Home Federal Bancorp, Inc.
Form 10-Q
August 09, 2011

UNITED STATES
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 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: 001-33795

HOME FEDERAL BANCORP, INC.
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	68-0666697 (I.R.S. Employer Identification Number)
500 12th Avenue South, Nampa, Idaho (Address of principal executive offices)	83651 (Zip Code)

Registrant's telephone number, including area code: (208) 466-4634

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 [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 (§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 [X] 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 [X]
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 [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $.01 par value per share, 16,191,716 shares outstanding as of August 5, 2011.

HOME FEDERAL BANCORP, INC.
FORM 10-Q
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Item 1. Financial Statements

HOME FEDERAL BANCORP, INC. AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS (In thousands, except share data) (Unaudited)		June 30, 2011		September 30, 2010
ASSETS				
Cash and equivalents	$	201,944	$	416,426
Investments available-for-sale, at fair value		422,142		275,180
FHLB stock, at cost		17,717		17,717
Loans and leases receivable, net of allowance for loan and lease losses of $13,387 and $15,432		491,421		621,010
Loans held for sale		524		5,135
Accrued interest receivable		2,771		2,694
Property and equipment, net		33,519		27,955
Bank owned life insurance		12,745		12,437
Real estate owned and other repossessed assets		24,179		30,481
FDIC indemnification receivable, net		58,139		64,574
Core deposit intangible		3,414		3,971
Other assets		4,279		5,281
TOTAL ASSETS	$	1,272,794	$	1,482,861
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES				
Deposit accounts:				
Noninterest-bearing demand	$	133,143	$	138,300
Interest-bearing demand		235,061		225,794
Money market		176,180		180,454
Savings		82,774		69,079
Certificates		382,311		576,035
Total deposit accounts		1,009,469		1,189,662
Advances by borrowers for taxes and insurance		711		4,658
Accrued interest payable		458		631
Deferred compensation		5,724		5,583
FHLB advances and other borrowings		53,422		67,622
Deferred income tax liability, net		2,689		2,211
Other liabilities		3,494		7,406
Total liabilities		1,075,967		1,277,773
STOCKHOLDERS' EQUITY				
Serial preferred stock, $.01 par value; 10,000,000 authorized; issued and outstanding, none		--		--
Common stock, $.01 par value; 90,000,000 authorized; issued and outstanding:		162		167

Jun. 30, 2011 - 17,512,197 issued; 16,191,716 outstanding						
Sep. 30, 2010 - 17,460,311 issued; 16,687,561 outstanding						
Additional paid-in capital		147,968			152,682	
Retained earnings		51,737			56,942	
Unearned shares issued to employee stock ownership plan		(7,875	)		(8,657	)
Accumulated other comprehensive income		4,835			3,954	
Total stockholders' equity		196,827			205,088	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	1,272,794		$	1,482,861	

See accompanying notes.

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HOME FEDERAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data) (Unaudited)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010
Interest and dividend income:				
Loans and leases	$8,824	$6,918	$26,565	$21,054
Investment securities	2,450	1,479	6,392	4,831
Other interest and dividends	118	104	463	240
Total interest and dividend income	11,392	8,501	33,420	26,125
Interest expense:				
Deposits	1,452	1,781	5,410	5,129
FHLB advances and other borrowings	547	792	1,769	2,385
Total interest expense	1,999	2,573	7,179	7,514
Net interest income	9,393	5,928	26,241	18,611
Provision for loan losses	2,811	3,300	8,811	6,375
Net interest income after provision for loan losses	6,582	2,628	17,430	12,236
Noninterest income:				
Service charges and fees	2,446	2,325	7,138	6,735
Gain on sale of loans	119	125	655	433
Increase in cash surrender value of life insurance	103	105	309	316
FDIC indemnification recovery	2,389	278	7,235	278
Other	650	63	2,767	478
Total noninterest income	5,707	2,896	18,104	8,240
Noninterest expense:				
Compensation and benefits	6,780	4,660	21,054	13,966
Occupancy and equipment	1,518	979	5,241	3,023
Data processing	1,152	929	3,279	2,526
Advertising	173	233	648	775
Postage and supplies	298	173	901	516
Professional services	863	391	2,617	1,375
Insurance and taxes	716	423	2,792	1,461
Amortization of intangibles	176	--	557	--
Provision for REO	296	418	1,328	2,509
Other	451	462	1,548	1,160
Total noninterest expense	12,423	8,668	39,965	27,311
Loss before income taxes	(134)	(3,144)	(4,431)	(6,835)
Income tax benefit	(56)	(1,203)	(1,819)	(2,654)
Net loss before extraordinary gain	(78)	(1,941)	(2,612)	(4,181)
Extraordinary gain, net of tax of $195	--	--	--	305
Net loss	$(78)	$(1,941)	$(2,612)	$(3,876)
Loss per common share before extraordinary item:				
Basic	$(0.01)	$(0.12)	$(0.17)	$(0.27)
Diluted	(0.01)	(0.12)	(0.17)	(0.27)

Gain per common share of extraordinary item:				
Basic	n/a	n/a	n/a	0.02
Diluted	n/a	n/a	n/a	0.02
Loss per common share:				
Basic	(0.01)	(0.12)	(0.17)	(0.25)
Diluted	(0.01)	(0.12)	(0.17)	(0.25)
Weighted average number of shares outstanding:				
Basic	15,536,539	15,543,199	15,616,285	15,491,203
Diluted	15,536,539	15,543,199	15,616,285	15,491,203
Dividends declared per share:	$0.055	$0.055	$0.165	$0.165

See accompanying notes.

