

HOPFED BANCORP INC
Form 10-Q
August 12, 2010
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

OR

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

Commission File Number: 000-23667

HOPFED BANCORP, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

61-1322555
(I.R.S. Employer
Identification No.)

4155 Lafayette Road, Hopkinsville, Kentucky
(Address of principal executive offices)

42240
(Zip Code)

Registrant's telephone number, including area code: (270) 885-1171

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 ninety days. Yes ☒ No ☐

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

| | | | |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required and posted pursuant to Rule 405 of Regulation S-T (subsection 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

As of August 7, 2010, the Registrant had outstanding 7,191,515 shares of the Registrant's Common Stock.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****HOPFED BANCORP, INC.****Consolidated Condensed Statements of Financial Condition****(Dollars in Thousands)**

| | June 30, 2010 (Unaudited) | December 31, 2009 |
|---|------------------------------|-------------------|
| <u>Assets</u> | | |
| Cash and due from banks | \$ 49,684 | 37,938 |
| Interest-earning deposits in Federal Home Loan Bank | 6,003 | 3,173 |
| Cash and cash equivalents | 55,687 | 41,111 |
| Federal Home Loan Bank stock, at cost | 4,378 | 4,281 |
| Securities available for sale | 368,868 | 289,691 |
| Loans receivable, net of allowance for loan losses of \$8,571 at June 30, 2010 and \$8,851 at December 31, 2009 | 627,857 | 642,355 |
| Accrued interest receivable | 6,026 | 5,777 |
| Real estate and other assets owned | 2,491 | 1,883 |
| Bank owned life insurance | 8,653 | 8,475 |
| Premises and equipment, net | 24,935 | 25,328 |
| Deferred tax assets | 726 | 2,458 |
| Intangible asset | 973 | 1,168 |
| Other assets | 5,837 | 7,349 |
| Total assets | \$ 1,106,431 | 1,029,876 |
| <u>Liabilities and Stockholders' Equity</u> | | |
| Liabilities: | | |
| Deposits: | | |
| Non-interest-bearing accounts: | \$ 69,788 | 68,531 |
| Interest-bearing accounts: | | |
| NOW accounts | 138,956 | 105,821 |
| Savings and money market accounts | 62,425 | 60,409 |
| Other time deposits | 573,176 | 559,383 |
| Total deposits | 844,345 | 794,144 |
| Advances from Federal Home Loan Bank | 88,617 | 102,465 |
| Repurchase agreements | 41,061 | 36,060 |
| Subordinated debentures | 10,310 | 10,310 |
| Advances from borrowers for taxes and insurance | 506 | 236 |
| Dividends payable | 845 | 454 |
| Accrued expenses and other liabilities | 6,941 | 6,258 |
| Total liabilities | 992,625 | 949,927 |

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

Table of Contents**HOPFED BANCORP, INC.****Consolidated Condensed Statements of Financial Condition, Continued****(Dollars in Thousands)**

| | June 30, 2010 (Unaudited) | December 31, 2009 |
|--|------------------------------|-------------------|
| Stockholders' equity: | | |
| Preferred stock, par value \$0.01 per share; authorized - 500,000 shares; 18,400 shares issued and outstanding with a liquidation preference of \$18,400,000 at June 30, 2010 and December 31, 2009 | \$ | |
| Common stock, par value \$0.01 per share; authorized 15,000,000 shares; 7,344,421 issued and 6,941,505 outstanding at June 30, 2010; authorized 7,500,000 shares 4,110,175 issued and 3,594,620 outstanding at December 31, 2009 | 73 | 41 |
| Common stock warrants (243,816 issued and outstanding) | 556 | 556 |
| Additional paid-in-capital | 71,364 | 44,455 |
| Retained earnings-substantially restricted | 40,395 | 38,244 |
| Treasury stock (at cost, 402,916 shares at June 30, 2010 and 515,555 shares at December 31, 2009) | (5,076) | (6,495) |
| Accumulated other comprehensive income, net of taxes | 6,494 | 3,148 |
| Total stockholders' equity | 113,806 | 79,949 |
| Total liabilities and stockholders' equity | \$ 1,106,431 | 1,029,876 |

The balance sheet at December 31, 2009 has been derived from the audited financial statements of that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

Table of Contents**HOPFED BANCORP, INC.****Consolidated Condensed Statements of Income****(Dollars in Thousands)****(Unaudited)**

| | For the Three Month Periods Ended June 30, | | For the Six Month Periods Ended June 30, | |
|---|---|--------|---|--------|
| | 2010 | 2009 | 2010 | 2009 |
| Interest and dividend income: | | | | |
| Loans receivable | \$ 10,010 | 9,712 | 19,631 | 19,340 |
| Investment in securities, taxable | 3,035 | 3,205 | 5,957 | 6,491 |
| Nontaxable securities available for sale | 611 | 390 | 1,174 | 662 |
| Interest-earning deposits | | | | 8 |
| Total interest and dividend income | 13,656 | 13,307 | 26,762 | 26,501 |
| Interest expense: | | | | |
| Deposits | 4,501 | 5,334 | 9,092 | 10,800 |
| Advances from Federal Home Loan Bank | 826 | 1,039 | 1,682 | 2,076 |
| Repurchase agreements | 204 | 196 | 406 | 390 |
| Subordinated debentures | 181 | 176 | 364 | 278 |
| Total interest expense | 5,712 | 6,745 | 11,544 | 13,544 |
| Net interest income | 7,944 | 6,562 | 15,218 | 12,957 |
| Provision for loan losses | 858 | 962 | 1,469 | 1,936 |
| Net interest income after provision for loan losses | 7,086 | 5,600 | 13,749 | 11,021 |
| Non-interest income: | | | | |
| Service charges | 1,036 | 1,098 | 2,021 | 2,022 |
| Merchant card income | 179 | 157 | 339 | 297 |
| Gain on sale of loans | 103 | 51 | 187 | 120 |
| Gain on sale of securities | 232 | 809 | 726 | 1,467 |
| Income from bank owned life insurance | 89 | 74 | 178 | 147 |
| Financial services commission | 286 | 250 | 483 | 476 |
| Gain on sale of other real estate owned | 268 | | 293 | |
| Other operating income | 263 | 302 | 538 | 571 |
| Total non-interest income | 2,456 | 2,741 | 4,765 | 5,100 |

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

Table of Contents**HOPFED BANCORP, INC.****Consolidated Condensed Statements of Income, Continued****(Dollars in Thousands, Except Per Share Amounts)****(Unaudited)**

| | For the Three Month Periods Ended June 30, | | For the Six Month Periods Ended June 30, | |
|---|---|-----------|---|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Non-interest expenses: | | | | |
| Salaries and benefits | \$ 3,207 | 3,172 | 6,437 | 6,218 |
| Occupancy expense | 767 | 750 | 1,556 | 1,498 |
| Data processing expense | 707 | 639 | 1,396 | 1,270 |
| State deposit tax | 160 | 155 | 317 | 311 |
| Intangible amortization expense | 98 | 203 | 195 | 407 |
| Professional services expense | 345 | 223 | 597 | 535 |
| Deposit insurance and examination expense | 407 | 722 | 788 | 885 |
| Advertising expense | 271 | 320 | 512 | 643 |
| Postage and communications expense | 147 | 164 | 282 | 323 |
| Supplies expense | 99 | 91 | 192 | 171 |
| Real estate owned expenses | 87 | 61 | 182 | 85 |
| Other operating expenses | 292 | 281 | 519 | 397 |
| Total non-interest expense | 6,587 | 6,781 | 12,973 | 12,743 |
| Income before income tax expense | 2,955 | 1,560 | 5,541 | 3,378 |
| Income tax expense | 884 | 449 | 1,610 | 1,001 |
| Net income | 2,071 | 1,111 | 3,931 | 2,377 |
| Less: | | | | |
| Dividend on preferred shares | 229 | 229 | 456 | 456 |
| Accretion dividend on preferred shares | 28 | 28 | 55 | 55 |
| Net income available to common stockholders | \$ 1,814 | 854 | 3,420 | 1,866 |
| Net income available to common stockholders | | | | |
| Per share, basic | \$ 0.46 | 0.24 | 0.91 | 0.52 |
| Per share, diluted | \$ 0.46 | 0.24 | 0.91 | 0.52 |
| Dividend per share | \$ 0.12 | 0.12 | 0.24 | 0.24 |
| Weighted average shares outstanding - basic | 3,937,542 | 3,568,814 | 3,757,614 | 3,568,257 |
| Weighted average shares outstanding - diluted | 3,939,369 | 3,568,814 | 3,757,614 | 3,568,257 |

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See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

Table of Contents**HOPFED BANCORP, INC.****Consolidated Condensed Statements of Comprehensive Income****(Dollars in Thousands)****(Unaudited)**

| | For the Three Month Periods Ended June 30, | | For the Six Months Periods Ended June 30, | |
|--|---|-------|--|-------|
| | 2010 | 2009 | 2010 | 2009 |
| Net income | \$ 2,071 | 1,111 | 3,931 | 2,377 |
| Other comprehensive income, net of tax: | | | | |
| Unrealized gain (loss) on investment securities available for sale, net of tax effect of (\$1,489) and \$365 for the three months ended June 30, 2010 and June 30, 2009, respectively; and (\$2,144) and (\$478) for the six months ended June 30, 2010 and June 30, 2009, respectively. | 2,890 | (708) | 4,163 | 931 |
| Unrealized gain (loss) on derivatives, net of tax effect of \$124 and (\$162) for the three month periods ending June 30, 2010 and June 30, 2009, respectively; and \$174 and (\$185) for the six month periods ended June 30, 2010 and June 30, 2009, respectively. | (241) | 315 | (338) | 359 |
| Reclassification adjustment for gains included in net income, net of tax effect of \$79 and \$275 for the three month periods ended June 30, 2010 and June 30, 2009, respectively; and \$247 and \$499 for the six month periods ended June 30, 2010 and June 30, 2009, respectively. | (153) | (534) | (479) | (968) |
| Comprehensive income | \$ 4,567 | 184 | 7,277 | 2,699 |

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

Table of Contents**HOPFED BANCORP, INC.****Consolidated Condensed Statement of Stockholders' Equity****For the Six Months Ended June 30, 2010****(Dollars in Thousands, Except Share Amounts)****(Unaudited)**

| | Shares | | | Common | Additional | | | Accumulated | Total |
|--|-----------|-----------|--------|----------|------------|----------|----------|---------------|--------------|
| | Common | Preferred | Common | Stock | Capital | Retained | Treasury | Other | Stockholders |
| | Stock | Stock | Stock | Warrants | Surplus | Earnings | Stock | Comprehensive | Equity |
| | | | | | | | | Income | |
| Balance at December 31, 2009 | 3,594,620 | 18,400 | \$ 41 | 556 | 44,455 | 38,244 | (6,495) | 3,148 | 79,949 |
| Restricted Stock Awards | 9,751 | | | | | | | | |
| Exercise of stock options, net | 3,800 | | | | | | | | |
| Common stock issuance at \$9.00 / share, (includes issuance of 112,639 shares of treasury stock with an average cost of \$12.60 per share) | 3,333,334 | | 32 | | 26,782 | | 1,419 | | 28,233 |
| Consolidated net income | | | | | | 3,931 | | | 3,931 |
| Compensation expense, restricted stock | | | | | 72 | | | | 72 |
| Net change in unrealized gain on securities available for sale, net of income taxes of (\$1,897) | | | | | | | | 3,684 | 3,684 |
| Net change in unrealized (loss) on derivatives, net of income taxes of \$174 | | | | | | | | (338) | (338) |
| Dividend to Preferred Stockholder | | | | | | (460) | | | (460) |
| Accretion of Preferred Stock Discount | | | | | 55 | (55) | | | |
| Dividend to Common Stockholders | | | | | | (1,265) | | | (1,265) |
| Balance June 30, 2010 | 6,941,505 | 18,400 | \$ 73 | 556 | 71,364 | 40,395 | (5,076) | 6,494 | 113,806 |

