VALLEY NATIONAL BANCORP
Form 10-Q
November 08, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended September 30, 2010

OR

¨ **Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**
For the transition period from ______ to ______

Commission File Number 1-11277

VALLEY NATIONAL BANCORP

(Exact name of registrant as specified in its charter)

New Jersey	**22-2477875**
(State or other jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification Number)**
1455 Valley Road	
Wayne, NJ	**07470**
(Address of principal executive office)	**(Zip code)**

973-305-8800

(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 such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes x 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 x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. Common Stock (no par value), of which 161,285,668 shares were outstanding as of November 4, 2010.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

VALLEY NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Unaudited)

(in thousands, except for share data)

	September 30, 2010	December 31, 2009
Assets		
Cash and due from banks	$ 256,194	$ 305,678
Interest bearing deposits with banks	4,677	355,659
Investment securities:		
Held to maturity, fair value of $1,766,179 at September 30, 2010 and $1,548,006 at December 31, 2009	1,776,856	1,584,388
Available for sale	1,089,603	1,352,481
Trading securities	32,088	32,950
Total investment securities	2,898,547	2,969,819
Loans held for sale (includes fair value of $25,293 at September 30, 2010 and $25,492 at December 31, 2009 for loans originated for sale)	108,455	25,492
Non-covered loans	9,054,661	9,370,071
Less: Allowance for loan losses	(113,786)	(101,990)
Covered loans	377,036	
Net loans	9,317,911	9,268,081
Premises and equipment, net	265,661	266,401
Bank owned life insurance	307,709	304,031
Accrued interest receivable	61,643	56,245
Due from customers on acceptances outstanding	6,023	6,985
FDIC loss-share receivable	109,682	
Goodwill	315,975	296,424
Other intangible assets, net	21,456	24,305
Other assets	413,678	405,033
Total Assets	$ 14,087,611	$ 14,284,153
Liabilities		
Deposits:		
Non-interest bearing	$ 2,461,532	$ 2,420,006
Interest bearing:		
Savings, NOW and money market	4,131,273	4,044,912
Time	2,675,898	3,082,367

Total deposits	9,268,703	9,547,285
Short-term borrowings	331,265	216,147
Long-term borrowings	2,884,547	2,946,320
Junior subordinated debentures issued to capital trusts (includes fair value of $159,850 at September 30, 2010 and $155,893 at December 31, 2009 for VNB Capital Trust I)	185,055	181,150
Bank acceptances outstanding	6,023	6,985
Accrued expenses and other liabilities	133,999	133,412
Total Liabilities	12,809,592	13,031,299
Shareholders Equity*		
Preferred stock, no par value, authorized 30,000,000 shares; none issued		
Common stock, no par value, authorized 210,451,912 shares; issued 162,058,055 shares at September 30, 2010 and 162,042,502 shares at December 31, 2009	57,067	54,293
Surplus	1,178,720	1,178,992
Retained earnings	74,733	73,592
Accumulated other comprehensive loss	(9,843)	(19,816)
Treasury stock, at cost (934,651 common shares at September 30, 2010 and 1,405,204 common shares at December 31, 2009)	(22,658)	(34,207)
Total Shareholders Equity	1,278,019	1,252,854
Total Liabilities and Shareholders Equity	$ 14,087,611	$ 14,284,153

* Share data reflects the five percent common stock dividend issued on May 21, 2010.

See accompanying notes to consolidated financial statements.

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VALLEY NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(in thousands, except for share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Interest Income				
Interest and fees on loans	$ 137,742	$ 139,506	$ 409,531	$ 424,719
Interest and dividends on investment securities:				
Taxable	28,361	32,670	88,861	102,162
Tax-exempt	2,743	2,414	7,886	7,175
Dividends	1,679	2,493	5,153	6,475
Interest on federal funds sold and other short-term investments	61	198	291	646
Total interest income	170,586	177,281	511,722	541,177
Interest Expense				
Interest on deposits:				
Savings, NOW, and money market	4,711	6,638	14,384	18,321
Time	13,233	19,833	43,551	76,118
Interest on short-term borrowings	334	487	995	3,617
Interest on long-term borrowings and junior subordinated debentures	34,574	35,255	103,181	105,376
Total interest expense	52,852	62,213	162,111	203,432
Net Interest Income	117,734	115,068	349,611	337,745
Provision for credit losses	9,308	12,722	34,357	35,767
Net Interest Income After Provision for Credit Losses	108,426	102,346	315,254	301,978
Non-Interest Income				
Trust and investment services	1,930	1,811	5,752	5,048
Insurance commissions	2,561	2,504	8,417	8,074
Service charges on deposit accounts	6,562	6,871	19,487	20,071
Gains (losses) on securities transactions, net	112	(5)	4,631	246
Other-than-temporary impairment losses on securities			(1,393)	(5,905)
Portion recognized in other comprehensive income (pre-tax)		(743)	(3,249)	557
Net impairment losses on securities recognized in earnings		(743)	(4,642)	(5,348)
Trading losses, net	(2,627)	(3,474)	(4,819)	(8,886)
Fees from loan servicing	1,187	1,216	3,634	3,585
Gains on sales of loans, net	1,548	2,699	5,087	7,275
Gains on sales of assets, net	78	128	382	477
Bank owned life insurance	1,697	1,421	5,008	4,189
Other	4,280	4,650	12,544	12,943

Total non-interest income	17,328	17,078	55,481	47,674
Non-Interest Expense				
Salary and employee benefits expense	43,566	40,490	130,774	121,542
Net occupancy and equipment expense	15,241	14,452	47,270	44,347
FDIC insurance assessment	3,497	3,355	10,473	16,786
Amortization of other intangible assets	2,602	1,710	6,747	5,537
Professional and legal fees	2,460	2,056	7,192	6,295
Advertising	826	701	2,849	1,868
Other	10,755	11,128	31,969	32,569
Total non-interest expense	78,947	73,892	237,274	228,944
Income Before Income Taxes	46,807	45,532	133,461	120,708
Income tax expense	14,168	13,950	40,449	36,745
Net Income	32,639	31,582	93,012	83,963
Dividends on preferred stock and accretion		5,983		15,996
Net Income Available to Common Stockholders	$ 32,639	$ 25,599	$ 93,012	$ 67,967
Earnings Per Common Share*:				
Basic	$ 0.20	$ 0.17	$ 0.58	$ 0.45
Diluted	0.20	0.17	0.58	0.45
Cash Dividends Declared per Common Share*	0.18	0.18	0.54	0.54
Weighted Average Number of Common Shares Outstanding*:				
Basic	161,121,214	152,305,288	160,959,399	150,033,851
Diluted	161,122,351	152,305,671	160,960,742	150,034,407

* Share data reflects the five percent common stock dividend issued on May 21, 2010.

See accompanying notes to consolidated financial statements.

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VALLEY NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

	Nine Months Ended September 30,	
	2010	**2009**
Cash flows from operating activities:		
Net income	$ 93,012	$ 83,963
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,823	10,044
Stock-based compensation	2,697	3,118
Provision for credit losses	34,357	35,767
Net amortization of premiums and accretion of discounts on securities and borrowings	9,275	5,819
Amortization of other intangible assets	6,747	5,537
Gains on securities transactions, net	(4,631)	(246)
Net impairment losses on securities recognized in earnings	4,642	5,348
Proceeds from sales of loans held for sale	190,899	286,864
Gains on loans held for sale, net	(5,087)	(7,275)
Originations of loans held for sale	(185,613)	(289,265)
Gains on sales of assets, net	(382)	(477)
Net change in:		
Trading securities	862	2,063
Fair value of borrowings carried at fair value	3,957	13,504
Cash surrender value of bank owned life insurance	(5,008)	(4,189)
Accrued interest receivable	2,610	(2,813)
Other assets	3,816	117,521
Accrued expenses and other liabilities	(20,684)	(161,298)
Net cash provided by operating activities	143,292	103,985
Cash flows from investing activities:		
Net change in loans	245,245	606,826
Investment securities held to maturity:		
Purchases	(616,986)	(774,440)
Maturities, calls and principal repayments	416,827	344,161
Investment securities available for sale:		
Purchases	(275,884)	(283,842)
Sales	373,766	185,043
Maturities, calls and principal repayments	256,536	280,164
Death benefit proceeds received on bank owned life insurance	1,330	1,727
Proceeds from sales of real estate property and equipment	221	3,713
Purchases of real estate property and equipment	(10,799)	(23,461)
Cash and cash equivalents received in FDIC-assisted transactions	47,528	
Net cash provided by investing activities	437,784	339,891
Cash flows from financing activities:		
Net change in deposits	(932,782)	209,548

Net change in short-term borrowings	102,613	(440,912)
Repayments of long-term borrowings	(71,742)	(43,001)
Redemption of preferred stock		(200,000)
Dividends paid to preferred shareholder		(11,202)
Dividends paid to common shareholders	(86,188)	(80,948)
Common stock issued, net	6,557	74,050
Net cash used in financing activities	(981,542)	(492,465)
Net change in cash and cash equivalents	(400,466)	(48,589)
Cash and cash equivalents at beginning of period	661,337	580,507
Cash and cash equivalents at end of period	$ 260,871	$ 531,918

See accompanying notes to consolidated financial statements.

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VALLEY NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(in thousands)

	Nine Months Ended September 30,	
	2010	**2009**
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest on deposits and borrowings	$ 164,658	$ 228,196
Federal and state income taxes	48,311	43,921
Loans transferred to loans held for sale	83,162	
Supplemental schedule of non-cash investing activities:		
Acquisitions:		
Non-cash assets acquired:		
Investment securities available for sale	73,743	
Covered loans	412,331	
Premises and equipment	123	
Accrued interest receivable	2,788	
Goodwill	19,497	
Other intangible assets	1,560	
FDIC loss-share receivable	108,000	
Other assets	22,558	
Total non-cash assets acquired	640,600	
Liabilities assumed:		
Deposits		
Non-interest bearing	176,124	
Savings, NOW and money market	2,934	
Time	475,142	
Total deposits	654,200	
Short-term borrowings	12,505	
Long-term borrowings	10,742	
Accrued expenses and other liabilities	10,681	
Total liabilities assumed	688,128	
Net non-cash assets acquired	$ (47,528)	$
Cash and cash equivalents received in FDIC-assisted transactions	$ 47,528	$

See accompanying notes to consolidated financial statements.

VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

The unaudited consolidated financial statements of Valley National Bancorp, a New Jersey Corporation (Valley), include the accounts of its commercial bank subsidiary, Valley National Bank (the Bank), and all of Valley s direct or indirect wholly-owned subsidiaries. All inter-company transactions and balances have been eliminated. The accounting and reporting policies of Valley conform to U.S. generally accepted accounting principles (GAAP) and general practices within the financial services industry. In accordance with applicable accounting standards, Valley does not consolidate statutory trusts established for the sole purpose of issuing trust preferred securities and related trust common securities. See Note 13 for more details.

In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly Valley s financial position, results of operations and cash flows at September 30, 2010 and for all periods presented have been made. The results of operations for the three and nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for the entire fiscal year.

In preparing the unaudited consolidated financial statements in conformity with U.S. GAAP, management has made estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statements of financial condition and results of operations for the periods indicated. Material estimates that are particularly susceptible to change are: the allowance for loan losses; the evaluation of goodwill and other intangible assets, and investment securities for impairment; fair value measurements of assets and liabilities (including the estimated fair values recorded for acquired assets and assumed liabilities in FDIC-assisted transactions see Note 4); and income taxes. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are deemed to be necessary. While management uses its best judgment, actual amounts or results could differ significantly from those estimates. The current economic environment has increased the degree of uncertainty inherent in these material estimates.

Certain information and footnote disclosure normally included in financial statements prepared in accordance with U.S. GAAP and industry practice have been condensed or omitted pursuant to rules and regulations of the SEC. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Valley s Annual Report on Form 10-K for the year ended December 31, 2009.

In March 2010, the Bank assumed all of the deposits, excluding brokered deposits, and acquired loans, other real estate owned (covered loans and covered OREO , together covered assets) and certain other assets of The Park Avenue Bank and LibertyPointe Bank, from the Federal Deposit Insurance Corporation (the FDIC), as receiver (the FDIC-assisted transactions). See Note 4 for further details.

On May 21, 2010, Valley issued a five percent common stock dividend to shareholders of record on May 7, 2010. All common share and per common share data presented in the consolidated financial statements and the accompanying notes below were adjusted to reflect the dividend.

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VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 2. Earnings Per Common Share

The following table shows the calculation of both basic and diluted earnings per common share for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in thousands, except for share data)			
Net income	$ 32,639	$ 31,582	$ 93,012	$ 83,963
Dividends on preferred stock and accretion		5,983		15,996
Net income available to common stockholders	$ 32,639	$ 25,599	$ 93,012	$ 67,967
Basic weighted-average number of common shares outstanding	161,121,214	152,305,288	160,959,399	150,033,851
Plus: Common stock equivalents	1,137	383	1,343	556
Diluted weighted-average number of common shares outstanding	161,122,351	152,305,671	160,960,742	150,034,407
Earnings per common share:				
Basic	$ 0.20	$ 0.17	$ 0.58	$ 0.45
Diluted	0.20	0.17	0.58	0.45

Common stock equivalents, in the table above, represent the effect of outstanding common stock options and warrants to purchase Valley s common shares, excluding those with exercise prices that exceed the average market price of Valley s common stock during the periods presented and therefore, would have an anti-dilutive effect on the diluted earnings per common share calculation. Anti-dilutive common stock options and warrants totaled approximately 6.8 million shares for both the three and nine months ended September 30, 2010, compared to 7.0 million shares for both the three and nine months ended September 30, 2009.

Note 3. Comprehensive Income

Valley s components of other comprehensive income, net of deferred tax, include unrealized gains (losses) on securities available for sale (including the non-credit portion of any other-than-temporary impairment charges relating to certain securities during the period); unrealized gains (losses) on derivatives used in cash flow hedging relationships; and the unfunded portion of its various employee, officer and director pension plans.

