

INDEPENDENT BANK CORP

Form 10-Q

May 08, 2009

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**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

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

For the quarterly period ended March 31, 2009

Commission File Number: 1-9047

Independent Bank Corp.

(Exact name of registrant as specified in its charter)

Massachusetts
(State or other jurisdiction of
incorporation or organization)

04-2870273
(I.R.S. Employer
Identification No.)

288 Union Street, Rockland, Massachusetts 02370
(Address of principal executive offices, including zip code)
(781) 878-6100

(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 No

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 Accelerated filer Non-accelerated filer Smaller reporting company

(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 No

As of May 1, 2009, there were 20,912,403 shares of the issuer's common stock outstanding, par value \$0.01 per share

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EX-32.1 SECTION 906 CERTIFICATION OF CEO

EX-32.2 SECTION 906 CERTIFICATION OF CFO

Table of Contents**PART 1. FINANCIAL INFORMATION****Item 1. Financial Statements****INDEPENDENT BANK CORP.
CONSOLIDATED BALANCE SHEETS***(Unaudited- Dollars in Thousands, Except Share and Per Share Amounts)*

	March 31, 2009	December 31, 2008
ASSETS		
CASH AND DUE FROM BANKS	\$ 70,554	\$ 50,007
FED FUNDS SOLD AND SHORT TERM INVESTMENTS	149,729	100
SECURITIES		
TRADING ASSETS	2,580	2,701
SECURITIES AVAILABLE FOR SALE	558,541	600,291
SECURITIES HELD TO MATURITY (fair value \$27,342 and \$30,390)	30,804	32,789
FEDERAL HOME LOAN BANK STOCK	24,603	24,603
 TOTAL SECURITIES	 616,528	 660,384
 LOANS		
COMMERCIAL AND INDUSTRIAL	286,178	270,832
COMMERCIAL REAL ESTATE	1,136,411	1,126,295
COMMERCIAL CONSTRUCTION	166,272	171,955
SMALL BUSINESS	87,137	86,670
RESIDENTIAL REAL ESTATE	406,119	413,024
RESIDENTIAL CONSTRUCTION	9,727	10,950
RESIDENTIAL LOANS HELD FOR SALE	22,412	8,351
CONSUMER HOME EQUITY	411,097	406,240
CONSUMER AUTO	116,375	127,956
CONSUMER OTHER	35,847	38,614
 TOTAL LOANS	 2,677,575	 2,660,887
LESS: ALLOWANCE FOR LOAN LOSSES	(37,488)	(37,049)
 NET LOANS	 2,640,087	 2,623,838
 BANK PREMISES AND EQUIPMENT, NET	 36,733	 36,429
GOODWILL	116,863	116,437
IDENTIFIABLE INTANGIBLE ASSETS	8,863	9,273
MORTGAGE SERVICING RIGHTS	1,497	1,498
BANK OWNED LIFE INSURANCE	65,489	65,003
OTHER REAL ESTATE OWNED	1,763	1,808
OTHER ASSETS	58,333	63,692
 TOTAL ASSETS	 \$ 3,766,439	 \$ 3,628,469

LIABILITIES AND STOCKHOLDERS EQUITY		
DEPOSITS		
DEMAND DEPOSITS	\$ 541,038	\$ 519,326
SAVINGS AND INTEREST CHECKING ACCOUNTS	765,258	725,313
MONEY MARKET	536,808	488,345
TIME CERTIFICATES OF DEPOSIT OVER \$100,000	243,288	285,410
OTHER TIME CERTIFICATES OF DEPOSIT	567,349	560,686
TOTAL DEPOSITS	2,653,741	2,579,080
FEDERAL HOME LOAN BANK ADVANCES	408,480	429,634
FEDERAL FUNDS PURCHASED AND ASSETS SOLD UNDER REPURCHASE AGREEMENTS	169,616	170,880
SUBORDINATED DEBENTURES	30,000	30,000
JUNIOR SUBORDINATED DEBENTURES	61,857	61,857
OTHER BORROWINGS	2,442	2,946
TOTAL BORROWINGS	672,395	695,317
OTHER LIABILITIES	46,780	48,798
TOTAL LIABILITIES	\$ 3,372,916	\$ 3,323,195
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY		
PREFERRED STOCK, \$0.01 par value. Authorized: 1,000,000 Shares Issued and Outstanding: 78,158 Shares at March 31, 2009	\$ 73,578	\$
COMMON STOCK, \$0.01 par value. Authorized: 30,000,000 Shares Issued and Outstanding: 16,286,455 Shares at March 31, 2009 and 16,285,455 Shares at December 31, 2008	163	163
SHARES HELD IN RABBI TRUST AT COST 170,909 Shares at March 31, 2009 and 171,489 Shares at December 31, 2008	(2,329)	(2,267)
DEFERRED COMPENSATION OBLIGATION	2,329	2,267
ADDITIONAL PAID IN CAPITAL	142,140	137,488
RETAINED EARNINGS	184,387	177,493
ACCUMULATED OTHER COMPREHENSIVE LOSS, NET OF TAX	(6,745)	(9,870)
TOTAL STOCKHOLDERS EQUITY	393,523	305,274
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 3,766,439	\$ 3,628,469

