COMMUNITY FIRST BANCORP
Form 10-Q
August 14, 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 June 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 August 6, 2009

COMMUNITY FIRST BANCORPORATION

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PART I - FINANCIAL INFORMATION

Item 1. - Financial Statements

COMMUNITY FIRST BANCORPORATION
Consolidated Balance Sheets

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Interest bearing balances due from banks
Federal funds sold
Cash and cash equivalents
Securities available-for-sale
Securities held-to-maturity (fair value $10,588 for 2009 and $12,238 for 2008)
Other investments
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Allowance for loan losses
Loans - net
Premises and equipment - net
Accrued interest receivable
Bank-owned life insurance
Other assets
Total assets
Liabilities
Deposits
Noninterest bearing
Interest bearing
Total deposits
Accrued interest payable
Long-term debt
Other liabilities
Total liabilities
Shareholders' equity
Preferred stock - no par value; 10,000,000 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

	Perio	
	Three Months	
	2009	2008
	(Dollars in tho	
Interest income		
Loans, including fees	$ 4,197	$ 4,52
Interest bearing balances due from banks	6	
Securities		
Taxable	1,456	1,17
Tax-exempt	202	20
Other investments	-	1
Federal funds sold	-	11
Total interest income	5,861	6,03
Interest expense		
Time deposits $100M and over	990	1,05
Other deposits	1,757	2,04
Long-term debt	91	4
Total interest expense	2,838	3,14
Net interest income	3,023	2,89
Provision for loan losses	700	28
Net interest income after provision	2,323	2,61
Other income		
Service charges on deposit accounts	348	37
ATM interchange and other fees	156	14
Credit life insurance commissions	3	
Gains on sales of securities available-for-sale	90	
Increase in value of bank-owned life insurance	91	9
Other income	64	1
Total other income	752	62
Other expenses		
Salaries and employee benefits	1,244	1,10
Net occupancy expense	134	13
Furniture and equipment expense	100	10

Amortization of computer software	112	8
ATM interchange and related expenses	101	9
Directors' fees	34	3
FDIC insurance assessment	300	5
Other expense	401	39
Total other expenses	2,426	2,00
Income before income taxes	649	1,23
Income tax expense	160	38
Net income	$ 489	$ 84
Per share*		
Net income	$ 0.14	$ 0.2
Net income, assuming dilution	0.14	0.2

* 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.

COMMUNITY FIRST BANCORPORATION
Consolidated Statements of Changes in Shareholders' Equity

(Unaudited)

	Common Stock			
	Number of Shares	Amount	Additional Paid-in Capital	Re Ea
		(Dollars in thousands)		
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 $439	-	-	-	
Total other comprehensive income				
Total comprehensive income				
Exercise of employee stock options	70,768	365	-	
Balance, June 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 $410	-	-	-	
Reclassification adjustment, net of income tax effects of $33	-	-	-	
Total other comprehensive income				
Total comprehensive income				
Exercise of employee stock options	45,532	486	-	
Balance, June 30, 2009	3,609,811	$ 37,570	$ 748	$

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY FIRST BANCORPORATION
Consolidated Statements of Cash Flows

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Provision for loan losses ....
Depreciation ....
Amortization of net loan fees and costs ....
Securities accretion and premium amortization ....
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Increase in value of bank-owned life insurance ....
Decrease (increase) in interest receivable ....
Increase (decrease) in interest payable ....
Decrease in prepaid expenses and other assets ....
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Investing activities	
Purchases of securities available-for-sale	
Purchase of securities held-to-maturity	
Maturities, calls and paydowns of securities available-for-sale	
Maturities, calls and paydowns of securities held-to-maturity	
Proceeds from sales of securities available-for-sale	
Proceeds from sales of other investments	
Purchases 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	
Investment in bank-owned life insurance	
Net cash used by investing activities	
Financing activities	
Net (decrease) increase in demand deposits, interest bearing transaction accounts and savings accounts	
Net increase in certificates of deposit and other time deposits	
Net increase (decrease) in short-term borrowings	
Proceeds of issuing long-term debt	
Repayments of long-term debt	
Cash paid in lieu of issuing fractional shares	
Exercise of employee stock options	
Net cash (used) 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.

