

COMMUNITY FIRST BANCORP

Form 10-Q

August 15, 2011

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the Quarterly Period Ended June 30, 2011

Commission File No. 000-29640

**COMMUNITY FIRST BANCORPORATION**

(Exact name of registrant as specified in its charter)

**South Carolina**

(State or other jurisdiction of  
incorporation or organization)

**58-2322486**

(IRS Employer Identification No.)

**449 HIGHWAY 123 BYPASS**

**SENECA, SOUTH CAROLINA 29678**

(Address of principal executive offices, zip code)

**(864) 886-0206**

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(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). (This is the first report for which an Interactive Data File is required to be filed and posted by the registrant). Yes ☐ No ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐  
(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 ☒

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 or stated value, 3,972,976 Shares Outstanding on August 2, 2011

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## COMMUNITY FIRST BANCORPORATION

## Consolidated Balance Sheets

	(Unaudited) June 30, 2011	December 31, 2010
	(Dollars in thousands)	
<b>Assets</b>		
Cash and due from banks	\$ 1,913	\$ 1,711
Interest bearing balances due from banks	37,754	39,171
Cash and cash equivalents	39,667	40,882
Securities available-for-sale	158,366	169,369
Securities held-to-maturity (fair value \$5,722 for 2011 and \$6,817 for 2010)	5,303	6,389
Other investments	1,254	1,363
Loans	237,656	256,834
Allowance for loan losses	(5,953)	(5,756)
Loans - net	231,703	251,078
Premises and equipment - net	8,002	8,170
Accrued interest receivable	2,226	2,491
Bank-owned life insurance	9,841	9,666
Foreclosed assets	15,382	11,395
Net deferred tax assets	1,921	2,233
Other assets	2,114	2,723
Total assets	\$ 475,779	\$ 505,759
<b>Liabilities</b>		
Deposits		
Noninterest bearing	\$ 46,748	\$ 46,844
Interest bearing	372,453	398,466
Total deposits	419,201	445,310
Accrued interest payable	1,152	1,698
Short-term borrowings		5,000
Long-term debt	6,500	6,500
Other liabilities	2,287	1,939
Total liabilities	429,140	460,447
<b>Shareholders' equity</b>		
Preferred stock - Series A - non-voting 5% cumulative - \$1,000 per share liquidation preference; 5,000 shares authorized; issued and outstanding - 3,150 shares	3,126	3,126
Preferred stock - no par value; 9,995,000 shares authorized; None issued and outstanding		
Common stock - no par value; 10,000,000 shares authorized; issued and outstanding - 3,972,976 for 2011 and 2010	39,931	39,931

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Additional paid-in capital	748	748
Retained earnings	1,763	1,396
Accumulated other comprehensive income	1,071	111
Total shareholders' equity	46,639	45,312
Total liabilities and shareholders' equity	\$ 475,779	\$ 505,759

See accompanying notes to unaudited consolidated financial statements.

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## COMMUNITY FIRST BANCORPORATION

## Consolidated Statements of Income

	(Unaudited) Period Ended June 30,			
	Three Months		Six Months	
	2011	2010	2011	2010
	(Dollars in thousands, except per share)			
<b>Interest income</b>				
Loans, including fees	\$ 3,655	\$ 4,053	\$ 7,278	\$ 8,057
Interest bearing balances due from banks	15	32	43	70
Securities				
Taxable	1,108	1,332	2,232	2,617
Tax-exempt	175	197	352	396
Other investments	3	2	5	2
Total interest income	4,956	5,616	9,910	11,142
<b>Interest expense</b>				
Time deposits \$100M and over	469	746	1,031	1,479
Other deposits	743	1,436	1,613	2,855
Long-term debt	63	73	127	149
Total interest expense	1,275	2,255	2,771	4,483
<b>Net interest income</b>	3,681	3,361	7,139	6,659
Provision for loan losses	1,450	1,125	2,700	2,250
<b>Net interest income after provision</b>	2,231	2,236	4,439	4,409
<b>Other income</b>				
Service charges on deposit accounts	268	309	528	610
Debit card transaction fees	198	214	381	350
Net losses on sales of securities available-for-sale	(6)		(6)	
Increase in value of bank-owned life insurance	86	90	175	182
Other income	44	79	100	86
Total other income	590	692	1,178	1,228
<b>Other expenses</b>				
Salaries and employee benefits	1,198	1,204	2,418	2,323
Net occupancy expense	134	138	273	283
Furniture and equipment expense	94	96	173	186
Amortization of computer software	99	97	196	209
Debit card transaction expenses	125	123	241	223
FDIC insurance expense	232	235	464	633
Other expense	694	570	1,398	1,091
Total other expenses	2,576	2,463	5,163	4,948
<b>Income before income taxes</b>	245	465	454	689
Income tax expense (benefit)	(26)	66	8	83
<b>Net income</b>	271	399	446	606
Deductions for amounts not available to common shareholders:				
	(40)	(40)	(99)	(99)

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Dividends declared or accumulated on preferred  
stock

<b>Net income available to common shareholders</b>	\$	231	\$	359	\$	347	\$	507
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See accompanying notes to unaudited consolidated financial statements.

## Consolidated Statements of Income - continued

\* Per common share information has been retroactively adjusted to reflect a 5% stock dividend effective December 16, 2010.

See accompanying notes to unaudited consolidated financial statements.



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## COMMUNITY FIRST BANCORPORATION

## Consolidated Statements of Changes in Shareholders' Equity

(Unaudited)

	Shares of Common Stock	Preferred Stock	Common Stock	Additional Paid-in Capital (Dollars in thousands)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance, January 1, 2010</b>	3,782,415	\$ 3,126	\$ 38,923	\$ 748	\$ 1,434	\$ 587	\$ 44,818
Comprehensive income:							
Net income					606		606
Unrealized holding gains and losses on available-for-sale securities arising during the period, net of income taxes of \$817						1,459	1,459
Total other comprehensive income							1,459
Total comprehensive income							2,065
Dividends paid on preferred stock					(79)		(79)
Exercise of employee stock options	1,744		17				17
<b>Balance, June 30, 2010</b>	3,784,159	\$ 3,126	\$ 38,940	\$ 748	\$ 1,961	\$ 2,046	\$ 46,821
<b>Balance, January 1, 2011</b>	3,972,976	\$ 3,126	\$ 39,931	\$ 748	\$ 1,396	\$ 111	\$ 45,312
Comprehensive income:							
Net income					446		446
Unrealized holding gains and losses on available-for-sale securities arising during the period, net of income taxes of \$535						956	956
Reclassification adjustment, net of income tax effects of \$2						4	4
Total other comprehensive income							960
Total comprehensive income							1,406
Dividends paid on preferred stock					(79)		(79)
<b>Balance, June 30, 2011</b>	3,972,976	\$ 3,126	\$ 39,931	\$ 748	\$ 1,763	\$ 1,071	\$ 46,639

See accompanying notes to unaudited consolidated financial statements.

