

**QUEEN CITY INVESTMENTS, INC.
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**



**WINDES & MCCLAUGHRY
ACCOUNTANCY CORPORATION**
Certified Public Accountants & Consultants

EXCEEDING EXPECTATIONS SINCE 1926

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Queen City Investments, Inc.

We have audited the accompanying consolidated balance sheets of Queen City Investments, Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Queen City Investments, Inc. and subsidiaries as of December 31, 2010 and 2009 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Long Beach, California
July 22, 2011

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	ASSETS	
	December 31,	
	2010	2009
ASSETS		
Cash and cash equivalents	\$ 2,488,562	\$ 3,542,817
Securities held-to-maturity (market value of \$19,774,692 – 2010; \$19,289,454 – 2009) (Note 2)	19,227,186	18,487,940
Securities purchased under agreements to resell (Note 3)	1,817,151	4,262,505
Prepaid income taxes	627,562	135,863
Notes receivable	800,000	588,584
Equity method investment in 1450 Locust LLC (Note 4)	891,258	
Breeding herd, net (Note 5)	415,946	301,431
Property and equipment, net (Note 6)	14,175,471	12,937,524
Deferred taxes (Note 11)		56,267
Other assets (Note 7)	<u>925,074</u>	<u>791,411</u>
TOTAL ASSETS	<u>\$41,368,210</u>	<u>\$41,104,342</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Accounts payable and accrued expenses	\$ 122,632	\$ 90,745
Due to customers (Note 3)	1,817,151	4,262,505
Other liabilities	122,785	113,479
Deferred taxes (Note 11)	298,035	
Line of credit (Note 8)	800,000	
Note payable (Note 9)	<u>2,865,379</u>	<u>3,139,476</u>
	<u>6,025,982</u>	<u>7,606,205</u>
COMMITMENTS AND CONTINGENCIES (Notes 10 and 15)		
STOCKHOLDERS' EQUITY		
Common stock, \$2 par value, authorized 300,000 shares	96,152	96,152
Additional paid-in capital	49,908	49,908
Retained earnings	<u>35,196,168</u>	<u>33,352,077</u>
	<u>35,342,228</u>	<u>33,498,137</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$41,368,210</u>	<u>\$41,104,342</u>

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

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	For the Year Ended December 31,	
	2010	2009
TRUST FEES AND COMMISSIONS	\$ 6,536,784	\$ 6,771,958
INTEREST	600,408	665,710
GAIN ON SALE OF CATTLE	427,349	236,208
RENTAL INCOME	1,791,011	1,688,521
EQUITY IN INCOME OF INVESTMENT IN 1450 LOCUST LLC	366,258	
OTHER INCOME	<u>14,731</u>	<u>38,817</u>
	<u>9,736,541</u>	<u>9,401,214</u>
OPERATING EXPENSES		
Personnel and benefits	3,489,229	3,618,006
Equipment and other ranch expenses	385,723	445,464
Professional services	581,560	572,809
Rental operating expenses	927,317	767,311
Interest expense	192,801	199,348
Other	<u>707,457</u>	<u>683,604</u>
	<u>6,284,087</u>	<u>6,286,542</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	3,452,454	3,114,672
PROVISION FOR INCOME TAXES	<u>1,127,603</u>	<u>1,004,995</u>
NET INCOME	<u>\$ 2,324,851</u>	<u>\$ 2,109,677</u>

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

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	<u>Common Stock</u>		<u>Additional</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>
			<u>Capital</u>
BALANCE, JANUARY 1, 2009	48,076	\$ 96,152	\$ 49,908
NET INCOME			
DIVIDENDS PAID	<u> </u>	<u> </u>	<u> </u>
BALANCE, DECEMBER 31, 2009	48,076	96,152	49,908
NET INCOME			
DIVIDENDS PAID	<u> </u>	<u> </u>	<u> </u>
BALANCE, DECEMBER 31, 2010	<u>48,076</u>	<u>\$ 96,152</u>	<u>\$ 49,908</u>

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

<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
\$ 31,723,160	\$ 31,869,220
2,109,677	2,109,677
(<u>480,760</u>)	(<u>480,760</u>)
33,352,077	33,498,137
2,324,851	2,324,851
(<u>480,760</u>)	(<u>480,760</u>)
<u>\$ 35,196,168</u>	<u>\$ 35,342,228</u>

