UNITED SECURITY BANCSHARES
Form 10-Q/A
November 25, 2011

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011.

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

Commission file number: 000-32987

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

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

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

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

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

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

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

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

Aggregate market value of the Common Stock held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter - June 30, 2011: $29,052,633

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

Common Stock, no par value
(Title of Class)

Shares outstanding as of July 31, 2011: 13,265,184

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Subsequent to the August 15, 2011 filing of the Company's Quarterly Report on Form 10-Q, banking regulatory authorities conducted a target examination of its wholly-owned bank subsidiary, United Security Bank's allowance for loan losses methodology and impaired loan portfolio. Pursuant to the regulatory review and an internal re-examination, Management determined that an error had occurred in accounting for the allowance for loan losses and that a restatement of financial results as of and at June 30, 2011 was necessary. Our previously issued consolidated financial statements included in the Form 10-Q for the quarter ended June 30, 2011, filed with the SEC on August 15, 2011, should no longer be relied upon.

This Amendment No. 1 to Form 10-Q (Amendment No. 1) is being filed by the Company to amend and restate its Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 filed with the United States Securities and Exchange Commission (SEC) on August 15, 2011 (the Initial Form 10-Q). For purposes of this Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2011, and in accordance with Rule 12b-15 under the Securities Exchange Act of 1934 (Exchange Act), Items 1and 2 of our Initial Form 10-Q have been amended and restated. Other than the Items outlined above, there are no changes to the Initial Form 10-Q. Except as otherwise specifically noted, all information contained herein is as of June 30, 2011, and does not reflect any events or changes that have occurred subsequent to that date.

The Company is not required to and has not updated any forward-looking statements previously included in the Initial Form 10-Q filed on August 15, 2011. The Company has not amended, and does not intend to amend, any of its other previously filed reports. (Note: No other periods were affected by the restatement.)

This Amendment No. 1 is required due to errors in the Initial Form 10-Q related to the identification and valuation of impaired loans and the timing of charge-offs relating to such loans.

This Amendment No. 1 restates our consolidated financial statements and other financial information as of June 30, 2011 and affects only the second quarter of 2011, which supersedes our previously-issued consolidated financial statements and other financial information for that period.

PART I. Financial Information

United Security Bancshares and Subsidiaries
Consolidated Balance Sheets – (unaudited)
June 30, 2011 and December 31, 2010

(in thousands except shares)	June 30, 2011 (Restated)	December 31, 2010
Assets		
Cash and due from banks	$24,507	$13,259
Cash and due from FRB	71,867	85,171
Cash and cash equivalents	96,374	98,430
Interest-bearing deposits in other banks	2,269	4,396
Investment securities available for sale (at fair value)	49,342	51,503
Loans and leases	423,858	441,691
Unearned fees	(422)	(645)
Allowance for credit losses	(13,879)	(16,520)
Net loans	409,557	424,526
Accrued interest receivable	2,040	2,152
Premises and equipment – net	12,875	12,909
Other real estate owned	32,042	35,580

Intangible assets	853	1,209
Goodwill	4,488	5,977
Cash surrender value of life insurance	15,757	15,493
Investment in limited partnership	1,642	1,851
Deferred income taxes - net	10,313	8,878
Other assets	18,097	15,306
Total assets	$655,649	$678,210
Liabilities & Shareholders' Equity		
Liabilities		
Deposits		
Noninterest bearing	$177,645	$139,690
Interest bearing	369,914	417,776
Total deposits	547,559	557,466
Other borrowings	25,000	32,000
Accrued interest payable	160	222
Accounts payable and other liabilities	5,189	4,606
Junior subordinated debentures (at fair value)	10,912	10,646
Total liabilities	588,820	604,940
Shareholders' Equity		
Common stock, no par value 20,000,000 shares authorized, 13,265,184 and 13,003,849 issued and outstanding, in 2011 and 2010, respectively	40,707	39,869
Retained earnings	26,986	33,807
Accumulated other comprehensive loss	(864)	(406)
Total shareholders' equity	66,829	73,270
Total liabilities and shareholders' equity	$655,649	$678,210

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

(in thousands except shares and EPS)	Quarter Ended June 30, 2011 (Restated)	2010	Six Months Ended June 30, 2011 (Restated)	2010
Interest Income:				
Loans, including fees	$ 6,437	$ 7,769	$ 12,857	$ 15,309
Investment securities – AFS – taxable	540	717	1,137	1,570
Investment securities – AFS – nontaxable	0	14	0	29
Federal funds sold	0	7	0	15
Interest on deposits in FRB	43	1	94	3
Interest on deposits in other banks	10	10	20	20
Total interest income	7,030	8,518	14,108	16,946
Interest Expense:				
Interest on deposits	668	1,063	1,436	2,221
Interest on other borrowings	83	78	168	185
Total interest expense	751	1,141	1,604	2,406
Net Interest Income Before Provision for Credit Losses	6,279	7,377	12,504	14,540
Provision for Credit Losses	9,161	519	10,051	2,150
Net Interest (Expense) Income	(2,882)	6,858	2,453	12,390
Noninterest Income:				
Customer service fees	894	1,016	1,761	1,964
Increase in cash surrender value of bank-owned life insurance	140	138	281	272
(Loss) gain on sale of other real estate owned	(324)	164	(44)	108
Gain on sale of securities	0	70	0	70
Gain on sale of loans	0	511	0	511
Gain (loss) on fair value of financial liability	222	467	(145)	624
Other	242	313	449	441
Total noninterest income	1,174	2,679	2,302	3,990
Noninterest Expense:				
Salaries and employee benefits	2,220	2,107	4,541	4,388
Occupancy expense	909	961	1,802	1,874
Data processing	19	13	43	32
Professional fees	980	632	1,419	1,019
FDIC/DFI insurance assessments	475	515	988	906
Director fees	58	60	116	117
Amortization of intangibles	158	198	320	401
Correspondent bank service charges	78	82	154	158
Impairment loss on core deposit intangible	0	0	36	57
Impairment loss on goodwill	1,489	1,414	1,489	1,414
Impairment loss on investment securities (cumulative total other-than-temporary loss of $4.3 million,net of $3.9 million	0	458	0	702

recognized in other comprehensive loss, pre-tax)				
Impairment loss on OREO	438	405	1,122	1,226
Loss on California tax credit partnership	103	106	209	212
OREO expense	719	485	951	767
Other	594	612	1,107	1,100
Total noninterest expense	8,240	8,048	14,297	14,373
(Loss) Income Before Taxes on Income	(9,948)	1,489	(9,542)	2,007
(Benefit) Provision for Taxes on (Loss) Income	(3,599)	974	(3,549)	1,050
Net (Loss) Income	$ (6,349)	$ 515	$ (5,993)	$ 957
Other comprehensive income, net of tax:				
Unrealized gain (loss) on available for sale securities, and past service costs of employee benefit plans – net of income tax (benefit) expense of $(282), $385, $(305), and $763	(423)	578	(458)	1,145
Comprehensive (Loss) Income	$ (6,772)	$ 1,093	$ (6,451)	$ 2,102
Net (Loss) Income per common share				
Basic	$ (0.48)	$ 0.04	$ (0.45)	$ 0.08
Diluted	$ (0.48)	$ 0.04	$ (0.45)	$ 0.08
Shares on which net income per common shares were based				
Basic	13,265,205	13,265,205	13,265,205	13,265,205
Diluted	13,265,205	13,265,205	13,265,205	13,265,205

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United Security Bancshares and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
(unaudited)