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements

Table of Contents**HOPFED BANCORP, INC.****Consolidated Condensed Statements of Cash Flows****(Dollars in Thousands)****(Unaudited)**

| | For the Six Month Period Ended June 30, | |
|--|--|-----------|
| | 2010 | 2009 |
| Cash flows from operating activities: | | |
| Net cash provided by operating activities | \$ 7,210 | 4,596 |
| Cash flows from investing activities | | |
| Proceeds from calls and maturities of securities held to maturity | | 41 |
| Proceeds from sales, calls and maturities of securities available for sale | 71,022 | 83,613 |
| Purchase of securities available for sale | (144,254) | (125,446) |
| Net (increase) decrease in loans | 10,036 | (11,228) |
| Purchase of Federal Home Loan Bank stock | (97) | (231) |
| Proceeds from sale of foreclosed assets | 2,525 | 259 |
| Purchase of premises and equipment | (389) | (211) |
| Net cash used in investing activities | (61,157) | (53,203) |
| Cash flows from financing activities: | | |
| Net decrease in demand deposits | 36,408 | 6,304 |
| Net increase in time deposits | 13,793 | 24,238 |
| Increase (decrease) in advances from borrowers for taxes and insurance | 270 | 164 |
| Advances from Federal Home Loan Bank | 5,000 | 42,395 |
| Repayment of advances from Federal Home Loan Bank | (18,848) | (43,266) |
| Net increase in repurchase agreements | 5,001 | 2,758 |
| Sale of common stock | 26,814 | |
| Sale of treasury stock | 1,419 | |
| Dividend paid on preferred stock | (460) | (391) |
| Dividends paid on common stock | (874) | (861) |
| Net cash provided by financing activities | 68,523 | 31,341 |
| Increase (decrease) in cash and cash equivalents | 14,576 | (17,266) |
| Cash and cash equivalents, beginning of period | 41,111 | 37,075 |
| Cash and cash equivalents, end of period | \$ 55,687 | 19,809 |
| Supplemental disclosures of Cash Flow Information: | | |
| Interest paid | 6,143 | 7,214 |
| Income taxes paid | 2,145 | 1,400 |

Supplemental disclosures of non-cash investing and financing activities:

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| | | |
|---|---------|------|
| Loans charged off | 1,936 | 891 |
| Foreclosures and in substance foreclosures of loans during period | 2,993 | 395 |
| Net unrealized gains (loss) on investment securities classified as available for sale | 5,581 | (56) |
| Increase (decrease) in deferred tax asset related to unrealized gains on investments | (1,897) | 19 |
| Dividends declared and payable | 845 | 430 |
| Issue of unearned restricted stock | 92 | 10 |

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

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NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

HopFed Bancorp, Inc. (the "Company") was formed at the direction of Heritage Bank, formerly Hopkinsville Federal Savings Bank (the "Bank"), to become the holding company of the Bank upon the conversion of the Bank from a federally chartered mutual savings bank to a federally chartered stock savings bank. The conversion was consummated on February 6, 1998. The Company's primary assets are the outstanding capital stock of the converted Bank, and its sole business is that of the converted Bank. The Bank owns 100% of the stock of Fall and Fall Insurance Agency ("Fall & Fall") of Fulton, Kentucky. Fall & Fall sells life and casualty insurance to both individuals and businesses. The majority of Fall & Fall's customer base is within the geographic footprint of the Bank.

The Bank operates a mortgage division, Heritage Mortgage Services, in Clarksville, Tennessee with agents located in several of its markets. The Bank has a financial services division, Heritage Solutions, with offices in Murray, Kentucky, Kingston Springs, Tennessee and Pleasant View, Tennessee. Heritage Solutions' agents travel throughout western Kentucky and middle Tennessee offering fixed and variable annuities, mutual funds and brokerage services.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted ("GAAP") in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of only normal recurring accruals) necessary for fair representation have been included. The results of operations and other data for the three and six-month periods ended June 30, 2010, are not necessarily indicative of results that may be expected for the entire fiscal year ending December 31, 2010.

The accompanying unaudited 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, 2009. The accounting policies followed by the Company are set forth in the Summary of Significant Accounting Policies in the Company's December 31, 2009 Consolidated Financial Statements.

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(2) INCOME PER SHARE

The following schedule reconciles the numerators and denominators of the basic and diluted income per share (IPS) computations for the three and six-month periods ended June 30, 2010 and June 30, 2009. Diluted common shares arise from the potentially dilutive effect of the Company's stock options and warrants outstanding.

| | Three Month Periods Ended | |
|--|---------------------------|---------------|
| | June 30, 2010 | June 30, 2009 |
| Basic IPS: | | |
| Net income available to common stockholders | \$ 1,814,000 | 854,000 |
| Average common shares outstanding | 3,937,542 | 3,568,814 |
| Net income per share available to common stockholders, basic | \$ 0.46 | 0.24 |
| Diluted IPS | | |
| Net income available to common stockholders | \$ 1,814,000 | 854,000 |
| Average common shares outstanding | 3,937,542 | 3,568,814 |
| Dilutive effect of stock warrants (See note 7) | 1,827 | |
| Average diluted shares outstanding | 3,939,369 | 3,568,814 |
| Net income per share available to common stockholders, diluted | \$ 0.46 | 0.24 |
| Six Month Periods Ended | | |
| | June 30, 2010 | June 30, 2009 |
| Basic IPS: | | |
| Net income available to common stockholders | \$ 3,420,000 | 1,866,000 |
| Average common shares outstanding | 3,757,614 | 3,568,257 |
| Net income per share available to common stockholders, basic | \$ 0.91 | 0.52 |
| Diluted IPS | | |
| Net income available to common stockholders | \$ 3,420,000 | 1,866,000 |
| Average common shares outstanding | 3,757,614 | 3,568,257 |
| Dilutive effect of stock warrants | | |
| Average diluted shares outstanding | 3,757,614 | 3,568,257 |
| Net income per share available to common stockholders, diluted | \$ 0.91 | 0.52 |

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The Company incurred compensation cost related to the HopFed Bancorp, Inc. 2004 Long Term Incentive Plan of approximately \$35,990 and \$71,990 for the three and six month periods ended June 30, 2010, respectively. The Company incurred compensation cost related to the HopFed Bancorp, Inc. 2004 Long Term Incentive Plan of \$39,000 and \$78,000 for the three and six month periods ended June 30, 2009, respectively. The Company issued 9,314 and 9,751 shares of restricted stock during the three and six month periods ended June 30, 2010, respectively. The table below provides a detail of the Company's future compensation expense related to restricted stock vesting at June 30, 2010:

| Year Ending December 31, | Future Expense |
|--------------------------|-------------------|
| 2010 | \$ 62,190 |
| 2011 | 104,399 |
| 2012 | 66,222 |
| 2013 | 33,433 |
| 2014 | 10,178 |
| Total | \$ 276,422 |

The compensation committee may make additional awards of restricted stock, thereby increasing the future expense related to this plan. In addition, award vesting may be accelerated due to certain events as outlined in the restricted stock award agreement. Any acceleration of vesting will change the timing of, but not the aggregate amount of, compensation expense incurred.

(4) SECURITIES

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluations. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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At June 30, 2010, the Company has 24 securities with unrealized losses. The carrying amount of securities available for sale and their estimated fair values at June 30, 2010 are as follows:

| | Amortized Cost | June 30, 2010 Gross Unrealized Gains (Dollars in Thousands) | Gross Unrealized Losses (Dollars in Thousands) | Estimated Fair Value |
|--|-------------------|---|---|----------------------------|
| Restricted: | | | | |
| FHLB stock | \$ 4,378 | | | 4,378 |
| Unrestricted: | | | | |
| U.S. government and agency securities: | | | | |
| Agency debt securities | \$ 148,310 | 4,795 | (183) | 152,922 |
| Taxable municipal bonds | 8,472 | 158 | (56) | 8,574 |
| Tax free municipal bonds | 63,442 | 1,812 | (42) | 65,212 |
| Trust preferred securities | 2,000 | | (684) | 1,316 |
| Mortgage-backed securities: | | | | |
| GNMA | 25,081 | 1,357 | | 26,438 |
| FNMA | 50,146 | 2,084 | | 52,230 |
| FHLMC | 23,622 | 650 | (4) | 24,268 |
| NON-AGENCY CMOs | 9,200 | 98 | (291) | 9,007 |
| AGENCY CMOs | 27,601 | 1,302 | (2) | 28,901 |
| | \$ 357,874 | 12,256 | (1,262) | 368,868 |

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The carrying amount of securities available for sale and their estimated fair values at December 31, 2009 are as follows:

| | Amortized Cost | December 31, 2009 Gross Unrealized Gains (Dollars in Thousands) | Gross Unrealized Losses (Dollars in Thousands) | Estimated Fair Value |
|--|-------------------|---|---|----------------------------|
| Restricted: | | | | |
| FHLB stock | \$ 4,281 | | | 4,281 |
| Unrestricted: | | | | |
| U.S. government and agency securities: | \$ 115,852 | 3,618 | (495) | 118,975 |
| Tax free municipal bonds | 49,896 | 1,354 | (96) | 51,154 |
| Taxable municipal bonds | 2,815 | 5 | (66) | 2,754 |
| Trust preferred securities | 2,000 | | (574) | 1,426 |
| Mortgage-backed securities: | | | | |
| GNMA | 27,919 | 679 | (89) | 28,509 |
| FNMA | 39,313 | 977 | (51) | 40,239 |
| FHLMC | 11,432 | 354 | | 11,786 |
| NON-AGENCY CMOs | 17,056 | 161 | (917) | 16,300 |
| AGENCY CMOs | 17,997 | 557 | (6) | 18,548 |
| | \$ 284,280 | 7,705 | (2,294) | 289,691 |

The scheduled maturities of debt securities available for sale at June 30, 2010 and December 31, 2009 were as follows:

| June 30, 2010 | Amortized Cost (Dollars in Thousands) | Estimated Fair Value (Dollars in Thousands) |
|--|---|--|
| Due within one year | \$ 131 | 131 |
| Due in one to five years | 4,361 | 4,415 |
| Due in five to ten years | 29,370 | 29,998 |
| Due after ten years | 115,431 | 118,001 |
| | 149,293 | 152,545 |
| Amortizing agency bonds | 72,931 | 75,479 |
| Mortgage-backed securities | 135,650 | 140,844 |
| Total unrestricted securities available for sale | \$ 357,874 | 368,868 |

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| | December 31, 2009 | Amortized Cost (Dollars in Thousands) | Estimated Fair Value |
|--|-------------------|---|----------------------------|
| Due within one year | | \$ | |
| Due in one to five years | | 2,827 | 2,850 |
| Due in five to ten years | | 19,595 | 19,695 |
| Due after ten years | | 86,639 | 87,350 |
| | | 109,061 | 109,895 |
| Amortizing agency bonds | | 61,502 | 64,414 |
| Mortgage-backed securities | | 113,717 | 115,382 |
| Total unrestricted securities available for sale | | \$ 284,280 | 289,691 |

