SEACOAST BANKING CORP OF FLORIDA
Form 10-Q
August 09, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

OR

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 No. 0-13660

Seacoast Banking Corporation of Florida

(Exact Name of Registrant as Specified in its Charter)

Florida	59-2260678
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
815 COLORADO AVENUE, STUART FL	34994
(Address of Principal Executive Offices)	(Zip Code)

(772) 287-4000

(Registrant s Telephone Number, Including Area Code)

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

Yes þ 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

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

Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer þ Small Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

Common Stock, $.10 Par Value 93,415,364 shares as of June 30, 2010

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SEACOAST BANKING CORPORATION OF FLORIDA

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
Seacoast Banking Corporation of Florida and Subsidiaries

(Dollars in thousands, except share amounts)	June 30, 2010	December 31, 2009
ASSETS		
Cash and due from banks	$ 28,971	$ 32,200
Interest bearing deposits with other banks	283,314	182,900
Total cash and cash equivalents	312,285	215,100
Securities:		
Available for sale (at fair value)	384,449	393,648
Held for investment (fair values: $9,614 at June 30, 2010 and $17,210 at December 31, 2009)	9,332	17,087
TOTAL SECURITIES	393,781	410,735
Loans held for sale	7,372	18,412
Loans	1,300,600	1,397,503
Less: Allowance for loan losses	(40,281)	(45,192)
NET LOANS	1,260,319	1,352,311
Bank premises and equipment, net	37,668	38,932
Other real estate owned	19,018	25,385
Other intangible assets	3,560	4,121
Other assets	58,809	86,319
	$ 2,092,812	$ 2,151,315
LIABILITIES		
Deposits	$ 1,715,894	$ 1,779,434
Federal funds purchased and securities sold under agreements to repurchase, maturing within 30 days	75,310	105,673
Borrowed funds	50,000	50,000
Subordinated debt	53,610	53,610
Other liabilities	11,621	10,663
	1,906,435	1,999,380

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CONDENSED CONSOLIDATED BALANCE SHEETS (continued) (Unaudited)
Seacoast Banking Corporation of Florida and Subsidiaries

(Dollars in thousands, except share amounts)	June 30, 2010	December 31, 2009
SHAREHOLDERS EQUITY		
Preferred stock, authorized 4,000,000 shares, par value $0.10 per share, issued and outstanding 2,000 shares of Series A	45,623	44,999
Warrant for purchase of shares of common stock at $6.36 per share	3,123	3,123
Common stock, par value $0.10 per share, authorized 300,000,000 shares, issued 93,415,879 and outstanding 93,415,364 shares at June 30, 2010, and issued 58,921,668 and outstanding 58,867,229 shares at December 31, 2009	9,342	5,887
Other shareholders equity	128,289	97,926
TOTAL SHAREHOLDERS EQUITY	186,377	151,935
	$ 2,092,812	$ 2,151,315

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
Seacoast Banking Corporation of Florida and Subsidiaries

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data)	2010	2009	2010	2009
Interest and fees on loans	$ 17,393	$ 21,638	$ 35,770	$ 44,798
Interest and dividends on securities	3,383	4,375	7,179	8,379
Interest on interest bearing deposits and other investments	272	109	511	257
TOTAL INTEREST INCOME	21,048	26,122	43,460	53,434
Interest on deposits	4,084	6,194	8,551	14,181
Interest on borrowed money	747	1,008	1,479	2,159
TOTAL INTEREST EXPENSE	4,831	7,202	10,030	16,340
NET INTEREST INCOME	16,217	18,920	33,430	37,094
Provision for loan losses	16,771	26,227	18,839	37,879
NET INTEREST INCOME (LOSS) AFTER PROVISION FOR LOAN LOSSES	(554)	(7,307)	14,591	(785)
Noninterest income				
Other income	4,601	4,805	9,161	9,787
Securities gains, net	1,377	1,786	3,477	1,786
TOTAL NONINTEREST INCOME	5,978	6,591	12,638	11,573
Noninterest expenses				
Goodwill impairment	0	49,813	0	49,813
Other noninterest expenses	19,220	21,225	42,589	40,560
TOTAL NONINTEREST EXPENSES	19,220	71,038	42,589	90,373
LOSS BEFORE INCOME TAXES	(13,796)	(71,754)	(15,360)	(79,585)
Benefit for income taxes	0	(8,754)	0	(11,825)
NET LOSS	(13,796)	(63,000)	(15,360)	(67,760)
Preferred stock dividends and accretion of preferred stock discount	937	937	1,874	1,874
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	$ (14,733)	$ (63,937)	$ (17,234)	$ (69,634)
PER SHARE COMMON STOCK:				
Net loss diluted	$ (0.25)	$ (3.35)	$ (0.29)	$ (3.65)
Net loss basic	(0.25)	(3.35)	(0.29)	(3.65)
Cash dividends declared	0.00	0.00	0.00	0.01
Average shares outstanding diluted	60,020,561	19,088,759	59,436,437	19,079,151

Average shares outstanding basic	60,020,561	19,088,759	59,436,437	19,079,151

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
Seacoast Banking Corporation of Florida and Subsidiaries

	Six Months Ended June 30,	
(Dollars in thousands)	2010	2009
Increase (decrease) in cash and cash equivalents		
Cash flows from operating activities		
Interest received	$ 44,235	$ 53,479
Fees and commissions received	9,378	9,646
Interest paid	(9,761)	(16,569)
Cash paid to suppliers and employees	(34,371)	(36,271)
Income taxes received (paid)	20,789	(13)
Origination of loans held for sale	(79,194)	(96,731)
Proceeds from loans held for sale	91,239	82,442
Net change in other assets	394	806
Net cash provided by (used in) operating activities	42,709	(3,211)
Cash flows from investing activities		
Maturities of securities available for sale	66,102	52,509
Maturities of securities held for investment	2,345	5,578
Proceeds from sale of securities available for sale	81,593	31,376
Proceeds from sale of securities held for investment	5,452	0
Purchases of securities available for sale	(131,471)	(100,170)
Net new loans and principal repayments	54,290	43,594
Proceeds from sale of loans	14,293	3,763
Proceeds from the sale of other real estate owned	6,278	2,308
Proceeds from sale of Federal Home Loan Bank and Federal Reserve Bank stock	1,802	181
Purchase of Federal Home Loan Bank and Federal Reserve Bank stock	0	(821)
Additions to bank premises and equipment	(268)	(531)
Net cash provided by investing activities	100,416	37,787
Cash flows from financing activities		
Net decrease in deposits	(63,555)	(54,007)
Net decrease in federal funds purchased and repurchase agreements	(30,363)	(55,647)
Issuance of common stock, net of related expenses	47,871	0
Stock based employee benefit plans	107	118
Dividends paid	0	(580)
Net cash used in financing activities	(45,940)	(110,116)
Net increase (decrease) in cash and cash equivalents	97,185	(75,540)
Cash and cash equivalents at beginning of period	215,100	151,192
Cash and cash equivalents at end of period	$ 312,285	$ 75,652

