

COMMUNITY FIRST BANCORP
Form 10-Q
August 16, 2010

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, 2010
File No. 000-29640

Commission

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

(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).

Yes No (Not yet applicable to Registrant)

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):

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Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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, 3,784,159 Shares Outstanding on August 2, 2010

COMMUNITY FIRST BANCORPORATION

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PART I – FINANCIAL INFORMATION

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PART I – FINANCIAL INFORMATION

Item 1. – Financial Statements

COMMUNITY FIRST BANCORPORATION
Consolidated Balance Sheets

| | (Unaudited) | |
|--|------------------------|-------------------------|
| | June 30, 2010 | December 31, 2009 |
| | (Dollars in thousands) | |
| Assets | | |
| Cash and due from banks | \$2,134 | \$1,463 |
| Interest bearing balances due from banks | 42,353 | 46,020 |
| Cash and cash equivalents | 44,487 | 47,483 |
| Securities available-for-sale | 180,170 | 141,710 |
| Securities held-to-maturity (fair value \$8,373 for 2010 and \$9,476 for 2009) | 7,770 | 9,024 |
| Other investments | 1,307 | 1,307 |
| Loans | 265,349 | 267,248 |
| Allowance for loan losses | (6,427) | (6,052) |
| Loans - net | 258,922 | 261,196 |
| Premises and equipment - net | 8,345 | 8,470 |
| Accrued interest receivable | 2,851 | 2,424 |
| Foreclosed assets | 7,139 | 6,078 |
| Bank-owned life insurance | 9,471 | 9,289 |
| Other assets | 4,243 | 5,916 |
| Total assets | \$524,705 | \$492,897 |
| Liabilities | | |
| Deposits | | |
| Noninterest bearing | \$42,160 | \$47,067 |
| Interest bearing | 424,443 | 389,581 |
| Total deposits | 466,603 | 436,648 |
| Accrued interest payable | 3,081 | 2,043 |
| Long-term debt | 6,500 | 8,000 |
| Other liabilities | 1,700 | 1,388 |
| Total liabilities | 477,884 | 448,079 |
| Shareholders' equity | | |
| 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 - 3,784,159 for 2010 and 3,782,415 for 2009 | 38,940 | 38,923 |
| Additional paid-in capital | 748 | 748 |
| Retained earnings | 1,961 | 1,434 |

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| | | |
|---|-----------|-----------|
| Accumulated other comprehensive income (loss) | 2,046 | 587 |
| Total shareholders' equity | 46,821 | 44,818 |
| Total liabilities and shareholders' equity | \$524,705 | \$492,897 |

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY FIRST BANCORPORATION
Consolidated Statements of Income

| | (Unaudited) | | | |
|--|--|------------|---------|---------|
| | Period Ended June 30, | | | |
| | Three Months | Six Months | | |
| | 2010 | 2009 | 2010 | 2009 |
| | (Dollars in thousands, except per share) | | | |
| Interest income | | | | |
| Loans, including fees | \$4,053 | \$4,197 | \$8,057 | \$8,246 |
| Interest bearing balances due from banks | 32 | 6 | 70 | 22 |
| Securities | | | | |
| Taxable | 1,332 | 1,456 | 2,617 | 2,962 |
| Tax-exempt | 197 | 202 | 396 | 411 |
| Other investments | 2 | - | 2 | - |
| Federal funds sold | - | - | - | 3 |
| Total interest income | 5,616 | 5,861 | 11,142 | 11,644 |
| Interest expense | | | | |
| Time deposits \$100M and over | 746 | 990 | 1,479 | 2,083 |
| Other deposits | 1,436 | 1,757 | 2,855 | 3,573 |
| Long-term debt | 73 | 91 | 149 | 182 |
| Total interest expense | 2,255 | 2,838 | 4,483 | 5,838 |
| Net interest income | 3,361 | 3,023 | 6,659 | 5,806 |
| Provision for loan losses | 1,125 | 700 | 2,250 | 1,450 |
| Net interest income after provision | 2,236 | 2,323 | 4,409 | 4,356 |
| Other income | | | | |
| Service charges on deposit accounts | 309 | 348 | 610 | 671 |
| Debit card transaction fees | 214 | 156 | 350 | 296 |
| Gains on sales of securities available-for-sale | - | 90 | - | 90 |
| Increase in value of bank-owned life insurance | 90 | 91 | 182 | 183 |
| Other income | 79 | 67 | 86 | 83 |
| Total other income | 692 | 752 | 1,228 | 1,323 |
| Other expenses | | | | |
| Salaries and employee benefits | 1,204 | 1,244 | 2,323 | 2,425 |
| Net occupancy expense | 138 | 134 | 283 | 269 |
| Furniture and equipment expense | 96 | 100 | 186 | 193 |
| Amortization of computer software | 97 | 112 | 209 | 207 |
| Debit card transaction expenses | 123 | 101 | 223 | 214 |
| Directors' fees | 43 | 34 | 78 | 57 |
| FDIC insurance expense | 235 | 300 | 633 | 370 |
| Other expense | 527 | 401 | 1,013 | 788 |
| Total other expenses | 2,463 | 2,426 | 4,948 | 4,523 |

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| | | | | |
|--|-------|-------|-------|-------|
| Income before income taxes | 465 | 649 | 689 | 1,156 |
| Income tax expense | 66 | 160 | 83 | 253 |
| Net income | 399 | 489 | 606 | 903 |
| Deductions for amounts not available to common shareholders: | | | | |
| Dividends declared or accumulated on | | | | |
| preferred stock | (40 |) - | (99 |) - |
| Net income available to common shareholders | \$359 | \$489 | \$507 | \$903 |

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY FIRST BANCORPORATION
 Consolidated Statements of Income - continued

| | (Unaudited) Period Ended June 30, | | Six Months | |
|-------------------------------|--------------------------------------|---------|------------|---------|
| | Three Months 2010 | 2009 | 2010 | 2009 |
| Per common share* | | | | |
| Net income | \$ 0.09 | \$ 0.13 | \$ 0.13 | \$ 0.24 |
| Net income, assuming dilution | 0.09 | 0.13 | 0.13 | 0.24 |

* Per common share information has been retroactively adjusted to reflect a 5% stock dividend effective December 15, 2009.

