

Oak Ridge Financial Services, Inc.  
Form 10-Q  
May 13, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2011

Commission File Number: 000-52640

**OAK RIDGE FINANCIAL SERVICES, INC**

(Exact name of registrant as specified in its charter)

North Carolina  
(State or other jurisdiction of

20-8550086  
(I.R.S. Employer

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incorporation or organization)

Identification No.)

Post Office Box 2

2211 Oak Ridge Road

Oak Ridge, North Carolina 27310

(Address of principal executive offices)

(336) 644-9944

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The number of shares outstanding of each of the registrant's classes of common stock, as of May 6, 2011, was as follows:

Class	Number of Shares
Common Stock, no par value	1,795,649

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements represent expectations and beliefs of Oak Ridge Financial Services, Inc. (hereinafter referred to as the Company ) including but not limited to the Company's operations, performance, financial condition, growth or strategies. These forward-looking statements are identified by words such as expects, anticipates, should, estimates, believes and variations of these words and other similar statements. For this purpose, all statements contained in this form that are not statements of historical fact may be deemed to be forward-looking statements. Readers should not place undue reliance on forward-looking statements as a number of important factors could cause actual results to differ materially from those in the forward-looking statements. These forward-looking statements involve estimates, assumptions, risks and uncertainties that could cause actual results to differ materially from current projections depending on a variety of important factors, including without limitation:

Revenues are lower than expected;

Credit quality deterioration which could cause an increase in the provision for credit losses;

Competitive pressure among depository institutions increases significantly;

Changes in consumer spending, borrowings and savings habits;

Technological changes and security and operations risks associated with the use of technology;

The cost of additional capital is more than expected;

A change in the interest rate environment reduces interest margins;

Asset/liability repricing risks, ineffective hedging and liquidity risks;

Counterparty risk;

General economic conditions, particularly those affecting real estate values, either nationally or in the market area in which we do or anticipate doing business, are less favorable than expected;

The effects of the Federal Deposit Insurance Corporation deposit insurance premiums and assessments;

The effects of and changes in monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board;

Volatility in the credit or equity markets and its effect on the general economy;

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Demand for the products or services of the Company and the Bank of Oak Ridge, as well as their ability to attract and retain qualified people;

The costs and effects of legal, accounting and regulatory developments and compliance; and

Regulatory approvals for acquisitions cannot be obtained on the terms expected or on the anticipated schedule.

The Company undertakes no obligation to update any forward-looking statement, whether written or oral, that may be made from time to time, by or on behalf of the Company.

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**Oak Ridge Financial Services, Inc.**

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**Table of Contents****Consolidated Balance Sheets***March 31, 2011 (Unaudited) and December 31, 2010 (Audited)**(Dollars in thousands)*

	2011	2010
<b>Assets</b>		
Cash and due from banks	\$ 4,285	\$ 3,557
Interest-bearing deposits with banks	14,730	10,599
Total cash and cash equivalents	19,015	14,156
Time deposits with other Banks	4,020	4,260
Securities available-for-sale	53,645	48,261
Securities held-to-maturity (fair values of \$6,946 in 2011 and \$7,625 in 2010)	6,857	7,534
Federal Home Loan Bank Stock, at cost	1,199	1,199
Loans, net of allowance for loan losses of \$4,465 in 2011 and \$4,375 in 2010	251,414	252,111
Property and equipment, net	10,242	10,352
Foreclosed assets	1,253	2,216
Accrued interest receivable	1,494	1,477
Bank owned life insurance	4,828	4,792
Other assets	2,187	2,650
Total assets	\$ 356,154	\$ 349,008

**Liabilities and Stockholders Equity****Liabilities**

Deposits:		
Noninterest-bearing	\$ 29,014	\$ 26,767
Interest-bearing	279,259	273,508
Total deposits	308,273	300,275
Long-term debt	9,000	9,000
Junior subordinated notes related to trust preferred securities	8,248	8,248
Accrued interest payable	202	173
Employee Stock Ownership Plan accrual	900	900
Other liabilities	1,766	2,539
Total liabilities	328,389	321,135