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COMMUNITY FIRST BANCORPORATION

Consolidated Statements of Cash Flows - continued

	(Unaudited) Six Months Ended June 30, 2009	2008
	(Dollars in thousands)	
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for		
Interest	$ 4,706	$ 7,278
Income taxes	8	900
Net transfers from loans to foreclosed assets	1,537	-
Noncash investing and financing activities:		
Other comprehensive income (loss)	(790)	(784)

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. All 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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	June 30, 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	$ 1,626	$ 34	$ -	$ 1,660
Government sponsored enterprises (GSEs)	80,217	462	1,284	79,395
Mortgage-backed securities issued by GSEs	38,858	697	88	39,467
State, county and municipal	19,837	86	630	19,293
Total	$140,538	$ 1,279	$ 2,002	$139,815
Held-to-maturity				
Mortgage-backed securities issued by US Government agencies	$ -	$ -	$ -	$ -
Government sponsored enterprises	-	-	-	-
Mortgage-backed securities issued by GSEs	10,278	310	-	10,588
State, county and municipal	-	-	-	-
Total	$ 10,278	$ 310	$ -	$ 10,588

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

	June 30	
	Available-for-sale	
	Amortized Cost	Estimated Fair Value
	(Dollars	
Due within one year	$ 2,508	$ 2,562
Due after one through five years	12,103	12,246
Due after five through ten years	36,884	36,623
Due after ten years	48,559	47,257
	100,054	98,688
Mortgage-backed securities issued by:		
US Government agencies	1,626	1,660
GSEs	38,858	39,467
Total	$140,538	$139,815

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 June 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.

	June 30, 2009			
	Continuously in Unrealized Loss Position			
	Less than 12 Months		12 Months or more	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unreali Loss
			(Dollars in thousands	
Available-for-sale				
US Government agencies	$ -	$ -	$ -	$
Government-sponsored enterprises (GSEs)	51,078	1,284	-	
Mortgage-backed securities				

issued by GSEs	6,849	88	-	
State, county and				
municipal securities	12,668	568	1,316	
Total	$70,595	$ 1,940	$ 1,316	$
Held-to-maturity				
GSEs	$ -	$ -	$ -	$
Total	$ -	$ -	$ -	$

As of June 30, 2009, 71 securities had been continuously in an unrealized loss position for less than 12 months and 4 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 state, county and municipal government issuers and mortgage-backed securities issued by GSEs. 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. Substantially all of the issuers of state, county and municipal securities were rated at least "investment grade" as of June 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 six months of 2009, the Company sold 3 available-for-sale securities for gross sales proceeds of $5,851. Gross realized gains resulting from these sales totaled $90. There were no transfers of available-for-sale securities to other categories in the 2009 six-month period.

Nonperforming Loans - As of June 30, 2009, there were $17,516 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. 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 E	
	Three Months	
	2009	2008
	(Dollars in thousand	
Net income per share, basic		
Numerator - net income	$ 489	$ 845
Denominator		
Weighted average common shares issued and outstanding	3,609,811	3,528,229
Net income per share, basic	$ .14	$ .24
Net income per share, assuming dilution		
Numerator - net income	$ 489	$ 845
Denominator		
Weighted average common shares issued and outstanding	3,609,811	3,528,229
Effect of dilutive stock options	-	141,031
Total shares	3,609,811	3,669,260
Net income per share, assuming dilution	$ .14	$ .23

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 were issued and outstanding as of June 30, 2009.

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 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 Reporting Date Usi		
Description	June 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Signifi Unobserv Input (Level
		(Dollars in thousands)		
Securities available-for-sale		$ -	$ 139,815	$

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. The techniques used after adoption of SFAS No. 157 are consistent with the methods used previously. 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 ("FSP 157-2") which delayed for one year the effective date of the application of Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("SFAS No. 157") to 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). In accordance with FSP 157-2, the Company only partially applied SFAS No. 157 in periods ending prior to March 31, 2009. As of June 30, 2009, the Company had no assets or liabilities carried on the Consolidated Balance Sheets for which a change in fair value was made on a non-recurring basis during the three-month period or year-to-date period ended June 30, 2009 and which remained outstanding at the end of the period.

SFAS No. 107, "Disclosures about Fair Values of Financial Instruments," as amended, requires 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 by SFAS No. 107 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 within the scope of SFAS No. 157 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 SFAS No. 157. Accordingly, the fair value disclosures required by SFAS No. 157 provide only a partial 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:

	June 30, 2009	
	Carrying Amount	Estimated Fair Value
	(Dollars in thousands)	
Financial assets		
Cash and due from banks	$ 8,348	$ 8,348
Interest bearing deposits due from banks	16,872	16,872
Securities available-for-sale	139,815	139,815
Securities held-to-maturity	10,278	10,588
Federal Home Loan Bank stock	1,307	1,307
Loans	267,780	*
Accrued interest receivable	2,528	2,528
Financial liabilities		
Deposits	414,121	*
Accrued interest payable	4,177	4,177
Long-term debt	9,500	*

*Information not currently available.