The following table shows changes in each component of comprehensive income for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in thousands)			
Net income	$ 32,639	$ 31,582	$ 93,012	$ 83,963
Other comprehensive income, net of tax:				
Net change in unrealized gains and losses on securities available for sale	2,125	14,566	10,454	47,151
Net change in non-credit impairment losses on securities	878	390	1,537	(75)
Net pension benefits adjustment	253	196	759	633
Net change in unrealized gains and losses on derivatives used in cash flow hedging relationships	(577)	(652)	(3,337)	1,733
Less reclassification adjustment for gains and losses included in net income	205	412	560	1,815
Total other comprehensive income, net of tax	2,884	14,912	9,973	51,257
Total comprehensive income	$ 35,523	$ 46,494	$ 102,985	$ 135,220

VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 4. Business Combinations

FDIC-Assisted Transactions

On March 11, 2010, the Bank assumed all of the deposits and acquired certain assets of LibertyPointe Bank, a New York State chartered bank in an FDIC-assisted transaction. The Bank assumed $198.3 million in customer deposits and acquired $207.7 million in assets, including $140.6 million in loans. The loans acquired by the Bank principally consist of commercial real estate loans. This transaction resulted in $11.6 million of goodwill and generated $370 thousand in core deposit intangibles.

On March 12, 2010, the Bank assumed all of the deposits, excluding brokered deposits, borrowings, and acquired certain assets of The Park Avenue Bank, a New York State chartered bank in an FDIC-assisted transaction. The Bank assumed $455.9 million in customer deposits and acquired $480.5 million in assets, including $271.8 million in loans. The loans acquired by the Bank principally consist of commercial and industrial loans, and commercial real estate loans. This transaction resulted in $7.9 million of goodwill and generated $1.2 million in core deposit intangibles.

The Bank and the FDIC will share in the losses on loans and real estate owned as a part of the loss-sharing agreements entered into by the Bank with the FDIC for both transactions. Under the terms of the loss-sharing agreement for the LibertyPointe Bank transaction, the FDIC is obligated to reimburse the Bank for 80 percent of any future losses on covered assets up to $55.0 million, after the Bank absorbs such losses up to the first loss tranche of $11.7 million, and 95 percent of losses in excess of $55.0 million. Under the terms of the loss-sharing agreement for The Park Avenue Bank transaction, the FDIC is obligated to reimburse the Bank for 80 percent of any future losses on covered assets of up to $66.0 million and 95 percent of losses in excess of $66.0 million. The Bank will reimburse the FDIC for 80 percent of recoveries with respect to losses for which the FDIC paid the Bank 80 percent reimbursement under the loss-sharing agreements, and for 95 percent of recoveries with respect to losses for which the FDIC paid the Bank 95 percent reimbursement under the loss-sharing agreements.

The asset arising from the loss-sharing agreements (referred to as the FDIC loss-share receivable on our statements of financial condition) are measured separately from the covered loan portfolios because the agreements are not contractually embedded in the covered loans and are not transferable should the Bank choose to dispose of the covered loans. The FDIC loss-share receivable will be reduced as losses are realized on covered loans and other real estate owned, and as the loss sharing payments are received from the FDIC. Realized losses in excess of the acquisition date estimates will result in an increase in the FDIC loss-share receivable. Conversely, the FDIC loss-share receivable will be reduced if realized losses are less than our estimates at acquisition. The amount ultimately collected for the FDIC loss-share receivable is dependent upon the performance of the underlying covered assets, the passage of time, and claims submitted to the FDIC. See Fair Value Measurement of Assets Acquired and Liabilities Assumed section below for details regarding the fair value measurement of the FDIC loss-share receivable.

In the event the losses under the loss-sharing agreements fail to reach expected levels, the Bank has agreed to pay to the FDIC, on approximately the tenth anniversary following the transactions closings, a cash payment pursuant to each loss-sharing agreement.

In addition, as part of the consideration for The Park Avenue Bank FDIC-assisted transaction, the Bank agreed to issue a cash-settled equity appreciation instrument to the FDIC. Under the terms of the instrument, the FDIC had the opportunity to obtain a cash payment equal to the product of (i) the number of units with respect to which the FDIC exercises its right under the equity appreciation instrument and (ii) the amount by which the average of the volume weighted average price of Valley s common stock for each of the five New York Stock Exchange trading days immediately prior to the exercise of the equity appreciation instrument exceeds $14.372 (unadjusted for the five percent stock dividend issued on May 21, 2010). The equity appreciation instrument was initially recorded as a liability in the first quarter of 2010 and was settled in cash after the FDIC exercised the instrument on April 1, 2010. The valuation and settlement of the equity appreciation instrument did not significantly impact Valley s consolidated financial statements.

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VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table sets forth assets acquired and liabilities assumed in the FDIC-assisted transactions, at their estimated fair values as of the closing dates of each transaction:

	March 11, 2010 LibertyPointe Bank	March 12, 2010 Park Avenue Bank
	(in thousands)	
Assets acquired:		
Cash and cash equivalents	$ 18,269	$ 29,259
Investment securities available for sale	5,014	68,729
Covered loans	140,570	271,761
Premises and equipment		123
Accrued interest receivable	525	2,263
Goodwill	11,625	7,872
Other intangible assets	370	1,190
FDIC loss-share receivable	29,000	79,000
Other assets	2,284	20,274
Total assets acquired	$ 207,657	$ 480,471
Liabilities assumed:		
Deposits:		
Non-interest bearing	$ 34,349	$ 141,775
Savings, NOW and money market	592	2,342
Time	163,362	311,780
Total deposits	198,303	455,897
Short-term borrowings		12,505
Long-term borrowings		10,742
Accrued expenses and other liabilities	9,354	1,327
Total liabilities assumed	$ 207,657	$ 480,471

The determination of the fair value of the assets acquired and liabilities assumed required management to make estimates about discount rates, future expected cash flows, market conditions, and other future events that are highly subjective in nature and subject to change. During the second and third quarters of 2010, the estimated fair values of the acquired assets and liabilities as of the acquisition dates were adjusted as a result of additional information obtained related to the fair value of the loans and unfunded loan commitments acquired and, on a combined basis, resulted in increases in goodwill, the FDIC loss-share receivable and other liabilities, and a decrease in covered loans. The fair value estimates are subject to change for up to one year after the closing dates of the transactions as additional information relative to fair values as of the acquisition date becomes available.

Fair Value Measurement of Assets Acquired and Liabilities Assumed

Described below are the methods used to determine the fair values of the significant assets acquired and liabilities assumed in the FDIC-assisted transactions.

Cash and cash equivalents. The estimated fair values of cash and cash equivalents approximate their stated face amounts, as these financial instruments are either due on demand or have short-term maturities.

Investment securities available for sale. The estimated fair values of the investment securities available for sale were calculated utilizing Level 2 inputs. The prices for these instruments are obtained through an independent pricing service and are derived from market quotations and matrix pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things. Management reviewed the data and assumptions used in pricing the securities by its third party provider to ensure the highest level of significant inputs are derived from market observable data.

Covered loans. The acquired loan portfolios were segregated into categories for valuation purposes primarily based on loan type (commercial, mortgage, or consumer) and payment status (performing or non-performing). The estimated fair

VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

values were computed by discounting the expected cash flows from the respective portfolios. Management estimated the cash flows expected to be collected at the acquisition date by using valuation models that incorporated estimates of current key assumptions, such as prepayment speeds, default rates, and loss severity rates. Prepayment assumptions were developed by reference to recent or historical prepayment speeds observed for loans with similar underlying characteristics. Prepayment assumptions were influenced by many factors including, but not limited to, forward interest rates, loan and collateral types, payment status, and current loan-to-value ratios. Default and loss severity rates were developed by reference to recent or historical default and loss rates observed for loans with similar underlying characteristics. Default and loss severity assumptions were influenced by many factors including, but not limited to, underwriting processes and documentation, vintages, collateral types, collateral locations, estimated collateral values, loan-to-value ratios, and debt-to-income ratios.

The expected cash flows from the acquired loan portfolios were discounted at estimated market rates. The market rates were estimated using a buildup approach which included assumptions with respect to funding cost and funding mix, estimated servicing cost, liquidity premium, and additional spreads, if warranted, to compensate for the uncertainty inherent in the acquired loans. The methods used to estimate the Level 3 fair values of the covered loans are extremely sensitive to the assumptions and estimates used. While management attempted to use assumptions and estimates that best reflected the acquired loan portfolios and current market conditions, a greater degree of subjectivity is inherent in these values than in those determined in active markets.

See Note 7 for further discussion regarding covered loans and Valley s accretion of the loan discount resulting from acquisition date fair value adjustments.

FDIC loss-share receivable. The fair value of the FDIC loss-share receivable represents the present value of the estimated loss share reimbursements expected to be received from the FDIC for future losses on covered assets, based on the credit assumptions estimated for covered assets, loss sharing percentages, and the first loss tranche amount, if applicable. These loss share reimbursements were then discounted using the U.S. Treasury strip curve plus a premium to reflect the uncertainty of the timing and receipt of the loss sharing reimbursements from the FDIC. The amounts ultimately collected for this asset are dependent upon the performance of the underlying covered assets, the passage of time, and claims submitted to the FDIC.

Other intangible assets. Other intangible assets consisting of core deposit intangibles (CDI) are measures of the value of non-maturity checking, savings, NOW and money market deposits that are acquired in a business combination. The fair value of the CDI stemming from any given business combination is based on the present value of the expected cost savings attributable to the core deposit funding, relative to an alternative source of funding. The CDI related to the FDIC-assisted transactions is being amortized over an estimated useful life of five years to approximate the existing deposit relationships acquired. Valley evaluates such identifiable intangibles for impairment when an indication of impairment exists.

Deposits. The fair values of deposit liabilities with no stated maturity (i.e., savings, NOW and money market accounts, savings accounts, and non-interest-bearing accounts) are equal to the carrying amounts payable on demand. The fair values of certificates of deposit represent contractual cash flows, discounted to present value using interest rates currently offered on deposits with similar characteristics and remaining maturities.

Short-term and long-term borrowings. The fair values of short-term and long-term borrowings were estimated by obtaining quoted market prices of the identical or similar financial instruments when available. When these quoted prices were available, the fair values of borrowings were estimated by discounting the estimated future cash flows using market discount rates of financial instruments with similar characteristics, terms and remaining maturity.

Note 5. New Authoritative Accounting Guidance

Accounting Standards Update (ASU) No. 2009-16, Transfers and Servicing (Topic 860) Accounting for Transfers of Financial Assets, (i) enhances reporting about transfers of financial assets, including securitizations, where companies have continuing exposure to the risks related to transferred financial assets, (ii) eliminates the concept of a qualifying special-purpose entity and changes the requirements for

derecognizing financial assets, and (iii) requires additional disclosures about all continuing involvements with transferred financial assets including information about

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gains and losses resulting from transfers during the period. The new guidance under Accounting Standards Codification (ASC) Topic 860 was effective on January 1, 2010. The adoption of this guidance did not have a material impact on Valley s consolidated financial statements.

ASU No. 2009-17, Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, amends prior guidance to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance. ASU No. 2009-17 requires additional disclosures about the reporting entity s involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its effect on the entity s financial statements. The provisions of ASU No. 2009-17 became effective on January 1, 2010 and did not have a material impact on Valley s consolidated financial statements.

ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures About Fair Value Measurements, requires new disclosures and clarifies certain existing disclosure requirements about fair value measurement. Specifically, the update requires an entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for such transfers. A reporting entity is required to present separately information about purchases, sales, issuances, and settlements in the reconciliation of fair value measurements using Level 3 inputs. In addition, the update clarifies the following requirements of the existing disclosures: (i) for the purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets; and (ii) a reporting entity is required to include disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. The disclosures related to the gross presentation of purchases, sales, issuances and settlements of assets and liabilities included in Level 3 of the fair value hierarchy will be required for Valley beginning January 1, 2011. The remaining disclosure requirements and clarifications made by ASU No. 2010-06 became effective for Valley on January 1, 2010. The applicable new disclosures have been included in Note 6.

ASU No. 2010-18, Receivables (Topic 310) Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset, codifies the consensus reached by the EITF that modifications of loans that are accounted for within a pool under ASC Subtopic 310-30 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 must continue to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. ASU No. 2010-18 became effective prospectively for modifications of loans accounted for within pools under Subtopic 310-30 beginning in the third quarter of 2010. The new guidance did not have a material impact on Valley s consolidated financial statements. See Note 7 for more information regarding Valley s covered loans accounted for in accordance with ASC Subtopic 310-30.

ASU No. 2010-20, Receivables (Topic 310) Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses , requires significant new disclosures about the credit quality of financing receivables and the allowance for credit losses. The objective of these disclosures is to improve financial statement users understanding of (i) the nature of an entity s credit risk associated with its financing receivables and (ii) the entity s assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. The disclosures are to be presented at the level of disaggregation that management uses when assessing and monitoring the portfolio s risk and performance. The required disclosures include, among other things, a rollforward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU No. 2010-20 disclosures related to period-end information (e.g., credit-quality

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information and the ending financing receivables balance segregated by impairment method) will be required in all interim and annual reporting periods ending on or after December 15, 2010. Disclosures of activity that occurs during a reporting period (e.g., modifications and the rollforward of the allowance for credit losses by portfolio segment) will be required in interim or annual periods beginning on or after December 15, 2010. Comparative disclosures for reporting periods ending after initial adoption are required. Since the provisions of ASU 2010-20 are only disclosure related, our adoption of this guidance will not have an impact on our consolidated financial statements.