**Stockholders equity**

Preferred stock, Series A, 7,700 shares authorized and outstanding; no par value, \$1,000 per share liquidation preference	6,875	6,808
Common stock, no par value; 50,000,000 shares authorized; 1,795,349 and 1,792,876 issued and outstanding in 2011 and 2010, respectively	15,862	15,841
Warrant	1,361	1,361
Retained earnings	2,737	2,707
Accumulated other comprehensive income	930	1,156
Total stockholders equity	27,765	27,873

Total liabilities and stockholders' equity	\$ 356,154	\$ 349,008
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*See Notes to Consolidated Financial Statements*

**Table of Contents****Consolidated Statements of Operations***For the three months ended March 31, 2011 and 2010 (Unaudited)**(Dollars in thousands except per share data)*

	2011	2010
<b><i>Interest and dividend income</i></b>		
Loans and fees on loans	\$ 3,582	\$ 3,738
Interest on deposits in banks	7	7
Taxable investment securities	851	888
Total interest and dividend income	4,440	4,633
<b><i>Interest expense</i></b>		
Deposits	893	1,262
Short-term and long-term debt	48	47
Total interest expense	941	1,309
Net interest income	3,499	3,324
<b><i>Provision for loan losses</i></b>		
Net interest income after provision for loan losses	2,894	2,971
<b><i>Noninterest income</i></b>		
Service charges on deposit accounts	157	200
Gain on sale of securities		386
Mortgage loan origination fees	66	61
Investment and insurance commissions	202	192
Fee income from accounts receivable financing	208	190
Debit card interchange income	132	104
Income earned on bank owned life insurance	37	43
Other service charges and fees	18	19
Total noninterest income	820	1,195
<b><i>Noninterest expense</i></b>		
Salaries	1,465	1,402
Employee benefits	189	153
Occupancy expense	211	236
Equipment expense	210	194
Data and item processing	212	229
Professional and advertising	225	360
Stationary and supplies	122	61
Net cost of foreclosed assets	274	24
Telecommunications expense	53	57
FDIC assessment	132	131
Accounts receivable financing expense	66	59
Other expense	291	252
Total noninterest expense	3,450	3,158

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Income before income taxes	264	1,008
<i>Income tax expense</i>	71	369
<b><i>Net income</i></b>	<b>\$ 193</b>	<b>\$ 639</b>
Preferred stock dividends	(96)	(96)
Accretion of discount	(67)	(59)
<b><i>Income available to common stockholders</i></b>	<b>\$ 30</b>	<b>\$ 484</b>
<b><i>Basic earnings per common share</i></b>	<b>\$ 0.02</b>	<b>\$ 0.27</b>
<b><i>Diluted earnings per common share</i></b>	<b>\$ 0.02</b>	<b>\$ 0.27</b>
<b><i>Basic weighted average shares outstanding</i></b>	<b>1,795,649</b>	<b>1,791,474</b>
<b><i>Diluted weighted average shares outstanding</i></b>	<b>1,795,649</b>	<b>1,791,474</b>
<b><i>See Notes to Consolidated Financial Statements</i></b>		

**Table of Contents****Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income***Years ended December 31, 2010 and 2009 (Unaudited)**(Dollars in thousands except shares of common stock)*