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY FIRST
BANCORPORATION
Consolidated Statements of Changes in Shareholders'
Equity

| | (Unaudited) | | | | | | |
|--|----------------------------------|------------------------|---|----------------------------------|----------------------|---|-----------|
| | Shares of Common Stock | Preferred Stock | Common Stock (Dollars in thousands) | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
| Balance, January 1, 2009 | 3,564,279 | \$ - | \$ 37,084 | \$ 748 | \$ 1,769 | \$ 327 | \$ 39,928 |
| Comprehensive income: | | | | | | | |
| Net income | - | - | - | - | 903 | - | 903 |
| Unrealized holding gains and losses on available-for-sale securities arising during the period, net of income taxes of \$410 | . | - | - | - | - | (733) | (733) |
| Reclassification adjustment, net of income tax effects of \$33 | - | - | - | - | - | (57) | (57) |
| Total other comprehensive income | | | | | | | (790) |
| Total comprehensive income | | | | | | | 113 |
| Exercise of employee stock options | 45,532 | - | 486 | - | - | - | 486 |
| Balance, June 30, 2009 | 3,609,811 | \$ - | \$ 37,570 | \$ 748 | \$ 2,672 | \$ (463) | \$ 40,527 |
| Balance, January 1, 2010 | 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 |
| | | | | | | | 2,065 |

| | | | | | | | |
|------------------------------------|-----------|----------|-----------|--------|----------|----------|-----------|
| Total comprehensive income | | | | | | | |
| Dividends paid on preferred stock | - | - | - | - | (79) | - | (79) |
| Exercise of employee stock options | 1,744 | - | 17 | - | - | - | 17 |
| Balance, June 30, 2010 | 3,784,159 | \$ 3,126 | \$ 38,940 | \$ 748 | \$ 1,961 | \$ 2,046 | \$ 46,821 |

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY FIRST BANCORPORATION
Consolidated Statements of Cash Flows

| | (Unaudited) | |
|--|------------------------|-----------|
| | Six Months Ended | |
| | June 30, | |
| | 2010 | 2009 |
| | (Dollars in thousands) | |
| Operating activities | | |
| Net income | \$606 | \$903 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Provision for loan losses | 2,250 | 1,450 |
| Depreciation | 192 | 195 |
| Amortization of net loan fees and costs | (21) | (59) |
| Securities accretion and premium amortization | 661 | 323 |
| Gains on sales of securities available-for-sale | - | (90) |
| (Gain) on sale of foreclosed assets | (8) | - |
| Increase in value of bank-owned life insurance | (182) | (183) |
| (Increase) decrease in interest receivable | (427) | 248 |
| Increase in interest payable | 1,038 | 1,132 |
| Decrease in prepaid expenses and other assets | 856 | 246 |
| Increase in other accrued expenses | 312 | 547 |
| Net cash provided by operating activities | 5,277 | 4,712 |
| Investing activities | | |
| Purchases of securities available-for-sale | (95,381) | (103,423) |
| Maturities, calls and paydowns of securities available-for-sale | 58,537 | 82,930 |
| Maturities, calls and paydowns of securities held-to-maturity | 1,253 | 1,629 |
| Proceeds from sales of securities available-for-sale | - | 5,851 |
| Proceeds from sales of other investments | - | 38 |
| Purchases of other investments | - | (125) |
| Net increase in loans made to customers | (1,440) | (5,770) |
| Purchases of premises and equipment | (67) | (138) |
| Additional investments in foreclosed assets | (29) | (239) |
| Proceeds of sale of foreclosed assets | 461 | 300 |
| Net cash used by investing activities | (36,666) | (18,947) |
| Financing activities | | |
| Net (decrease) increase in demand deposits, interest bearing transaction accounts and savings accounts | (3,689) | (7,155) |
| Net increase in certificates of deposit and other time deposits | 33,644 | 5,161 |
| Repayments of long-term debt | (1,500) | - |
| Cash paid in lieu of issuing fractional shares | - | (3) |
| Cash dividends paid on preferred stock | (79) | - |
| Exercise of employee stock options | 17 | 486 |
| Net cash provided (used) by financing activities | 28,393 | (1,511) |

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| | | |
|---------------------------------------|----------|-----------|
| Decrease in cash and cash equivalents | (2,996) | (15,746) |
| Cash and cash equivalents, beginning | 47,483 | 40,966 |
| Cash and cash equivalents, ending | \$44,487 | \$25,220 |

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, | 2009 |
| | 2010 | 2009 |
| | (Dollars in thousands) | |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid during the period for | | |
| Interest | \$3,445 | \$4,706 |
| Income taxes | 4 | 8 |
| Net transfers from loans to foreclosed assets | 1,485 | 1,537 |
| Noncash investing and financing activities: | | |
| Other comprehensive income (loss) | 1,459 | (790) |

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY FIRST BANCORPORATION

Notes to Unaudited Consolidated Financial Statements

Accounting Policies – A summary of significant accounting policies is included in Community First Bancorporation’s (the “Company,” “our,” “we,” “us,” and similar references) Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission. Certain amounts in the 2009 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.

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

| | June 30, 2010 | | | |
|---|------------------------|---|--|----------------------------|
| | Amortized Cost | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Estimated Fair Value |
| | (Dollars in thousands) | | | |
| Available-for-sale | | | | |
| Mortgage-backed securities | | | | |
| issued by US Government agencies | \$1,271 | \$74 | \$- | \$1,345 |
| Government sponsored enterprises (GSEs) | 130,261 | 1,488 | 3 | 131,746 |
| Mortgage-backed securities issued by GSEs | 26,716 | 1,492 | - | 28,208 |
| State, county and municipal | 18,729 | 253 | 111 | 18,871 |
| Total | \$176,977 | \$3,307 | \$114 | \$180,170 |
| Held-to-maturity | | | | |
| Mortgage-backed securities | | | | |
| issued by US Government agencies | \$- | \$- | \$- | \$- |
| Government sponsored enterprises (GSEs) | - | - | - | - |
| Mortgage-backed securities issued by GSEs | 7,770 | 603 | - | 8,373 |
| State, county and municipal | - | - | - | - |
| Total | \$7,770 | \$603 | \$- | \$8,373 |
| December 31, 2009 | | | | |
| | Amortized Cost | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Estimated Fair Value |
| | (Dollars in thousands) | | | |
| Available-for-sale | | | | |
| Mortgage-backed securities | | | | |
| issued by US Government agencies | \$1,426 | \$49 | \$- | \$1,475 |
| Government sponsored enterprises (GSEs) | 87,143 | 643 | 823 | 86,963 |
| Mortgage-backed securities issued by GSEs | 32,707 | 1,005 | 10 | 33,702 |
| State, county and municipal | 19,517 | 241 | 188 | 19,570 |
| Total | \$140,793 | \$1,938 | \$1,021 | \$141,710 |
| Held-to-maturity | | | | |
| Mortgage-backed securities | | | | |
| issued by US Government agencies | \$- | \$- | \$- | \$- |
| Government sponsored enterprises (GSEs) | - | - | - | - |
| Mortgage-backed securities issued by GSEs | 9,024 | 452 | - | 9,476 |
| State, county and municipal | - | - | - | - |
| Total | \$9,024 | \$452 | \$- | \$9,476 |

