TRI COUNTY FINANCIAL CORP /MD/
Form 10-Q
October 29, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the Quarterly Period Ended September 30, 2010

OR

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

For the transition period from to ______

Commission File Number 0-18279

Tri-County Financial Corporation
(Exact name of registrant as specified in its charter)

Maryland	52-1652138
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3035 Leonardtown Road, Waldorf, Maryland	20601
(Address of principal executive offices)	(Zip Code)

(301) 645-5601
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x Noo

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
oYes oNo

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

Large Accelerated Filer o	Accelerated Filer o
Non-accelerated Filer o	Smaller Reporting Company x

(Do not check if a smaller reporting company)

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

As of October 27, 2010, the registrant had 2,990,520 shares of common stock outstanding.

TRI-COUNTY FINANCIAL CORPORATION

FORM 10-Q

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PART I FINANCIAL STATEMENTS
ITEM I. FINANCIAL STATEMENTS
TRI-COUNTY FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2010 AND DECEMBER 31, 2009 (UNAUDITED)

	September 30, 2010	December 31, 2009
Assets		
Cash and due from banks	$ 13,457,724	$ 9,960,787
Federal funds sold	1,610,000	695,000
Interest-bearing deposits with banks	2,331,653	592,180
Securities available for sale, at fair value	40,349,413	53,926,109
Securities held to maturity, at amortized cost	138,835,921	90,287,803
Federal Home Loan Bank and Federal Reserve Bank stock - at cost	6,518,700	6,935,500
Loans receivable - net of allowance for loan losses of $8,168,158 and $7,471,314, respectively	623,875,637	616,592,976
Premises and equipment, net	12,184,353	11,987,690
Foreclosed real estate	11,621,846	922,934
Accrued interest receivable	2,929,221	2,925,271
Investment in bank owned life insurance	17,280,529	10,943,396
Other assets	9,536,980	9,272,888
Total Assets	$ 880,531,977	$ 815,042,534
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Non-interest-bearing deposits	$ 68,234,357	$ 70,001,444
Interest-bearing deposits	649,356,412	570,417,345
Total deposits	717,590,769	640,418,789
Short-term borrowings	3,783,207	13,080,530
Long-term debt	70,635,612	75,669,630
Guaranteed preferred beneficial interest in junior subordinated debentures	12,000,000	12,000,000
Accrued expenses and other liabilities	6,168,792	5,683,736
Total Liabilities	810,178,380	746,852,685
Stockholders' Equity		
Fixed Rate Cumulative Perpetual Preferred Stock, Series A - par value $1,000; authorized 15,540; issued 15,540	15,540,000	15,540,000
Fixed Rate Cumulative Perpetual Preferred Stock, Series B - par value $1,000; authorized 777; issued 777	777,000	777,000
Common stock - par value $.01; authorized - 15,000,000 shares; issued 2,986,279 and 2,976,046 shares, respectively	29,863	29,760
Additional paid in capital	16,842,139	16,754,627
Retained earnings	36,962,411	35,193,958
Accumulated other comprehensive income	637,212	284,474
Unearned ESOP shares	(435,028)	(389,970)

Total Stockholders' Equity		70,353,597		68,189,849
Total Liabilities and Stockholders' Equity	$	880,531,977	$	815,042,534

See notes to consolidated financial statements

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TRI-COUNTY FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
INTEREST AND DIVIDEND INCOME:				
Loans, including fees	$ 8,669,783	$ 8,324,971	$ 26,157,242	$ 24,243,433
Taxable interest and dividends on investment securities	1,128,613	1,286,507	3,491,626	3,914,458
Interest on deposits with banks	7,089	9,017	13,236	16,045
Total interest and dividend income	9,805,485	9,620,495	29,662,104	28,173,936
INTEREST EXPENSES:				
Deposits	2,702,183	3,076,512	8,213,306	9,375,353
Short-term borrowings	6,821	-	23,700	29,800
Long-term debt	663,943	1,001,507	1,944,698	3,112,968
Total interest expenses	3,372,947	4,078,019	10,181,704	12,518,121
NET INTEREST INCOME	6,432,538	5,542,476	19,480,400	15,655,815
PROVISION FOR LOAN LOSSES	1,121,203	515,555	2,784,007	1,977,928
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,311,335	5,026,921	16,696,393	13,677,887