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued) (Unaudited)
Seacoast Banking Corporation of Florida and Subsidiaries

	Six Months Ended June 30,	
(Dollars in thousands)	2010	2009
Reconciliation of net loss to net cash provided by (used in) operating activities		
Net loss	$ (15,360)	$ (67,760)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Goodwill impairment	0	49,813
Depreciation	1,570	1,768
Amortization (accretion) of premiums and discounts on securities, net	33	(652)
Other amortization and accretion	246	518
Change in loans held for sale, net	12,045	(14,289)
Provision for loan losses	18,839	37,879
Gains on sale of securities	(3,477)	(1,786)
Gains on sale of loans	(64)	(172)
Losses on sale and write-downs of other real estate owned	3,862	1,129
Losses (gains) on disposition of fixed assets	(34)	6
Change in interest receivable	1,057	808
Change in interest payable	269	(230)
Change in prepaid expenses	2,212	634
Change in accrued taxes	21,202	(11,173)
Change in other assets	394	806
Change in other liabilities	(85)	(510)
Net cash provided by (used in) operating activities	$ 42,709	$ (3,211)
Supplemental disclosures of non-cash investing activities:		
Fair value adjustment to available for sale securities	$ 3,626	$ 839
Transfer of loans to other real estate owned	3,840	21,542
Transfer from loans to loans available for sale	1,005	0

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEACOAST BANKING CORPORATION OF FLORIDA AND SUBSIDIARIES
NOTE A BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U. S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U. S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six-month period ended June 30, 2010, are not necessarily indicative of the results that may be expected for the year ending December 31, 2010 or any other period. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s annual report on Form 10-K for the year ended December 31, 2009.

Use of Estimates

The preparation of these condensed consolidated financial statements required the use of certain estimates by management in determining the Company s assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

The accounting policies that are particularly sensitive to judgments and the extent to which significant estimates are used include the allowance for loan losses and the reserve for unfunded lending commitments, fair value of certain financial instruments, realization of deferred tax assets, and contingent liabilities.

NOTE B RECENT ACCOUNTING STANDARDS

Accounting Standards Update No. 2010-6, Topic 820 Fair Value Measurements and Disclosures Improving Disclosures about Fair Value Measurements (ASU 2010-6)

ASU 2010-6 amends Subtopic 820-10 with new disclosure requirements and clarification of existing disclosure requirements. New disclosures required include the amount of significant transfers in and out of levels 1 and 2 fair value measurements and the reasons for the transfers. In addition, the reconciliation for level 3 activity will be required on a gross rather than net basis. ASU 2010-6 provides additional guidance related to the level of disaggregation in determining classes of assets and liabilities and disclosures about inputs and valuation techniques. The amendments are effective for annual or interim reporting periods beginning after December 15, 2009, except for the requirement to provide the reconciliation for level 3 activities on a gross basis which will be effective for fiscal years beginning after December 15, 2010. We adopted the new disclosure requirements for level 2 transfers and the adoption of level 3 requirements will not have any impact on our financial position or results of operations.

Loan Modification

In April 2010, the FASB issued an update affecting accounting for loan modifications for those loans that are acquired with deteriorated credit quality and are accounted for on a pool basis. It clarifies that the modifications of such loans do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. The new guidance is effective prospectively for modifications occurring in the first interim or annual period ending on or after July 15, 2010. Early application is permitted. This update will not have any impact on our financial position or results of operations.

Derivatives and Hedging

In March 2010, the FASB issued a clarification on the scope exception for embedded credit derivatives. The guidance eliminates the scope exception for bifurcation of embedded credit derivatives in interests in securitized financial assets, unless they are created solely by subordination of one financial debt instrument to another. The guidance is effective beginning in the first reporting period after June 15, 2010, with earlier adoption permitted for the quarter beginning after March 31, 2010. This clarification did not have a material impact to our financial position or results of operations.

NOTE C SUBSEQUENT EVENTS

In preparing these condensed consolidated financial statements, subsequent events were evaluated through the time the condensed consolidated financial statements were issued. Condensed consolidated financial statements are considered issued when they are widely distributed to all shareholders and other financial statement users, or filed with the Securities and Exchange Commission. In conjunction with applicable accounting standards, all material subsequent events have been either recognized in the financial statements or disclosed in the notes to the condensed consolidated financial statements.

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NOTE D BASIC AND DILUTED LOSS PER COMMON SHARE

Equivalent shares of 1,139,623 and 1,745,245 related to stock options, stock settled appreciation rights and warrants for the periods ended June 30, 2010 and 2009, respectively, were excluded from the computation of diluted EPS because they would have been anti-dilutive.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data)	2010	2009	2010	2009
Basic:				
Net loss available to common shareholders	$ (14,733)	$ (63,937)	$ (17,234)	$ (69,634)
Average shares outstanding	60,020,561	19,088,759	59,436,437	19,079,151
Basic EPS	$ (0.25)	$ (3.35)	$ (0.29)	$ (3.65)
Diluted:				
Net loss available to common shareholders	$ (14,733)	$ (63,937)	$ (17,234)	$ (69,634)
Average shares outstanding	60,020,561	19,088,759	59,436,437	19,079,151
Diluted EPS	$ (0.25)	$ (3.35)	$ (0.29)	$ (3.65)

NOTE E FAIR VALUE INSTRUMENTS MEASURED AT FAIR VALUE

In certain circumstances, fair value enables the Company to more accurately align its financial performance with the market value of actively traded or hedged assets and liabilities. Fair values enable a company to mitigate the non-economic earnings volatility caused from financial assets and financial liabilities being carried at different bases of accounting, as well as, to more accurately portray the active and dynamic management of a company s balance sheet. ASC 820 provides additional guidance for estimating fair value when the volume and level of activity for an asset or liability has significantly decreased. ASC 820 also includes guidance on identifying circumstances that indicate a transaction is not orderly. Under ASC 820, fair value measurements for items measured at fair value at June 30, 2010 and 2009 included:

(Dollars in thousands)	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2010				
Available for sale securities (3)	$ 384,449	$	$ 384,449	$
Loans held for sale	7,372		7,372	
Loans (1)	55,824		8,968	46,856
Other real estate owned (2)	19,018		448	18,570
Long-lived assets held for sale (2)	1,676		1,676	
June 30, 2009				
Available for sale securities (3)	$ 337,746	$	$ 337,746	$
Loans held for sale	16,454		16,454	
Loans (1)	52,464		4,556	47,908
Other real estate owned (2)	23,259		23,259	
Long-lived assets held for sale (2)				

(1) *See Note F. Nonrecurring fair value adjustments to loans identified as impaired reflect full or partial write-downs that are based on the loan s observable market price or current appraised value of the collateral in accordance*

with ASC 310.

