COMMUNITY WEST BANCSHARES /
Form 10-Q
November 10, 2011

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2011

or

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

For the transition period from _________ to _________

Commission File Number: 000-23575

COMMUNITY WEST BANCSHARES
(Exact name of registrant as specified in its charter)

California (State or other jurisdiction of incorporation or organization)	77-0446957 (I.R.S. Employer Identification No.)
445 Pine Avenue, Goleta, California (Address of principal executive offices)	93117 (Zip Code)

(805) 692-5821
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x YES o NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o 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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

Number of shares of common stock of the registrant outstanding as of November 10, 2011: 5,989,510 shares

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The financial statements included in this Form 10-Q should be read in conjunction with Community West Bancshares' Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

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PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Community West Banchares
Consolidated Balance Sheets

(in thousands, except shares)	September 30, 2011 (unaudited)	December 31, 2010
Assets		
Cash and due from banks	$ 11,102	$ 6,201
Federal funds sold	25	25
Cash and cash equivalents	11,127	6,226
Time deposits in other financial institutions	240	290
Investment securities available-for-sale, at fair value; amortized cost of $24,577 at September 30, 2011 and $23,038 at December 31, 2010	24,823	23,342
Investment securities held-to-maturity, at amortized cost; fair value of $15,611 at September 30, 2011 and $17,514 at December 31, 2010	14,817	16,893
Federal Home Loan Bank stock, at cost	4,419	5,031
Federal Reserve Bank stock, at cost	1,343	1,322
Loans:		
Loans held for sale, at lower of cost or fair value	79,265	82,320
Loans held for investment, net of allowance for loan losses of $14,249 at September 30, 2011 and $13,302 at December 31, 2010	470,589	498,312
Total loans	549,854	580,632
Foreclosed real estate and repossessed assets	6,427	8,478
Premises and equipment, net	3,018	2,915
Other assets	27,088	22,475
Total assets	$ 643,156	$ 667,604
Liabilities		
Deposits:		
Non-interest-bearing demand	$ 50,716	$ 35,767
Interest-bearing demand	282,745	262,431
Savings	20,189	20,371
Time certificates	153,886	211,324
Total deposits	507,536	529,893
Other borrowings	65,000	64,000
Convertible debentures	7,852	8,081
Other liabilities	3,399	3,988
Total liabilities	583,787	605,962
Stockholders' equity		
Preferred stock, no par value; 10,000,000 shares authorized; 15,600 shares issued and outstanding	15,007	14,807
Common stock, no par value; 20,000,000 and 10,000,000 shares authorized at September 30, 2011 and December 31, 2010, respectively; 5,989,510 and 5,916,272, shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	33,411	33,133
Retained earnings	10,806	13,523
Accumulated other comprehensive income, net	145	179
Total stockholders' equity	59,369	61,642

Total liabilities and stockholders' equity	$ 643,156	$ 667,604

See accompanying notes

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Community West Bancshares
Consolidated Income Statements (unaudited)

(in thousands, except per share amounts)	Three months ended September 30, 2011	2010	Nine months ended September 30, 2011	2010
Interest income				
Loans	$8,500	$9,393	$26,409	$28,250
Investment securities and other	268	334	825	1,122
Total interest income	8,768	9,727	27,234	29,372
Interest expense				
Deposits	1,414	1,812	4,556	5,829
Other borrowings and convertible debentures	575	607	1,744	1,709
Total interest expense	1,989	2,419	6,300	7,538
Net interest income	6,779	7,308	20,934	21,834
Provision for loan losses	4,511	1,518	8,651	7,464
Net interest income after provision for loan losses	2,268	5,790	12,283	14,370
Non-interest income				
Other loan fees	345	521	986	1,367
Gains from loan sales, net	104	90	271	285
Document processing fees	99	149	312	399
Loan servicing, net	90	89	290	217
Service charges	122	128	366	390
Other	41	46	129	137
Total non-interest income	801	1,023	2,354	2,795
Non-interest expenses				
Salaries and employee benefits	3,079	2,909	8,895	8,775
Occupancy and equipment expenses	487	499	1,486	1,508
FDIC assessment	217	260	741	908
Professional services	306	187	757	629
Advertising and marketing	76	47	287	217
Depreciation and amortization	93	102	286	323
Loss on sale and write-down of foreclosed real estate and repossessed assets	1,361	128	2,019	694
Data processing	138	150	393	410
Other operating expenses	1,228	753	3,045	1,939
Total non-interest expenses	6,985	5,035	17,909	15,403
Income (loss) before provision for income taxes	(3,916)	1,778	(3,272)	1,762
Provision (benefit) for income taxes	(1,609)	733	(1,340)	728
Net income (loss)	$(2,307)	$1,045	$(1,932)	$1,034
Preferred stock dividends	261	261	785	785
Net income (loss) applicable to common stockholders	$(2,568)	$784	$(2,717)	$249
Earnings (loss) per common share:				
Basic	$(0.43)	$0.13	$(0.45)	$0.04
Diluted	$(0.43)	$0.12	$(0.45)	$0.04
Basic weighted average number of common shares outstanding	5,988	5,915	5,977	5,915
Diluted weighted average number of common shares outstanding	5,988	7,246	5,977	5,915