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## COMMUNITY FIRST BANCORPORATION

## Consolidated Statements of Cash Flows

	(Unaudited) Six Months Ended June 30,	
	2011	2010
	(Dollars in thousands)	
<b>Operating activities</b>		
Net income	\$ 446	\$ 606
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	2,700	2,250
Depreciation	186	192
Amortization of net loan fees and costs	36	(21)
Securities accretion and premium amortization	493	661
Net losses on sales of securities available-for-sale	6	
Increase in value of bank-owned life insurance	(175)	(182)
Writedowns of foreclosed assets	45	
Net losses (gains) on sale of foreclosed assets	67	(8)
Decrease (increase) in interest receivable	265	(427)
(Decrease) increase in interest payable	(546)	1,038
Decrease in prepaid expenses and other assets	609	856
Deferred income taxes	(225)	
Increase in other accrued expenses	348	312
Net cash provided by operating activities	4,255	5,277
<b>Investing activities</b>		
Purchases of securities available-for-sale	(28,974)	(95,381)
Maturities, calls and paydowns of securities available-for-sale	38,527	58,537
Maturities, calls and paydowns of securities held-to-maturity	1,085	1,253
Proceeds from sales of securities available-for-sale	2,449	
Proceeds from sales of other investments	109	
Net decrease (increase) in loans made to customers	11,835	(1,440)
Purchases of premises and equipment	(18)	(67)
Additional investments in foreclosed assets		(29)
Proceeds from sale of foreclosed assets	705	461
Net cash provided (used) by investing activities	25,718	(36,666)
<b>Financing activities</b>		
Net increase (decrease) in demand deposits, interest bearing transaction accounts and savings accounts	1,182	(3,689)
Net (decrease) increase in certificates of deposit and other time deposits	(27,291)	33,644
Repayments of short-term borrowings	(5,000)	
Repayments of long-term debt		(1,500)
Cash dividends paid on preferred stock	(79)	(79)
Exercise of employee stock options		17
Net cash (used) provided by financing activities	(31,188)	28,393
<b>Decrease in cash and cash equivalents</b>	<b>(1,215)</b>	<b>(2,996)</b>
<b>Cash and cash equivalents, beginning</b>	<b>40,882</b>	<b>47,483</b>
<b>Cash and cash equivalents, ending</b>	<b>\$ 39,667</b>	<b>\$ 44,487</b>

See accompanying notes to unaudited consolidated financial statements.



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COMMUNITY FIRST BANCORPORATION

Consolidated Statements of Cash Flows - continued

	(Unaudited) Six Months Ended June 30,	
	2011	2010
	(Dollars in thousands)	
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid during the period for		
Interest	\$ 3,317	\$ 3,445
Income taxes	59	4
Net transfers from loans to foreclosed assets	4,804	1,485
Noncash investing and financing activities:		
Other comprehensive income	960	1,459

See accompanying notes to unaudited consolidated financial statements.

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COMMUNITY FIRST BANCORPORATION

Notes to Unaudited Consolidated Financial Statements

(Dollar amounts in thousands, except per share)

**Accounting Policies** A summary of significant accounting policies is included in Community First Bancorporation's (the Company, our, we, and similar references) Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission. Certain amounts in the 2010 financial statements have been reclassified to conform to the current presentation. Such reclassifications had no effect on net income or retained earnings for any period.

**Management Opinion** In the opinion of management, the accompanying unaudited consolidated financial statements of Community First Bancorporation reflect all adjustments necessary for a fair presentation of the results of the periods presented. Such adjustments were of a normal, recurring nature.

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**Investment Securities** The following table presents information about amortized cost, unrealized gains, unrealized losses, and estimated fair values of securities:

	June 30, 2011			
	Amortized Cost	Gross Unrealized Holding Gains (Dollars in thousands)	Gross Unrealized Holding Losses	Estimated Fair Value
<b>Available-for-sale</b>				
Mortgage-backed securities issued by US Government agencies	\$ 1,001	\$ 65	\$	\$ 1,066
Government sponsored enterprises (GSEs)	113,947	667	534	114,080
Mortgage-backed securities issued by GSEs	25,497	1,138		26,635
State, county and municipal	16,251	401	67	16,585
Total	\$ 156,696	\$ 2,271	\$ 601	\$ 158,366

<b>Held-to-maturity</b>				
Mortgage-backed securities issued by US Government agencies	\$	\$	\$	\$
Government sponsored enterprises (GSEs)				
Mortgage-backed securities issued by GSEs	5,303	419		5,722
State, county and municipal				
Total	\$ 5,303	\$ 419	\$	\$ 5,722

	December 31, 2010			
	Amortized Cost	Gross Unrealized Holding Gains (Dollars in thousands)	Gross Unrealized Holding Losses	Estimated Fair Value
<b>Available-for-sale</b>				
Mortgage-backed securities issued by US Government agencies	\$ 1,128	\$ 52	\$	\$ 1,180
Government sponsored enterprises (GSEs)	130,492	863	1,495	129,860
Mortgage-backed securities issued by GSEs	20,145	983		21,128
State, county and municipal	17,432	130	361	17,201
Total	\$ 169,197	\$ 2,028	\$ 1,856	\$ 169,369

<b>Held-to-maturity</b>				
Mortgage-backed securities issued by US Government agencies	\$	\$	\$	\$
Government sponsored enterprises (GSEs)				
Mortgage-backed securities issued by GSEs	6,389	428		6,817
State, county and municipal				
Total	\$ 6,389	\$ 428	\$	\$ 6,817



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The fair value and amortized cost of securities by contractual maturity are shown below:

	June 30, 2011				
	Due within one year	Due after one through five years (Dollars in thousands)	Due after five through ten years	Due after ten years	Total
<u>Available-for-sale at fair value</u>					
Non-mortgage-backed securities issued by GSEs	\$	\$ 31,045	\$ 47,144	\$ 35,891	\$ 114,080
State, county and municipal issuers		533	4,036	12,016	16,585
		31,578	51,180	47,907	130,665
Mortgage-backed securities issued by:					
US Government agencies					1,066
GSEs					26,635
Total available-for-sale					\$ 158,366
<u>Held-to-maturity at amortized cost</u>					
Mortgage-backed securities issued by:					
GSEs					\$ 5,303
Total held-to-maturity					\$ 5,303



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The estimated fair values and gross unrealized losses of our investment securities whose fair values were less than amortized cost as of June 30, 2011 and December 31, 2010 which had not been determined to be other-than-temporarily impaired are presented below. We evaluate all available-for-sale securities and all held-to-maturity securities for impairment as of each balance sheet date. The securities have been segregated in the table by investment category and the length of time that individual securities have been in a continuous unrealized loss position.

June 30, 2011						
Continuously in Unrealized Loss Position for a Period of						
	Less than 12 Months		12 Months or more		Total	
	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized
	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
(Dollars in thousands)						
Available-for-sale						
US Government agencies	\$	\$	\$	\$	\$	\$
Government-sponsored enterprises (GSEs)	32,440	534			32,440	534
Mortgage-backed securities issued by GSEs						
State, county and municipal securities	1,644	38	481	29	2,125	67
Total	\$ 34,084	\$ 572	\$ 481	\$ 29	\$ 34,565	\$ 601
Held-to-maturity						
GSEs	\$	\$	\$	\$	\$	\$
Total	\$	\$	\$	\$	\$	\$
December 31, 2010						
Continuously in Unrealized Loss Position for a Period of						
	Less than 12 Months		12 Months or more		Total	
	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized
	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
(Dollars in thousands)						
Available-for-sale						
GSEs	\$ 60,543	\$ 1,495	\$	\$	\$ 60,543	\$ 1,495
Mortgage-backed securities issued by GSEs						
State, county and municipal securities	9,648	306	455	55	10,103	361
Total	\$ 70,191	\$ 1,801	\$ 455	\$ 55	\$ 70,646	\$ 1,856
Held-to-maturity						
GSEs	\$	\$	\$	\$	\$	\$
	\$	\$	\$	\$	\$	\$

As of June 30, 2011, 31 securities had been continuously in an unrealized loss position for less than 12 months and one security had been continuously in an unrealized loss position for 12 months or more. As of December 31, 2010, 74 securities had been continuously in an unrealized loss position for less than 12 months and one security had been continuously in an unrealized loss position for 12 months or more. We do not consider these investments to be other-than-temporarily impaired because the unrealized losses involve primarily issuances of state, county and municipal government issuers and mortgage-backed securities issued by GSEs. We also believe that the impairments resulted from current credit market disruptions, and note that there have been no failures by the issuers to remit periodic interest payments as required, nor are we aware that any such issuer has given notice that it expects that it will be unable to make any such future payment according to the terms of the bond indenture. Although we classify a majority of our investment securities as available-for-sale, management has not determined that any specific securities will be disposed of prior to maturity and believes that we have both the ability and the intent to hold those investments until a recovery of fair value,



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including until maturity. Substantially all of the issuers of state, county and municipal securities were rated at least investment grade as of June 30, 2011 and December 31, 2010.

Our subsidiary bank is a member of the Federal Home Loan Bank of Atlanta ( FHLB ) and, accordingly, is required to own restricted stock in that institution in amounts that may vary from time to time. Because of the restrictions imposed, the stock may not be sold to other parties, but is redeemable by the FHLB at the same price as that at which it was acquired by the subsidiary. We evaluate this security for impairment based on the probability of ultimate recoverability of the par value of the investment. No impairment has been recognized based on this evaluation.

During the first six months of 2011, we sold two available-for-sale securities for gross proceeds of \$2,449 and net losses of \$6. During the first six months of 2010, we had no sales of available-for-sale securities. There were no transfers of available-for-sale securities to other categories in the 2011 and 2010 six-month periods.

**Loans** Loans consisted of the following:

	June 30, 2011	December 31, 2010
	(Dollars in thousands)	
Commercial, financial and industrial	\$ 19,325	\$ 20,474
Real estate - construction	17,681	23,730
Real estate - mortgage	178,927	187,940
Consumer installment	21,723	24,690
Total	237,656	256,834
Allowance for loan losses	(5,953)	(5,756)
Loans - net	\$ 231,703	\$ 251,078

The following table provides information about the payment status of loans:

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As of June 30, 2011	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans
			(Dollars in thousands)			
Commercial, financial and industrial	\$ 217	\$ 28	\$ 1,159	\$ 1,404	\$ 17,921	\$ 19,325
Real estate - construction	224		4,272	4,496	13,185	17,681
Real estate - mortgage	2,141	309	9,664	12,114	166,813	178,927
Consumer installment	294	29	394	717	21,006	21,723
Total	\$ 2,876	\$ 366	\$ 15,489	\$ 18,731	\$ 218,925	\$ 237,656

As of December 31, 2010	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans
			(Dollars in thousands)			
Commercial, financial and industrial	\$ 254	\$ 214	\$ 855	\$ 1,323	\$ 19,151	\$ 20,474
Real estate - construction	485	662	6,082	7,229	16,501	23,730
Real estate - mortgage	1,834	2,093	8,974	12,901	175,039	187,940
Consumer installment	294	256	433	983	23,707	24,690
Total	\$ 2,867	\$ 3,225	\$ 16,344	\$ 22,436	\$ 234,398	\$ 256,834

Nonaccrual loans totaled \$15,489 and \$16,344 as of June 30, 2011 and December 31, 2010, respectively. Troubled debt restructurings, not including such loans that are included in nonaccrual loans, totaled \$7,170 as of June 30, 2011 and \$5,457 as of December 31, 2010. As of June 30, 2011 and December 31, 2010, we had no loans past due 90 days or more and still accruing interest.