(2) *Fair value is measured on a nonrecurring basis in accordance with ASC 360.*

(3) *See Note J for further detail of fair value of individual investment categories.*

When appraisals are used to determine fair value and the appraisals are based on a market approach, the related loan s fair value is classified as Level 2 input. The fair value of loans based on appraisals which require significant adjustments to market-based valuation inputs or apply an income approach based on unobservable cash flows, is classified as Level 3 input.

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 and/or quarterly valuation process.

During the first six months of 2010 transfers into and out of level 2 fair value for available for sale securities consisted of investment purchases, sales, maturities and principal repayments.

For loans classified as level 2 the transfers in totaled $5.3 million consisting of loans that became impaired during the first six months of 2010. Transfers out consisted of valuation write-downs of $266,000, foreclosures of $358,000 migrating to other real estate owned (OREO) and other reductions (including principal payments) totaling $188,000. No sales were recorded.

For OREO classified as level 2 during the first six months of 2010 transfers out totaled $2,819,000 consisting of valuation write-downs of $116,000 and sales of $2,703,000 and transfers in consisted of foreclosed loans totaling $429,000.

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The following table shows the carrying value and fair value of the Company s financial assets and financial liabilities as of June 30, 2010:

	June 30, 2010	
(Dollars in thousands)	Carrying Value	Fair Value
Financial Assets		
Cash and cash equivalents	$ 312,285	$ 312,285
Securities	393,781	394,063
Loans, net	1,260,319	1,287,176
Loans held for sale	7,372	7,372
Financial Liabilities		
Deposit liabilities	1,715,894	1,725,565
Borrowings	125,310	129,390
Subordinated debt	53,610	17,200

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value at June 30, 2010:

Cash and cash equivalents: The carrying amount was used as a reasonable estimate of fair value.

Securities: The fair value of U.S. Treasury and U.S. Government agency, mutual fund and mortgage backed securities are based on market quotations when available or by using a discounted cash flow approach. The fair value of many state and municipal securities are not readily available through market sources, so fair value estimates are based on quoted market price or prices of similar instruments.

Loans: Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, mortgage, etc. Each loan category is further segmented into fixed and adjustable rate interest terms and by performing and nonperforming categories. The fair value of loans, except residential mortgages, is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risks inherent in the loan. For residential mortgage loans, fair value is estimated by discounting contractual cash flows adjusting for prepayment assumptions using discount rates based on secondary market sources. The estimated fair value is not an exit price fair value under ASC 820 when this valuation technique is used.

Loans held for sale: Fair values are based upon estimated values to be received from independent third party purchasers.

Deposit Liabilities: The fair value of demand deposits, savings accounts and money market deposits is the amount payable at the reporting date. The fair value of fixed maturity certificates of deposit is estimated using the rates currently offered for funding of similar remaining maturities.

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Borrowings: The fair value of floating rate borrowings is the amount payable on demand at the reporting date. The fair value of fixed rate borrowings is estimated using the rates currently offered for borrowings of similar remaining maturities.

Subordinated debt: The fair value of the floating rate subordinated debt is estimated using discounted cash flow analysis and the Company s current incremental borrowing rate for similar instruments.

NOTE F IMPAIRED LOANS AND ALLOWANCE FOR LOAN LOSSES

At June 30, 2010 and 2009, the Company s recorded investments in impaired loans and the related valuation allowances were as follows:

	2010		2009	
(Dollars in thousands)	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
Impaired loans without an allowance	$ 43,771	$ 0	$ 80,828	$ 0
Impaired loans with an allowance	113,590	10,291	62,103	9,639
	$ 157,361	$ 10,291	$ 142,931	$ 9,639

Impaired loans also include loans that have been modified in troubled debt restructurings (TDRs) where concessions to borrowers who experienced financial difficulties have been granted. At June 30, 2010 and 2009, accruing TDRs totaled $64.9 million and $14.8 million, respectively.

The valuation allowance is included in the allowance for loan losses. Impaired loans were measured for impairment based on the value of underlying collateral as well as the collection of future cash flows.

Interest payments received on impaired loans are recorded as interest income, unless the collection of the remaining recorded investment is doubtful at that time, in which case, payments received are recorded as reductions to principal.

Nonaccrual loans and accruing loans past due 90 days or more were $90,885,000 and $78,000, respectively, at June 30, 2010 and $126,758,000 and $1,383,000, respectively, at June 30, 2009.

NOTE G: CONTINGENCIES

The Company and its subsidiaries, because of the nature of their businesses, are at all times subject to numerous legal actions, threatened or filed. Management presently believes that none of the legal proceedings to which it is a party are likely to have a materially adverse effect on the Company s consolidated financial condition, operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

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The Company has evaluated events from the date of the condensed consolidated financial statements on June 30, 2010 through the issuance of those condensed consolidated financial statements included in this Quarterly Report on Form 10-Q on August 9, 2010. No material events were identified requiring recognition and/or disclosure in the condensed consolidated financial statements.

NOTE H: EQUITY CAPITAL

A stock offering was completed during April of 2010 adding $50 million of Series B Mandatorily Convertible Noncumulative Nonvoting Preferred Stock (Series B Preferred Stock) as permanent capital, resulting in approximately $47.3 million in additional Tier 1 risk-based equity, net of issuance costs. The shares of Series B Preferred Stock were mandatorily convertible into common shares five days subsequent to shareholder approval, which was granted at the Company s annual meeting on June 22, 2010 (see Part II., Item 4, Submission of Matters to a Vote of Security Holders contained in this Report).