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HOME FEDERAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
(In thousands, except share data) (Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Unearned Shares Issued to ESOP	Accumulated Other Comprehensive Income (Loss)	Total
Balance at September 30, 2009	16,698,168	$ 167	$ 150,782	$ 64,483	$ (9,699)	$ 3,932	$ 209,665
Restricted stock issued, net of forfeitures	(25,607)	--					--
ESOP shares committed to be released			444		1,042		1,486
Exercise of stock options	15,000	--	161				161
Share-based compensation			1,279				1,279
Tax adjustments for equity compensation plans			16				16
Dividends paid ($0.220 per share)				(3,450)			(3,450)
Comprehensive income (loss):							
Loss before extraordinary item				(4,396)			(4,396)
Extraordinary gain, net of tax				305			305
Other comprehensive income:							
Change in unrealized holding loss on securities available-for-sale, net of taxes of $(49)						82	82
Adjustment for realized gains, net of taxes of $38						(60)	(60)
Comprehensive loss							(4,069)
Balance at September 30, 2010	16,687,561	167	152,682	56,942	(8,657)	3,954	205,088

Restricted stock issued, net of forfeitures	27,269	--					--
ESOP shares committed to be released			174		782		956
Exercise of stock options	51,886	--	541				541
Share-based compensation			633				633
Dividends paid ($0.165 per share)				(2,593)			(2,593)
Stock repurchase	(575,000)	(5)	(6,062)				(6,067)
Comprehensive income (loss):							
Net loss				(2,612)			(2,612)
Other comprehensive income:							
Change in unrealized holding loss on securities available-for-sale, net of taxes of $612						881	881
Comprehensive loss							(1,731)
Balance at June 30, 2011	16,191,716	$ 162	$ 147,968	$ 51,737	$ (7,875)	$ 4,835	$ 196,827

See accompanying notes.

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HOME FEDERAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) (Unaudited)

	Nine Months Ended June 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (2,612)	$ (3,876)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	1,825	1,541
Amortization of core deposit intangible	557	--
Accretion of FDIC indemnification receivable	(1,927)	--
Net amortization of premiums and discounts on investments	4,320	336
Gain on sale of fixed assets and repossessed assets	(581)	(161)
Gain on sale of securities	(6)	--
ESOP shares committed to be released	956	1,133
Share-based compensation	633	962
Provision for loan losses	8,811	6,375
Provision for losses on REO and other repossessed assets	1,328	2,509
Accrued deferred compensation expense, net	141	135
Net deferred loan fees	(177)	(58)
Deferred income tax benefit	26	(3,082)
Net gain on sale of loans	(655)	(433)
Proceeds from sale of loans held for sale	24,133	19,239
Originations of loans held for sale	(18,866)	(20,439)
Increase in cash surrender value of bank owned life insurance	(309)	(316)
Change in assets and liabilities:		
Interest receivable	(77)	451
Other assets	(2,377)	2,135
Interest payable	(173)	7
Other liabilities	(3,912)	(319)
Net cash provided from operating activities	11,058	6,139
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from repayments of mortgage-backed securities available-for-sale	64,756	30,298
Purchase of securities available-for-sale	(241,532)	(35,516)
Proceeds from maturities and calls of securities available-for-sale	26,835	11,137
Reimbursement of loan losses under loss share agreement	15,289	19,455
Purchases of property and equipment	(7,424)	(8,229)

Net decrease in loans	103,506	39,990
Proceeds from sale of fixed assets and real estate and other property owned	19,490	11,229
Net cash (used by) provided from investing activities	(19,080)	68,364
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in deposits	(180,193)	60,021
Net decrease in advances by borrowers for taxes and insurance	(3,947)	(614)
Repayment of FHLB advances	(10,602)	(15,390)
Net (repayments of) proceeds from other borrowings	(3,599)	4,189
Proceeds from exercise of stock options	541	161
Repurchase of common stock	(6,067)	--
Dividends paid	(2,593)	(2,588)
Net cash (used by) provided from financing activities	(206,460)	45,779
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(214,482)	120,282
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	416,426	49,953
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 201,944	$ 170,235

(Continued)

See accompanying notes.

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HOME FEDERAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(In thousands) (Unaudited)

	Nine Months Ended June 30,	
	2011	2010
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 7,352	$ 7,507
Taxes	(159)	430
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of real estate owned and other assets in settlement of loans	$ 18,162	$ 11,045
Fair value adjustment to securities available-for-sale, net of taxes	881	359

See accompanying notes.

HOME FEDERAL BANCORP, INC. AND SUBSIDIARY
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Basis of Presentation

The consolidated financial statements presented in this quarterly report include the accounts of Home Federal Bancorp, Inc., a Maryland corporation (the “Company”), and its wholly-owned subsidiary, Home Federal Bank (the “Bank”), which is a state-chartered commercial bank headquartered in Nampa, Idaho. The financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles for interim financial information and are unaudited. All significant intercompany transactions and balances have been eliminated. In the opinion of the Company’s management, all adjustments consisting of normal recurring adjustments necessary for a fair presentation of the financial condition and results of operations for the interim periods included herein have been made. Operating results for the three and nine month periods ended June 30, 2011, are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2011.

Certain information and note disclosures normally included in the Company’s annual consolidated financial statements have been condensed or omitted. Therefore, these consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements and notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2010 (“2010 Form 10-K”), filed with the Securities and Exchange Commission (“SEC”) on December 14, 2010.

Certain reclassifications have been made to prior year’s financial statements in order to conform to the current year presentation. The reclassifications had no effect on previously reported net income or equity.

Note 2 - Critical Accounting Estimates and Related Accounting Policies

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Changes in these estimates and assumptions are considered reasonably possible and may have a material impact on the consolidated financial statements, and thus actual results could differ from the amounts reported and disclosed herein. The Company considers the allowance for loan losses, acquired loans, the indemnification receivable due from the Federal Deposit Insurance Corporation (“FDIC”), deferred income taxes and valuation of real estate owned (“REO”) to be critical accounting estimates.

