COMMUNITY FIRST BANCORP
Form 10-Q
November 16, 2009

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 Quarterly Period Ended September 30, 2009 Commission File No. 000-29640

COMMUNITY FIRST BANCORPORATION
(Exact name of registrant as specified in its charter)

South Carolina	58-2322486
(State or other jurisdiction of incorporation or organization)	(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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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):

Large accelerated filer [ ] Accelerated filer [ ]

Non-accelerated filer [ ] Smaller reporting company [X]

(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 [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, no par or stated value, 3,609,811 Shares Outstanding on November 1, 2009

COMMUNITY FIRST BANCORPORATION

FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. - Financial Statements

COMMUNITY FIRST BANCORPORATION
Consolidated Balance Sheets

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Assets

Cash and due from banks	
Interest bearing balances due from banks	
Federal funds sold	
Cash and cash equivalents	
Securities available-for-sale	
Securities held-to-maturity (fair value $10,070 for 2009 and $12,238 for 2008)	
Other investments	
Loans	
Allowance for loan losses	
Loans - net	
Premises and equipment - net	
Accrued interest receivable	
Bank-owned life insurance	
Foreclosed assets	
Other assets	
Total assets	

Liabilities

Deposits	
Noninterest bearing	
Interest bearing	
Total deposits	
Short-term borrowings	
Long-term debt	
Accrued interest payable	
Other liabilities	
Total liabilities	

Shareholders' equity

Preferred stock, Class A - non-voting, 5% cumulative - $1,000 per share liquidation preference; 5,000 shares authorized; None issued and outstanding	
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 - 3,609,811 for 2009 and 3,564,279 for 2008	
Additional paid-in capital	
Retained earnings	
Accumulated other comprehensive income (loss)	
Total shareholders' equity	
Total liabilities and shareholders' equity	

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY FIRST BANCORPORATION
Consolidated Statements of Income

	(U	
	Period End	
	Three Months	
	2009	2008
	(Dollars in tho	
Interest income		
Loans, including fees	$ 4,214	$ 4,647
Interest bearing balances due from banks	14	10
Securities		
Taxable	1,298	1,275
Tax-exempt	201	209
Other investments	3	14
Federal funds sold	-	81
Total interest income	5,730	6,236
Interest expense		
Time deposits $100M and over	904	1,021
Other deposits	1,709	1,885
Short-term borrowings	-	8
Long-term debt	93	92
Total interest expense	2,706	3,006
Net interest income	3,024	3,230
Provision for loan losses	1,010	965
Net interest income after provision	2,014	2,265
Other income		
Service charges on deposit accounts	377	374
ATM interchange and other fees	154	142
Net gains (losses) on sales of securities available-for-sale	-	(3)
Credit life insurance commissions	3	5
Increase in value of bank-owned life insurance	91	94
Other income	79	22
Total other income	704	634
Other expenses		
Salaries and employee benefits	1,206	1,073
Net occupancy expense	132	135
Furniture and equipment expense	94	110
Amortization of computer software	112	85
ATM interchange and related expenses	101	96
Directors' fees	28	20
FDIC insurance assessment	165	58
Other expense	459	361
Total other expenses	2,297	1,938

Income before income taxes	421	961
Income tax expense	101	252
Net income	$ 320	$ 709
Per share*		
Net income	$ 0.09	$ 0.20
Net income, assuming dilution	0.09	0.19

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* Per share information has been retroactively adjusted to reflect a 5% stock dividend effective December 20, 2008.

See accompanying notes to unaudited consolidated financial statements.

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COMMUNITY FIRST BANCORPORATION
Consolidated Statements of Changes in Shareholders' Equity

(Unaudited)

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	R E
			(Dollars in th	
Balance, January 1, 2008	3,324,105	$ 35,009	$ 681	
Comprehensive income:				
Net income	-	-	-	
Unrealized holding gains and (losses) on available-for-sale securities arising during the period, net of income taxes of $1	-	-	-	
Reclassification adjustment for losses (gains) realized in income, net of income taxes of $1	-	-	-	
Total other comprehensive income (loss)				
Total comprehensive income	-	-	-	
Exercise of employee stock options	70,768	365	-	
Balance, September 30, 2008	3,394,873	$ 35,374	$ 681	
Balance, January 1, 2009	3,564,279	$ 37,084	$ 748	
Comprehensive income:				
Net income	-	-	-	
Unrealized holding gains and (losses) on available-for-sale securities arising				

during the period, net of income taxes of $630	-	-	-
Reclassification adjustment for losses (gains) realized in income, net of income taxes of $32	-	-	-
Total other comprehensive income (loss)			
Total comprehensive income	-	-	-
Exercise of employee stock options	45,532	486	-
Balance, September 30, 2009	3,609,811	$ 37,570	$ 748

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY FIRST BANCORPORATION
Consolidated Statements of Cash Flows

Operating activities

Net income	
Adjustments to reconcile net income to net cash provided by operating activities	
Provision for loan losses	
Depreciation	
Amortization of net loan (fees) and costs	
Securities accretion and premium amortization	
Net (gains) losses on sales of securities available-for-sale	
Net (gains) losses on sales of foreclosed assets	
Increase in value of bank-owned life insurance	
Decrease (increase) in interest receivable	
Decrease in interest payable	
Decrease in prepaid expenses and other assets	
Increase in other accrued expenses	
Net cash provided by operating activities	

Investing activities

Purchases of available-for-sale securities	
Purchases of securities held-to-maturity	
Maturities, calls and paydowns of securities available-for-sale	