The estimated fair value and unrealized loss amounts of temporarily impaired investments as of June 30, 2010 are as follows (in thousands):

| | Less than 12 months Estimated Fair Value | Unrealized Losses | 12 months or longer Estimated Fair Value | Unrealized Losses | Total Estimated Fair Value | Unrealized Losses |
|--|--|----------------------|--|----------------------|----------------------------------|----------------------|
| | | | | | | |
| <u>Available for sale</u> | | | | | | |
| U.S. government and agency securities: | | | | | | |
| Agency debt securities | \$ 14,228 | (183) | | | 14,228 | (183) |
| Taxable municipals | 2,024 | (56) | | | 2,024 | (56) |
| Tax free municipals | 3,656 | (35) | 650 | (7) | 4,306 | (42) |
| Trust preferred securities | | | 1,316 | (684) | 1,316 | (684) |
| Mortgage-backed securities: | | | | | | |
| GNMA | | | | | | |
| FNMA | | | | | | |
| FHLMC | 1,321 | (4) | | | 1,321 | (4) |
| NON-AGENCY CMOs | | | 3,879 | (291) | 3,879 | (291) |
| AGENCY CMOs | 1,677 | (2) | | | 1,677 | (2) |
| Total Available for Sale | \$ 22,906 | (280) | 5,845 | (982) | 28,751 | (1,262) |

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The estimated fair value and unrealized loss amounts of temporarily impaired investments as of December 31, 2009 are as follows:

| | Less than 12 months | | 12 months or longer | | Total | |
|--|------------------------|------------|---------------------|------------|------------|------------|
| | Estimated | Unrealized | Estimated | Unrealized | Estimated | Unrealized |
| | Fair Value | Losses | Fair Value | Losses | Fair Value | Losses |
| | (Dollars in Thousands) | | | | | |
| <u>Available for sale</u> | | | | | | |
| U.S. government and agency securities: | | | | | | |
| Agency debt securities | \$ 21,557 | (493) | 625 | (2) | 22,182 | (495) |
| Taxable municipal bonds | 1,654 | (66) | | | 1,654 | (66) |
| Tax free municipal bonds | 5,675 | (58) | 3,091 | (38) | 8,766 | (96) |
| Trust preferred securities | | | 1,426 | (574) | 1,426 | (574) |
| Mortgage-backed securities: | | | | | | |
| GNMA | 9,382 | (89) | | | 9,382 | (89) |
| FNMA | 8,650 | (45) | 776 | (6) | 9,426 | (51) |
| FHLMC | | | | | | |
| NON-AGENCY CMOs | 8,852 | (304) | 3,219 | (613) | 12,071 | (917) |
| AGENCY CMOs | 2,004 | (6) | | | 2,004 | (6) |
| | | | | | | |
| Total Available for Sale | \$ 57,774 | (1,061) | 9,137 | (1,233) | 66,911 | (2,294) |

At June 30, 2010, securities with a book value of approximately \$106.2 million and a market value of approximately \$106.9 million were pledged to various municipalities for deposits in excess of FDIC limits as required by law. In addition, securities with a book value of \$14.6 million and a market value of \$15.7 million are pledged as collateral to the Federal Home Loan Bank of Cincinnati. The Federal Home Loan Bank of Cincinnati has issued letters of credit in the Bank's name totaling \$31.5 million secured by the Bank's loan portfolio to secure additional municipal deposits.

At June 30, 2010, securities with a book and market value of approximately \$25.1 million were sold under agreements to repurchase from various customers. Furthermore, the Company has two wholesale repurchase agreements with third parties secured by investments with a combined book value of \$16.9 million and a market value of \$17.4 million. One repurchase agreement is in the amount of \$6.0 million and has a maturity of September 18, 2016 and is currently callable on a quarterly basis and has a fixed rate of interest of 4.36%. The second repurchase agreement, in the amount of \$10.0 million, has a maturity of September 5, 2014, is currently callable quarterly and has a fixed rate of interest of 4.28%.

Table of Contents**(5) INVESTMENTS IN AFFILIATED COMPANIES**

Investments in affiliated companies accounted for under the equity method consist of 100% of the common stock of HopFed Capital Trust 1 (Trust), a wholly-owned statutory business trust. The Trust was formed on September 25, 2003. Summary financial information for the Trust follows (dollars in thousands):

| Summary Statements of Financial Condition | At June 30, 2010 | At December 31, 2009 |
|--|---------------------|-------------------------|
| Asset - investment in subordinated debentures issued by HopFed Bancorp, Inc. | \$ 10,310 | \$ 10,310 |
| Liabilities | | |
| Stockholder s equity - trust preferred securities | 10,000 | 10,000 |
| Common stock (100% Owned by HopFed Bancorp, Inc.) | 310 | 310 |
| Total stockholders equity | \$ 10,310 | \$ 10,310 |

| Summary Income Statements | Three Month Periods Ended June 30, 2010 2009 | | Six Month Periods Ended June 30, 2010 2009 | |
|--|--|--------|--|--------|
| Income interest income from subordinated debentures issued by HopFed Bancorp, Inc. | \$ 86 | \$ 110 | \$ 172 | \$ 218 |
| Net income | \$ 86 | \$ 110 | \$ 172 | \$ 218 |

Summary Statement of Stockholders Equity

| | Trust Preferred Securities | Common Stock | Retained Earnings | Total Stockholders Equity |
|---------------------------------------|----------------------------------|-----------------|----------------------|---------------------------------|
| Beginning balances, December 31, 2009 | \$ 10,000 | 310 | | 10,310 |
| Net income | | | 172 | 172 |
| Dividends: | | | | |
| Trust preferred securities | | | (167) | (167) |
| Common paid to HopFed Bancorp, Inc. | | | (5) | (5) |
| Ending balances, June 30, 2010 | \$ 10,000 | 310 | | 10,310 |

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(6) FAIR VALUE OF ASSETS AND LIABILITIES

In September 2006, the FASB issued ASC 820-10, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value. The statement was effective for fiscal years beginning after November 15, 2007. The statement establishes a fair value hierarchy which requires an entity to maximize the use of observable input and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Level 1 is for assets and liabilities that management has obtained quoted prices (unadjusted for transaction cost) or identical assets or liabilities in active markets that the Company has the ability to access as of the measurement date.

Level 2 is for assets and liabilities in which significant unobservable inputs other than Level 1 prices such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 is for assets and liabilities in which significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of securities available for sale are determined by a matrix pricing, which is a mathematical technique that is widely used in the industry to value debt securities without exclusively on quoted prices for the individual securities in the Company's portfolio but rather by relying on the securities relationship to other benchmark quoted securities. Impaired loans are valued at the net present value of expected payments using the fair value of any assigned collateral.

Table of Contents**Assets and Liabilities Measured on a Recurring Basis**

The assets and liabilities measured at fair value on a recurring basis are summarized below (in thousands):

| June 30, 2010 | Total carrying value in the consolidated condensed Statement of Financial Position at June 30, 2010 | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|-------------------------------|--|--|---|--|
| Description | | | | |
| Assets | | | | |
| Available for sale securities | \$ 368,868 | | 367,552 | 1,316 |
| Bank owned life insurance | 8,653 | | 8,653 | |
| Liabilities | | | | |
| Interest rate swap | 1,155 | | 1,155 | |
| December 31, 2009 | Total carrying value in the consolidated condensed Statement of Financial Position at December 31, 2009 | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Description | | | | |
| Assets | | | | |
| Available for sale securities | \$ 289,691 | | 288,265 | 1,426 |
| Bank owned life insurance | 8,475 | | 8,475 | |
| Liabilities | | | | |
| Interest rate swap | 643 | | 643 | |

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The assets and liabilities measured at fair value on a non-recurring basis are summarized below (in thousands):

| June 30, 2010 | Total carrying value in the consolidated Statement of Financial Position at June 30, 2010 | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|--|---|--|
| Description | | | | |
| Assets | | | | |
| Other real estate owned | \$ 2,476 | | | 2,476 |
| Other assets owned | 15 | | | 15 |
| Impaired loans, net of reserve of \$2,417 | 33,714 | | | 33,714 |
| | | | | |
| | Total carrying value in the consolidated Statement of Financial Position at December 31, 2009 | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| December 31, 2009 | | | | |
| Description | | | | |
| Assets | | | | |
| Other real estate owned | \$ 1,868 | | | 1,868 |
| Other assets owned | 15 | | | 15 |
| Impaired loans, net of reserve of \$2,512 | 33,022 | | | 33,022 |

The table below includes a roll-forward of the balance sheet items for the six-month periods ended June 30, 2010 and June 30, 2009, (including the change in fair value) for assets and liabilities classified by HopFed Bancorp, Inc. within level 3 of the valuation hierarchy for assets and liabilities measured at fair value on a recurring basis. When a determination is made to classify an asset or liability within level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, since level 3 assets and liabilities typically include, in addition to the unobservable or level 3 components, observable components (that is components that are actively quoted and can be validated to external sources), the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology.

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| | 2010 | 2009 |
|--|-----------------|----------------------|
| | Other Assets | Other Liabilities |
| Six month period ended June 30, (In thousands) | | |
| Fair value, January 1, | \$ 1,426 | 1,623 |
| Change in unrealized gains (losses) included in other comprehensive income for assets and liabilities still held at June 30, | (110) | |
| Purchases, issuances and settlements, net | | |
| Transfers in and/or out of Level 3 | | |
| Fair value, June 30, | \$ 1,316 | 1,623 |

The estimated fair values of financial instruments were as follows at June 30, 2010:

| | Carrying Amount | Estimated Fair Value |
|---|--------------------|----------------------------|
| | (In thousands) | |
| Financial Assets: | | |
| Cash and due from banks | \$ 49,684 | 49,684 |
| Interest-earning deposits in Federal Home Loan Bank | 6,003 | 6,003 |
| Securities available for sale | 368,868 | 368,868 |
| Federal Home Loan Bank stock | 4,378 | 4,378 |
| Loans receivable | 627,857 | 652,975 |
| Accrued interest receivable | 6,026 | 6,026 |
| Bank owned life insurance | 8,653 | 8,653 |
| Financial liabilities: | | |
| Deposits | 844,345 | 853,330 |
| Advances from borrowers for taxes and insurance | 506 | 506 |
| Advances from Federal Home Loan Bank | 88,617 | 93,257 |
| Repurchase agreements | 41,061 | 43,652 |
| Subordinated debentures | 10,310 | 10,067 |
| Market value of interest rate swap | 1,155 | 1,155 |
| Off-balance-sheet liabilities: | | |
| Commitments to extend credit | | |
| Commercial letters of credit | | |

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The estimated fair values of financial instruments were as follows at December 31, 2009:

| | Carrying Amount | Estimated Fair Value |
|---|--------------------|----------------------------|
| | (In thousands) | |
| Financial Assets: | | |
| Cash and due from banks | \$ 37,938 | 37,938 |
| Interest-earning deposits in Federal Home Loan Bank | 3,173 | 3,173 |
| Securities available for sale | 289,691 | 289,691 |
| Federal Home Loan Bank stock | 4,281 | 4,281 |
| Loans receivable | 642,355 | 655,105 |
| Accrued interest receivable | 5,777 | 5,777 |
| Bank owned life insurance | 8,475 | 8,475 |
| Financial liabilities: | | |
| Deposits | 794,144 | 806,816 |
| Advances from borrowers for taxes and insurance | 236 | 236 |
| Advances from Federal Home Loan Bank | 102,465 | 105,763 |
| Repurchase agreements | 36,060 | 38,902 |
| Subordinated debentures | 10,310 | 10,091 |
| Market value of interest rate swap | 643 | 643 |
| Off-balance-sheet liabilities: | | |
| Commitments to extend credit | | |
| Commercial letters of credit | | |

(7) ISSUANCE OF PREFERRED SHARES

On December 12, 2008, HopFed Bancorp issued and sold 18,400 shares of preferred stock to the United States Treasury (Treasury) for \$18,400,000 pursuant to the Capital Purchase Program. The Company also issued 243,816 common stock warrants to the Treasury as a condition to its participation in the Capital Purchase Program. The warrants have an exercise price of \$11.32 each and are immediately exercisable. The warrants expire in ten years from the date of issuance. The preferred stock has no stated maturity and is non-voting, other than having class voting rights on certain matters, and pays cumulative dividends quarterly at a rate of 5% per year for the first five years and 9% thereafter.