See accompanying notes

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Community West Bancshares
Consolidated Statement of Stockholders' Equity

(in thousands)	Preferred Stock	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balances at January 1, 2011	$14,807	5,916	$33,133	$13,523	$ 179	$ 61,642
Stock option expense, recognized in earnings			22			22
Conversion of debentures		66	231			231
Exercise of stock options		8	25			25
Comprehensive loss:						
Net loss				(1,932)		(1,932)
Change in unrealized gain on securities available-for-sale, net					(34)	(34)
Comprehensive loss						(1,966)
Dividends on preferred stock	200			(785)		(585)
Balances at September 30, 2011	$15,007	5,990	$33,411	$10,806	$ 145	$ 59,369

See accompanying notes

Community West Bancshares
Consolidated Statement of Stockholders' Equity

(in thousands)	Preferred Stock	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balances at January 1, 2010	$14,540	5,915	$33,110	$12,479	$ 178	$ 60,307
Stock option expense, recognized in Earnings			16			16
Comprehensive income:						
Net income				1,034		1,034
Change in unrealized gain on securities available-for-sale, net					10	10
Comprehensive income						1,044
Dividends on preferred stock	200			(785)		(585)
Balances at September 30, 2010	$14,740	5,915	$33,126	$12,728	$ 188	$ 60,782

See accompanying notes

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Community West Bancshares
Consolidated Statements of Cash Flows

	Nine Months Ended September 30, 2011	2010
	(in thousands)	
Cash flows from operating activities:		
Net income (loss)	$(1,932)	$1,034
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	8,651	7,464
Depreciation and amortization	286	323
Deferred income taxes	659	-
Stock-based compensation	22	16
Net amortization of discounts and premiums for investment securities	(47)	(114)
Net loss (gain) on:		
Sale and writedowns of foreclosed real estate and repossessed assets	2,019	694
Sale of loans held for sale	(271)	(285)
Loan originated for sale and principal collections, net	3,139	(161)
Changes in:		
Servicing rights, net of amortization	86	187
Other assets	(5,300)	(214)
Other liabilities	(621)	423
Net cash provided by operating activities	6,691	9,367
Cash flows from investing activities:		
Purchase of available-for-sale securities	(6,772)	(14,120)
Principal pay downs and maturities of available-for-sale securities	2,069	9,273
Redemptions of Federal Home Loan Bank stock	612	420
Purchase of Federal Reserve stock	(21)	-
Principal pay downs and maturities of held-to-maturity securities	5,287	6,139
Loan originations and principal collections, net	14,064	1,658
Proceeds from sale of foreclosed real estate and repossessed assets	5,227	3,181
Net decrease in time deposits in other financial institutions	50	165
Purchase of premises and equipment, net	(389)	(43)
Net cash provided by investing activities	20,127	6,673
Cash flows from financing activities:		
Preferred stock dividends	(785)	(785)
Amortization of discount on preferred stock	200	200
Exercise of stock options	25	-
Net increase in demand deposits and savings accounts	35,081	58,560
Net decrease in time certificates of deposit	(57,438)	(54,279)
Proceeds from Federal Home Loan Bank advances	11,000	39,000
Repayment of Federal Home Loan Bank and FRB advances	(10,000)	(60,000)
Proceeds from issuance of convertible debentures	-	8,085
Net cash used in financing activities	(21,917)	(9,219)
Net increase in cash and cash equivalents	4,901	6,821
Cash and cash equivalents, beginning of year	6,226	5,511
Cash and cash equivalents, end of period	$11,127	$12,332
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$6,324	$7,451

Cash paid for income taxes	1,941	561
Supplemental Disclosure of Noncash Investing Activity:		
Transfers to foreclosed real estate and repossessed assets	$5,195	$7,519

See accompanying notes

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COMMUNITY WEST BANCSHARES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements reflect all adjustments and reclassifications that, in the opinion of management, are necessary for the fair presentation of the results of operations and financial condition for the interim period. The unaudited consolidated financial statements include Community West Bancshares (CWBC) and its wholly-owned subsidiary, Community West Bank, N.A. (CWB). CWBC and CWB are referred to herein collectively as the "Company". The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X promulgated by the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair statement have been reflected in the financial statements. However, the results of operations for the nine-month period ended September 30, 2011 are not necessarily indicative of the results to be expected for the full year.