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, 2009	
	Notional/ Contract Amount	Estimated Fair Value
	(Dollars in thousands)	
Off-balance sheet commitments		
Loan commitments	$ 25,829	$ -
Standby letters of credit	948	-

Subsequent Events - The Company has evaluated events subsequent to the balance sheet date through August 14, 2009, which is the date that the financial statements were issued, in accordance with the requirements of Statement of Financial Accounting Standards No. 165, "Subsequent Events."

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 June 30, 2009, there were no nonrecognized subsequent events that required disclosure.

New Accounting Pronouncements - Statement of Financial Accounting Standards No. 160 "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" ("SFAS No. 160") was effective as of January 1, 2009 and is required to be applied prospectively with retrospective presentation and disclosure requirements for comparative financial statements. Early adoption was prohibited. SFAS No. 160 seeks to improve the relevance, comparability and transparency of financial information that a reporting entity provides in its consolidated financial statements by separately identifying and reporting several financial statement components into amounts that are attributable to the reporting entity or that are attributable to noncontrolling interests. SFAS No. 160 also specifies the conditions under which an entity is required to deconsolidate its interest in a subsidiary. The Company currently has no consolidated subsidiaries that are not wholly-owned nor are any transactions contemplated that would result in such a condition. Therefore, the adoption of SFAS No. 160 in January 2009 had no effect on the Company's consolidated financial statements.

SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities," was effective as of January 1, 2009. This standard requires enhanced disclosure about an entity's derivative and hedging activities to improve the transparency of financial reporting. The Company does not engage in any material derivative or hedging activities. Therefore, the implementation of SFAS No. 161 had no effect on the Company's consolidated financial statements.

Financial Accounting Standards Board ("FASB") Staff Position No. 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3"), amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." This Staff Position was effective for the Company on January 1, 2009 and had no impact on the Company's financial position, results of operations or cash flows.

FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1") specifies that issuers of convertible debt instruments that may be settled in cash upon conversion should separately account for the liability and equity components that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in a subsequent period. This FSP provides guidance for initial and subsequent measurement as well as derecognition provisions. This FSP was effective for the Company on January 1, 2009 and had no effect on the Company's financial position, results of operations or cash flows.

FASB Staff Position No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities" ("FSP EITF 03-6-1") provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and must be included in the earnings per share computation. FSP EITF 03-6-1 was effective for the Company on January 1, 2009 and had no effect on the Company's financial position, results of operations or cash flows.

FASB Staff Position SFAS 133-1 and FIN 45-4 "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161" ("FSP SFAS 133-1 and FIN 45-4") amends SFAS 133 to require the seller of credit derivatives to disclose the nature of the credit derivative, the maximum potential amount of future payments, the fair value of the derivative, and the nature of any recourse provisions. Disclosures must be made for entire hybrid instruments that have embedded credit derivatives. FSP SFAS 133-1 and FIN 45-4 also amends FASB Interpretation No. 45 ("FIN 45") to require disclosure of the current status of the payment/performance risk of the credit derivative guarantee. If an entity utilizes internal groupings as a basis for the risk, disclosure must also be made of how the groupings are determined and how the risks are managed. FSP SFAS 133-1 and FIN 45-4 clarifies the effective date of SFAS 161 such that required disclosures should be provided for any reporting period (annual or interim) beginning after November 15, 2008. The adoption of this Staff Position had no material effect on the Company's financial position, results of operations or cash flows.

FSP SFAS 140-4 and FIN 46(R)-8 "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interest in Variable Interest Entities" was issued in December 2008 to require public companies to disclose additional information about transfers of financial assets and any involvement with variable interest entities. The FSP also requires certain disclosures for public entities that are sponsors and servicers of qualifying special purpose entities. The FSP was effective for the Company as of January 1, 2009. Application of this FSP had no impact on the financial position, results of operations or cash flows of the Company.