(In thousands except shares)	Common stock Number of Shares	Common stock Amount	Retained Earnings (Restated)	Accumulated Other Comprehensive Income (Loss)	Total (Restated)
Balance January 1, 2010	12,496,499	$37,575	$ 40,499	$ (2,253)	$ 75,821
Net changes in unrealized loss on available for sale securities (net of income tax expense of $763)				1,144	1,144
Common stock dividends	248,143	1,197	(1,197)		0
Stock-based compensation expense		20			20
Net Income			957		957
Balance June 30, 2010	12,744,642	38,792	40,259	(1,109)	77,942
Net changes in unrealized loss on available for sale securities (net of income tax expense of $577)				866	866
Net changes in unrecognized past service					
Cost on employee benefit plans (net of income tax benefit of $109)				(163)	(163)
Common stock dividends	259,207	1,056	(1,056)		0
Stock-based compensation expense		21			21
Net Loss			(5,396)		(5,396)
Balance December 31, 2010	13,003,849	39,869	33,807	(406)	73,270
Net changes in unrealized loss on available for sale securities (net of income tax benefit of $307)				(461)	(461)
Net changes in unrecognized past service Cost on employee benefit plans (net of income tax expense of $2)				3	3
Common stock dividends	261,335	828	(828)		0
Stock-based compensation expense		10			10
Net Loss			(5,993)		(5,993)
Balance June 30, 2011 (Restated)	13,265,184	$40,707	$ 26,986	$ (864)	$ 66,829

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

(In thousands)	Six Months Ended June 30, 2011 (Restated)	2010
Cash Flows From Operating Activities:		
Net (loss) income	$(5,993)	$957
Adjustments to reconcile net income: to cash provided by operating activities:		
Provision for credit losses	10,051	2,150
Depreciation and amortization	907	1,133
Accretion of investment securities	(31)	(3)
Decrease in accrued interest receivable	112	219
Decrease in accrued interest payable	(62)	(142)
(Decrease) increase in unearned fees	(224)	(128)
Decrease in income taxes payable	(3,539)	(999)
Stock-based compensation expense	10	20
Decrease (increase) in accounts payable and accrued liabilities	615	(246)
Loss (gain) on sale of other real estate owned	44	(108)
(Gain) loss on sale of investment securities	0	(70)
Impairment loss on other real estate owned	1,122	1,226
Impairment loss on core deposit intangible	36	57
Impairment loss on investment securities	0	702
Impairment loss on goodwill	1,489	1,414
Gain on proceeds from life insurance	0	(174)
Increase in surrender value of life insurance	(264)	(255)
Loss (gain) on fair value option of financial liabilities	145	(624)
Loss on tax credit limited partnership interest	209	212
Net decrease in other assets	202	(50)
Net cash provided by operating activities	4,829	5,291
Cash Flows From Investing Activities:		
Net decrease (increase) in interest-bearing deposits with banks	2,127	1,833
Redemption of correspondent bank stock	299	153
Purchases of available-for-sale securities	(6,546)	(10,160)
Maturities and calls of available-for-sale securities	8,014	8,495
Proceeds from sales of available-for-sale securities	0	14,701
Proceeds from life insurance settlement	0	846
Net decrease (increase) in loans	3,653	4,909
Investment in limited partnership	46	0
Net proceeds from settlement of other real estate owned	2,982	5,299
Capital expenditures for premises and equipment	(553)	(217)
Net cash provided by investing activities	10,022	25,859
Cash Flows From Financing Activities:		
Net increase in demand deposits and savings accounts	30,263	10,917
Net (decrease) increase in certificates of deposit	(40,170)	11,180
Decrease in other borrowings	(7,000)	(3,000)
Proceeds from note payable	0	75

Net cash (used in) provided by financing activities	(16,907)	19,172
Net (decrease) increase in cash and cash equivalents	(2,056)	50,322
Cash and cash equivalents at beginning of period	98,430	29,229
Cash and cash equivalents at end of period	$96,374	$79,551

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

1. Organization and Summary of Significant Accounting and Reporting Policies

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

These unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information on a basis consistent with the accounting policies reflected in the audited financial statements of the Company included in its 2010 Annual Report on Form 10-K. These interim financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of a normal recurring, nature) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for any other interim period or for the year as a whole.

Certain reclassifications have been made to the 2010 financial statements to conform to the classifications used in 2011.

New Accounting Standards:

In July 2010, the FASB issued Accounting Standards Update No. 2010-20 Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (“ASU 2010-20”). ASU 2010-20 expanded disclosures related to allowance for credit losses and the credit quality of financing receivables. The update requires the allowance and other credit quality disclosures to be provided on a disaggregated basis. The Company adopted the period-end disclosure provisions of this update as of December 31, 2010. Accordingly, the Company adopted the activity-based disclosure provisions of this amendment during the first quarter 2011.

In April 2011, the FASB issued ASU No. 2011-02, Receivables (Topic 310): A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring. ASU 2011-02 clarifies the guidance in ASC 310-40 Receivables: Troubled Debt Restructurings by Creditors. Creditors are required to identify a restructuring as a troubled debt restructuring if the restructuring constitutes a concession and the debtor is experiencing financial difficulties. ASU 2011-02 clarifies guidance on whether a creditor has granted a concession and clarifies the guidance on a creditor’s evaluation of whether a debtor is experiencing financial difficulties. In addition, ASU 2011-02 also precludes the creditor from using the effective interest rate test in the debtor’s guidance on restructuring of payables when evaluating whether a restructuring constitutes a troubled debt restructuring. The effective date of ASU 2011-2 for public entities is effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. If, as a result of adoption, an entity identifies newly impaired receivables, an entity should apply the amendments for purposes of measuring impairment prospectively for the first interim or annual period beginning on or after June 15, 2011. The Company intends to adopt the methodologies prescribed by this ASU by the date required and is currently evaluating the impact of adopting this ASU.

In April 2011, the FASB issued ASU 2011-03, Reconsideration of Effective Control for Repurchase Agreements. This ASU was developed to improve the accounting for repurchase agreements (repos) and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments in this ASU remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. The amendments in this ASU apply to all entities, both public and nonpublic. The amendments affect all entities that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity. The guidance in this ASU is effective for the first interim or annual period beginning on or after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. This ASU is not expected to have a significant impact on the Company’s financial statements.

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this ASU result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. This ASU is not expected to have a significant impact on the Company’s financial statements.

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In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. ASU 2011-05 requires entities to present the total of comprehensive income, the components of net income and the components of other comprehensive income in a single continuous statement of comprehensive income or in two separate consecutive statements. The effective date for ASU 2011-05 is for the first interim or annual period beginning on or after December 15, 2011. The adoption of ASU 2011-05 is not expected to have a material impact on the Company's results of operations or financial position. It will present a change in disclosure as the Company currently presents comprehensive income in its consolidated statement of changes in shareholders' equity.

2. Investment Securities Available for Sale and Other Investments

Following is a comparison of the amortized cost and fair value of securities available-for-sale, as of June 30, 2011 and December 31, 2010:

(In thousands) June 30, 2011:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Amount)
U.S. Government agencies	$ 32,580	$ 1,374	$ (1)	$ 33,953
U.S. Government agency CMO's	6,027	514	(2)	6,539
Residential mortgage obligations	11,601	0	(2,751)	8,850
	$ 50,208	$ 1,888	$ (2,754)	$ 49,342
December 31, 2010:				
U.S. Government agencies	$ 32,486	$ 1,303	$ (1)	$ 33,788
U.S. Government agency CMO's	7,203	552	0	7,755
Residential mortgage obligations	11,955	0	(1,995)	9,960
	$ 51,644	$ 1,855	$ (1,996)	$ 51,503

The amortized cost and fair value of securities available for sale at June 30, 2011, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties. Contractual maturities on collateralized mortgage obligations cannot be anticipated due to allowed paydowns.