Allowance for Loan Losses. Management recognizes that losses may occur over the life of a loan and that the allowance for loan losses must be maintained at a level necessary to absorb specific losses on impaired loans and probable losses inherent in the loan portfolio. Management assesses the allowance for loan losses on a quarterly basis by analyzing several factors including delinquency rates, charge-off rates and the changing risk profile of the Bank’s loan portfolio, as well as local economic conditions such as unemployment rates, bankruptcies and vacancy rates of business and residential properties.

The Company believes that the accounting estimate related to the allowance for loan losses is a critical accounting estimate because it is highly susceptible to change from period to period, requiring management to make assumptions about probable incurred losses inherent in the loan portfolio at the balance sheet date. The impact of a sudden large loss could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings.

The Company's methodology for analyzing the allowance for loan losses consists of specific allocations on significant individual credits and a general allowance amount, including a range of losses. The specific allowance component is determined when management believes that the collectability of an individually reviewed loan has been impaired and a loss is probable. A loan with a specific allowance is charged down to the estimated recoverable amount when the loan enters the process of foreclosure, at which point the specific allowance is classified as loss and is removed. The general allowance component relates to assets with no well-defined deficiency or weakness and takes into consideration loss that is inherent within the portfolio but has not been identified. The general allowance is determined by applying a historical loss percentage to various types of loans with similar characteristics and classified loans that are not analyzed specifically. Adjustments are made to historical loss percentages to reflect current economic and internal environmental factors such as changes in underwriting standards and unemployment rates that may increase or decrease those loss factors. As a result of the imprecision in calculating inherent and potential losses, a range is added to the general allowance to provide an allowance for loan losses that is adequate to cover losses that may arise as a result of changing economic conditions and other qualitative factors that may alter historical loss experience.

The allowance for loan losses is increased by the provision for loan losses, which is charged against current period operating results and decreased by the amount of actual loan charge-offs, net of recoveries. Provisions for losses on covered loans are recorded gross of recoverable amounts from the FDIC under the loss sharing agreements. The recoverable portion of the provision for loan losses on covered loans is recorded in noninterest income.

Acquired Loans. On August 7, 2009, the Bank entered into a purchase and assumption agreement with loss sharing agreements with the FDIC to acquire certain assets and assume deposits and certain other liabilities of Community First Bank, a full-service commercial bank headquartered in Prineville, Oregon (“CFB Acquisition”). Under the loss sharing agreements, the FDIC has agreed to reimburse Home Federal Bank for 80% of losses and certain related expenses up to $34.0 million, and 95% of losses that exceed that amount. Loans acquired in the CFB Acquisition were valued as of the acquisition date in accordance with Statement of Financial Accounting Standard ("SFAS") No. 141, which has since been superseded by Accounting Standards Codification Topic (“ASC”) 805 [formerly SFAS No. 141(R)]. The Company was not permitted to adopt ASC 805 prior to its effective date, which was October 1, 2009. ASC 310-30 applies to a loan with evidence of deterioration of credit quality since origination, acquired by completion of a transfer for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. For loans purchased in the CFB Acquisition that were accounted for under ASC 310-30, management determined the value of the loan portfolio based on work provided by an appraiser. Factors considered in the valuation were projected cash flows for the loans, the type of loan and related collateral, classification status and current discount rates. Loans purchased in the CFB Acquisition accounted for under ASC 310-30 were not aggregated into pools and are accounted for on a loan-by-loan basis. An allowance for loan losses was established for loans purchased in the CFB Acquisition that are not accounted for under ASC 310-30.

On July 30, 2010, the Bank entered into a purchase and assumption agreement with loss sharing agreements with the FDIC to acquire certain assets and assume all of the deposits and certain other liabilities of LibertyBank, a full service commercial bank headquartered in Eugene, Oregon (“LibertyBank Acquisition”). Under the loss sharing agreements, the FDIC has agreed to reimburse the Bank for 80% of losses and certain related expenses. See Note 3 to the Selected Notes to the Consolidated Financial Statements for additional information on the LibertyBank Acquisition. Loans purchased in the LibertyBank Acquisition are valued as of acquisition date in accordance with ASC 805. Further, the Company elected to account for all loans purchased in the LibertyBank Acquisition within the scope of ASC 310-30. Under ASC 805 and ASC 310-30, loans purchased in the LibertyBank Acquisition were recorded at fair value at acquisition date, factoring in credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for loan losses is not carried over or recorded as of the acquisition date, unlike the loans purchased in the CFB Acquisition, which are accounted for under previous accounting guidance as described above. All loans purchased in the LibertyBank Acquisition have been aggregated into pools of loans with similar risk characteristics to estimate cash flows under ASC 310-30. A pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flow expectation. The Company aggregated all of the loans purchased in the LibertyBank Acquisition into 22 different pools, based on common risk characteristics such as loan classification, loan structure, nonaccrual status and collateral type.

The cash flows expected over the life of the pools are estimated using an internal cash flow model that projects cash flows and calculates the carrying values of the pools, book yields, effective interest income and impairment, if any, based on pool level events. Assumptions as to cumulative loss rates, loss curves and prepayment speeds are utilized to calculate the expected cash flows. Under ASC 310-30, the excess of the expected cash flows at acquisition over the fair value is considered to be the accretable yield and is recognized as interest income over the life of the loan or pool. The excess of the contractual cash flows over the expected cash flows is considered to be the nonaccretable difference. Subsequent increases in cash flow over those expected at purchase date in excess of fair value are recorded as an adjustment to accretable difference on a prospective basis. Any disposals of loans, including sales of

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loans, payments in full or foreclosures result in the removal of the loan from the ASC 310-30 portfolio at the carrying amount.

Loans and foreclosed and repossessed assets purchased in the CFB and Liberty Bank Acquisitions that are subject to the loss sharing agreements are referred to herein as “covered loans” and “covered assets.” Loans and real estate and other property owned directly or originated by the Bank or purchased loans not subject to loss sharing agreements with the FDIC are referred to herein as “noncovered loans” and “noncovered assets.”