For the three month period ended June 30, 2010, the 243,816 common stock warrants outstanding result in a dilution of 1,827 shares. This dilution was based on the average closing price of HopFed Bancorp, Inc. common stock during the quarter of \$11.45. The limited amount of share dilution had no effect on the Company's diluted earnings per share calculation.

Table of Contents**(8) STOCK OPTIONS**

At June 30, 2010, all stock options outstanding were issued under the Hopfed Bancorp, Inc. 1999 Stock Option Plan. At June 30, 2010, the Company can no longer issue options under this plan. The remaining 80,000 options are fully vested and outstanding until their maturity date. At June 30, 2010, the strike price of all options

The following is a summary of stock options outstanding at June 30, 2010:

| Exercise Price | Average Remaining Life (Years) | Outstanding Options | Options Exercisable |
|----------------|--------------------------------|---------------------|---------------------|
| \$ 12.33 | 2.2 | 10,000 | |
| 12.33 | 0.9 | 50,000 | |
| 17.34 | 3.9 | 20,000 | |
| \$ 13.58 | 1.8 | 80,000 | |

On February 26, 2010, a total 30,000 fully vested stock options under the 2000 Stock Option Plan were exercised at a price of \$11.45 per share by CEO John Peck. Mr. Peck chose to complete a cashless exercise, receiving 3,800 shares of the Company's common stock in exchange for his options.

(9) DERIVATIVE INSTRUMENTS

Under guidelines of FASB ASC 815, *Derivative and Hedging Activities*, as amended, all derivative instruments are required to be carried at fair value on the consolidated statement of financial position. ASC 815 provides special hedge accounting provisions, which permit the change in fair value of the hedge item related to the risk being hedged to be recognized in earnings in the same period and in the same income statement line as the change in the fair value of the derivative.

A derivative instrument designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges under ASC 815. Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Cash value hedges are accounted for by recording the fair value of the derivative instrument and the fair value related to the risk being hedged of the hedged asset or liability on the consolidated statement of financial position with corresponding offsets recorded in the consolidated statement of financial position.

The adjustment to the hedged asset or liability is included in the basis of the hedged item, while the fair value of the derivative is recorded as a freestanding asset or liability. Actual cash receipts or payments and related amounts accrued during the period on derivatives included in a fair value hedge relationship are recorded as adjustments to the income or expense recorded on the hedged asset or liability.

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Under both the fair value and cash flow hedge methods, derivative gains and losses not effective in hedging the change in fair value or expected cash flows of the hedged item are recognized immediately in the income statement. At the hedge's inception and at least quarterly thereafter, a formal assessment is performed to determine whether changes in the fair values or cash flows of the derivative instrument has been highly effective in offsetting changes in the fair values or cash flows of the hedged items and whether they are expected to be highly effective in the future. If it is determined a derivative instrument has not been, or will not continue to be highly effective as a hedge, hedged accounting is discontinued. ASC 815 basis adjustments recorded on hedged assets and liabilities are amortized over the remaining life of the hedged item beginning no later than when hedge accounting ceases. There were no fair value hedging gains or losses, as a result of hedge ineffectiveness, recognized for the six-month period ended June 30, 2010 or the year ended December 31, 2009.

In October of 2008, the Bank entered into an interest rate swap agreement for a term of seven years and an amount of \$10 million. The Bank will pay a fixed rate of 7.27% for seven years and receive an amount equal to the three-month London Interbank Lending Rate (LIBOR) plus 3.10%. The interest rate swap is classified as a cash flow hedge by the Bank and will be tested quarterly for effectiveness. At December 31, 2009 and June 30, 2010, the cost of the Bank to terminate the cash flow hedge was approximately \$643,000 and \$1,155,000, respectively.

(10) REGULATORY AGREEMENT

On April 30, 2010, the Company and its wholly owned subsidiary, Heritage Bank, each entered into an informal Memorandum of Understanding (MOU) with its primary regulator, the Office of Thrift Supervision (OTS). The agreement requires the Company to obtain prior written approval prior to the declaration of a common stock dividend or receipt of a cash dividend from its Bank subsidiary. The Company may continue to pay other normal operating expenses, and may pay interest on HopFed Capital Trust 1 and dividends on preferred stock held by the United States Department of Treasury without regulatory approval if the Bank maintains a Tier 1 Capital Ratio of 8.00% and a Total Risk Based Capital Ratio of 12.00%. At June 30, 2010, the Bank's Tier 1 Ratio was 8.91% and its Total Risk Based Capital was 15.03%.

Under the Bank MOU, among other things, the Bank has agreed to the following: (1) the Bank will not declare or pay any dividends or make other capital distributions, or commit to pay dividends or make other capital distributions, without prior OTS approval; (2) the Bank will adopt a concentration risk reduction plan to reduce the outstanding balance of commercial real estate loans relative to core capital and the allowance for loan losses; and (3) the Bank will not increase brokered deposits without prior OTS approval.

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In addition, the MOUs identify actions, policies and procedures to be taken and adopted by the Board of Directors and management of the Company and the Bank, as appropriate, to ensure maintenance of adequate liquidity, monitor and report compliance with the MOUs and certain applicable regulations, reduce the level of classified assets, and correct certain deficiencies and weaknesses identified by the OTS. The MOUs will remain in effect until modified or terminated by the OTS. The Company and the Bank do not expect the actions and limitations required by the MOUs to change their business strategy in any material respect.

The Board of Directors and management of each of the Company and the Bank have taken various actions to comply with the terms and conditions of the MOUs, and will continue to take all actions believed to be necessary for compliance. The Board and management will continue to work closely with the OTS in order to comply with the terms and conditions of the MOUs and are committed to addressing and resolving any and all issues presented in the MOUs.

(11) PUBLIC OFFERING OF COMMON STOCK

On June 16, 2010, the Company entered into an underwriting agreement with Howe Barnes Hoefer & Arnett as sole underwriter for the sale of 3,333,334 shares of its common stock, par value \$0.01 per share in a public offering. In addition, pursuant to the underwriting agreement, the Company granted the underwriters an option to purchase up to 500,000 additional shares of common stock. The public offering price was \$9.00 per share. The net proceeds of the public offering, after underwriting discounts and commissions, were approximately \$28.2 million. The public offering closed on June 23, 2010.

(12) SUBSEQUENT EVENTS

On July 16, 2010, Howe Barnes Hoefer & Arnett elected to exercise its over-allotment option and purchased an additional 250,000 shares of the Company's common stock. The Company received net proceeds of approximately \$2,137,500 from the sale of the additional 250,000 shares.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations **Critical Accounting Policies**

The consolidated condensed financial statements as of June 30, 2010, and December 31, 2009, and for the three and six-month periods ended June 30, 2010, and June 30, 2009, included herein have been prepared by the Company, without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in interim financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the financial statements and notes thereon included in the Company's 2009 Annual Report to Stockholders on Form 10-K.

Certain of the Company's accounting policies are important to the portrayal of the Company's financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances, which could affect these material judgments, include, but without limitation, changes in interest rates, in the performance of the economy or in the financial condition of borrowers. Management believes that its critical accounting policies include determining the allowance for loan losses and determining the fair value of securities and other financial instruments and assessing other than temporary impairments of securities.

Comparison of Financial Condition at June 30, 2010 and December 31, 2009

Total assets increased from \$1.03 billion at December 31, 2009 to \$1.11 billion at June 30, 2010. Securities available for sale increased from \$289.7 million at December 31, 2009 to \$368.9 million at June 30, 2010. At June 30, 2010 and December 31, 2009, securities classified as available for sale had an amortized book value of \$357.9 million and \$284.3 million, respectively.

On June 23, 2010, the Company completed an underwriter public offering of 3,333,334 shares of common stock. Net proceeds to the Company were approximately \$28.2 million. See Note 11 of Notes to Unaudited Consolidated Financial Statements.

The Company did not have any federal funds sold at June 30, 2010 and December 31, 2009. The Company has chosen to maintain additional cash balances in non-interest bearing demand deposit accounts due to both the very low earnings rate on overnight funds as well as the unlimited FDIC coverage available on non-interest demand deposit accounts. The Company's holdings of Federal Home Loan Bank of Cincinnati (FHLB) stock, at cost was \$4.3 million at December 31, 2009 and \$4.4 million at June 30, 2010. Total FHLB borrowings declined \$13.9 million, from \$102.5 million at December 31, 2009 to \$88.6 million at June 30, 2010. Total repurchase balances increased from \$36.1 million at December 31, 2009 to \$41.1 million at June 30, 2010.

Loan portfolio growth was negative during the six month period ended June 30, 2010. Net loans totaled \$627.9 million and \$642.4 million at June 30, 2010 and December 31, 2009, respectively. Loan demand is weak for consumer, agricultural and commercial loan products.