	June 30, 2011	
(In thousands)	Amortized Cost	Fair Value (Carrying Amount)
Due in one year or less	$ 6,512	$ 6,531
Due after one year through five years	9,939	10,069
Due after five years through ten years	2,536	2,707
Due after ten years	13,593	14,646
Collateralized mortgage obligations	17,628	15,389
	$ 50,208	$ 49,342

There were no realized gains or realized losses on sales of available-for-sale securities during the six months ended June 30, 2011. There were realized gains of $518,000 and realized losses of $448,000 on sales of available-for-sale securities during the six months ended June 30, 2010. There were no other-than-temporary impairment losses on certain of the Company's residential mortgage obligations (private label collateralized mortgage obligations) for the six months ended June 30, 2011. There were other-than-temporary impairment losses on certain of the Company's residential mortgage obligations (private label collateralized mortgage obligations) totaling $702,000 for the six months ended June 30, 2010.

Securities that have been impaired less than 12 months at June 30, 2011 are comprised of one U.S. government agency security with a weighted average life of 2.7 years and one collateralized mortgage obligation with a weighted average life of 0.3 years. As of June 30, 2011, there were three residential mortgage obligations with a total weighted average life of 6.3 years that have been impaired for twelve months or more.

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The following summarizes the total of impaired investment securities at June 30, 2011 (see discussion below for other than temporarily impaired securities included here):

(In thousands)	Less than 12 Months		12 Months or More		Total	
Securities available for sale:	Fair Value (Carrying Amount)	Unrealized Losses	Fair Value (Carrying Amount)	Unrealized Losses	Fair Value (Carrying Amount)	Unrealized Losses
U.S. Government agencies	$ 131	$ (1)	$ 0	$ 0	$ 131	$ (1)
U.S. Government agency CMO's	203	(2)	0	0	203	(2)
Residential mortgage Obligations	0	0	8,850	(2,751)	8,850	(2,751)
Total impaired securities	$ 334	$ (3)	$ 8,850	$ (2,751)	$ 9,184	$ (2,754)

Securities that have been impaired less than 12 months at June 30, 2010 are comprised of one U.S. government agency security with a weighted average life of 3.3 years and three collateralized mortgage obligations with a weighted average life of 1.8 years. As of June 30, 2010, there were three residential mortgage obligations and one other investment security with a total weighted average life of 3.3 years that have been impaired for twelve months or more.

The following summarizes impaired investment securities at June 30, 2010:

(In thousands)	Less than 12 Months		12 Months or More		Total	
Securities available for sale:	Fair Value (Carrying Amount)	Unrealized Losses	Fair Value (Carrying Amount)	Unrealized Losses	Fair Value (Carrying Amount)	Unrealized Losses
U.S. Government agencies	$ 138	$ (1)	$ 0	$ 0	$ 138	$ (1)
U.S. Government agency CMO's	2,952	(14)	0	0	2,952	(14)
Residential mortgage obligations	0	0	9,712	(3,190)	9,712	(3,190)
Obligations of state and political subdivisions	0	0	0	0	0	0
	0	0	0	0	0	0

Other investment securities						
Total impaired securities	$ 3,090	$ (15)	$ 9,712	$ (3,190)	$ 12,802	$ (3,205)

At June 30, 2011 and December 31, 2010, available-for-sale securities with an amortized cost of approximately $38.4 million and $46.7 million (fair value of $40.2 million and $47.2 million) were pledged as collateral for FHLB borrowings, public funds, and treasury tax and loan balances.

The Company evaluates investment securities for other-than-temporary impairment ("OTTI") at least quarterly, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. Investment securities classified as available for sale or held-to-maturity are generally evaluated for OTTI under ASC Topic 320, "Investments – Debt and Equity Instruments." Certain purchased beneficial interests, including non-agency mortgage-backed securities, asset-backed securities, and collateralized debt obligations, are evaluated under ASC Topic 325-40 "Beneficial Interest in Securitized Financial Assets.")

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In the first segment, the Company considers many factors in determining OTTI, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to the Company at the time of the evaluation.

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

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

At June 30, 2011, the decline in market value for all but three (see below) of the impaired securities is attributable to changes in interest rates, and not credit quality. Because the Company does not have the intent to sell these impaired securities and it is not more likely than not it will be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2011.

At June 30, 2011, the Company had three non-agency collateralized mortgage obligations which have been impaired more than twelve months. The three non-agency collateralized mortgage obligations had an aggregate fair value of $8.9 million and unrealized losses of approximately $2.8 million at June 30, 2011. All three non-agency mortgage-backed securities were rated less than high credit quality at June 30, 2011. The Company evaluated these three non-agency collateralized mortgage obligations for OTTI by comparing the present value of expected cash flows to previous estimates to determine whether there had been adverse changes in cash flows during the period. The OTTI evaluation was conducted utilizing the services of a third party specialist and consultant in MBS and CMO products. The cash flow assumptions used in the evaluation at June 30, 2011 utilized a discounted cash flow valuation technique using a “Liquidation Scenario” whereby loans are evaluated by delinquency and are assigned probability of default and loss factors deemed appropriate in the current economic environment. The liquidation scenarios assume that all loans 60 or more days past due are liquidated and losses are realized over a period of between six and twenty four months based upon current 3-month trailing loss severities obtained from financial data sources. As a result of the impairment evaluation, the Company determined that there had been adverse changes in cash flows in all three of the three non-agency collateralized mortgage obligations, and concluded that these three non-agency collateralized mortgage obligations were other-than-temporarily impaired. At June 30, 2011, the three CMO securities had cumulative other-than-temporary-impairment losses of $4.3 million, $2.8 million of which was recorded in other comprehensive loss. During the six months ended June 30, 2011, the company recorded no OTTI impairment expense on the three CMO securities. During the six months ended June 30, 2010, the company recorded OTTI impairment expense of

$702,000 on the three CMO securities. These three non-agency collateralized mortgage obligations remained classified as available for sale at June 30, 2011.

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The following table details the three non-agency collateralized mortgage obligations with other-than-temporary-impairment, their credit rating at June 30, 2011, the related credit losses recognized in earnings during the quarter, and impairment losses in other comprehensive loss:

	RALI 2006-QS1G A10 Rated D	RALI 2006 QS8 A1 Rated D	CWALT 2007-8CB A9 Rated CCC	Total
Amortized cost – before OTTI	$4,285	$1,292	$7,531	$13,108
Credit loss – Quarter ended June 30, 2011	(923)	(261)	(323)	(1,507)
Other impairment (OCI)	(648)	(206)	(1,897)	(2,751)
Carrying amount – June 30, 2011	$2,714	$825	$5,311	$8,850
Total impairment - June 30, 2011	$(1,571)	$(467)	$(2,220)	$(4,258)

The total other comprehensive loss (OCI) balance of $2.8 million in the above table is included in unrealized losses of 12 months or more at June 30, 2011.

The following table summarizes amounts related to credit losses recognized in earnings for the six months and quarters ended June 30, 2011 and 2010.

(in thousands)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Beginning balance - credit losses	$1,631	$1,087	$1,795	$843
Additions:				
Initial credit impairments	0	0	0	0
Subsequent credit impairments	0	458	0	702
Reductions:				
For securities sold or credit losses realized on principal payments	(124)	(100)	(288)	(100)
Due to change in intent or requirement to sell	0	0	0	0
For increase expected in cash flows	0	0	0	0
Ending balance - credit losses	$1,507	$1,445	$1,507	$1,445

3. Loans and Leases

Loans are comprised of the following:

(In thousands)	June 30, 2011 (Restated)	December 31, 2010
Commercial and business loans	$ 165,568	$ 154,624
Government program loans	3,674	4,600
Total commercial and industrial	$ 169,242	$ 159,224
Real estate – mortgage:		
Commercial real estate	120,388	131,632
Residential mortgages	25,135	23,764

Home Improvement and Home Equity loans		2,177		2,385
Total real estate mortgage		147,700		157,781
RE construction and development		56,177		65,182
Agricultural		37,460		46,308
Installment		13,206		12,891
Lease financing		73		305
Total Loans	$	423,858	$	441,691

The Company's loans are predominantly in the San Joaquin Valley, and the greater Oakhurst/East Madera County area, as well as the Campbell area of Santa Clara County, although the Company does participate in loans with other financial institutions, primarily in the state of California.