	Preferred		Common		Accumulated			Total
	stock, Series A	Common Stock Number Amount	stock warrant	Retained earnings	comprehensive income	Comprehensive income		
Balance December 31, 2009	\$ 6,566	1,791,474	\$ 15,831	\$ 1,361	\$ 2,602	\$ 1,232	\$ 27,592	
Net income					639	\$ 639	639	
Net change in unrealized gain on investment securities available-for-sale, net of tax expense of \$151						253	253	
Reclassification adjustment for investment securities included in net income, net of tax expense of \$144						(242)	(242)	
<b>Total comprehensive income</b>						\$ 647		
Preferred stock dividends					(96)		(96)	
Preferred stock accretion	59				(59)			
Balance March 31, 2010	\$ 6,625	1,791,474	\$ 15,831	\$ 1,361	\$ 3,086	\$ 1,243	\$ 28,146	
	Preferred		Common		Accumulated			
	stock, Series A	Common Stock Number Amount	stock warrant	Retained earnings	comprehensive income	Comprehensive income	Total	
Balance December 31, 2010	\$ 6,808	1,792,876	\$ 15,841	\$ 1,361	\$ 2,707	\$ 1,156	\$ 27,873	
Net income					193	\$ 193	193	
Net change in unrealized gain on investment securities available-for-sale, net of tax benefit of \$83						(226)	(226)	
<b>Total comprehensive income</b>						\$ (33)		
Preferred stock dividends					(96)		(96)	
Stock option expense			7				7	
Common stock issued pursuant to restricted stock awards		2,773	14				14	
Preferred stock accretion	67				(67)			
Balance March 31, 2011	\$ 6,875	1,795,649	\$ 15,862	\$ 1,361	\$ 2,737	\$ 930	\$ 27,765	

*See Notes to Consolidated Financial Statements*

**Table of Contents****Consolidated Statements of Cash Flows***Three months ended March 31, 2011 and 2010 (Unaudited)**(Dollars in thousands)*

	2011	2010
<b><i>Cash flows from operating activities</i></b>		
Net income	\$ 193	\$ 639
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	214	219
Provision for loan losses	605	353
Gain on sale of securities		(386)
(Gain) loss on property and equipment	4	(7)
Income earned on bank owned life insurance	(36)	(43)
Losses (gains) and writedowns on foreclosed assets	244	(7)
Deferred income tax (benefit) expense	505	(111)
Income taxes payable	(723)	422
Net (accretion) amortization of discounts and premiums on securities	(72)	(149)
Changes in assets and liabilities:		
Accrued income	(17)	(69)
Other assets	72	(88)
Accrued interest payable	29	4
Other liabilities	(50)	(67)
Net cash provided by operating activities	968	710
<b><i>Cash flows from investing activities</i></b>		
Activity in available-for-sale securities:		
Sales		4,719
Maturities and repayments	3,435	2,569
Activity in held-to-maturity securities:		
Maturities and repayments	683	706
Time deposit maturities	240	
Net decrease (increase) in loans	234	(560)
Purchases of property and equipment	(110)	(163)
Proceeds from sale of property and equipment	2	16
Proceeds from sale of foreclosed assets	625	184
Net cash provided by (used in) investing activities	(4,011)	7,471
<b><i>Cash flows from financing activities</i></b>		
Net increase in deposits	7,998	9,921
Dividends paid on preferred stock	(96)	(96)
Net cash provided by financing activities	7,902	9,825
Net increase in cash and cash equivalents	4,859	18,006
<b><i>Cash and cash equivalents, beginning</i></b>	14,156	11,071
<b><i>Cash and cash equivalents, ending</i></b>	\$ 19,015	\$ 29,077

*See Notes to Consolidated Financial Statements*



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**Consolidated Statements of Cash Flows**

*Three months ended March 31, 2011 and 2010 (Unaudited)*

*(Dollars in thousands)*

	2011	2010
<b>Supplemental disclosure of cash flow information</b>		
<i>Cash paid for:</i>		
Interest	\$ 912	\$ 1,305
Taxes	\$	\$ 4
<b><i>Non-cash investing and financing activities</i></b>		
Foreclosed assets acquired in settlement of loans	\$ 150	\$ 82

*See Notes to Consolidated Financial Statements*

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### **Notes to Consolidated Financial Statements**

#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **(A) Consolidation**

The consolidated financial statements include the accounts of Oak Ridge Financial Services, Inc. ( Oak Ridge ) and its wholly-owned subsidiary, Bank of Oak Ridge (the Bank ) (collectively referred to hereafter as the Company ). The Bank has one wholly-owned subsidiary, Oak Ridge Financial Corporation, which is currently inactive. All significant inter-company transactions and balances have been eliminated in consolidation.