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

| Available-for-sale at fair value | June 30, 2010 | | | | Total |
|--|--|--|--|------------------------|-----------|
| | Due within one year (Dollars in thousands) | Due after one through five years | Due after five through ten years | Due after ten years | |
| Non-mortgage-backed securities issued by GSEs | \$- | \$30,340 | \$58,033 | \$43,373 | \$131,746 |
| State, county and municipal issuers | 301 | 1,225 | 2,188 | 15,157 | 18,871 |
| | 301 | 31,565 | 60,221 | 58,530 | 150,617 |
| Mortgage-backed securities issued by: | | | | | |
| US Government agencies | | | | | 1,345 |
| GSEs | | | | | 28,208 |
| Total available-for-sale | | | | | \$180,170 |
| Held-to-maturity at amortized cost | | | | | |
| Mortgage-backed securities issued by: | | | | | |
| GSEs | | | | | \$7,770 |
| Total held-to-maturity | | | | | \$7,770 |

| Available-for-sale at fair value | December 31, 2009 | | | | Total |
|--|--|--|---|------------------------|-----------|
| | Due within one year (Dollars in thousands) | Due after one through five years | Due after five through ten years | Due after ten years | |
| Non-mortgage-backed securities issued by GSEs | \$1,520 | \$10,032 | \$32,832 | \$42,579 | \$86,963 |
| State, county and municipal issuers | 301 | 1,000 | 2,656 | 15,613 | 19,570 |
| | 1,821 | 11,032 | 35,488 | 58,192 | 106,533 |
| Mortgage-backed securities issued by: | | | | | |
| US Government agencies | | | | | 1,475 |
| GSEs | | | | | 33,702 |
| Total available-for-sale | | | | | \$141,710 |
| Held-to-maturity at amortized cost | | | | | |
| Mortgage-backed securities issued by: | | | | | |
| GSEs | | | | | \$9,024 |
| Total held-to-maturity | | | | | \$9,024 |

The estimated fair values and gross unrealized losses of our investment securities whose fair values were less than amortized cost as of June 30, 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, 2010 | | | | | |
|--|--|--------------------|-------------------------|--------------------|-------------------------|--------------------|
| | Continuously in Unrealized Loss Position for a Period of | | | | | |
| | Less than 12 Months | | 12 Months or more | | Total | |
| | Estimated Fair Value | Unrealized Loss | Estimated Fair Value | Unrealized Loss | Estimated Fair Value | Unrealized Loss |
| | (Dollars in thousands) | | | | | |
| Available-for-sale | | | | | | |
| US Government agencies | \$- | \$- | \$- | \$- | \$- | \$- |
| Government-sponsored enterprises (GSEs) | 6,076 | 3 | - | - | 6,076 | 3 |
| Mortgage-backed securities issued by GSEs | - | - | - | - | - | - |
| State, county and municipal securities | 3,587 | 53 | 870 | 58 | 4,457 | 111 |
| Total | \$9,663 | \$56 | \$870 | \$58 | \$10,533 | \$114 |
| Held-to-maturity | | | | | | |
| GSEs | \$- | \$- | \$- | \$- | \$- | \$- |
| Total | \$- | \$- | \$- | \$- | \$- | \$- |
| | December 31, 2009 | | | | | |
| | Continuously in Unrealized Loss Position for a Period of | | | | | |
| | Less than 12 Months | | 12 Months or more | | Total | |
| | Estimated Fair Value | Unrealized Loss | Estimated Fair Value | Unrealized Loss | Estimated Fair Value | Unrealized Loss |
| | (Dollars in thousands) | | | | | |
| Available-for-sale | | | | | | |
| GSEs | \$40,430 | \$823 | \$- | \$- | \$40,430 | \$823 |
| Mortgage-backed securities issued by | | | | | | |
| GSEs | 2,811 | 10 | - | - | 2,811 | 10 |
| State, county and | | | | | | |
| municipal securities | 6,220 | 188 | - | - | 6,220 | 188 |
| Total | \$49,461 | \$1,021 | \$- | \$- | \$49,461 | \$1,021 |
| Held-to-maturity | | | | | | |
| GSEs | \$- | \$- | \$- | \$- | \$- | \$- |
| | \$- | \$- | \$- | \$- | \$- | \$- |

As of June 30, 2010, 13 securities had been continuously in an unrealized loss position for less than 12 months and 3 securities 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, including until maturity. Substantially all of the issuers of state, county and municipal securities were rated at least "investment grade" as of June 30, 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 2010, we had no sales of available-for-sale securities. There were no transfers of available-for-sale securities to other categories in the 2010 six-month period.

Nonperforming Loans – As of June 30, 2010, there were \$15,842 in nonaccrual loans and no loans 90 days or more past due and still accruing interest.

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 2009 per share information has been retroactively adjusted to give effect to a 5% stock dividend effective December 15, 2009. Net income per common share and net income per share, assuming dilution, were computed as follows:

| | Period Ended June 30, | | | |
|---|--|-----------|------------|-----------|
| | Three Months | | Six Months | |
| | 2010 | 2009 | 2010 | 2009 |
| | (Dollars in thousands, except per share amounts) | | | |
| Net income per common share, basic | | | | |
| Numerator - net income available to common shareholders | \$359 | \$489 | \$507 | \$903 |
| Denominator | | | | |
| Weighted average common shares issued and outstanding | 3,784,159 | 3,790,302 | 3,783,287 | 3,777,163 |
| Net income per common share, basic | \$.09 | \$.13 | \$.13 | \$.24 |
| Net income per common share, assuming dilution | | | | |
| Numerator - net income available to common shareholders | \$359 | \$489 | \$507 | \$903 |
| Denominator | | | | |
| Weighted average common shares issued and outstanding | 3,784,159 | 3,790,302 | 3,783,287 | 3,777,163 |
| Effect of dilutive stock options | - | - | - | - |
| Total common shares | 3,784,159 | 3,790,302 | 3,783,287 | 3,777,163 |
| Net income per common share, assuming dilution | \$.09 | \$.13 | \$.13 | \$.24 |

Stock-Based Compensation – Our 1998 stock option plan terminated on March 19, 2008 and no further options may be issued under the plan. As of June 30, 2010, a total of 326,946 unexpired and non-forfeited options outstanding under the plan remain exercisable until their expiration dates.

