fair value of the award. The fair value is amortized over the requisite service period (generally the vesting period).

Included in salaries and employee benefits for the three months ended March 31, 2009 and 2008 is $13,000 and $33,000 of share-based compensation, respectively. The related tax benefit on share-based compensation recorded in the provision for income taxes was not material to either quarter.

A summary of the Company’s options as of January 1, 2009 and changes during the three months ended March 31, 2009 is presented below.

	2005 Plan	Weighted Average Exercise Price	1995 Plan	Weighted Average Exercise Price
Options outstanding January 1, 2009	159,645	$ 16.13	16,322	$ 11.96
1% common stock dividend	1,597	(0.16)	163	(0.11)
Options outstanding March 31, 2009	161,242	$ 15.97	16,485	$ 11.85
Options exercisable at March 31, 2009	93,346	$ 15.86	16,485	$ 11.85

As of March 31, 2009 and 2008, there was $68,000 and $191,000, respectively, of total unrecognized compensation expense related to nonvested stock options. This cost is expected to be recognized over a weighted average period of approximately 0.5 years and 1.0 years, respectively. No stock options were exercised during the three months ended March 31, 2009. The Company received $70,000 in cash proceeds on options exercised during the three months ended March 31, 2008. No tax benefits were realized on stock options exercised during the three months ended March 31, 2008, because all options exercised during the periods were incentive stock options.

	Period Ended March 31, 2009	Period Ended March 31, 2008
Weighted average grant-date fair value of stock options granted	n/a	n/a
Total fair value of stock options vested	$ 68,690	$ 70,850
Total intrinsic value of stock options exercised	n/a	$ 55,000

The Company determines fair value at grant date using the Black-Scholes-Merton pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock and the expected dividend yield and the risk-free interest rate over the expected life of the option.

The weighted average assumptions used in the pricing model are noted in the table below. The expected term of options granted is derived using the simplified method, which is based upon the average period between vesting term and expiration term of the options. The risk free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. Expected volatility is based on the historical volatility of the Bank's stock over a period commensurate with the expected term of the options. The Company believes that historical volatility is indicative of expectations about its future volatility over the expected term of the options.

14

For options vested as of January 1, 2006 or granted after January 1, 2006, and valued in accordance with FAS 123R, the Company expenses the fair value of the option on a straight-line basis over the vesting period for each separately vesting portion of the award. The Company estimates forfeitures and only recognizes expense for those shares expected to vest. Based upon historical evidence, the Company has determined that because options are granted to a limited number of key employees rather than a broad segment of the employee base, expected forfeitures, if any, are not material. No options were granted during the three months ended March 31, 2009 or 2008.

The Black-Scholes-Merton option valuation model requires the input of highly subjective assumptions, including the expected life of the stock based award and stock price volatility. The assumptions listed about represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if other assumptions had been used, the Company's recorded stock-based compensation expense could have been materially different from that previously reported by the Company. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. The Company’s current expected forfeiture rate is zero. If the Company's actual forfeiture rate is materially different from the estimate, the share-based compensation expense could be materially different.

11. Taxes – FIN48

The Company adopted the provisions of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (FIN48), on January 1, 2007. FIN 48 clarifies SFAS No. 109, “Accounting for Income Taxes,” to indicate a criterion that an individual tax position would have to meet for some or all of the income tax benefit to be recognized in a taxable entity’s financial statements. Under the guidelines of FIN48, an entity should recognize the financial statement benefit of a tax position if it determines that it is more likely than not that the position will be sustained on examination. The term, “more likely than not”, means a likelihood of more than 50 percent. In assessing whether the more-likely-than-not criterion is met, the entity should assume that the tax position will be reviewed by the applicable taxing authority and all available information is known to the taxing authority.

The Company and a subsidiary file income tax returns in the U.S federal jurisdiction, and several states within the U.S. There are no filings in foreign jurisdictions. The Company is not currently aware of any tax jurisdictions where the Company or any subsidiary is subject examination by federal, state, or local taxing authorities before 2001. The Internal Revenue Service (IRS) has not examined the Company’s or any subsidiaries federal tax returns since before 2001, and the Company currently is not aware of any examination planned or contemplated by the IRS. The California Franchise Tax Board (FTB) concluded an audit of the Company’s 2004 state tax return during the fourth quarter of 2007, resulting in a disallowance of approximately $19,000 related to Enterprise Zone loan interest deductions taken during 2004. The $19,000 was recorded as a component of tax expense for the year ended December 31, 2007.