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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INDEPENDENT BANK CORP.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited Dollars in Thousands, Except Share and Per Share Data)

	THREE MONTHS ENDED	
	March 31,	
	2009	2008
INTEREST INCOME		
Interest on Loans	\$ 35,946	\$ 35,168
Taxable Interest and Dividends on Securities	6,963	5,414
Non-taxable Interest and Dividends on Securities	304	478
Interest on Federal Funds Sold and Short-Term Investments	198	19
Total Interest and Dividend Income	43,411	41,079
INTEREST EXPENSE		
Interest on Deposits	8,407	10,315
Interest on Borrowings	5,015	4,999
Total Interest Expense	13,422	15,314
Net Interest Income	29,989	25,765
PROVISION FOR LOAN LOSSES	4,000	1,342
Net Interest Income After Provision For Loan Losses	25,989	24,423
NON-INTEREST INCOME		
Service Charges on Deposit Accounts	3,648	3,635
Wealth Management	2,330	2,676
Mortgage Banking Income, Net	1,156	1,114
Bank Owned Life Insurance Income	729	520
Net Gain/(Loss) on Sales of Securities Available for Sale	1,379	(609)
Other Non-Interest Income	1,231	902
Total Non-Interest Income	10,473	8,238
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	14,859	14,143
Occupancy and Equipment Expenses	3,705	2,903
Data Processing and Facilities Management	1,416	1,284
FDIC Assessment	536	58
Telephone	468	380
Advertising Expense	455	536
Consulting Expense	447	455
Software Maintenance	443	297
Merger & Acquisition Expenses	1,538	744
WorldCom Bond Loss Recovery		(418)

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Other Non-Interest Expense	4,440	3,650
Total Non-Interest Expense	28,307	24,032
INCOME BEFORE INCOME TAXES	8,155	8,629
PROVISION FOR INCOME TAXES	1,767	2,321
NET INCOME	\$ 6,388	\$ 6,308
PREFERRED STOCK DIVIDEND	\$ 1,173	
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 5,215	\$ 6,308
BASIC EARNINGS PER SHARE	\$ 0.32	\$ 0.44
DILUTED EARNINGS PER SHARE	\$ 0.32	\$ 0.44
Weighted average common shares (Basic)	16,285,955	14,386,845
Common share equivalents	17,881	73,133
Weighted average common shares (Diluted)	16,303,836	14,459,978

The accompanying condensed notes are an integral part of these unaudited consolidated financial statements.

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	COMMON PREFERRED STOCK	COMMON SHARES OUTSTANDING	VALUE OF DEFERRED COMPENSATION OBLIGATION	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (LOSS)	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL		
BALANCE DECEMBER 31, 2008	16,285,455	\$163	\$(2,267)	\$2,267	\$137,488	\$177,493	\$(9,870)	\$305,274	
Cumulative effect accounting adjustment, net of tax (1)						3,823	(3,823)		
Net Income						6,388		6,388	
Dividends Declared:									
Common Declared (\$0.18 per share)						(2,939)		(2,939)	
Preferred Declared (2)						(391)		(391)	
Proceeds From Exercise of Stock Options	1,000					13		13	
Tax Expense Related to Equity Award Activity						(13)		(13)	
Equity Based Compensation						85		85	
Change in Fair Value of Derivatives During Period, Net of Tax and Realized Gains/(Losses)							1,567	1,567	
Deferred Compensation Obligation Amortization of Prior Service Cost, net of tax			(62)	62			(65)	(65)	
Change in Unrealized Gain on Securities Available For Sale, Net of Tax and Realized Gains/(Losses)							5,446	5,446	
Issuance of Preferred Stock and Stock Warrants	73,578				4,580			78,158	
BALANCE MARCH 31, 2009	\$73,578	16,286,455	\$163	\$(2,329)	\$2,329	\$142,140	\$184,387	\$(6,745)	\$393,523
BALANCE DECEMBER 31, 2007	\$	13,746,711	\$137	\$(2,012)	\$2,012	\$60,632	\$164,565	\$(4,869)	\$220,465
Net Income						6,308		6,308	
Cash Dividends Declared (\$0.18 per share)						(2,931)		(2,931)	
Common Stock Issue for Acquisition	2,492,195	25			76,203			76,228	
	27,220	1				441		442	