Loans that we grade Management Attention and Special Mention are not believed to represent more than a minimal likelihood of loss. Those grades indicate that a change in the borrowers' circumstances, or some other event, has occurred such that an elevated level of monitoring is warranted. Such loans are generally evaluated collectively for purposes of estimating the allowance for loan losses. Loans graded Substandard are believed to present a moderate likelihood of loss due to the presence of well-defined weakness in the borrowers' financial condition such as a change in their demonstrated payment history, the effects of lower collateral values combined with other financial difficulties the borrowers may be experiencing, or deterioration of other indicators of the borrowers' ability to service the loan as agreed. Loans graded Doubtful are believed to present a high likelihood of loss due to severe deterioration of a borrower's financial condition, severe past due status and/or substantial deterioration of collateral value, or other factors. Loans graded Substandard or Doubtful are evaluated individually for impairment. Management updates the internal risk grading system no less often than monthly. The following table provides information about how we grade loans internally:

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As of June 30, 2011	Management Attention	Internally Assigned Risk Grade			Total
		Special Mention	Substandard	Doubtful	
		(Dollars in thousands)			
Commercial, financial and industrial	\$ 1,323	\$ 2,922	\$ 1,800	\$	\$ 6,045
Real estate - construction	2,683	995	7,775		11,453
Real estate - mortgage	20,775	9,858	19,365		49,998
Consumer installment	1,255	1,002	1,006		3,263
	\$ 26,036	\$ 14,777	\$ 29,946	\$	\$ 70,759

As of December 31, 2010	Management Attention	Internally Assigned Risk Grade			Total
		Special Mention	Substandard	Doubtful	
		(Dollars in thousands)			
Commercial, financial and industrial	\$ 524	\$ 577	\$ 1,385	\$	\$ 2,486
Real estate - construction	1,953	2,980	7,953		12,886
Real estate - mortgage	12,628	8,326	12,795	237	33,986
Consumer installment	1,177	684	806		2,667
	\$ 16,282	\$ 12,567	\$ 22,939	\$ 237	\$ 52,025

Impaired loans generally are nonaccrual loans, loans that are 90 days or more delinquent as to principal or interest payments, and other loans where, based on current information and events, it is probable that we will be unable to collect principal and interest payments according to the contractual terms of the loan agreements, including loans whose terms have been modified in a troubled debt restructuring. A loan is not considered to be impaired, however, if any periods of delay or shortfalls of amounts expected to be collected are insignificant or if we expect that we will be able to collect all amounts due including accrued interest during the period of delay.

Following is a summary of our impaired loans, by class:

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As of June 30, 2011	Recorded Investment	Unpaid Principal Balance	Related Allowance (Dollars in thousands)	Year-to-Date Average Recorded Investment	Year-to-Date Interest Income Recognized
With no related allowance recorded:					
Commercial, financial and industrial	\$ 250	\$ 250	\$	\$ 209	\$ 5
Real estate - construction	2,399	3,249		2,645	
Real estate - mortgage	9,767	10,254		9,878	46
Consumer installment	11	11		173	1
With an allowance recorded:					
Commercial, financial and industrial	\$ 1,080	\$ 1,080	\$ 830	\$ 924	\$ 3
Real estate - construction	1,589	1,617	19	1,218	
Real estate - mortgage	2,134	2,570	1,184	3,747	19
Consumer installment	496	496	228	331	9
Total:					
Commercial, financial and industrial	\$ 1,330	\$ 1,330	\$ 830	\$ 1,133	\$ 8
Real estate - construction and mortgage	15,889	17,690	1,203	17,488	65
Consumer installment	507	507	228	504	10
Total	\$ 17,726	\$ 19,527	\$ 2,261	\$ 19,125	\$ 83

As of December 31, 2010	Recorded Investment	Unpaid Principal Balance	Related Allowance (Dollars in thousands)	Year-to-Date Average Recorded Investment	Year-to-Date Interest Income Recognized
With no related allowance recorded:					
Commercial, financial and industrial	\$ 167	\$ 167	\$	\$ 73	\$
Real estate - construction	2,890	3,462		2,569	13
Real estate - mortgage	9,989	10,638		7,761	118
Consumer installment	334	334		262	
With an allowance recorded:					
Commercial, financial and industrial	\$ 767	\$ 767	\$ 515	\$ 455	\$
Real estate - construction	846	874	45	1,523	41
Real estate - mortgage	5,360	5,529	1,632	6,465	
Consumer installment	166	166	66	273	
Total:					
Commercial, financial and industrial	\$ 934	\$ 934	\$ 515	\$ 528	\$
Real estate - construction and mortgage	19,085	20,503	1,677	18,318	172
Consumer installment	500	500	66	535	
Total	\$ 20,519	\$ 21,937	\$ 2,258	\$ 19,381	\$ 172

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The following table provides information about how we evaluated loans for impairment, the amount of the allowance for loan losses estimated for loans subjected to each type of evaluation, and the related total amounts, by portfolio segment as of date indicated:

As of June 30, 2011	Secured by Real Estate	Other (Dollars in thousands)	Total
Allowance for credit losses			
Ending balance	\$ 3,956	\$ 1,997	\$ 5,953
Ending balance - individually evaluated for impairment	\$ 1,203	\$ 1,058	\$ 2,261
Ending balance - collectively evaluated for impairment	\$ 2,753	\$ 939	\$ 3,692
Loans			
Ending balance	\$ 196,608	\$ 41,048	\$ 237,656
Ending balance - individually evaluated for impairment	\$ 15,889	\$ 1,837	\$ 17,726
Ending balance - collectively evaluated for impairment	\$ 180,719	\$ 39,211	\$ 219,930

As of December 31, 2010	Secured by Real Estate	Other (Dollars in thousands)	Total
Allowance for credit losses			
Ending balance	\$ 3,753	\$ 2,003	\$ 5,756
Ending balance - individually evaluated for impairment	\$ 1,504	\$ 754	\$ 2,258
Ending balance - collectively evaluated for impairment	\$ 2,249	\$ 1,249	\$ 3,498
Loans			
Ending balance	\$ 211,520	\$ 45,314	\$ 256,834
Ending balance - individually evaluated for impairment	\$ 18,425	\$ 2,094	\$ 20,519
Ending balance - collectively evaluated for impairment	\$ 193,095	\$ 43,220	\$ 236,315