Note 6. Fair Value Measurement of Assets and Liabilities

ASC Topic 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1	Unadjusted exchange quoted prices in active markets for identical assets or liabilities, or identical liabilities traded as assets that the reporting entity has the ability to access at the measurement date.
Level 2	Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly (i.e., quoted prices on similar assets), for substantially the full term of the asset or liability.
Level 3	Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis by level within the fair value hierarchy as reported on the consolidated statements of financial condition at September 30, 2010 and December 31, 2009. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

		Fair Value Measurements at Reporting Date Using:		
	September 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Assets:				
Investment securities:				
Available for sale:				
U.S. Treasury securities	$ 164,465	$ 164,465	$	$
U.S. government agency securities	37,473		37,473	
Obligations of states and political subdivisions	33,157		33,157	
Residential mortgage-backed securities	713,536		610,160	103,376
Trust preferred securities	40,529	19,880	509	20,140

Corporate and other debt securities	54,035	42,505		11,530
Equity securities	46,408	27,789	10,327	8,292
Total available for sale	1,089,603	254,639	691,626	143,338
Trading securities	32,088		10,123	21,965
Loans held for sale [1]	25,293		25,293	
Other assets [2]	1,135		1,135	
Total assets	$ 1,148,119	$ 254,639	$ 728,177	$ 165,303
Liabilities:				
Junior subordinated debentures issued to VNB Capital Trust I [3]	$ 159,850	$ 159,850	$	$
Other liabilities [2]	1,937		1,937	
Total liabilities	$ 161,787	$ 159,850	$ 1,937	$

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		Fair Value Measurements at Reporting Date Using:		
	December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Assets:				
Investment securities:				
Available for Sale				
U.S. Treasury securities	$ 276,285	$ 276,285	$	$
Obligations of states and political subdivisions	33,411		33,411	
Residential mortgage-backed securities	940,505		820,652	119,853
Trust preferred securities	36,412	16,320		20,092
Corporate and other debt securities	19,042		10,868	8,174
Equity securities	46,826	28,098	10,235	8,493
Total available for sale	1,352,481	320,703	875,166	156,612
Trading securities	32,950			32,950
Loans held for sale [(1)]	25,492		25,492	
Other assets [(2)]	7,124		7,124	
Total assets	$ 1,418,047	$ 320,703	$ 907,782	$ 189,562
Liabilities:				
Junior subordinated debentures issued to VNB Capital Trust I [(3)]	$ 155,893	$ 155,893	$	$
Other liabilities [(2)]	1,018		1,018	
Total liabilities	$ 156,911	$ 155,893	$ 1,018	$

(1) Loans held for sale that are carried at fair value consist of residential mortgages with contractual unpaid principal balances totaling approximately $24.4 million and $25.3 million at September 30, 2010 and December 31, 2009, respectively. These loans are classified as held for sale at the time of origination.

(2) Derivative financial instruments are included in this category.

(3) The junior subordinated debentures had contractual unpaid principal obligations totaling $157.0 million at both September 30, 2010 and December 31, 2009.

The changes in Level 3 assets measured at fair value on a recurring basis for the three and nine months ended September 30, 2010 and 2009 are summarized below:

	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010	
	Trading Securities	Available For Sale Securities	Trading Securities	Available For Sale Securities
	(in thousands)			
Balance, beginning of the period	$ 22,814	$ 142,745	$ 32,950	$ 156,612
Transfers out of Level 3 [1]			(10,567)	(1,384)
Total net (losses) gains for the period included in:				
Net income	(849)		(418)	
Other comprehensive income		3,261		4,180
Purchases, sales and settlements		(2,668)		(16,070)
Balance, end of the period	$ 21,965	$ 143,338	$ 21,965	$ 143,338
Net unrealized losses included in net income for the period relating to assets held at September 30, 2010 [2]	$ (849)[3]	$ [4]	$ (418)[3]	$ (4,642)[4]

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	Three Months Ended September 30, 2009		Nine Months Ended September 30, 2009	
	Trading Securities	Available For Sale Securities	Trading Securities	Available For Sale Securities
	(in thousands)			
Balance, beginning of the period	$ 32,821	$ 122,540	$	$
Transfers into Level 3 [1]		34,329	34,236	149,672
Total net (losses) gains for the period included in:				
Net income	(648)		3,637	
Other comprehensive income		3,677		22,170
Sales and settlements		(4,920)	(5,700)	(16,216)
Balance, end of the period	$ 32,173	$ 155,626	$ 32,173	$ 155,626
Net unrealized (losses) gains included in net income for the period relating to assets held at September 30, 2009 [2]	$ (648)[3]	$ (743)[4]	$ 3,615[3]	$ (5,348)[4]

[1] All transfers into/or out of Level 3 are assumed to occur at the beginning of the reporting period.

[2] Represents net losses that are due to changes in economic conditions and management s estimates of fair value.

[3] Included in trading gains (losses), net within the non-interest income category on the consolidated statements of income.

[4] Represents the net impairment losses on securities recognized in earnings for the period.

During the second quarter of 2010, two trust preferred securities totaling $12.0 million with the same issuer, one classified as trading and one classified as available for sale, were transferred out of Level 3 assets to Level 1 assets due to newly available exchange quoted prices in active markets for these securities. During the third quarter of 2010, the same two securities were transferred out of Level 1 to Level 2 due to lower trading volumes and no exchange quoted prices at September 30, 2010.

Five corporate debt securities with a combined fair value of $32.7 million at September 30, 2010 were transferred from Level 2 to Level 1 assets during the nine months ended September 30, 2010 due to newly available exchange quoted prices in active markets for these securities.

The following valuation techniques were used for financial instruments measured at fair value on a recurring basis. All the valuation techniques described below apply to the unpaid principal balance excluding any accrued interest or dividends at the measurement date. Interest income and expense and dividend income are recorded within the consolidated statements of income depending on the nature of the instrument using the effective interest method based on acquired discount or premium.

Available for sale and trading securities. All U.S. Treasury securities, certain corporate and other debt securities, and certain common and preferred equity securities (including trust preferred securities) are reported at fair values utilizing Level 1 inputs (exchange quoted prices). The majority of the other investment securities are reported at fair value utilizing Level 2 inputs. The prices for these instruments are obtained through an independent pricing service or dealer market participants with whom Valley has historically transacted both purchases and sales of investment securities. Prices obtained from these sources include prices derived from market quotations and matrix pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things. Management reviews the data and assumptions used in pricing the securities by its third party providers to ensure the highest level of significant

inputs are derived from market observable data. For certain securities, the inputs used by either dealer market participants or independent pricing service, may be derived from unobservable market information. In these instances, Valley evaluated the appropriateness and quality of each price. In addition, Valley reviewed the volume and level of activity for all available for sale and trading securities and attempted to identify transactions which may not be orderly or reflective of a significant level of activity and volume. For securities meeting these criteria, the quoted prices received from either market participants or an independent pricing service may be adjusted, as necessary, to estimate fair value and this results in fair values based on Level 3 inputs. In determining fair value, Valley utilized unobservable inputs which reflect Valley s own assumptions about the inputs that market participants would use in pricing each security. In

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developing its assertion of market participant assumptions, Valley utilized the best information that is both reasonable and available without undue cost and effort.

In calculating the fair value for certain trading securities, consisting of trust preferred securities, under Level 3, Valley prepared present value cash flow models incorporating the contractual cash flow of each security adjusted, if necessary, for potential changes in the amount or timing of cash flows due to the underlying credit worthiness of each issuer. The resulting estimated future cash flows were discounted at a yield determined by reference to similarly structured securities for which observable orderly transactions occurred. For a majority of the securities valued under Level 3, the discount rate actually utilized reflected orderly transactions of similar issued securities by the same obligor. The discount rate is further adjusted to reflect a market premium which incorporates, among other variables, illiquidity premiums and variances in the instruments structure. The quoted prices received from either market participants or independent pricing services are weighted with the internal price estimate to determine the fair value of each instrument.

In calculating the fair value for the available for sale securities under Level 3, Valley prepared present value cash flow models for certain trust preferred securities (including three pooled trust preferred securities), and certain private label mortgage-backed securities. The cash flows for the residential mortgage-backed securities incorporated the expected cash flow of each security adjusted for default rates, loss severities and prepayments of the individual loans collateralizing the security. The cash flows for trust preferred securities reflected the contractual cash flow, adjusted if necessary for potential changes in the amount or timing of cash flows due to the underlying credit worthiness of each issuer.

For available for sale trust preferred securities and corporate debt securities, the resulting estimated future cash flows were discounted at a yield determined by reference to similarly structured securities for which observable orderly transactions occurred. The discount rate for each security was applied using a pricing matrix based on credit, security type and maturity characteristics to determine the fair value. The quoted prices received from either market participants or independent pricing services are weighted with the internal price estimate to determine the fair value of each instrument.

For available for sale private label mortgage-backed securities, cash flow assumptions incorporated independent third party market participant data based on vintage year for each security. The discount rate utilized in determining the present value of cash flows for the mortgage-backed securities was arrived at by combining the yield on orderly transactions for similar maturity government sponsored mortgage-backed securities with (i) the historical average risk premium of similar structured private label securities, (ii) a risk premium reflecting current market conditions, including liquidity risk and (iii) if applicable, a forecasted loss premium derived from the expected cash flows of each security. The estimated cash flows for each private label mortgage-backed security were then discounted at the aforementioned effective rate to determine the fair value. The quoted prices received from either market participants or independent pricing services are weighted with the internal price estimate to determine the fair value of each instrument.

Loans held for sale. The conforming residential mortgage loans originated for sale are reported at fair value using Level 2 (significant other observable) inputs. The fair values were calculated utilizing quoted prices for similar assets in active markets. To determine these fair values, the mortgages held for sale are put into multiple tranches, or pools, based on the coupon rate of each mortgage. If the mortgages held for sale are material, the market prices for each tranche are obtained from both Fannie Mae and Freddie Mac. The market prices represent a delivery price which reflects the underlying price each institution would pay Valley for an immediate sale of an aggregate pool of mortgages. The market prices received from Fannie Mae and Freddie Mac are then averaged and interpolated or extrapolated, where required, to calculate the fair value of each tranche. Depending upon the time elapsed since the origination of each loan held for sale, non-performance risk and changes therein were addressed in the estimate of fair value based upon the delinquency data provided to both Fannie Mae and Freddie Mac for market pricing and changes in market credit spreads. Non-performance risk did not materially impact the fair value of mortgage loans held for sale at September 30, 2010 and December 31, 2009 based on the short duration these assets were held, and the high credit quality of these loans.

Junior subordinated debentures issued to capital trusts. The junior subordinated debentures issued to VNB Capital Trust I are reported at fair value using Level 1 inputs. The fair value was estimated using quoted prices in active markets for similar assets, specifically the quoted price of the VNB Capital Trust I preferred stock traded under ticker symbol VLYPRA on the New York Stock Exchange. The preferred stock and Valley s junior subordinated debentures issued

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to the Trust have identical financial terms (see Note 13 for details) and therefore, the preferred stock s quoted price moves in a similar manner to the estimated fair value and current settlement price of the junior subordinated debentures. The preferred stock s quoted price includes market considerations for Valley s credit and non-performance risk and is deemed to represent the transfer price that would be used if the junior subordinated debenture were assumed by a third party. Valley s potential credit risk and changes in such risk did not materially impact the fair value measurement of the junior subordinated debentures at September 30, 2010 and December 31, 2009.

Derivatives. Derivatives are reported at fair value utilizing Level 2 inputs. The fair value of Valley s interest rate caps and interest rate swap are determined using third party prices that are based on discounted cash flow analyses. The fair value measurement of the interest caps is calculated by discounting the future expected cash receipts that would occur if variable interest rates rise above the strike rate of the caps. The variable interest rates used in the calculation of projected receipts on the caps are based on an expectation of future interest rates derived from observed market interest rate curves and volatilities. The fair value measurement of the interest rate swap is determined by netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on the expectation of future interest rates derived from observed market interest rate curves. The fair values of the derivatives incorporate credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, to account for potential nonperformance risk of Valley and its counterparties. The credit valuation adjustments were not significant to the overall valuation of Valley s derivatives at September 30, 2010 and December 31, 2009.

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Certain non-financial assets and non-financial liabilities are measured at fair value on a nonrecurring basis, including other real estate owned and other repossessed assets (upon initial recognition or subsequent impairment), goodwill measured at fair value in the second step of a goodwill impairment test, and loan servicing rights, core deposits, other intangible assets, and other long-lived assets measured at fair value for impairment assessment.

The following table summarizes assets measured at fair value on a non-recurring basis as of the dates indicated:

		Fair Value Measurements at Reporting Date Using:		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(in thousands)	
As of September 30, 2010				
Collateral dependent impaired loans [1]	$ 56,084	$	$	$ 56,084
Loan servicing rights	9,526			9,526
Foreclosed assets [2]	19,081			19,081
As of December 31, 2009				
Collateral dependent impaired loans	$ 22,484	$	$	$ 22,484
Loan servicing rights	11,110			11,110

Foreclosed assets	6,434	6,434

(1) Excludes pooled covered loans acquired in the FDIC-assisted transactions.

(2) Includes other real estate owned totaling $12.5 million related to the FDIC-assisted transactions, which is subject to loss-sharing agreements with the FDIC.

Impaired loans. Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral and are commonly referred to as collateral dependent impaired loans. Collateral values are typically estimated using Level 3 inputs, consisting of individual appraisals that are significantly adjusted based on customized discounting criteria. During the nine months ended September 30, 2010, collateral dependent

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impaired loans were individually re-measured and reported at fair value through direct loan charge-offs to the allowance for loan losses and/or a specific valuation allowance allocation based on the fair value of the underlying collateral. The direct loan charge-offs to the allowance for loan losses totaled $1.5 million and $7.3 million for the three and nine months ended September 30, 2010, respectively. At September 30, 2010, collateral dependent impaired loans (mainly consisting of commercial and construction loans) with a carrying value of $59.1 million were reduced by specific valuation allowance allocations totaling $3.0 million to a reported fair value of $56.1 million.

Loan servicing rights. Fair values for each risk-stratified group are calculated using a fair value model from a third party vendor that requires inputs that are both significant to the fair value measurement and unobservable (Level 3). The fair value model is based on various assumptions, including but not limited to, servicing cost, prepayment speed, internal rate of return, ancillary income, float rate, tax rate, and inflation. A significant degree of judgment is involved in valuing the loan servicing rights using Level 3 inputs. The use of different assumptions could have a significant positive or negative effect on the fair value estimate. During the nine months ended September 30, 2010, net impairment charges of $1.5 million were recognized on loan servicing rights when the book value of a risk-stratified group of loan servicing rights exceeds the estimated fair value. The loan servicing rights had a $9.5 million carrying value, net of a $2.1 million valuation allowance at September 30, 2010.