During the second quarter of 2006, the FTB issued the Company a letter of proposed adjustments to, and assessments for, (as a result of examination of the tax years 2001 and 2002) certain tax benefits taken by the REIT during 2002. The Company continues to review the information available from the FTB and its financial advisors and believes that the Company's position has merit. The Company is pursing its tax claims and will defend its use of these entities and transactions. The Company will continue to assert its administrative protest and appeal rights pending the outcome of litigation by another taxpayer presently in process on the REIT issue in the Los Angeles Superior Court (City National v. Franchise Tax Board).

The Company reviewed its REIT tax position as of January 1, 2007 (adoption date) and again during subsequent quarters since that time in light of the adoption of FIN48. The Bank, with guidance from advisors believes that the case has merit with regard to points of law, and that the tax law at the time allowed for the deduction of the consent dividend. However, the Bank, with the concurrence of advisors, cannot conclude that it is “more than likely” (as defined in FIN48) that the Bank will prevail in its case with the FTB. As a result of the implementation of FIN48, the Company recognized approximately a $1.3 million increase in the liability for unrecognized tax benefits (included in

other liabilities), which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. The adjustment provided at adoption included penalties proposed by the FTB of $181,000 and interest totaling $210,000. During each of the years ended December 31, 2007 and December 31, 2008, the Company recorded an additional $87,000 in interest liability pursuant to the provisions of FIN48. The Company had approximately $566,000 accrued for the payment of interest and penalties at December 31, 2008. Subsequent to the initial adoption of FIN48, it is the Company's policy to recognize interest expense related to unrecognized tax benefits, and penalties, as a component tax expense. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in 000's):

Balance at January 1, 2009	$ 1,472
Additions for tax provisions of prior years	22
Balance at March 31, 2009	$ 1,494

12. Fair Value Adjustments - Junior Subordinated Debt/Trust Preferred Securities

Effective January 1, 2007, the Company elected early adoption of SFAS No.159, “The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115”. The Company also adopted the provisions of SFAS No. 157, “Fair Value Measurements”, effective January 1, 2007, in conjunction with the adoption of SFAS No. 159. SFAS No. 159 generally permits the measurement of selected eligible financial instruments at fair value at specified election dates. The Company elected the fair value option pursuant to SFAS No. 159 for its junior subordinated debt issued under USB Capital Trust II. The rate paid on the junior subordinated debt issued under USB Capital Trust II is 3-month LIBOR plus 129 basis points, and is adjusted quarterly.

At March 31, 2009 the Company performed a fair value measurement analysis on its junior subordinated debt pursuant to SFAS No. 157 using a cash flow valuation model approach to determine the present value of those cash flows. The cash flow model utilizes the forward 3-month Libor curve to estimate future quarterly interest payments due over the thirty-year life of the debt instrument. These cash flows were discounted at a market spread from LIBOR of approximately 5.0% which was determined to be reasonable in the current market rate environment. Although there is little market data in the current relatively illiquid credit markets, and the market spread is higher than historical spreads, we believe 5.0% market spread and resultant 6.2% discount rate used is appropriate considering guidance in FSP FAS 157-4. The market spread was determined from historical trends in market spreads between treasury securities and corporate bonds.

The fair value calculation performed at March 31, 2009 resulted in a pretax loss adjustment of $59,000 ($34,000, net of tax) for the quarter ended March 31, 2009. The previous year’s fair value calculation performed at March 31, 2008 resulted in a pretax gain adjustment of $540,000 ($315,000, net of tax) for the quarter ended March 31, 2008.

13. Fair Value Measurements– SFAS No. 157

Effective January 1, 2007, the Company adopted SFAS 157, “Fair Value Measurements”, concurrent with its early adoption of SFAS No. 159. SFAS No. 157 clarifies the definition of fair value, describes methods used to appropriately measure fair value in accordance with generally accepted accounting principles and expands fair value disclosure requirements. This statement applies whenever other accounting pronouncements require or permit fair value measurements.

The fair value hierarchy under SFAS No. 157 prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (Level 1, Level 2, and Level 3). Level 1 inputs are unadjusted quoted prices in active markets (as defined) for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability, and reflect the reporting entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

The Company performs fair value measurements on certain assets and liabilities as the result of the application of accounting guidelines and pronouncements that were relevant prior to the adoption of SFAS No. 157. Some fair value measurements, such as for available-for-sale securities (AFS) and interest rate swaps are performed on a recurring basis, while others, such as impairment of loans, goodwill and other intangibles, are performed on a nonrecurring basis.