These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Loans Held for Investment – Loans are recognized at the principal amount outstanding, net of unearned income, loan participations and amounts charged off. Unearned income includes deferred loan origination fees reduced by loan origination costs. Unearned income on loans is amortized to interest income over the life of the related loan using the level yield method. The following is a description of the loan categories held for investment.

Commercial Loans
In addition to traditional term commercial loans made to business customers, the Company grants revolving business lines of credit. Under the terms of the revolving lines of credit, the Company grants a maximum loan amount, which remains available to the business during the loan term. Generally, as part of the loan requirements, the business agrees to maintain its primary banking relationship with the Company. The Company does not extend material loans of this type in excess of two years.

Commercial Real Estate
Commercial real estate and construction loans are primarily made for the purpose of purchasing, improving or constructing single-family residences, commercial or industrial properties. This loan category also includes SBA 504 loans and land loans.

A substantial portion of the Company's real estate construction loans are first and second trust deeds on the construction of owner-occupied single family dwellings. The Company also makes real estate construction loans on commercial properties. These consist of first and second trust deeds collateralized by the related real property. Construction loans are generally written with terms of six to eighteen months and usually do not exceed a loan to appraised value of 80%.

Commercial and industrial real estate loans are secured by nonresidential property. Office buildings or other commercial property primarily secure these loans. Loan to appraised value ratios on nonresidential real estate loans are generally restricted to 80% of appraised value of the underlying real property if occupied by the owner or owner's business; otherwise, these loans are generally restricted to 75% of appraised value of the underlying real property.

SBA 504 loans are made in conjunction with Certified Development Companies. These loans are granted to purchase or construct real estate or acquire machinery and equipment. The loan is structured with a conventional first trust deed provided by a private lender and a second trust deed which is funded through the sale of debentures. The predominant structure is terms of 10% down payment, 50% conventional first loan and 40% debenture.

Conventional and investor loans are sometimes funded by our secondary-market partners and the Company receives a premium for these transactions.

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SBA Loans
The SBA loans consist of 7(a) and Business and Industry loans (“B&I”). The 7(a) loan proceeds are used for working capital, machinery and equipment purchases, land and building purposes, leasehold improvements and debt refinancing. In general, the SBA guarantees up to 85% of the loan amount depending on loan size. In certain instances, the Company sells a portion of the loans, however, under the SBA 7(a) loan program, the Company is required to retain a minimum of 5% of the principal balance of each loan it sells into the secondary market.

B&I loans are guaranteed by the U.S. Department of Agriculture. The guaranteed amount is generally 80%. B&I loans are similar to the 7(a) loans but are made to businesses in designated rural areas. These loans can also be sold into the secondary market.

Single Family Real Estate Loans
The Company originates loans that consist of first and second mortgage loans secured by trust deeds on one to four family homes. These loans are made to borrowers for purposes such as purchasing a home, refinancing an existing home, interest rate reduction, home improvement, or debt consolidation. Generally, these loans are underwritten to specific investor guidelines and are committed for sale to that investor. Although the majority of these loans are sold servicing released into the secondary market, a relatively small percentage is held as part of the Company’s portfolio.

Manufactured Housing Loans
The Company originates loans secured by manufactured homes located in mobile home parks along the California coast and in the Sacramento area. The loans are serviced internally and are originated under one of two programs: fixed rate loans written for terms of 10 to 20 years; adjustable rate loans written for a term of 30 years with the initial interest rates fixed for the first 5 or 10 years and then adjusting annually subject to caps and floors.

HELOC
The Company provides lines of credit collateralized by residential real estate, home equity lines of credit (HELOC), for consumer related purposes. Typically, HELOCs are collateralized by a second deed of trust.

Other Installment Loans
Installment loans consist of automobile and general-purpose loans made to individuals. These loans are primarily fixed rate.