FDIC Indemnification Receivable. As noted above, in conjunction with the CFB Acquisition and the LibertyBank Acquisition, the Bank entered into loss sharing agreements with the FDIC. At each acquisition date the Company elected to account for amounts receivable under the loss sharing agreements as an indemnification asset. Subsequent to the acquisitions, changes in the value of the indemnification asset are based upon the estimated losses in the covered assets purchased in the acquisitions. The FDIC indemnification asset is accounted for on the same basis as the related covered loans and is the present value of the cash flows the Company expects the Bank to collect from the FDIC under the loss sharing agreements. The difference between the present value and the undiscounted cash flow the Company expects the Bank to collect from the FDIC is accreted into noninterest income over the life of the FDIC indemnification receivable.

The FDIC indemnification receivable is adjusted for any changes in expected cash flows based on the loan performance. Any increases in cash flow of the loans over those expected will reduce the FDIC indemnification receivable and any decreases in cash flow of the loans over those expected will increase the FDIC indemnification receivable. The FDIC indemnification receivable will be reduced as loss sharing payments are received from the FDIC. Increases and decreases to the FDIC indemnification asset are recorded as adjustments to noninterest income.

Real Estate Owned. Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at the lower of cost or fair value at the date of foreclosure minus estimated costs to sell. Any valuation adjustments required at the time of foreclosure are charged to the allowance for loan losses. After foreclosure, the properties are carried at the lower of carrying value or fair value less estimated costs to sell. Any subsequent valuation adjustments, operating expenses or income, and gains and losses on disposition of such properties are recognized in current operations. The valuation allowance is established based on our historical realization of losses and adjusted for current market trends.

Deferred Income Taxes. Deferred income taxes are reported for temporary differences between items of income or expense reported in the financial statements and those reported for income tax purposes. Deferred taxes are computed using the asset and liability approach as prescribed in ASC Topic 740, “Income Taxes.” Under this method, a deferred tax asset or liability is determined based on the enacted tax rates that will be in effect when the differences between the financial statement carrying amounts and tax basis of existing assets and liabilities are expected to be reported in an institution’s income tax returns. The deferred tax provision for the year is equal to the net change in the net deferred tax asset from the beginning to the end of the year, less amounts applicable to the change in value related to investments available-for-sale. The effect on deferred taxes of a change in tax rates is recognized as income in the period that includes the enactment date. The primary differences between financial statement income and taxable income result from acquisition intangibles, the allowance for loan losses, deferred compensation, purchase accounting adjustments and related deferred acquisition gains. Deferred income taxes do not include a liability for pre-1988 bad debt deductions allowed to thrift institutions that may be recaptured if the institution fails to qualify as a bank for income tax purposes in the future.

Note 3 – Acquisition of LibertyBank

As noted above, on July 30, 2010, the Bank entered into a purchase and assumption agreement with loss sharing agreements with the FDIC to assume all of the deposits and certain other liabilities and acquire certain assets of LibertyBank, headquartered in Eugene, Oregon. LibertyBank operated fifteen locations in central and western Oregon. The LibertyBank Acquisition consisted of assets with a preliminary fair value estimate on the acquisition date of approximately $690.6 million, including $373.1 million of cash and cash equivalents, $197.6 million of loans and leases and $34.7 million of securities. Liabilities with a preliminary fair value estimate of $688.6 million were also assumed, including $682.6 million of deposits. The LibertyBank Acquisition has been incorporated prospectively in the Company's financial statements; therefore, year over year results of operations may not be comparable.

Note 4 - Earnings (Loss) Per Share and Comprehensive Income (Loss)

The Company has granted stock compensation awards with non-forfeitable dividend rights, which are considered participating securities. Accordingly, earnings (loss) per share ("EPS") is computed using the two-class method as required by ASC 260-10-45. Basic EPS is computed by dividing net income (or loss) allocated to common stock by the weighted average number of common shares outstanding during the period which excludes the participating securities. Diluted EPS includes the dilutive effect of additional potential common shares from stock compensation awards, but excludes awards considered participating securities. ESOP shares are not considered outstanding for EPS until they are committed to be released. The following table presents the computation of basic and diluted EPS for the periods indicated (in thousands, except share and per share data):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Net loss	$(78)	$(1,941)	$(2,612)	$(3,876)
Allocated to participating securities	--	26	28	60
Net loss allocated to common shareholders	(78)	(1,915)	(2,584)	(3,816)
Extraordinary gain, net of taxes	--	--	--	305
Net loss allocated to common stock before extraordinary gain	$(78)	$(1,915)	$(2,584)	$(4,121)
Weighted average common shares outstanding, including shares considered participating securities	15,686,911	15,754,145	15,773,664	15,734,164
Less: Average participating securities	(150,372)	(210,946)	(157,379)	(242,961)
Weighted average shares	15,536,539	15,543,199	15,616,285	15,491,203
Net effect of dilutive restricted stock	--	--	--	--
Weighted average shares and common stock equivalents	15,536,539	15,543,199	15,616,285	15,491,203
Loss per common share before extraordinary item:				
Basic	$(0.01)	$(0.12)	$(0.17)	$(0.27)
Diluted	(0.01)	(0.12)	(0.17)	(0.27)
Loss per common share after extraordinary item:				
Basic	(0.01)	(0.12)	(0.17)	(0.25)
Diluted	(0.01)	(0.12)	(0.17)	(0.25)
Options excluded from the calculation due to their anti-dilutive effect on EPS	878,460	873,324	878,460	873,324

For the three months ended June 30, 2011, the Company recognized comprehensive income of $2.8 million, compared to comprehensive loss of $1.1 million for the same period a year earlier. For the nine months ended June 30, 2011 and 2010, the Company recognized comprehensive losses of $1.7 million and $3.5 million, respectively.