Proceeds From Exercise of Stock Options									
Tax Benefit Related to Equity Award Activity						122			122
Equity Based Compensation						97			97
Change in Fair Value of Derivatives During Period, Net of Tax and Realized Gains/(Losses)								(1,950)	(1,950)
Deferred Compensation Obligation Amortization of Prior Service Cost, net of tax	(54)	54						42	42
Change in Unrealized Gain on Securities Available For Sale, Net of Tax and Realized Gains								1,834	1,834
BALANCE MARCH 31, 2008	\$	16,266,126	\$163	\$(2,066)	\$2,066	\$137,054	\$168,383	\$(4,943)	\$300,657

(1) Represents reclassifications of non credit related components of previously recorded Other-Than-Temporary losses pursuant to the the adoption of FSP FAS 115-2 and 124-2 Recognition and Presentation of Other-Than-Temporary Impairments.

(2) Excludes \$586 cumulative preferred dividends not declared as of quarter end and \$196 of accretion of discounts of preferred stock issuance.

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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INDEPENDENT BANK CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited Dollars In Thousands)

	THREE MONTHS ENDED	
	MARCH 31,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 6,388	\$ 6,308
ADJUSTMENTS TO RECONCILE NET INCOME TO		
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
Depreciation and amortization	1,628	1,546
Provision for loan losses	4,000	1,342
Deferred income tax expense (benefit)	3,517	(911)
Net (gain) loss on sale of investments	(1,379)	609
Loss on sale of other real estate owned	44	
Realized gain on sale leaseback transaction	(258)	
Stock based compensation	85	97
Tax (expense) benefit from stock option exercises	(13)	122
Net change in:		
Trading Assets	121	(381)
Loans held for sale	(13,835)	(4,700)
Other assets	(250)	11,393
Other liabilities	(1,765)	(1,744)
TOTAL ADJUSTMENTS	(8,105)	7,373
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(1,717)	13,681
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of Securities Available For Sale	63,163	109,413
Proceeds from maturities and principal repayments of Securities Available For Sale	38,670	32,028
Purchase of Securities Available For Sale	(50,296)	(19,872)
Proceeds from maturities and principal repayments of Securities Held to Maturity	1,980	5,926
Purchase of Federal Home Loan Bank stock		(642)
Net increase in Loans	(6,414)	(6,134)
Business combinations, net of cash acquired	(426)	(13,615)
Investment in Bank Premises and Equipment	(1,444)	(2,065)
Proceeds from the sale of other real estate owned	75	
NET CASH PROVIDED BY INVESTING ACTIVITIES	45,308	105,039
CASH FLOWS USED IN FINANCING ACTIVITIES:		
Net (decrease) increase in Time Deposits	(35,459)	26,133
Net increase (decrease) in Other Deposits	110,120	(6,567)
	(1,264)	30

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Net (decrease) increase in Federal Funds Purchased and Assets Sold Under Repurchase Agreements		
Net decrease in Federal Home Loan Bank Advances	(21,154)	(130,684)
Net (decrease) increase in Treasury Tax & Loan Notes	(504)	7,447
Proceeds from exercise of stock options	13	442
Proceeds from issuance of Preferred Stock	73,578	
Proceeds from issuance of Stock Warrants	4,580	
Dividends paid		
Common Dividends	(2,934)	(2,339)
Preferred Dividends	(391)	
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	126,585	(105,538)
NET INCREASE IN CASH AND CASH EQUIVALENTS	170,176	13,182
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	50,107	67,416
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$220,283	\$ 80,598
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Transfer of loans to foreclosed assets	\$ 74	\$ 338
In conjunction with the purchase acquisition which closed March 1, 2008 assets were acquired and liabilities were assumed as follows:		
Common stock issued	\$	\$ 76,236
Fair value of assets acquired		662,647
Fair value of liabilities assumed		586,419

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION

Independent Bank Corp. (the Company) is a state chartered, federally registered bank holding company headquartered in Rockland, Massachusetts, incorporated in 1985. The Company is the sole stockholder of Rockland Trust Company (Rockland Trust or the Bank), a Massachusetts trust company chartered in 1907.