Provision and Allowance for Loan Losses – The Company maintains a detailed, systematic analysis and procedural discipline to determine the amount of the allowance for loan losses (“ALL”). The ALL is based on estimates and is intended to be adequate to provide for probable losses inherent in the loan portfolio. This process involves deriving probable loss estimates that are based on migration analysis/historical loss rates and qualitative factors that are based on management’s judgment. The migration analysis and historical loss rate calculations are based upon the annualized loss rates utilizing a twelve quarter loss history. Migration analysis is utilized for the Commercial Real Estate, Commercial, and SBA portfolios. The historical loss rate method is utilized for the homogeneous loan categories which include Manufactured Housing, HELOC’s, Single Family Residential, and Consumer loans. The migration analysis takes into account the risk rating of loans that are charged off in each loan category. In loan categories that historic loss rates are utilized, management increases the reserve requirement for Special Mention and Substandard loans. Loans that are considered Doubtful are typically charged off. The following is a description of the characteristics of loans graded Pass, Special Mention, Substandard, Doubtful, and Loss. Loan ratings are reviewed as part of our normal loan monitoring process, but, at a minimum, updated on an annual basis.

Pass
Loans rated in this category are acceptable loans, appropriately underwritten, bearing an ordinary risk of loss to the Company. Loans in this category are loans to quality borrowers with financial statements presenting a good primary

source as well as an adequate secondary source of repayment. In the case of individuals, borrowers deserving of this rating are quality borrowers demonstrating a reasonable level of secure income, a net worth adequate to support the loan and presenting a good primary source as well as an adequate secondary source of repayment.

Special Mention
A Special Mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the institution's credit position at some future date.

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Substandard
A Substandard loan is inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard loans does not have to exist in individual loans classified Substandard.

Doubtful
A loan classified Doubtful has all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.

Loss
Loans classified Loss are considered uncollectible and of such little value that their continuance as bankable loans is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this loan even though partial recovery may be affected in the future. Losses are taken in the period in which they surface as uncollectible. The following is the Company’s policy regarding charging off loans by loan categories.

Commercial, Commercial Real Estate and SBA Loans
Charge-Offs on these loan categories are taken as soon as all or a portion of any loan balance is deemed to be uncollectible. A loan is considered uncollectible when the debtor is delinquent in principal or interest repayment 90 days or more and, in the opinion of the Company, improvement in the debtor's ability to repay the debt in a timely manner is doubtful. Also, collateral value is insufficient to cover the outstanding indebtedness. Loans secured by real estate on which principal or interest is due and unpaid for 90 days are evaluated for possible charge-down. Generally, loan balances are charged-down to the fair value of the property, if, based on a current appraisal, an apparent deficiency exists. In the event there is no perceived equity, the loan is charged-off in full like any other unsecured loan, which is not secured and over 90 days.

Single Family Real Estate, HELOC’s and Manufactured Housing Loans
Consumer loans and residential mortgages secured by one-to-four family residential properties, HELOC and manufactured housing loans in which principal or interest is due and unpaid for 90 days, are evaluated for possible charge-down. Loan balances are charged-down to the fair value of the property if, based on a current appraisal, an apparent deficiency exists. In the event there is no perceived equity, the loan is generally charged-off in full like any other consumer loan, which is not secured and unpaid over 90-120 days.

Consumer Loans
All consumer loans (excluding real estate mortgages, home equity loans and savings secured loans) are charged-off or charged-down to net recoverable value before becoming 120 days or 5 payments delinquent. Consumer losses are identified well before the 120 day limit whenever possible. Net recoverable value can only be determined if the collateral is in the Company's possession, and its liquidation value can be verified and realized in the near term.

The second component of the ALL covers qualitative factors related to non-impaired loans. The qualitative allowance on each of the loan pools is based on the following factors:

- Concentrations of credit

- Trends in volume, maturity, composition
- Volume and trend in delinquency
- Economic conditions
- Outside exams
- Geographic distance

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- Policy and procedures
- Staff experience and ability

The ALL calculation for the different loan portfolios is as follows:

- Commercial Real Estate, Commercial and SBA – Migration analysis combined with risk rating is used to determine the required allowance for all non-impaired loans. In addition, the migration results are adjusted based upon the qualitative factors previously discussed that affect this specific portfolio category. Reserves on impaired loans are determined based upon the individual characteristics of the loan.
- Manufactured Housing, Single Family Residential, HELOC and Consumer – The allowance is calculated on the basis of loss history and risk rating, which is primarily a function of delinquency. In addition, the migration results are adjusted based upon the qualitative factors previously discussed that affect this specific portfolio.