During the six months ended June 30, 2011, we continued to experience higher-than-normal (pre-recession) amounts of net charge-offs and relatively high levels of past due and nonaccrual loans. These and other measures of credit quality, as well as continuing weakness in real estate prices, relatively low levels of activity in the real estate market and the continuing high unemployment in our market areas, indicate that our loan customers and collateral values remain under stress. Accordingly, we have recorded higher-than-normal provision and allowance for loan losses to recognize those conditions. We have not changed our accounting policy or the methodology used to estimate the allowance for loan losses since December 31, 2010. The following table provides information about activity in the allowance for loan losses by portfolio segment for the six months ended June 30, 2011:

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For the six months ended June 30, 2011	Secured by Real Estate	Other (Dollars in thousands)	Total
Allowance for credit losses			
Balance, January 1, 2011	\$ 3,753	\$ 2,003	\$ 5,756
Provision charged to expense	2,420	280	2,700
Recoveries		55	55
Charge-offs	(2,217)	(341)	(2,558)
Balance at June 30, 2011	\$ 3,956	\$ 1,997	\$ 5,953

**Earnings Per Share** Basic earnings per common share is computed by dividing net income applicable to common shares by the weighted average number of common shares outstanding. Diluted earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding and any dilutive potential common shares and dilutive stock options. It is assumed that all dilutive stock options are exercised at the beginning of each period and that the proceeds are used to purchase shares of our common stock at the average market price during the period. All 2010 per share information was retroactively adjusted to give effect to a 5% stock dividend effective December 16, 2010. Stock options outstanding for the periods presented were not dilutive because the exercise prices were greater than the market value of the underlying shares. Net income per common share and net income per share, assuming dilution, were computed as follows:

	Period Ended June 30,			
	2011	Three Months 2010	2011	Six Months 2010
	(Dollars in thousands, except per share amounts)			
Net income per common share, basic				
Numerator - net income available to common shareholders	\$ 231	\$ 359	\$ 347	\$ 507
Denominator				
Weighted average common shares issued and outstanding	3,972,976	3,973,367	3,972,976	3,972,451
Net income per common share, basic	\$ .06	\$ .09	\$ .09	\$ .13
Net income per common share, assuming dilution				
Numerator - net income available to common shareholders	\$ 231	\$ 359	\$ 347	\$ 507
Denominator				
Weighted average common shares issued and outstanding	3,972,976	3,973,367	3,972,976	3,972,451
Effect of dilutive stock options				
Total common shares	3,972,976	3,973,367	3,972,976	3,972,451
Net income per common share, assuming dilution	\$ .06	\$ .09	\$ .09	\$ .13

**Stock-Based Compensation** Our 1998 stock option plan terminated on March 19, 2008 and no further options may be issued under the plan. A total of 271,581 unexpired and non-forfeited options outstanding under the plan remain exercisable until their expiration dates.

**Income Taxes** Net deferred tax assets totaled \$1,921 as of June 30, 2011. Approximately \$554 of these net deferred tax assets is supported by available carrybacks and \$1,367 is dependent upon projected future taxable income. Based on the available carrybacks and our projections of future federal taxable income, we believe it is more likely than not that we will





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be able to realize the related tax benefits. Consequently, no valuation allowance for net deferred tax assets was recorded as of June 30, 2011 and December 31, 2010.

**Fair Value Measurements** Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants at the measurement date. A three-level hierarchy is used for fair value measurements based upon the transparency of the inputs to the valuation of an asset or liability as of the measurement date. In developing estimates of the fair values of assets and liabilities, no consideration of large position discounts for financial instruments quoted in active markets is allowed. However, an entity is required to consider its own creditworthiness when valuing its liabilities. For disclosure purposes, fair values for assets and liabilities are shown in the level of the hierarchy that correlates with the lowest level input that is significant to the fair value measurement in its entirety.

The three levels of the fair value input hierarchy are described as follows:

Level 1 inputs reflect quoted prices in active markets for identical assets or liabilities.

Level 2 inputs reflect observable inputs that may consist of quoted market prices for similar assets or liabilities, quoted prices that are not in an active market, or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets or liabilities being valued.

Level 3 inputs reflect the use of pricing models and/or discounted cash flow methodologies using other than contractual interest rates or methodologies that incorporate a significant amount of management judgment, use of the entity's own data, or other forms of unobservable data.

The following is a summary of the measurement attributes applicable to assets that are measured at fair value on a recurring basis:

Description	June 30, 2011	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Securities available-for-sale		\$	\$ 158,366	\$

Fair Value Measurement at Reporting Date Using		
Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs

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Description	December 31, 2010	(Level 1)	(Level 2) (Dollars in thousands)	(Level 3)
Securities available-for-sale	\$		\$ 169,369	\$

Level 2 inputs for our securities available-for-sale are obtained from an independent third-party that uses a process that may incorporate current market prices, benchmark yields, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, other reference data and industry and economic events that a market participant would be expected to use in valuing the securities. Not all of the inputs listed apply to each individual security at each measurement date. The independent third party assigns specific securities into an asset class for the purpose of assigning the applicable level of the fair value hierarchy used to value the securities. At June 30, 2011 and December 31, 2010, all of our securities available-for-sale were valued using Level 2 inputs, as described above.

We did not have any liabilities measured at fair value on a recurring basis at either period end.

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The following is a summary of the measurement attributes applicable to assets measured at fair value on a non-recurring basis during the six month period ended June 30, 2011 and the twelve month period ended December 31, 2010 and which remained outstanding at the end of each period:

Description	June 30, 2011	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Collateral-dependent impaired loans	\$	\$	17,726	\$
Land held for sale			139	
Foreclosed assets			15,382	

Description	December 31, 2010	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Collateral-dependent impaired loans	\$	\$	20,312	\$
Land held for sale			139	
Foreclosed assets			11,395	

The fair value measurements shown above were made to reduce cost-based measurements to fair value measurements at initial recognition, or to adjust fair value based measurements subsequent to initial recognition, due to changes in the circumstances of individual assets during the period. For collateral-dependent impaired loans, the measurements reflect our belief that we will receive repayment solely from the liquidation of the underlying collateral. As a practical expedient, such loans may be valued by comparing the fair value of the collateral securing the loan with the loan's carrying value. If the carrying value exceeds the fair value of the collateral, the excess is charged to the allowance for loan losses. If the fair value of the collateral exceeds the loan's carrying amount, no adjustment is made, the loan continues to be carried at historical cost, and the loan is not included in the table.