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Set forth below is selected data relating to the composition of the loan portfolio by type of loan at June 30, 2010 and December 31, 2009. At June 30, 2010 and December 31, 2009, there were no concentrations of loans exceeding 10% of total loans other than as disclosed below:

| | 6/30/2010 | | 12/31/2009 | |
|---|------------------------|---------|------------|---------|
| | Amount | Percent | Amount | Percent |
| | (Dollars in thousands) | | | |
| Real estate loans: | | | | |
| One-to-four family (closed end) first mortgages | \$ 183,035 | 28.8% | \$ 195,665 | 30.0% |
| Second mortgages (closed end) | 7,489 | 1.2% | 7,616 | 1.2% |
| Home equity lines of credit | 40,508 | 6.4% | 37,542 | 5.8% |
| Multi-family | 48,352 | 7.6% | 46,325 | 7.1% |
| Construction | 28,619 | 4.5% | 33,216 | 5.1% |
| Commercial real estate | 257,341 | 40.5% | 254,067 | 39.0% |
| Total mortgage loans | 565,344 | 89.0% | 574,431 | 88.2% |
| Loans secured by deposits | 4,173 | 0.6% | 4,075 | 0.6% |
| Other consumer loans | 17,541 | 2.7% | 17,908 | 2.8% |
| Commercial loans | 49,101 | 7.7% | 54,531 | 8.4% |
| Total loans, gross | 636,159 | 100.0% | 650,945 | 100.0% |
| Deferred loan cost, net of income | 269 | | 261 | |
| Less allowance for loan losses | (8,571) | | (8,851) | |
| Total loans | \$ 627,857 | | \$ 642,355 | |

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The Bank assigns an industry standard NAICS code to each loan in the Bank's portfolio. By assigning a standard code to each type of loan, management can more readily determine concentrations in risk by industry, location and loan type. This information is most useful when analyzing the Bank's commercial real estate loan portfolio. At June 30, 2010 and December 31, 2009, the Bank's commercial real estate portfolio was made up of the following loan types:

Commercial Real Estate

| | 06/30/10 Balance | 12/31/09 Balance |
|---|------------------------|---------------------|
| | (Dollars in Thousands) | |
| Land & development | \$ 61,627 | 64,519 |
| Construction | 5,046 | 8,406 |
| Manufacturing | 4,467 | 3,884 |
| Professional, Technical | 2,667 | 3,495 |
| Retail Trade | 13,341 | 14,902 |
| Other Services | 19,973 | 18,461 |
| Finance & Insurance | 156 | 196 |
| Agricultural, Forestry, Fishing & Hunting | 37,745 | 34,007 |
| Real Estate and Rental and Leasing | 48,102 | 42,662 |
| Wholesale Trade | 11,319 | 8,805 |
| Arts, Entertainment & Recreation | 5,961 | 6,368 |
| Accommodations / Food Service | 26,979 | 23,442 |
| Healthcare and Social Assistance | 11,109 | 11,149 |
| Educational Services | 41 | 453 |
| Transportation & Warehousing | 1,783 | 1,825 |
| Information | 3,211 | 3,379 |
| Public Administration | 29 | 30 |
| Non-industry | 316 | 4,145 |
| Admin Support / Waste Mgmt | 3,469 | 3,939 |
| Total | \$ 257,341 | 254,067 |

The allowance for loan losses totaled \$8.6 million at June 30, 2010, \$8.9 million at December 31, 2009 and \$7.4 million at June 30, 2009. The ratio of the allowance for loan losses to total loans was 1.35% at June 30, 2010, 1.36% at December 31, 2009 and 1.15% at June 30, 2009. The following table indicates the type and level of non-performing loans at the periods indicated below:

| | 6/30/2010 | 12/31/2009 | 6/30/2009 |
|---|------------------------|------------|-----------|
| | (Dollars in Thousands) | | |
| One-to-four family first mortgages | \$ 987 | 1,399 | 908 |
| Home equity lines of credit | 50 | | 10 |
| Multi-family | 8,284 | 4,851 | 994 |
| Construction | 535 | 572 | 296 |
| Land | 585 | 3,503 | 5,152 |
| Non-residential real estate | 997 | 490 | 632 |
| Consumer loans | 2 | 27 | 8 |
| Commercial loans | 215 | 367 | 151 |
| Total non-performing loans | 11,655 | 11,209 | 8,151 |
| Non-performing loans to total loans ratio | 1.83% | 1.72% | 1.26% |

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The Company's other real estate and other assets owned balances at June 30, 2010, and June 30, 2009, represent properties and personal collateral acquired by the Bank through customer loan defaults. The property is recorded at the lower of cost or fair value less estimated cost of to sell at the date acquired with any loss recognized as a charge off through the allowance for loan loss account. Additional other real estate owned and other asset losses may be determined on individual properties at specific intervals or at the time of disposal. Additional losses are recognized as a non-interest expense. At June 30, 2010, December 31, 2009 and June 30, 2009, the Bank had other assets owned and other real estate owned as follows:

| | June 30, 2010 | December 31, 2009 (Dollars in Thousands) | June 30, 2009 |
|---|-----------------|---|---------------|
| One-to-four family | \$ 589 | 438 | 155 |
| Multi-family | 575 | 425 | 425 |
| Construction | 367 | 468 | |
| Land | 645 | 225 | 97 |
| Non-residential real estate | 300 | 312 | 249 |
| Consumer assets owned by bank | 15 | 15 | 4 |
| Total other real estate and assets owned | \$ 2,491 | 1,883 | 930 |
| Total non-performing assets | \$ 14,146 | 13,092 | 9,081 |
| Non-performing asset / Total assets | 1.28% | 1.27% | 0.91% |

The Bank does not originate loans it considers sub-prime and is not aware of any exposure to the additional credit concerns associated with sub-prime lending in either the Company's loan or investment portfolios. The Company does have a significant amount of construction and land development loans. Management reports to the Company's Board of Directors on the status of the Company's specific construction and development loans as well as the market trends in those markets in which the Company actively participates.

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The Company's annualized net charge off ratios for the six-month periods ended June 30, 2010, June 30, 2009 and the year ended December 31, 2009 were 0.54%, 0.21% and 0.23%, respectively. The ratios of allowance for loan losses to non-performing loans at June 30, 2010, June 30, 2009 and December 31, 2009 were 73.5%, 91.1% and 79.0%, respectively. The following table sets forth an analysis of the Bank's allowance for loan losses for the three-month periods ended:

| | Six Months Ended | | Year Ended |
|---|------------------------|----------|------------|
| | 06/30/10 | 06/30/09 | 12/31/09 |
| | (Dollars in Thousands) | | |
| Beginning balance, allowance for loan loss | \$ 8,851 | 6,133 | 6,133 |
| Loans charged off: | | | |
| Commercial loans | (1,541) | (291) | (412) |
| Consumer loans and overdrafts | (214) | (310) | (661) |
| Residential loans | (181) | (290) | (764) |
| Total charge offs | (1,936) | (891) | (1,837) |
| Recoveries | | | |
| Commercial loans | 63 | 34 | 44 |
| Consumer loans and overdrafts | 115 | 156 | 251 |
| Residential loans | 9 | 59 | 61 |
| Total recoveries | 187 | 249 | 356 |
| Net charge offs | (1,749) | (642) | (1,481) |
| Provision for loan loss | 1,469 | 1,936 | 4,199 |
| Ending balance | \$ 8,571 | 7,427 | 8,851 |
| Ratio of net charge offs to average outstanding loans during the period | 0.54% | 0.21% | 0.23% |

The determination of the allowance for loan losses is based on management's analysis, performed on a quarterly basis. Various factors are considered, including the market value of the underlying collateral, growth and composition of the loan portfolio, the relationship of the allowance for loan losses to outstanding loans, historical loss experience, delinquency trends and prevailing economic conditions. Although management believes its allowance for loan losses is adequate, there can be no assurance that additional allowances will not be required or that losses on loans will not be incurred.

A loan is considered to be impaired when management determines that it is possible that the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. The value of individually impaired loans is measured based on the present value of expected payments using the fair value of the collateral if the loan is collateral dependent. At June 30, 2010, December 31, 2009 and June 30, 2009 the Company's impaired loans totaled \$36.1 million, \$35.5 million and \$24.9 million, respectively. At June 30, 2010, December 31, 2009, and June 30, 2009, the Company's reserve for impaired loans totaled \$2.4 million, \$2.5 million and \$1.3 million, respectively.

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A summary of the Company's impaired loans and their respective reserve at June 30, 2010 and December 31, 2009 is summarized below (in thousands):

| June 30, 2010 | Substandard | Doubtful | Total | Specific Loss Reserve |
|------------------------------------|------------------|--------------|---------------|--------------------------|
| One-to-four family first mortgages | \$ 2,357 | 706 | 3,063 | 81 |
| Home equity lines of credit | 190 | 161 | 351 | 36 |
| Multi-family | 8,285 | | 8,285 | 1,544 |
| Construction | 2,268 | | 2,268 | 168 |
| Land | 9,730 | | 9,730 | 15 |
| Non-residential real estate | 10,380 | 208 | 10,588 | 305 |
| Consumer loans | 33 | | 33 | |
| Commercial loans | 1,773 | 40 | 1,813 | 268 |
| Total at June 30, 2010 | \$ 35,016 | 1,115 | 36,131 | 2,417 |

| December 31, 2009 | Substandard | Doubtful | Total | Specific Loss Reserve |
|------------------------------------|------------------|------------|---------------|--------------------------|
| One-to-four family first mortgages | \$ 3,825 | 37 | 3,862 | 365 |
| Home equity lines of credit | 165 | | 165 | |
| Multi-family | 10,038 | 39 | 10,077 | 1004 |
| Construction | 1,850 | | 1,850 | 217 |
| Land | 6,067 | 24 | 6,091 | 178 |
| Non-residential real estate | 7,837 | 75 | 7,912 | 323 |
| Consumer loans | 78 | | 78 | 23 |
| Commercial loans | 5,119 | 380 | 5,499 | 402 |
| Total at December 31, 2009 | \$ 34,979 | 555 | 35,534 | 2,512 |

At June 30, 2010, deposits increased to \$844.3 million from \$794.1 million at December 31, 2009. The average cost of all deposits during the three-month periods ended June 30, 2010 and June 30, 2009 and the twelve month period ended December 31, 2009 was 2.14%, 2.85% and 2.74%, respectively. The average cost of all deposits during the six-month periods ended June 30, 2010 and June 30, 2009, was 2.20%, 2.92%, respectively. Management continually evaluates the investment alternatives available to customers and adjusts the pricing on its deposit products to more actively manage its funding costs while remaining competitive in its market area.

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Comparison of Operating Results for the Six Months Ended June 30, 2010 and 2009

Net Income. Net income available to common shareholders for the six months ended June 30, 2010 was \$3,420,000, compared to net income available to common shareholders of \$1,866,000 for the six months ended June 30, 2009. The increase in the Company's net income available for common shareholders for the six month period ended June 30, 2010 was largely the result of both the growth in interest bearing assets and an improved net interest margin.

Net Interest Income. Net interest income for the six month period ended June 30, 2010 was \$15.2 million, compared to \$13.0 million for the six month period ended June 30, 2009. The increase in net interest income for the six months ended June 30, 2010 as compared to June 30, 2009 was largely due to a \$28.6 million increase in the average balance of available for sale tax exempt securities. For the six-month period ended June 30, 2010, income on tax exempt securities increased to \$1.2 million, from \$662,000 for the six month period ended June 30, 2009.

For the six month period ended June 30, 2010, the Company's interest income from loans receivable increased by \$291,000, to \$19.6 million, as compared to the six month period ended June 30, 2009. For the six months ended June 30, 2010, the tax equivalent yield on total interest earning assets declined to 5.67% from 5.88% for the six-month period ended June 30, 2009. The decline in net yields is the result of the continued low interest rate environment in which the Company currently operates.

For the six month periods ended June 30, 2010 and June 30, 2009, the Company's cost of interest bearing liabilities was 2.56% and 3.20%, respectively. The lower cost of interest bearing liabilities was the result of lower short term interest rates as well as an increase in FHLB advances that were made at favorable rates.

Average Balances, Yields and Interest Expenses. The table below summarizes the overall effect of changes in both interest rates and the average balances of interest earning assets and liabilities for the six month periods ended June 30, 2010 and June 30, 2009. Yields on assets and cost of liabilities are derived by dividing income or expense by the average daily balances of interest earning assets and liabilities for the appropriate six-month periods.