Note 5 - Investment securities

Investment securities available-for-sale consisted of the following at the dates indicated (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total
June 30, 2011					
Obligations of U.S. Government Sponsored Enterprises ("GSE")	$83,188	$336	$(227)	$83,297	19.7%
Obligations of states and political subdivisions	11,588	106	(158)	11,536	2.7
Corporate note, FDIC-guaranteed	1,012	4	--	1,016	0.3
Mortgage-backed securities, GSE-issued	318,051	8,092	(202)	325,941	77.2
Mortgage-backed securities, private label	383	--	(31)	352	0.1
Total	$414,222	$8,538	$(618)	$422,142	100.0%
September 30, 2010					
Obligations of U.S. GSE	$51,844	$255	$(77)	$52,022	18.9%
Obligations of states and political subdivisions	6,786	86	(83)	6,789	2.5
Corporate note, FDIC-guaranteed	1,022	3	--	1,025	0.4
Mortgage-backed securities, GSE-issued	208,492	6,692	(264)	214,920	78.1
Mortgage-backed securities, private label	449	--	(25)	424	0.1
Total	$268,593	$7,036	$(449)	$275,180	100.0%

Mortgage-backed securities are comprised of fixed and variable-rate residential mortgages.

The fair value of impaired securities, the amount of unrealized losses and the length of time these unrealized losses existed for the periods indicated were as follows (in thousands):

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2011						
Obligations of U.S. GSE	$25,570	$(227)	$--	$--	$25,570	$(227)
Obligations of states and political subdivisions	7,378	(158)	--	--	7,378	(158)
Mortgage-backed securities, GSE-issued	29,706	(202)	--	--	29,706	(202)

Mortgage-backed securities, private label	--	--	351	(31)	351	(31)
Total	$62,654	$(587)	$351	$(31)	$63,005	$(618)
September 30, 2010						
Obligations of U.S. GSE	$14,111	$(77)	$--	$--	$14,111	$(77)
Obligations of states and political subdivisions	3,674	(83)	--	--	3,674	(83)
Mortgage-backed securities, GSE-issued	50,997	(264)	--	--	50,997	(264)
Mortgage-backed securities, private label	424	(25)	--	--	424	(25)
Total	$69,206	$(449)	$--	$--	$69,206	$(449)

Management has evaluated these securities and has determined that the decline in fair value is not other than temporary. These securities have contractual maturity dates and management believes it is reasonably probable that principal and interest balances on these securities will be collected based on the performance, underwriting, credit support and vintage of the loans underlying the securities. However, continued deteriorating economic conditions may result in degradation in the performance of the loans underlying these securities in the future. The Company has the ability and intent to hold these securities for a reasonable period of time for a forecasted recovery of the amortized cost. The Company does not intend to sell these securities and it is not likely that the Company would be required to sell securities in an unrealized loss position before recovery of its cost basis.

The contractual maturities of investment securities available-for-sale are shown below (in thousands). Expected maturities may differ from the contractual maturities of such securities because borrowers have the right to prepay obligations without prepayment penalties.

	June 30, 2011		September 30, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$ 5,085	$ 5,096	$ 3,142	$ 3,137
Due after one year through five years	61,746	61,912	35,292	35,438
Due after five years through ten years	92,968	95,214	56,593	58,257
Due after ten years	254,423	259,920	173,566	178,348
Total	$ 414,222	$ 422,142	$ 268,593	$ 275,180

As of June 30, 2011, and September 30, 2010, the Bank pledged investment securities for the following obligations (in thousands):

	June 30, 2011		September 30, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
FHLB borrowings	$ 39,500	$ 42,378	$ 51,174	$ 54,309
Treasury, tax and loan funds at the Federal Reserve Bank	2,854	3,048	3,767	3,916
Repurchase agreements	8,959	9,384	17,784	18,804
Deposits of municipalities and public units	18,694	19,588	19,977	21,106
Total	$ 70,007	$ 74,398	$ 92,702	$ 98,135

Note 6 - Loans Receivable and Allowance for Loan Losses

Loans receivable are summarized by collateral type as follows (dollars in thousands):

	June 30, 2011		September 30, 2010	
	Amount	Percent of Gross	Amount	Percent of Gross
Real estate:				
One- to four- family residential	$ 133,936	26.5 %	$ 157,574	24.7 %
Multifamily residential	18,282	3.6	20,759	3.3
Commercial	204,216	40.4	228,643	35.9
Total real estate	356,434	70.5	406,976	63.9
Real estate construction:				
One- to four-family residential	10,889	2.2	24,707	3.9
Multifamily residential	559	0.1	2,657	0.4
Commercial and land development	19,503	3.8	21,190	3.3
Total real estate construction	30,951	6.1	48,554	7.6
Consumer:				
Home equity	50,710	10.0	56,745	8.9
Automobile	1,083	0.2	1,466	0.2
Other consumer	5,347	1.1	8,279	1.3
Total consumer	57,140	11.3	66,490	10.4
Commercial business	57,524	11.4	108,051	17.0
Leases	3,451	0.7	6,999	1.1
Gross loans	505,500	100.0 %	637,070	100.0 %
Deferred loan fees	(692)		(628)	
Allowance for loan losses	(13,387)		(15,432)	
Loans receivable, net	$ 491,421		$ 621,010	

The following tables present loans at their recorded investment. Recorded investment includes the unpaid principal balance or the carrying amount of loans plus accrued interest less charge offs and net deferred loan fees. Accrued interest on loans was $1.3 million and $1.5 million as of June 30, 2011 and September 30, 2010 respectively.

