ESTERLINE TECHNOLOGIES CORP
Form 4
July 14, 2005

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person *
PIERCE JAMES L

(Last) (First) (Middle)

625 SEAN DR

(Street)

ANNAPOLIS, MD 214016504

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
ESTERLINE TECHNOLOGIES CORP [ESL]

3. Date of Earliest Transaction (Month/Day/Year)
07/05/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common A	07/05/2005		P		700	A	$ 39.7	3,941	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
PIERCE JAMES L 625 SEAN DR ANNAPOLIS, MD 214016504	X			

Signatures

By: Debbie Rynhoud, Attorney in fact for J. L. Pierce	07/14/2005
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Net interest income from external sources

$

8,749

$

2

$

8,751

$

7,921

$

-

$

7,921

Other income from external sources

1,366

1,683

3,049

1,759

1,489

3,248

Depreciation and amortization

315

11

326

339

5

344

Income (loss) before income taxes

1,346

396

1,742

(199)

259

Explanation of Responses:

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Income tax expense (benefit) (1)

299

158

457

(275)

103

(172)

Total assets

552,065

5,108

557,173

523,885

2,872

526,757

(1) Insurance Services calculated at statutory tax rate of 40%

NOTE 8 – STOCK-BASED COMPENSATION

We currently have stock-based compensation plans in place for our directors, officers, employees, consultants and advisors. Under the terms of these plans we may grant restricted shares and stock options for the purchase of our common stock. The stock-based compensation is granted under terms determined by our Compensation Committee. Our standard stock option grants have a maximum term of 10 years, generally vest over periods ranging between one and four years, and are granted with an exercise price equal to the fair market value of the common stock on the date of grant. Restricted stock is valued at the market value of the common stock on the date of grant and generally vests over periods of two to seven years. All dividends paid on restricted stock, whether vested or unvested, are granted to the shareholder.

Information regarding our stock option plans for the six months ended June 30, 2014 is as follows:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Contractual Term	Aggregate Intrinsic Value
Options outstanding, beginning of year	32,749	$ 14.31		
Options expired	(14,090)	14.67		
Options outstanding, end of quarter	18,659	$ 14.03	0.8	-
Options exercisable, end of quarter	18,659	$ 14.03	0.8	-
Option price range at end of quarter	$8.99 to $16.45			

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Option price range for exercisable shares $8.99 to $16.45

The summary of changes in unvested restricted stock awards for the six months ended June 30, 2014, is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested restricted stock, beginning of year	125,922	$ 4.98
Granted	36,043	8.81
Forfeited	(300)	5.66
Vested	(44,278)	5.21
Unvested restricted stock, end of period	117,387	$ 6.07

Total stock based compensation related to restricted stock awards was $76 thousand and $60 thousand for the three months ended June 30, 2014 and 2013, respectively, and $156 thousand and $114 thousand for the six months ended June 30, 2014 and 2013, respectively.

At June 30, 2014, unrecognized compensation expense for non-vested restricted stock was $600 thousand, which is expected to be recognized over an average period of 2.2 years.

NOTE 9 – GUARANTEES

We do not issue any guarantees that would require liability recognition or disclosure, other than standby letters of credit. Standby letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued, have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Generally, we hold collateral and/or personal guarantees supporting these commitments. As of June 30, 2014, we had $1.4 million of outstanding letters of credit. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The amount of the liability as of June 30, 2014, for guarantees under standby letters of credit issued is not material.

NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Management uses its best judgment in estimating the fair value of our financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts we could have realized in a sale transaction on the dates indicated. The fair value amounts have been measured as of their respective year ends, and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year end.

In accordance with U.S. GAAP, we use a hierarchical disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The three broad levels defined by the hierarchy are as follows:

Level I - Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these asset and liabilities include items for which quoted prices are available but traded less frequently, and items that are fair valued using other financial instruments, the parameters of which can be directly observed.

Level III - Assets and liabilities that have little to no pricing observability as of reported date. These items do not have two-way markets and are measured using management’s best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

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The following table summarizes the fair value of our financial assets measured on a recurring basis by the above pricing observability levels as of June 30, 2014 and December 31, 2013:

(Dollars in thousands)	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
June 30, 2014				
U.S. government agencies	$ 4,989	$ -	$ 4,989	$ -
State and political subdivisions	28,245	-	28,245	-
Mortgage-backed securities -				
U.S. government-sponsored enterprises	47,637	-	47,637	-
Equity securities-financial services industry and other	412	412	-	-
December 31, 2013				
U.S. government agencies	$ 5,380	$ -	$ 5,380	$ -
State and political subdivisions	25,875	-	25,875	-
Mortgage-backed securities -		-	-	-
U.S. government-sponsored enterprises	58,937	-	58,937	-
Equity securities-financial services industry and other	484	484	-	-

Our available for sale and held to maturity securities portfolios contain investments, which were all rated within our investment policy guidelines at time of purchase and upon review of the entire portfolio all securities are marketable and have observable pricing inputs.