Maturities, calls and paydowns of securities held-to-maturity
Proceeds of sales of securities available-for-sale
Purchases of other investments
Proceeds from sales of other investments
Net increase in loans made to customers
Purchases of premises and equipment
Proceeds of sale of foreclosed assets
Additional investments in foreclosed assets
Proceeds of redemption of bank-owned life insurance
Investment in bank-owned life insurance

Net cash used by investing activities

Financing activities
Net decrease in demand deposits, interest bearing transaction accounts and savings accounts
Net increase in certificates of deposit and other time deposits
Net increase in short-term borrowings
Proceeds from issuing long-term debt
Repayments of long-term debt
Cash paid in lieu of issuing fractional shares
Exercise of employee stock options

Net cash provided by financing activities

Decrease in cash and cash equivalents
Cash and cash equivalents, beginning

Cash and cash equivalents, ending

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY FIRST BANCORPORATION
Consolidated Statements of Cash Flows - continued

Supplemental Disclosure of
Cash Flow Information Cash paid during the year for:

Interest
Income taxes
Net transfers from loans to foreclosed assets
Noncash investing and financing activities:
Other comprehensive income

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") Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission. Certain amounts in the 2008 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. All dollar amounts are stated in thousands, except per share.

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:

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		September
	Amortized Cost	Gross Unrealized Holding Gains
		(Dollars in
Available-for-sale		
Mortgage-backed securities issued by US Government agencies	$ 1,520	$ 53
Government sponsored enterprises (GSEs)	89,310	908
Mortgage-backed securities issued by GSEs	35,532	1,111
State, county and municipal	19,527	597
Total	$145,889	$ 2,669
Held-to-maturity		
Mortgage-backed securities issued by US Government agencies	$ -	$ -
Government sponsored enterprises	-	-
Mortgage-backed securities issued by GSEs	9,590	480
State, county and municipal	-	-
Total	$ 9,590	$ 480

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

	September	
	Available-for-sale	
	Amortized Cost	Estimated Fair Value
	(Dollars i	
Due within one year	$ 2,506	$ 2,542
Due after one through five years	11,321	11,421
Due after five through ten years	41,584	41,759
Due after ten years	53,426	54,129
	108,837	109,851
Mortgage-backed securities issued by:		
US Government agencies	1,520	1,573
GSEs	35,532	36,641
Total	$145,889	$148,065

The estimated fair values and gross unrealized losses of all of the Company's investment securities whose estimated fair values were less than amortized cost as of September 30, 2009 which had not been determined to be other-than-temporarily impaired are presented below. The Company evaluates 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.

	September 30, 20			
	Continuously in Unrealized Loss Posi			
	Less than 12 Months		12 Months or mo	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unre L
	(Dollars in thousands			
Available-for-sale				
US Government agencies	$ -	$ -	$ -	$
Government-sponsored enterprises (GSEs)	20,928	406	-	
Mortgage-backed securities issued by GSEs	3,047	2	-	
State, county and municipal securities	1,329	85	-	
Total	$25,304	$ 493	$ -	$

Held-to-maturity				
GSEs	$ -	$ -	$ -	$
Total	$ -	$ -	$ -	$

As of September 30, 2009, 22 securities had been continuously in an unrealized loss position for less than 12 months and no securities had been continuously in an unrealized loss position for 12 months or more. The Company does not consider these investments to be other-than-temporarily impaired because the unrealized losses involve primarily issuances of government-sponsored enterprises and state, county and municipal government issuers. The Company also believes that the impairments resulted from current credit market disruptions, and notes that there have been no failures by the issuers to remit periodic interest payments as required nor is the Company 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 the Company classifies a majority of its investment securities as available-for-sale, management has not determined that any specific securities will be disposed of prior to maturity and believes that the Company has both the ability and the intent to hold those investments until a recovery of fair value, including until maturity. Furthermore, the Company does not believe that it will be required to sell any such securities prior to recovery of the unrealized losses. Substantially all of the state, county and municipal securities were rated at least "investment grade" by either S&P or Moody's, or both, as of September 30, 2009.

The Company's 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 Company's subsidiary. The Company evaluates 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 nine months of 2009, the Company sold 3 available-for-sale securities for gross sales proceeds of $5,853. Gross realized gains resulting from these sales totaled $90. There were no transfers of available-for-sale securities to other categories in the 2009 nine-month period.

Nonperforming Loans - As of September 30, 2009, there were $14,884 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 share is computed by dividing applicable net income 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 the Company's common stock at the average market price during the period. Outstanding stock options were not dilutive for either the three month or nine month periods ending September 30, 2009. All 2008 per share information has been retroactively adjusted to give effect to a 5% stock dividend effective December 20, 2008. Net income per share and net income per share, assuming dilution, were computed as follows:

	Period En	
	Three Months	
	2009	2008
	(Dollars in thousan	
Net income per share, basic		
Numerator - net income	$ 320	$ 709
Denominator		
Weighted average common shares issued and outstanding	3,609,811	3,564,617
Net income per share, basic	$ .09	$ .20
Net income per share, assuming dilution		
Numerator - net income	$ 320	$ 709
Denominator		
Weighted average common shares issued and outstanding	3,609,811	3,564,617
Effect of dilutive stock options	-	130,249
Total shares	3,609,811	3,694,866
Net income per share, assuming dilution	$ .09	$ .19

Shareholders' Equity

On April 28, 2009, the Corporation's Board of Directors adopted an amendment to the Corporation's Articles of Incorporation for which shareholder approval was not required. As a result of this amendment, a "Series A" of the Corporation's Preferred Stock with a liquidation amount of $1,000 per share was created. Series A consists of 5,000 shares of fixed rate cumulative perpetual preferred stock which shares, except in certain very limited circumstances, have no voting rights. Upon issuance, such preferred stock would accrue dividends at a rate of 5.00% per annum. Cumulative dividends would be payable on each February 15, May 15, August 15 and November 15, if declared by the Corporation's Board of Directors. No dividends may be declared and paid on other stock issuances, nor may the Company effect any plan to purchase, redeem or otherwise acquire any issue of stock that is subordinate to the Series A Preferred Stock, including the Company's outstanding Common Stock, unless all cumulative dividends due on the Series A Preferred Stock have been paid in their entirety.