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TRI-COUNTY FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

(continued)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
NONINTEREST INCOME:				
Recognition of other than temporary decline in value of investment securities	$ -	$ (458,530)	$ -	$ (577,274)
Less: Portion recorded as comprehensive income	-	410,530	-	410,530
Impairment loss on investment securities, net	-	(48,000)	-	(166,744)
Loan appraisal, credit, and miscellaneous charges	182,321	104,219	436,121	465,111
Gain on sale of asset	-	-	22,500	-
Loss on sale of investment securities	-	-	-	(12,863)
Income from bank owned life insurance	126,219	96,105	337,133	297,578
Service charges	471,277	443,161	1,317,932	1,212,257
Gain on sale of loans held for sale	214,942	72,862	386,642	241,236
Total noninterest income	994,759	668,347	2,500,328	2,036,575
NONINTEREST EXPENSE:				
Salary and employee benefits	2,450,743	2,284,641	7,212,098	6,536,475
Occupancy expense	403,892	399,648	1,297,934	1,270,396
Advertising	104,010	144,854	282,612	374,816
Data processing	269,500	245,974	764,317	682,594
Professional fees	143,839	166,110	588,072	526,018
Depreciation of furniture, fixtures, and equipment	138,729	154,777	400,672	453,882
Telephone communications	46,973	33,698	129,201	101,871
Office supplies	41,343	37,076	120,779	124,461
FDIC Insurance	318,762	242,332	1,065,527	875,943
Valuation allowance on foreclosed real estate	-	-	287,934	-
Other	519,634	557,942	1,426,321	1,413,431
Total noninterest expense	4,437,425	4,267,052	13,575,467	12,359,887
INCOME BEFORE INCOME TAXES	1,868,669	1,428,216	5,621,254	3,354,575
Income tax expense	669,335	560,640	2,021,412	1,194,945
NET INCOME	1,199,334	867,576	3,599,842	2,159,630
Preferred stock dividends	211,733	211,733	635,198	635,198
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 987,601	$ 655,843	$ 2,964,644	$ 1,524,432
INCOME PER COMMON SHARE				
Basic	$ 0.33	$ 0.22	$ 0.99	$ 0.52
Diluted	$ 0.33	$ 0.22	$ 0.99	$ 0.51
Dividends paid per common share	$ -	$ -	$ 0.40	$ 0.40

See notes to consolidated financial statements

TRI-COUNTY FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

	Nine Months Ended September 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,599,842	$ 2,159,630
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,784,007	1,977,928
Depreciation and amortization	775,545	875,337
Loans originated for resale	(10,464,412)	(19,238,916)
Proceeds from sale of loans originated for sale	10,799,746	18,412,708
Gain on sale of loans held for sale	(386,642)	(241,236)
Gain on sale of asset	(22,500)	-
Loss on sales of investment securities	-	12,863
Other than temporary decline in market value of investment securities	-	166,744
Net amortization of premium/discount on investment securities	(223,610)	(134,621)
Increase in foreclosed real estate valuation allowance	287,934	-
Increase in cash surrender of bank owned life insurance	(6,337,133)	(297,578)
Deferred income tax benefit	(816,555)	(1,266,083)
(Increase) decrease in accrued interest receivable	(3,950)	7,054
(Increase) decrease in deferred loan fees	(16,236)	349
Increase (decrease) in accounts payable, accrued expenses, other liabilities	485,056	(360,108)
Decrease in other assets	82,815	347,374
Net cash provided by operating activities	543,907	2,421,445
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities available for sale	(98,504)	(35,245,124)
Proceeds from redemption or principal payments of investment securities available for sale	14,401,001	2,117,244
Purchase of investment securities held to maturity	(82,113,950)	(8,377,442)
Proceeds from maturities or principal payments of investment securities held to maturity	33,598,091	21,101,505
Net decrease (increase) of FHLB and Federal Reserve stock	416,800	(482,500)
Loans originated or acquired	(171,318,179)	(190,835,961)
Principal collected on loans	150,620,143	144,719,136
Purchase of premises and equipment	(972,208)	(828,397)
Proceeds from sale of assets	22,500	-
Net cash used in investing activities	(55,444,306)	(67,831,539)