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 and liabilities that are measured at fair value on a recurring basis:

| Description | June 30, 2010 | Fair Value Measurement at Reporting Date Using | | |
|---|---------------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) (Dollars in thousands) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Securities available-for-sale | | | | |
| Mortgage-backed securities issued by US Government agencies | \$ 1,345 | \$ - | \$ 1,345 | \$ - |
| Government sponsored enterprises (GSEs) | 131,746 | - | 131,746 | - |
| Mortgage-backed securities issued by GSEs | 28,208 | - | 28,208 | - |
| State, county and municipal | 18,871 | - | 18,871 | - |
| Total securities available-for-sale | \$ 180,170 | \$ - | \$ 180,170 | \$ - |

| Description | December 31, 2009 | Fair Value Measurement at Reporting Date Using | | |
|-------------|-------------------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) (Dollars in thousands) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | | | | |

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| | | | | |
|-------------------------------|------------|------|------------|------|
| Securities available-for-sale | \$ 141,710 | \$ - | \$ 141,710 | \$ - |
|-------------------------------|------------|------|------------|------|

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, 2010 and December 31, 2009, all of our securities available-for-sale were valued using Level 2 inputs, as described above.

The following is a summary of the measurement attributes applicable to assets and liabilities measured at fair value on a non-recurring basis during the six month period ended June 30, 2010 and the twelve month period ended December 31, 2009 and which remained outstanding at the end of each period:

| Description | June 30, 2010 | Fair Value Measurement at Reporting Date Using Quoted Prices in Active Markets for Identical Assets | | |
|-------------------------------------|------------------|---|--|--|
| | | (Level 1) (Dollars in thousands) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Collateral-dependent impaired loans | \$ 5,558 | \$ - | \$ 5,558 | \$ - |

Gains and (losses) recognized during the periods ended June 30, 2010:

| | Three months (Dollars in thousands) | Six Months (Dollars in thousands) |
|-------------------------------------|--|--------------------------------------|
| Collateral-dependent impaired loans | \$ (268) | (834) |

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.

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

| | June 30, 2010 | | December 31, 2009 | |
|--|-----------------|----------------------|-------------------|----------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| (Dollars in thousands) | | | | |
| Financial assets | | | | |
| Cash and due from banks | \$2,134 | \$2,134 | \$1,463 | \$1,463 |
| Interest bearing deposits due from banks | 42,353 | 42,353 | 46,020 | 46,020 |
| Securities available-for-sale | 180,170 | 180,170 | 141,710 | 141,710 |
| Securities held-to-maturity | 7,770 | 8,373 | 9,024 | 9,476 |
| Federal Home Loan Bank stock | 1,307 | 1,307 | 1,307 | 1,307 |
| Loans | 258,922 | 259,745 | 261,196 | 262,308 |
| Accrued interest receivable | 2,851 | 2,851 | 2,424 | 2,424 |
| Financial liabilities | | | | |
| Deposits | 466,603 | 467,938 | 436,648 | 436,444 |
| Accrued interest payable | 3,081 | 3,081 | 2,043 | 2,043 |
| Long-term debt | 6,500 | 6,531 | 8,000 | 8,005 |

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

| | June 30, 2010 | | December 31, 2009 | |
|-------------------------------|---------------------------|----------------------|---------------------------|----------------------|
| | Notional/ Contract Amount | Estimated Fair Value | Notional/ Contract Amount | Estimated Fair Value |
| (Dollars in thousands) | | | | |
| Off-balance sheet commitments | | | | |
| Loan commitments | \$24,404 | \$- | \$28,527 | \$- |
| Standby letters of credit | 921 | - | 873 | - |

New Accounting Pronouncements – In January 2010, the Financial Accounting Standards Board (“FASB”) updated Accounting Standards Codification (“ASC”) Topic 820, “Fair Value Measurements and Disclosures,” to require enhanced fair value disclosures. Specifically, we are, or will be, required to provide additional information about fair values and fair value measurements as follows: (1) We must provide a description of the reasons for, and the amounts of, significant transfers in and out of Level 1 or Level 2 fair value measurements, and (2) for fair value measurements using significant unobservable (Level 3) inputs, we will be required to present separately information about purchases, sales, issuances and settlements (that is, on a gross basis rather than as one net number). The update requires that we expand our fair value measurement disclosures to provide information for each class of assets and liabilities. Classes are described as subsets of line items that appear in our Consolidated Balance Sheets. The update further requires that we provide additional disclosures about the valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements when the measurement bases are either Level 2 or Level 3 inputs. The requirements relative to presenting information about purchases, sales, issuances and settlements of fair value measurements using Level 3 inputs will be effective for interim and annual periods of fiscal years beginning after December 15, 2010. The other enhanced disclosures are required to be, and have been, presented in interim and annual periods beginning after December 15, 2009.

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," "seek," "plan," "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;
- 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 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;
- 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 weather the current economic downturn;
 - 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;
 - 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.

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 2010, we focused on increasing deposits, investing those funds into relatively safe securities issued by government sponsored enterprises, and monitoring and managing our existing loan portfolio, including higher amounts of nonaccrual and other problem loans, and the related foreclosed assets. The unemployment rates in Oconee and Anderson counties continue to be elevated at 11.5% each for June, 2010, respectively, though the unemployment rate in both counties decreased for June from the March, 2010 measurements. The Federal Reserve recently indicated that it foresees that it may take up to six more years for the economy to recover fully from the recession. This less-optimistic view is based on cautiousness exhibited by companies in their hiring and capital spending practices resulting from uncertainty in the economic outlook, by households focusing on improving their financial condition given lower equity in their houses because of declines in house prices and continuing tightened credit conditions.

Deposit growth during the first six months of 2010 totaled \$29,955, an increase of 6.9% over the amount of deposits held at the end of 2009, which we achieved without increasing rates paid. Time deposits accounted for the majority of the growth, increasing by \$33,644, or 10.8%, over the amount as of December 31, 2009. We believe that this increase occurred because the rates currently paid for time deposits exceed by a relatively large margin the rates paid for interest bearing transaction accounts and savings deposits.

In light of the foregoing, and with respect to our recent investment activities, we are proceeding currently under the philosophy that maintaining the value of our investment securities is a higher priority than recognizing outsized returns. However, we cannot ignore completely the need for realizing income from those investments, both to allow us to pay for our funding sources and to replace income lost due to higher levels of nonaccrual loans and other problem assets. Consequently, while we have selected securities issuers that we believe to be excellent credit risks, we have assumed a higher-than-normal level of interest rate risk. The majority of the securities purchased in 2010 have maturities ranging from 5 to 10 years. Yields on shorter term securities of similar credit quality are so low as to be unattractive to us. We expect that the Federal Reserve's policy of maintaining interest rates at or near the current levels will continue for a prolonged period into the future, perhaps for the six years projected to complete the recovery. Until such time as this policy is abandoned and market rates of interest begin to increase, we expect that the market values of our securities portfolio will hold steady or increase somewhat. We expect that, at the time that interest rates begin to rise, fundamental economic conditions will be markedly improved. Furthermore, with the passage of time, the longer-term securities purchased recently will constantly be moving toward shorter remaining maturities and the effects of increasing rates on their fair values will diminish. If economic conditions indeed improve over time, we expect that we will have potentially more attractive alternative uses for the funds as they are repaid to us.