For financial assets measured at fair value on a nonrecurring basis the fair value measurements by level within the fair value hierarchy used at June 30, 2014 and December 31, 2013, are as follows:

	Quoted Prices in	Significant Other	Significant

(Dollars in thousands)	Fair Value Measurements	Active Markets for Identical Assets (Level I)	Observable Inputs (Level II)	Unobservable Inputs (Level III)
June 30, 2014				
Impaired loans	$ 3,631	$ -	$ -	$ 3,631
Foreclosed real estate	149	-	-	149
December 31, 2013				
Impaired loans	$ 5,483	$ -	$ -	$ 5,483
Foreclosed real estate	1,008	-	-	1,008

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The following table presents additional qualitative information about assets measured at fair value on a nonrecurring basis and for which Level 3 inputs were used to determine fair value:

	Qualitative Information about Level III Fair Value Measurements			
(Dollars in thousands)	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
June 30, 2014				
Impaired loans	$ 3,631	Appraisal of collateral	Appraisal adjustments (1)	0% to -66.1% (-11.0%)
Foreclosed real estate	149	Appraisal of collateral	Selling expenses (1)	-7.0% (-7.0%)
December 31, 2013				
Impaired loans	$ 5,483	Appraisal of collateral	Appraisal adjustments (1)	0% to -67.9% (-7.8%)
Foreclosed real estate	1,008	Appraisal of collateral	Selling expenses (1)	-7.0% (-7.0%)

(1) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated selling expenses. The range and weighted average of selling expenses and other appraisal adjustments are presented as a percent of the appraisal.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of our assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between our disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair value of our financial instruments at June 30, 2014 and December 31, 2013:

Cash and Cash Equivalents (Carried at Cost): The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair value.

Deposits (Carried at Cost): Fair value for fixed-rate time certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits. The Company generally purchases amounts below the insured limit, limiting the amount of credit risk on these time deposits.

Securities: The fair value of securities, available for sale (carried at fair value) and securities held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level I), or matrix pricing (Level II), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level III). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level III measurements. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) were used to support fair values of certain Level III investments.

Federal Home Loan Bank Stock (Carried at Cost): The carrying amount of restricted investment in bank stock approximates fair value and considers the limited marketability of such securities.

Loans Receivable (Carried at Cost): The fair values of loans are estimated using discounted cash flow analyses, using the market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected

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future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Impaired Loans (Carried at Lower of Cost or Fair Value): Fair value of impaired loans is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included in Level III fair values, based upon the lowest level of input that is significant to the fair value measurements. At June 30, 2014 and December 31, 2013, the fair value consists of the loan balances of $3.6 million and $5.5 million, net of valuation allowance of $597 thousand and $485 thousand, respectively.

Deposit Liabilities (Carried at Cost): The fair values disclosed for demand, savings and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Borrowings (Carried at Cost): Fair values of FHLB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Junior Subordinated Debentures (Carried at Cost): Fair values of junior subordinated debt are estimated using discounted cash flow analysis, based on market rates currently offered on such debt with similar credit risk characteristics, terms and remaining maturity.

Accrued Interest Receivable and Accrued Interest Payable (Carried at Cost): The carrying amounts of accrued interest receivable and payable approximate its fair value.

Off-Balance Sheet Instruments (Disclosed at Cost): Fair values for our off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties’ credit standing.

The fair values of our financial instruments at June 30, 2014 and December 31, 2013, were as follows:

(Dollars in thousands)	June 30, 2014 Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Financial assets:					
Cash and cash equivalents	$ 11,111	$ 11,111	$ 11,111	$ -	$ -
Time deposits with other banks	100	100	100	-	-
Securities available for sale	81,283	81,283	412	80,871	-
Securities held to maturity	6,055	6,173	-	6,173	-
Federal Home Loan Bank stock	2,960	2,960	-	2,960	-
Loans receivable, net of allowance	422,485	418,915	-	-	418,915
Accrued interest receivable	1,698	1,698	-	1,698	-
Financial liabilities:					
Non-maturity deposits	335,102	335,102	335,102	-	-
Time deposits	109,244	109,886	-	109,886	-
Borrowings	46,000	48,053	-	48,053	-
Junior subordinated debentures	12,887	8,905	-	8,905	-
Accrued interest payable	251	251	-	251	-