Commercial and industrial loans represent 40.0% of total loans at June 30, 2011 and are generally made to support the ongoing operations of small-to-medium sized commercial businesses. Commercial and industrial loans have a high degree of industry diversification and provide, working capital, financing for the purchase of manufacturing plants and equipment, or funding for growth and general expansion of businesses. A substantial portion of commercial and industrial loans are secured by accounts receivable, inventory, leases or other collateral including real estate. The remainder are unsecured; however, extensions of credit are predicated upon the financial capacity of the borrower. Repayment of commercial loans is generally from the cash flow of the borrower.

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Real estate mortgage loans, representing 34.8% of total loans at June 30, 2011, are secured by trust deeds on primarily commercial property, but are also secured by trust deeds on single family residences. Repayment of real estate mortgage loans is generally from the cash flow of the borrower.

- Commercial real estate mortgage loans comprise the largest segment of this loan category and are available on all types of income producing and commercial properties, including: office buildings, shopping centers; apartments and motels; owner occupied buildings; manufacturing facilities and more. Commercial real estate mortgage loans can also be used to refinance existing debt. Although real estate associated with the business is the primary collateral for commercial real estate mortgage loans, the underlying real estate is not the source of repayment. Commercial real estate loans are made under the premise that the loan will be repaid from the borrower's business operations, rental income associated with the real property, or personal assets.

- Residential mortgage loans are provided to individuals to finance or refinance single-family residences. Residential mortgages are not a primary business line offered by the Company, and are generally of a shorter term than conventional mortgages, with maturities ranging from three to fifteen years on average.

- Home Equity loans comprise a relatively small portion of total real estate mortgage loans, and are offered to borrowers for the purpose of home improvements, although the proceeds may be used for other purposes. Home equity loans are generally secured by junior trust deeds, but may be secured by 1st trust deeds.

Real estate construction and development loans, representing 13.3% of total loans at June 30, 2011, consist of loans for residential and commercial construction projects, as well as land acquisition and development, or land held for future development. Loans in this category are secured by real estate including improved and unimproved land, as well as single-family residential, multi-family residential, and commercial properties in various stages of completion. All real estate loans have established equity requirements. Repayment on construction loans is generally from long-term mortgages with other lending institutions obtained at completion of the project.

Agricultural loans represent 8.8% of total loans at June 30, 2011 and are generally secured by land, equipment, inventory and receivables. Repayment is from the cash flow of the borrower.

Lease financing loans, representing less than 0.1% of total loans at June 30, 2011, consist of loans to small businesses, which are secured by commercial equipment. Repayment of the lease obligation is from the cash flow of the borrower.

In the normal course of business, the Company is party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. At June 30, 2011 and December 31, 2010, these financial instruments include commitments to extend credit of $56.5 million and $67.8 million, respectively, and standby letters of credit of $2.5 million and $1.8 million, respectively. These instruments involve elements of credit risk in excess of the amount recognized on the balance sheet. The contract amounts of these instruments reflect the extent of the involvement the Company has in off-balance sheet financial instruments.

The Company’s exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amounts of those instruments. The Company uses the same credit policies as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer, as long as there is no violation of any condition established in the contract. Substantially all of these commitments are at floating interest rates based on the Prime rate. Commitments generally have fixed expiration dates. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation. Collateral held varies but includes accounts receivable, inventory, leases, property, plant and equipment, residential real estate and income-producing properties.

Standby letters of credit are generally unsecured and are issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

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Occasionally, shared appreciation agreements are made between the Company and the borrower on certain construction loans where the Company agrees to receive interest on the loan at maturity rather than monthly and the borrower agrees to share in the profits of the project. Due to the difficulty in calculating future values, shared appreciation income is recognized when received. The Company does not participate in a significant number of shared appreciation projects. The Company received no shared appreciation income during the six months ended June 30, 2011 or 2010.

Past Due Loans

The Company monitors delinquency and potential problem loans on an ongoing basis through weekly reports to the Loan Committee and monthly reports to the Board of Directors. The following is a summary of delinquent loans at June 30, 2011:

June 30, 2011 (000's) (Restated)	Loans 30-60 Days Past Due	Loans 61-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Commercial and Business Loans	$ 1,220	$ 5,421	$ 5,242	$ 11,883	$ 153,685	$ 165,568	$ 881
Government Program Loans	3	5	341	349	3,325	3,674	59
Total Commercial and Industrial	1,223	5,426	5,583	12,232	157,010	169,242	940
Commercial Real Estate Term Loans	0	410	0	410	119,978	120,388	0
Single Family Residential Loans	453	0	340	793	24,342	25,135	0
Home Improvement and Home Equity Loans	163	37	18	218	1,960	2,177	0
Total Real Estate Mortgage	616	447	358	1,421	146,280	147,700	0
Total RE Construction and Development Loans	0	0	7,299	7,299	48,877	56,177	0
Total Agricultural Loans	0	0	0	0	37,460	37,460	0
Consumer Loans	200	68	0	268	12,648	12,916	0
Overdraft protection Lines	0	0	0	0	81	81	0
Overdrafts	0	0	0	0	209	209	0
Total Installment/other	200	68	0	268	12,938	13,206	0
Commercial Lease Financing	0	0	11	11	62	73	0
Total Loans	$ 2,039	$ 5,941	$ 13,251	$ 21,231	$ 402,627	$ 423,858	$ 940

Included in the loans above, are $20.8 million in nonaccrual loans of which $13.7 million are included in past due loans and $7.4 million are included in current loans. Nonaccrual loans which have been restructured and which are performing according to the terms of the restructure agreement, including those for which payments are due at maturity, are considered current in the above table.

The following is a summary of delinquent loans at December 31, 2010:

December 31, 2010 (000's)	Loans 30-60 Days Past Due	Loans 61-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Commercial and Business Loans	$ 4,554	$ 443	$ 4,637	$ 9,634	$ 144,990	$ 154,624	$ 454
Government Program Loans	114	106	305	525	4,075	4,600	93
Total Commercial and Industrial	4,668	549	4,942	10,159	149,065	159,224	547
Commercial Real Estate Term Loans	0	0	1,405	1,405	130,227	131,632	0
Single Family Residential Loans	0	328	98	426	23,338	23,764	0
Home Improvement and Home Equity Loans	102	55	45	202	2,183	2,385	0
Total Real Estate Mortgage	102	383	1,548	2,033	155,748	157,781	0
Total RE Construction and Development Loans	4,004	3,395	1,630	9,029	56,153	65,182	0
Total Agricultural Loans	0	0	398	398	45,910	46,308	0
Consumer Loans	39	12	57	108	12,354	12,462	0
Overdraft protection Lines	0	0	0	0	74	74	0
Overdrafts	0	0	0	0	355	355	0
Total Installment/other	39	12	57	108	12,783	12,891	0
Commercial Lease Financing	0	0	0	0	305	305	0
Total Loans	$ 8,813	$ 4,339	$ 8,575	$ 21,727	$ 419,964	$ 441,691	$ 547

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Included in the loans above, are $34.4 million in nonaccrual loans of which $15.0 million are included in past due loans and $19.4 million are included in current loans. Nonaccrual loans which have been restructured and which are performing according to the terms of the restructure agreement, including those for which payments are due at maturity, are considered current in the above table.