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Average balances for loans include loans classified as non-accrual, net of the allowance for loan losses. The table adjusts tax-free investment income by \$540 for June 30, 2010, and \$297 for June 30, 2009, for a tax equivalent rate using a cost of funds rate of 2.50% for June 30, 2010 and 3.00% for June 30, 2009. The table adjusts tax-free loan income by \$32 for June 30, 2010 and \$27 for June 30, 2009, for a tax equivalent rate using the same cost of funds rate:

| | Average Balance 6/30/2010 | Income and Expense 6/30/2010 | Average Rates 6/30/2010 (Dollars in Thousands) | Average Balance 6/30/2009 | Income and Expense 6/30/2009 | Average Rates 6/30/2009 |
|--|---------------------------------|------------------------------------|---|---------------------------------|------------------------------------|-------------------------------|
| Loans | \$ 641,078 | 19,663 | 6.13% | \$ 622,881 | 19,367 | 6.22% |
| Investments AFS taxable | 263,182 | 5,957 | 4.53% | 253,455 | 6,481 | 5.11% |
| Investment AFS tax free | 59,064 | 1,714 | 5.80% | 30,510 | 959 | 6.29% |
| Investment held to maturity | | | | 434 | 10 | 4.61% |
| Federal funds | | | | 4,935 | 8 | 0.32% |
| Total interest earning assets | 963,324 | 27,334 | 5.67% | 912,215 | 26,825 | 5.88% |
| Other assets | 97,330 | | | 79,132 | | |
| Total assets | \$ 1,060,654 | | | \$ 991,347 | | |
| Interest bearing retail deposits | 672,748 | 8,017 | 2.38% | 613,090 | 9,511 | 3.10% |
| Brokered deposits | 84,813 | 1,075 | 2.53% | 67,506 | 1,289 | 3.82% |
| FHLB borrowings | 96,219 | 1,682 | 3.50% | 123,622 | 2,076 | 3.36% |
| Repurchase agreements | 39,208 | 406 | 2.07% | 31,389 | 390 | 2.48% |
| Subordinated debentures | 10,310 | 364 | 7.06% | 10,310 | 278 | 5.39% |
| Total interest bearing liabilities | 903,298 | 11,544 | 2.56% | 845,917 | 13,544 | 3.20% |
| Non-interest bearing deposits | 67,657 | | | 60,377 | | |
| Other liabilities | 4,583 | | | 4,874 | | |
| Stockholders' equity | 85,116 | | | 80,179 | | |
| Total liabilities and stockholders' equity | \$ 1,060,654 | | | \$ 991,347 | | |
| Net change in interest earning assets and interest bearing liabilities | | 15,790 | 3.11% | | 13,281 | 2.68% |
| Net yield on interest earning assets | | 3.28% | | | 2.91% | |

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Interest Income. For the six months ended June 30, 2010, the Company's total interest income was \$26.8 million, as compared to \$26.5 million for the six months ended June 30, 2009. The increase is largely due to a \$25,000 decline of non-accrued interest as market interest rates continue to trend lower. In the last twelve months, the Company has become more dependent on income from investments. The average balance of loans receivable increased \$18.2 million, to \$641.1 million at June 30, 2010 from \$622.9 million at June 30, 2009. The ratio of average interest-earning assets to average interest-bearing liabilities declined from 107.84% for the six months ended June 30, 2009 to 106.65% for the six months ended June 30, 2010.

Interest Expense. Interest expense declined approximately \$2.0 million for the six months ended June 30, 2010 as compared to the same period in 2009. The decline was attributable to lower market interest rates and the re-pricing of higher costing deposits, offsetting a \$57.4 million increase in the average balance of total interest bearing liabilities as compared to June 30, 2009. The average cost of interest-bearing retail deposits declined from 3.10% at June 30, 2009 to 2.38% at June 30, 2010. Over the same period, the average balance of interest bearing retail deposits increased \$59.6 million, from \$613.1 million at June 30, 2009 to \$672.7 million at June 30, 2010. The average cost of brokered deposits declined from 3.82% at June 30, 2009 to 2.53% at June 30, 2010. Over the same period, the average balance of brokered deposits increased \$17.3 million, from \$67.5 million at June 30, 2009 to \$84.8 million at June 30, 2010. The average cost of all deposits declined from 2.92% at June 30, 2009, to 2.20% at June 30, 2010.

The average balance of funds borrowed from the FHLB declined \$27.4 million, from \$123.6 million at June 30, 2009, to \$96.2 million at June 30, 2010. The average cost of borrowed funds from the FHLB increased from 3.36% at June 30, 2009, to 3.50% at June 30, 2010. The Company continues to reduce its FHLB balances. The average balance of repurchase agreements increased from \$31.4 million at June 30, 2009, to \$39.2 million at June 30, 2010. The average cost of repurchase agreements declined from 2.48% at June 30, 2009, to 2.07% at June 30, 2010. The reduction in the cost of repurchase agreements is limited due to two long term agreements with third parties that are fixed. The repurchase agreements, totaling \$16 million, had a weighted average cost of 4.31% at June 30, 2010.

Provision for Loan Losses. The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risk inherent in its loan portfolio and the general economy. Such evaluation considers numerous factors including general economic conditions, loan portfolio composition and prior loss experience, the estimated fair value of the underlying collateral and other factors that warrant recognition in providing for an adequate loan loss allowance. The Company determined that an additional \$1.5 million in provision for loan loss was required for the six months ended June 30, 2010, compared to a \$1.9 million in provision for loan loss expense for the six months ended June 30, 2009.

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Non-Interest Income. There was a \$335,000 decline in non-interest income in the six months ended June 30, 2010 as compared to the same period in 2009. For the six-month period ended June 30, 2010, income from financial services was \$483,000, compared to \$476,000 for the same period in 2009. For the six month period ended June 30, 2010, the Company realized gains on the sale of investments totaling \$726,000, as compared to \$1.5 million for the six month period ended June 30, 2009. For the six month period ended June 30, 2010, the Company realized gains on the sale of real estate owned totaling \$293,000. No gains were realized for the six month period ended June 30, 2009.

Non-Interest Expenses. There was a \$230,000 increase in total non-interest expenses in the six months ended June 30, 2010 compared the same period in 2009. For the six months ended June 30, 2010, compensation expense increased to \$6.4 million compared to \$6.2 million for the six months ended June 30, 2009. Other non-interest expenses that increased more than \$100,000 for the six months ended June 30, 2010 includes data processing expenses and other operating expenses.

Income Taxes. The effective tax rate for the six months ended June 30, 2010 was 29.1%, compared to 29.6% for the same period in 2009.

Comparison of Operating Results for the Three Months Ended June 30, 2010 and 2009

Net Income. Net income available for common shareholders for the three months ended June 30, 2010 was \$1,814,000, compared to net income available to common shareholders of \$854,000 for the three months ended June 30, 2009. The increase in the Company's net income available to common shareholders for the three month period ended June 30, 2010 was largely the result of both the growth in interest bearing assets and an improved net interest margin.

Net Interest Income. Net interest income for the three month period ended June 30, 2010 was \$7.9 million, compared to \$6.6 million for the three month period ended June 30, 2009. The increase in net interest income for the three months ended June 30, 2010 as compared to June 30, 2009 was largely due to a \$1.0 million decline in interest expense. For the three months ended June 30, 2010, the tax equivalent yield on total interest earning assets declined to 5.69% from 5.86% for the three-month period ended June 30, 2009. For the three month period ended June 30, 2010, the \$525,000 decline in non-accrual interest added 0.21% to the Company's net yield on interest earning assets and net margin. For the three month periods ended June 30, 2010 and June 30, 2009, the Company's cost of interest bearing liabilities was 2.50% and 3.17%, respectively. The lower cost of interest bearing liabilities was the result of a lower short term interest rates and the re-pricing of time deposits.

Average Balances, Yields and Interest Expenses. The table below summarizes the overall effect of changes in both interest rates and the average balances of interest earning assets and liabilities for the three month periods ended June 30, 2010 and June 30, 2009. Yields on assets and cost of liabilities are derived by dividing income or expense by the average daily balances of interest earning assets and liabilities for the appropriate three-month periods.

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Average balances for loans include loans classified as non-accrual, net of the allowance for loan losses. The table adjusts tax-free investment income by \$281 for June 30, 2010, and \$175 for June 30, 2009, for a tax equivalent rate using a cost of funds rate of 2.50% for June 30, 2010 and 3.00% for June 30, 2009. The table adjusts tax-free loan income by \$14 for June 30, 2010 and \$8 for June 30, 2009, for a tax equivalent rate using the same cost of funds rate:

| | Average Balance 6/30/2010 | Income and Expense 6/30/2010 | Average Rates 6/30/2010 (Dollars in Thousands) | Average Balance 6/30/2009 | Income and Expense 6/30/2009 | Average Rates 6/30/2009 |
|--|---------------------------------|------------------------------------|---|---------------------------------|------------------------------------|-------------------------------|
| Loans | \$ 639,548 | 10,024 | 6.27% | \$ 627,045 | 9,720 | 6.20% |
| Investments AFS taxable | 277,749 | 3,035 | 4.37% | 256,961 | 3,200 | 4.98% |
| Investment AFS tax free | 62,688 | 892 | 5.69% | 35,625 | 565 | 6.35% |
| Investment Held to maturity | | | | 423 | 5 | 4.73% |
| Federal funds | | | | 25 | | |
| Total interest earning assets | 979,985 | 13,951 | 5.69% | 920,079 | 13,490 | 5.86% |
| Other assets | 97,661 | | | 79,824 | | |
| Total assets | \$ 1,077,646 | | | \$ 999,903 | | |
| Interest bearing retail deposits | 687,335 | 3,982 | 2.32% | 617,712 | 4,735 | 3.07% |
| Brokered deposits | 84,376 | 519 | 2.46% | 68,732 | 599 | 3.49% |
| FHLB borrowings | 93,288 | 826 | 3.54% | 123,168 | 1,039 | 3.37% |
| Repurchase agreements | 40,345 | 204 | 2.02% | 31,292 | 196 | 2.51% |
| Subordinated debentures | 10,310 | 181 | 7.02% | 10,310 | 176 | 6.83% |
| Total interest bearing liabilities | 915,654 | 5,712 | 2.50% | 851,214 | 6,745 | 3.17% |
| Non-interest bearing deposits | 68,845 | | | 62,329 | | |
| Other liabilities | 6,061 | | | 5,168 | | |
| Stockholders' equity | 87,086 | | | 81,192 | | |
| Total liabilities and stockholders' equity | \$ 1,077,646 | | | \$ 999,903 | | |
| Net change in interest earning assets and interest bearing liabilities | | 8,239 | 3.19% | | 6,745 | 2.69% |
| Net yield on interest earning assets | | 3.36% | | | 2.93% | |

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Interest Income. For the three months ended June 30, 2010, the Company's total interest income was \$13.7 million, as compared to \$13.3 million for the three months ended June 30, 2009. This small increase primarily resulted from a higher average balance of interest earning assets. The average balance of loans receivable increased \$12.5 million, to \$639.5 million at June 30, 2010 from \$627.0 million at June 30, 2009. For the three month period ended June 30, 2010, the average tax equivalent yield on loans was 6.27%, as compared to 6.20% for the three month period ended June 30, 2009. The ratio of average interest-earning assets to average interest-bearing liabilities decreased from 108.09% for the three months ended June 30, 2009 to 107.03% for the three months ended June 30, 2010.