Loan quality deteriorated during the first six months of 2010. Nonaccrual loans increased by \$1,972, or 14.2%, and foreclosed assets increased by \$1,061 during the period. We believe that the rapid increase in problem assets has peaked and, while our totals of such assets may increase in future periods, we expect the rate of any such increase to be significantly lower. Recently, local unemployment statistics and other economic indicators, although still at undesirable levels, have improved slightly.

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, 2010 and 2009

We recorded consolidated net income of \$399 for the second quarter of 2010 compared with \$489 for the second quarter of 2009. After deducting amounts applicable to preferred stock and not available to common shareholders, net income per common share and net income per common share, assuming dilution was \$.09 for the 2010 quarter and \$.13 for the 2009 period. Net income per common share amounts for 2009 were retroactively adjusted to reflect a five percent stock dividend effective December 15, 2009.

Net interest income for the 2010 second quarter was \$3,361, an increase of \$338, or 11.2%, over the 2009 second quarter. Total interest income for the 2010 second quarter was \$245 lower than for the same 2009 quarter primarily due to lower amounts of loans outstanding and lower rates earned on investment securities. Total interest expense for the 2010 quarter was \$583 lower than for the same period of 2009 due to lower interest rates paid for deposits and borrowings.

The provision for loan losses for the second quarter of 2010 increased by \$425 over the amount for the same period of 2009 due to continuing elevated amounts of net charge-offs, nonaccrual loans and potential problem loans. These negative factors are the result of current economic conditions, especially with respect to lower valuations for commercial and residential real estate and high levels of unemployment. Relatively large provisions for loan losses may be needed in the future.

Noninterest income for the second quarter of 2010 was \$60 lower than for the same period of 2009. In the second quarter of 2009, we realized a \$90 gain on the sale of securities available-for-sale which did not recur in 2010. Noninterest expense for the 2010 second quarter increased slightly from the amount recorded for the same 2009 period, primarily as a result of higher consulting fees, higher legal expenses related to problem loans and the acquisition of foreclosed assets, and increased expenses incurred to carry foreclosed assets. Also during the second quarter of 2010, our FDIC deposit insurance expense decreased by \$65 from the amount expensed in the same period of 2009. A special assessment was imposed by the FDIC in the 2009 period which did not recur in the 2010 period and our Bank withdrew from the 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, | 2010 | 2009 | Dollar Change | Percentage Change |
|---|----------|----------|---------------|-------------------|
| Interest income | \$ 5,616 | \$ 5,861 | \$ (245) | -4.2 % |
| Interest expense | 2,255 | 2,838 | (583) | -20.5 % |
| Net interest income | 3,361 | 3,023 | 338 | 11.2 % |
| Provision for loan losses | 1,125 | 700 | 425 | 60.7 % |
| Noninterest income | 692 | 752 | (60) | -8.0 % |
| Noninterest expenses | 2,463 | 2,426 | 37 | 1.5 % |
| Income tax expense | 66 | 160 | (94) | -58.8 % |
| Net income | 399 | 489 | (90) | -18.4 % |
| Preferred stock dividends paid or accumulated | (40) | - | (40) | NA |
| Net income available to common shareholders | \$ 359 | \$ 489 | \$ (130) | -26.6 % |

Six Months Ended June 30, 2010 and 2009

We recorded consolidated net income of \$606 for the six months ended June 30, 2010, compared with \$903 for the first half of 2009. After deducting amounts applicable to preferred stock and not available to common shareholders, net income per common share was \$.13 and \$.24 for the 2010 and 2009 six-month periods, respectively. No potentially dilutive stock options were outstanding at either June 30, 2010 or June 30, 2009. Net income per share amounts for 2009 have been retroactively adjusted to reflect a five percent stock dividend effective December 15, 2009.

Net interest income for the first six months of 2010 increased by \$853 or 14.7% over the 2009 amount, primarily due to lower rates paid for interest bearing deposits.

Noninterest income for the first six months of 2010 decreased by \$95, primarily as a result of the non-recurrence of gains on sales of securities available-for-sale in the 2009 six-month period totaling \$90.

Noninterest expenses for the 2010 period increased by \$425 or 9.4% over the amount for the 2009 six-month period. Salaries and employee benefits decreased by \$102, or 4.2%, due to our decision to leave some vacant positions unfilled. Expenses for FDIC deposit insurance increased by \$263 over the prior year period due increases in both the assessment rate and the assessment base over the prior year amounts.

Summary Income Statement
(Dollars in thousands)

| For the Six Months Ended June 30, | 2010 | 2009 | Dollar Change | Percentage Change |
|---|-----------|-----------|---------------|-------------------|
| Interest income | \$ 11,142 | \$ 11,644 | \$ (502) | -4.3 % |
| Interest expense | 4,483 | 5,838 | (1,355) | -23.2 % |
| Net interest income | 6,659 | 5,806 | 853 | 14.7 % |
| Provision for loan losses | 2,250 | 1,450 | 800 | 55.2 % |
| Noninterest income | 1,228 | 1,323 | (95) | -7.2 % |
| Noninterest expenses | 4,948 | 4,523 | 425 | 9.4 % |
| Income tax expense | 83 | 253 | (170) | -67.2 % |
| Net income | 606 | 903 | (297) | -32.9 % |
| Preferred stock dividends paid or accumulated | (99) | - | (99) | NA |
| | \$ 507 | \$ 903 | \$ (396) | -43.9 % |

Net income available to common
shareholders

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Net Interest Income

Three Months Ended June 30, 2010 and 2009

The average yield on interest earning assets decreased to 4.50% for the 2010 three-month period from 5.24% for the 2009 three-month period, primarily due to higher average amounts of taxable securities at lower rates and lower average amounts of loans in the 2010 period. Taxable securities were 32.0% of average earning assets for the 2010 three-month period compared with 30.8% for the 2009 three-month period. The average rate for such securities was 89 basis points lower in the 2010 period. We also held significantly higher amounts of interest-bearing balances due from banks in the 2010 period, which earn extremely low rates. However, these holdings provide us with the flexibility to invest in securities or loans as opportunities arise and there is no associated credit risk. Similarly, interest rates paid for deposits and borrowings were lower in the 2010 period. The average rate paid for interest-bearing liabilities during the 2010 three-month period was 2.07%, compared with 2.98% in the same period of 2009. As a result of these factors, the average interest rate spread for the 2010 period was 17 basis points higher than for the 2009 period.

“Floors” on the rates for some variable rate loans have kept loan rates from falling further while time deposits continue to mature and be renewed at lower rates due to the low market rates currently in effect.