The value of other real estate obtained through loan foreclosure is adjusted, if needed, upon the acquisition of each property to the lower of the recorded investment in the loan or the fair value of the property as determined by a recently performed independent appraisal, less the estimated costs to sell. Similarly, the fair value of repossessions is measured by reference to dealers' quotes or other market information believed to reliably reflect the value of the specific property held. Immaterial adjustments may be made by management to reflect property-specific factors such as age or condition. Losses recognized when loans are initially transferred to or otherwise included in any of the categories shown above are reported as loan losses. Subsequent to initial recognition, changes in fair value measurements of other real estate and repossessions are included in other income or other expenses, as applicable.

We did not have any liabilities measured at fair value on a non-recurring basis at either period end.

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Accounting standards require disclosure of the estimated fair value of certain on-balance sheet and off-balance sheet financial instruments and the methods and assumptions used to estimate their fair values. A financial instrument is defined as cash, evidence of an ownership interest in an entity or a contract that creates a contractual obligation or right to deliver or receive cash or another financial instrument from a second entity on potentially favorable or unfavorable terms. Affected financial instruments that are not carried at fair value on the Consolidated Balance Sheets are discussed below. Accordingly, these fair value disclosures provide only a partial estimate of the Company's fair value.

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For cash and due from banks, interest bearing deposits due from banks and federal funds sold, the carrying amount approximates fair value because these instruments generally mature in 90 days or less. The carrying amounts of accrued interest receivable or payable approximate fair values.

The fair value of held-to-maturity mortgage-backed securities issued by Government sponsored enterprises is estimated based on dealers' quotes for the same or similar securities.

The fair value of FHLB stock is estimated at its cost. The FHLB historically has redeemed its outstanding stock at that value.

Fair values are estimated for loans using discounted cash flow analyses, based on interest rates currently offered for loans with similar terms and credit quality. We do not engage in originating, holding, guaranteeing, servicing or investing in loans where the terms of the loan product give rise to a concentration of credit risk.

The fair value of deposits with no stated maturity (noninterest bearing demand, interest bearing transaction accounts and savings) is estimated as the amount payable on demand, or carrying amount, as required by the ASC. The fair value of time deposits is estimated using a discounted cash flow calculation that applies rates currently offered to aggregate expected maturities.

The fair values of short-term borrowings, if any, approximate their carrying amounts.

The fair values of fixed rate long-term debt instruments are estimated using discounted cash flow analyses, based on the borrowing rates currently in effect for similar borrowings. The fair values of variable rate long-term debt instruments are estimated at the carrying amount.

The following table presents the carrying amounts and fair values of our financial instruments:

	June 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(Dollars in thousands)			
<b>Financial assets</b>				
Cash and due from banks	\$ 1,913	\$ 1,913	\$ 1,711	\$ 1,711
Interest bearing deposits due from banks	37,754	37,754	39,171	39,171
Securities available-for-sale	158,366	158,336	169,369	169,369
Securities held-to-maturity	5,303	5,722	6,389	6,817
Federal Home Loan Bank stock	1,254	1,254	1,363	1,363
Loans	231,703	233,759	251,078	252,385
Accrued interest receivable	2,226	2,226	2,491	2,491
<b>Financial liabilities</b>				

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Deposits	419,201	420,818	445,310	446,763
Accrued interest payable	1,152	1,152	1,698	1,698
Short-term borrowings			5,000	5,000
Long-term debt	6,500	6,524	6,500	6,528

The estimated fair values of off-balance-sheet financial instruments such as loan commitments and standby letters of credit are generally based upon fees charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties creditworthiness. The vast majority of the banking subsidiary's loan commitments do not involve the charging of a fee, and fees associated with outstanding standby letters of credit are not material. For loan commitments and standby letters of credit, the committed interest rates are either variable or approximate current interest rates offered for similar commitments. Therefore, the estimated fair values of these off-balance-sheet financial instruments are nominal.

The following is a summary of the notional or contractual amounts and estimated fair values of the Company's off-balance sheet financial instruments:

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	June 30, 2011		December 31, 2010	
	Notional/ Contract Amount	Estimated Fair Value	Notional/ Contract Amount	Estimated Fair Value
(Dollars in thousands)				
Off-balance sheet commitments				
Loan commitments	\$ 28,462	\$	\$ 26,834	\$
Standby letters of credit	1,224		869	



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**Other Expenses** Other expenses consisted of the following:

	Three Months		Period Ended June 30,		Six Months	
	2011	2010	2011	2010	2011	2010
	(Dollars in thousands)					
Salaries and employee benefits	\$ 1,198	\$ 1,204	\$ 2,418	\$ 2,323		
Net occupancy expense	134	138	273	283		
Furniture and equipment expense	94	96	173	186		
Amortization of computer software	99	97	196	209		
Debit card transaction expenses	125	123	241	223		
FDIC insurance expense	232	235	464	633		
Other expense						
Stationery, printing and postage	73	75	162	162		
Telephone	48	58	110	103		
Advertising and promotion	50	33	93	57		
Professional services	153	139	228	261		
Directors' compensation	35	43	83	78		
Foreclosed assets costs and expenses, net	205	85	406	140		
Other	130	137	316	290		
Total	\$ 2,576	\$ 2,463	\$ 5,163	\$ 4,948		

**Pending Transaction** On April 25, 2011, our wholly-owned subsidiary bank, Community First Bank, entered into a definitive agreement to acquire Bank of Westminster, Westminster, South Carolina, in an all cash transaction. Bank of Westminster is privately held and has one office with \$28,000 in deposits and \$30,000 in total assets as of June 30, 2011. The transaction, which is subject to approval by Bank of Westminster shareholders as well as state and federal regulators, is expected to close during the fourth quarter of 2011.

**New Accounting Pronouncements** In April 2011, the Financial Accounting Standards Board ( FASB ) updated Accounting Standards Codification ( ASC ) Topic 310, Receivables to provide guidance to help creditors in determining whether they have granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. We will be required to apply this guidance in the third quarter of 2011. The effects of the guidance will be applied retrospectively to January 1, 2011. Early adoption is permitted. If, in applying these amendments retrospectively, we identify receivables that are newly considered impaired because of the guidance, we will apply the amendments prospectively for those receivables and will be required to disclose certain information about those receivables at that time. We have not yet determined the effect that implementing this guidance will have on our financial condition or results of operations.