##### **(B) Basis of Financial Statement Presentation**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ( GAAP ) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheets and the reported amounts of income and expenses for the periods presented. In management's opinion, the financial information, which is unaudited, reflects all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial information as of and for the three-month period ended March 31, 2011, in conformity with accounting principles generally accepted in the United States of America ( GAAP ). Actual results could differ significantly from those estimates. Operating results for the three-month period ended March 31, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2011.

The consolidated balance sheet as of December 31, 2010 has been derived from audited financial statements. The unaudited financial statements of the Company have been prepared in accordance with instructions from Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) considered necessary for a fair presentation have been included.

The organization and business of the Company, accounting policies followed by the Company and other relevant information are contained in the notes to the financial statements filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 2010 (the Annual Report ). This quarterly report should be read in conjunction with the Annual Report.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses and the valuation of the deferred tax asset.

Substantially the Company's entire loan portfolio consists of loans in its market area. Accordingly, the ultimate collectability of a substantial portion of the Company's loan portfolio and the recovery of a substantial portion of the carrying amount of foreclosed real estate are susceptible to changes in local market conditions. The regional economy is diverse and is influenced by the manufacturing and retail segment of the economy.

While management uses available information to recognize loan and foreclosed real estate losses, future additions to the allowances may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as a part of their routine examination process, periodically review the Company's allowances for loan losses. Such agencies may require the Company to recognize additions to the allowances based on their judgments about information available to them at the time of their examinations. Because of these factors, it is reasonably possible that the allowances for loan losses may change materially in the near term.

##### **(C) Business**

Oak Ridge is a bank holding company incorporated in North Carolina in April of 2007. The principal activity of Oak Ridge is ownership of the Bank. The Bank provides financial services through its branch network located in Guilford County, North Carolina. The Bank competes with other financial institutions and numerous other non-financial services commercial entities offering financial services products. The Bank is further subject to the regulations of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities. The

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Company has no foreign operations, and the Company's customers are principally located in Guilford County, North Carolina, and adjoining counties.

### **(D) Critical Accounting Policies**

The Company's financial statements are prepared in accordance with GAAP. The notes to the audited financial statements included in the Annual Report contain a summary of its significant accounting policies. Management believes the Company's policies with respect to the methodology for the determination of the allowance for loan losses, and asset impairment judgments, such as the recoverability of intangible assets, involve a higher degree of complexity and require management to make difficult and subjective judgments that often require assumptions or estimates about highly uncertain matters. Accordingly, the Company considers the policies related to those areas as critical.

The allowance for loan losses ( AFLL ) is established through provisions for losses charged against income. Loan amounts deemed to be uncollectible are charged against the AFLL, and subsequent recoveries, if any, are credited to the allowance. The AFLL represents management's estimate of the amount necessary to absorb estimated probable losses in the loan portfolio. Management's periodic evaluation of the adequacy of the allowance is based on individual loan reviews, past loan loss experience, economic conditions in the Company's market areas, the fair value and adequacy of underlying collateral, and the growth and loss attributes of the loan portfolio.

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This evaluation is inherently subjective as it requires material estimates, including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. Thus, future changes to the AFLL may be necessary based on the impact of changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's AFLL. Such agencies may require the Company to recognize adjustments to the AFLL based on their judgments about information available to them at the time of their examination.

The AFLL related to loans that are identified for evaluation and deemed impaired is based on discounted cash flows using the loan's initial effective interest rate, the loan's observable market price, or the fair value of the collateral for collateral dependent loans. Another component of the AFLL covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is also maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

### **(E) Net Income Per Share**

The computation of diluted earnings per share is similar to the computation of basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued. The numerator is adjusted for any changes in income or loss that would result from the assumed conversion of those potential common shares.