Average Balances, Yields and Rates
Three Months Ended June 30,
2010

| | 2010 | | | 2009 | | |
|---|---|--------------------------------|----------------------|---------------------|--------------------------------|----------------------|
| | Average Balances (Dollars in thousands) | Interest Income/ Expense | Yields/ Rates (1) | Average Balances | Interest Income/ Expense | Yields/ Rates (1) |
| Assets | | | | | | |
| Interest-bearing balances due from banks | \$ 53,216 | \$ 32 | 0.24 % | \$ 13,690 | \$ 6 | 0.18 % |
| Securities | | | | | | |
| Taxable | 160,150 | 1,332 | 3.34 % | 138,021 | 1,456 | 4.23 % |
| Tax exempt (2) | 19,380 | 197 | 4.08 % | 19,870 | 202 | 4.08 % |
| Total investment securities | 179,530 | 1,529 | 3.42 % | 157,891 | 1,658 | 4.21 % |
| Other investments | 1,307 | 2 | 0.61 % | 1,320 | - | 0.00 % |
| Federal funds sold | - | - | 0.00 % | - | - | 0.00 % |
| Loans (2) (3) (4) | 266,219 | 4,053 | 6.11 % | 275,480 | 4,197 | 6.11 % |
| Total interest earning assets | 500,272 | 5,616 | 4.50 % | 448,381 | 5,861 | 5.24 % |
| Cash and due from banks | 1,916 | | | 7,079 | | |
| Allowance for loan losses | (6,276) | | | (5,527) | | |
| Valuation allowance - available-for- sale securities | 2,621 | | | 1,296 | | |
| Premises and equipment | 8,498 | | | 8,505 | | |
| Other assets | 22,336 | | | 15,068 | | |
| Total assets | \$ 529,367 | | | \$ 474,802 | | |
| Liabilities and shareholders' equity | | | | | | |
| Interest bearing deposits | | | | | | |
| Interest bearing transaction accounts | \$ 52,550 | \$ 83 | 0.63 % | \$ 53,315 | \$ 90 | 0.68 % |
| Savings | 29,947 | 30 | 0.40 % | 21,209 | 20 | 0.38 % |
| Time deposits \$100M and over | 150,994 | 746 | 1.98 % | 127,700 | 990 | 3.11 % |
| Other time deposits | 194,955 | 1,323 | 2.72 % | 170,605 | 1,647 | 3.87 % |
| Total interest bearing deposits | 428,446 | 2,182 | 2.04 % | 372,829 | 2,747 | 2.96 % |
| Long-term debt | 7,868 | 73 | 3.72 % | 9,500 | 91 | 3.84 % |
| Total interest bearing liabilities | 436,314 | 2,255 | 2.07 % | 382,329 | 2,838 | 2.98 % |
| Noninterest bearing demand deposits | 42,969 | | | 46,016 | | |
| Other liabilities | 3,745 | | | 4,870 | | |
| Shareholders' equity | 46,339 | | | 41,587 | | |

| | | | | |
|---|------------|--------|------------|--------|
| Total liabilities and shareholders' equity | \$ 529,367 | | \$ 474,802 | |
| Interest rate spread | | 2.43 % | | 2.26 % |
| Net interest income and net yield on earning assets | \$ 3,361 | 2.69 % | \$ 3,023 | 2.70 % |
| Interest free funds supporting earning assets | \$ 63,958 | | \$ 66,052 | |

(1) Yields and rates are annualized

(2) Yields on tax exempt instruments have not been adjusted to a tax-equivalent basis.

(3) Nonaccrual loans are included in the average loan balances and income on such loans is recognized on a cash basis.

(4) Includes immaterial amounts of loan fees.

Six Months Ended June 30, 2010 and 2009

For the first half of 2010, the average yield on interest earning assets was 4.50%, compared with 5.15% for the 2009 period. Yields were lower on substantially all types of earning assets in the 2010 period. However, loan yields increased slightly because more loans are currently being originated with fixed rates and “floor” rates have prevented the repricing of some loans at lower rates.

Average rates paid on interest-bearing liabilities were lower in the 2010 period as well, averaging 2.08% compared with 3.00% in the 2009 six-month period. Decreases in interest rates paid resulted from the Federal Reserve’s ongoing policy to maintain at low levels certain interest rates within its purview.

Given the current economic environment, the Company expects that it will be unable profitably to increase its loan portfolio significantly in the near term. As a result, management anticipates that the Company will not grow significantly from within until the negative economic trends begin to improve.

Average Balances, Yields and Rates

Six Months Ended June 30,
2010

2009

| | Average | Interest Income/ Expense | Yields/ Rates (1) | Average | Interest Income/ Expense | Yields/ Rates (1) |
|---|------------------------|--------------------------------|-------------------------|------------|--------------------------------|-------------------------|
| | Balances | | | Balances | | |
| | (Dollars in thousands) | | | | | |
| Assets | | | | | | |
| Interest-bearing | | | | | | |
| balances due from banks | \$ 60,921 | \$ 70 | 0.23 % | \$ 17,810 | \$ 22 | 0.25 % |
| Securities | | | | | | |
| Taxable | 150,887 | 2,617 | 3.50 % | 138,972 | 2,962 | 4.30 % |
| Tax exempt (2) | 19,446 | 396 | 4.11 % | 20,177 | 411 | 4.11 % |
| Total investment securities | 170,333 | 3,013 | 3.57 % | 159,149 | 3,373 | 4.27 % |
| Other investments | 1,307 | 2 | 0.31 % | 1,271 | - | 0.00 % |
| Federal funds sold | - | - | 0.00 % | 3,995 | 3 | 0.15 % |
| Loans (2) (3) (4) | 266,272 | 8,057 | 6.10 % | 273,938 | 8,246 | 6.07 % |
| Total interest earning assets | 498,833 | 11,142 | 4.50 % | 456,163 | 11,644 | 5.15 % |
| Cash and due from banks | 1,952 | | | 7,819 | | |
| Allowance for loan losses | (6,123) | | | (5,473) | | |
| Valuation allowance - available-for-sale securities | 2,118 | | | 1,355 | | |
| Premises and equipment | 8,530 | | | 8,635 | | |
| Other assets | 22,874 | | | 14,584 | | |
| Total assets | \$ 528,184 | | | \$ 483,083 | | |
| Liabilities and shareholders' equity | | | | | | |
| Interest bearing deposits | | | | | | |
| Interest bearing | | | | | | |
| transaction accounts | \$ 54,489 | \$ 167 | 0.62 % | \$ 56,319 | \$ 188 | 0.67 % |
| Savings | 33,073 | 57 | 0.35 % | 25,121 | 43 | 0.35 % |
| Time deposits \$100M and over | 146,288 | 1,479 | 2.04 % | 131,580 | 2,083 | 3.19 % |
| Other time deposits | 192,050 | 2,631 | 2.76 % | 169,929 | 3,342 | 3.97 % |
| Total interest bearing deposits | 425,900 | 4,334 | 2.05 % | 382,949 | 5,656 | 2.98 % |
| Short-term borrowings | - | - | 0.00 % | 11 | - | 0.00 % |
| Long-term debt | 7,934 | 149 | 3.79 % | 9,500 | 182 | 3.86 % |
| Total interest bearing liabilities | 433,834 | 4,483 | 2.08 % | 392,460 | 5,838 | 3.00 % |