The Company evaluates and individually assesses impairment on loans greater than $100,000 classified as substandard or doubtful that are either non-performing or considered a trouble debt restructure. Measured impairment is determined on a loan-by-loan basis and in total establishes a specific reserve for impaired loans. The amount of impairment is determined by comparing the recorded investment in each loan with its value measured by one of three methods.

- The expected future cash flows are estimated and then discounted at the effective interest rate.
- The loan’s observable market price, if it is of a kind for which there is a secondary market.
- The value of the underlying collateral net of selling costs. Selling costs are estimated based on industry standards, the Company’s actual experience, or actual costs incurred as appropriate. When evaluating real estate collateral, the Company typically uses appraisals or valuations, no more than twelve months old at time of evaluation. When evaluating non-real estate collateral securing the loan, the Company will use audited financial statements or appraisals no more than twelve months old. Additionally for both real estate and non-real estate collateral, the Company may use other sources to determine value as deemed appropriate.

Interest income is not recognized on impaired loans except for limited circumstances in which a loan, although impaired, continues to perform in accordance with the loan contract.

The Company determines the appropriate ALL on a monthly basis. Any differences between estimated and actual observed losses from the prior month are reflected in the current period in determining the appropriate ALL determination and adjusted as deemed necessary. The review of the adequacy of the allowance takes into consideration such factors as concentrations of credit, changes in the growth, size and composition of the loan portfolio, overall and individual portfolio quality, review of specific problem loans, collateral, guarantees and economic conditions that may affect the borrowers' ability to pay and/or the value of the underlying collateral. Additional factors considered include: geographic location of borrowers, changes in the Company’s product-specific credit policy and lending staff experience. These estimates depend on the outcome of future events and, therefore, contain inherent uncertainties.

The Company’s ALL is maintained at a level believed adequate by management to absorb known and inherent probable losses on existing loans. A provision for loan losses is charged to expense. The allowance is charged for losses when management believes that full recovery on the loan is unlikely.

The Company has a centralized appraisal management process that tracks and monitors appraisals, appraisal reviews and other valuations. The centralization focus is to ensure the use of qualified and independent appraisers capable of providing reliable real estate values in the context of ever changing market conditions. The review process is monitored to ensure application of the appropriate appraisal methodology, agreement with the interpretation of market data and the resultant real estate value. The process also provides the means of tracking the performance quality of the appraisers on the Company's approved appraiser list. Any loan evaluation that results in the Company determining that elevated credit risk and/or default risk exists and also exhibits a lack of a timely valuation of the collateral or apparent collateral value deterioration is reappraised and reevaluated to determine the current extent of any change in collateral value and credit risk. A similar review process is conducted quarterly on all classified and criticized real estate credits to determine the timeliness and adequacy of the real estate collateral value. A detection of non-compliance is then addressed through a new appraisal or reappraisal and review.

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Foreclosed Real Estate and Repossessed Assets – Foreclosed real estate and other repossessed assets are recorded at fair value at the time of foreclosure less estimated costs to sell. Any excess of loan balance over the fair value less estimated costs to sell of the other assets is charged-off against the allowance for loan losses. Subsequent to the legal ownership date, management periodically performs a new valuation and the asset is carried at the lower of carrying amount or fair value less estimated costs to sell. Operating expenses or income, and gains or losses on disposition of such properties, are recorded in current operations.

Income Taxes – The Company uses the asset and liability method, which recognizes a liability or asset representing the tax effects of future deductible or taxable amounts that have been recognized in the consolidated financial statements. Due to tax regulations, certain items of income and expense are recognized in different periods for tax return purposes than for financial statement reporting. These items represent "temporary differences." Deferred income taxes are recognized for the tax effect of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is established for deferred tax assets if, based on weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets may not be realized.

The Company is subject to the provisions of ASC 740, Income Taxes (ASC 740). ASC 740 prescribes a more-likely-than-not threshold for the financial statement recognition of uncertain tax positions. ASC 740 clarifies the accounting for income taxes by prescribing a minimum recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. On a quarterly basis the Company evaluates income tax accruals in accordance with ASC 740 guidance on uncertain tax positions.