The Company is currently the sponsor of Independent Capital Trust V (Trust V), a Delaware statutory trust, and Slade's Ferry Statutory Trust I (Slade's Ferry Trust I) a Connecticut statutory trust, each of which was formed to issue trust preferred securities. Trust V and Slade's Ferry Trust I are not included in the Company's consolidated financial statements in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46R (FIN 46).

As of March 31, 2009, the Bank had the following corporate subsidiaries, all of which were wholly-owned by the Bank and included in the Company's consolidated financial statements:

Four Massachusetts security corporations, namely Rockland Borrowing Collateral Securities Corp., Rockland IMG Collateral Securities Corp., Rockland Deposit Collateral Securities Corp., and Taunton Avenue Securities Corp., which hold securities, industrial development bonds, and other qualifying assets;

Rockland Trust Community Development Corporation (the Parent CDE) which, in turn, has three wholly-owned corporate subsidiaries named Rockland Trust Community Development LLC (RTC CDE I), Rockland Trust Community Development Corporation II (RTC CDE II), and Rockland Trust Community Development Corporation III (RTC CDE III). The Parent CDE, CDE I, CDE II, and CDE III were all formed to qualify as community development entities under federal New Markets Tax Credit Program criteria; and

Compass Exchange Advisors LLC (CEA LLC) which provides like-kind exchange services pursuant to section 1031 of the Internal Revenue Code.

All material intercompany balances and transactions have been eliminated in consolidation. Certain previously reported amounts may have been reclassified to conform to the current year's presentation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of

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the financial statements, primarily consisting of normal recurring adjustments, have been included. Operating results for the quarter ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ended December 31, 2009 or any other interim 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, 2008 filed with the Securities and Exchange Commission.

NOTE 2- STOCK BASED COMPENSATION

On February 27, 2009 the Company granted 24,000 restricted stock awards to certain non-executive officers of the Company and or Bank, from the 2005 Employee Stock Plan. The holders of these awards participate fully in the rewards of stock ownership of the Company, including voting and dividend rights. The Company measured the fair value of the awards based on the average of the high price and low price at which the Company's common stock traded on the date of grant. The restricted stock awards vest over a five year period.

On March 2, 2009 the Company awarded options to purchase 5,000 shares of common stock from the 2006 Non-Employee Director Stock Plan to a director of the Company and/or the Bank. The expected volatility, expected life, expected dividend yield, and expected risk free interest rate for this grant used to determine their fair value were determined on March 2, 2009 and were 33%, 5 years, 2.78%, and 1.82%, respectively. The options have been determined to have a fair value of \$3.32 per share. The options vest over a five year period and have a contractual life of ten years from date of grant.

NOTE 3 RECENT ACCOUNTING DEVELOPMENTS

FASB Staff Position (FSP) FAS 157-4 (FSP FAS 157-4), Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly Issued on April 9, 2009, this FSP provides additional guidance for estimating fair value in accordance with Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, (SFAS No. 157) when the volume and level of activity for the assets or liability have significantly decreased. This FSP is effective for interim and annual reporting periods ending after June 15, 2009 and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. The Company has elected to early adopt this FSP for the period ending March 31, 2009. The adoption of the FSP did not have a material impact on the Company's consolidated financial position or results of operations.

FASB Staff Position FAS 115-2 and 124-2 (FSP FAS 115-2), Recognition and Presentation of Other-Than-Temporary Impairments Issued on April 9, 2009, this FSP amends the other-then-temporary impairment (OTTI) guidance in U.S. GAAP for debt securities to make guidance more operational and to improve the presentation and disclosure of other-then-temporary impairments on debt and equity securities in the financial statements, by providing greater clarity to investors about the credit and non credit components of other-then-temporary impairments. This FSP is effective for interim and annual periods ending after June 15, 2009, but

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entities may early adopt the FSP for the interim and annual periods ending after March 15, 2009. The Company elected to early adopt this FSP and pursuant to the adoption of this FSP, which stated that previously recorded impairment charges which did not relate to credit loss should be reclassified from retained earnings to other comprehensive income (OCI), the Company recorded a cumulative effect accounting adjustment that increased retained earnings and decreased OCI by \$6.0 million pretax or \$3.8 million, after tax, relating to the \$7.2 million of OTTI losses recorded during 2008.

FASB Staff Position FAS 107-1 (FSP FAS 107-1), Interim Disclosures about Fair Value of Financial Instruments Issued on April 9, 2009, this FSP amends the periods for which public companies must disclose the fair value of financial instruments. The FSP requires all publicly traded companies to include disclosures about the fair value of its financial instruments as required by SFAS No.107 Disclosures about Fair Value of Financial Instruments whenever it issues summarized financial information for interim reporting periods. This statement is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An