In May 2011, FASB updated ASC Topic 820 Fair Value Measurements to more closely align fair value measurement and disclosure requirements in U. S. Generally Accepted Accounting Principles ( GAAP ) with the requirements of International Financial Reporting Standards ( IFRS ). This Update changes the wording of some of the GAAP requirements, including clarifying the intent about the application of existing fair value measurement and disclosure requirements and expanding the disclosures required about fair value measurements. The amendments in the Update are effective for public entities for periods beginning after December 15, 2011 and are to be applied prospectively. Early application is not permitted for public entities. We have not yet determined the effect that implementing this guidance will have on our financial condition or results of operations.

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In June 2011, FASB updated ASC Topic 220 Comprehensive Income to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The Update is also intended to facilitate convergence of GAAP and IFRS. The Update requires that all entities that report any items of comprehensive income in any period presented will present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments are required for public entities for fiscal years and interim periods within those years beginning after December 31, 2011 and are to be applied retrospectively. Although early application is permitted, we do not plan to implement this Update until its mandatory effective date. Because this Update

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affects only presentation matters, it is not expected to result in any effect on our financial condition or results of operations when implemented.

**CAUTIONARY NOTICE WITH RESPECT TO FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements within the meaning of the securities laws. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements.

All statements that are not historical facts are statements that could be forward-looking statements. You can identify these forward-looking statements through the use of words such as may, will, should, could, would, expect, anticipate, assume, indicate, contemplate, predict, target, potential, believe, intend, estimate, project, continue, or other similar words. Forward-looking statements include, but are not limited to, statements regarding the Company's future business prospects, revenues, working capital, liquidity, capital needs, interest costs, income, business operations and proposed services.

These forward-looking statements are based on current expectations, estimates and projections about the banking industry, management's beliefs, and assumptions made by management. Such information includes, without limitation, discussions as to estimates, expectations, beliefs, plans, strategies, and objectives concerning future financial and operating performance. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially from those expressed or forecasted in such forward-looking statements. The risks and uncertainties include, but are not limited to:

- future economic and business conditions;
- lack of sustained growth and disruptions in the economies of the Company's market areas, including, but not limited to, declining real estate values and increasing levels of unemployment;
- government monetary and fiscal policies;
- the effects of changes in interest rates on the levels, composition and costs of deposits, loan demand, and the values of loan collateral, securities, and interest sensitive assets and liabilities;
- the effects of credit rating downgrades on the values of investment securities issued or guaranteed by various governments and governmental agencies, including the United States of America;
- the effects of competition from a wide variety of local, regional, national and other providers of financial, investment, and insurance services, as well as competitors that offer banking products and services by mail, telephone, computer and/or the Internet;
- credit risks;
- higher than anticipated levels of defaults on loans;

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- perceptions by depositors about the safety of their deposits;
- capital adequacy;
- the failure of assumptions underlying the establishment of the allowance for loan losses and other estimates, including the value of collateral securing loans;
- ability to continue to weather the current economic downturn;
- ability to realize anticipated tax benefits;
- loss of consumer or investor confidence;
- availability of liquidity sources;
- the risks of opening new offices, including, without limitation, the related costs and time of building customer relationships and integrating operations as part of these endeavors and the failure to achieve expected gains, revenue growth and/or expense savings from such endeavors;
- the risks related to acquiring other financial institutions;
- changes in laws and regulations, including tax, banking and securities laws and regulations;
- changes in the requirements of regulatory authorities;
- changes in accounting policies, rules and practices;
- cost and difficulty of implementing changes in technology and products;
- the effects of war or other conflicts, acts of terrorism or other catastrophic events that may affect general economic conditions and economic confidence; and
- other factors and information described in this report and in any of the other reports that we file with the Securities and Exchange Commission under the Securities Exchange Act of 1934.

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All forward-looking statements are expressly qualified in their entirety by this cautionary notice. We have no obligation, and do not undertake, to update, revise or correct any of the forward-looking statements after the date of this report. We have expressed our expectations, beliefs and projections in good faith and believe they have a reasonable basis. However, there is no assurance that these expectations, beliefs or projections will result or be achieved or accomplished.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**(Dollar amounts, except per share data, are in thousands)**

**Changes in Financial Condition**

During the first six months of 2011, we focused on identifying and managing problem loans, more actively marketing foreclosed assets acquired by the Bank, and preparing for the anticipated merger of Community First Bank and Bank of Westminster. The unemployment rates for Oconee and Anderson Counties, South Carolina were 11.3% and 11.1%, respectively for June 2011, compared with 11.5% for each county in June 2010 and, for December 2010, 11.1% for Oconee County and 10.8% for Anderson County.

Because the underlying economic conditions have not improved significantly in our market areas, we continue to experience high levels of nonaccrual and past due loans and elevated incidences of foreclosures and repossessions. Activity in real estate transactions continues to be below normal and the values of properties remain at unusually lower levels.

Due to decreased demand for quality loans and the low interest rates available on securities, we have not been aggressive in replacing maturing time deposits. To facilitate the decrease in deposits, we used some of the proceeds of securities called or otherwise disposed and loan payments received to repay the matured deposits. Consequently, our total assets decreased by approximately \$30,000 during the first six months of 2011 and the Company's leverage ratio increased from 8.8% as of December 31, 2010 to 9.1% as of June 30, 2011. Similarly, Community First Bank's leverage ratio increased from 7.9% as of December 31, 2010 to 8.2% as of June 30, 2011.

We believe that our liquidity position continues to provide us with sufficient flexibility to fund loan requests or make investments in securities at attractive yields, and to meet normal demands for deposit withdrawals by our customers. Management also believes that our current balance sheet positions maintain our exposures to changes in interest rates at acceptable levels.

**Results of Operations**

Three Months Ended June 30, 2011 and 2010

We recorded consolidated net income of \$271 for the second quarter of 2011 compared with \$399 for the second quarter of 2010. After deducting amounts applicable to dividends on preferred stock and not available to common shareholders, net income per common share and net income per common share, assuming dilution was \$.06 for the 2011 quarter and \$.09 for the 2010 period. Net income per common share

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amounts for 2010 were retroactively adjusted to reflect a five percent stock dividend effective December 16, 2010.