In April, 2009 FASB issued FSP No. FAS 107-1 and APB 28-1 "Interim Disclosures about Fair Value of Financial Instruments." This FSP amends FASB Statement No 107 to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements and amends APB Opinion No. 28 to require those disclosures in summarized financial information at interim reporting periods. This FSP is effective for interim reporting periods ending after June 15, 2009. The Company adopted this FSP as of its mandatory adoption date.

In April, 2009 FASB issued FSP No. FAS 157-4 "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." This FSP provides additional guidance for estimating fair value in accordance with FASB Statement No. 157 when the volume and level of activity for the asset or liability have significantly decreased. The FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. The Company adopted this FSP as of June 30, 2009.

In April, 2009 FASB issued FSP No. FAS 115-2 and FAS 124-2 "Recognition and Presentation of Other-Than-Temporary Impairments." This FSP amends the other-than-temporary guidance in U.S. Generally Accepted Accounting Principles for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. The FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The FSP requires that entities disclose information for interim and annual periods to enable users of its financial statements to understand the types of available-for-sale and held-to-maturity debt and equity securities held, including information about investments in an unrealized loss position for which an other-than-temporary impairment has or has not been recognized and information that enables users to understand the reasons that an other-than-temporary impairment of a debt security was not recognized in earnings and the methodology and inputs used to calculate the portion of the total other-than-temporary impairment that was recognized in earnings. The Company adopted this FSP as of June 30, 2009.

The FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140," in June 2009 to address practices that developed since the original issuance of SFAS No. 140 that are not consistent with the original intent and key requirements of that Statement and due to concerns raised by users of financial statements that many of the financial assets and related obligations that have been derecognized should continue to be recognized in the financial statements of transferors. The Statement eliminates from accounting literature, as of the Statement's effective date, the concept of a "qualifying special-purpose entity," requires that a transferor recognize at fair value all assets obtained (including a transferor's beneficial interest) and liabilities incurred as a result of a transfer of financial interests accounted for as a sale and provides for enhanced disclosures to provide users of financial statements with more transparency about transfers of financial assets and a transferor's continuing involvement with transferred financial assets. Companies with interests in formerly qualifying special-purpose entities under previous accounting standards will be required to re-evaluate whether those entities should be consolidated in accordance with applicable consolidation guidance. The Statement is effective for interim and annual reporting periods beginning with an entity's first financial reporting period that begins after November 15, 2009 and is to be applied to transfers that occurred both before and after the effective date of the Statement. The Company believes that adoption of this Statement will have no effect on its financial condition, results of operations or cash flows.

The FASB issued SFAS No 167, "Amendments to FASB Interpretation No. 46(R)," in June 2009 to improve financial reporting by enterprises involved with variable interest entities. The Statement addresses the effects on certain provisions of FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities," ("FIN 46(R)") as a result of the elimination of the qualifying special-purpose entity concept in SFAS No. 166 and constituent concerns about the application of certain key provisions of FIN 46R including those in which the accounting and disclosures made under that Interpretation fail to provide timely and useful information about an enterprise's involvement in a variable interest entity. The Statement requires entities to reassess whether it is the primary beneficiary of a variable interest entity on an ongoing basis and eliminates the quantitative approach previously required in making that assessment. It is possible that application of this Statement may change an entity's assessment of which entities with which it is involved are variable interest entities. The Statement is effective for interim and annual reporting periods beginning with an entity's first financial reporting period that begins after November 15, 2009 and is to be applied to transfers that occurred both before and after the effective date of the Statement. The Company believes that adoption of this Statement will have no effect on its financial condition, 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 six 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. Loans outstanding as of June 30, 2009 are $2,832 more than the December 31, 2008 amount. Securities available-for-sale increased by $13,179, or 10.4%, during the 2009 six-month period. Many issuers of fixed-rate securities continue to refinance their outstanding obligations because of the currently available lower interest rates. As a result, almost $85,000 of the Company's securities holdings were redeemed early during the first six months of 2009 and the Company purchased more than $103,000 of securities during the 2009 year-to-date period. Federal funds sold decreased by $18,793, or 100%, since the end of 2008. During the fourth quarter of 2008, the Federal Reserve Bank began paying interest on required reserve balances held by banks. Additionally, a correspondent bank which previously was utilized as the Bank's primary clearing bank, and which was the counterparty for most of the Company's federal funds sold, was placed in receivership by government regulators. While that event resulted in no loss to the Company, it created a need for the Company to identify, contract with, and establish internal procedures for new vendors to provide clearing and other banking services.