Unless previously called for redemption, each outstanding share of Series A Preferred Stock would be convertible into 100 shares of the Company's Common Stock after June 17, 2019. If the Corporation calls the Series A Preferred Stock for redemption prior to that date, each outstanding share would be convertible into 100 shares of the Corporation's common stock until the second business day preceding the redemption date. The conversion ratio would be adjusted for any stock dividends declared and payable on the Corporation's Common Stock and for any stock splits or reverse stock splits applicable thereto.

No shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A are issued and outstanding as of September 30, 2009; however, the Company has received cash deposits totaling $1,710 which the depositors intend to be applied toward the Company's issuance of $3,000 of the Series A preferred stock. The Company is accumulating deposits and paying interest at the rate of 5.00% per annum until all of the investors who committed to purchase such preferred stock have submitted funds sufficient to purchase the number of shares they committed to purchase. Once all funds are received, the Company will immediately issue the preferred stock. If the investors fail to deposit an aggregate of $3,000 by December 31, 2009, the entire amount of the accumulated deposits and the related interest will be returned to the depositors.

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 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

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

		Fair Value Measurement at Rep	
Description	September 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)

		(Dollars in thousands)	
Securities available-for-sale		$ 4,000	$ 144,065

Pricing for the Company's securities available-for-sale is 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. Available-for-sale securities continue to be measured at fair value with unrealized gains and losses, net of income taxes, recorded in other comprehensive income.

In February 2008, the Financial Accounting Standards Board Staff issued FASB Staff Position No. FAS 157-2 (now codified as FASB Accounting Standards Codification ("FASB ASC") 820-10-15-1a) which delayed for one year the effective date of the application of disclosure requirements of nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Accordingly, the Company has not provided the fair value disclosure requirements of FASB ASC 820-10-50-5 in periods ending prior to March 31, 2009.

The following is a summary of the measurement attributes applicable to assets and liabilities that were measured at fair value on a non-recurring basis during the periods indicated and that remained outstanding at the end of the period:

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		Fair Value Measurement at Reporting Date Using		
Description	September 30, 2009	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		$ -	$ 1,644	$ -

U. S. Generally Accepted Accounting Principles 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. Financial instruments that are not carried at fair value on the Consolidated Balance Sheets are discussed below. Certain financial instruments and all nonfinancial instruments are excluded from the scope of these disclosure requirements. Accordingly, these fair value disclosures do not provide a complete estimate of the Company's fair value.

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 because the FHLB historically has redeemed its outstanding stock at that value.

Fair values are estimated for loans using discounted cash flow analyses, using interest rates currently offered for loans with similar terms and credit quality. The Company does 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 SFAS No. 157. 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 the Company's 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 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 carrying amounts and estimated fair values of the Company's financial assets and liabilities:

	September 30, 2009	
	Carrying Amount	Estimated Fair Value
	(Dollars in thousands)	
Financial assets		
Cash and due from banks	$ 1,918	$ 1,918
Interest bearing deposits due from banks	23,661	23,661
Securities available-for-sale	148,065	148,065

Securities held-to-maturity	9,590	10,070
Federal Home Loan Bank stock	1,307	1,307
Loans - net	264,317	262,851
Accrued interest receivable	2,742	2,742
Financial liabilities		
Deposits	417,794	417,807
Accrued interest payable	2,322	2,322
Short-term borrowing	1,710	1,710
Long-term debt	9,500	9,516

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

	September 30, 2009	
	Notional/ Contract Amount	Estimated Fair Value
	(Dollars in thousands)	
Off-balance sheet commitments		
Loan commitments	$19,373	$ -
Standby letters of credit	1,268	-

Subsequent Events - The Company has evaluated events subsequent to the balance sheet date through November __, 2009, which is the date that the financial statements were issued.

Subsequent events may either provide additional evidence about conditions that existed at the balance sheet date, including estimates inherent in the process of preparing financial statements (recognized subsequent events), or provide evidence about conditions that did not exist at the balance sheet date but arose after the balance sheet date but before the financial statements were issued (nonrecognized subsequent events). The effects of recognized subsequent events, if any, have been included in the financial statements. If the effects of nonrecognized subsequent events, if any, are of a nature that they must be disclosed to keep the financial statements from being misleading, the Company would disclose both the nature of the event, an estimate of its financial effect or would state that an estimate of the financial effect cannot be made. As of September 30, 2009, there were no nonrecognized subsequent events that required disclosure.

New Accounting Pronouncements - Accounting principles generally accepted in the United States recently have been reorganized into a consistent framework, the "Financial Accounting Standards Board Accounting Standards Codification," or "FASB ASC," which is now the source of authoritative accounting literature. References to accounting standards will now be based on a structure of Topic - Subtopic - Section - Paragraph. In the future, the FASB will issue Accounting Standards Updates ("ASU"s) which will not be authoritative in their own right, but will serve only to update the Codification, provide background information about the guidance, and provide the reasons that the FASB has made the changes.