The Company is well capitalized for bank regulatory purposes. To be categorized as well capitalized, the Company must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth under Capital Resources in this Report. At June 30, 2010, the Company s principal subsidiary, Seacoast National Bank, or Seacoast National , met the risk-based capital and leverage ratio requirements for well capitalized banks under the regulatory framework for prompt corrective action.

Seacoast National has agreed to maintain a Tier 1 capital (to adjusted average assets) ratio of at least 8.50% and a total risk-based capital ratio of at least 12.00% with its primary regulator, the Office of the Comptroller of the Currency (OCC). The agreement with the OCC as to minimum capital ratios does not change the Bank s status as well-capitalized for bank regulatory purposes.

NOTE I: LETTERS OF CREDIT

During the first quarter of 2010, the Company s banking subsidiary reduced by $33.0 million the letters of credit issued by the Federal Home Loan Bank (FHLB) used to satisfy a pledging requirement. Letters of credit outstanding with the FHLB sum to $43.0 million at June 30, 2010. The letters of credit have a term of one year with an annual fee equivalent to 5 basis points, or $21,500, amortized over the one year term of the letters. No interest cost is associated with the letters of credit.

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NOTE J: SECURITIES

The amortized cost and fair value of securities available for sale and held for investment at June 30, 2010 and December 31, 2009 are summarized as follows:

	June 30, 2010			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
SECURITIES AVAILABLE FOR SALE				
U.S. Treasury securities and obligations of U.S. Government Sponsored Entities	$ 5,294	$ 18	$	$ 5,312
Mortgage-backed securities of Government Sponsored Entities	65,338	1,022	(28)	66,332
Collateralized mortgage obligations of Government Sponsored Entities	233,196	6,294	(55)	239,435
Private collateralized mortgage obligations	69,056	1,146	(1,592)	68,610
Obligations of state and political subdivisions	1,638	91		1,729
Other	3,031			3,031
	$ 377,553	$ 8,571	$ (1,675)	$ 384,449
SECURITIES HELD FOR INVESTMENT				
Private collateralized mortgage obligations	$ 5,364	$ 189	$	$ 5,553
Obligations of state and political subdivisions	3,968	95	(2)	4,061
	$ 9,332	$ 284	$ (2)	$ 9,614

	December 31, 2009			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
SECURITIES AVAILABLE FOR SALE				
U.S. Treasury securities and obligations of U.S. Government Sponsored Entities	$ 3,689	$ 2	$ (3)	$ 3,688
Mortgage-backed securities of Government Sponsored Entities	60,154	719	(325)	60,548
Collateralized mortgage obligations of Government Sponsored Entities	250,762	5,219	(733)	255,248
Private collateralized mortgage obligations	70,719	569	(2,220)	69,068
Obligations of state and political subdivisions	2,021	49	(7)	2,063
Other	3,033			3,033
	$ 390,378	$ 6,558	$ (3,288)	$ 393,648
SECURITIES HELD FOR INVESTMENT				
	$ 288	$ 1	$	$ 289

Collateralized mortgage obligations of Government Sponsored Entities							
Private collateralized mortgage obligations		12,565		73		(1)		12,637
Obligations of state and political subdivisions		4,234		55		(5)		4,284
	$	17,087	$	129	$	(6)	$	17,210

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Sales of securities for the six month period ended June 30, 2010, were $87,045,000 with gross gains of $3,477,000 and no losses. Proceeds from sales of securities available for sale for the six month period ended June 30, 2009, were $31,376,000 with gross gains of $1,786,000 and no losses.

Securities with a carrying value of $301,042,000 and $320,768,000 and a fair value of $301,052,000 and $320,775,000 at June 30, 2010 and December 31, 2009, respectively, were pledged as collateral for repurchase agreements, United States Treasury deposits, and other public and trust deposits.

The amortized cost and fair value of securities at June 30, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	Held for Investment		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due in less than one year	$	$	$ 3,596	$ 3,598
Due after one year through five years	1,672	1,690	1,698	1,714
Due after five years through ten years	2,296	2,371	1,388	1,471
Due after ten years			250	258
	3,968	4,061	6,932	7,041
Mortgage-backed securities of Government Sponsored Entities			65,338	66,332
Collateralized mortgage obligations of Government Sponsored Entities			233,196	239,435
Private collateralized mortgage obligations	5,364	5,553	69,056	68,610
No contractual maturity			3,031	3,031
	$ 9,332	$ 9,614	$ 377,553	$ 384,449

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The estimated fair value of a security is determined based on market quotations when available or, if not available, by using quoted market prices for similar securities, pricing models or discounted cash flows analyses, using observable market data where available. The tables below indicate the amount of securities with unrealized losses and period of time for which these losses were outstanding at June 30, 2010 and December 31, 2009, respectively.

	June 30, 2010					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Mortgage-backed securities of Government Sponsored Entities	$ 10,118	$ (28)	$	$	$ 10,118	$ (28)
Collateralized mortgage obligations of Government Sponsored Entities	22,676	(55)			22,676	(55)
Private collateralized mortgage obligations	21,292	(537)	15,433	(1,055)	36,725	(1,592)
Obligations of state and political subdivisions			303	(2)	303	(2)
Total temporarily impaired securities	$ 54,086	$ (620)	$ 15,736	$ (1,057)	$ 69,822	$ (1,677)

	December 31, 2009					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. Treasury securities and obligations of U.S. Government Sponsored Entities	$ 2,489	$ (3)	$	$	$ 2,489	$ (3)
Mortgage-backed securities of Government Sponsored Entities	32,519	(325)			32,519	(325)
Collateralized mortgage obligations of Government Sponsored Entities	57,438	(733)			57,438	(733)
Private collateralized mortgage obligations	18,211	(115)	18,498	(2,106)	36,709	(2,221)
Obligations of state and political subdivisions			1,542	(12)	1,542	(12)
Total temporarily impaired securities	$ 110,657	$ (1,176)	$ 20,040	$ (2,118)	$ 130,697	$ (3,294)

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The Company owned individual investment securities totaling $69.8 million with aggregate gross unrealized losses at June 30, 2010. Based on a review of each of the securities in the investment securities portfolio at June 30, 2010, the Company concluded that it expected to recover the amortized cost basis of its investment.