Quoted Prices in	Significant

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(Dollars in thousands)	December 31, 2013 Carrying Amount	Fair Value	Active Markets for Identical Assets (Level I)	Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Financial assets:					
Cash and cash equivalents	$ 13,246	$ 13,246	$ 13,246	$ -	$ -
Time deposits with other banks	100	100	100	-	-
Securities available for sale	90,676	90,676	484	90,192	-
Securities held to maturity	6,074	6,060	-	6,060	-
Federal Home Loan Bank stock	2,705	2,705	-	2,705	-
Loans receivable, net of allowance	386,981	383,269	-	-	383,269
Accrued interest receivable	1,642	1,642	-	1,642	-
Financial liabilities:					
Non-maturity deposits	331,350	331,350	331,350	-	-
Time deposits	98,947	99,925	-	99,925	-
Borrowings	41,000	43,149	-	43,149	-
Junior subordinated debentures	12,887	7,710	-	7,710	-
Accrued interest payable	235	235	-	235	-

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Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

MANAGEMENT STRATEGY

We are a community-oriented financial institution serving northern New Jersey, northeastern Pennsylvania, New York City, New York and Orange County, New York. While offering traditional community bank loan and deposit products and services, we obtain non-interest income through our insurance brokerage operations and the sale of non-deposit products.

We continue to focus on strengthening our core operating performance by improving our net interest income and margin by closely monitoring our yield on earning assets and adjusting the rates offered on deposit products. The economic downturn continues to impact our level of nonperforming assets. We have been focused on building for the future and strengthening our core operating results within a risk management framework.

CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements are prepared in accordance with U.S. GAAP and practices within the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in our consolidated financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Actual results could differ from those estimates.

Critical accounting estimates are necessary in the application of certain accounting policies and procedures, and are particularly susceptible to significant change. Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. There have been no material changes to our critical accounting policies during the six months ended June 30, 2014. For additional information on our critical accounting policies, please refer to Note 1 of the consolidated financial statements included in our 2013 Annual Report on Form 10-K.

COMPARISION OF OPERATING RESULTS FOR THREE MONTHS ENDED JUNE 30, 2014 AND 2013

Overview - For the quarter ended June 30, 2014, we reported net income of $607 thousand, or $0.13 per basic and diluted share, as compared to net income of $134 thousand, or $0.04 per basic and diluted share, for the same period last year. The increase in net income for the quarter ended June 30, 2014 was largely due to a decrease in credit quality costs (provision for loan losses, loan collection costs and expenses and write-downs related to foreclosed real estate) of $683 thousand or 48.3%, and increases in net interest income of $367 thousand and gain on securities transactions of $65 thousand.

Comparative Average Balances and Average Interest Rates - The following table presents, on a fully tax equivalent basis, a summary of our interest-earning assets and their average yields, and interest-bearing liabilities and their average costs for the three month periods ended June 30, 2014 and 2013:

	Three Months Ended June 30,					
(Dollars in thousands)	2014			2013		
Earning Assets:	Average Balance	Interest	Average Rate (2)	Average Balance	Interest	Average Rate (2)
Securities:						
Tax exempt (3)	$ 33,764	$ 384	4.56%	$ 29,579	$ 373	5.06%
Taxable	62,775	214	1.37%	94,286	126	0.54%
Total securities	96,539	598	2.48%	123,865	499	1.62%
Total loans receivable (1) (4)	420,506	4,800	4.58%	363,996	4,485	4.94%
Other interest-earning assets	7,368	4	0.22%	2,122	2	0.38%
Total earning assets	524,413	$ 5,402	4.13%	$ 489,983	$ 4,986	4.08%
Non-interest earning assets	37,675			39,409		
Allowance for loan losses	(5,653)			(5,777)		
Total Assets	$ 556,435			523,615		
Sources of Funds:						
Interest bearing deposits:						
NOW	$ 115,065	$ 43	0.15%	$ 108,523	$ 35	0.13%
Money market	11,146	4	0.14%	13,950	6	0.17%
Savings	144,942	74	0.20%	155,156	83	0.21%
Time	108,133	294	1.09%	98,482	329	1.34%
Total interest bearing deposits	379,286	415	0.44%	376,111	453	0.48%
Borrowed funds	49,244	361	2.94%	34,549	273	3.17%
Junior subordinated debentures	12,887	52	1.62%	12,887	55	1.71%
Total interest bearing liabilities	441,417	$ 828	0.75%	$ 423,547	$ 781	0.74%
Non-interest bearing liabilities:						