In December 2008 the FASB issued FASB Staff Position ("FSP") SFAS 132(R)-1 (FASB ASC 715-20-65), "Employers' Disclosures about Postretirement Benefit Plan Assets," ("FSP SFAS 132(R)-1"). This FSP provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The objective of the FSP is to provide the users of financial statements with an understanding of: (a) how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies; (b) the major categories of plan assets; (c) the inputs and valuation techniques used to measure the fair value of plan assets; (d) the effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period; and (e) significant concentrations of risk within plan assets. The FSP also requires a nonpublic entity, as defined in Statement of Financial Accounting Standard ("SFAS") 132, to disclose net periodic benefit cost for each period for which a statement of income is presented. FSP SFAS 132(R)-1 is effective for fiscal years ending after December 15, 2009. The Staff Position will require the Company to provide additional disclosures related to its benefit plans.

In August, 2009, ASU 2009-5 "Measuring Liabilities at Fair Value" was issued. This ASU amends FASB ASC Topic 820 "Fair Value Measurement and Disclosures" and is intended to reduce ambiguity when measuring the fair value of liabilities which will lead to improved understanding of how such fair values were measured and improve consistency in the application of Topic 820. The Company is required to apply this Update for reporting periods beginning after September 30, 2009. The requirements of the Update relate to disclosure items only and will have no effect on the Company's financial position, results of operations or cash flows.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

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 accounting policies, rules and practices;
- changes in technology or products may be more difficult or costly, or less effective, than anticipated;
- 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. The Company has no obligation, and does not undertake, to update, revise or correct any of the forward-looking statements after the date of this report. The Company has expressed its expectations, beliefs and projections in good faith and believes 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 nine months of 2009, the Company focused its efforts on monitoring the performance of its portfolio of loans outstanding and maintaining contact with its loan and deposit customers. For the 2009 nine month period, loans decreased by $688, or .3%, securities available-for-sale increased by $21,429, or 16.9%, and securities held-to-maturity decreased by $2,320. Federal funds sold decreased by $18,793, or 100.0%. The potential for growth in loans outstanding during the first nine months of 2009 was constrained by several factors. Economic conditions in the Company's market area deteriorated significantly, primarily as a result of ongoing reductions in real estate values both locally and nation-wide. Those lower values have resulted, and are continuing to result, in a significant contraction in the amount of "lendable margin" available to potential borrowers. When collateral is required to be provided as a condition to the Company engaging in a loan transaction with a borrower, the borrower generally is expected to have or establish an equity interest in the collateral. The extent of the bank's interest in the collateral, or "lendable margin," may vary depending on the other terms and conditions of the loan, the borrower's financial condition and other factors. However, the Company has generally established certain percentage levels of the collateral value at the time the loan is made as the amount of the required "lendable margin." Recently, as the value of real estate has generally fallen in the Company's market area, collateral values have fallen to levels that may be less than the amount owed on the loans. Furthermore, lower real estate values decrease the amounts that potential borrowers will be able to borrow currently, based on those decreased values. This diminished ability to borrow against real estate collateral has contributed to lower consumption of goods and services in the Company's market areas. Commercial customers, despite the slower current business environment, are obligated to continue making payments on debts contracted for during better economic periods. Because of the resulting "squeeze," a growing number of commercial customers are finding it impossible to remain in business. This potentially affects the Company on at least two levels - the business and some of its displaced workers may stop making payments on their loans. Accordingly, the Company has experienced increasing numbers and amounts of non-performing loans, has taken possession of several real properties and some personal property, and has experienced a significant increase in net charge-offs. The Company expects that it will continue to experience higher than normal levels of non-performing loans, increasing amounts of foreclosed assets, and higher net charge-offs for at least the remainder of 2009 and probably into the second or third quarter of 2010. Management anticipates, however, that the rate of increase in each of these areas will decrease as time progresses.

Deposits increased by $1,679 during the first nine months of 2009. The Company opted out of the recently extended Federal Deposit Insurance Corporation's Transaction Account Guarantee program under which unlimited insurance coverage for certain transaction account deposits would have been provided until June 30, 2010. Such deposits will revert to the $250,000 insurance limit after December 31, 2009. Nevertheless, the Company believes that its liquidity position continues to provide it with sufficient flexibility to fund good quality loan requests or make investments in securities at attractive yields, and to meet normal demands for deposit withdrawals by its customers. Management also believes that the current balance sheet position maintains the Company's exposures to changes in interest rates at acceptable levels.

Results of Operations

Three Months Ended September 30, 2009 and 2008

The Company recorded consolidated net income of $320 or $.09 per share for the third quarter of 2009 compared with net income of $709 and earnings per share of $.20 for the third quarter of 2008. Net income per share, assuming dilution was $.09 for the 2009 quarter and $.19 for the 2008 period. Net income per share amounts for 2008 have been retroactively adjusted to reflect a five percent stock dividend effective December 20, 2008.

Interest income for the third quarter of 2009 decreased by $506 from the same period of 2008 primarily due to lower rates earned on loans and taxable investment securities. Interest rates associated with loans are lower in the 2009 period due to two factors: (1) the effects of the Federal Reserve's monetary policy which is keeping interest rates at historically low levels and (2) higher amounts of non-accrual loans. When a loan is placed on nonaccrual status, all income earned but not collected is reversed against income in the current period and no further income is recognized unless and until certain strict conditions are achieved. During the third quarter of 2009, approximately $201 of previously recorded income was reversed at the time loans were placed in nonaccrual status.

The continuing low interest rate environment also is responsible, to a significant degree, for continuing calls and prepayments of investment securities because it is often advantageous for the issuer of securities to retire a bond issue and replace it with an issue that bears interest at a lower rate. To mitigate the effects of these actions on its investment yields, the Company must either extend the maturity of the bonds it holds, invest in lower-quality bonds (which generally carry higher interest rates), or both. However, regulatory constraints do not allow the Company to fully utilize these methods.