The following tables summarize the Company's assets and liabilities that were measured at fair value on a recurring and non-recurring basis as of March 31, 2009 (in 000's):

Description of Assets	March 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
AFS Securities (2)	$ 87,722	$ 13,356	$ 64,852	$ 9,514
Impaired Loans (1)	25,317		2,105	$ 23,212
Core deposit intangibles (1)	1,107			1,107
Total	$ 114,146	$ 13,356	$ 66,957	$ 33,833

(1) nonrecurring
(2) Includes $101 in equity securities reported in other assets on the balance sheet

Description of Liabilities	March 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Junior subordinated debt	$ 11,887			$ 11,887
Total	$ 11,887	$ 0	$ 0	$ 11,887

The following tables summarize the Company's assets and liabilities that were measured at fair value on a recurring and nonrecurring basis during the year ended December 31, 2008 (in 000's):

Description of Assets	December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
AFS securities (2)	$ 92,870	$ 13,138	$ 66,932	$ 12,800
Purchased intangible asset (1)	206			$ 206
Impaired loans (1)	20,569		4,602	$ 15,967
Core deposit intangible (1)	1,283			$ 1,283
Total	$ 114,928	$ 13,138	$ 71,534	$ 30,256

(1) Nonrecurring items
(2) Includes $121 in equity securities reported in other assets on the balance sheet

Description of Liabilities	December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Junior subordinated debt	$ 11,926			$ 11,926
Total	$ 11,926	$ 0	$ 0	$ 11,926

Available for sale securities are valued based upon open-market price quotes obtained from reputable third-party brokers that actively make a market in those securities. Market pricing is based upon specific CUSIP identification for each individual security. To the extent there are observable prices in the market, the mid-point of the bid/ask price is used to determine fair value of individual securities. If that data are not available for the last 30 days, a level 2-type matrix pricing approach based on comparable securities in the market is utilized. Level-2 pricing may include using a spread forward from the last observable trade or may use a proxy bond like a TBA mortgage to come up with a price for the security being valued. Changes in fair market value are recorded in other comprehensive income as the securities are available for sale. At March 31, 2009 and December 31, 2008, the Company held three non-agency (private-label) collateralized mortgage obligations (CMO's). Fair value of these securities (as well as review for other-than-temporary impairment) was performed by a third-party securities broker specializing in CMO's. Fair value was based upon estimated cash flows which included assumptions about future prepayments, default rates, and the impact of credit risk on this type of investment security. Although the pricing of the CMO's has certain aspects of Level 2 pricing, many of the pricing inputs are based upon unobservable assumptions of future economic trends and as a result the Company considers this to be Level 3 pricing.

Fair value measurements for impaired loans are performed pursuant to SFAS No. 114, and are based upon either collateral values supported by appraisals, or observed market prices. Changes are not recorded directly as an adjustment to current earnings or comprehensive income, but rather as an adjustment component in determining the overall adequacy of the loan loss reserve. Such adjustments to the estimated fair value of impaired loans may result in increases or decreases to the provision for credit losses recorded in current earnings.

The fair value of the junior subordinated debt was determined based upon a valuation discounted cash flows model utilizing observable market rates and credit characteristics for similar instruments. In its analysis, the Company used characteristics that distinguish market participants generally use, and considered factors specific to (a) the liability, (b) the principal (or most advantageous) market for the liability, and (c) market participants with whom the reporting entity would transact in that market. For the three month period ended March 31, 2009, management utilized a market spread from the forward 3-month LIBOR curve based upon spreads between U.S. treasury securities and corporate bonds to determine appropriate levels of risk premium in the current economic environment. The Company believes the inputs to the model are subjective enough to the fair value determination of the junior subordinated debt to make them Level 3 inputs.

The nonrecurring fair value measurements performed during the quarter ended March 31, 2009 resulted in a pretax fair value impairment adjustment of $57,000 ($33,000 net of tax) to the core deposit intangible asset. The adjustment is reflected as a component of noninterest expense for the quarter ended March 31, 2009.

The following tables provide a reconciliation of assets and liabilities at fair value using significant unobservable inputs (Level 3) on a recurring and non-recurring basis during the quarters ended March 31, 2009 and 2008 (in 000’s):

	3/31/09 Impaired loans	3/31/09 CMO’s	3/31/09 Intangible assets	3/31/08 Impaired loans
Reconciliation of Assets:				