In computing diluted net income per share, it is assumed that all dilutive stock options are exercised during the reporting period at their respective exercise prices, with the proceeds from the exercises used by the Company to buy back stock in the open market at the average market price in effect during the reporting period. The difference between the number of shares assumed to be exercised and the number of shares bought back is added to the number of weighted-average common shares outstanding during the period. The sum is used as the denominator to calculate diluted net income per share for the Company. As of March 31, 2011 and 2010 the warrant, covering approximately 164,000 shares, issued to the U.S. Treasury Department was not included in the computation of diluted net income per share for the period because its exercise price exceeded the average market price of the Company's stock for the period.

At March 31, 2011 and 2010, all exercisable options had an exercise price greater than the average market price for the year and were not included in computing diluted earnings per share.

### **(F) Reclassifications**

Certain prior year amounts have been reclassified in the consolidated financial statements to conform with the current year presentation. The reclassifications had no effect on previously reported net income or stockholders' equity.

### **(G) Recent Accounting Pronouncements**

The following is a summary of recent authoritative pronouncements:

In July 2010, the Receivables topic of the Accounting Standards Codification (ASC) was amended by Accounting Standards Update (ASU) 2010-20 to require expanded disclosures related to a company's allowance for credit losses and the credit quality of its financing receivables. The amendments require the allowance disclosures to be provided on a disaggregated basis. The Company is required to include these disclosures in their interim and annual financial statements. See Note 3.

Disclosures about Troubled Debt Restructurings (TDRs) required by ASU 2010-20 were deferred by the Financial Accounting Standards Board (FASB) in ASU 2011-01 issued in January 2011. In April 2011, FASB issued ASU 2011-02 to assist creditors with their determination of when a restructuring is a TDR. The determination is based on whether the restructuring constitutes a concession and whether the debtor is experiencing financial difficulties as both events must be present.

Disclosures related to TDRs under ASU 2010-20 will be effective for reporting periods beginning after June 15, 2011.

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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.

### **(H) Subsequent Events**

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the date the consolidated financial statements were issued.

**Table of Contents****2. INVESTMENT SECURITIES**

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows (dollars in thousands):

	March 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available-for-sale</b>				
Government-sponsored enterprise securities	\$ 2,033	\$ 112	\$	\$ 2,145
FNMA or GNMA mortgage-backed securities	17,367	415	(38)	17,744
Private label mortgage-backed securities	11,613	979		12,592
Municipal securities	8,308	50	(58)	8,300
SBA debentures	12,309	150	(95)	12,364
Other domestic debt securities	500			500
Total securities available-for-sale	\$ 52,130	\$ 1,706	\$ (191)	\$ 53,645

<b>Held-to-maturity</b>				
Private label mortgage-backed securities	6,857	272	(183)	6,946
Total securities available-for-sale	\$ 6,857	\$ 272	\$ (183)	\$ 6,946

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available-for-sale</b>				
Government-sponsored enterprise securities	\$ 2,034	\$ 136	\$	\$ 2,170
FNMA or GNMA mortgage-backed securities	13,324	479		13,803
Private label mortgage-backed securities	13,199	1,145		14,344
Municipal securities	4,681			4,681
SBA debentures	12,640	192	(69)	12,763
Other domestic debt securities	500			500
Total securities available-for-sale	\$ 46,378	\$ 1,952	\$ (69)	\$ 48,261

<b>Held-to-maturity</b>				
Private label mortgage-backed securities	7,534	248	(157)	7,625
Total securities available-for-sale	\$ 7,534	\$ 248	\$ (157)	\$ 7,625

Subinvestment grade available-for-sale and held-to-maturity private label mortgage-backed securities are analyzed on a quarterly basis for impairment by utilizing an independent third party that performs an analysis of the estimated principal the Bank is expected to collect in a number of different economic scenarios. The result of this analysis determines whether the Bank records an impairment loss on these securities. The Bank did not record impairment charges during the three months ended March 31, 2011 and 2010.