No interest was earned on federal funds sold during the 2009 three-month period because no such amounts were outstanding. The Company recorded $81 of interest income on federal funds sold during the third quarter of 2008. The Company currently maintains its excess cash reserves on deposit at the Federal Reserve Bank, which pays only a nominal interest rate on such deposits.

Interest expense for the third quarter of 2009 was $300 lower than for the same prior year period due primarily to lower rates paid. A systemic problem became apparent in the third quarter of 2008 whereby some depositors, who were extremely concerned about maximizing the deposit insurance coverage for their funds, diversified those funds among several federally-insured financial institutions to ensure safety of principal. To mitigate those depositors' risks and to reduce the associated costs, the FDIC implemented its Transaction Account Guarantee program which provides unlimited deposit insurance coverage for transaction deposit accounts that meet certain criteria. As a result of its participation in this program, the Company is limited in the interest rates that it can pay with respect to transaction accounts. Other companies that participate in the program are similarly limited. The Company does not intend to increase the rates it pays on the deposits that are currently covered by this program when its participation ends.

The Company increased the provision for loan losses to $1,010 for the third quarter of 2009 from $965 for the same period of 2008. Factors that management considered when determining the amount to be provided for loan losses included high volumes of nonaccrual, past due and potential problem loans, higher charge-offs taken during the quarter, and lower property values in the local real estate markets.

Noninterest income for the third quarter of 2009 increased by $70 over the same 2008 period primarily due to higher fees earned on mortgage loans originated for another financial institution and higher amounts of card-related transaction fees earned.

Noninterest expenses for the 2009 period increased primarily due to higher salaries and wages expenses, higher professional services expenses, higher expenses associated with foreclosed assets, and higher expenses for FDIC insurance. Income tax expense is lower for 2009 due to lower amounts of taxable income.

Summary Income State

(Dollars in thousan

For the Three Months Ended September 30,	2009	2008	Do
Interest income	$5,730	$6,236	
Interest expense	2,706	3,006	
Net interest income	3,024	3,230	
Provision for loan losses	1,010	965	
Noninterest income	704	634	
Noninterest expenses	2,297	1,938	
Income tax expense	101	252	
Net income	$ 320	$ 709	

Nine Months Ended September 30, 2009 and 2008

The Company recorded consolidated net income of $1,223 or $.34 per share for the first nine months of 2009 compared with net income of $2,514 and earnings per share of $.71 for the same period of 2008. Net income per share, assuming dilution was $.34 for the 2009 nine months and $.68 for the same period of 2008. Net income per share amounts for 2008 have been retroactively adjusted to reflect a five percent stock dividend effective December 20, 2008.

Lower amounts of interest income and interest expense for the 2009 period primarily reflect the lower interest rate environment currently prevailing. The average rate earned on loans in the 2009 period is 116 basis points lower than the rate earned in the 2008 year-to-date period. In addition to the lower interest rates related to general economic conditions, interest income from loans is negatively affected by the higher levels of nonaccrual loans in the 2009 period. The Company's investment securities on average earned 54 basis points less in the 2009 nine-month period than they did the 2008 period.

The Company increased the provision for loan losses significantly during the 2009 nine-month period in response to deteriorating general economic conditions and because of specific problems related to individual borrowers and groups of borrowers. The well-publicized problems in the residential housing markets are contributing factors affecting the Company's loan customers.

Noninterest income for the 2009 nine month period was $159 more than for the same period of 2008 primarily due to $90 of net gains on the sales of investment securities in the 2009 period compared with net losses on such sales of $3 in the 2008 period, and an increase of $100 in the amount of fees received to originate mortgage loans for another financial institution.

Noninterest expenses for the 2009 period increased by $990 over the prior year amount. Salaries and employee benefits for the 2009 nine month period were $413 more than for the same prior year period primarily due to an increase of $322 in salaries and wages. Professional services expenses increased by $79 primarily reflecting higher legal expenses incurred in connection with initiatives expected to bolster the Company's capital position. The Company's FDIC insurance expense for the 2009 period increased by $407, or 318%, over the amount for the 2008 year-to-date period due to higher assessment rates imposed by the FDIC and due to the Company's participation in the FDIC's Transaction Account Guarantee Program. The FDIC has voted to require that insured depository institutions prepay their estimated assessments for each of the years 2010 - 2012. The Company will recognize the related expenses ratably over the three-year period. Higher expenses related to larger volumes of foreclosed assets were also recorded in the 2009 period.

Summary Income Stat

(Dollars in thousa

For the Nine Months Ended September 30,	2009	2008	Do
Interest income	$ 17,374	$ 18,629	$
Interest expense	8,544	9,741	
Net interest income	8,830	8,888	
Provision for loan losses	2,460	1,375	
Noninterest income	2,027	1,868	
Noninterest expenses	6,820	5,830	
Income tax expense	354	1,037	
Net income	$ 1,223	$ 2,514	$

Net Interest Income

Net interest income, the principal source of the Company's earnings, was lower in both the 2009 three month and nine month periods. The deterioration of real estate markets that began in other areas of the country more than one year ago is now evident within the Company's market. Primarily because of constrained demand for residential properties, some developers and builders are finding it difficult or impossible to satisfy their obligations except by surrendering, either voluntarily or involuntarily through foreclosure, the properties that were pledged to secure their loans. As a consequence, property values have fallen due to related conditions such as oversupply of unsold housing units and the physical deterioration that sometimes occurs during prolonged sales periods. In some cases, individual homes or entire development projects have been only partially completed when the builders or developers suspended work and left completion of the project in the hands of lenders.