Approximately $1.6 million of the unrealized losses at June 30, 2010 pertain to private label securities secured by collateral originated in 2005 and prior with a fair value of $36.7 million and were attributable to a combination of factors, including relative changes in interest rates since the time of purchase and decreased liquidity for investment securities in general. The collateral underlying these mortgage investments are 30- and 15-year fixed and 10/1 adjustable rate mortgages loans with low loan to values, subordination and historically have had minimal foreclosures and losses. Based on its assessment of these factors, management believes that the unrealized losses on these debt security holdings are a function of changes in investment spreads and interest rate movements and not changes in credit quality.

At June 30, 2010, the Company also had $83,000 of unrealized losses on mortgage-backed securities of government sponsored entities having a fair value of $32.8 million that were attributable to a combination of factors, including relative changes in interest rates since the time of purchase and decreased liquidity for investment securities in general. The contractual cash flows for these securities are guaranteed by U.S. government agencies and U.S. government-sponsored enterprises. Based on its assessment of these factors, management believes that the unrealized losses on these debt security holdings are a function of changes in investment spreads and interest rate movements and not changes in credit quality. Management expects to recover the entire amortized cost basis of these securities.

The unrealized losses on debt securities issued by states and political subdivisions amounted to $2,000 at June 30, 2010. The unrealized losses on state and municipal holdings included in this analysis are attributable to a combination of factors, including a general decrease in liquidity and an increase in risk premiums for credit-sensitive securities since the time of purchase. Based on its assessment of these factors, management believes that unrealized losses on these debt security holdings are a function of changes in investment spreads and liquidity and not changes in credit quality. Management expects to recover the entire amortized cast basis of these securities.

As of June 30, 2010, the Company does not intend to sell nor is it anticipated that it would be required to sell any of its investment securities that have losses. Therefore, management does not consider any investment to be other-than-temporarily impaired at June 30, 2010.

Included in other assets was $13.1 million at June 30, 2010 of Federal Home Loan Bank and Federal Reserve Bank stock stated at par value. At June 30, 2010, the Company has not identified events or changes in circumstances which may have a significant adverse effect on the fair value of the $13.1 million of cost method investment securities.

NOTE K: INCOME TAXES

The tax benefit for the net loss for the first and second quarters of 2010 totaled $0.6 million and $5.3 million, respectively. A deferred tax valuation allowance was recorded in a like amount, and therefore there was no change in the carrying value of net deferred tax assets which are supported by tax planning strategies. Should the economy show improvement and the Company s credit losses moderate in the future, increased reliance on management s forecast of future taxable earnings could result in realization of additional future tax benefits from the net operating loss carryforwards. At June 30, 2010 the Company has approximately $41.1 million in its deferred tax valuation allowance related to its net operating loss carryforwards.

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NOTE L COMPREHENSIVE LOSS

At June 30, 2010 and 2009, comprehensive loss was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2010	2009	2010	2009
Net loss	$ (13,796)	$ (63,000)	$ (15,360)	$ (67,760)
Unrealized gains (losses) on securities available for sale (net of tax)	2,564	(994)	3,929	1,193
Net reclassification adjustment	(982)	(1,325)	(1,703)	(686)
Comprehensive loss	$ (12,214)	$ (65,319)	$ (13,134)	$ (67,253)

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SECOND QUARTER 2010

The following discussion and analysis is designed to provide a better understanding of the significant factors related to the Company s results of operations and financial condition. Such discussion and analysis should be read in conjunction with the Company s Condensed Consolidated Financial Statements and the related notes included in this report. For purposes of the following discussion, the words the Company, we, us, and our refer to the combi entities of Seacoast Banking Corporation of Florida and its direct and indirect wholly owned subsidiaries.

EARNINGS SUMMARY

Net loss available to common shareholders for the second quarter of 2010 totaled $14,733,000 or $0.25 per average common diluted share, compared to first quarter 2010 s net loss of $2,501,000 or $0.04 per average common diluted share, and significantly improved when compared to losses in 2009 for the fourth, third, and second quarters of $39,086,000 or $0.73 per average common diluted share, $41,714,000 or $1.21 per average common diluted share, and $63,937,000 or $3.35 per average common diluted share, respectively. The better performance for 2010 reflects lower credit costs. Second quarter 2009 s result included a $49.8 million write-off of goodwill.

The net interest margin deteriorated slightly, decreasing 21 basis points during the second quarter of 2010 from the first quarter of 2010, and was 38 basis lower than for the second quarter of 2009. While the Company has continued to benefit from lower rates paid for interest bearing liabilities due to the Federal Reserve s reduction in interest rates, as well as, an improved mix of deposits, the impact of nonaccrual loans and a changing earning assets mix has been more than offsetting. The average cost of interest bearing liabilities was 8 basis points lower for the second quarter of 2010, compared to first quarter 2010, and was 13 basis points lower for the first quarter of 2010, compared to the fourth quarter of 2009, 12 basis points lower for the fourth quarter of 2009, compared to the third quarter of 2009, and 15 basis points lower for the third quarter of 2009, compared to second quarter 2009, a total reduction of 48 basis points over the last twelve months. The improved mix of deposits reflects the continued success of our retail deposit growth initiatives. Loans as a percentage of earning assets have declined, and lower yielding securities and interest bearing deposits have grown. As a result, the yield on earning assets declined 30 basis points during the second quarter of 2010, compared to the first quarter of 2010, and was 81 basis points lower than for the second quarter of 2009. Loan demand is expected to continue to be weak during 2010, and possibly into 2011, which may impede an improvement to the yield on earning assets.

Noninterest income totaled $4.6 million for the second quarter of 2010, compared to $4.6 million for the first quarter of 2010 and $4.8 million for the second quarter of 2009. Signs of improved stability in home prices and greater transaction volumes resulted in fee income from residential real estate production higher than first quarter 2010 s result. Revenue from wealth management services were $0.1 million lower and service charges on deposits were $0.1 million lower when compared to second quarter 2009 and were offset by improved results in debit card income for the second quarter of 2010. Consumer activity and spending has been adversely affected by economic conditions and directly affects many of the Company s fee-based business activities. Service charges and fees derived from customer relationships increased as a result of more accounts and households as a result of the retail deposit growth strategy. Compared to the first quarter 2010 these revenues were up $80,000 or 5.8 percent in the second quarter 2010. Overdraft fees related to check card payments beginning in the third quarter may be impacted by a requirement that customers elect to opt in for overdraft protection to be available for these types of payments. The Company has historically derived approximately 43 percent of total overdraft fee income from these transactions.