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,	
	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 2,324,851	\$ 2,109,677
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	283,298	252,049
Amortization of premium on securities held-to-maturity	132,328	145,446
Change in deferred taxes	354,302	84,041
Equity in income of investment in 1450 Locust LLC	(366,258)	
Forgiveness of interest receivable	54,338	
Changes in operating assets and liabilities:		
Prepaid income taxes	(491,699)	410,954
Breeding herd, net	(114,515)	(164,481)
Other assets	(133,663)	(294,347)
Accounts payable and accrued expenses	31,887	(10,725)
Other liabilities	9,306	14,154
Net Cash Provided By Operating Activities	<u>2,084,175</u>	<u>2,546,768</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from securities held-to-maturity	3,650,000	2,212,971
Purchases of securities held-to-maturity	(4,521,574)	(1,955,709)
Return of securities purchased under agreements to resell	10,495,005	5,951,986
Securities purchased under agreements to resell	(8,049,651)	(10,214,491)
Purchase of equity investment in 1450 Locust LLC	(525,000)	
Repayment of notes receivable	534,246	5,617
Issuance of notes receivable	(800,000)	(288,114)
Purchase of property and equipment	(1,521,245)	(184,208)
Net Cash Used In Investing Activities	<u>(738,219)</u>	<u>(4,471,948)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in due to customers	(2,445,354)	4,262,505
Proceeds from line of credit	800,000	
Principal repayments on note payable	(274,097)	(257,621)
Dividends paid	(480,760)	(480,760)
Net Cash Provided By (Used In) Financing Activities	<u>(2,400,211)</u>	<u>3,524,124</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,054,255)	1,598,944
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,542,817</u>	<u>1,943,873</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,488,562</u>	<u>\$ 3,542,817</u>

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

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 1 – Summary of Significant Accounting Policies

Organization and Nature of Business

Queen City Investments, Inc. (the company) and its subsidiaries are incorporated under the laws of the state of California. The company is the parent company of its three wholly owned subsidiaries, Farmers and Merchants Trust Company of Long Beach, Messer Land and Development Company, Inc., and Golden Forest Properties, Inc. The company owns and leases commercial real estate and buildings in California and conducts other business through its subsidiaries.

Farmers and Merchants Trust Company of Long Beach (the Trust Co.) is a licensed trust company that provides a full array of investment management and fiduciary services to individual investors, corporations, and estates. These services include investment management, personal trust services, custody services, and administration of employee benefit plans.

Messer Land and Development Company, Inc.'s primary operation is a cattle ranch located in Central California. The ranch breeds and raises cattle for sale at market.

Golden Forest Properties, Inc. (Golden Forest), a company without any substantial assets, is used for certain transactions such as real property exchanges.

Basis of Presentation

The consolidated financial statements of the company include the accounts of Queen City Investments, Inc. and its subsidiaries after the elimination of all material intercompany transactions.

Investments in 20%- to 50%-owned investments are included in the consolidated financial statements using the equity method of accounting. Under the equity method, the company reports its share of earnings and losses of the investment in the accompanying consolidated statements of income. (See Note 4.)

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Estimates and Assumptions

Management uses estimates and assumptions in preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment and the provision for current and deferred taxes. Actual results could vary from the estimates that were assumed in preparing the consolidated financial statements.

Cash and Cash Equivalents

For purposes of the consolidated financial statements, the company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are carried at cost, which approximates fair value. The company holds cash and cash equivalents at major financial institutions, which often exceed federally insured limits. However, given the current economic environment and risks in the financial industry, there is risk that these deposits may not be readily available or covered by insurance. Historically, the company has not experienced any losses due to such concentration of credit risk.

Securities Held-to-Maturity

Securities at December 31, 2010 and 2009 consist of state and municipal bonds. In accordance with accounting guidance, and based on the company's intentions regarding these instruments, the company has classified all marketable debt securities as held-to-maturity and has accounted for these investments at amortized cost.

Breeding Herd

The breeding herd is stated at the lower of cost (first-in, first-out) or net realizable value. Depreciation is computed using an accelerated method over five years.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are computed principally using the straight-line method over the estimated useful lives of the assets ranging from three to thirty-nine years. Tenant improvements are amortized using the straight-line method over the shorter of their estimated useful lives or the lease term. Maintenance and repairs, including costs of minor replacements, are charged to operations as incurred.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of assets is measured by comparison of the carrying amount of the asset to the net undiscounted future cash flows expected to be generated from the asset. If the future undiscounted cash flows are not sufficient to recover the carrying value of the asset, the asset's carrying value is adjusted to fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as appropriate. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet. To date, no impairment has been recorded.