Recently, governmental economic policy makers including Congress, the Federal Reserve and the Department of the Treasury have endeavored to enact legislation, promulgate regulations and implement strategies intended to provide stimulus to the economy by creating jobs, maintaining interest rates at low levels and through the provision of other incentives, such as tax credits for first-time home buyers or for the purchase and installation of energy-efficient residential heating and cooling systems and other energy efficient and alternative energy projects. To date, the observable effects of these measures on the broad economy have been minimal.

Three Months Ended September 30, 2009 and 2008

For the third quarter of 2009, net interest income totaled $3,024, a decrease of $206 from $3,230 for the same period of 2008. The Company's interest rate spread for the third quarter of 2009 was 2.28%, a decrease of 40 basis points from the 2.68% interest rate spread for the third quarter of 2008. Net yield on earning assets for the 2009 third quarter was 2.68%, a decrease of 50 basis points from the 2008 third quarter net yield of 3.18%. The yield on taxable investment securities for the third quarter of 2009 was 3.86% compared with 4.98% for the same period of 2008. The average yield on the Company's loans outstanding was 6.15% for the third quarter of 2009 compared with 7.03% for the same period of 2008. The average amount of the Company's loan category for the third quarter of 2009 was 3.3% more than for the third quarter of 2008. The Company derecognized approximately $201 of accrued interest on loans that were initially included in nonaccrual loans during the third quarter of 2009. As a result of all of these factors, interest income on loans was $433 lower in the 2009 three month period.

Interest expense for the 2009 three-month period was $300 lower than for the same period of 2008 primarily due to lower rates paid, which were 67 basis points lower than the prior year level. Rates paid for all types of deposits in the 2009 quarter were 69 basis points lower and rates paid for time deposits were 74 basis points lower in the 2009 quarter than for the same period of 2008. Average amounts of time deposits outstanding for the 2009 period increased by $45,640, or 17.6%, over the amount for the 2008 period.

Average Balances, Yie
Three Months Ended S

	2009		
	Average Balances	Interest Income/ Expense	Yields/ Rates (1)
			(Dollars in
Assets			
Interest-bearing balances due from banks	$ 22,205	$ 14	0.25%
Securities			
Taxable	133,282	1,298	3.86%
Tax exempt (2)	19,780	201	4.03%
Total investment securities	153,062	1,499	3.89%
Other investments	1,307	3	0.91%
Federal funds sold	-	-	0.00%
Loans (2) (3) (4)	271,751	4,214	6.15%
Total interest earning assets	448,325	5,730	5.07%
Cash and due from banks	5,249		
Allowance for loan losses	(5,373)		
Valuation allowance - Available-for- sale securities	828		
Premises and equipment	8,565		
Other assets	18,715		
Total assets	$ 476,309		

Liabilities and shareholders' equity			
Interest bearing deposits			
Interest bearing transaction accounts	$ 52,724	$ 93	0.70%
Savings	17,663	20	0.45%
Time deposits $100M and over	131,673	904	2.72%
Other time deposits	173,608	1,596	3.65%
Total interest bearing deposits	375,668	2,613	2.76%
Short-term borrowings	19	-	0.00%
Long-term debt	9,500	93	3.88%
Total interest bearing liabilities	385,187	2,706	2.79%
Noninterest bearing demand deposits	43,500		
Other liabilities	6,119		
Shareholders' equity	41,503		
Total liabilities and shareholders' equity	$ 476,309		
Interest rate spread			2.28%
Net interest income and net yield on earning assets		$ 3,024	2.68%
Interest free funds supporting earning assets	$ 63,138		

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(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.

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Nine Months Ended September 30, 2009 and 2008

For the first nine months of 2009, net interest income totaled $8,830, a decrease of $58, or 0.7%, from the $8,888 amount for the same period of 2008. The Company's interest rate spread for the 2009 nine month period was 2.19%, a decrease of 22 basis points over the 2.41% spread for the 2008 period. The yield on interest earning assets decreased to 5.12% for the 2009 period, compared with 6.17% for the 2008 period, primarily due to lower rates earned on loans. A significant portion of the Company's loans are variable rate instruments that are repriced in response to changes in the "prime rate" which is currently 3.25%, a very low level. The Company recently implemented a change in its pricing policy with respect to variable rate loans by utilizing "floor" rates for all newly made and renewed variable rate loans. The yield on loans is also negatively impacted when loans are placed into nonaccrual status. As discussed later, the Company has seen a significant increase in the number and dollar amount of nonperforming and nonaccrual loans in 2009. Higher average volumes of investment securities held in the 2009 period more than offset the effects of lower rates earned on those instruments. Federal funds sold by the Company during the 2009 period were significantly reduced from the amounts sold during the same period of 2008. Excess cash reserves are currently maintained on deposit with the Federal Reserve Bank, which is paying a nominal amount of interest on those deposits. Actions taken by the Federal Reserve since the third quarter of 2008 generally were intended initially to reduce market rates of interest and, more recently, to maintain those rates at lower levels.

Rates paid for interest bearing liabilities during the 2009 nine month period were 83 basis points lower than for the 2008 period. Rates paid for time deposits $100 and over were 95 basis points lower during the 2009 period than in the 2008 period and rates paid for other time deposits decreased by 93 basis points compared with the same 2008 period. The average amounts of time deposits outstanding during the 2009 period were $50,553, or 20.0%, more than in the 2008 period. Rates paid for interest bearing transaction accounts for the 2009 nine month period were 126 basis points less than for the same period of 2008 and the average amount of such accounts in the 2009 period was $2,915, or 5.0%, less than for the 2008 period.