The following table presents the recorded investment in nonperforming loans and an aging of performing loans by class as of June 30, 2011 (in thousands):

	Nonperforming Loans						
	Nonaccrual	Past Due 90 or More Days, Still Accruing	Total	Loans Delinquent 30-59 Days	Loans Delinquent 60-89 Days	Loans Not Past Due	Total Loans
Noncovered loans							
Real estate:							
One- to four- family residential	$4,014	$--	$4,014	$1,306	$323	$111,583	$117,226
Multifamily residential	--	--	--	--	--	9,722	9,722
Commercial real estate	6,285	--	6,285	--	--	133,284	139,569
Total real estate	10,299	--	10,299	1,306	323	254,589	266,517
Real estate construction:							
One- to four- family residential	210	--	210	--	--	9,618	9,828
Multifamily residential	--	--	--	--	--	559	559
Commercial real estate	2,719	--	2,719	--	--	4,495	7,214
Total real estate construction	2,929	--	2,929	--	--	14,672	17,601
Consumer:							
Home equity	466	--	466	108	30	35,903	36,507
Automobile	13	--	13	--	--	696	709
Other consumer	--	--	--	4	--	4,143	4,147
Total consumer	479	--	479	112	30	40,742	41,363
Commercial business	571	--	571	--	--	6,925	7,496
Leases	--	--	--	--	--	311	311
Total noncovered loans	14,278	--	14,278	1,418	353	317,239	333,288
Covered loans							
Real estate:							
One- to four- family residential	712	--	712	--	--	16,143	16,855
Multifamily residential	2,122	--	2,122	--	--	6,438	8,560
Commercial real estate	7,481	--	7,481	--	--	57,166	64,647
Total real estate	10,315	--	10,315	--	--	79,747	90,062
Real estate construction:							
One- to four- family residential	748	--	748	--	--	312	1,060
Multifamily residential	--	--	--	--	--	--	--
Commercial real estate	3,314	--	3,314	--	--	8,975	12,289

Total real estate construction	4,062	--	4,062	--	--	9,287	13,349
Consumer:							
Home equity	58	--	58	--	46	14,265	14,369
Automobile	7	--	7	--	1	364	372
Other consumer	26	--	26	8	5	1,187	1,226
Total consumer	91	--	91	8	52	15,816	15,967
Commercial business	677	--	677	4	--	49,592	50,273
Leases	--	--	--	--	--	3,141	3,141
Total covered loans	15,145	--	15,145	12	52	157,583	172,792
Total gross loans	$29,423	$--	$29,423	$1,430	$405	$474,822	$506,080

The recorded investment in nonperforming loans as of September 30, 2010 was $35.0 million.

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a monthly basis. The Company uses the following definitions for risk classification ratings:

Watch: Loans that possess some reason for additional management oversight, such as correctable documentation deficiencies, recent financial setbacks, deteriorating financial position, industry concerns, and failure to perform on other borrowing obligations. Loans with this classification are to be monitored in an effort to correct deficiencies and upgrade the credit if warranted. At the time of this classification, they are not believed to expose the Bank to significant risk.

Special Mention: Performing loans that have developed minor credit weaknesses since origination. Evidence of credit weakness include the primary source of repayment has deteriorated and no longer meets debt service requirements as defined in policy, the borrower may have a short track record and little depth of management, inadequate current financial information, marginal capitalization, and susceptibility to negative industry trends. The primary source of repayment remains viable but there is increasing reliance on collateral or guarantor support.

Substandard: A loan is considered substandard if it is inadequately protected by the current net worth, liquidity and paying capacity of the borrower or collateral pledged. Substandard assets include those characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable on the basis of currently existing facts, conditions and values.

Loans not meeting the criteria above are considered to be Pass rated loans. As of June 30, 2011, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows (in thousands):

	Pass	Watch	Special Mention	Substandard	Doubtful	Total Loans
Noncovered loans						
Real estate:						
One- to four- family residential	$111,213	$79	$--	$ 5,934	$--	$117,226
Multifamily residential	5,480	1,693	1,019	1,530	--	9,722
Commercial real estate	87,497	8,719	21,929	21,424	--	139,569
Total real estate	204,190	10,491	22,948	28,888	--	266,517
Real estate construction:						
One- to four- family residential	8,875	--	--	953	--	9,828
Multifamily residential	--	--	559	--	--	559
Commercial real estate	3,160	--	1,111	2,943	--	7,214
Total real estate construction	12,035	--	1,670	3,896	--	17,601
Consumer:						
Home equity	35,707	126	39	635	--	36,507
Automobile	694	2	--	13	--	709
Other consumer	3,982	79	1	85	--	4,147
Total consumer	40,383	207	40	733	--	41,363
Commercial business	6,539	207	125	625	--	7,496
Leases	311	--	--	--	--	311
Total noncovered loans	263,458	10,905	24,783	34,142	--	333,288
Covered loans						
Real estate:						
One- to four- family residential	4,878	708	1,441	9,828	--	16,855
Multifamily residential	5,819	246	314	2,181	--	8,560
Commercial real estate	25,913	2,032	11,812	24,890	--	64,647
Total real estate	36,610	2,986	13,567	36,899	--	90,062
Real estate construction:						
One- to four- family residential	241	--	--	819	--	1,060
Multifamily residential	--	--	--	--	--	--
Commercial real estate	1,934	117	3,555	6,683	--	12,289
Total real estate construction	2,175	117	3,555	7,502	--	13,349
Consumer:						
Home equity	13,765	179	--	425	--	14,369
Automobile	360	--	--	12	--	372
Other consumer	1,144	5	--	77	--	1,226
Total consumer	15,269	184	--	514	--	15,967

Commercial business	36,235	1,619	4,264	8,155	--	50,273
Leases	2,962	--	132	47	--	3,141
Total covered loans	93,251	4,906	21,518	53,117	--	172,792
Total gross loans	$356,709	$15,811	$46,301	$ 87,259	$--	$506,080

A loan is considered impaired when, based upon currently known information, it is deemed probable that the Company will be unable to collect all amounts due as scheduled according to the original terms of the agreement with the borrower. The following table summarizes impaired loans at June 30, 2011, and September 30, 2010 (in thousands):

	June 30, 2011	September 30, 2010
Impaired loans with related specific allowance	$ 6,909	$ 9,294
Impaired loans with no related allowance	18,162	6,197
Total impaired loans	$ 25,071	$ 15,491
Specific allowance on impaired loans	$ 1,330	$ 2,521

The average balance of impaired loans was $25.6 million and $26.6 million for the three months ended June 30, 2011 and 2010, respectively, and was $24.7 million and $22.9 million for the nine months ended June 30, 2011 and 2010, respectively. Interest income recorded on impaired loans was immaterial during those periods.