TRI-COUNTY FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009
(continued)

	Nine Months Ended September 30,	
	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	$ 77,171,980	$ 101,828,228
Proceeds from long-term borrowings	-	750,000
Payments of long-term borrowings	(5,034,018)	(20,032,683)
Net decrease in short-term borrowings	(9,297,323)	(1,328,618)
Exercise of stock options	31,858	162,143
Excess tax benefits on stock-based compensation	-	14,947
Dividends paid	(1,831,387)	(1,742,122)
Net change in unearned ESOP shares	10,699	(44,183)
Net cash provided by financing activities	61,051,809	79,607,712
INCREASE IN CASH AND CASH EQUIVALENTS	$ 6,151,410	$ 14,197,618
CASH AND CASH EQUIVALENTS - JANUARY 1	11,247,967	14,474,532
CASH AND CASH EQUIVALENTS - SEPTEMBER 30	$ 17,399,377	$ 28,672,150
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the nine months for:		
Interest	$ 10,370,713	$ 13,566,054
Income taxes	$ 3,398,891	$ 1,776,676
Issuance of common stock for payment of compensation	$ -	$ 99,980
Transfer from loans to foreclosed real estate	$ 10,986,846	$ 922,934

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

1. BASIS OF PRESENTATION

General - The consolidated financial statements of Tri-County Financial Corporation (the "Company") and its wholly owned subsidiary, Community Bank of Tri-County (the "Bank") included herein are unaudited. However, they reflect all adjustments consisting only of normal recurring accruals that, in the opinion of management, are necessary to present fairly the Company's financial condition, results of operations, and cash flows for the periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The Company believes that the disclosures are adequate to make the information presented not misleading. The balances as of December 31, 2009 have been derived from audited financial statements. There have been no significant changes to the Company's accounting policies as disclosed in the 2009 Annual Report. The results of operations for the three and nine months ended September 30, 2010 are not necessarily indicative of the results of operations to be expected for the remainder of the year or any other period. Certain previously reported amounts have been restated to conform to the 2010 presentation.

These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report for the year ended December 31, 2009.

2. NATURE OF BUSINESS

The Company provides a variety of financial services to individuals and small businesses through its offices in Southern Maryland. Its primary deposit products are demand, savings, and time deposits, and its primary lending products are residential and commercial mortgage loans, construction and land development loans, and commercial loans.

3. FAIR VALUE MEASUREMENTS

The Company adopted the Financial Accounting Standards Board's ("FASB") Accounting Standard's Codification ("ASC") Topic 820, "Fair Value Measurements" and FASB ASC Topic 825, "The Fair Value Option for Financial Assets and Financial Liabilities" which provides a framework for measuring and disclosing fair value under generally accepted accounting principles. FASB ASC Topic 820 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available for sale investment securities) or on a nonrecurring basis (for example, impaired loans).

FASB ASC Topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. FASB ASC Topic 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Under FASB ASC Topic 820, the Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine the fair value. These hierarchy levels are:

Level 1 inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity’s own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally coincides with the Company’s monthly or quarterly valuation process.

There were no transfers between levels of the fair value hierarchy and the Company had no Level 3 fair value assets or liabilities for the nine months ended September 30, 2010 and 2009, respectively.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Securities Available for Sale
Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security’s credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange such as the New York Stock Exchange, Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage backed securities issued by government sponsored entities (‘GSEs”), municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Loans Receivable
The Company does not record loans at fair value on a recurring basis, however, from time to time, a loan is considered impaired and an allowance for loan loss is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan are considered impaired. Management estimates the fair value of impaired loans using one of several methods, including the collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Impaired loans not requiring a specific allowance represent loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At September 30, 2010, substantially all of the impaired loans were evaluated based upon the fair value of the collateral. In accordance with FASB ASC 820, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the loan as nonrecurring Level 3.