Foreclosed assets. Certain foreclosed assets (consisting of other real estate owned and other repossessed assets), upon initial recognition and transfer from loans, are re-measured and reported at fair value through a charge-off to the allowance for loan losses based upon the fair value of the foreclosed assets. The fair value of a foreclosed asset, upon initial recognition, is typically estimated using Level 3 inputs, consisting of an appraisal that is significantly adjusted based on customized discounting criteria. During the nine months ended September 30, 2010, foreclosed assets measured at fair value upon initial recognition totaled $9.3 million. In connection with the measurement and initial recognition of the aforementioned foreclosed assets, Valley recognized charge-offs to the allowance for loan losses totaling $1.8 million and $5.5 million for the three and nine months ended September 30, 2010, respectively.

Other Fair Value Disclosures

The following table presents the amount of gains and losses from fair value changes included in income before income taxes for financial assets and liabilities carried at fair value for the three and nine months ended September 30, 2010 and 2009:

Reported in Consolidated Statements of Financial Condition	Reported in Consolidated Statements of Income	Gains (Losses) on Change in Fair Value Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
		(in thousands)			
Assets:					
Available for sale securities	Net impairment losses on securities	$	$ (743)	$ (4,642)	$ (5,348)
Trading securities	Trading losses, net	(517)	(648)	(862)	4,618
Loans held for sale	Gains on sales of loans, net	1,548	2,699	5,087	7,275
Liabilities:					
Junior subordinated debentures issued to capital trusts	Trading losses, net	(2,110)	(2,826)	(3,957)	(13,504)
		$ (1,079)	$ (1,518)	$ (4,374)	$ (6,959)

ASC Topic 825, Financial Instruments, requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or a non-recurring basis.

The fair value estimates presented in the following table were based on pertinent market data and relevant information on the financial instruments available as of the valuation date. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire portfolio of financial instruments. Because no market exists for a portion of the financial instruments, fair value estimates may be based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of

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significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For instance, Valley has certain fee-generating business lines (e.g., its mortgage servicing operation, trust and investment management departments) that were not considered in these estimates since these activities are not financial instruments. In addition, the tax implications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

The carrying amounts and estimated fair values of financial instruments were as follows at September 30, 2010 and December 31, 2009:

	September 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Financial assets:				
Cash and due from banks	$ 256,194	$ 256,194	$ 305,678	$ 305,678
Interest bearing deposits with banks	4,677	4,677	355,659	355,659
Investment securities held to maturity	1,776,856	1,766,179	1,584,388	1,548,006
Investment securities available for sale	1,089,603	1,089,603	1,352,481	1,352,481
Trading securities	32,088	32,088	32,950	32,950
Loans held for sale (carrying amount includes fair value of $25,293 at September 30, 2010 and $25,492 at December 31, 2009 for loans originated for sale)	108,455	110,950	25,492	25,492
Net loans	9,317,911	9,168,310	9,268,081	9,233,493
Accrued interest receivable	61,643	61,643	56,245	56,245
Federal Reserve Bank and Federal Home Loan Bank stock	142,073	142,073	139,911	139,911
Other assets*	1,135	1,135	7,124	7,124
Financial liabilities:				
Deposits without stated maturities	6,592,805	6,592,805	6,464,918	6,464,918
Deposits with stated maturities	2,675,898	2,730,204	3,082,367	3,135,611
Short-term borrowings	331,265	332,615	216,147	206,296
Long-term borrowings	2,884,547	3,384,044	2,946,320	3,115,285
Junior subordinated debentures issued to capital trusts (carrying amount includes fair value of $159,850 at September 30, 2010 and $155,893 at December 31, 2009 for VNB Capital Trust I)	185,055	185,518	181,150	180,639
Accrued interest payable	4,836	4,836	7,081	7,081
Other liabilities*	1,937	1,937	1,018	1,018

* Derivative financial instruments are included in this category.

Financial instruments with off-balance sheet risk, consisting of loan commitments and standby letters of credit, had immaterial estimated fair values at September 30, 2010 and December 31, 2009.

The following methods and assumptions were used to estimate the fair value of other financial assets and financial liabilities not measured and reported at fair value on a recurring basis or a non-recurring basis:

Cash and due from banks and interest bearing deposits with banks. The carrying amount is considered to be a reasonable estimate of fair value.

Investment securities held to maturity. Fair values are based on prices obtained through an independent pricing service or dealer market participants which Valley has historically transacted both purchases and sales of investment securities. Prices obtained from these sources include prices derived from market quotations and matrix pricing. The fair

VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things. For certain securities, for which the inputs used by either dealer market participants or independent pricing service were derived from unobservable market information, Valley evaluated the appropriateness and quality of each price. Additionally, Valley reviewed the volume and level of activity for all classes of held to maturity securities and attempted to identify transactions which may not be orderly or reflective of a significant level of activity and volume. For securities meeting these criteria, the quoted prices received from either market participants or an independent pricing service may be adjusted, as necessary, to estimate fair value (fair values based on Level 3 inputs). If applicable, the adjustment to fair value was derived based on present value cash flow model projections prepared by Valley utilizing assumptions similar to those incorporated by market participants.

Loans. Fair values of loans and loans transferred to loans held for sale are estimated by discounting the projected future cash flows using market discount rates that reflect the credit and interest-rate risk inherent in the loan. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Fair values estimated in this manner do not fully incorporate an exit-price approach to fair value, but instead are based on a comparison to current market rates for comparable loans. See Note 4 for details regarding the fair value measurement of covered loans.

Accrued interest receivable and payable. The carrying amounts of accrued interest approximate their fair value.

Federal Reserve Bank and Federal Home Loan Bank stock. The redeemable carrying amount of these securities with limited marketability approximates their fair value. These securities are recorded in other assets on the consolidated statements of financial condition.

Deposits. Current carrying amounts approximate estimated fair value of demand deposits and savings accounts. The fair value of time deposits is based on the discounted value of contractual cash flows using estimated rates currently offered for alternative funding sources of similar remaining maturity.

Short-term and long-term borrowings. The fair value is estimated by obtaining quoted market prices of the identical or similar financial instruments when available. When these quoted prices are unavailable, the fair value of borrowings is estimated by discounting the estimated future cash flows using market discount rates of financial instruments with similar characteristics, terms and remaining maturity.

Junior subordinated debentures issued to GCB Capital Trust III. There is no active market for the trust preferred securities issued by GCB Capital Trust III. Therefore, the fair value is estimated utilizing the income approach, whereby the expected cash flows, over the remaining estimated life of the security, are discounted using Valley s credit spread over the current yield on a similar maturity U.S. Treasury security. Valley s credit spread was calculated based on Valley s trust preferred securities issued by VNB Capital Trust I, which are publicly traded in an active market.

VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 7. Loans

The details of the loan portfolio as of September 30, 2010 and December 31, 2009 were as follows:

	September 30, 2010	December 31, 2009
	(in thousands)	
Non-covered loans:		
Commercial and industrial	$ 1,824,014	$ 1,801,251
Mortgage:		
Construction	440,929	440,046
Residential mortgage	1,890,439	1,943,249
Commercial real estate	3,406,089	3,500,419
Total mortgage loans	5,737,457	5,883,714
Consumer:		
Home equity	531,168	566,303
Credit card	9,462	10,025
Automobile	877,298	1,029,958
Other consumer	75,262	78,820
Total consumer loans	1,493,190	1,685,106
Total non-covered loans	9,054,661	9,370,071
Covered loans:		
Commercial and industrial	46,953	
Mortgage	330,013	
Consumer	70	
Total covered loans	377,036	
Total loans	$ 9,431,697	$ 9,370,071
FDIC loss-share receivable related to covered loans and foreclosed assets	$ 109,682	$

Total non-covered loans are net of unearned discount and deferred loan fees totaling $9.0 million and $8.7 million at September 30, 2010 and December 31, 2009, respectively. At September 30, 2010, covered loans had outstanding contractual principal balances totaling approximately $473.7 million.

Covered loans acquired through the FDIC-assisted transactions are accounted for in accordance with ASC Subtopic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, since all of these loans were acquired at a discount attributable, at least in part, to credit quality and are not subsequently accounted for at fair value. Covered loans were initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance (i.e., the allowance for loan losses). Under ASC Subtopic 310-30, loans may be aggregated and accounted for as pools of loans if the loans being aggregated have common risk characteristics. The difference between the undiscounted cash flows expected at acquisition and the investment in the covered loans, or the accretable yield, is recognized as interest income on a level-yield method over the life of the loans in each pool. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the non-accretable difference, are not recognized as a yield adjustment or as a loss accrual or a valuation allowance. Such increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining life, while decreases in expected cash flows are recognized as impairment through the allowance for loan losses. There were no material increases or decreases in the expected cash flows of covered loans in each of the pools during the nine months ended September 30, 2010.

VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table presents information regarding the combined preliminary estimates of the contractually required payments receivable, the cash flows expected to be collected, and the estimated fair value of the covered loans acquired in the LibertyPointe Bank and The Park Avenue Bank transactions, as of the closing dates for those transactions:

	(in thousands)
Contractually required principal and interest	$ 625,978
Contractual cash flows not expected to be collected (non-accretable difference)	(143,988)
Expected cash flows to be collected	481,990
Interest component of expected cash flows (accretable yield)	(69,659)
Fair value of covered loans	$ 412,331

Changes in the accretable yield for covered loans were as follows for the nine months ended September 30, 2010:

	Nine Months Ended September 30, 2010 (in thousands)
Balance, at acquisition date	$ 69,659
Accretion	(15,437)
Balance, end of the period	$ 54,222

Asset Quality

The covered loans acquired from the FDIC were aggregated into pools based on common risk characteristics in accordance with ASC Subtopic 310-30. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. The covered loans that may have been classified as non-performing loans by the acquired banks are no longer classified as non-performing. Management s judgment is required in reclassifying loans subject to ASC Subtopic 310-30 as performing loans, and is dependent on having a reasonable expectation about the timing and amount of the cash flows to be collected, even if the loan is contractually past due.

The tables below exclude covered loans that were acquired as part of the LibertyPointe Bank and The Park Avenue Bank transactions during the first quarter of 2010. These loans are accounted for on a pool basis, and the pools are considered to be performing.

The outstanding balances of loans that are 90 days or more past due as to principal or interest payments and still accruing, non-performing assets, and troubled debt restructured loans at September 30, 2010 and December 31, 2009 were as follows:

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VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	September 30, 2010	December 31, 2009
	(in thousands)	
Loans past due in excess of 90 days and still accruing	$ 4,367	$ 5,125
Non-accrual loans	$ 105,602	$ 91,964
Other real estate owned*	4,698	3,869
Other repossessed assets	1,849	2,565
Total non-performing assets	$ 112,149	$ 98,398
Troubled debt restructured loans:		
Commercial and industrial	$ 16,077	$ 18,973
Construction	10,386	
Commercial real estate	6,976	
Residential mortgage	14,735	
Home equity	55	99
Total troubled debt restructured loans	$ 48,229	$ 19,072

* At September 30, 2010, other real estate owned (OREO) excludes $12.5 million of OREO that is related to the FDIC-assisted transactions, which is subject to the loss-sharing agreements with the FDIC.

Information about impaired loans as of September 30, 2010 and December 31, 2009 follows:

	September 30, 2010	December 31, 2009
	(in thousands)	
Impaired loans for which there was a specific related allowance for loan losses	$ 77,152	$ 45,986
Impaired loans without a specific related allowance for loan losses	38,160	28,554
Total impaired loans	$ 115,312	$ 74,540
Related allowance for loan losses	$ 13,966	$ 7,314

The following table summarizes the allowance for credit losses for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in thousands)			
Allowance for credit losses				
Beginning balance	$ 112,504	$ 102,317	$ 103,655	$ 94,738
Loans charged-off	(6,864)	(10,811)	(27,913)	(28,054)
Charged-off loans recovered	767	826	5,616	2,603
Net charge-offs	(6,097)	(9,985)	(22,297)	(25,451)
Provision charged for credit losses	9,308	12,722	34,357	35,767
Ending balance	$ 115,715	$ 105,054	$ 115,715	$ 105,054
Components of allowance for credit losses:				
Allowance for loan losses	$ 113,786	$ 103,446	$ 113,786	$ 103,446
Reserve for unfunded letters of credit	1,929	1,608	1,929	1,608
Allowance for credit losses	$ 115,715	$ 105,054	$ 115,715	$ 105,054

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(Unaudited)

Note 8. Investment Securities

As of September 30, 2010, Valley had approximately $1.8 billion, $1.1 billion, and $32.1 million in held to maturity, available for sale, and trading investment securities, respectively. Valley may be required to record impairment charges on its investment securities if they suffer a decline in value that is considered other-than-temporary. Numerous factors, including lack of liquidity for re-sales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate, adverse actions by regulators, or unanticipated changes in the competitive environment could have a negative effect on Valley s investment portfolio and may result in other-than-temporary impairment on certain investment securities in future periods. Valley s investment portfolios include private label mortgage-backed securities, trust preferred securities principally issued by bank holding companies (referred to below as bank issuers) (including three pooled trust preferred securities), corporate bonds primarily issued by banks, and perpetual preferred and common equity securities issued by banks. These investments may pose a higher risk of future impairment charges by Valley as a result of the current downturn in the U.S. economy and its potential negative effect on the future performance of these bank issuers and/or the underlying mortgage loan collateral. Additionally, some bank trust preferred issuers may elect to defer future payments of interest on such securities either based upon recommendations by the U.S. Government and the banking regulators or management decisions driven by potential liquidity needs. Such elections by issuers of securities within Valley s investment portfolio could adversely affect securities valuations and result in future impairment charges if collection of deferred and accrued interest (or principal upon maturity) is deemed unlikely by management. Although these securities may pose a greater risk of impairment charges, many of the bank issuers of trust preferred securities within our investment portfolio were allowed by their bank regulators to exit the U.S. Treasury s TARP Capital Purchase Program, and their capital ratios are at or above the minimum amounts to be considered well-capitalized under current regulatory guidelines. For the small number of bank issuers within our portfolio that remain TARP participants, dividend payments to trust preferred security holders are senior to and payable before dividends can be paid on the preferred stock issued under the TARP Capital Purchase Program. See the Other-Than-Temporary Impairment Analysis section below for further details.