Trust Fees and Commissions

Trust fees and commissions include fees received for investment and management services, custodial services and trust services, and are recognized on an accrual basis as earned.

Provision for Income Taxes

In filing its federal and California income tax return, the company combines its results of operations with its subsidiaries. Current and deferred income taxes are allocated to the company and its subsidiaries as if each were a separate taxpayer. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. Valuation allowances are provided against assets, which are not likely to be recognized.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Provision for Income Taxes (Continued)

The company had various net deferred tax liabilities made up primarily of the expected future tax effects of the current year's California franchise tax accrual and the difference in depreciation method and investment basis for book and tax purposes. The deferred tax assets and liabilities represent the future tax return consequences of the differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

The company recognizes the tax benefits from uncertain tax positions taken or expected to be taken in a tax return only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. Recognized income tax positions are measured at the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement. Additionally, previously recognized tax positions that no longer meet the more-likely-than-not threshold should be derecognized in the first financial reporting period in which that threshold is no longer met. Changes in recognition or measurement will be reflected in the period in which the change in judgment occurs.

The company's income tax filings are subject to audit by various taxing authorities. The statute of limitations for federal and California state purposes is three and four years, respectively. In evaluating the company's tax provisions and accruals, future taxable income, and the reversal of temporary differences, interpretations, and tax planning strategies are considered.

There are inherent uncertainties related to the interpretation of tax regulations in the jurisdictions in which the company transacts business. The judgments and estimates made at a point in time may change based on the outcome of tax audits, as well as changes to, or further interpretations of, regulations.

Subsequent Events

Management has evaluated subsequent events from the consolidated balance sheet date through July 22, 2011, the date the consolidated financial statements were available to be issued, and determined that, in addition to the disclosure in Note 17, there are no other items to disclose.

Reclassifications

Certain amounts in the prior period consolidated financial statements have been reclassified to conform to the current year presentation.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 2 – Securities Held-to-Maturity

Cost and fair market value of securities held-to-maturity at December 31, 2010 are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gain</u>	<u>Loss</u>	<u>Fair Value</u>
State and municipal bonds	\$ 19,227,186	\$ 573,875	(\$ 26,369)	\$ 19,774,692

Cost and fair market value of securities held-to-maturity at December 31, 2009 are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gain</u>	<u>Loss</u>	<u>Fair Value</u>
State and municipal bonds	\$ 18,487,940	\$ 801,514	None	\$ 19,289,454

Securities held-to-maturity consists of the following:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Maturities at:		
One year or less	\$ 5,277,423	\$ 3,667,950
After one year through five years	12,293,054	13,780,917
After more than five years	<u>1,656,709</u>	<u>1,039,073</u>
	<u>\$19,227,186</u>	<u>\$18,487,940</u>

NOTE 3 – Securities Purchased Under Agreements to Resell

The company has securities, consisting of US Treasury notes, purchased under agreements to resell at December 31, 2010 and 2009. The amounts advanced under these agreements represent short-term loans and are reflected as a receivable in the consolidated balance sheets. The securities underlying these receivables are book-entry securities and are held by Farmers and Merchants Bank (the Bank), a related entity. The weighted-average interest rate was 0.18% and 0.35% in 2010 and 2009, respectively.

The company receives funds from customers and maintains custody of such funds in connection with Internal Revenue Code Section 1031, exchanges of real property. During the year, the company maintains custody of the funds in short-term securities purchased under agreements to resell. At December 31, 2010, the company was obligated to customers in the amount of \$1,817,151. At December 31, 2009, the company was obligated to customers in the amount of \$4,262,505.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 4 – Equity Method Investment in 1450 Locust LLC

The company’s equity method investment consists of a 50% interest in 1450 Locust LLC which is an investment partnership with an unrelated third party.