The Bank had approximately \$1.2 million at both March 31, 2011 and December 31, 2010 of investments in stock of the FHLB, which is carried at cost. On November 2, 2010, FHLB paid a dividend for the third quarter of 2010 based on an annualized dividend rate of 0.39%. Management believes that its investment in FHLB stock was not other-than-temporarily impaired as of December 31, 2010. However, there can be no assurance that the impact of recent or future legislation on the FHLB will not also cause a decrease in the value of the FHLB stock held by the Company. Investment securities with amortized costs of \$3.9 million and \$4.3 million at March 31, 2011 and December 31, 2010, respectively,

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were pledged as collateral on public deposits or for other purposes as required or permitted by law.

Gross realized gains on the sale of securities for the three months ended March 31, 2010 were \$386,000. There were no gross realized gains or losses on sale of securities for the three months ended March 31, 2011.

The following tables detail unrealized losses and related fair values in the Company's held-to-maturity and available-for-sale investment securities portfolios at March 31, 2011 and December 31, 2010. This information is aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2011 and December 31, 2010 (dollars in thousands).

**Table of Contents****2. INVESTMENT SECURITIES, continued**

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>March 31, 2011</b>						
Available-for-sale						
Government sponsored enterprise securities	\$	\$	\$	\$	\$	\$
FNMA or GNMA mortgage-backed securities	3,692	(38)			3,692	(38)
Private label mortgage-backed securities	3,146	(58)			3,146	(58)
SBA debentures	8,340	(95)			8,340	(95)
Other domestic debt securities						
Total temporarily impaired securities	\$ 15,178	\$ (191)	\$	\$	\$ 15,178	\$ (191)
Held-to-maturity						
Private label mortgage-backed securities	\$	\$	\$ 2,252	\$ (183)	\$ 2,252	\$ (183)
Total temporarily impaired securities	\$	\$	\$ 2,252	\$ (183)	\$ 2,252	\$ (183)
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>December 31, 2010</b>						
Available-for-sale						
Government sponsored enterprise securities	\$	\$	\$	\$	\$	\$
FNMA or GNMA mortgage-backed securities						
Private label mortgage-backed securities						
SBA debentures	4,179	(69)			4,179	(69)
Other domestic debt securities						
Total temporarily impaired securities	\$ 4,179	\$ (69)	\$	\$	\$ 4,179	\$ (69)
Held-to-maturity						
Private label mortgage-backed securities	\$	\$	\$ 2,413	\$ (157)	\$ 2,413	\$ (157)
Total temporarily impaired securities	\$	\$	\$ 2,413	\$ (157)	\$ 2,413	\$ (157)

At March 31, 2011, the unrealized losses in the available-for-sale portfolio relate to two Federal National Mortgage Association ( FNMA ) mortgage-backed-securities, three municipal securities, and one Small Business Administration ( SBA ) debenture. All of these securities are above investment grade and management believes the deterioration in value is attributable to changes in market interest rates. The Company expects these securities to be paid in full and that any temporary impairment will be fully recoverable prior to or at maturity. The two private label held-to-maturity securities are rated Caa2 and B3 by Moody's as of March 31, 2011. Subinvestment grade available-for-sale and held-to-maturity private label mortgage-backed securities were analyzed on a quarterly basis for impairment by utilizing an independent third party that performs an analysis of the estimated principal the Company is expected to collect over the life of these securities. The result of this analysis determines whether the Company records an impairment loss on these securities. The most recent impairment testing performed as of March 31, 2011 indicated that projected principal repayments on both securities were in excess of their recorded values on that same date. As of March 31, 2011, management does not have the intent to sell any of the securities classified as available-for-sale in the table above and believes it is more likely than not that the Company will not have to sell any such securities before a recovery of the cost. The unrealized losses are largely due to increases in the market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or re-pricing date or if market yields for such securities decline.