Held to Maturity

The amortized cost, gross unrealized gains and losses and fair value of securities held to maturity at September 30, 2010 and December 31, 2009 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
September 30, 2010				
Obligations of states and political subdivisions	$ 389,023	$ 8,205	$ (3)	$ 397,225
Residential mortgage-backed securities	1,053,291	34,725	(148)	1,087,868
Trust preferred securities	281,847	8,782	(63,734)	226,895
Corporate and other debt securities	52,695	1,948	(452)	54,191
Total investment securities held to maturity	$ 1,776,856	$ 53,660	$ (64,337)	$ 1,766,179
December 31, 2009				
Obligations of states and political subdivisions	$ 313,360	$ 3,430	$ (227)	$ 316,563
Residential mortgage-backed securities	936,385	17,970	(413)	953,942

Trust preferred securities	281,836	3,832	(59,516)	226,152
Corporate and other debt securities	52,807	907	(2,365)	51,349
Total investment securities held to maturity	$ 1,584,388	$ 26,139	$ (62,521)	$ 1,548,006

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VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The age of unrealized losses and fair value of related securities held to maturity at September 30, 2010 and December 31, 2009 were as follows:

	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
September 30, 2010						
Obligations of states and political subdivisions	$ 1,028	$ (2)	$ 105	$ (1)	$ 1,133	$ (3)
Residential mortgage-backed securities	70,506	(148)			70,506	(148)
Trust preferred securities	1,730	(274)	91,130	(63,460)	92,860	(63,734)
Corporate and other debt securities			8,521	(452)	8,521	(452)
Total	$ 73,264	$ (424)	$ 99,756	$ (63,913)	$ 173,020	$ (64,337)
December 31, 2009						
Obligations of states and political subdivisions	$ 42,507	$ (219)	$ 1,305	$ (8)	$ 43,812	$ (227)
Residential mortgage-backed securities	120,101	(404)	2,450	(9)	122,551	(413)
Trust preferred securities	10,702	(89)	121,197	(59,427)	131,899	(59,516)
Corporate and other debt securities	7,206	(338)	17,926	(2,027)	25,132	(2,365)
Total	$ 180,516	$ (1,050)	$ 142,878	$ (61,471)	$ 323,394	$ (62,521)

The unrealized losses on investment securities held to maturity are primarily due to changes in interest rates (including, in certain cases, changes in credit spreads) and lack of liquidity in the marketplace. The total number of security positions in the securities held to maturity portfolio in an unrealized loss position at September 30, 2010 was 28 as compared to 79 at December 31, 2009.

At September 30, 2010, the unrealized losses reported for trust preferred securities relate to 18 single-issuer securities, mainly issued by bank holding companies. Of the 18 trust preferred securities, 6 were investment grade, 1 was non-investment grade, and 11 were not rated. Additionally, $38.3 million of the $63.7 million in unrealized losses at September 30, 2010, relate to securities issued by one bank holding company with a combined amortized cost of $55.0 million. Valley privately negotiated the purchase of the $55.0 million in trust preferred securities from the bank issuer and holds all of the securities of the two issuances. Typical of most trust preferred issuances, the bank issuer may defer interest payments for up to five years with interest payable on the deferred balance. In August and October of 2009, the bank issuer elected to defer its scheduled interest payments on each respective security issuance. The bank issuer is currently operating under an agreement with its bank regulators, which requires, among other things, the issuer to receive permission from the regulators prior to resuming its regularly scheduled payments on both security issuances. However, the issuer s principal subsidiary bank reported, in its most recent regulatory filing, that it meets the regulatory capital minimum requirements to be considered a well-capitalized institution as of September 30, 2010. Based on this information, management believes that we will receive all principal and interest contractually due on both security issuances. Valley will continue to closely monitor the credit risk of this issuer and we may be required to recognize other-than-temporary impairment charges on such securities in future periods. All other single-issuer bank trust preferred securities classified as held to maturity are paying in accordance with their terms, have no deferrals of interest or defaults and, if applicable, meet the regulatory requirements to be considered to be well-capitalized institutions at September 30, 2010.

Unrealized losses reported for corporate and other debt securities as of September 30, 2010 relate to one investment rated bank issued corporate bond with a $9.0 million amortized cost that is paying in accordance with its terms.

Management does not believe that any individual unrealized loss as of September 30, 2010 included in the table above represents other-than-temporary impairment as management mainly attributes the declines in value to changes in interest rates and lack of liquidity in the market place, not credit quality or other factors. Based on a comparison of the present value of expected cash flows to the amortized cost, management believes there are no credit losses on these securities. Valley does not have the intent to sell, nor is it more likely than not that Valley will be required to sell, the securities contained in the table above before the recovery of their amortized cost basis or maturity.

As of September 30, 2010, the fair value of investments held to maturity that were pledged to secure public deposits, repurchase agreements, lines of credit, and for other purposes required by law, was $942 million.

VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The contractual maturities of investments in debt securities held to maturity at September 30, 2010 are set forth in the table below. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties. Therefore, residential mortgage-backed securities are not included in the maturity categories in the following summary.

	September 30, 2010	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$ 185,101	$ 185,183
Due after one year through five years	63,920	66,588
Due after five years through ten years	75,875	79,014
Due after ten years	398,669	347,526
Residential mortgage-backed securities	1,053,291	1,087,868
Total investment securities held to maturity	$ 1,776,856	$ 1,766,179

Actual maturities of debt securities may differ from those presented above since certain obligations provide the issuer the right to call or prepay the obligation prior to scheduled maturity without penalty.

The weighted-average remaining expected life for residential mortgage-backed securities held to maturity was 4.42 years at September 30, 2010.

Available for Sale

The amortized cost, gross unrealized gains and losses and fair value of investment securities available for sale at September 30, 2010 and December 31, 2009 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
September 30, 2010				
U.S. Treasury securities	$ 162,519	$ 1,946	$	$ 164,465
U.S. government agency securities	37,609	38	(174)	37,473
Obligations of states and political subdivisions	31,529	1,628		33,157
Residential mortgage-backed securities	680,105	38,120	(4,689)	713,536
Trust preferred securities*	54,290	581	(14,342)	40,529
Corporate and other debt securities	53,473	3,603	(3,041)	54,035
Equity securities	48,097	1,012	(2,701)	46,408
Total investment securities available for sale	$ 1,067,622	$ 46,928	$ (24,947)	$ 1,089,603

December 31, 2009				
U.S. Treasury securities	$ 277,429	$	$ (1,144)	$ 276,285
Obligations of states and political subdivisions	32,724	722	(35)	33,411
Residential mortgage-backed securities	911,186	39,537	(10,218)	940,505
Trust preferred securities*	56,636	117	(20,341)	36,412
Corporate and other debt securities	22,578	198	(3,734)	19,042
Equity securities	49,112	1,956	(4,242)	46,826
Total investment securities available for sale	$ 1,349,665	$ 42,530	$ (39,714)	$ 1,352,481

* Includes three pooled trust preferred securities, principally collateralized by securities issued by banks and insurance companies.

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VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The age of unrealized losses and fair value of related investment securities available for sale at September 30, 2010 and December 31, 2009 were as follows:

	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
September 30, 2010						
U.S. government agency securities	$ 19,642	$ (174)	$	$	$ 19,642	$ (174)
Residential mortgage-backed securities	972	(3)	68,610	(4,686)	69,582	(4,689)
Trust preferred securities	1,244	(171)	34,543	(14,171)	35,787	(14,342)
Corporate and other debt securities	3,365	(31)	6,964	(3,010)	10,329	(3,041)
Equity securities	435	(248)	12,724	(2,453)	13,159	(2,701)
Total	$ 25,658	$ (627)	$ 122,841	$ (24,320)	$ 148,499	$ (24,947)
December 31, 2009						
U.S. Treasury securities	$ 276,285	$ (1,144)	$	$	$ 276,285	$ (1,144)
Obligations of states and political subdivisions	395	(4)	1,688	(31)	2,083	(35)
Residential mortgage-backed securities	11,318	(245)	122,031	(9,973)	133,349	(10,218)
Trust preferred securities			34,622	(20,341)	34,622	(20,341)
Corporate and other debt securities	1,878	(57)	6,296	(3,677)	8,174	(3,734)
Equity securities			35,901	(4,242)	35,901	(4,242)
Total	$ 289,876	$ (1,450)	$ 200,538	$ (38,264)	$ 490,414	$ (39,714)

The total number of security positions in the securities available for sale portfolio in an unrealized loss position at September 30, 2010 was 45 as compared to 82 at December 31, 2009.

Nine months ended September 25, 2010
$2,907 $1,263 $700 $4,870
Nine months ended September 26, 2009
$3,730 $1,841 $472 $6,043
Income (loss) from operations

Nine months ended September 25, 2010
$9,153 $(1,211) $(10,860) $(2,918)

Nine months ended September 26, 2009
$14,824 $829 $(11,389) $4,264
Nine months ended September 25, 2010

Depreciation and amortization
$1,294 $14 $345 1,653
Total assets
$65,975 $913 $15,630 $82,518
Capital expenditures
$284 - $96 $380
Nine months ended September 26, 2009

Depreciation and

amortization
$1,257 $- $474 $1,731
Total assets
$66,398 $919 $28,283 $95,600
Capital expenditures
$509 - $380 $889

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HearUSA, Inc
Notes to Consolidated Financial Statements
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(1) Amounts in 2009 were reclassified for purposes of reporting the integration of our e-commerce business into the Centers segment.

Hearing aids and other products revenues consisted of the following:

	Nine months ended	
	September 25, 2010	September 26, 2009
Hearing aid revenues	96.5%	97.1%
Other products revenues	3.5%	2.9%

Services revenues consisted of the following:

	Nine months ended	
	September 25, 2010	September 26, 2009
Hearing aid repairs	48.2%	42.8%
Testing and other income	51.8%	57.2%

Income (loss) from operations at the segment level is computed before the following, the sum of which is included in the column "Corporate" as loss from operations:

	Nine months ended	
Dollars in thousands	September 25, 2010	September 26, 2009
Contract service revenue on Canadian support agreement	$ (700)	(472)
General and administrative expense	11,215	11,387
Corporate depreciation and amortization	345	474
Corporate loss from operations	$ 10,860	$ 11,389

10. Liquidity

The Company used approximately $3.4 million for operating activities during the nine months ended September 25, 2010 primarily as a result of the net loss of $6.0 million and the payment of $1.9 million in Canadian income taxes accrued in the prior year. The Company also used approximately $2.8 million to repay long-term debt during the same period and generated $3.2 million from the sale of short term marketable securities.

Cash, cash equivalents and short term marketable securities totaled approximately $5.4 million as of September 25, 2010. Approximately $2.4 million of the current maturities of long-term debt to Siemens may be repaid through rebate credits.

The Company believes that current cash and cash equivalents and expected increases in revenues generated by its new marketing initiatives and the continued growth of the AARP program will be sufficient to support the Company's operating and investing activities through the next twelve months. However, there can be no assurance that the Company will generate the expected increased cash flows from operations or that unexpected cash needs will not arise

for which the cash, cash equivalents and cash flow from operations will be sufficient or that the Company can maintain compliance with the Siemens loan covenants. In the event of a shortfall in cash, the Company may reduce its marketing expenditures and other costs and might consider short-term debt, or additional equity or debt offerings. There can be no assurance however, that the Company can reduce its costs sufficiently to offset cash shortfalls or that any debt or equity financing will be available to the Company on favorable terms or at all.

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Notes to Consolidated Financial Statements
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RECENT ACCOUNTING PRONOUNCEMENTS

In January 2010, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2010-06 "Improving Disclosures about Fair Value Measurements" (ASU 2010-06"). ASU 2010-06 amends the guidance on fair value measurement disclosures to add new requirements for disclosures about transfers into and out of the Level 1 and 2 categories in the fair value measurement hierarchy, and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. The amended guidance also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The new requirements for disclosures and clarifications of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activities in Level 3 fair value measurements, which are effective for interim and annual reporting periods beginning after December 15, 2010. The adoption of this amended guidance has not required significant additional disclosures by the Company.

In July 2010, the FASB issued ASU 2010-20, "Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses", which amends Subtopic 310-30 by requiring an entity to provide enhanced and disaggregated disclosures about the credit quality of an entity's financing receivables and its allowance for credit losses. The objective of enhancing these disclosures is to improve financial statement users' understanding of both the nature of an entity's credit risk associated with its financing receivables and the entity's assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reason for those changes. The update is effective for the first interim or annual period ending on or after December 15, 2010. We do not expect adoption of FASB ASU 2010-20 to have a material impact on our financial position and results of operations, as it is a disclosure standard.

In June 2009, the FASB issued guidance for determining the primary beneficiary of a variable interest entity ("VIE"). In December 2009, the FASB issued ASU 2009-17, "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities" ("ASU 2009-17"). ASU 2009-17 provides amendments to ASC 810 to reflect the revised guidance. The amendments in ASU 2009-17 replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a VIE with an approach focused on identifying which reporting entity has the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (i) the obligation to absorb losses of the entity or (ii) the right to receive benefits from the entity. The amendments in ASU 2009-17 also require additional disclosures about a reporting entity's involvement with VIEs. ASU 2009-17 is effective for annual reporting periods beginning after November 15, 2009. We do not anticipate that the adoption of this guidance will have a material impact on our financial position and results of operations or require additional disclosures.

In September 2009, the FASB ratified ASU No. 2009-13 (formerly referred to as Emerging Issues Task Force Issue No. 08-1), "Revenue Arrangements with Multiple Deliverables." ASU No. 2009-13 requires the allocation of consideration among separately identified deliverables contained within an arrangement based on their related selling prices. ASU No. 2009-13 will be effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company does not anticipate that the adoption of this guidance will have a material effect on our financial position and results of operations or require additional disclosures.