Average Balances, Yields
Nine Months Ended Septem

	2009			
	Average Balances	Interest Income/ Expense	Yields/ Rates (1)	A B
			(Dollars in tho	
Assets				
Interest-bearing balances due from banks	$ 19,291	$ 36	0.25%	$
Securities				
Taxable	137,055	4,260	4.16%	9
Tax exempt (2)	20,043	612	4.08%	2
Total investment securities	157,098	4,872	4.15%	11
Other investments	1,283	3	0.31%	
Federal funds sold	2,649	3	0.15%	2
Loans (2) (3) (4)	273,201	12,460	6.10%	25
Total interest earning assets	453,522	17,374	5.12%	40
Cash and due from banks	6,953			
Allowance for loan losses	(5,439)			(
Valuation allowance - Available-for-sale securities	1,178			
Premises and equipment	8,611			
Other assets	15,975			1
Total assets	$ 480,800			$ 42
Liabilities and shareholders' equity				
Interest bearing deposits				
Interest bearing transaction accounts	$ 55,107	$ 281	0.68%	$ 5
Savings	22,607	63	0.37%	2
Time deposits $100M and over	131,612	2,987	3.03%	10
Other time deposits	171,169	4,938	3.86%	14
Total interest bearing				

deposits	380,495	8,269	2.91%	33
Short-term borrowings	14	-	0.00%	
Long-term debt	9,500	275	3.87%	
Total interest bearing liabilities	390,009	8,544	2.93%	34
Noninterest bearing demand deposits	44,567			4
Other liabilities	4,998			
Shareholders' equity	41,226			3
Total liabilities and shareholders' equity	$ 480,800			$ 42
Interest rate spread			2.19%	
Net interest income and net yield on earning assets		$ 8,830	2.60%	
Interest free funds supporting earning assets	$ 63,513			$ 5

(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.

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Provision and Allowance for Loan Losses

The provision for loan losses was $1,010 for the third quarter of 2009 compared with $965 for the third quarter of 2008. For the first nine months of 2009, the provision for loan losses was $2,460, compared with $1,375 for the first nine months of 2008. At September 30, 2009, the allowance for loan losses was 2.01% of loans, compared with 2.02% at December 31, 2008 and 1.31% as of September 30, 2008. The increase in the provision and allowance was made as a result of significant increases in the amounts of nonaccrual and potential problem loans, increased net charge-offs, higher volumes of loans and heightened concerns about the state of the local economy and the resultant ability of the Company's customers to perform in accordance with the terms of their loans.

For the first nine months of 2009, net charge-offs totaled $2,527, compared with $446 in net charge offs during the same period of 2008. As of September 30, 2009, nonaccrual loans totaled $14,884 and there were no loans 90 days or more past due and still accruing interest. As of September 30, 2008, nonaccrual loans totaled $4,725. The activity in the allowance for loan losses is summarized in the table below:

	Nine Months Ended September 30, 2009	
		(Dol
Allowance at beginning of period	$ 5,475	
Provision for loan losses	2,460	

Net charge-offs	(2,527)
Allowance at end of period	$ 5,408
Allowance as a percentage of loans outstanding at period end	2.01%
Loans at end of period	$ 269,725

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	Nonaccrual Loans	90 Days or More Past Due and Still Accruing	Total Nonperforming Loans	Percentage of Total Loans
			(Dollars in thousands)	
January 1, 2008	$ 625	$ -	$ 625	0.26%
Net change	(181)	-	(181)	
March 31, 2008	444	-	444	0.18%
Net change	1,436	-	1,436	
June 30, 2008	1,880	-	1,880	0.73%
Net change	2,845	-	2,845	
September 30, 2008	4,725	-	4,725	1.77%
Net change	7,074	-	7,074	
December 31, 2008	11,799	-	11,799	4.36%
Net change	2,835	-	2,835	
March 31, 2009	14,634	-	14,634	5.31%
Net change	2,882	-	2,882	
June 30, 2009	17,516	-	17,516	6.41%
Net change	(2,632)	-	(2,632)	
September 30, 2009	$ 14,884	$ -	$ 14,884	5.52%

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. Such loans are assigned to one of several below-average risk-rating grades depending on factors such as past due status, collateral values, and other factors affecting the customers' ability to repay. As of September 30, 2009, approximately 66% of the Company's potential problem loans were included in the Company's least severe below-average risk-rating grade. Approximately 92% of potential problem loans were secured by real estate. Management expects that further deterioration of economic conditions within the Company's market areas is likely in the short-term, especially with respect to real estate related activities and real property values. Consequently, it is expected that increased provisions for loan losses will be needed in the future.

The statewide unemployment rate for South Carolina was 11.6% (seasonally adjusted) as of September 30, 2009, compared with 8.8% as of December 31, 2008 and 7.5% as of September 30, 2008. The unemployment rates (not seasonally adjusted) in Oconee and Anderson Counties, South Carolina were 14.2% and 12.5%, respectively, as of September 30, 2009 compared with 10.6% and 9.6%, respectively, as of December 31, 2008 and 8.0% and 7.2%, respectively, as of September 30, 2008.

Noninterest Income

Noninterest income totaled $704 for the third quarter of 2009, compared with $634 for the 2008 quarter. Fees associated with originating mortgage loans for another financial institution totaled $48 in the third quarter of 2009 compared with $6 for the same period of 2008. Fees associated with card-based services were $154 in the 2009 quarter compared with $142 in the prior year period.

For the nine months ended September 30, 2009, noninterest income totaled $2,027, compared with $1,868 for the same period of 2008. Service charges on deposit accounts in the 2009 period were $1,048 representing a decrease of $61 from the prior year period's $1,109. Net gains on sales of investment securities totaled $90 for the 2009 year-to-date period compared with net losses on such sales of $3 for the same 2008 period. Fees associated with card-based services were $450 for the 2009 period and $412 for the 2008 period. During the 2009 and 2008 nine month periods, increases in the value of life insurance assets totaling $274 and $280 were recognized, respectively. Fees from originating mortgage loans were $119 for the 2009 year period compared with $19 for the same period of 2008.