Continued deterioration of real estate loans resulted in the Company's foreclosing and taking possession of several properties during the first six months of 2009. As of June 30, 2009, the Company's holdings of foreclosed real properties totaled $1,902 comprising 11 properties. Two of the real properties, with carrying amounts totaling $1,070, are commercial properties and the remaining properties are residential properties. Four of the residential properties are completed housing units. To date the Company has capitalized costs of $239 and anticipates capitalizing additional costs of approximately $40 to put all properties in marketable condition. The Company also took possession of personal property with a carrying amount of $280 during the first six months of 2009.

Interest bearing deposits decreased by $5,995, or 1.6% and noninterest bearing deposits increased by $4,001, or 9.5%. The Federal Deposit Insurance Corporation's insurance limits for noninterest-bearing transaction accounts are temporarily unlimited. This policy is believed to be responsible in part for large depositors currently opting to maintain their funds in non-interest bearing accounts.

The Company believes that its liquidity position continues to provide it with sufficient flexibility to fund 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 positions maintain the Company's exposures to changes in interest rates at acceptable levels.

Results of Operations

Three Months Ended June 30, 2009 and 2008

The Company recorded consolidated net income of $489, or $.14 per share, for the second quarter of 2009 compared with $845, or $.24 per share, for the second quarter of 2008. Net income per share, assuming dilution was $.14 for the 2009 quarter and $.23 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.

Net interest income for the 2009 second quarter was $133, or 4.6%, more than for the 2008 second quarter. Total interest income for the 2009 second quarter decreased primarily because of lower rates earned on loans and securities held. Total interest expense for the 2009 quarter was lower than for the same period of 2008 due to lower interest rates paid for deposits.

The provision for loan losses for the second quarter of 2009 increased by $420 over the amount for the same period of 2008 due to higher amounts of net charge-offs, nonaccrual loans and potential problem loans. These negative developments are believed to be due to a slowing in economic conditions, especially with respect to residential real estate and higher levels of unemployment. The effects of the deterioration of the residential real estate market initially were evidenced by problems experienced by some builders and developers. As the slowdown has lingered, those problems have spread to other businesses that are more indirectly related to the new construction real estate market. If the slow conditions continue or deteriorate further, it is possible that relatively large provisions for loan losses may be needed in the future. Unemployment in the Company's market area continued to increase during the second quarter of 2009 reaching 15.1% in Oconee County and 13.2% in Anderson County, SC as of June 30, 2009.

Noninterest income for the second quarter of 2009 increased by $127, or 20.3%, primarily due to a $90 gain realized on sales of securities available-for-sale. Noninterest expense for the 2009 second quarter increased from the amount recorded for the same 2008 period, primarily as a result of higher salaries and employee benefits and a $245 increase in deposit insurance expense. As of June 30, 2009, the Federal Deposit Insurance Corporation charged a special assessment to all insured banks based on a percentage of their total assets less Tier 1 capital. For the Company, this special assessment totaled approximately $215. In addition, the assessment rate charged to banks on a recurring basis was increased during the second quarter of 2009. The Company continues to emphasize efforts to control expenses, but higher direct and indirect expenses imposed by regulatory authorities limit the overall effectiveness of the Company's efforts.

For the Three Months Ended June 30,	Summary Income S (Dollars in thou 2009	2008	D
Interest income	$5,861	$6,037	
Interest expense	2,838	3,147	
Net interest income	3,023	2,890	
Provision for loan losses	700	280	
Noninterest income	752	625	
Noninterest expenses	2,426	2,005	
Income tax expense	160	385	
Net income	$ 489	$ 845	

Six Months Ended June 30, 2009 and 2008

The Company recorded consolidated net income of $903 or .25 per share for the first half of 2009 compared with $1,805 or $.51 per share for the first half of 2008. Net income per share, assuming dilution was $.25 for the 2009 six month period and $.49 for the 2008 six months. Net income per share amounts for 2008 have been retroactively adjusted to reflect a five percent stock dividend effective December 20, 2008.

Net interest income for the first six months of 2009 increased by $148 or 2.6% over the 2008 amount. Increases in the average amounts of securities and loans held mitigated some of the effects of lower yields earned on most categories of earning assets and resulted in interest income decreasing less than interest expenses. Lower interest expense was primarily caused by lower rates paid for interest bearing deposits.

Noninterest income for the first six months of 2009 increased by $89 primarily as a result of gains on sales of securities available-for-sale totaling $90.