Noninterest expenses decreased by $4.1 million versus first quarter 2010 s result and were $51.8 million lower when compared to the second quarter of 2009. Excluding the write-off of impaired goodwill in 2009, overhead was $2.0 million lower for the second quarter of 2010 when compared to the second quarter of 2009. Overhead related to salaries and wages, employee benefits, outsourced data processing costs, occupancy and furniture and equipment expenses, and marketing expenses have been relatively stable year over year. The decrease for both periods was primarily a result of losses on other real estate owned and other asset dispositions, decreasing by $3.7 million and $1.0 million over each of the periods compared, respectively, as well as, a decrease year over year in FDIC assessments of $1.0 million, reflecting the one-time assessment imposed by the FDIC in the second quarter a year ago.

Our provision for loan losses was higher than in the first quarter of 2010, but was $9.5 lower than for the second quarter of 2009, and resulted in a $16.7 million provision for loan losses for the second quarter of 2010 compared to $2.1 million and $26.2 million for the first quarter of 2010 and second quarter of 2009, respectively. A portion of the increase in net charge-offs during the second quarter of 2010 was related to the sale $23.5 million of nonperforming loans for net proceeds of $14.2 million of $9.3 million. Provisions for loans losses were much higher during 2009 as a result of higher net charge-offs and the Company increasing its allowance for loan losses to loans outstanding ratio to 3.23 percent at December 31, 2009, up 148 basis points from December 31, 2008. The allowance for loan losses to loans outstanding ratio at June 30, 2010 was 3.10 percent.

CRITICAL ACCOUNTING ESTIMATES

Management, after consultation with the Company s Audit Committee, believes the most critical accounting estimates and assumptions that involve the most difficult, subjective and complex assessments are:

- the allowance and the provision for loan losses;
- the fair value and other than temporary impairment of securities;
- realization of deferred tax assets; and
- contingent liabilities.

The following is a discussion of the critical accounting policies intended to facilitate a reader s understanding of the judgments, estimates and assumptions underlying these accounting policies and the possible or likely events or uncertainties known to us that could have a material effect on our reported financial information.

Allowance and Provision for Loan Losses

The information contained on pages 28-30 and 38-47 related to the Provision for Loan Losses , Loan Portfolio , Allowance for Loan Losses and Nonperforming Assets is intended to describe the known trends, events and uncertainties which could materially affect the Company s accounting estimates related to our allowance for loan losses.

Fair Value and Other than Temporary Impairment of Securities Classified as Available for Sale

At June 30, 2010, outstanding securities designated as available for sale totaled $384,449,000. The fair value of the available for sale portfolio at June 30, 2010 was more than historical amortized cost, producing net unrealized gains of $6,896,000 that have been included in other comprehensive income (loss) as a component of shareholders equity (net of taxes). The Company made no change to the valuation techniques used to determine the fair values of securities during 2010 and 2009. The fair value of each security available for sale was obtained from independent pricing sources utilized by many financial institutions. The fair value of many state and municipal securities are not readily available through market sources, so fair value estimates are based on quoted market price or prices of similar instruments. Generally, the Company obtains one price for each security. However, actual values can only be determined in an arms-length transaction between a willing buyer and seller that can, and often do, vary from these reported values. Furthermore, significant changes in recorded values due to changes in actual and perceived economic conditions can occur rapidly, producing greater unrealized losses or gains in the available for sale portfolio.

The credit quality of the Company s securities holdings currently is investment grade. Any securities rated below investment grade are tested for other than temporary impairment, or OTTI . The Company s investment securities, except for approximately $5.7 million of securities issued by states and their political subdivisions, as of June 30, 2010, generally are traded in liquid markets. U.S. Treasury and U.S. Government agency obligations totaled $311.1 million, or 81 percent of the total available for sale portfolio. The remainder of the portfolio primarily consists of private label securities secured by collateral originated in 2005 or prior with amortized loan to values below 70%, and current FICO scores above 700. Generally these securities have credit support exceeding 5%. The collateral underlying these mortgage investments are primarily 30- and 15-year fixed rate, 5/1 and 10/1 adjustable rate mortgage loans. Historically, the mortgage loans serving as collateral for those investments have had minimal foreclosures and losses.

These investments are reviewed quarterly for other than temporary impairment, by considering the following primary factors: percent decline in fair value, rating downgrades, subordination, duration, amortized loan-to-value, and the ability of the issuers to pay all amounts due in accordance with the contractual terms. Prices obtained from pricing services are usually not adjusted. Based on our internal review procedures and the fair values provided by the pricing services, we believe that the fair values provided by the pricing services are consistent with the principles of ASC 820. However, on occasion pricing provided by the pricing services may not be consistent with other observed prices in the market for similar securities. Using observable market factors, including interest rate and yield curves, volatilities, prepayment speeds, loss severities and default rates, the Company may at times validate the observed prices using a discounted cash flow model and using the observed prices for similar securities to determine the fair value of its securities.

Changes in the fair values, as a result of deteriorating economic conditions and credit spread changes, should only be temporary. Further, management believes that the Company s other sources of liquidity, as well as the cash flow from principal and interest payments from the securities portfolio, reduces the risk that losses would be realized as a result of a need to sell securities to obtain liquidity.

The Company also holds stock in the Federal Home Loan Bank of Atlanta (FHLB) totaling $7.1 million as of June 30, 2010, the same as at year-end 2009. The FHLB had eliminated its dividend for the first quarter of 2009 but has since reinstated dividends. The FHLB also instituted quarterly rather than daily repurchases of FHLB activity-based stock in February 2009. The Company accounts for its FHLB stock based on the industry guidance in ASC 942, Financial Services Depository and Lending, which requires the investment to be carried at cost and evaluated for impairment based on the ultimate recoverability of the par value. We evaluated our holdings in FHLB stock at June 30, 2010 and believe our holdings in the stock are ultimately recoverable at par. We do not have operational or liquidity needs that would require redemption of the FHLB stock in the foreseeable future and, therefore, have determined that the stock is not other-than-temporarily impaired.

Realization of Deferred Tax Assets

At June 30, 2010, the Company has net deferred tax assets of $17.4 million which are supported by tax planning strategies that could produce gains from transactions involving bank premises, investments, and other items that could be implemented during the NOL carry forward period.