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

Forward Looking Statements

This Form 10-Q and, in particular, this management's discussion and analysis contain a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934. These statements include those relating to the Company's belief that future volatility over the expected remaining life of the outstanding common stock purchase warrants will not differ materially from historical volatility, that current cash and cash equivalents and expected increases in revenues generated by the Company's new marketing initiatives and the continued growth of the AARP program will be sufficient to support the Company's operating and investing activities through the next twelve months, the expectation that adoption of ASU 2009-17, 2009-13 and 2010-20 will not have a material impact on our financial position and results or require additional disclosure, that marketing expenditures will decline to traditional levels beginning in the fourth quarter of 2010, that insurance revenues will remain stable for the remainder of 2010, that the agreements reached with several managed care plans to provide new or expanded hearing aid benefits to an additional 400,000 members beginning January 1, 2011 will increase revenues in 2011, and that it will not be necessary to fund separately the Company's new marketing initiatives and the AARP program going forward. These forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry and markets in which we operate and management's beliefs and assumptions. The forward-looking statements contained in this report are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict, including, but not limited to, that the Company's marketing initiatives will not be effective in increasing sales under the AARP program, that marketing expenditures for the remainder of 2010 will need to be increased to drive company-owned store revenues or otherwise, that the Company's underlying assumptions with respect to the new managed care agreements will not materialize, that volatility over the expected remaining life of the outstanding common stock purchase warrants will materially increase, and other risks described in this report and in the Company's annual report on Form 10-K for fiscal year 2009 filed with the Securities and Exchange Commission.

General

Revenues in the third quarter of 2010 declined slightly when compared to the second quarter of 2010 as a result of an increase in product orders received but not yet delivered to the customers and one less selling day. Marketing costs for the quarter remained $1.0 million above previous levels because of the Company's new marketing initiatives and the launch of the AARP program. The Company believes its marketing initiatives have been successful in creating momentum for its existing business and the AARP program. These efforts helped increase second quarter 2010 revenues by 9% and third quarter 2010 revenues by 7% versus the first quarter of 2010. In addition, the Company has reached agreement with several managed care plans to provide new or expanded hearing aid benefits to an additional 400,000 members beginning January 1, 2011.

AARP has increasingly included information on the hearing program in the mailings and publications it uses to inform its 40 million members of the various AARP programs and partnerships. This has led to an over 300% increase in calls received at the AARP call center inquiring about the hearing program in the third quarter of 2010. The Company believes that it will not be necessary to separately fund its new marketing initiatives and the AARP program going forward. Marketing expenditures are expected to decline to traditional levels beginning in the fourth quarter of 2010. The increasing role AARP has begun to play in educating its members on the program will allow the Company to combine its AARP initiatives with its other marketing programs.

RESULTS OF OPERATIONS

For the three months ended September 25, 2010 compared to the three months ended September 26, 2009

Revenues

Dollars in thousands

		2010		2009		Change	% Change
Hearing aids and other products	$	19,276	$	19,616	$	(340)	(1.7)%
Services		1,657		2,212		(555)	(25.1)%
Total net revenues	$	20,933	$	21,828	$	(895)	(4.1)%

The $895,000, or 4.1%, decrease in net revenue in the 2010 third quarter from the third quarter 2009 is principally a result of the loss of revenue related to a number of insurance plans eliminating, changing or limiting their hearing care benefits. These changes adversely affected both hearing aids and services revenue.

The Company expects revenues from insurance plans to remain stable for the remainder of 2010. While there can be no assurance, it appears that the cancellations and reductions in benefits seen at the end of 2009 is not a trend that is continuing into 2010 and beyond. The Company has in fact reached agreement with several managed care plans to provide new or expanded hearing aid benefits to an additional 400,000 members beginning January 1, 2011 which are expected to increase revenues in 2011.

Cost of Products Sold and Services

Dollars in thousands

		2010		2009		Change	%
Hearing aids and other products	$	5,188	$	4,543	$	645	14.2%
Services		436		441		(5)	(1.1)%
Total cost of products sold and services	$	5,624	$	4,984	$	640	12.8%
Percent of total net revenues		26.9%		22.8%		4.1%	18.0%

The cost of products sold includes the effect of rebate credits pursuant to our agreements with Siemens. The following table reflects the components of the rebate credits which are included in the above cost of products sold for hearing aids (see Note 4 – Long-term Debt, Notes to Consolidated Financial Statements included herein):

Dollars in thousands

		2010		2009		Change	%
Rebates offsetting base required payments on Tranche C	$	500	$	500	$	-	-
Volume rebates used to reduce Tranche C principal		156		152		4	2.6%
Rebates offsetting required payments on Tranche B for purchases made by acquired centers		102		173		(71)	(41.0)%
Rebates offsetting interest on Tranches B and C		807		861		(54)	(6.3)%
Total rebate credits	$	1,565	$	1,686	$	(121)	(7.2)%
Percent of total net revenues		7.5%		7.7%		(0.2)%	(2.6)%

The $71,000 reduction in rebates earned on Tranche B was due to the negotiated decrease in the per unit rebates from $65 to $50 and a decline in Siemens units purchased. The rebates per unit were decreased in exchange for better overall pricing. The $54,000 decrease in interest forgiven is due to a decrease in Siemens indebtedness primarily resulting from the repayment of approximately $8.1 million from the proceeds of the sale of the Canadian operations in 2009. Cost of products sold as a percent of total net revenues before the impact of the Siemens rebate credits was 34.4% in the third quarter of 2010 compared to 30.6% in the third quarter of 2009. The increase in cost of sales as a percentage of revenue is primarily the result of the lost insurance business and product mix. This lost insurance business traditionally generated higher margins.

Expenses

Dollars in thousands

	2010	2009	Change	%
Center operating expenses	$ 12,047	$ 10,811	$ 1,236	11.4%
Percent of total net revenues	57.6%	49.5%	8.1%	16.4%
General and administrative expenses	$ 3,429	$ 3,694	$ (265)	(7.2)%
Percent of total net revenues	16.4%	16.9%	(0.5)%	(3.0)%
Depreciation and amortization	$ 519	$ 593	$ (74)	(12.5)%
Percent of total net revenues	2.5%	2.7%	(0.2)%	(7.4)%

The $1.2 million increase in center operating expenses in the third quarter of 2010 as compared with the third quarter of 2009 is primarily attributable to a $252,000 increase in compensation due to the 5% salary reduction implemented in 2009 but reinstated in 2010 and changes in the commission payment methodology that were mostly offset by lower base pay, a $587,000 increase in marketing expense and a $197,000 increase in AARP program costs. The Company spent approximately $1.1 million marketing the AARP program during the third quarter of 2010. AARP advertising and program costs totaled $1.4 million in the third quarter of 2010 compared to $189,000 in the third quarter of 2009.

AARP has increasingly included information on the hearing program in the mailings and publications it uses to inform its 40 million members of the various AARP programs and partnerships. This has led to an over 300% increase in calls received at the AARP call center inquiring about the hearing program in the third quarter of 2010. The Company believes that it will not be necessary to separately fund its new marketing initiatives and the AARP program going forward. Marketing expenditures are expected to decline to traditional levels beginning in the fourth quarter of 2010. The increasing role AARP has begun to play in educating its members on the program will allow the Company to combine its AARP initiatives with its other marketing programs.

General and administrative expenses decreased by approximately $265,000 in the third quarter of 2010 as compared to the third quarter of 2009. This decrease is primarily the result of reductions in staffing, maintenance and communication expenses.

Interest Expense

Dollars in thousands

	2010	2009	Change	%
Notes payable from business acquisitions and others (1)	$ 84	$ 276	$ (192)	(69.6)%
Siemens Tranches B and C – interest forgiven (2)	807	861	(54)	(6.3)%
Total interest expense	$ 891	$ 1,137	$ (246)	(21.6)%

	2010	2009	Change	%
Total cash interest expense (3)	$ 77	$ 86	$ (9)	(10.5)%
Total non-cash interest expense (4)	814	1,051	(237)	(22.5)%
Total interest expense	$ 891	$ 1,137	$ (246)	(21.6)%

(1) Includes $42,000 and $74,000 in the third quarter of 2010 and 2009, respectively, of non-cash interest expense related to recording of notes at their present value by discounting future payments to market rate of interest (see Note 4 – Long-term Debt, Notes to Consolidated Financial Statements included herein) as well as a $34,000 reduction of non-cash interest expense in the third quarter of 2010 and a $74,000 increase in non-cash interest expense in 2009 related to recording warrants at their estimated fair value.
(2) The interest expense on Tranches B and C is forgiven by Siemens as long as the supply agreement minimum purchase requirements are met and the corresponding rebate credit is recorded as a reduction of the cost of products sold (see Note 4 – Long-term Debt, Notes to Consolidated Financial Statements and Liquidity and Capital Resources, include herein).
(3) Represents the sum of the cash interest portion paid on the notes payable for business acquisitions and others.
(4) Represents the sum of the non-cash interest expense related to recording the notes payable for business acquisitions at their present value by discounting future payments to the market rate of interest, interest on Siemens Tranches B and C offset by rebates, net of the reduction of non-cash interest expense in 2010 related to recording warrants at their estimated fair value.

The decrease in interest expense in the third quarter of 2010 is primarily attributable to decreases in notes payable outstanding and a reduction of non-cash interest which resulted from the change in the fair value of warrants.

Income Taxes

The Company has generated net operating loss carryforwards of approximately $47.4 million for U.S. income tax purposes. The Company has temporary differences between the financial statement and tax reporting arising primarily from differences in the amortization of intangible assets and goodwill and depreciation of fixed assets. The deferred tax assets for U.S. income tax purposes have been offset by a valuation allowance because it was determined that these assets were not likely to be realized. During the third quarter of 2010, the Company recorded a deferred tax expense of approximately $220,000 compared to approximately $210,000 in the third quarter of 2009 related to the estimated deduction of tax deductible goodwill from its U.S. operations. The deferred income tax expense was recorded because it cannot be offset by temporary differences as it relates to infinite-lived assets and the timing of reversing the liability is unknown. Deferred income tax expense will continue to be recorded until the tax deductible goodwill is fully amortized.

In the third quarter of 2010, income tax benefits totaling $189,000 related to the 2009 tax expense were recorded based on the finalization of the US and Canadian tax returns.

Net Income attributable to noncontrolling interest

During the third quarters of 2010 and 2009, the Company's 50% owned joint venture, HEARx West, LLC, generated net income of approximately $544,000 and $417,000, respectively. The Company records 50% of the venture's net income as net income attributable to noncontrolling interest in the income of a joint venture in the Company's consolidated statements of operations. The net income attributable to noncontrolling interest for the third quarter of 2010 and 2009 was approximately $272,000 and $182,000, respectively.

Discontinued Operations

On April 27, 2009, the Company sold the assets of Helix Hearing Care of America Corp. and the stock of 3371727 Canada Inc., both indirect wholly owned subsidiaries of the Company, for cash consideration of approximately $23.1 million. This sale resulted in a gain on sale of approximately $931,000, net of applicable tax, for the year ended December 26, 2009.

The Company had income from discontinued operations of $427,000 during the third quarter of 2009.

For the nine months ended September 25, 2010 compared to the nine months ended September 26, 2009

Revenues

Dollars in thousands

		2010		2009		Change	% Change
Hearing aids and other products	$	57,067	$	61,172	$	(4,105)	(6.7)%
Services		4,870		6,043		(1,173)	(19.4)%
Total net revenues	$	61,937	$	67,215	$	(5,278)	(7.9)%

The $5.3 million, or 7.9%, decrease in net revenue from the first nine months of 2009 is principally a result of the loss of revenue related to a number of insurance plans eliminating, changing or limiting their hearing care benefits. These changes adversely affected both hearing aids and services revenue.

Cost of Products Sold and Services

Dollars in thousands

		2010		2009		Change	%
Hearing aids and other products	$	15,057	$	14,998	$	59	0.4%
Services		1,272		1,325		(53)	(4.0)%
Total cost of products sold and services	$	16,329	$	16,323	$	6	0.0%
Percent of total net revenues		26.4%		24.3%		2.1%	8.6%

The cost of products sold includes the effect of rebate credits pursuant to our agreements with Siemens.
The following table reflects the components of the rebate credits which are included in the above cost of products sold for hearing aids (see Note 4 – Long-term Debt, Notes to Consolidated Financial Statements included herein):

Dollars in thousands

		2010		2009		Change	%
Rebates offsetting base required payments on Tranche C	$	1,500	$	1,500	$	-	-
Volume rebates used to reduce Tranche C principal		469		472		(3)	(0.6)%
Rebates offsetting required payments on Tranche B for purchases made by acquired centers		324		513		(189)	(36.8)%
Rebates offsetting interest on Tranches B and C		2,447		2,954		(507)	(17.2)%
Total rebate credits	$	4,740	$	5,439	$	(699)	(12.9)%
Percent of total net revenues		7.7%		8.1%		(0.4)%	(4.9)%

The $189,000 reduction in volume rebates earned was due to the negotiated decrease in the per unit rebates from $65 to $50 and a decline in Siemens units purchased. The $507,000 decrease in interest forgiven is due to a decrease in Siemens indebtedness primarily resulting from the repayment of approximately $8.1 million from the proceeds of the sale of the Canadian operations in 2009. Cost of products sold as a percent of total net revenues before the impact of the Siemens rebate credits was 34.1% in the first nine months of 2010 compared to 32.4% in the first nine months of 2009. The increase in cost of sales as a percentage of revenue is primarily the result of the lost insurance business and product mix. The lost insurance business has traditionally generated higher margins.

Expenses

Dollars in thousands

		2010		2009		Change	%
Center operating expenses	$	35,658	$	33,510	$	2,148	6.4%
Percent of total net revenues		57.6%		49.9%		7.7%	15.4%
General and administrative expenses	$	11,215	$	11,387	$	(172)	(1.5)%
Percent of total net revenues		18.1%		16.9%		1.2%	7.1%
Depreciation and amortization	$	1,653	$	1,731	$	(78)	(4.5)%
Percent of total net revenues		2.7%		2.6%		0.1%	3.8%

The $2.1 million increase in center operating expenses in the first nine months of 2010 as compared with the first nine months of 2009 is primarily attributable to a $1.1 million increase in marketing expense and a $669,000 increase in AARP program costs. AARP advertising and program costs totaled $3.3 million in the first nine months of 2010 compared to $424,000 in the first nine months of 2009.

General and administrative expenses decreased by approximately $172,000 in the first nine months of 2010 as compared to the first nine months of 2009. This decrease is primarily the result of reductions in communication, maintenance and shareholder relation expenses of approximately $510,000. This decrease was partially offset by approximately $338,000 in severance charges, additional employee stock-based compensation and professional fees.