| | | | | |
|---|------------|--------|------------|--------|
| Noninterest bearing | | | | |
| demand deposits | 44,685 | | 45,109 | |
| Other liabilities | 3,890 | | 4,428 | |
| Shareholders' equity | 45,775 | | 41,086 | |
| Total liabilities and shareholders' equity | \$ 528,184 | | \$ 483,083 | |
| Interest rate spread | | 2.42 % | | 2.15 % |
| Net interest income and net yield on earning assets | \$ 6,659 | 2.69 % | \$ 5,806 | 2.57 % |
| Interest free funds supporting earning assets | \$ 64,999 | | \$ 63,703 | |

(1) Yields and rates are annualized

(2) Yields on tax exempt instruments have not been adjusted to a tax-equivalent basis.

(3) Nonaccrual loans are included in the average loan balances and income on such loans is recognized on a cash basis.

(4) Includes immaterial amounts of loan fees.

Provision and Allowance for Loan Losses

The provision for loan losses was \$1,125 for the second quarter of 2010, compared with \$700 for the second quarter of 2009. For the first half of 2010, the provision for loan losses was \$2,250, compared with \$1,450 for the first half of 2009. At June 30, 2010, the allowance for loan losses was 2.42% of loans, up from 2.26% at December 31, 2009 and significantly higher than the ratio of 2.00% as of June 30, 2009.

For the first six months of 2010, net charge-offs totaled \$1,875, compared with \$1,460 in net charge offs during the same period of 2009. The higher levels of charge-offs in 2010 reflect the continuing distressed conditions in our local economies. No particular industries or groups of borrowers are disproportionately represented among the loans charged off. If local economic conditions do not improve, it is likely that we will continue to experience elevated levels of both net charge-offs and provisions for loan losses. The activity in the allowance for loan losses is summarized in the table below:

| | Six Months Ended June 30, 2010 | Year Ended December 31, 2009 | Six Months Ended June 30, 2009 |
|---|---|------------------------------------|---|
| | (Dollars in thousands) | | |
| Allowance at beginning of period | \$6,052 | \$5,475 | \$5,475 |
| Provision for loan losses | 2,250 | 4,355 | 1,450 |
| Net charge-offs | (1,875) | (3,778) | (1,460) |
| Allowance at end of period | \$6,427 | \$6,052 | \$5,465 |
| Allowance as a percentage of loans outstanding at period end | 2.42 % | 2.26 % | 2.00 % |
| Loans at end of period | \$265,349 | \$267,248 | \$273,245 |

Non-Performing and Potential Problem Loans

| | Nonaccrual Loans | 90 Days or More Past Due and Still Accruing | Total Nonperforming Loans | Percentage of Total Loans | Potential Problem Loans | Percentage of Total Loans |
|------------------------|---------------------|---|---------------------------------|---------------------------------|----------------------------|---------------------------------|
| (Dollars in thousands) | | | | | | |
| January 1, 2009 | \$ 11,799 | \$ - | \$ 11,799 | 4.36 % | \$ 6,910 | 2.56 % |
| Net change | 2,835 | - | 2,835 | | 2,367 | |
| March 31, 2009 | 14,634 | - | 14,634 | 5.31 % | 9,277 | 3.37 % |
| Net change | 2,882 | - | 2,882 | | (1,511) | |
| June 30, 2009 | 17,516 | - | 17,516 | 6.41 % | 7,766 | 2.84 % |
| Net change | (2,632) | - | (2,632) | | 3,490 | |
| September 30, 2009 | 14,884 | - | 14,884 | 5.52 % | 11,256 | 4.17 % |
| Net change | (1,014) | - | (1,014) | | (3,951) | |
| December 31, 2009 | 13,870 | - | 13,870 | 5.19 % | 7,305 | 2.73 % |
| Net change | 2,575 | - | 2,575 | | (3,844) | |
| March 31, 2010 | 16,445 | - | 16,445 | 6.15 % | 3,461 | 1.29 % |
| Net change | (603) | - | (603) | | (403) | |
| June 30, 2010 | \$ 15,842 | \$ - | \$ 15,842 | 5.97 % | \$ 3,058 | 1.15 % |

Potential problem loans include loans, other than non-performing loans, that management has identified as having possible credit problems sufficient to cast doubt upon the abilities of the borrowers to comply with the current repayment terms. As of June 30, 2010 collateral for approximately 92% of the dollar amount of potential problem loans consisted of real estate. As of June 30, 2009, collateral for approximately 95% of the dollar amount of nonaccrual loans consisted of real estate. As of June 30, 2010, approximately 10% of the Company's potential problem loans were included in the least severe category of such loans, compared with approximately 81% of such loans as of June 30, 2009. Management expects that further deterioration of already weak economic conditions within the Company's market areas is likely in the short-term, especially with respect to real estate activities and real property values. If current conditions in the Company's local real estate markets continue or if those conditions deteriorate further, it is possible that increased provisions for loan losses may be needed in the future.

South Carolina's 10.7% unemployment rate was the seventh highest rate of unemployment of the 50 states and the District of Columbia as of June 30, 2010. The unemployment rates for Oconee and Anderson Counties were each approximately 11.5% for June 2010 compared with 15.1% and 13.2%, respectively, for June 30, 2009. Although the unemployment rates have improved somewhat recently, the prolonged period of high unemployment and generally poor economic conditions have caused many individuals and companies to deplete their cash reserves. When economic activity becomes more robust and employment levels increase more broadly, we expect that many of our customers will need to replenish those reserves before they can again repay their debts in an orderly manner. As a result, we believe that there will be a prolonged period during which the ability of our loan customers to repay their debts will be reduced, which could lead to higher amounts of nonaccrual, past due and potential problem loans and higher loan losses, all of which could result in higher provisions for loan losses.

Noninterest Income

Noninterest income totaled \$692 for the second quarter of 2010 compared with \$752 for the second quarter of 2009. Gains on sales of securities available-for-sale were \$90 in the 2009 period. There were no such sales in the 2010 period. Transaction fees for debit cards increased to \$214 for the 2010 period from \$156 for the 2009 period due to increased acceptance and usage of such payment devices. Service charges on deposit accounts were \$39 lower for

the 2010 period because customers are more closely monitoring their balances, resulting in lower incidences of insufficient funds transactions.