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At December 31, 2010, the unrealized losses relate to one SBA available-for-sale debenture and two private label held-to-maturity mortgage-backed-securities. The SBA debenture is fully guaranteed by the U.S. Treasury Department, and the deterioration in value is attributable to changes in market interest rates. The Company expects these securities to be paid in full and that any temporary impairment will be fully recoverable prior to or at maturity. The two private label held-to-maturity securities were rated Caa2 by Moody's as of December 31, 2010. Subinvestment grade available-for-sale and held-to-maturity private label mortgage-backed securities are analyzed on a quarterly basis for impairment by utilizing an independent third party that performs an analysis of the estimated principal the Company is expected to collect over the life of these securities. The result of this analysis determines whether the Company records an impairment loss on these securities. Impairment testing performed as of December 31, 2010 indicated that projected principal repayments on both securities were in excess of their recorded values on that same date. As of December 31, 2010, management does not have the intent to sell any of the securities classified as available-for-sale in the table above and believes it is more likely than not that the Company will not have to sell any such securities before a recovery of the cost. The unrealized losses are largely due to increases in the market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or re-pricing date or if market yields for such securities decline.

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**2. INVESTMENT SECURITIES, continued**

Maturities of mortgage-backed securities are presented based on contractual amounts. Actual maturities will vary as the underlying loans prepay. The scheduled maturities of securities at March 31, 2011 were as follows (dollars in thousands):

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$	\$	\$	\$
Due after one year through five years	3,990	4,087		
Due after five years through ten years	17,142	17,958		
Due after ten years	30,998	31,600	6,857	6,946
	\$ 52,130	\$ 53,645	\$ 6,857	\$ 6,946

**3. ALLOWANCE FOR LOAN LOSSES**

An analysis of the allowance for loan losses for the three months ended March 31, 2011 and 2010 follows (dollars in thousands):

	2011	2010
Beginning balance	\$ 4,375	\$ 3,666
Provision for loan losses	605	353
Recoveries	127	13
Loans charged off	(642)	(220)
Ending balance	\$ 4,465	\$ 3,812

The following table summarizes the balances by loan category of the allowance for loan losses with changes arising from charge-offs, recoveries and provision expense for the three months ending March 31, 2011 and 2010 (dollars in thousands):

For the three months ended March 31, 2011

Allowance for Loan Losses	Commercial	Construction	Residential,	Residential, 5	Nonfarm, nonresidential	Agricultural	Consumer	Unallocated	Total
		and development	one-to-four families	or more families					
Allowance for credit losses:									
Beginning balance	\$ 815	\$ 1,970	\$ 1,237	\$ 120	\$ 208	\$ 1	\$ 24	\$	\$ 4,375
Charge-offs	(37)	(453)	(142)				(10)		(642)
Recoveries	123						4		127
Provision	(219)	209	94	(13)	531	1	2		605
Ending balance	\$ 682	\$ 1,726	\$ 1,189	\$ 107	\$ 739	\$ 2	\$ 20	\$	\$ 4,465

For the three months ended March 31, 2010

Allowance for Loan Losses	Residential, 5					Agricultural	Consumer	Unallocated	Total
	Commercial	Construction and development	Residential, one-to-four families	or more families	Nonfarm, nonresidential				
Allowance for credit losses:									
Beginning balance	\$ 402	\$ 1,490	\$ 1,123	\$	\$ 615	\$	\$ 37	\$	\$ 3,666
Charge-offs	(5)		(209)				(6)		(220)
Recoveries	5						8		13
Provision	30	524	(346)		139		3		353
Ending balance	\$ 432	\$ 2,015	\$ 569	\$	\$ 754	\$	\$ 42	\$	\$ 3,812

**Table of Contents****3. ALLOWANCE FOR LOAN LOSSES, continued**

The following table lists the loan grades utilized by the Company that serve as credit quality indicators. Each of the loan grades include high and low factors associated with their classification that are utilized to calculate the aggregate ranges of the allowance for loan losses. The total balance, which is as of March 31, 2011, does not include the undisbursed portion of construction loans in process for loans graded Pass.