Interest Expense

Dollars in thousands

		2010		2009		Change	%
Notes payable from business acquisitions and others (1)	$	234	$	774	$	(540)	(69.8)%
Siemens Tranches B and C – interest forgiven (2)		2,447		2,954		(507)	(17.2)%
Total interest expense	$	2,681	$	3,728	$	(1,047)	(28.1)%

		2010		2009		Change	%
Total cash interest expense (3)	$	266	$	412	$	(146)	(35.4)%
Total non-cash interest expense (4)		2,415		3,316		(901)	(27.2)%
Total interest expense	$	2,681	$	3,728	$	(1,047)	(28.1)%

(1) Includes $143,000 and $252,000 in the first nine months of 2010 and 2009, respectively, of non-cash interest expense related to recording of notes at their present value by discounting future payments to market rate of interest (see Note 4 – Long-term Debt, Notes to Consolidated Financial Statements included herein) as well as a $174,000 reduction of non-cash interest expense in 2010 and a $171,000 increase in non-cash interest expense in 2009 related to recording warrants at their estimated fair value.

(2) The interest expense on Tranches B and C is forgiven by Siemens as long as the supply agreement minimum purchase requirements are met and the corresponding rebate credit is recorded as a reduction of the cost of products sold (see Note 4 – Long-term Debt, Notes to Consolidated Financial Statements and Liquidity and Capital Resources, include herein).

(3) Represents the sum of the cash interest portion paid on the notes payable for business acquisitions and others.

(4) Represents the sum of the non-cash interest expense related to recording the notes payable for business acquisitions at their present value by discounting future payments to the market rate of interest, interest on Siemens Tranches B and C offset by rebates, net of the reduction of non-cash interest expense in 2010 related to recording warrants at

their estimated fair value.

The decrease in interest expense in the first nine months of 2010 is attributable to decreases in the Siemens loan balances following the repayment of approximately $8.1 million from the proceeds of the sale of the Canadian operations in 2009 and scheduled debt payments.

Income Taxes

The Company has generated net operating loss carryforwards of approximately $47.4 million for U.S. income tax purposes. The Company has temporary differences between the financial statement and tax reporting arising primarily from differences in the amortization of intangible assets and goodwill and depreciation of fixed assets. The deferred tax assets for U.S. income tax purposes have been offset by a valuation allowance because it was determined that these assets were not likely to be realized. During the first nine months of 2010, the Company recorded a deferred tax expense of approximately $661,000 compared to approximately $630,000 in the first nine months of 2009 related to the estimated deduction of tax deductible goodwill from its U.S. operations. The deferred income tax expense was recorded because it cannot be offset by temporary differences as it relates to infinite-lived assets and the timing of reversing the liability is unknown. Deferred income tax expense will continue to be recorded until the tax deductible goodwill is fully amortized.

In the third quarter of 2010, income tax benefits totaling $189,000 related to the 2009 tax expense were recorded based on the finalization of the US and Canadian tax returns.

Net Income attributable to noncontrolling interest

During the first nine months of 2010 and 2009, the Company’s 50% owned joint venture, HEARx West, LLC, generated net income of approximately $1.2 million and $878,000, respectively. The Company records 50% of the venture’s net income as net income attributable to noncontrolling interest in the income of a joint venture in the Company’s consolidated statements of operations. The net income attributable to noncontrolling interest for each of the first nine months of 2010 and 2009 was approximately $584,000 and $429,000, respectively.

Discontinued Operations

On April 27, 2009, the Company sold the assets of Helix Hearing Care of America Corp. and the stock of 3371727 Canada Inc., both indirect wholly owned subsidiaries of the Company, for cash consideration of approximately $23.1 million. This sale resulted in a gain on sale of approximately $931,000, net of applicable tax, for the year ended December 26, 2009.

The Company had income from discontinued operations of $1.7 million during the first nine months of 2009.

LIQUIDITY AND CAPITAL RESOURCES

Siemens

The Company has entered into credit, supply, investor rights and security agreements with Siemens Hearing Instruments, Inc. (“Siemens”). The term of the current agreements extends to February 2015.

Pursuant to these agreements, Siemens has extended to the Company a $50 million credit facility and the Company has agreed to purchase at least 90% of its hearing aid purchases from Siemens and its affiliates. If the 90% minimum purchase requirement is met, the Company earns rebates which are then used to liquidate principal and interest payments due under the credit agreement.

Credit Agreement

The credit agreement includes a revolving credit facility of $50 million that bears interest at 9.5%, matures in February 2015 and is secured by substantially all of the Company's assets. As of September 25, 2010, there was approximately $33.1 million outstanding under the credit agreement. Amounts available to be borrowed under the credit facility are to be used solely for acquisitions unless otherwise approved by Siemens. Borrowings under the credit facility are accessed through Tranche B and Tranche C. Borrowing for acquisitions under Tranche B is generally based upon a formula equal to 1/3 of 70% of the acquisition target's trailing 12 months revenues, and any amount greater than that may be borrowed under Tranche C with Siemens' approval. Principal borrowed under Tranche B was repaid quarterly at a rate of $65 per Siemens unit purchased by the acquired businesses through September 2009. In October 2009, the parties agreed to reduce the rebate to a rate of $50 per Siemens' unit purchased by the acquired businesses in exchange for more favorable pricing. Principal borrowed under Tranche C is repaid at $500,000 per quarter. The required quarterly principal and interest payments on Tranches B and C are forgiven by Siemens through rebate credits of similar amounts as long as 90% of hearing aid units purchased by the Company are from Siemens. Amounts not forgiven through rebate credits are payable in cash each quarter. The Company has met the minimum purchase requirements of the arrangement since inception of the arrangement with Siemens.

The credit agreement requires that the Company reduce the principal balance by making annual payments in an amount equal to 20% of Excess Cash Flow (as defined in the credit agreement), and by paying Siemens 50% of the proceeds of any net asset sales (as defined) and 25% of proceeds from any equity offerings the Company may complete. The Company did not have any Excess Cash Flow (as defined) in the first nine months of 2010 or fiscal 2009. In 2009 the Company paid Siemens approximately $8.1 million of the proceeds received from the sale of the Company's Canadian operations in 2009.

The credit facility also imposes certain financial and other covenants on the Company which are customary for loans of this size and nature, including restrictions on the conduct of the Company's business, the incurrence of indebtedness, merger or sale of assets, the modification of material agreements, changes in capital structure and making certain payments. If the Company cannot maintain compliance with the covenants, Siemens may terminate future funding under the credit agreement and declare all then outstanding amounts under the agreement immediately due and payable. At September 25, 2010 the Company was in compliance with the Siemens loan covenants.

Supply Agreement

The supply agreement requires the Company to purchase at least 90% of its hearing aid purchases from Siemens and its affiliates. The 90% requirement is computed on a cumulative four consecutive quarters. The Company has met the minimum purchase requirements of the supply agreement since inception of the arrangement with Siemens. If the minimum purchase requirement is met, the Company earns rebates used to liquidate principal and interest under the credit agreement. Approximately $45.6 million has been rebated since the Company entered into this arrangement in December 2001.

Additional quarterly volume rebates of $156,250, $312,500 or $468,750 can be earned by meeting certain quarterly volume tests. These rebates reduce the principal due on the credit facility. Additional volume rebates of $468,750 were recorded in each of the first nine months of 2010 and 2009.

All rebates earned are accounted for as a reduction of cost of products sold.

The following table summarizes the rebate structure:

Calculation of Pro forma Rebates to HearUSA when at least 90% of Units Purchased are from Siemens (1)
Quarterly Siemens Unit Sales Compared to Prior Years' Comparable Quarters

	90% but < 95%	95% to 100%	> 100% < 125%	125% and >
Acquisition rebate (2)	$ 50/ unit Plus	$ 50/ unit Plus	$ 50/ unit Plus	$ 50/ unit Plus
Notes payable rebate	$ 500,000	$ 500,000	$ 500,000	$ 500,000
Additional volume rebate	-	156,250	312,500	468,750
Interest forgiveness rebate (3)	1,187,500	1,187,500	1,187,500	1,187,500
	$ 1,687,500	$ 1,843,750	$ 2,000,000	$ 2,156,250

(1) Calculated using trailing twelve month units purchased by the Company
(2) Siemens units purchased from acquired businesses ($65 per unit through September 2009 and $50 per unit thereafter)
(3) Assuming the $50 million line of credit is fully utilized

The following table shows the rebates received from Siemens pursuant to the supply agreement during each of the following periods:

	Nine months Ended		Three Months Ended	
Dollars in thousands	September 25, 2010	September 26, 2009	September 25, 2010	September 26, 2009
Portion applied against quarterly principal payments	$ 2,293	$ 2,485	$ 758	$ 825
Portion applied against quarterly interest payments	2,447	2,954	807	861
	$ 4,740	$ 5,439	$ 1,565	$ 1,686

The supply agreement may be terminated by either party upon a material breach of the agreement by the other party. In addition, HearUSA may terminate the supply agreement in the event Siemens acquires a business which is directly competitive to the business of the Company. Termination of the supply agreement or a material breach of the supply agreement by the Company may be deemed to be a breach of the credit agreement and Siemens would have the right to declare all amounts outstanding under the credit facility immediately due and payable. Termination of the supply agreement could have a material adverse effect on the Company's financial condition and continued operations.

Investor Rights Agreement

Pursuant to the investor rights agreement, the Company granted Siemens:

- Resale registration rights covering the 6.4 million shares of common stock acquired by Siemens on December 23, 2008 under the Siemens Purchase Agreement. The Company completed the registration of these shares for resale in the second quarter of 2009.

- Rights of first refusal in the event the Company chooses to issue equity or if there is a proposed Company change of control transaction involving a person in the hearing aid industry.

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- Rights to have a representative of Siemens' attend meetings of the Board of Directors of the Company as a nonvoting observer.

A willful breach of the Company's resale registration obligations under the investor rights agreement may be deemed to be a breach of the credit agreement and Siemens would have the right to declare all amounts outstanding under the credit facility immediately due and payable.

Cash Flows

The Company used approximately $3.4 million for operating activities during the nine months ended September 25, 2010 primarily as a result of the net loss of $6.0 million and the payment of $1.9 million in Canadian income taxes accrued in the prior year. The Company also used approximately $2.8 million to repay long-term debt during the same period and generated $3.2 million from the sale of short term marketable securities.

Cash, cash equivalents and short term marketable securities totaled approximately $5.4 million as of September 25, 2010. Approximately $2.4 million of the current maturities of long-term debt to Siemens may be repaid through rebate credits.

The Company believes that current cash and cash equivalents and expected increases in revenues generated by its new marketing initiatives and the continued growth of the AARP program will be sufficient to funds its operating activities through the next twelve months. However, there can be no assurance that the Company will generate the expected increased cash flows from operations or that unexpected cash needs will not arise for which the cash, cash equivalents and cash flow from operations will be sufficient or that the Company can maintain compliance with the Siemens loan covenants. In the event of a shortfall in cash, the Company may reduce its marketing expenditures and other costs and might consider short-term debt, or additional equity or debt offerings. There can be no assurance however, that the Company can reduce its costs sufficiently to offset cash shortfalls or that any debt or equity financing will be available to the Company on favorable terms or at all.

Contractual Obligations

Below is a chart setting forth the Company's contractual cash payment obligations, which have been aggregated to facilitate a basic understanding of the Company's liquidity as of September 25, 2010.

	Payments due by period (000's)				
Contractual obligations	Total	Less than 1 year	1 – 3 years	4 – 5 Years	More Than 5 years
	$	$	$	$	$
Long-term debt (1 and 3)	37,747	5,218	6,446	26,083	-
Subtotal of obligations recorded on balance sheet	37,747	5,218	6,446	26,083	-
Interest to be paid on long-term debt (2 and 3)	12,015	3,282	5,485	3,248	-
Operating leases	16,811	5,841	6,901	3,613	456
Employment agreements	3,028	1,670	1,358	-	-
Purchase obligations (4)	2,615	1,051	1,564	-	-
Total contractual cash obligations	72,216	17,062	21,754	32,944	456

(1) Approximately $33.1 million can be repaid through rebate credits from Siemens, including $2.4 million in less than 1 year and $4.8 million in years 1-3 and $25.6 million in years 4-5.

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(2) Interest on long-term debt includes the interest on Tranches B and C that can be repaid through rebate credits from Siemens, including $3.0 million in less than 1 year and $5.4 million in years 1-3 and $2.9 million in years 4-5. Interest repaid through rebate credits was $2.4 million in the first nine months of 2010. (See Note 4 – Long-Term Debt, Notes to Consolidated Financial Statements included herein).
(3) Principal and interest payments on long-term debt are based on cash payments and not the carrying value of the discounted notes. (See Note 4 – Long-Term Debt, Notes to Consolidated Financial Statements included herein)
(4) Purchase obligations includes the contractual commitment for AARP campaigns to educate and promote hearing loss awareness and prevention and the contractual commitment to AARP for public marketing funds for the AARP Health Care Options General Program, including $900,000 in less than 1 year.

CRITICAL ACCOUNTING POLICIES

Management believes the following critical accounting policies affect the significant judgments and estimates used in the preparation of the consolidated financial statements:

Goodwill

The Company evaluates goodwill and certain intangible assets with indefinite lives not being amortized for impairment annually or more frequently if impairment indicators arise. Indicators at the Company include but are not limited to: sustained operating losses or a trend of poor operating performance, a decrease in the company's market capitalization below its book value and an expectation that a reporting unit will be sold or otherwise disposed of. If one or more indicators of impairment exist, the Company performs an evaluation to identify potential impairments. If impairment is identified, the Company measures and records the amount of impairment losses. The Company performs this annual analysis on the first day of its fourth quarter.

A two-step impairment test is performed on goodwill. In order to do this, management applied judgment in determining its "reporting units", which represent distinct parts of the Company's business. As of September 25, 2010, the reporting units determined by management are the centers and the network. The definition of the reporting units affects the Company's goodwill impairment assessments. In the first step, the Company compares the fair value of each reporting unit to its carrying value. Calculating the fair value of the reporting units requires significant estimates and long-term assumptions. The Company utilized an independent appraisal firm to test goodwill for impairment as of the first day of the Company's fourth quarter during 2009 and 2008, and each of these tests indicated no impairment. The Company estimates the fair value of its reporting units by applying a weighted average of two methods: quoted market price and discounted cash flow.