Noninterest Expenses

Noninterest expenses totaled $2,297 for the third quarter of 2009 compared with $1,938 for the same period of 2008, representing an increase of $359 or 18.5%. Salaries and employee benefits increased by $133, or 12.4%, to $1,206. Higher deferred compensation expenses, decreased deferrals of current compensation expenses under applicable accounting standards resulting from lower loan origination activity in 2009, and the hiring in 2009 of a special assets officer to fill a newly created position contributed to the increased salaries and benefits.

The cost of deposit insurance was $165 for the third quarter of 2009, compared with $58 for the third quarter of 2008. Further increases in these expenses are expected to occur due to the imposition of higher assessment rates on the banking industry generally. Expenses for professional services increased to $130 for the 2009 three month period from $51 for the same period of 2008 due to legal fees incurred in the 2009 period with respect to foreclosure and repossession actions and in connection with the Company's proposed issuance of preferred stock. Expenses associated with holding foreclosed assets totaled $53 in the 2009 three month period compared with no such expenses in the 2008 period.

Noninterest expenses for the nine months ended September 30, 2009 totaled $6,820, an increase of $990, or 17.0%, over the amount for the same period of 2008. Salaries and employee benefits increased by $413, or 12.8%, over the amount for 2008 for the reasons discussed previously. Net occupancy and furniture and equipment expenses decreased by an aggregate of $22, or 3.1%, primarily because of lower depreciation expenses. Amounts assessed for FDIC insurance increased by $407 due to the special assessment in the second quarter of 2009 and other factors discussed previously. Expenses associated with foreclosed assets increased by $71 in the 2009 period. Expenses for professional services increased by $101 for the 2009 period due to the factors discussed previously as well as higher fees related to recurring independent loan reviews, internal audits and other accounting and compliance assistance.

The Company continues to pursue a strategy to increase its market share in its local market areas in Anderson and Oconee Counties of South Carolina. Oconee County is served from two offices in Seneca, and one office in each of Walhalla and Westminster. The Anderson County market is served from two offices in Anderson and one office in 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. The Company manages both assets and liabilities to achieve appropriate levels of liquidity. Cash and short-term investments are the Company's 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 Company's principal source of secondary asset liquidity. However, the availability of this source is influenced by market conditions. Individual and commercial deposits are the Company's primary source of funds for credit activities. The Company has approximately $42,180 of credit availability under its FHLB lines of credit and additional amounts are available under federal funds purchased facilities.

As of September 30, 2009, the ratio of loans to total deposits was 64.6%, compared with 65.0% as of December 31, 2008. Deposits as of September 30, 2009 were $417,794, an increase of $1,679 or .4% over the amount as of December 31, 2008. Management believes that the Company's liquidity sources are adequate to meet its operating needs.

Capital Resources

The Company's capital base increased by $2,777 since December 31, 2008 as the result of net income of $1,223 for the first nine months of 2009, an increase of $486 from the exercise of stock options, plus a $1,068 change in unrealized gains and losses on available-for-sale securities, net of deferred income tax effects.

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 September 30, 2009 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:

	Tier 1	Total Capital	Leverage

Community First Bancorporation	13.4%	14.7%	8.7%
Community First Bank	12.7%	13.9%	8.2%
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 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:

	September 30, 2009
	(Dollars in thousands)
Loan commitments	$ 19,373
Standby letters of credit	1,268

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 either the nine months or three months ended September 30, 2009.

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 are involved in other off-balance sheet contractual relationships or transactions that could result in liquidity needs or other commitments or significantly impact earnings.

Item 3. - Quantitative and Qualitative Disclosures About Market Risk

The Company's exposure to market risk is primarily related to the risk of loss from adverse changes in market prices and rates. This risk arises principally from interest rate risk inherent in the Company's lending, deposit gathering and borrowing activities. Management actively monitors and manages its interest rate risk exposure. Although the Company manages other risks, such as credit quality and liquidity risk in the normal course of business, management considers interest rate risk to be its most significant market risk and this risk could potentially have the largest material effect on the Company's financial condition and results of operations. Other types of market risk, such as commodity price risk and foreign currency exchange risk, do not arise in the normal course of the Company's community banking operations.

The Company uses a simulation model to assist in achieving consistent growth in net interest income while managing interest rate risk. As of September 30 2009, the model indicates that net interest income would decrease $58 and net income would decrease $37 in the next twelve months if interest rates rose by 100 basis points. Conversely, net interest income would increase $39 and net income would increase $25 in the next twelve months if interest rates declined by 100 basis points. In the current interest rate environment, it appears unlikely that there will be any large changes in interest rates in the immediate future. The prospective effects of hypothetical interest rate changes are based

on a number of assumptions, including the relative levels of market interest rates and prepayment assumptions affecting loans, and should not be relied on as indicative of actual future results. The prospective effects also do not contemplate potential actions that the Company, its customers and the issuers of its investment securities could undertake in response to changes in interest rates.

As of September 30, 2009, there was no significant change from the interest rate sensitivity analysis for the various changes in interest rates calculated as of December 31, 2008. The foregoing disclosures related to the Company's market risk should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Item 4T. - 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

November 13, 2009	/s/ Frederick D. Shepherd, Jr.
Date	Frederick D. Shepherd, Jr., Chief Executive Officer and Chief Financial Officer

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EXHIBIT INDEX

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

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