For the six months ended June 30, 2010, noninterest income totaled \$1,228 compared with \$1,323 for the first half of 2009. Service charges and fees for deposit accounts were \$61 lower for the 2010 period due to a decrease in the level of consumer activity. Debit card transaction fees increased by \$54, however, due to increased activity. Gains on sales of securities available-for-sale were \$90 for the 2009 six-month period, with no such activity in the 2010 period.

Noninterest Expenses

Noninterest expenses totaled \$2,463 for the second quarter of 2010 compared with \$2,426 for the second quarter of 2009, representing an increase of \$37. Compared with the 2009 period, salaries and employee benefits for the 2010 three-month period decreased by \$40 primarily as a result of allowing some vacant positions to remain open. Deposit insurance assessments were \$65 less than the amount for the second quarter of 2009 due primarily to a special assessment that was incurred during the second quarter of 2009.

For the six months ended June 30, 2010, salaries and employee benefits decreased by \$102 from the amount for the same period of 2009 primarily for the reason stated previously. Deposit insurance assessments for the 2010 six-month period totaled \$633 compared with \$370 for the same period of 2009, primarily because of higher assessment bases and rates incurred in the current year. An increase in the assessment rate was implemented during 2009 which is expected to result in continuing increases in the amount of those expenses, although it is expected that the rate of increase will be reduced in the future.

We continue to pursue a strategy to increase our market share in our local market areas in Anderson and Oconee Counties of South Carolina. Oconee County is served from four offices, which are located in Seneca, Walhalla and Westminster. The Anderson County market is served from three offices in Anderson and Williamston.

Liquidity

Liquidity is the ability to meet current and future obligations through the liquidation or maturity of existing assets or the acquisition of additional liabilities. We manage both assets and liabilities to achieve appropriate levels of liquidity. Cash and short-term investments are our primary sources of asset liquidity. These funds provide a cushion against short-term fluctuations in cash flow from both deposits and loans. Securities available-for-sale are the principal source of secondary asset liquidity. However, the availability of this source is influenced by market conditions. Individual and commercial deposits represent our primary source of funds for credit activities. We have significant amounts of credit availability under FHLB lines of credit and federal funds purchased facilities.

As of June 30, 2010, the ratio of loans to total deposits was 56.9%, compared with 61.2% as of December 31, 2009. We believe that liquidity sources are adequate to meet our operating needs.

Capital Resources

During the first half of 2010, our capital base increased by \$2,003 as the result of net income of \$606 for the first six months of 2010, plus a \$1,459 change in unrealized gains and losses on available-for-sale securities, net of deferred income tax effects and \$17 received from the exercise of employee stock options, less \$79 paid for dividends on preferred stock. Any unrealized losses on available-for-sale securities are not considered to be other than temporary. Our available-for-sale securities primarily consist of debt issuances of government-sponsored enterprises. Even though these instruments are not directly guaranteed by the U. S. Government, they are generally considered to be of high quality and default risk is believed to be remote. Therefore, the changes in market values are believed to be the result only of changes in market interest rates. We currently have both the intent and the ability to hold such securities until the market value recovers, including until maturity.

The Company and its banking subsidiary (the "Bank") are subject to regulatory risk-based capital adequacy standards. Under these standards, bank holding companies and banks are required to maintain certain minimum ratios of capital to risk-weighted assets and average total assets. Under the provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), federal bank regulatory authorities are required to implement prescribed "prompt corrective actions" upon the deterioration of the capital position of a bank. If the capital position of an affected institution were to fall below certain levels, increasingly stringent regulatory corrective actions are

mandated.

The June 30, 2010 risk based capital ratios for the Company and the Bank are presented in the following table, compared with the “well capitalized” and minimum ratios under the regulatory definitions and guidelines:

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| | Tier 1 | Total Capital Leverage | |
|--|--------|------------------------|------|
| Community First Bancorporation | 14.3% | 15.5% | 8.5% |
| Community First Bank | 12.8% | 14.0% | 7.6% |
| Minimum "well-capitalized" requirement | 6.0% | 10.0% | 6.0% |
| Minimum requirement | 4.0% | 8.0% | 5.0% |

Off-Balance-Sheet Arrangements

In the normal course of business, the Bank is party to financial instruments with off-balance-sheet risk including commitments to extend credit and standby letters of credit. Such instruments have elements of credit risk in excess of the amount recognized in the balance sheet. The exposure to credit loss in the event of nonperformance by the other parties to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. Generally, the same credit policies used for on-balance-sheet instruments, such as loans, are used in extending loan commitments and standby letters of credit.

Following are the off-balance-sheet financial instruments whose contract amounts represent credit risk:

| | June 30, 2010 (Dollars in thousands) |
|---------------------------|---|
| Loan commitments | \$24,404 |
| Standby letters of credit | 921 |

Loan commitments involve agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and some involve payment of a fee. Many of the commitments are expected to expire without being fully drawn; therefore, the total amount of loan commitments does not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if any, upon extension of credit is based on management's credit evaluation of the borrower. Collateral held varies but may include commercial and residential real properties, accounts receivable, inventory and equipment.

Standby letters of credit are conditional commitments to guarantee the performance of a customer to a third party. The credit risk involved in issuing standby letters of credit is the same as that involved in making loan commitments to customers. Many letters of credit will expire without being drawn upon and do not necessarily represent future cash requirements. The Bank receives fees for loan commitments and standby letters of credit. The amount of such fees was not material for the three months or six months ended June 30, 2010.

As described under "Liquidity," management believes that its various sources of liquidity provide the resources necessary for the Bank to fund the loan commitments and to perform under standby letters of credit, if the need arises. Neither the Company nor the Bank is involved in other off-balance sheet contractual relationships or transactions that could result in liquidity needs or other commitments or significantly impact earnings.

Item 4. – Controls and Procedures

Based on the evaluation required by 17 C.F.R. Section 240.13a-15(b) or 240.15d-15(b) of the issuer's disclosure controls and procedures (as defined in 17 C.F.R. Sections 240.13a-15(e) and 240.15d-15(e)), the issuer's chief executive officer and chief financial officer concluded such controls and procedures, as of the end of the period

covered by this report, were effective.

There has been no change in the Company's internal control over financial reporting during the most recent fiscal quarter 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

Exhibits

31. Rule 13a-14(a)/15d-14(a) Certifications

32. Certifications Pursuant to 18 U.S.C. Section 1350

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SIGNATURE

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.

COMMUNITY FIRST BANCORPORATION

August 13, 2010

/s/ Frederick D. Shepherd, Jr.

Date Frederick D. Shepherd, Jr., Chief Executive Officer and
Chief Financial Officer

EXHIBIT INDEX

- 31. Rule 13a-14(a)/15d-14(a) Certifications
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