Noninterest expenses for the 2009 period increased by $631 or 16.2% over the amount for the 2008 six-month period. Salaries and employee benefits increased by $280, or 13.1%, reflecting an increase of $200 in salaries and wages due to increases in the number of employees and normal periodic increases in employees' compensation and an increase of $27 in expenses related to certain deferred compensation arrangements. Expenses for FDIC deposit insurance increased by $300 over the prior year period due to a special assessment of $215 and increases in both the assessment rate and the assessment base over the prior year amounts.

For the Six Months Ended June 30,	Summary Income S (Dollars in thou 2009	2008
Interest income	$11,644	$12,393

Interest expense	5,838	6,735
Net interest income	5,806	5,658
Provision for loan losses	1,450	410
Noninterest income	1,323	1,234
Noninterest expenses	4,523	3,892
Income tax expense	253	785
Net income	$ 903	$ 1,805

Net Interest Income

Due to continuing economic problems, including increasing levels of real estate foreclosures and higher unemployment rates, 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 efficiency and alternative energy projects. To date, the observable effects of these measures on the broad economy have been minimal.

Three Months Ended June 30, 2009 and 2008

The average yield on interest earning assets decreased to 5.24% for the 2009 three-month period from 6.12% for the 2008 three-month period. Yields on all significant categories of earning assets were lower in the 2009 period. Similarly, interest rates paid for deposits and borrowings were lower in the 2009 period. The average rate paid for interest-bearing liabilities during the 2009 three-month period was 2.98%, compared with 3.74% in the same period of 2008. Accordingly, the average interest rate spread for the 2009 period was 12 basis points lower than for the 2008 period.

Average Balances, Y
Three Months End

	2009		
	Average Balances	Interest Income/ Expense	Yields/ Rates (1)
			(Dollar
Assets			
Interest-bearing balances due from banks	$ 13,690	$ 6	0.18%
Securities			
Taxable	138,021	1,456	4.23%
Tax exempt (2)	19,870	202	4.08%
Total investment securities	157,891	1,658	4.21%
Other investments	1,320	-	0.00%
Federal funds sold	-	-	0.00%

Loans (2) (3) (4)	275,480	4,197	6.11%
Total interest earning assets	448,381	5,861	5.24%
Cash and due from banks	7,079		
Allowance for loan losses	(5,527)		
Valuation allowance - available-for-sale securities	1,296		
Premises and equipment	8,505		
Other assets	15,068		
Total assets	$ 474,802		
Liabilities and shareholders' equity			
Interest bearing deposits			
Interest bearing transaction accounts	$ 53,315	$ 90	0.68%
Savings	21,209	20	0.38%
Time deposits $100M and over	127,700	990	3.11%
Other time deposits	170,605	1,647	3.87%
Total interest bearing deposits	372,829	2,747	2.96%
Long-term debt	9,500	91	3.84%
Total interest bearing liabilities	382,329	2,838	2.98%
Noninterest bearing demand deposits	46,016		
Other liabilities	4,870		
Shareholders' equity	41,587		
Total liabilities and shareholders' equity	$ 474,802		
Interest rate spread			2.26%
Net interest income and net yield on earning assets		$ 3,023	2.70%
Interest free funds supporting earning assets	$ 66,052		

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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.

Six Months Ended June 30, 2009 and 2008

For the first half of 2009, the average yield on interest earning assets was 5.15%, compared with 6.19% for the 2008 period. Yields were lower on substantially all types of earning assets in the 2009 period. Loan yields decreased because a significant portion of the Company's loan portfolio consists of variable rate instruments. Such variable rate loans, as offered by the Company, do not normally subject the borrower to the risk of negative amortization, nor do the loans involve the use of "teaser" rates or impose onerous fees or other terms that would discourage borrowers from refinancing to a lower cost product or one with a fixed rate. In addition, the significant increase in nonaccrual loans during the 2009 period reduced loan income because accrued but uncollected interest income on such loans is reversed against previously recognized loan income at the time the loan is placed in nonaccrual status and the future accrual of income is discontinued. Approximately $329 of accrued interest income was reversed during the six months ended June 30, 2009, including $155 of such income reversed during the three months then ended. Income earned on securities increased due to changes in the composition of the securities portfolio brought about by reinvesting the proceeds obtained from maturities, calls and paydowns of securities and the investment of other funds, principally deposits, obtained currently.