As a result of the losses incurred in 2008 and 2009, the Company was and is in a three-year cumulative pretax loss position. A cumulative loss position is considered significant negative evidence in assessing the prospective realization of a DTA from a forecast of future taxable income. The use of the Company s forecast of future taxable income was not considered positive evidence which could be used to offset the negative evidence at this time, given the uncertain economic conditions. Therefore, the Company has recorded deferred tax valuation allowances for its net operating loss carryforwards totaling approximately $41 million at June 30, 2010. Should the economy show signs of improvement and our credit costs continue to moderate, management anticipates that increased reliance on its forecast of future taxable earnings would result in tax benefits as the recording of valuation allowances would no longer be necessary.

Contingent Liabilities

The Company is subject to contingent liabilities, including judicial, regulatory and arbitration proceedings, and tax and other claims arising from the conduct of our business activities. These proceedings include actions brought against the Company and/or our subsidiaries with respect to transactions in which the Company and/or our subsidiaries acted as a lender, a financial advisor, a broker or acted in a related activity. Accruals are established for legal and other claims when it becomes probable the Company will incur an expense and the amount can be reasonably estimated. Company management, together with attorneys, consultants and other professionals, assesses the probability and estimated amounts involved in a contingency. Throughout the life of a contingency, the Company or our advisors may learn of additional information that can affect our assessments about probability or about the estimates of amounts involved. Changes in these assessments can lead to changes in recorded reserves. In addition, the actual costs of resolving these claims may be substantially higher or lower than the amounts reserved for those claims. At June 30, 2010 and 2009, the Company had no significant accruals for contingent liabilities.

RESULTS OF OPERATIONS

NET INTEREST INCOME

Net interest income (on a fully taxable equivalent basis) for the second quarter of 2010 totaled $16,286,000, decreasing from 2010 s first quarter by $1,002,000 or 5.8 percent, and lower than second quarter 2009 s result by $2,701,000 or 14.2 percent. The following table details net interest income and margin results (on a tax equivalent basis) for the past five quarters:

(Dollars in thousands)		Net Interest Income (tax equivalent)	Net Interest Margin (tax equivalent)
Second quarter 2009	$	18,987	3.65
Third quarter 2009		19,101	3.74
Fourth quarter 2009		17,518	3.37
First quarter 2010		17,288	3.48
Second quarter 2010		16,286	3.27

Fully taxable equivalent net interest income is a common term and measure used in the banking industry but is not a term used under generally accepted accounting principles (GAAP). We believe that these presentations of tax-equivalent net interest income and tax equivalent net interest margin aid in the comparability of net interest income arising from both taxable and tax-exempt sources over the periods presented. We further believe these non-GAAP measures enhance investors understanding of the Company s business and performance, and facilitate an understanding of performance trends and comparisons with the performance of other financial institutions. The limitations associated with these measures are the risk that persons might disagree as to the appropriateness of items comprising these measures and that different companies might calculate these measures differently, including as a result of using different assumed tax rates. These disclosures should not be considered an alternative to GAAP. The following information is provided to reconcile GAAP measures and tax equivalent net interest income and net interest margin on a tax equivalent basis.

		Second Quarter 2010		First Quarter 2010		Fourth Quarter 2009		Third Quarter 2009		Second Quarter 2009
					(Dollars in thousands)					
Non-taxable interest income	$	135	$	148	$	145	$	105	$	135
Tax Rate		35%		35%		35%		35%		35%
Net interest income (TE)	$	16,286	$	17,288	$	17,518	$	19,101	$	18,987
Total net interest income (not TE)		16,217		17,213		17,444		19,051		18,920

Net interest margin (TE)	3.27%	3.48%	3.37%	3.74%	3.65%
Net interest margin (not TE)	3.25	3.46	3.35	3.73	3.64

Net interest margin on a tax equivalent basis declined 21 basis points to 3.27 percent for the second quarter of 2010 compared to the first quarter of 2010, and was lower by 38 basis points year over year. Increased nonaccrual loans and changes in the earnings assets mix have been the primary forces that have adversely affected our net interest income and net interest margin when comparing results for 2010 and 2009 to 2008 and prior periods.

The earning asset mix changed year over year impacting net interest income. For the second quarter of 2010, average loans (the highest yielding component of earning assets) as a percentage of average earning assets totaled 67.3 percent, compared to 78.2 percent a year ago. Average securities as a percent of average earning assets increased from 17.4 percent a year ago to 19.5 percent during the second quarter of 2010 and interest bearing deposits and other investments increased to 13.2 percent from 4.4 percent in 2009. In addition to decreasing average total loans as a percentage of earning assets, the mix of loans changed, with commercial real estate volumes representing 48.8 percent of total loans at June 30, 2010 (compared to 52.8 percent at June 30, 2009). This reflects our reduced exposure to commercial construction and land development loans on residential and commercial properties, which declined by $64.2 million and $128.0 million, respectively, from June 30, 2009 to June 30, 2010. Lower yielding residential loan balances with individuals (including home equity loans and lines, and personal construction loans) represented 42.7 percent of total loans at June 30, 2010 (versus 38.3 percent a year ago) (see Loan Portfolio). It is expected that these trends in earning asset mix will continue throughout 2010 when compared to prior periods.

The yield on earning assets for the second quarter of 2010 was 4.22 percent, 81 basis points lower than for 2009 in the second quarter, a reflection of the lower interest rate environment and earning asset mix. The Federal Reserve has indicated its intent to continue rates at their historical lows for an extended period. The following table details the yield on earning assets (on a tax equivalent basis) for the past five quarters:

	2nd Quarter 2010	1st Quarter 2010	4th Quarter 2009	3rd Quarter 2009	2nd Quarter 2009
Yield	4.22%	4.52%	4.51%	4.98%	5.03%

The yield on loans declined 14 basis points to 5.19 percent over the last twelve months for the same reasons noted above. Nonaccrual loans totaling $90.9 million or 7.0 percent of total loans at June 30, 2010, versus $126.8 million or 8.0 percent of total loans a year ago, have reduced the yield on our loan portfolio. The yield on investment securities was lower as well, decreasing 140 basis points year over year to 3.46 percent for the second quarter of 2010, due primarily to purchases of securities at lower yields available in current markets, which diluted the overall portfolio yield year over year. The dilution in yield on investment securities has been more severe over the past three quarters, with the decline of 140 basis points for the second quarter of 2010 year over year, comparing to a decline of 78 basis points for first quarter 2010 year over year, and a decline of 69 basis points for the fourth quarter of 2009 year over year, versus 6 basis points for the third quarter of 2009 and 22 basis points for second quarter 2009 year over year. Interest bearing deposits and other investments yielded 0.41 percent for the second quarter of 2010, close to second quarter 2009 s yield of 0.47 percent. The Company has approximately $200 million of excess cash liquidity it can invest in securities or loans at higher yields when management deems it appropriate.