Nonaccrual Loans

Commercial, construction and commercial real estate loans are placed on non-accrual status under the following circumstances:

- When there is doubt regarding the full repayment of interest and principal.
- When principal and/or interest on the loan has been in default for a period of 90-days or more, unless the asset is both well secured and in the process of collection that will result in repayment in the near future.
- When the loan is identified as having loss elements and/or is risk rated "8" Doubtful.
- Other circumstances which jeopardize the ultimate collectability of the loan including certain troubled debt restructurings, identified loan impairment, and certain loans to facilitate the sale of OREO.

Loans meeting any of the preceding criteria are placed on non-accrual status and the accrual of interest for financial statement purposes is discontinued. Previously accrued but unpaid interest is reversed and charged against interest income.

Loans that are secured by one-to-four family residential properties (e.g., residential mortgage loans and home equity loans) on which principal and/or interest is due and unpaid for 90 days or more are placed on non-accrual and the accrual of interest for financial statement purposes is discontinued. Previously accrued but unpaid interest is reversed and charged against interest income.

Consumer loans to individuals for personal, family and household purposes, and unsecured or secured personal property where principal or interest is due and unpaid for 90 days or more are placed on non-accrual and the accrual of interest for financial statement purposes is discontinued. Previously accrued but unpaid interest is reversed and charged against interest income.

When a loan is placed on non-accrual status and subsequent payments of interest (and principal) are received, the interest received may be accounted for in two separate ways:

Cost recovery method: If the loan is in doubt as to full collection, the interest received in subsequent payments is diverted from interest income to a valuation reserve and treated as a reduction of principal for financial reporting purposes.

Cash basis: - This method is only used if the recorded investment or total contractual amount is expected to be fully collectible, under which circumstances the subsequent payments of interest is credited to interest income as received.

Loans on non-accrual status are usually not returned to accruing status unless and until all delinquent principal and/or interest has been brought current, there is no identified element of loss, and current and continued satisfactory performance is expected (loss of the contractual amount not the carrying amount of the loan). Repayment ability is generally demonstrated through the timely receipt of at least six monthly payments on a loan with monthly amortization.

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Nonaccrual loans totaled $26.8 million and $34.4 million at June 30, 2011 and December 31, 2010, respectively. There were no remaining undisbursed commitments to extend credit on nonaccrual loans at June 30, 2011 or December 31, 2010. During the six months ended June 30, 2011 and 2010, the Company recorded $117,000 and $25,000, respectively, in interest income on nonaccrual loans.

The following is a summary of nonaccrual loan balances at June 30, 2011 and December 31, 2010.

(000's)	June 30, 2011 (Restated)	December 31, 2010
Commercial and Business Loans	$ 6,521	$ 13,238
Government Program Loans	369	211
Total Commercial and Industrial	6,890	13,449
Commercial Real Estate Term Loans	1,300	1,405
Single Family Residential Loans	340	98
Home Improvement and Home Equity Loans	18	89
Total Real Estate Mortgage	1,658	1,592
Total RE Construction and Development Loans	12,243	16,003
Total Agricultural Loans	0	3,107
Consumer Loans	1	68
Overdraft protection Lines	0	0
Overdrafts	0	0
Total Installment/other	1	68
Commercial Lease Financing	0	175
Total Nonaccrual Loans	$ 20,792	$ 34,394

Impaired Loans

A loan is considered impaired when based on current information and events, it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement.

The Company applies its normal loan review procedures in making judgments regarding probable losses and loan impairment. The Company evaluates for impairment those loans on non-accrual status, graded doubtful, graded substandard or those that are troubled debt restructures. The primary basis for inclusion in impaired status under accepted accounting pronouncements is that it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement.

A loan is not considered impaired if:

- There is merely an insignificant delay or shortfall in the amounts of payments.
- We expect to collect all amounts due, including interest accrued, at the contractual interest rate for the period of the delay.

Review for impairment does not include large groups of smaller balance homogeneous loans that are collectively evaluated to estimate the allowance for loan losses. The Company's present allowance for loan losses methodology, including migration analysis, captures required reserves for these loans in the formula allowance.

For loans determined to be impaired, the Company evaluates impairment based upon either the fair value of underlying collateral, discounted cash flows of expected payments, or observable market price.

- For loans secured by collateral including real estate and equipment the fair value of the collateral less selling costs will determine the carrying value of the loan. The difference between the recorded investment in the loan and the fair value, less selling costs, determines the amount of impairment. The Company uses the measurement method based on fair value of collateral when the loan is collateral dependent and foreclosure is probable.

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- The discounted cash flow method of measuring the impairment of a loan is used for unsecured loans or for loans secured by collateral where the fair value cannot be easily determined. Under this method, the Company assesses both the amount and timing of cash flows expected from impaired loans. The estimated cash flows are discounted using the loan's effective interest rate. The difference between the amount of the loan on the Bank's books and the discounted cash flow amounts determines the amount of impairment to be provided. This method is used for most of the Company's troubled debt restructurings or other impaired loans where some payment stream is being collected.

- The observable market price method of measuring the impairment of a loan is only used by the Company when the sale of loans or a loan is in process.

The method for recognizing interest income on impaired loans is dependent on whether the loan is on nonaccrual status or is a troubled debt restructuring. For income recognition, the existing nonaccrual and troubled debt restructuring policies are applied to impaired loans. Generally, except for certain troubled debt restructurings which are performing under the restructure agreement, the Company does not recognize interest income received on impaired loans, but reduces the carrying amount of the loan for financial reporting purposes.

Loans other than certain homogenous loan portfolios are reviewed on a quarterly basis for impairment. Impaired loans are written down to estimated realizable values by the establishment of specific reserves when required.

The following is a summary of impaired loans at June 30, 2011.

June 30, 2011 (000's) (Restated)	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial and Business Loans	$15,822	$5,229	$3,756	$8,985	$615	$13,955
Government Program Loans	418	244	159	403	129	311
Total Commercial and Industrial	16,240	5,473	3,915	9,388	744	14,266
Commercial Real Estate Term Loans	6,778	3,055	3,546	6,601	294	6,453
Single Family Residential Loans	4,363	908	2,959	3,867	171	3,575
Home Improvement and Home Equity Loans	141	91	18	109	3	119
Total Real Estate Mortgage	11,282	4,054	6,523	10,577	468	10,147
Total RE Construction and Development Loans	21,417	5,019	9,761	14,779	885	20,616
Total Agricultural Loans	2,584	0	1,991	1,991	149	2,298
Consumer Loans	229	77	140	217	24	201
Overdraft protection Lines	0	0	0	0	0	0
Overdrafts	0	0	0	0	0	0
Total Installment/other	229	77	140	217	24	201

Commercial Leases Financing	0	0	0	0	0	91
Total Impaired Loans	$51,752	$14,623	$22,330	$36,953	$2,270	$47,619

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The following is a summary of impaired loans at December 31, 2010.