Average rates paid on interest-bearing liabilities were lower in the 2009 period as well, at 3.00% compared with 3.92% in the 2008 six-month period. Decreases in interest rates paid resulted from the Company's responses to actions taken by the Federal Reserve 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 until the negative economic trends begin to improve.

Average Balances, Y
Six Months Ende

	2009		
	Average Balances	Interest Income/ Expense	Yields/ Rates (1)
			(Dollars in th
Assets			
Interest-bearing balances due from banks	$ 17,810	$ 22	0.25%
Securities			
Taxable	138,972	2,962	4.30%
Tax exempt (2)	20,177	411	4.11%
Total investment securities	159,149	3,373	4.27%
Other investments	1,271	-	0.00%
Federal funds sold	3,995	3	0.15%
Loans (2) (3) (4)	273,938	8,246	6.07%
Total interest earning assets	456,163	11,644	5.15%
Cash and due from banks	7,819		
Allowance for loan losses	(5,473)		
Valuation allowance - available-for- sale securities	1,355		
Premises and equipment	8,635		
Other assets	14,584		
Total assets	$ 483,083		
Liabilities and shareholders' equity			
Interest bearing deposits			
Interest bearing transaction accounts	$ 56,319	$ 188	0.67%
Savings	25,121	43	0.35%
Time deposits $100M and over	131,580	2,083	3.19%

Other time deposits	169,929	3,342	3.97%
Total interest bearing deposits	382,949	5,656	2.98%
Short-term borrowings	11	-	0.00%
Long-term debt	9,500	182	3.86%
Total interest bearing liabilities	392,460	5,838	3.00%
Noninterest bearing demand deposits	45,109		
Other liabilities	4,428		
Shareholders' equity	41,086		
Total liabilities and shareholders' equity	$ 483,083		
Interest rate spread			2.15%
Net interest income and net yield on earning assets		$ 5,806	2.57%
Interest free funds supporting earning assets	$ 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 $700 for the second quarter of 2009, compared with $280 for the second quarter of 2008. For the first half of 2009, the provision for loan losses was $1,450, compared with $410 for the first half of 2008. At June 30, 2009, the allowance for loan losses was 2.00% of loans, a slight decrease from 2.02% at December 31, 2008 but significantly higher than the ratio as of June 30, 2008.

For the first six months of 2009, net charge-offs totaled $1,460, compared with $236 in net charge offs during the same period of 2008. The higher levels of charge-offs in 2009 reflect the continuing deterioration of local economic conditions. 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 the Company 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, 2009
	(D
Allowance at beginning of period	$ 5,475
Provision for loan losses	1,450

Net charge-offs	(1,460)
Allowance at end of period	$ 5,465
Allowance as a percentage of loans outstanding at period end	2.00%
Loans at end of period	$ 273,245

Non-Performing and Potential Problem Loans

	Nonaccrual Loans	90 Days or More Past Due and Still Accruing	Total Nonperforming Loans	Percent of Tota 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

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, 2009, collateral for approximately 95% of the dollar amount of nonaccrual loans consisted of real estate. At that date, real estate collateral was held for approximately 80% of the dollar amount of potential problem loans. Approximately 86% of potential problem loans were secured by real estate as of June 30, 2008. As of June 30, 2009, approximately 81% of the Company's potential problem loans were included in the least severe category of such loans, compared with approximately 92% of such loans as of June 30, 2008. 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.

Consequently, management believes that the amounts of potential problem and nonaccrual loans are likely to increase 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.

The statewide unemployment rate for South Carolina was 12.1% (seasonally adjusted) as of June 30, 2009 compared with 8.8% as of December 31, 2008 and 6.5% as of June 30, 2008. The unemployment rates in Oconee and Anderson Counties, South Carolina were 15.1% and 13.2%, respectively, as of June 30, 2009 compared with 10.9% and 9.6%, respectively, as of December 31, 2008 and 6.9% and 6.6%, respectively, as of June 30, 2008.

Noninterest Income

Noninterest income totaled $752 for the second quarter of 2009 compared with $625 for the second quarter of 2008. The Company realized gains on sales of securities available-for-sale of $90 in the 2009 period. There were no such sales in the 2008 period. The Company recognized fees for residential real estate loans originated for others totaling $46 in the 2009 three month period compared with $2 for the 2008 period.