Loans Held for Sale
Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value, in the aggregate. Fair value is derived from secondary market quotations for similar instruments. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Mortgage loans held for sale are generally sold with the mortgage servicing rights retained by the Company. The carrying value of mortgage loans sold is reduced by the cost allocated to the associated servicing rights. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold, using the specific identification method.

Foreclosed Real Estate

Foreclosed real estate is adjusted for fair value upon transfer of the loans to foreclosed real estate. Subsequently, foreclosed real estate is carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised value of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis:

The table below presents the recorded amount of assets and liabilities, as of September 30, 2010 measured at fair value on a recurring basis.

		Fair Value Measurements At September 30, 2010 Using:		
	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description of Asset				
Securities available for sale:				
Asset-backed securities issued by GSEs				
CMOs	$ 32,506,872	$ -	$ 32,506,872	$ -
MBS	3,928,347	-	3,928,347	-
Corporate equity securities	37,357	-	37,357	-
Bond mutual funds	3,876,837	-	3,876,837	-
Total securities available for sale	$ 40,349,413	$ -	$ 40,349,413	$ -

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis:
The Company may be required from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis as of September 30, 2010 are included in the table below:

		Fair Value Measurements At September 30, 2010 Using:		
	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description of Asset				
Impaired loans:				
Commercial real estate	$ 3,833,919	$ -	$ 3,833,919	$ -
Residential construction	1,084,857	-	1,084,857	-
Commercial lines of credit	4,416,554	-	4,416,554	-
Total impaired loans	$ 9,335,330	$ -	$ 9,335,330	$ -
Foreclosed Real Estate	$ 11,621,846	$ -	$ 11,621,846	$ -

4. INCOME TAXES

The Company files a consolidated federal income tax return with its subsidiaries. Deferred tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. It is the Company's policy to recognize accrued interest and penalties related to unrecognized tax benefits as a component of tax expense.

5. EARNINGS PER COMMON SHARE

Basic earnings per common share are computed by dividing net income less dividends on preferred shares, by the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed by dividing net income less dividends on preferred shares, by the weighted average number of common shares outstanding during the period, including any potential dilutive common shares outstanding, such as options and warrants. As of September 30, 2010 and 2009, there were 253,359 and 216,804 shares, respectively, excluded from the diluted net income per share computation because the exercise price of the stock options were greater than the market price, and thus were anti-dilutive. Basic and diluted earnings per share have been computed based on weighted-average common and common equivalent shares outstanding as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net Income	$ 1,199,334	$ 867,576	$ 3,599,842	$ 2,159,630
Less: Dividends payable on preferred stock	(211,733)	(211,733)	(635,198)	(635,198)
Net income available to common shareholders	$ 987,601	$ 655,843	$ 2,964,644	$ 1,524,432
Average number of common shares outstanding	2,986,279	2,965,332	2,983,187	2,958,336
Effect of dilutive options	19,892	27,802	19,431	31,708

Average number of shares used to calculate diluted earnings per share	3,006,171	2,993,134	3,002,618	2,990,044

6. COMPREHENSIVE INCOME

Comprehensive income is net income adjusted for net unrealized holding gains or losses and other than temporary impairment for the period.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net Income	$ 1,199,334	$ 867,576	$ 3,599,842	$ 2,159,630
Other comprehensive income net of tax:				
Other-than- temporary impairment on held to maturity securities	-	(270,950)	-	(270,950)
Net unrealized holding gains arising during period	146,121	100,808	352,738	93,196
Comprehensive income	$ 1,345,455	$ 697,434	$ 3,952,580	$ 1,981,876