December 31, 2010 (000's)	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial and Business Loans	$16,317	$520	$14,156	$14,676	$4,974	$10,338
Government Program Loans	317	179	32	211	32	307
Total Commercial and Industrial	16,634	699	14,188	14,887	5,006	10,645
Commercial Real Estate Term Loans	6,448	2,761	3,664	6,425	476	7,386
Single Family Residential Loans	3,660	443	2,916	3,359	241	3,528
Home Improvement and Home Equity Loans	143	93	45	138	27	101
Total Real Estate Mortgage	10,251	3,297	6,625	9,922	744	11,015
Total RE Construction and Development Loans	26,584	5,572	17,187	22,759	4,890	23,725
Total Agricultural Loans	4,143	160	2,947	3,107	686	4,141
Consumer Loans	150	148	0	148	0	255
Overdraft protection Lines	0	0	0	0	0	0
Overdrafts	0	0	0	0	0	0
Total Installment/other	150	148	0	148	0	255
Commercial Leases Financing	175	175	0	175	0	54
Total Impaired Loans	$57,937	$10,051	$40,947	$50,998	$11,326	$49,835

In most cases, the Company uses the cash basis method of income recognition for impaired loans. In the case of certain troubled debt restructurings for which the loan is performing under the current contractual terms for a reasonable period of time, income is recognized under the accrual method. For the six months ended June 30, 2011 and 2010, the Company recognized $312,000 and $297,000, respectively in interest income on impaired loans.

The Company grades "problem" or "classified" loans according to certain risk factors associated with individual loans within the loan portfolio. Classified loans consist of loans which have been graded substandard, doubtful, or loss based upon inherent weaknesses in the individual loans or loan relationships. Classified loans also include impaired loans (as defined under ACS Topic 310). The following table summarizes the Company's classified loans at June 30 2011 and December 31, 2010.

(in 000's)	June 30, 2011 (Restated)	December 31, 2010
Impaired loans	$ 36,953	$ 50,998

Classified loans not considered impaired		14,411		2,585
Total classified loans	$	51,364	$	53,583

Troubled Debt Restructurings

Under the circumstances, when the Company grants a concession to a borrower as part of a loan restructuring, the restructuring is accounted for as a troubled debt restructuring (TDR). TDR's are reported as a component of impaired loans.

A TDR is a type of restructuring in which the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession (either imposed by court order, law, or agreement between the borrower and the Bank) to the borrower that it would not otherwise consider. Although the restructuring may take different forms, the Company's objective is to maximize recovery of its investment by granting relief to the borrower.

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A TDR may include, but is not limited to, one or more of the following:

- A transfer from the borrower to the Company of receivables from third parties, real estate, other assets, or an equity interest in the borrower is granted to fully or partially satisfy the loan.
- A modification of terms of a debt such as one or a combination of:
  - o The reduction (absolute or contingent) of the stated interest rate.
  - o The extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk.
  - o The reduction (absolute or contingent) of the face amount or maturity amount of the debt as stated in the instrument or agreement.
  - o The reduction (absolute or contingent) of accrued interest.

For a restructured loan to return to accrual status there needs to, among other factors, be at least 6 months successful payment history. In addition, the Company performs a financial analysis of the credit to determine whether the borrower has the ability to continue to perform successfully over the remaining life of the loan. This includes, but is not limited to, review of financial statements and cash flow analysis of the borrower. Only after determination that the borrower has the ability to perform under the terms of the loans, will the restructured credit be considered for accrual status.

The following quantifies TDR’s by type classified separately as accrual or nonaccrual at June 30, 2011.

(in thousands) (Restated)	Number TDR’s	Total June 30, 2011	Nonaccrual TDR's June 30, 2011	Accruing TDR's June 30, 2011
Commercial and industrial	17	$4,594	$2,292	$2,302
Real estate - mortgage:				
Commercial real estate	7	6,172	1,300	4,873
Residential mortgages	12	3,514	0	3,514
Home equity loans	4	108	18	90
Total real estate mortgage	23	9,794	1,318	8,477
RE construction & development	11	8,382	5,848	2,533
Agricultural	0	0	0	0
Installment/other	3	162	0	162
Lease financing	0	0	0	0
Total Loans	54	$22,932	$9,458	$13,474

The following quantifies TDR’s by type classified separately as accrual or nonaccrual at December 31, 2010.

(in thousands)	Number TDR’s	Total December 31, 2010	Nonaccrual TDR's December 31, 2010	Accruing TDR's December 31, 2010
Commercial and industrial	13	$2,751	$1,359	$1,392

Real estate - mortgage:				
Commercial real estate	6	5,019	0	5,019
Residential mortgages	11	3,261	0	3,261
Home equity loans	3	93	43	50
Total real estate mortgage	20	8,373	43	8,330
RE construction & development	13	13,730	10,978	2,752
Agricultural	0	0	0	0
Installment/other	2	80	0	80
Lease financing	0	0	0	0
Total Loans	48	$24,934	$12,380	$12,554

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The Company makes various types of concessions when structuring TDR's including rate reductions, payment extensions, and forbearance. At June 30, 2011, the Company had 54 restructured loans totaling $22.9 million as compared to 48 restructured loans total $24.9 million at December 31, 2010. At June 30, 2011, more than $8.4 million of the total $22.9 million in TDR's was for real estate construction and development, and there was another $1.8 million and $875,000 related to real estate developers in commercial real estate and commercial and industrial, respectively at June 30, 2011. The majority of these credits are related to real estate construction projects that slowed significantly or stalled during the past several years, and the Company has sought to restructure the credits to allow the construction industry time to recover, and the developers time to finish projects at a slower pace which reflects current market conditions in the San Joaquin Valley. Concessions granted in these circumstances include lengthened maturity terms, lower lot release prices, or rate reductions that will enable the borrower to finish the construction projects and repay their loans to the Company. The downturn in the real estate construction market has been protracted, and although the Company has had some success in its restructuring efforts, it is difficult to conclude that we will be entirely successful in our efforts. Areas such as Bakersfield California have been slow to recover. During the six months ended June 30, 2011, no restructured loans were charged off or transferred to OREO. The Company may be required to make additional concessions in the future including lower lot release prices to allow borrowers to complete and sell construction units at lower prices currently reflected in the real estate market.

Credit Quality Indicators

As part of its credit monitoring program, the Company utilizes a risk rating system which quantifies the risk, the Company estimates it has assumed when entering into a loan transaction, and during the life of that loan. The system rates the strength of the borrower and the facility or transaction, and is designed to provide a program for risk management and early detection of problems.

For each new credit approval, credit extension, renewal, or modification of existing credit facilities, the Company assigns risk ratings utilizing the rating scale identified in this policy. In addition, on an on-going basis, loans and credit facilities are reviewed for internal and external influences impacting the credit facility that would warrant a change in the risk rating. Each loan credit facility is to be given a risk rating that takes into account factors that materially affect credit quality.

When assigning risk ratings, the Company evaluates two risk rating approaches, a facility rating and a borrower rating as follows.

Facility Rating:

The facility rating is determined by the analysis of positive and negative factors that may indicate that the quality of a particular loan or credit arrangement requires that it be rated differently from the risk rating assigned to the borrower. The Company assesses the risk impact of these factors:

Collateral - The rating may be affected by the type and quality of the collateral, the degree of coverage, the economic life of the collateral, liquidation value and the Company's ability to dispose of the collateral.

Guarantees - The value of third party support arrangements varies widely. Unconditional guaranties from persons with demonstrable ability to perform are more substantial than that of closely related persons to the borrower who offer only modest support.

Unusual Terms - Credit may be extended on terms that subject the Company to higher level of risk than indicated in the rating of the borrower.

Borrower Rating:

The borrower rating is a measure of loss possibility based on the historical, current and anticipated financial characteristics of the borrower in the current risk environment. In arriving at the rating, the Company considers at least the following factors:

- Quality of management
- Liquidity
- Leverage/capitalization
- Profit margins/earnings trend

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- Adequacy of financial records
- Alternative funding sources
- Geographic risk
- Industry risk
- Cash flow risk
- Accounting practices
- Asset protection
- Extraordinary risks

The Company assigns risk ratings to loans other than consumer loans and other homogeneous loan pools based on the following scale. The risk ratings are used when determining borrower ratings as well as facility ratings. When the borrower rating and the facility ratings differ, the lowest rating is to apply:

- Grades 1 and 2 – These grades include loans which are given to high quality borrowers with high credit quality and sound financial strength. Key financial ratios are generally above industry averages and the borrower strong earnings history or net worth. These may be secured by deposit accounts or high-grade investment securities.