Interest Expense. Interest expense declined approximately \$1.0 million for the three months ended June 30, 2010 as compared to the same period in 2009. The decline was attributable to lower market interest rates and the re-pricing of higher costing deposits, offsetting a \$64.4 million increase in the average balance of total interest bearing liabilities as compared to June 30, 2009. The average cost of interest-bearing retail deposits declined from 3.07% at June 30, 2009 to 2.32% at June 30, 2010. Over the same period, the average balance of interest bearing retail deposits increased \$69.6 million, from \$617.7 million at June 30, 2009 to \$687.3 million at June 30, 2010. The average cost of brokered deposits declined from 3.49% at June 30, 2009 to 2.46% at June 30, 2010. Over the same period, the average balance of brokered deposits increased \$15.7 million, from \$68.7 million at June 30, 2009 to \$84.4 million at June 30, 2010. The average cost of all deposits declined from 2.85% at June 30, 2009, to 2.14% at June 30, 2010.

The average balance of funds borrowed from the FHLB declined \$29.9 million, from \$123.2 million at June 30, 2009, to \$93.3 million at June 30, 2010. The average cost of borrowed funds from the FHLB increased from 3.37% at June 30, 2009, to 3.54% at June 30, 2010. The average balance of repurchase agreements increased from \$31.3 million at June 30, 2009, to \$40.3 million at June 30, 2010. The average cost of repurchase agreements declined from 2.51% at June 30, 2009, to 2.02% at June 30, 2010. The reduction in the cost of repurchase agreements is limited due to two long term agreements with third parties that are fixed. The repurchase agreements, totaling \$16 million, had a weighted average cost of 4.31% at June 30, 2010.

Provision for Loan Losses. The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risk inherent in its loan portfolio and the general economy. Such evaluation considers numerous factors including general economic conditions, loan portfolio composition, prior loss experience, the estimated fair value of the underlying collateral and other factors that warrant recognition in providing for an adequate loan loss allowance. The Company determined that an additional \$858,000 provision for loan loss was required for the three months ended June 30, 2010, compared to a \$962,000 provision for loan loss expense for the three months ended June 30, 2009.

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Non-Interest Income. There was a \$285,000 decline in non-interest income in the three months ended June 30, 2010 as compared to the same period in 2009. For the three-month period ended June 30, 2010, service charge income was \$1,036,000, a decline of \$62,000 over the same period in 2009. For the three months ended June 30, 2010, income from financial services was \$286,000, compared to \$250,000 for the same period in 2009. For the three month period ended June 30, 2010, the Company realized gains on the sale of investments totaling \$232,000, as compared to \$809,000 for the three months ended June 30, 2009. For the three month period ended June 30, 2010, the Company recognized a \$268,000 gain on the sale of other real estate owned.

Non-Interest Expenses. There was a \$194,000 decline in total non-interest expenses in the three months ended June 30, 2010 compared to the same period in 2009. For the three months ended June 30, 2010, professional services expense was the only non-interest expense item to increase by more the \$100,000 as compared to the three month period ended June 30, 2009.

Income Taxes. The effective tax rate for the three months ended June 30, 2010 was 29.9%, compared to 28.8% for the same period in 2009.

Liquidity and Capital Resources. The Company has no business other than that of the Bank. Management believes that dividends that may be paid by the Bank to the Company will provide sufficient funds for its current needs. However, no assurance can be given that the Company will not have a need for additional funds in the future. The Bank is subject to certain regulatory limitations with respect to the payment of dividends to the Company. The Company is required to seek approval from the Office of Thrift Supervision prior to the declaration of a dividend to common shareholders.

The Bank's principal sources of funds for operations are deposits from its primary market areas, principal and interest payments on loans, proceeds from maturing investment securities and cash flow from amortizing investments. The Company estimates that its CMO and mortgage backed security portfolio will provide more than \$20 million in cash flow over the remaining nine months of 2010. Additional cash flows from agency securities are highly dependent on market interest rates. However, management anticipates that approximately \$12 million in agency securities will be called due to their one time call feature and relatively high coupon rate.

As discussed in Note 10 of Notes to Unaudited Consolidated Condensed Financial Statements section of this report, the Bank may not increase the amount of brokered deposits outstanding without prior written approval from the OTS Regional Director. The Bank uses brokered deposits to supplement its asset liability need for longer term deposits at reasonable prices.

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At June 30, 2010, the Bank's brokered deposits consisted of the following:

| Issued | Interest Rate | Balance | Maturity |
|------------|---------------|--------------|------------|
| 7/24/2008 | 4.20% | \$ 5,072,000 | 7/26/2010 |
| 9/22/2009 | 0.80% | 5,666,000 | 9/22/2010 |
| 9/29/2008 | 4.05% | 5,000,000 | 9/29/2010 |
| 10/2/2009 | 0.70% | 4,000,000 | 10/2/2010 |
| 7/15/2008 | 4.25% | 3,009,000 | 10/15/2010 |
| 9/29/2008 | 4.25% | 5,000,000 | 3/29/2011 |
| 10/23/2009 | 1.65% | 2,020,000 | 10/24/2011 |
| 2/16/2010 | 1.00% | 4,000,000 | 11/16/2011 |
| 2/16/2010 | 1.00% | 2,000,000 | 12/16/2011 |
| 9/22/2009 | 2.00% | 5,077,000 | 3/22/2012 |
| 10/16/2009 | 2.30% | 3,011,000 | 10/16/2012 |
| 3/3/2010 | 1.75% | 2,032,000 | 3/4/2013 |
| 1/22/2010 | 2.20% | 3,092,000 | 7/22/2013 |
| 3/2/2010 | 2.00% | 3,204,000 | 9/2/2013 |
| 10/26/2009 | 2.00% | 5,215,000 | 10/28/2013 |
| 7/1/2009 | 2.75% | 9,802,000 | 7/1/2014 |
| 8/11/2009 | 3.00% | 5,095,000 | 8/11/2014 |
| 9/22/2009 | 2.00% | 7,003,000 | 9/22/2014 |
| 3/9/2010 | 2.00% | 5,078,000 | 3/9/2015 |

Total \$ 84,376,000

The Bank must satisfy three capital standards: a ratio of core capital to adjusted total assets of 4.0%, a tangible capital standard expressed as 1.5% of total adjusted assets, and a combination of core and supplementary capital equal to 8.0% of risk-weighted assets. At June 30, 2010, the Bank exceeded all regulatory capital requirements.

The table below presents certain information relating to the Company's and Bank's capital compliance at June 30, 2010:

| | Company | | Bank | |
|--------------------|------------------------|---------|------------|---------|
| | Amount | Percent | Amount | Percent |
| | (Dollars in Thousands) | | | |
| Tangible Capital | \$ 116,649 | 10.61% | \$ 95,915 | 8.91% |
| Core Capital | \$ 116,649 | 10.61% | \$ 95,915 | 8.91% |
| Risk Based Capital | \$ 122,803 | 17.90% | \$ 102,068 | 15.03% |

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At June 30, 2010, the Bank had outstanding commitments to originate loans totaling \$7.9 million and undisbursed commitments on loans outstanding of \$45.4 million. Management believes that the Bank's sources of funds are sufficient to fund all of its outstanding commitments. Certificates of deposits scheduled to mature in one year or less from June 30, 2010, totaled \$297.7 million. Management believes that a significant percentage of such deposits will remain with the Bank.

The Bank's FHLB borrowings are secured by a blanket security agreement pledging the Bank's 1-4 family first mortgage loans and non-residential real estate loans. At June 30, 2010, the Bank has pledged all eligible 1-4 family first mortgages, home equity lines of credit and non-residential real estate loans that may be pledged under this agreement.

At June 30, 2010, the Bank has outstanding borrowings of \$88.6 million from the FHLB with maturities ranging five months to eight years and six months. In the next twelve months, the Bank has \$15 million of FHLB borrowings that will mature with a weighted average rate of 4.22%. A schedule of FHLB borrowings at June 30, 2010 is provided below:

| Outstanding Balance (Dollars in thousands) | Rate | Maturity | Note |
|--|-----------|---------------|----------------------------|
| \$ 5,000 | 2.14% | 12/10/10 | |
| 10,000 | 5.26% | 02/14/11 | |
| 5,000 | 2.56% | 12/09/11 | |
| 5,000 | 1.82% | 12/21/12 | |
| 3,917 | 3.30% | 06/01/13 | Monthly Principal Payments |
| 5,000 | 2.32% | 12/30/13 | |
| 1,316 | 3.19% | 04/01/14 | Monthly Principal Payments |
| 5,000 | 3.15% | 12/11/14 | |
| 4,000 | 5.34% | 03/17/16 | |
| 7,000 | 4.25% | 05/01/17 | Quarterly callable |
| 10,000 | 4.56% | 06/27/17 | Quarterly callable |
| 10,000 | 4.26% | 08/17/17 | |
| 17,384 | 3.13% | 01/01/19 | Monthly Principal Payments |
| \$ 88,617 | 3.65% | 5.0 years | |

At June 30, 2010, the Bank had \$7.4 million in additional borrowing capacity with the FHLB which includes an overnight line of credit.

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The Bank's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit and financial guarantees written is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making these commitments and conditional obligations as it does for on-balance-sheet instruments.

At June 30, 2010, the Company has the following off-balance sheet commitments (in thousands):

| | |
|------------------------------------|-----------|
| Standby letters of credit | \$ 1,688 |
| Unused home equity lines of credit | \$ 30,162 |
| Unused commercial lines of credit | \$ 11,650 |

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements. Additional written or oral forward-looking statements may be made by the Company from time to time in filings with the Securities and Exchange Commission or otherwise. The words "believe," "expect," "seek," and "intend" and similar expressions identify forward-looking statements, which speak only as of the date the statement is made. Such forward-looking statements are within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may include, but are not limited to, projections of income or loss, expenditures, acquisitions, plans for future operations, financing needs or plans relating to services of the Company, as well as assumptions relating to the foregoing.

Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by or underlying the forward-looking statements. The Company does not undertake, and specifically disclaims, any obligation to publicly release the results of revisions, which may be made to forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Effect of New Accounting Standards

In June 2009, the FASB issued FASB ASC 105-10, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* a replacement of FASB Statement No. 162, (SFAS 168). SFAS 168 establishes the FASB Accounting Standards Codification as the source of authoritative generally accepted accounting principles for nongovernmental entities. SFAS 168 is effective for interim and annual periods ending after September 15, 2009 and did not have any impact on the Company's consolidated financial position or results of operations.

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On April 9, 2009, the FASB issued FSP SFAS 115-2 and SFAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, (FSP SFAS 115-2 and SFAS 124-2), which was subsequently incorporated into ASC topic 320-10-65-1, *Investments Debt and Equity Securities* . ASC 320 categorizes losses on debt securities available-for-sale or held-to-maturity determined by management to be other-than-temporarily impaired into losses due to credit issues and losses related to all other factors. Other-than-temporary impairment (OTTI) exists when it is more likely than not that the security will mature or be sold before its amortized cost basis can be recovered. An OTTI related to credit losses should be recognized through earnings. An OTTI related to other factors should be recognized in other comprehensive income. The ASC does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. Annual disclosures required in ASC 320-10-65-1 are also required for interim periods (including the aging of securities with unrealized losses).