7. STOCK-BASED COMPENSATION

The Company has stock-based incentive compensation plans to attract and retain key personnel in order to promote the success of the business. These plans are described in Note 13 to the consolidated financial statements included in our Annual Report to Stockholders for the year ended December 31, 2009. There was no stock-based compensation expense for the nine months ended September 30, 2010 compared to $31,702 for the nine months ended September 30, 2009. The Company and the Bank currently maintain incentive plans which provide for payments to be made in cash, stock, or stock options. The Company has accrued the full amounts due under these plans, but currently it is not possible to identify the portion that will be paid out in the form of stock–based compensation because such payments are subject to the future election of the recipient. A summary of the Company's stock option plans as of September 30, 2010 and changes during the nine-month period then ended is presented below:

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Contractual Life Remaining In Years
Outstanding at December 31, 2009	329,243	$ 16.04	$ 222,607	
Granted at fair value	-	-		
Exercised	(8,493)	7.89	38,331	
Expired	-	-		
Forfeited	(1)	7.90		
Outstanding at September 30, 2010	320,749	$ 16.26	$ 539,187	1.6
Exercisable at September 30, 2010	320,749	$ 16.26	$ 539,187	1.6

The following table summarizes restricted stock award activity for the Company under the 2006 Equity Plan for the nine months ended September 30, 2010:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2010	5,360	$ 11.90

Granted	-		-
Vested	(2,640)		11.90
Cancelled	-		-
Nonvested at September 30, 2010	2,720	$	11.90

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8. GUARANTEED PREFERRED BENEFICIAL INTEREST IN JUNIOR SUBORDINATED DEBENTURES

On June 15, 2005, Tri-County Capital Trust II ("Capital Trust II"), a Delaware business trust formed, funded and wholly owned by the Company, issued $5,000,000 of variable-rate capital in a private pooled transaction. The variable rate is based on the 90-day LIBOR rate plus 1.70%. The Trust used the proceeds from this issuance, along with the $155,000 for Capital Trust II's common securities, to purchase $5,155,000 of the Company's junior subordinated debentures. The interest rate on the debentures and the trust preferred securities is variable and adjusts quarterly. The Company has, through various contractual arrangements, fully and unconditionally guaranteed all of Capital Trust II's obligations with respect to the capital securities. These capital securities qualify as Tier I capital and are presented in the Consolidated Balance Sheets as "Guaranteed Preferred Beneficial Interests in Junior Subordinated Debentures." Both the capital securities of Capital Trust II and the junior subordinated debentures are scheduled to mature on June 15, 2035, unless called by the Company.

On July 22, 2004, Tri-County Capital Trust I ("Capital Trust I"), a Delaware business trust formed, funded and wholly owned by the Company, issued $7,000,000 of variable-rate capital securities in a private pooled transaction. The variable rate is based on the 90-day LIBOR rate plus 2.60%. The Trust used the proceeds from this issuance, along with the Company's $217,000 capital contribution for Capital Trust I's common securities, to purchase $7,217,000 of the Company's junior subordinated debentures. The interest rate on the debentures and the trust preferred securities is variable and adjusts quarterly. The Company has, through various contractual arrangements, fully and unconditionally guaranteed all of Capital Trust I's obligations with respect to the capital securities. These debentures qualify as Tier I capital and are presented in the Consolidated Balance Sheets as "Guaranteed Preferred Beneficial Interests in Junior Subordinated Debentures." Both the capital securities of Capital Trust I and the junior subordinated debentures are scheduled to mature on July 22, 2034, unless called by the Company.

9. PREFERRED STOCK

On December 19, 2008, the United States Department of the Treasury ("Treasury"), acting under the authority granted to it by the Troubled Asset Relief Program's Capital Purchase Program purchased $15,540,000 of Fixed Rate Cumulative Perpetual Preferred Stock, Series A ("Series A Preferred Stock") issued by the Company. The preferred stock has a perpetual life, has liquidation priority over the Company's common shareholders, and is cumulative. The dividend rate is 5% for the first five years, rising to 9% thereafter. The Series A Preferred Stock may not be redeemed unless the Company has redeemed all Series B Preferred Stock (defined below), and has paid all dividends accumulated. As condition to the issuance of the Series A Preferred Stock the Company agreed to accept restrictions on the repurchase of its common stock, the payment of dividends and certain compensation practices.