- Grade 3 – This grade includes loans to borrowers with solid credit quality with minimal risk. The borrower's balance sheet and financial ratios are generally in line with industry averages, and the borrower has historically demonstrated the ability to manage economic adversity. Real estate and asset-based loans assigned this risk rating must have characteristics, which place them well above the minimum underwriting requirements for those departments. Asset-based borrowers assigned this rating must exhibit extremely favorable leverage and cash flow characteristics, and consistently demonstrate a high level of unused borrowing capacity.

- Grades 4 and 5 – These include "pass" grade loans to borrowers of acceptable credit quality and risk. The borrower's balance sheet and financial ratios may be below industry averages, but above the lowest industry quartile. Leverage is above and liquidity is below industry averages. Inadequacies evident in financial performance and/or management sufficiency are offset by readily available features of support, such as adequate collateral, or good guarantors having the liquid assets and/or cash flow capacity to repay the debt. The borrower may have recognized a loss over three or four years ago, recent earnings trends, while perhaps somewhat cyclical, are improving and cash flows are adequate to cover debt service and fixed obligations. Real estate and asset-borrowers fully complying with all underwriting standards and are performing according to projections would be assigned this rating. These also include grade 5 loans which are "leveraged" or on management's "watch list" While still considered pass loans, for loans given a grade 5, the borrower's financial condition, cash flow or operations evidence more than average risk and short term weaknesses that warrant a higher than average level of monitoring, supervision and attention from the Company, but do not reflect credit weakness trends that weaken or inadequately protect the Company's credit position. Loans with a grade rating are not normally acceptable as new credits unless they are adequately secured or carry substantial endorser/guarantors.

- Grade 6 – This grade includes "special mention" loans which are loans that are currently protected but are potentially weak. This generally is an interim grade classification and should usually be upgraded to an Acceptable rating or downgraded to Substandard within a reasonable time period. Weaknesses in special mention loans may, if not checked or corrected, weaken the asset or inadequately protect the Company's credit position at some future date. Special Mention loans are often loans with weaknesses inherent from the loan origination, loan servicing, and perhaps some technical deficiencies. The main theme in Special Mention credits is the distinct probability that the classification will deteriorate to a more adverse class if the noted deficiencies are not addressed by the loan officer or loan management.

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Grade 7 – This grade includes “substandard” loans which are inadequately supported by the current sound net worth and paying capacity of the borrower or of the collateral pledged, if any. Substandard loans have a well-defined weakness or weaknesses that may impair the regular liquidation of the debt. Substandard loans exhibit a distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Substandard loans also include impaired loans.

- Grade 8 - This grade includes “doubtful” loans which have all the same characteristics that the Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include a proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral and refinancing plans.

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- Grade 9 - This grade includes loans classified "loss" which are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather is not practical or desirable to defer writing off asset even though partial recovery may be achieved in the future.

The following tables summarize the credit risk ratings for commercial, construction, and other non-consumer related loans for June 30, 2011 and December 31, 2010. The Company did not carry any loans graded as loss at June 30, 2011 or December 31, 2010.

June 30, 2011 (000's) (Restated)	Commercial and Lease Financing	Commercial RE	Construction	Agricultural	Total
Grades 1and 2	$ 541	$ 0	$ 0	$ 0	$ 541
Grade 3	1,207	6,580	917	0	8,704
Grades 4 and 5 – pass	150,404	103,650	31,373	35,547	320,974
Grade 6 – special mention	6,778	4,181	11,419	0	22,378
Grade 7 – substandard	10,386	5,824	12,468	1,913	30,590
Grade 8 – doubtful	0	0	0	0	0
Total	$ 169,316	$ 120,235	$ 56,177	$ 37,460	$ 383,187

December 31, 2010 (000's)	Commercial and Lease Financing	Commercial RE	Construction	Agricultural	Total
Grades 1and 2	$ 990	$ 1,112	$ 0	$ 79	$ 2,181
Grade 3	302	6,786	937	0	8,025
Grades 4 and 5 – pass	134,058	113,515	33,082	41,597	322,252
Grade 6 – special mention	7,770	4,419	10,737	1,525	24,451
Grade 7 – substandard	16,409	5,800	20,426	3,107	45,742
Grade 8 – doubtful	0	0	0	0	0
Total	$ 159,529	$ 131,632	$ 65,182	$ 46,308	$ 402,651

The Company follows consistent underwriting standards outlined in its loan policy for consumer and other homogenous loans but, does not specifically assign a risk rating when these loans are originated. Consumer loans are monitored for credit risk and are considered "pass" loans until some issue or event requires that the credit be downgraded to special mention or worse. The following tables summarize the credit risk ratings for consumer related loans and other homogenous loans for June 30, 2011 and December 31, 2010.

	June 30, 2011 (Restated)				December 31, 2010			
(000's)	Single family Residential	Home Improvement	Installment	Total	Single family Residential	Home Improvement	Installment	Total
Not graded	$19,065	$ 2,047	$ 11,762	$32,874	$18,236	$ 2,225	$ 11,429	$31,890
Pass	4,336	112	1,284	5,732	3,964	22	1,313	5,299
Special Mention	0	0	0	0	195	0	0	195
Substandard	1,877	18	170	2,065	1,369	138	149	1,656
Total	$25,278	$ 2,177	$ 13,216	$40,671	$23,764	$ 2,385	$ 12,891	$39,040

Allowance for Loan Losses

The allowance for credit losses represents management's estimate of the risk inherent in the loan portfolio based on the current economic conditions, collateral values and economic prospects of the borrowers. Significant changes in these estimates might be required in the event of a downturn in the economy and/or the real estate markets in the San Joaquin Valley, the greater Oakhurst and East Madera County area, and in Santa Clara County.

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

(In thousands)	June 30, 2011 (Restated)	Periods Ended December 31, 2010	June 30, 2010
Balance, beginning of year	$ 16,520	$ 15,016	$ 15,016
Provision charged to operations	10,051	12,475	2,150
Losses charged to allowance	(13,440)	(11,936)	(6,000)
Recoveries on loans previously charged off	748	965	891
Balance at end-of-period	$ 13,879	$ 16,520	$ 12,057

The allowance for credit losses maintained at a level deemed appropriate by management to provide for known and inherent risks in existing loans and commitments to extend credit. The adequacy of the allowance for credit losses is based upon management's continuing assessment of various factors affecting the collectability of loans and commitments to extend credit; including current economic conditions, past credit experience, collateral, and concentrations of credit.

The allowance for loan losses includes an asset-specific component, as well as a general or formula-based component. The Company segments the loan and lease portfolio into eleven (11) segments, primarily by loan class and risk type, that have homogeneity and commonality of purpose and terms for analysis under the formula-based component of the allowance. Loans that are determined to be impaired under current accounting guidelines are not subject to the formula-based reserve analysis, and are evaluated individually for specific impairment under the asset-specific component of the allowance.

Specific allowances are established based on management’s periodic evaluation of loss exposure inherent in classified and impaired loans. For impaired loans, specific allowances are determined based on either the collateralized value of the underlying properties, the net present value of the anticipated cash flows, or the market value of the underlying assets.