Average earning assets for the second quarter of 2010 decreased $64.5 million or 3.1 percent compared to 2009 s second quarter. Average loan balances decreased $270.4 million or 16.6 percent to $1,361.3 million, while average investment securities were $30.6 million or 8.4 percent higher totaling $394.2 million and average interest bearing deposits and other investments increased $175.2 million or 190.1 percent to $267.4 million. The decline in average earning assets is consistent with reduced funding as a result of a planned reduction of brokered deposits (only $19.8 remain outstanding at June 30, 2010), the maturity of a $15.0 million advance from the FHLB in November 2009, and lower sweep repurchase arrangements (declining $26.5 million from second quarter a year ago, principally in public funds as a result of lower tax receipts).

Commercial and commercial real estate loan production for the first six months of 2010 totaled $5 million, compared to production for all of 2009 of $14 million. In comparison, commercial and commercial real estate loan production for 2008 totaled $117 million. Period-end total loans outstanding have declined by $283.7 million or 17.9 percent since June 30, 2009, and declined similarly during second quarter 2009 year over year, by $224.4 million or 12.4 percent. Loan demand remains weak. Economic conditions in the markets the Company serves are expected to continue to be challenging, and although we continue to make loans generally, these conditions are expected to have a negative impact on loan growth during 2010, but possibly to a lessened degree if the consensus opinion that conditions will improve in late 2010 is realized. At June 30, 2010 the Company s total commercial and commercial real estate loan pipeline was $14 million, versus $47 million at December 31, 2009 and $72 million at June 30, 2009.

A total of 37 and 28 applications were received seeking restructured residential mortgages during the first and second quarters of 2010, respectively, compared to 93, 102, 73 and 48 in the first, second, third and fourth quarters of 2009, respectively. The Company continues to lend, and we have expanded our mortgage loan originations and seek to expand loans to small businesses in 2010. However, as consumers and businesses seek to reduce their borrowings, and the economy remains weak, opportunities to lend prudently to creditworthy borrowers are expected to remain a challenge.

Closed residential mortgage loan production for the first and second quarters of 2010 totaled $33 million in each quarter, of which $22 million and $24 million was sold servicing-released, respectively. In comparison, $36 million in residential loans were produced in the fourth quarter of 2009, of which $19 million was sold servicing-released $28 million in residential loans were produced in the third quarter of 2009, all of it sold servicing released, $43 million in residential loans were produced in the second quarter of 2009, of which $24 million was sold servicing-released, and $38 million in residential loans were produced in the first quarter of 2009, with $20 million sold servicing-released. Applications for residential mortgages totaled $107 million during the first six months of 2010, compared to $163 million a year ago for the first six months of 2009. Existing home sales and home mortgage loan refinancing activity in the Company s markets have increased, but demand for new home construction is expected to remain soft in 2010.

During the first and second quarters of 2010, proceeds from the sale of mortgage backed securities totaling $59.2 million and $27.9 million, respectively, included securities gains of $2,100,000 and $1,377,000, respectively. Because of historically tight spreads it was believed these securities had minimal opportunity to further increase in value. During the second quarter of 2010 maturities (primarily pay-downs) totaled $33.2 million and securities portfolio purchases totaled $74.7 million. In comparison, during the first quarter of 2010 maturities (entirely pay-downs) totaled $35.2 million and securities portfolio purchases totaled $56.8 million. Purchases in 2010 were conducted principally to reinvest funds from maturities and the sale of the mortgage backed securities. In comparison, during the second quarter of 2009, two mortgage backed securities were sold, providing proceeds of $31.4 million and gains totaling $1,786,000, maturities (principally pay-downs and one large maturity of $20 million) totaled $47.4 million and securities portfolio purchases totaled $64.2 million. In comparison, during the first quarter of 2009 maturities (entirely pay-downs) totaled $10.5 million and securities portfolio purchases totaled $36.0 million.

The cost of average interest-bearing liabilities in the second quarter of 2010 decreased 8 basis points to 1.17 percent from first quarter 2010 and was 48 basis points lower than for the second quarter of 2009, reflecting the lower interest rate environment. The following table details the cost of average interest bearing liabilities for the past five quarters:

	2nd Quarter 2010	1st Quarter 2010	4th Quarter 2009	3rd Quarter 2009	2nd Quarter 2009
Rate	1.17%	1.25%	1.38%	1.50%	1.65%

During 2010, the Company s retail core deposit focus continues to produce strong growth in core deposit customer relationships when compared to prior year results, and resulted in increased balances which offset most of the planned certificate of deposit runoff during the first and second quarters of 2010. A total of 1,939 new households were added during the second quarter of 2010, up from 1,900 in the first quarter 2010 and 1,600 new households in the second quarter of 2009. The improved deposit mix and lower rates paid on interest bearing deposits during 2010 (and last several quarters) reduced the overall cost of interest bearing deposits to 1.12 percent, 55 basis points lower than a year ago. A significant component favorably affecting the Company s net interest margin, the average balances of lower cost interest bearing deposits (NOW, savings and money market) totaled 60.6 percent of total average interest bearing deposits for the second quarter of 2010, an improvement compared to the average of 54.2 percent a year ago. The average rate for lower cost interest bearing deposits for the second quarter of 2010 was 0.56 percent, down by 15 basis points from 2009 s rate. CD rates paid were also lower compared to 2009, lower by 81 basis points and averaging 1.99 percent for second quarter 2010. Average CDs (the highest cost component of interest bearing deposits) were 39.4 percent of interest bearing deposits for second quarter 2010, compared to 45.8 percent for 2009.

Average deposits totaled $1,738.9 million during the second quarter of 2010, and were $34.2 million lower compared to 2009, due primarily to a planned reduction of brokered deposits. Total average sweep repurchase agreements for second quarter 2010 were $50.0 million lower versus a year ago, a result of public fund customers maintaining larger balances in repurchase agreements during the second quarter of 2009. Average aggregate amounts for NOW, savings and money market balances increased $75.8 million or 9.4 percent to $884.3 million for the second quarter of 2010 compared to 2009, noninterest bearing deposits decreased $1.8 million or 0.6 percent to $280.0 million, and average CDs decreased by $108.3 million or 15.9 percent to $574.7 million. With the low interest rate environment and lower CD rate offerings available, customers have been more complacen