The following table presents loans deemed impaired by class of loans as of and during the three months ended June 30, 2011 (in thousands):

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment
Noncovered loans				
With no related allowance recorded:				
One-to four- family residential	$2,346	$2,321	$--	$1,675
Commercial real estate	1,990	1,990	--	2,380
Real estate construction	2,703	2,703	--	1,690
Home equity	272	206	--	145
Automobile	--	--	--	--
Commercial business and leases	572	571	--	307
Total noncovered loans with no related allowance	7,883	7,791	--	6,197
With an allowance recorded:				
One-to four- family residential	1,964	1,967	(460)	1,788
Commercial real estate	4,295	4,295	(568)	5,151
Real estate construction	519	519	(186)	1,495
Home equity	128	128	(116)	128
Commercial business and leases	--	--	--	566
Total noncovered loans with an allowance recorded	6,906	6,909	(1,330)	9,128
Covered loans				
With no related allowance recorded:				

One-to four- family residential	673	608	--	399
Multifamily residential	692	707	--	830
Commercial real estate	6,364	6,283	--	6,551
Real estate construction	2,304	2,356	--	2,117
Home equity	18	19	--	9
Commercial business and leases	441	398	--	406
Total covered loans with no related allowance	10,492	10,371	--	10,312
Total impaired loans	$25,281	$25,071	$(1,330)	$25,637

Troubled debt restructurings totaled $12.2 million and $10.1 million at June 30, 2011 and September 30, 2010, respectively, and are included in the impaired loan disclosures above. Of these amounts, $5.5 million and $4.7 million were covered under loss share agreements with the FDIC at June 30, 2011 and September 30, 2010 respectively. There were no commitments to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of June 30, 2011, and September 30, 2010 (in thousands):

	June 30, 2011					
	Allowance for Loan Losses			Recorded Investment		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality
Noncovered loans						
One-to four- family residential	$460	$1,363	$ --	$4,288	$112,938	$ --
Commercial and multifamily	568	4,534	--	6,285	143,006	--
Real estate construction	186	697	--	3,222	14,379	--
Home equity	116	1,189	--	334	36,173	--
Consumer	--	28	--	--	2,215	2,641
Commercial business	--	317	--	571	6,824	101
Leases	--	--	--	--	311	--
Total noncovered loans	1,330	8,128	--	14,700	315,846	2,742
Covered loans						
One-to four- family residential	--	75	--	608	2,795	13,452
Commercial and multifamily	--	2,113	--	6,990	24,347	41,870
Real estate construction	--	432	196	2,356	1,784	9,209
Home equity	--	--	--	19	5,895	8,455
Consumer	--	316	--	--	1,580	18
Commercial business	--	382	415	398	6,363	43,512
Leases	--	--	--	--	3,141	--
Total covered loans	--	3,318	611	10,371	45,905	116,516
Total gross loans	$1,330	$11,446	$611	$25,071	$361,751	$119,258

	September 30, 2010					
	Allowance for Loan Losses			Recorded Investment		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality
Noncovered loans						
One-to four- family residential	$1,192	$1,973	$ --	$3,098	$133,948	$ --
Commercial and multifamily	227	4,961	--	2,215	153,107	--
Real estate construction	811	616	--	3,409	13,997	--
Home equity	--	1,517	--	--	40,859	--
Consumer	--	138	--	--	2,758	4,115
Commercial business	291	179	--	500	9,173	815
Leases	--	--	--	--	408	--
Total noncovered loans	2,521	9,384	--	9,222	354,250	4,930

Covered loans						
One-to four- family residential	--	2,311	--	--	4,112	16,333
Commercial and multifamily	--	--	--	--	37,172	56,909
Real estate construction	--	448	--	--	6,940	24,207
Home equity	--	--	--	--	6,195	9,930
Consumer	--	248	--	--	2,116	--
Commercial business	--	520	--	--	16,502	89,135
Leases	--	--	--	--	--	--
Total covered loans	--	3,527	--	--	73,037	196,514
Total gross loans	$2,521	$12,911	$ --	$9,222	$427,287	$201,444

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Activity in the allowance for loan losses for the three months ended June 30, 2011 was as follows (in thousands):

	As of March 31, 2011	Provisions	Charge-Offs	Recoveries	As of June 30, 2011
Noncovered loans					
Real estate:					
One- to four- family residential	$2,116	$(169)	$(193)	$69	$1,823
Multifamily residential	--	--	--	--	--
Commercial real estate	5,578	105	(582)	1	5,102
Total real estate	7,694	(64)	(775)	70	6,925
Real estate construction:					
One- to four- family residential	421	331	--	--	752
Multifamily residential	72	(19)	--	--	53
Commercial real estate	535	(199)	(449)	191	78
Total real estate construction	1,028	113	(449)	191	883
Consumer:					
Home equity	1,514	490	(704)	5	1,305
Automobile	30	(21)	--	--	9
Other consumer	64	(37)	(8)	--	19
Total consumer	1,608	432	(712)	5	1,333
Commercial business	637	(214)	(244)	138	317
Leases	--	--	--	--	--
Total noncovered loans	10,967	267	(2,180)	404	9,458
Covered loans					
Real estate:					
One- to four- family residential	77	(2)	--	--	75
Multifamily residential	--	--	--	--	--
Commercial real estate	2,055	963	(964)	59	2,113
Total real estate	2,132	961	(964)	59	2,188
Real estate construction:					
One- to four- family residential	3	251	(210)	--	44
Multifamily residential	--	155	--	--	155
Commercial real estate	497	466	(548)	14	429
Total real estate construction	500	872	(758)	14	628
Consumer:					
Home equity	--	240	(240)	--	--
Automobile	254	13	--	--	267
Other consumer	41	7	--	1	49
Total consumer	295	260	(240)	1	316
Commercial business	387	451	(46)	5	797