At the same time the Company issued its Series A Preferred Stock, it issued to the Treasury a warrant to purchase Fixed Rate Cumulative Perpetual Preferred Stock, Series B Preferred Stock ("Series B Preferred Stock") in the amount of 5% of the Series A Preferred Stock or 777 shares with a par value of $777,000. The warrant had an exercise price of $.01 per share. The Series B Preferred Stock has the same rights, preferences and privileges as the Series A Preferred Stock except, the Series B Preferred Stock has a dividend rate of 9%. This warrant was immediately exercised.

The Company believes that it is in compliance with all terms of the Preferred Stock Purchase Agreement.

10. SECURITIES

	September 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale				
Asset-backed securities issued by GSEs	$ 35,416,444	$ 1,018,954	$ 179	$ 36,435,219
Corporate equity securities	37,310	328	281	37,357
Bond mutual funds	3,666,553	210,284	-	3,876,837
Total securities available for sale	$ 39,120,307	$ 1,229,566	$ 460	$ 40,349,413
Securities held to maturity				
Asset-backed securities issued by:				
GSEs	$ 123,126,654	$ 2,001,506	$ 298,919	$ 124,829,241
Other	14,954,177	136,933	2,000,906	13,090,204
Total debt securities held to maturity	138,080,831	2,138,439	2,299,825	137,919,445
U.S. Government obligations	754,003	-	-	754,003
Other investments	1,087	-	-	1,087
Total securities held to maturity	$ 138,835,921	$ 2,138,439	$ 2,299,825	$ 138,674,535

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale				
Asset-backed securities issued by GSEs	$ 49,617,856	$ 646,198	$ 30,628	$ 50,233,426
Corporate equity securities	37,310	1,416	163	38,563
Bond mutual funds	3,568,050	86,070	-	3,654,120
Total securities available for sale	$ 53,223,216	$ 733,684	$ 30,791	$ 53,926,109
Securities held to maturity				
Asset-backed securities issued by:				
GSEs	$ 71,276,709	$ 1,689,252	$ 137,919	$ 72,828,042
Other	19,005,847	12,088	3,353,964	15,663,971
Total debt securities held to maturity	90,282,556	1,701,340	3,491,883	88,492,013
U.S. Government obligations	-	-	-	-
Other investments	5,247	-	-	5,247
Total securities held to maturity	$ 90,287,803	$ 1,701,340	$ 3,491,883	$ 88,497,260

At September 30, 2010, certain other securities with a carrying value of $26,630,294 were pledged to secure certain deposits. At September 30, 2010, securities with a carrying value of $33,888,256 were pledged as collateral for advances from the Federal Home Loan Bank of Atlanta.

Gross unrealized losses and estimated fair value by length of time that the individual available for sale securities have been in a continuous unrealized loss position at September 30, 2010 are as follows:

	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Asset-backed securities issued by GSEs	$ 1,522,997	$ 179	$ -	$ -	$ 1,522,997	$ 179
Corporate Equity Securities	30	281	-	-	30	281
	$ 1,523,027	$ 460	$ -	$ -	$ 1,523,027	$ 460

The available for sale investment portfolio has a fair value of $40,349,413 of which $1,523,027 of the securities have some unrealized losses from their amortized cost. Of these securities, $1,522,997 are mortgage-backed securities issued by GSEs. The unrealized losses that exist in the asset-backed securities and mutual fund shares are the result of market changes in interest rates on similar instruments.

Total unrealized losses on these investments are small (less than 1%). We believe that the losses in the equity securities are temporary. Persistent losses may require a reevaluation of these losses. Because our intention is not to sell the investments and it is not more likely than not that we will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, management does not consider these investments to be other-than-temporarily impaired at September 30, 2010.

Gross unrealized losses and estimated fair value by length of time that the individual held to maturity securities have been in a continuous unrealized loss position at September 30, 2010 are as follows:

	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Asset-backed securities issued by GSEs	$ 18,775,432	$ 295,246	$ 5,049,187	$ 3,673	$ 23,824,619	$ 298,919
Asset-backed securities issued by others	-					