The condensed results of operations and financial position of the company’s equity-basis investment at and for the year ended December 31, 2010 is summarized below:

Assets	
Current assets	<u>\$ 1,782,515</u>
Total Assets	<u>\$ 1,782,515</u>
Liabilities and Members’ Equity	
Members’ equity	<u>\$ 1,782,515</u>
Total Liabilities and Members’ Equity	<u>\$ 1,782,515</u>
Net income	<u>\$ 732,515</u>

The following summarizes the activity and change in investment in 1450 Locust LLC:

Investment at January 1, 2010	None
Member capital contribution	\$ 525,000
Equity in income	<u>366,258</u>
Balance at December 31, 2010	<u>\$ 891,258</u>

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 5 – Breeding Herd

A summary of the breeding herd, at lower of cost or net realizable value, is as follows:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Breeding herd	\$ 1,591,475	\$ 1,287,409
Less accumulated depreciation	(1,175,529)	(985,978)
	<u>\$ 415,946</u>	<u>\$ 301,431</u>

Depreciation expense for the years ended December 31, 2010 and 2009 totaled \$189,551 and \$115,564, respectively.

NOTE 6 – Property and Equipment

A summary of property and equipment at cost, including rental properties, is as follows:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Buildings	\$ 4,508,219	\$ 4,508,219
Furniture and equipment	1,224,766	998,078
Building and leasehold improvements	2,523,858	2,077,666
Tenant improvements	780,080	491,974
	<u>9,036,923</u>	<u>8,075,937</u>
Less accumulated depreciation and amortization	(2,486,073)	(2,236,879)
	6,550,850	5,839,058
Land	<u>7,624,621</u>	<u>7,098,466</u>
	<u>\$ 14,175,471</u>	<u>\$ 12,937,524</u>

Included in property and equipment at December 31, 2010 and 2009 is \$12,189,026 and \$9,298,893, respectively, of productive rental properties.

Depreciation and amortization expense for the years ended December 31, 2010 and 2009 totaled \$283,298 and \$252,049, respectively.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 7 – Other Assets

Other assets consist of the following:

	December 31,	
	2010	2009
Fees receivable	\$ 327,545	\$ 381,386
Interest receivable	178,125	189,970
Deposit for property escrow	172,500	
Leasing commissions	102,841	112,353
Loan fees	67,355	31,144
Deferred rental income	29,964	
Miscellaneous receivables	41,823	71,188
Prepaid expenses	4,921	5,370
	<u>\$ 925,074</u>	<u>\$ 791,411</u>

NOTE 8 – Line of Credit

In April 2010, the company obtained a \$5 million line of credit with an unaffiliated financial institution which expires on July 1, 2012 and carries an interest rate of LIBOR plus 3.75%, with a floor rate of 4.5%. Advances outstanding at December 31, 2010 totaled \$800,000.

The line of credit agreement also requires the company to maintain compliance with certain financial and other restrictive covenants for which the company was in compliance or had obtained a waiver.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 9 – Note Payable

Note payable consists of the following:

	December 31,	
	2010	2009
Note payable, secured by a deed of trust of the productive rental properties, bears interest at 5.99%, monthly principal and interest payment of \$38,086, due September 2018	<u>\$ 2,865,379</u>	<u>\$ 3,139,476</u>

Future principal payments on the note payable are as follows:

<u>Year Ending December 31,</u>	
2011	\$ 298,063
2012	316,415
2013	335,898
2014	356,580
2015	378,535
Thereafter	1,179,888
	<u><u>\$ 2,865,379</u></u>

NOTE 10 – Trust Assets

The Trust Co. has trust assets under administration totaling approximately \$2.14 billion and \$1.96 billion, representing 1,259 and 1,128 accounts, at market value as of December 31, 2010 and 2009, respectively. These amounts are not included in the accompanying consolidated balance sheets.

As a fiduciary, the Trust Co. has responsibility for the proper administration of all assets held in trust and, therefore, has a contingent liability for any loss of assets or breach of fiduciary duty. The Trust Co.'s management feels that the fiduciary insurance coverage held by the Trust Co. is sufficient to cover any potential losses.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 11 – Provision for Income Taxes

The following schedule indicates how the provision for income taxes varies from the expected rate:

	For the Year Ended December 31,	
	2010	2009
Expected provision for federal and state income taxes	\$ 1,311,077	\$ 1,215,629
Tax effect of permanent differences:		
Tax-exempt dividends	(192,654)	(210,634)
Nondeductible membership dues	9,180	
	\$ 1,127,603	\$ 1,004,995

The provision for income taxes consists of the following:

Current:		
Federal	\$ 444,491	\$ 651,842
State	328,810	269,112
Deferred	354,302	84,041
	\$ 1,127,603	\$ 1,004,995

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 11 – Provision for Income Taxes (Continued)

Deferred tax assets and liabilities consist of the following:

	December 31,	
	2010	2009
Deferred tax assets		
Current year state tax	\$ 111,842	\$ 112,509
Excess of book depreciation over tax		27,448
Total deferred tax assets	111,842	139,957
Deferred tax liabilities		
Excess of tax depreciation over book	(283,062)	(83,690)
Excess of book investment income over tax	(126,815)	
Total deferred tax liabilities	(409,877)	(83,690)
Net deferred tax assets (liabilities)	(\$ 298,035)	\$ 56,267

NOTE 12 – Affiliated-Party Transactions

Queen City Investments, Inc. and the Bank have a substantial percentage of their respective outstanding shares held by common shareholders, which include some directors of Queen City Investments, Inc. and the Trust Co. In addition, certain officers and/or directors of Queen City Investments, Inc. or the Trust Co. are also officers and/or directors of the Bank. Under an exchange-of-services agreement, the Bank provides administrative, accounting and data processing services, as well as office space, to the Trust Co. The Trust Co. provides trustee and financial management services to the Bank and maintains deposits with the Bank. The exchange of services agreement provides for periodic settlement of amounts which may be owed by one party to the other, and such amounts were not material at December 31, 2010 and 2009.

The Bank leases a branch location from the company through December 31, 2015. Pursuant to the lease agreement, the company received approximately \$268,000 and \$304,000 of rental income and common area maintenance charges from the Bank during the years ended December 31, 2010 and 2009, respectively. The future rental income from the Bank is included in the summary of minimum future rentals in Note 14.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 13 – Profit-Sharing Plan

The Trust Co. has a profit-sharing plan covering substantially all eligible employees. The annual contribution is a percentage of employee compensation based on available net profits. The percentage may range from 0% to 15%, at the discretion of the board of directors. The profit-sharing expense for the years ended December 31, 2010 and 2009 was \$252,585 and \$249,734, respectively.

NOTE 14 – Leasing Arrangements as Lessor

The company leases commercial property to various tenants under noncancelable operating leases that expire at various dates through 2017. The lease agreements provide for specific monthly payments plus reimbursement of a percentage share of common operating expenses.

The following is a summary of minimum future rentals under these noncancelable operating leases:

<u>Year Ending December 31,</u>	
2011	\$ 1,129,870
2012	1,044,171
2013	908,138
2014	752,829
2015	549,897
Thereafter	<u>25,164</u>
	<u>\$ 4,410,069</u>

NOTE 15 – Commitments and Contingencies

Pledged Assets

At December 31, 2010 and 2009, corporate assets of the Trust Co., with a book value of \$813,263 and \$819,498, respectively, have been pledged to the Treasurer of the State of California to ensure the faithful performance of fiduciary duties.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 15 – Commitments and Contingencies (Continued)

Operating Lease

The Trust Co. has an operating lease for software services through December 2013. The lease expense associated with operating leases, including those with terms of less than one year, was approximately \$198,100 and \$191,800 for the years ended December 31, 2010 and 2009, respectively.

The following is a schedule of future minimum lease payments:

<u>Year Ending December 31,</u>	
2011	\$ 96,000
2012	96,000
2013	<u>96,000</u>
	<u>\$ 288,000</u>

NOTE 16 – Supplemental Disclosures of Cash Flow Information

Cash paid during the year for:

	<u>For the Year Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Income taxes	\$ 1,265,000	\$ 510,000
Interest	\$ 192,801	\$ 199,348

NOTE 17 – Subsequent Events

In January 2011, the company purchased commercial rental real estate from an unrelated third party for a total cost of approximately \$1.5 million. The property was financed with loan proceeds of approximately \$1.5 million through the company's existing line of credit. The lease agreement with the current tenant was assigned to the company as part of the purchase.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 17 – Subsequent Events (Continued)

In February 2011, the company purchased commercial rental real estate from an unrelated third party for a total cost of approximately \$3.45 million. The company applied \$172,500 deposited in escrow during 2010 and financed approximately \$3.28 million through the company's existing line of credit. The lease agreements with the current tenants were assigned to the company as part of the purchase.

In June 2011, the company repurchased 275 shares of common stock from a shareholder for \$275,000.