Demand deposits	63,239			58,411		
Other liabilities	2,713			1,806		
Total non-interest bearing liabilities	65,952			60,217		
Stockholders' equity	49,066			39,851		
Total Liabilities and Stockholders' Equity	$ 556,435			$ 523,615		
Net Interest Income and Margin (5)		4,574	3.50%		4,205	3.44%
Tax-equivalent basis adjustment		(129)			(127)	
Net Interest Income		$ 4,445			$ 4,078	

(1) Includes loan fee income
(2) Average rates on securities are calculated on amortized costs
(3) Full taxable equivalent basis, using a 39% effective tax rate and adjusted for TEFRA (Tax and Equity Fiscal Responsibility Act) interest expense disallowance
(4) Loans outstanding include non-accrual loans
(5) Represents the difference between interest earned and interest paid, divided by average total interest-earning assets

Net Interest Income – Net interest income is the difference between interest and fees on loans and other interest-earning assets and interest paid on interest-bearing liabilities. Net interest income is directly affected by changes in volume and mix of interest-earning assets and interest-bearing liabilities that support those assets, as well as changing interest rates when differences exist in repricing dates of assets and liabilities.

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Net interest income on a fully tax equivalent basis increased $369 thousand, or 8.8%, to $4.6 million for the second quarter of 2014 as compared to $4.2 million for same period in 2013. The increase in net interest income was largely due to a $34.4 million, or 7.0%, increase in average interest earning assets, principally loans receivable, which increased $56.5 million, or 15.5%, and was partially offset by a decrease in the average balance on the securities portfolio of $27.3 million, or 22.1%. The aforementioned increase also benefited from a 6 basis point increase in the net interest margin to 3.50% for the second quarter of 2014 as compared to the same period last year. The increase in the net interest margin was mostly due to an increase in the average rate received on interest earning assets, which increased 5 basis points to 4.13% for the second quarter of 2014 from 4.08% for the same period in 2013.

Interest Income – Our total interest income, on a fully tax equivalent basis, increased $416 thousand, or 8.3%, to $5.4 million for the quarter ended June 30, 2014 as compared to the same period last year. The increase was due to higher earning asset yields, which increased 5 basis points to 4.13% for the quarter ended June 30, 2014, as compared to the same period in 2013.

Our total interest income earned on loans receivable increased $315 thousand, or 7.0%, to $4.8 million for the second quarter of 2014 as compared to the same period in 2013. The increase was driven by an increase in average balance of loans receivable of $56.5 million, or 15.5%, for the three months ended June 30, 2014, as compared to same period last year. The increase in interest income earned on loans receivable was partly offset by a 36 basis point decline in average yields to 4.58% for the quarter ended June 30, 2014, as compared to the same period in 2013.

Our total interest income earned on securities, on a fully tax equivalent basis, increased $99 thousand, to $598 thousand for the quarter ended June 30, 2014, from $499 thousand for the same period in 2013. This increase was largely due to an increase in the average rate earned on securities, which increased 86 basis points for the quarter ended June 30, 2014, as compared to the same period last year.

Other interest-earning assets include federal funds sold and interest bearing deposits in other banks. Our interest earned on total other interest-earning assets increased $2 thousand for the second quarter of 2014 as compared to the same period in 2013 due to an increase in average balances. The average balances in other interest-earning assets increased $5.2 million to $7.4 million in the first quarter of 2014 from $2.1 million during the second quarter a year earlier.

Interest Expense – Our interest expense for the three months ended June 30, 2014 increased $47 thousand, or 6.0%, to $828 thousand from $781 thousand for the same period in 2013. The improvement was principally due to higher average rates paid on total interest-bearing liabilities, which increased 1 basis points from 0.74% for the three months ended June 30, 2013 to 0.75% for the same period in 2014 combined with an increase in average balances in interest-bearing liabilities, which increased $17.9 million, or 4.2%, to $441.4 million for the second quarter of 2014 from $423.5 million for the same period in 2013.

Our interest expense on deposits declined $38 thousand, or 8.4%, for the quarter ended June 30, 2014, as compared to the same period last year. The decline was largely attributed to lower rates on total interest bearing deposits, which decreased 4 basis points to 0.44% for the second quarter 2014 as compared to the same period in 2013. The decrease in rates on deposit products reflects management's asset/liability strategies and a lower market rate environment between the two periods.