Recent Accounting Pronouncements – In January 2011, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2011-01, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20." The provisions of ASU No. 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" include the required disclosure of qualitative information about how financing receivables were modified and quantitative information about the extent and financial effects of modifications made during the period. The Company is also required to disclose qualitative information about how such modifications are factored into the determination of the allowance for loan and lease losses. Furthermore, the Company is also required to disclose information about troubled debt restructurings that meet the definition of a troubled debt restructuring within the previous 12 months for which there was a payment default in the current period. The provisions of ASU No. 2010-20 were originally to be effective for the Company's reporting period ended March 31, 2011. However, the amendments in ASU No. 2011-01 deferred the effective date related to these disclosures, enabling creditors to provide such disclosures after the FASB completed their project clarifying the guidance for determining what constitutes a troubled debt restructuring.

In April 2011, the FASB issued ASU No. 2011-02, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring." The provisions of ASU No. 2011-02 provide additional guidance related to determining whether a creditor has granted a concession, include factors and examples for creditors to consider in evaluating whether a restructuring results in a delay in payment that is insignificant, prohibit creditors from using the borrower's effective rate test to evaluate whether a concession has been granted to the borrower, and adds factors for creditors to use in determining whether a borrower is experiencing financial difficulties. A provision in ASU No. 2011-02 also ends the FASB's deferral of the additional disclosures related to troubled debt restructurings as required by ASU No. 2010-20. The provisions of ASU No. 2011-02 were effective for the Company's reporting period beginning on or after June 15, 2011. The Company adopted the provisions of ASU No. 2010-20 retrospectively to all modifications and restructuring activities that have occurred from January 1, 2011 in the third quarter of 2011.

In May 2011, the FASB issued ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." ASU No. 2011-04 results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards ("IFRS"). The changes to U.S. GAAP as a result of ASU No. 2011-04 are as follows: (1) The concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets (that is, it does not apply to financial assets or any liabilities); (2) U.S. GAAP currently prohibits application of a blockage factor in valuing financial instruments with quoted prices in active markets. ASU No. 2011-04 extends that prohibition to all fair value measurements; (3) An exception is provided to the basic fair value measurement principles for an entity that holds a group of financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk that are managed on the basis of the entity's net exposure to either of those risks. This exception allows the entity, if certain criteria are met, to measure the fair value of the net asset or liability position in a manner consistent with how market participants would price the net risk position; (4) Aligns the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities; and (5) Disclosure requirements have been enhanced for recurring Level 3 fair value measurements to disclose quantitative information about unobservable inputs and assumptions used, to describe the valuation processes used by the entity, and to describe the sensitivity of fair value measurements to changes in unobservable inputs and interrelationships between those inputs. In addition, entities must report the level in the fair value hierarchy of items that are not measured at fair value in the statement of condition but whose fair value must be disclosed. The provisions of ASU No. 2011-04 are effective for the Company's interim reporting period beginning on or after December 15, 2011. The adoption of ASU No. 2011-04 is not expected to have a material impact on the Company's statements of income and condition.

In June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income." The provisions of ASU No. 2011-05 allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income (OCI) either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of OCI along with a total for OCI, and a total amount for comprehensive income. The statement(s) are required to be presented with equal prominence as the other primary financial statements. ASU No. 2011-05 eliminates the option to present the components of OCI as part of the statement of changes in shareholders' equity but does not change the items that must be reported in OCI or when an item of OCI must be reclassified to net income. The provisions of ASU No. 2011-05 are effective for the Company's interim reporting period beginning on or after December 15, 2011, with retrospective application required. The adoption of ASU No. 2011-05 is expected to result in presentation changes to the Company's statements of income and the addition of a statement of comprehensive income. The adoption of ASU No. 2011-05 will have no impact on the Company's statements of condition.

In October 2011, the FASB decided to expose a proposed deferral of the requirement in ASU 2011-05, that companies present reclassification adjustments for each component of OCI in both net income and OCI on the face of the financial statements. During the deferral period, the FASB also plans to re-evaluate the requirement. The Board decided to include in the exposure draft a proposed requirement to disclose in the notes to the financial statement amounts reclassified out of OCI, consistent with the existing disclosure requirement in ASC 220, Comprehensive Income. The deferral, if finalized, would not change the requirement to present items of net income, items of OCI and total comprehensive income in either one continuous statement or two separate consecutive statements.

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2. INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities are as follows:

September 30, 2011	(in thousands)			
Available-for-sale securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agency: Notes	$1,999	$2	$-	$2,001
U.S. Government agency: MBS	4,676	197	-	4,873
U.S. Government agency: CMO	17,902	60	(13)	17,949
Total	$24,577	$259	$(13)	$24,823
Held-to-maturity securities				