The formula allowance is calculated by applying loss factors to outstanding loans and certain unfunded loan commitments. Loss factors are based on the Company’s historical loss experience and on the internal risk grade of those loans and, may be adjusted for significant factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date. Factors that may affect collectability of the loan portfolio include:

- Levels of, and trends in delinquencies and nonaccrual loans;
- Trends in volumes and term of loans;
- Effects of any changes in lending policies and procedures including those for underwriting, collection, charge-off, and recovery;
- Experience, ability, and depth of lending management and staff;
- National and local economic trends and conditions and;
- Concentrations of credit that might affect loss experience across one or more components of the portfolio, including high-balance loan concentrations and participations.

The Company utilizes a migration model to determine the formula allowance loss factors for problem-graded loans (substandard, doubtful, and loss), special mention loans, and pass graded loans. The migration analysis incorporates loan losses over the past twelve quarters (three years) and loss factors are adjusted to recognize and quantify the loss exposure from changes in market conditions and trends in the Company’s loan portfolio. For purposes of this analysis, loans are grouped by internal risk classifications, which are “pass”, “special mention”, “substandard”, “doubtful”, and “loss.” Certain loans are homogenous in nature and are therefore pooled by risk grade. These homogenous loans include consumer installment and home equity loans.

The unallocated portion of the allowance is the result of both expected and unanticipated changes in various conditions that are not directly measured in the determination of the formula and specific allowances. The conditions may include, but are not limited to, general economic and business conditions affecting the key lending areas of the Company, credit quality trends, collateral values, loan volumes and concentrations, and other business conditions.

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The Company analyzes risk characteristics inherent in each loan portfolio segment as part of the quarterly review of the adequacy of the allowance for loan losses. The following summarizes some of the key risk characteristics for the eleven segments of the loan portfolio (Consumer loans include three segments):

Commercial and business loans – Commercial loans are subject to the effects of economic cycles and tend to exhibit increased risk as economic conditions deteriorate, or if the economic downturn is prolonged. The Company considers this segment to be one of higher risk given the size of individual loans and the overall portfolio.

Government program loans – This is a relatively a small part of the Company's loan portfolio, but has historically had a high percentage of loans that have migrated from pass to substandard given there vulnerability to economic cycles.

Commercial real estate loans – This segment is considered to have more risk in part because of the vulnerability of commercial businesses to economic cycles as well as the exposure to fluctuations in real estate prices because most of these loans are secured by real estate. Losses in this segment have however been historically low because most of the loans are real estate secured.

Single family residential loans – This segment is considered to have low risk factors both from the Company and peer statistics. These loans are secured by first deeds of trust. The losses experienced over the past twelve quarters are isolated to approximately seven loans and are generally the result of short sales.

Home improvement and home equity loans – Because of their junior lien position, these loans are inherently considered to have a higher risk level. Because residential real estate has been severely distressed in the recent past, the anticipated risk for this loan segment has increased.

Real estate construction loans – This segment in a normal economy is considered to have a higher risk profile due to construction and market value issues in conjunction with normal credit risks. In the current distressed residential real estate markets the risk has increased.

Agricultural loans – This segment is considered to have risks associated with weather, insects, and marketing issues. In addition, concentrations in certain crops or certain agricultural areas can increase risk.

Consumer loans (including three segments: consumer loans, overdrafts, and overdraft protection lines) – This segment is higher risk because many of the loans are unsecured.

Commercial lease financing – This segment of the portfolio is small and but is considered to be vulnerable to economic cycles given the nature of the leasing relationship where businesses are relatively small or have minimal cash flow. This lending program was terminated in 2005.

The following summarizes the activity in the allowance for credit losses by loan category for the six months ended June 30, 2011.

Six Months Ended June 30, 2011 (in 000's) (Restated)	Commercial and Industrial	Real Estate Mortgage	RE Construction Development	Agricultural	Installment & Other	Lease Financing	Unallocated	Total
Beginning balance	$ 8,209	$ 1,620	$ 5,763	$ 850	$ 49	$ 3	$ 26	$ 16,520
Provision for credit losses	5,791	281	3,966	(100)	36	103	(26)	10,051

Charge-offs	(6,897)	(406)	(5,480)	(537)	(20)	(100)		(13,440)
Recoveries	72	0	607	66	3	0		748
Net charge-offs	(6,825)	(406)	(4,873)	(471)	(17)	(100)	0	(12,692)
Ending balance	$ 7,175	$ 1,494	$ 4,856	$ 279	$ 68	$ 6	$ 0	$ 13,879
Period-end amount allocated to:								
Loans individually evaluated for impairment	$ 652	$ 467	$ 978	$ 149	$ 23	$ 0	$ 0	$ 2,270
Loans collectively evaluated for impairment	6,523	,1,027	3,878	130	45	6	0	11,609
Ending balance	$ 7,175	$ 1,494	$ 4,856	$ 279	$ 68	$ 6	$ 0	$ 13,879

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The following summarizes the activity in the allowance for credit losses by loan category for the three months ended June 30, 2011.

Three Months Ended June 30, 2011 (in 000's) (Restated)	Commercial and Industrial	Real Estate Mortgage	RE Construction Development	Agricultural	Installment & Other	Lease Financing	Unallocated	Total
Beginning balance	8,337	$ 1,574	$ 6,059	$ 381	$ 80	$ 24	$ 290	$ 16,745
Provision for credit losses	5,621	300	3,668	(147)	5	4	(290)	9,161
Charge-offs	(6,826)	(379)	(5,478)	(1)	(18)	(22)	0	(12,724)
Recoveries	43	0	607	46	1	0	0	697
Net charge-offs	(6,783)	(379)	(4,871)	45	(17)	(22)	0	(12,027)
Ending balance	$ 7,175	$ 1,494	$ 4,856	$ 279	$ 68	$ 6	$ 0	$ 13,879

The following summarizes the activity in the allowance for credit losses by loan category for the six months ended June 30, 2010.

Six Months Ended June 30, 2010 (in 000's)	Commercial and Industrial	Real Estate Mortgage	RE Construction Development	Agricultural	Installment & Other	Lease Financing	Unallocated	Total
Beginning balance	$ 7,125	$ 1,426	$ 5,561	$ 334	$ 535	$ 35	$ 0	$ 15,016
Provision for credit losses	(1,610)	614	1,901	9	364	3	869	2,150
Charge-offs	(1,812)	(357)	(3,139)	0	(692)	0		(6,000)
Recoveries	865	0	10	11	5	0		891
Net charge-offs	(947)	(357)	(3,129)	11	(687)	0	0	(5,109)
Ending balance	$ 4,568	$ 1,683	$ 4,333	$ 354	$ 212	$ 38	$ 869	$ 12,057
Period-end amount allocated to:								
Loans individually evaluated for impairment	1,334	867	2,634	135	150	0	0	5,120
Loans collectively evaluated for impairment	3,234	816	1,699	219	62	38	869	6,937
Ending balance	$ 4,568	$ 1,683	$ 4,333	$ 354	$ 212	$ 38	$ 869	$ 12,057

The following summarizes the activity in the allowance for credit losses by loan category for the three months ended June 30, 2010.

Commercial and	Real Estate	RE Construction	Installment	Lease

Three Months Ended June 30, 2010 (in 000's)	Industrial	Mortgage	Development	Agricultural	& Other	Financing	Unallocated	Total
Beginning balance	$ 6,328	$ 1,654	$ 7,055	$ 344	$ 559	$ 25	$ 239	$ 16,204
Provision for credit losses	(985)	287	279	(1)	296	13	630	519
Charge-offs	(1,637)	(258)	(3,011)	0	(645)	0	0	(5,551)
Recoveries	862	0	10	11	2	0	0	885
Net charge-offs	(775)	(258)	(3,001)	11	(643)	0	0	(4,666)
Ending balance	$ 4,568	$ 1,683	$ 4,333	$ 354	$ 212			