Leases	--	--	--	--	--
Total covered loans	3,314	2,544	(2,008)	79	3,929
Total	$14,281	$2,811	$ (4,188)	$483	$13,387

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Activity in the allowance for loan losses for the nine months ended June 30, 2011 was as follows (in thousands):

	As of September 30, 2010	Provisions	Charge-Offs	Recoveries	As of June 30, 2011
Noncovered loans					
Real estate:					
One- to four- family residential	$3,165	$(220)	$(1,497)	$375	$1,823
Multifamily residential	--	--	--	--	--
Commercial real estate	5,188	823	(947)	38	5,102
Total real estate	8,353	603	(2,444)	413	6,925
Real estate construction:					
One- to four- family residential	1,427	(607)	(78)	10	752
Multifamily residential	--	53	--	--	53
Commercial real estate	--	92	(599)	585	78
Total real estate construction	1,427	(462)	(677)	595	883
Consumer:					
Home equity	1,517	1,326	(1,604)	66	1,305
Automobile	--	9	--	--	9
Other consumer	138	(91)	(33)	5	19
Total consumer	1,655	1,244	(1,637)	71	1,333
Commercial business	470	(49)	(244)	140	317
Leases	--	--	--	--	--
Total noncovered loans	11,905	1,336	(5,002)	1,219	9,458
Covered loans					
Real estate:					
One- to four- family residential	2,311	(2,040)	(197)	1	75
Multifamily residential	--	--	--	--	--
Commercial real estate	--	4,782	(2,746)	77	2,113
Total real estate	2,311	2,742	(2,943)	78	2,188
Real estate construction:					
One- to four- family residential	448	(194)	(210)	--	44
Multifamily residential	--	155	--	--	155
Commercial real estate	--	4,027	(4,160)	562	429
Total real estate construction	448	3,988	(4,370)	562	628
Consumer:					
Home equity	--	262	(263)	1	--
Automobile	--	267	--	--	267
Other consumer	248	(177)	(33)	11	49
Total consumer	248	352	(296)	12	316

Commercial business	520	393	(128)	12	797
Leases	--	--	--	--	--
Total covered loans	3,527	7,475	(7,737)	664	3,929
Total	$15,432	$8,811	$(12,739)	$1,883	$13,387

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Activity in the allowance for loan losses for the three and nine months ended June 30, 2010 was as follows (in thousands):

	For the Three Months Ended June 30, 2010	For the Nine Months Ended June 30, 2010
Beginning balance	$ 27,779	$ 28,735
Provision for loan losses	3,300	6,375
Losses on loans charged-off	(4,127)	(8,312)
Recoveries on loans charged-off	130	284
Adjustment to original purchase accounting	(9,210)	(9,210)
Ending balance	$ 17,872	$ 17,872

The Bank has purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. At the acquisition date, management estimated the fair value of the acquired loan portfolios which represented the expected cash flows from the portfolio discounted at a market-based rate. Included in the estimate of fair value was a discount credit adjustment that reflected expected credit losses. In estimating the preliminary fair value, management calculated the contractual amount and timing of undiscounted principal and interest payments (the "undiscounted contractual cash flows") and estimated the amount and timing of undiscounted expected principal and interest payments (the "undiscounted expected cash flows"). The amount by which the undiscounted expected cash flows exceed the estimated fair value (the "accretable yield") is accreted into interest income over the life of the loans. The difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference represents an estimate of the credit risk in the acquired loan and lease portfolio at the acquisition date. The following table details activity of accretable yield (in thousands):

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2011	2010	2011	2010
Beginning balance of accretable yield	$28,809	$--	$35,163	$--
Accretable yield recognized as interest income	(3,309)	--	(9,663)	--
Ending balance of accretable yield	$25,500	$--	$25,500	$--

The carrying amount of loans for which income is not being recognized on loans individually accounted for under ASC 310-30 totaled $10.0 million and $20.6 million at June 30, 2011 and September 30, 2010, respectively, all of which were purchased in the CFB Acquisition. There were no transfers from nonaccretable difference to accretable yield on loans during the three or nine month periods ended June 30, 2011 and 2010, respectively. During the quarter and nine months ended June 30, 2011, the provision for losses on purchased credit impaired loans totaled $611,000.

Note 7 – Fair Value Measurement

ASC 820 defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. There are three levels of inputs that may be used to measure fair values: Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date; Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data; and Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability. The Company attempts to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions.

The following table summarizes the Company's financial assets that were measured at fair value on a recurring basis at June 30, 2011 and September 30, 2010 (in thousands):

	Level 1	Level 2	Level 3	Total
June 30, 2011				
Obligations of U.S. GSE	$--	$83,297	$--	$83,297
Obligations of states and political subdivisions	--	11,536	--	11,536
Corporate note, FDIC-guaranteed	--	1,016	--	1,016
Mortgage-backed securities, GSE issued	--	325,941	--	325,941
Mortgage-backed securities, private label	--	352	--	352
September 30, 2010				
Obligations of U.S. GSE	$--	$52,022	$--	$52,022
Obligations of states and political subdivisions	--	6,789	--	6,789
Corporate note, FDIC-guaranteed	--	1,025	--	1,025
Mortgage-backed securities, GSE issued	--	214,920	--	214,920
Mortgage-backed securities, private label	--	424	--	424

Additionally, certain assets are measured at fair value on a non-recurring basis. These adjustments to fair value generally result from the application of lower-of-cost-or-market accounting or write-downs of individual assets due to impairment. The following table summarizes the Company's financial assets that were measured at fair value on a non-recurring basis at June 30, 2011 and September 30, 2010 (in thousands):

	Level 1	Level 2	Level 3	Total
June 30, 2011				
Impaired loans	$--	$--	$16,004	$16,004
REO	--	--	8,287	8,287
September 30, 2010				