Provision for Loan Losses – Provision for loan losses decreased $300 thousand to $400 thousand for the second quarter of 2014, as compared to $700 thousand for the same period in 2013. The decrease in the provision for loan losses for the quarter ended June 30, 2014 was largely attributed to the resolution of problem loans. The provision for loan losses reflects management's judgment concerning the risks inherent in our existing loan portfolio and the size of the allowance necessary to absorb the risks, as well as the activity in the allowance during the periods. Management reviews the adequacy of its allowance on an ongoing basis and will provide additional provisions, as management may deem necessary.

Non-Interest Income – We reported an increase in non-interest income of $95 thousand, or 7.0%, to $1.5 million for the second quarter of 2014 as compared to the same period last year. The increase in non-interest income was largely due to an increase in gains on securities transactions of $65 thousand and increases in insurance commissions and fees of $49 thousand, or 7.6%, which were partially offset by a decrease in investment brokerage fees of $17 thousand, or 31.5%.

Non-Interest Expense – Our non-interest expenses increased $48 thousand, or 1.0%, to $4.7 million for the second quarter of 2014 as compared to the same period last year. The increase for the second quarter of 2014 as compared to the same period in 2013 was largely due to increases in salaries and employee benefits expense of $120 thousand, director fees of $118 thousand and data processing fees of $94 thousand, which were partially offset by decreases in expenses and write-downs related to foreclosed real estate of $436 thousand. The increase in director fees was principally related to a deferred compensation plan that is tied to the performance of our common stock. The increase in data processing fees was principally due to de-conversion charges related to a planned technology upgrade scheduled for the third quarter of 2014.

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Income Taxes – Our income tax expense, which includes both federal and state tax expenses, was $159 thousand for the three months ended June 30, 2014, compared to income tax benefit of $82 thousand for the three months ended June 30, 2013.

COMPARISION OF OPERATING RESULTS FOR SIX MONTHS ENDED JUNE 30, 2014 AND 2013

Overview - For the six months ended June 30, 2014, we reported net income of $1.3 million, or $0.28 per basic and diluted share, as compared to net income of $232 thousand, or $0.07 per basic and diluted share, for the same period last year. The increase in net income for the six months ended June 30, 2014 was largely due to a decrease in credit quality costs (provision for loan losses, loan collection costs and expenses and write-downs related to foreclosed real estate) of $1.7 million or 55.6%, and an increase in net interest income of $830 thousand, which were partially offset by a decrease in gain on securities transactions of $305 thousand

Comparative Average Balances and Average Interest Rates - The following table presents, on a fully taxable equivalent basis, a summary of our interest-earning assets and their average yields, and interest-bearing liabilities and their average costs for the six month periods ended June 30, 2014 and 2013:

	Six Months Ended June 30,					
(Dollars in thousands)	2014			2013		
	Average		Average	Average		Average
Earning Assets:	Balance	Interest (1)	Rate (2)	Balance	Interest (1)	Rate (2)
Securities:						
Tax exempt (3)	$ 33,747	$ 767	4.58%	$ 30,881	$ 766	5.00%
Taxable	65,119	431	1.33%	96,824	280	0.58%
Total securities	98,866	1,198	2.44%	127,705	1,046	1.65%
Total loans receivable (4)	411,681	9,423	4.62%	356,778	8,761	4.95%
Other interest-earning assets	6,399	7	0.22%	5,033	7	0.28%
Total earning assets	516,946	$ 10,628	4.15%	489,516	$ 9,814	4.04%
Non-interest earning assets	36,647			39,932		
Allowance for loan losses	(5,651)			(5,541)		
Total Assets	$ 547,942			$ 523,907		
Sources of Funds:						
Interest bearing deposits:						
NOW	$ 115,361	$ 82	0.14%	$ 110,410	$ 71	0.13%
Money market	11,855	8	0.14%	14,424	15	0.21%
Savings	145,509	149	0.21%	156,524	194	0.25%
Time	103,557	566	1.10%	100,967	711	1.42%
Total interest bearing deposits	376,282	805	0.43%	382,325	991	0.52%

Borrowed funds	47,741	709	2.99%	30,597	535	3.53%
Junior subordinated debentures	12,887	105	1.64%	12,887	109	1.71%
Total interest bearing liabilities	436,910	$ 1,619	0.75%	425,809	$ 1,635	0.77%
Non-interest bearing liabilities:						
Demand deposits	60,405			54,158		
Other liabilities	2,458			3,796		
Total non-interest bearing liabilities	62,863			57,954		
Stockholders' equity	48,169			40,144		
Total Liabilities and Stockholders' Equity	$ 547,942					