In April 2009, the FASB issued FSP SFAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly*, which was subsequently incorporated into FASB ASC topic 820-10-65-4, *Fair value Measurements and Disclosures*. This ASC recognizes that quoted prices may not be determinative of fair value when the volume and level of trading activity has significantly decreased. The evaluation of certain factors may necessitate that fair value be determined using a different valuation technique. Fair value should be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction, not a forced liquidation or distressed sale. If a transaction is considered to not be orderly, little, if any, weight should be placed on the transaction price. If there is not sufficient information to conclude as to whether or not the transaction is orderly, the transaction price should be considered when estimating fair value. An entity's intention to hold an asset or liability is not relevant in determining fair value. Quoted prices provided by pricing services may still be used when estimating fair value in accordance with ASC topic 820-10-65-4; however, the entity should evaluate whether the quoted prices are based on current information and orderly transactions. Inputs and valuation techniques are required to be disclosed in addition to any changes in valuation techniques.

FSP SFAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, which was subsequently incorporated into ASC 825-10-65-1, *Financial Instruments*, requires disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements and also requires those disclosures in summarized financial information at interim reporting periods. A publicly traded company includes any company whose securities trade in a public market on either a stock exchange or in the over-the-counter market, or any company that is a conduit bond obligor. Additionally, when a company makes a filing with a regulatory agency in preparation for sale of its securities in a public market it is considered a publicly traded company for this purpose.

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Also in April 2009, the FASB issued FSP SFAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*, which was subsequently incorporated into ASC 805, *Business Combinations*. ASC 805 requires that assets acquired and liabilities assumed in a business combination that arise from a contingency be recognized at fair value. If fair value cannot be determined during the measurement period as determined in ASC 805, the asset or liability can still be recognized if it can be determined that it is probable that the asset existed or the liability had been incurred as of the measurement date and if the amount of the asset or liability can be reasonably estimated. If it is not determined to be probable that the asset/liability existed/was incurred or no reasonable amount can be determined, no asset or liability is recognized.

The entity should determine a rational basis for subsequently measuring the acquired assets and assumed liabilities. Contingent consideration agreements should be recognized initially at fair value and subsequently reevaluated in accordance with guidance found in ASC 805. The ASC is effective for business combinations with an acquisition date on or after the beginning of the Company's first annual reporting period beginning on or after December 15, 2008. The Company will assess the impact of the ASC if and when a future acquisition occurs.

In December 2009, the FASB issued FASB ASC 810, *Consolidations*. This accounting guidance was originally issued in June 2009 and is now included in ASC 810. The guidance amends the consolidation guidance applicable for variable interest entities. This guidance is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2009, and early adoption is prohibited. The adoption of this standard did not have a significant impact on the Company's consolidated financial statements.

In May 2009, the FASB issued SFAS 165, *Subsequent Events*, which was subsequently incorporated into FASB ASC topic 855, *Subsequent Events*. ASC topic 855 provides guidance on when a subsequent event should be recognized in the financial statements. Subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet should be recognized at the balance sheet date. Subsequent events that provide evidence about conditions that arose after the balance sheet date but before financial statements are issued, or are available to be issued, are not required to be recognized. The date through which subsequent events have been evaluated must be disclosed as well as whether it is the date the financial statements were issued or the date the financial statements were available to be issued. For non-recognized subsequent events which should be disclosed to keep the financial statements from being misleading, the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made, should be disclosed. ASC topic 855 is effective for interim or annual periods ending after June 15, 2009. The implementation of this standard did not have a material impact on the consolidated financial statements of the Company.

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ASC Topic 815, *Derivatives and Hedging*, amends prior guidance to amend and expand the disclosure requirements for derivatives and hedging activities to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under ASC Topic 815, and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. To meet those objectives, the new authoritative accounting guidance requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. ASC 815 was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008.

In June 2009, the Company adopted the provisions of ASC Topic 855, *Subsequent Events*. ASC Topic 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The Company evaluated all events or transactions that occurred after March 31, 2010, through August 12, 2010, the date management issued these financial statements. During this period there were no material recognizable subsequent events that required recognition in our disclosures to the June 30, 2010 financial statements.

In January 2010, the FASB issued Accounting Standards Update No. 201-06, *Improving Disclosures about Fair Value Measurements*. The new guidance clarifies two existing disclosure requirements and requires two new disclosures as follows: (1) a gross presentation of activities (purchases, sales, and settlements) within the Level 3 roll-forward reconciliation, which will replace the net presentation format; and (2) detailed disclosures about the transfers in and out of Level 1 and 2 measurements. This guidance is effective for the first interim or annual reporting period beginning after December 15, 2009, except for the gross presentation of the Level 3 roll-forward information, which is required for annual reporting periods beginning after December 15, 2010, and for interim reporting periods within those years. The Company adopted the fair value disclosures guidance on January 1, 2010, except for the gross presentation of the Level 3 roll-forward information which is not required to be adopted by the Company until January 1, 2011.

On January 1, 2010, the FASB amended Accounting Standards Update No. 810 by issuing Update 2010-10 to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The new authoritative accounting guidance requires additional disclosures about the reporting entity's involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its affect on the entity's financial statements. The new authoritative accounting guidance under ASC 810 was effective January 1, 2010 and did not have a significant impact on the Company's financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

The actual results of the Company's asset liability management analysis are highly dependent on the prepayment speed of mortgage backed securities and collateralized mortgage obligations. The United States Treasury's policy of purchasing longer dated Treasury bonds has the result of lowering mortgage loan rates, allowing more consumers to refinance their mortgages and pay-off their current mortgage, resulting in higher prepayment speeds on mortgage investment products.

The effects of rising interest rates are discussed throughout Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations. Actual results for the year ending December 31, 2010 will differ from simulations due to timing, magnitude, and the frequency or interest rate changes, market conditions, management strategies, and the timing of the Company's cash receipts and disbursements.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

In accordance with Rule 13a-15(b) under the Securities Exchange Act of 1934 (the Exchange Act), an evaluation was carried out with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) and 15 d-14(c) under the Exchange Act) as of the end of the quarter ended June 30, 2010.

Based upon their evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the three months ended June 30, 2010 to ensure that material information relating to the Company, including its consolidated subsidiaries, was made known to them by others within those entities, particularly during the period in which this quarterly report on Form 10-Q was being prepared.

Any control system, no matter how well conceived and operated, can provide only reasonable assurance that its objectives are achieved. The design of a control system inherently has limitations, including the controls cost relative to their benefits. Additionally, controls can be circumvented. No cost-effective control system can provide absolute assurance that all control issues and instances of fraud will be detected.

The Company is subject to Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 requires management to assess and report on the effectiveness of the Company's internal controls over financial reporting.

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On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law. Section 989G of the law states that non-accelerated filers (the Company is currently a non-accelerated filer) are now exempt from the requirement of the Sarbanes-Oxley Act's Section 404(b) that requires the Company's external auditor to attest to the Company's assessment of internal controls over financial reporting. The annual measurement period for this exemption is June 30th of each year.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the Company's fiscal quarter ended June 30, 2010 that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

No material pending proceedings

Item 1A. Risk Factors

Except as set forth below, there have been no material changes to our risk factors as previously disclosed in Part 1, Item 1A of our annual report on Form 10-K for the fiscal year ended December 31, 2009:

Recent Legislation

Legislation was enacted on July 21, 2010 that will implement sweeping changes to the current bank regulatory structure. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), will eliminate the Office of Thrift Supervision. The Comptroller of the Currency (the primary federal regulator for national banks) will become the primary federal regulator of the Bank. The Board of Governors of the Federal Reserve System (the "Federal Reserve") will have exclusive authority to regulate all bank and thrift holding companies. As a result, the Company will become subject to supervision by the Federal Reserve Board as opposed to the Office of Thrift Supervision. These changes to our regulators will occur on the transfer date, which is expected to be one year from the enactment of the Dodd-Frank Act (unless extended by up to six months).

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Among the many requirements in the Dodd-Frank Act for new banking regulations is a requirement for new capital regulations to be adopted within 18 months. These regulations must be at least as stringent as, and may call for higher levels of capital than, current regulations. Generally, trust preferred securities will no longer be eligible as Tier 1 capital, but the Company's currently outstanding trust preferred securities will be grandfathered. Savings and loan holding companies like the Company have not previously been subject to capital requirements, but under the Dodd-Frank Act, five years from the date of enactment, savings and loan holding companies will become subject to the same capital requirements as bank holding companies. Savings and loan holding companies are immediately subject to the source of strength doctrine, under which a holding company must serve as a source of financial strength for its depository institution subsidiaries.

The Dodd-Frank Act also establishes a new minimum reserve ratio for the deposit insurance fund of 1.35%, and requires the FDIC to take steps to reach this ratio by September 30, 2020. It is expected that this will result in relatively higher assessments for larger institutions (with assets greater than \$10 billion).

Regulatory Matters

As discussed in the subsequent events section of this report, which is incorporated by reference, on April 30, 2010, the Company and the Bank each entered into a Memorandum of Understanding (MOU) with the Office of Thrift Supervision (OTS). This informal agreement places additional reporting and operational requirements on the Company and Bank. The Bank is required to reduce the level of commercial real estate loans to Total Risk Based Capital. This requirement may result in lower levels of commercial real estate loans, reducing the Bank's ability to continue to pursue its current strategy to grow its loan portfolio and net interest income.

There can be no assurance of whether or when the Company may pay dividends in the future. Cash available to pay dividend to our shareholders is derived primarily, if not entirely, from dividends paid to us from the Bank. The ability of the Bank to pay dividends to us, as well as our ability to pay dividends to our shareholders, is limited by regulatory and legal restrictions and the need to maintain sufficient capital at the Bank. The MOU with the OTS restricts us from declaring or paying any dividends or other capital distributions to common shareholders without prior OTS approval.

This dividend restriction does not apply to cash dividends on currently outstanding shares on Series A Preferred Stock issued to and held by the United States Department of the Treasury and obligations in connection with currently outstanding trust preferred securities, provided that such dividend payment or distribution of capital does not cause the Bank's capital levels to fall below a Tier 1 core capital ratio of 8.00% and a total risk based capital of 12.00%. We may also decide to limit the payment of dividends even when we have the legal ability to pay them in order to retain earnings for use in our business. We are restricted from paying dividends if we have deferred payments of the interest on, or an event of default has occurred with respect to, our trust preferred securities or Series A Preferred Stock.

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Weather Related Event

On May 1st and 2nd of 2010, record rainfall caused significant flooding in Tennessee, Kentucky and Mississippi. In the Company's market, the Tennessee counties of Davidson, Cheatham, Houston and Montgomery have been declared federal disaster areas. While none of the Company's offices suffered damages as a result of the storm, water damages in these communities has been widespread and occurred well outside of the areas' 100 year floodplain. The Company has determined that less than five customers suffered uninsured storm damage with total uninsured exposure of approximately \$1.0 million dollars.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) None

(b) None

(c) None

Item 3. Defaults Upon Senior Securities

None

Item 4. Removed and Reserved

Item 5. Other Information

None

Item 6. Exhibits

- 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for John E. Peck, Chief Executive Officer.
- 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Billy C. Duvall, Chief Financial Officer.
- 32.1 Certification Pursuant to Section 18 U.S.C. Section 1350 for John E. Peck, Chief Executive Officer.
- 32.2 Certification Pursuant to Section 18 U.S.C. Section 1350 for Billy C. Duvall, Chief Financial Officer.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HOPFED BANCORP, INC.

Date: August 12, 2010

/s/ John E. Peck
John E. Peck
President and Chief Executive Officer

Date: August 12, 2010

/s/ Billy C. Duvall
Billy C. Duvall
Senior Vice President, Chief Financial Officer and Treasurer