If the carrying value of the reporting unit exceeds its fair value, additional steps are required to calculate an impairment charge. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying value of the goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is the fair value of the reporting unit allocated to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. Significant changes in key assumptions about the business and its prospects, or changes in market conditions, stock price, interest rates or other externalities, could result in an impairment charge.

Judgments regarding the existence of impairment indicators are based on legal factors, market conditions and operational performance of the acquired businesses. Future events could cause us to conclude that impairment indicators exist and that goodwill associated with the acquired businesses is impaired. Additionally, as the valuation of identifiable goodwill requires significant estimates and judgment about future performance, cash flows and fair value,

our future results could be affected if these current estimates of future performance and fair value change. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations. As of September 25, 2010, none of our reporting units with goodwill were at risk of failing step one of the goodwill impairment test.

Revenue recognition

HearUSA has company-owned centers in its core markets and a network of affiliated providers who provide products and services to customers that are located outside its core markets. HearUSA enters into provider agreements with benefit providers (third party payors such as insurance companies, managed care companies, employer groups, etc.) under (a) a discount arrangement on products and service; (b) a fee for service arrangement; and (c) a per capita basis or capitation arrangement, which is a fixed per member per month fee received from the benefit providers.

All contracts are for one calendar year and are usually cancelable with ninety days or less notice by either party. Under the discount arrangements, the Company provides the products and services to the eligible members of a benefit provider at a pre-determined discount or customary price and the member pays the Company directly for the products and services. Under the fee for service arrangements, the Company provides the products and services to the eligible members at its customary price less the benefit they are allowed (a specific dollar amount), which the member pays directly to the Company. The Company then bills the benefit provider the agreed upon benefit for the service.

Under the capitation agreements, the Company agrees with the benefit provider to provide their eligible members with a pre-determined discount. Revenue under capitation agreements is derived from the sales of products and services to members of the plan and from a capitation fee paid to the Company by the benefit provider at the beginning of each month. The members that are purchasing products and services pay the customary price less the pre-determined discount. The revenue from the sales of products to these members is recorded at the customary price less applicable discount in the period that the product is delivered. The direct expenses consisting primarily of the cost of goods sold and commissions on sales are recorded in the same period. Other indirect operating expenses are recorded in the period which they are incurred.

The capitation fee revenue is calculated based on the total members in the benefit provider’s plan at the beginning of each month and is non-refundable. Only a small percentage of these members may ever purchase product or services from the Company. The capitation fee revenue is earned as a result of agreeing to provide services to members without regard to the actual amount of service provided. That revenue is recorded monthly in the period that the Company has agreed to see any eligible members.

The Company records each transaction at its customary price for the three types of arrangements, less any applicable discounts from the arrangements in the center business segment. The products sold are recorded under the hearing aids and other products line item and the services are recorded under the service line item on the consolidated statement of operations. Revenue and expense are recorded when the product has been delivered, net of an estimate for return allowances. Revenue and expense from services and repairs are recorded when the services or repairs have been performed. Capitation revenue is recorded as revenue from hearing aids since it relates to the discount given to the members.

Revenues are considered earned by the Company at the time delivery of product or services have been provided to its customers (when the Company is entitled to the benefits of the revenues).

When the arrangements are related to members of benefit providers that are located outside the Company-owned centers’ territories, the revenues generated under these arrangements are included under the network business segment. The Company records a receivable for the amounts due from the benefit providers and a payable for the amounts owed to the affiliated providers. The Company only pays the affiliated provider when the funds are received from the benefit provider. The Company records revenue equal to the minimal fee for processing and administrative fees. The costs associated with these services are operating costs, mostly for the labor of the network support staff and are recorded when incurred.

No contract costs are capitalized by the Company.

Allowance for doubtful accounts

Certain of the accounts receivable of the Company are from health insurance and managed care organizations and government agencies. These organizations could take up to nine months before paying a claim made by the Company, impose a limit on the time the claim can be billed and can audit claims after they have been paid. The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. That estimate is based on historical collection experience, current economic and market conditions, and a review of the current status of each customer's trade accounts receivable. Changes in estimates are recognized in the periods they become known and estimable.

In order to calculate that allowance, the Company first identifies any known uncollectible amounts in its accounts receivable listing and charges them against the allowance for doubtful accounts. Then a specific percent per plan and per aging categories is applied against the remaining receivables to estimate the needed allowance. Any change in the percent assumptions per plan and aging categories results in a change in the allowance for doubtful accounts. For example, an increase of 10% in the percent applied against the remaining receivables would increase the allowance for doubtful accounts by approximately $71,000.

Sales returns

The Company offers all its customers a full 30-day return period or the return period applicable to state guidelines if longer than 30 days. For patients who participate in the family hearing counseling program, the return period is extended to 60 days. Under the AARP program, patients who are members of AARP have a return period of 90 days if the patient is dissatisfied with the product. The Company calculates its allowance for returns using estimates based upon actual historical returns. The cost of the hearing aid is reimbursed to the Company by the manufacturer.

Impairment of Long-Lived Assets

Long-lived assets are subject to a review for impairment if events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the future undiscounted cash flows generated by an asset or asset group is less than its carrying amount, it is considered to be impaired and would be written down to its fair value. Currently we have not experienced any events that would indicate a potential impairment of these assets, but if circumstances change we could be required to record a loss for the impairment of long-lived assets.

Stock-based compensation

Share-based payments are accounted for using fair value in accordance with applicable generally accepted accounting principles. To determine the fair value of our stock option awards, we use the Black-Scholes option pricing model, which requires management to apply judgment and make assumptions to determine the fair value of our awards. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (the “expected term”), the estimated volatility of the price of our common stock over the expected term and an estimate of the number of options that will ultimately be forfeited.

The expected term is based on historical experience of similar awards, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. Expected stock price volatility is based on a historical volatility of our common stock for a period at least equal to the expected term. Estimated forfeitures are calculated based on historical experience. Changes in these assumptions can materially affect the estimate of the fair

value of our share-based payments and the related amount recognized in our consolidated financial statements.

Income taxes

Income taxes are calculated using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based on the difference between the carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates. A valuation allowance is established against the deferred tax assets when it is more likely than not that some portion or all of the deferred taxes may not be realized.

Both the calculation of the deferred tax assets and liabilities, as well as the decision to establish a valuation allowance requires management to make estimates and assumptions. Although we do not believe there is a reasonable likelihood that there will be a material change in the estimates and assumptions used, if actual results are not consistent with the estimates and assumptions, the balances of the deferred tax assets, liabilities and valuation allowance could be significantly different.

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2010, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2010-06 "Improving Disclosures about Fair Value Measurements" (ASU 2010-06"). ASU 2010-06 amends the guidance on fair value measurement disclosures to add new requirements for disclosures about transfers into and out of the Level 1 and 2 categories in the fair value measurement hierarchy, and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. The amended guidance also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The new requirements for disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activities in Level 3 fair value measurements, which are effective for interim and annual reporting periods beginning after December 15, 2010. The adoption of this guidance did not require significant additional disclosures by the Company.

In July 2010, the FASB issued ASU 2010-20, "Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses", which amends Subtopic 310-30 by requiring an entity to provide enhanced and disaggregated disclosures about the credit quality of an entity's financing receivables and its allowance for credit losses. The objective of enhancing these disclosures is to improve financial statement users' understanding of both the nature of an entity's credit risk associated with its financing receivables and the entity's assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reason for those changes. The update is effective for the first interim or annual period ending on or after December 15, 2010. We do not expect adoption of FASB ASU 2010-20 to have a material impact on our financial position and results of operations, as it is a disclosure standard.

In June 2009, the FASB issued guidance for determining the primary beneficiary of a variable interest entity ("VIE"). In December 2009, the FASB issued ASU 2009-17, "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities" ("ASU 2009-17"). ASU 2009-17 provides amendments to ASC 810 to reflect the revised guidance. The amendments in ASU 2009-17 replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a VIE with an approach focused on identifying which reporting entity has the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (i) the obligation to absorb losses of the entity or (ii) the right to receive benefits from the entity. The amendments in ASU 2009-17 also require additional disclosures about a reporting entity's involvement with VIEs. ASU 2009-17 is effective for annual reporting periods beginning after November 15, 2009. We do not anticipate that the adoption of this guidance will have a material impact on our financial position and results of operations or require additional disclosures.

In September 2009, the FASB ratified ASU No. 2009-13 (formerly referred to as Emerging Issues Task Force Issue No. 08-1), "Revenue Arrangements with Multiple Deliverables." ASU No. 2009-13 requires the allocation of consideration among separately identified deliverables contained within an arrangement, based on their related selling prices. ASU No. 2009-13 will be effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company does not anticipate that the adoption of this guidance will have a material effect on our financial position and results of operations or require additional disclosures.

Item 1A. Risk Factors

In addition to the information set forth below and elsewhere in this Form 10-Q, you should carefully consider the factors discussed under "Forward Looking Statements" above and under "Risk Factors" in our annual report on Form 10-K for the fiscal year 2009 as well as the risk factor set forth below. These risks could materially and adversely affect our business, financial condition and results of operations and are not the only risks we face. Our operations could also be affected by additional factors that are not presently known to us or by factors that we currently consider immaterial to our business.

The AARP program is still in its early stages and there can be no assurance that the program will generate the expected increases to Company revenue over time or at all.

The success of the AARP program is and will remain subject to several risks and variables over the next several quarters some of which cannot be ascertained with certainty at this time. Among those risks are risks related to:

- the effectiveness of the Company's marketing initiatives to generate interest of AARP members in the program;
- the Company's ability to capitalize on the increased number of calls to the AARP call center by converting those calls to appointments;
- whether AARP member appointments will result in identified needs and related sales;
- the Company's ability to expand the number of qualified network providers in order to extend the program to AARP members in all 50 states and the U.S. territories in accordance with the terms of the Company's agreement with AARP and AARP Services, Inc. ("ASI"); and
- the Company's ability to fund its performance obligations under the Company's agreements with AARP and ASI.

Failure of the AARP program to generate expected increases in revenues could have a material adverse effect on the financial condition of the Company.

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Item 3. Quantitative and Qualitative Disclosure About Market Risk

The Company does not engage in derivative transactions. Differences in the fair value of investment securities are not material; therefore, the related market risk is not significant. The Company’s exposure to market risk for changes in interest rates relates primarily to the Company’s long-term debt. The following table presents the Company’s financial instruments for which fair value and cash flows are subject to changing market interest rates:

	Fixed Rate 9.5% Due February 2015 $ (000’s)	Variable Rate 4.6% to 16.7% Other $ (000’s)	Total $ (000’s)
2010	(605)	(920)	(1,525)
2011	(2,411)	(2,639)	(5,050)
2012	(2,416)	(704)	(3,120)
2013	(2,350)	(247)	(2,597)
2014	(2,334)	(73)	(2,407)
Thereafter	(23,048)	-	(23,048)
Total	(33,164)	(4,583)	(37,747)
Estimated fair value	(33,164)	(4,400)	(37,564)

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Item 4. Controls and Procedures

The Company's management, with the participation of the Company's chief executive officer and chief financial officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act) as of September 25, 2010. The Company's chief executive officer and chief financial officer concluded that, as of September 25, 2010, the Company's disclosure controls and procedures were effective.

No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act) occurred during the fiscal quarter ended September 25, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II Other Information

Item 6. Exhibits

3.1	Restated Certificate of Incorporation of HEARx Ltd., including certain certificates of designations, preferences and rights of certain preferred stock of the Company (incorporated herein by reference to Exhibit 3 to the Company's Current Report on Form 8-K, filed May 17, 1996 (File No. 001-11655)).
3.2	Amendment to the Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1A to the Company's Quarterly Report on Form 10-Q for the period ended June 28, 1996 (File No. 001-11655)).
3.3	Amendment to Restated Certificate of Incorporation including one for ten reverse stock split and reduction of authorized shares (incorporated herein to Exhibit 3.5 to the Company's Quarterly Report on Form 10-Q for the period ending July 2, 1999 (File No. 001-11655)).
3.4	Amendment to Restated Certificate of Incorporation including an increase in authorized shares and change of name (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed July 17, 2002 (File No. 001-11655)).
3.5	Certificate of Designations, Preferences and Rights of the Company's 1999 Series H Junior Participating Preferred Stock (incorporated herein by reference to Exhibit 4 to the Company's Current Report on Form 8-K, filed December 17, 1999 (File No. 001-11655)).
3.6	Certificate of Designations, Preferences and Rights of the Company's Special Voting Preferred Stock (incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed July 19, 2002 (File No. 001-11655)).
3.7	Amendment to Certificate of Designations, Preferences and Rights of the Company's 1999 Series H Junior Participating Preferred Stock (incorporated herein by reference to Exhibit 4 to the Company's Current Report on Form 8-K, filed July 17, 2002 (File No. 001-11655)).
3.8	Certificate of Designations, Preferences and Rights of the Company's 1998-E Convertible Preferred Stock (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed August 28, 2003 (File No. 001-11655)).
3.9	Amendment of Restated Certificate of Incorporation (increasing authorized capital) (incorporated herein by reference to Exhibit 3.9 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 26, 2004).
3.10	Amendment to Certificate of Designation of Series H Junior Participating Preferred Stock of HearUSA, Inc. (increasing the number of authorized series H Shares (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed November 17, 2009)).
3.11	Amended and Restated By-Laws of HearUSA, Inc. (effective October 16, 2009) (incorporated herein by reference to the Company's Report Filed on Form 8-K, filed October 27, 2009).
4.1	Amended and Restated Rights Agreement, November 16, 2009 between the Company and American Stock Transfer and Trust Company LLC, as Rights Agent (incorporated herein by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K, filed November 17, 2009).
31.1	CEO Certification, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	CFO Certification, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	CEO and CFO Certification, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HearUSA Inc.
(Registrant)

November 9, 2010

/s/Stephen J. Hansbrough
Stephen J. Hansbrough
Chairman and Chief Executive Officer
HearUSA, Inc.

/s/Francisco Puñal
Francisco Puñal
Senior Vice President and
Chief Financial Officer
HearUSA, Inc.

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