For the six months ended June 30, 2009, noninterest income totaled $1,323 compared with $1,234 for the first half of 2008. Fees for residential real estate loans originated for others totaled $70 for the 2009 period compared with $14 for the 2008 period. Service charges and fees for deposit accounts are lower for the 2009 period due to a decrease in the level of consumer activity. Gains on sales of securities available-for-sale totaled $90 and $0 for the 2009 and 2008 six-month periods, respectively.

Noninterest Expenses

Noninterest expenses totaled $2,426 for the second quarter of 2009 compared with $2,005 for the second quarter of 2008, representing an increase of $421. Compared with the 2008 period, salaries and employee benefits for the 2009 three-month period increased by $136 primarily as a result of increases in the number of personnel and normal periodic adjustments in compensation. Deposit insurance assessments increased by $245 over the amount for the second quarter of 2008 due primarily to a special assessment during the second quarter of 2009.

For the six months ended June 30, 2009, salaries and employee benefits increased by $280 over the amount for the same period of 2008 primarily as a result of normal salary increases and increased numbers of employees. The Company hired a special assets officer late in the first quarter of 2009 to assist in administering the higher level of distressed loans and foreclosed assets. Deferred compensation expenses were $27 more in the 2009 period than in the 2008 period. Deposit insurance assessments for the 2009 six-month period totaled $370 compared with $70 for the same period of 2008, primarily because of the special assessment discussed previously. An increase in the assessment rate has also been implemented during 2009 which is expected to result in continuing increases in the amount of those expenses.

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 four offices, which are located in Seneca, Walhalla and Westminster. The Anderson County market is served from two offices in Anderson and one 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 also has significant amounts of credit availability under its FHLB lines of credit and federal funds purchased facilities.

As of June 30, 2009, the ratio of loans to total deposits was 66.0%, compared with 65.0% 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 $599 since December 31, 2008 as the result of net income of $903 for the first six months of 2009, less a $790 change in unrealized gains and losses on available-for-sale securities, net of deferred income tax effects and $486 received from the exercise of employee stock options. Unrealized losses on available-for-sale securities are not considered to be other than temporary. The Company's available-for-sale securities primarily consist of debt issuances of government-sponsored enterprises. While not directly guaranteed by the U. S. Government, these issues 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. The Company currently has 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, 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	13.3%	14.6%	8.7%
Community First Bank	12.6%	13.8%	8.2%
Minimum "well-capitalized" requirement	6.0%	10.0%	6.0%
Minimum requirement	4.0%	8.0%	5.0%

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 have no voting rights except in certain very limited circumstances. 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 were issued and outstanding as of June 30, 2009.

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:

	June 30, 2009 (Dollars in thousands)
Loan commitments	$ 25,829
Standby letters of credit	948

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, 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 June 30 2009, the model indicates that net interest income would decrease $51 and net income would decrease $33 in the next twelve months if interest rates rose by 100 basis points. Conversely, net interest income would increase $25 and net income would increase $16 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 June 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 4. - Submission of Matters to a Vote of Security Holders.

On Tuesday, April 28, 2009, the shareholders of Community First Bancorporation held their regular annual meeting. At the meeting, one matter was submitted to a vote with results as follows:

1. Election of four directors to hold office for three-year terms:

	SHARES VOTED		
DIRECTORS	FOR	AUTHORITY WITHHELD	BROKER NON-VOTES
Larry S. Bowman, M.D.	2,596,294	0	527,007
William M. Brown	2,596,294	0	527,007
John R. Hamrick	2,596,294	0	527,007
Frederick D. Shepherd, Jr.	2,595,783	511	527,007

The following directors continue to serve until the expiration of their terms at the annual meetings to be held in the years indicated and were not voted on at the 2009 annual meeting: Robert H. Edwards - 2010; Blake L. Griffith - 2010, Gary W. Thrift - 2010, James E. McCoy - 2011, James E. Turner - 2011 and Charles L. Winchester - 2011.

Item 6. - Exhibits

Exhibits

3. Articles of Amendment to Articles of Incorporation relating to authorization of Series A Preferred Stock (incorporated by reference to Form 8-K filed June 22, 2009).

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

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

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 14, 2009	/s/ Frederick D. Shepherd, Jr.
Date	Frederick D. Shepherd, Jr., Chief Executive Officer and Chief Financial Officer

EXHIBIT INDEX

3. Articles of Amendment to Articles of Incorporation relating to authorization of Series A Preferred Stock incorporated by reference to Form 8-K filed June 22, 2009).

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

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