Net interest income for the 2011 second quarter was \$3,681, an increase of \$320, or 9.5%, over the 2010 second quarter. Total interest income for the 2011 second quarter was \$660 lower than for the same 2010 quarter, primarily due to lower amounts of loans outstanding and lower rates earned on investment securities. Total interest expense for the 2011 quarter was \$980 lower than for the same period of 2010, primarily due to lower interest rates paid for deposits and, to a lesser extent, lower average amounts of deposits outstanding.

The provision for loan losses for the second quarter of 2011 increased by \$325 over the amount for the same period of 2010 due to continuing elevated amounts of net charge-offs, nonaccrual loans and potential problem loans. These negative factors are the result of continuing weak economic conditions, especially with respect to lower valuations for commercial and residential real estate, and high levels of unemployment. Until the economic environment improves, we expect that relatively large provisions for loan losses will be needed.

Noninterest income for the second quarter of 2011 was \$102 lower than for the same period of 2010. Service charges on deposit accounts for the 2011 three-month period were \$41 lower than for the same 2010 period and fees earned for originating mortgage loans decreased by \$36. Noninterest expense for the 2011 second quarter increased by \$113 from the amount recorded for the same 2010 period, primarily as a result of higher expenses related to the acquisition and carrying of foreclosed assets. Our FDIC deposit insurance expense for the second quarter of 2011 is little changed from the amount expensed in the same period of 2010, due to lower amounts of insured deposits and our withdrawal from the

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FDIC's Transaction Account Guarantee Program during the 2010 period. All deposit accounts continue to be insured up to the \$250,000 limit currently in effect.

Summary Income Statement (Dollars in thousands)					
For the Three Months Ended June 30,	2011	2010	Dollar Change	Percentage Change	
Interest income	\$ 4,956	\$ 5,616	\$ (660)	-11.8%	
Interest expense	1,275	2,255	(980)	-43.5%	
Net interest income	3,681	3,361	320	9.5%	
Provision for loan losses	1,450	1,125	325	28.9%	
Noninterest income	590	692	(102)	-14.7%	
Noninterest expenses	2,576	2,463	113	4.6%	
Income tax expense (benefit)	(26)	66	(92)	-139.4%	
Net income	271	399	(128)	-32.1%	
Preferred stock dividends paid or accumulated	(40)	(40)		0.0%	
Net income available to common shareholders	\$ 231	\$ 359	\$ (128)	-35.7%	

## Six Months Ended June 30, 2011 and 2010

We recorded consolidated net income of \$446 for the six months ended June 30, 2011, compared with \$606 for the first half of 2010. After deducting amounts applicable to dividends on preferred stock and not available to common shareholders, net income per common share was \$.09 and \$.13 for the 2011 and 2010 six-month periods, respectively. No potentially dilutive stock options were outstanding at either June 30, 2011 or June 30, 2010. Net income per share amounts for 2010 have been retroactively adjusted to reflect a five percent stock dividend effective December 16, 2010.

Net interest income for the first six months of 2011 increased by \$480, or 7.2%, from the 2010 amount. Total interest income decreased by \$1,232, primarily due to lower average amounts of loans and lower rates earned on taxable securities. Total interest expense for the 2011 six-month period was \$1,712 less than for the same 2010 period due to lower rates paid on deposits and lower average amounts of time deposits outstanding in the 2011 period.

Noninterest income for the first six months of 2011 decreased by \$50 from the amount for the same period of 2010, primarily as a result of lower amounts of service charges on deposit accounts.

Noninterest expenses for the 2011 period increased by \$215 or 4.3% over the amount for the 2010 six-month period. Salaries and employee benefits increased by \$95 and expenses related to foreclosed assets increased by \$266. Expenses for FDIC deposit insurance were \$169 lower than for the prior year period due to stabilization of the assessment rate and a reduction in the amount of the assessment base from the prior year amounts.

## Summary Income Statement (Dollars in thousands)

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For the Six Months Ended June 30,	2011		2010		Dollar Change	Percentage Change
Interest income	\$	9,910	\$	11,142	\$ (1,232)	-11.1%
Interest expense		2,771		4,483	(1,712)	-38.2%
Net interest income		7,139		6,659	480	7.2%
Provision for loan losses		2,700		2,250	450	20.0%
Noninterest income		1,178		1,228	(50)	-4.1%
Noninterest expenses		5,163		4,948	215	4.3%
Income tax expense		8		83	(75)	-90.4%
Net income		446		606	(160)	-26.4%
Preferred stock dividends paid or accumulated		(99)		(99)		0.0%
Net income available to common shareholders	\$	347	\$	507	\$ (160)	-31.6%



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**Net Interest Income**

Three Months Ended June 30, 2011 and 2010

The average yield on interest earning assets decreased to 4.44% for the 2011 three-month period from 4.50% for the 2010 three-month period, primarily due to lower average amounts of loans in the 2011 period. Also contributing to the lower yield was a reduction of the yield on taxable securities from 3.34% for the 2010 three-month period to 2.83% for the 2011 three-month period. Interest rates paid for deposits were lower in the 2011 period as well. The average rate paid for interest-bearing liabilities during the 2011 three-month period was 1.33%, compared with 2.07% in the same period of 2010. As a result of these factors, the average interest rate spread for the 2011 period was 68 basis points higher than for the 2010 period.

Floors on the rates for some variable rate loans prevented loan rates from falling further while a significant amount of time deposits were not renewed at maturity. Generally, the time deposits that were renewed at maturity, or that have been acquired recently, carry lower rates than previously due to the low market rates currently in effect.

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Average Balances, Yields and Rates Three Months Ended June 30,						
	Average Balances	2011 Interest Income/ Expense	Yields/ Rates (1)	Average Balances	2010 Interest Income/ Expense	Yields/ Rates (1)
(Dollars in thousands)						
<b>Assets</b>						
Interest-bearing balances due from banks	\$ 30,090	\$ 15	0.20%	\$ 53,216	\$ 32	0.24%
Securities						
Taxable	157,165	1,108	2.83%	160,150	1,332	3.34%
Tax exempt (2)	17,059	175	4.11%	19,380	197	4.08%
Total investment securities	174,224	1,283	2.95%	179,530		