As of March 31, 2011 (dollars in thousands):

	Pass	Special Mention	Substandard and lower	Total
Commercial	\$ 33,031	\$ 413	\$ 399	\$ 33,843
Construction and development	29,556	9,219	6,651	45,426
Residential, one-to-four families	66,424	5,136	1,453	73,013
Residential, 5 or more families	4,180	871	2,733	7,784
Nonfarm, nonresidential	81,998	4,434	4,343	90,775
Agricultural	2,672			2,672
Consumer	2,453	2	9	2,464
Total	\$ 220,314	\$ 20,075	\$ 15,587	\$ 255,977

As of December 31, 2010 (dollars in thousands):

	Pass	Special Mention	Substandard and lower	Total
Commercial	\$ 33,646	\$ 408	\$ 424	\$ 34,478
Construction and development	31,744	11,395	3,548	46,687
Residential, one-to-four families	69,180	3,934	930	74,044
Residential, 5 or more families	2,556	2,175	3,090	7,821
Nonfarm, nonresidential	80,060	5,772	2,579	88,411
Agricultural	2,298			2,298
Consumer	2,827	14	8	2,849
Total	\$ 222,311	\$ 23,698	\$ 10,579	\$ 256,588

The following table summarizes the past due loans by category as of March 31, 2011 (dollars in thousands):

	30-89 Days Past Due	Greater than 90 Days Past Due (Nonaccrual)	Total Past Due	Current	Total loans	Past due 90 days or more and still accruing
Commercial	\$ 1	\$ 324	\$ 325	\$ 33,518	\$ 33,843	\$
Construction and development	2,242	2,412	1,981	40,722	45,426	178
Residential, one-to-four families	1,309	672	1,116	69,916	73,013	

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Residential, 5 or more families		2,734	2,734	5,050	7,784
Nonfarm, nonresidential	554	3,917	4,471	86,304	90,775
Agricultural				2,672	2,672
Consumer	9	12	21	2,443	2,464
Total	\$ 4,115	\$ 10,071	\$ 14,186	\$ 240,625	\$ 255,977

The following table summarizes the past due loans by category as of December 31, 2010 (dollars in thousands):

	30-89 Days Past Due	Greater than 90 Days Pas Due (Nonaccrual)	Total Past Due	Current	Total loans	Past due 90 days or more and still accruing
Commercial	\$ 59	\$ 265	\$ 324	\$ 34,154	\$ 34,478	\$
Construction and development	2,823	2,102	4,925	41,762	46,687	
Residential, one-to-four families	1,582	566	2,148	71,896	74,044	
Residential, 5 or more families	1,296	1,439	2,735	5,086	7,821	
Nonfarm, nonresidential	3,386	888	4,274	84,137	88,411	
Agricultural				2,298	2,298	
Consumer	21	8	29	2,820	2,849	
Total	\$ 9,167	\$ 5,268	\$ 14,435	\$ 242,153	\$ 256,588	\$

The following table summarizes the allowance for loan losses and recorded investment in loans as of March 31, 2011 (dollars in thousands):

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually evaluated for impairment	Collectively evaluated for impairment	Total	Individually evaluated for impairment	Collectively evaluated for impairment	Total
Commercial	\$	\$ 682	\$ 682	\$ 6,005	\$ 27,838	\$ 33,843
Construction and development	783	943	1,726	6,153	39,273	45,426
Residential, one-to-four families	250	939	1,189	1,593	71,420	73,013
Residential, 5 or more families	83	24	107		7,784	7,784
Nonfarm, nonresidential	469	270	739	2,733	88,042	90,775
Agricultural		2	2		2,672	2,672
Consumer		20	20	283	2,181	2,464
Total	\$ 1,585	\$ 2,880	\$ 4,465	\$ 16,767	\$ 239,210	\$ 255,977

The following table summarized the allowance for loan loss and recorded investment in loans as of December 31, 2011 (dollars in thousands):

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually evaluated for impairment	Collectively evaluated for impairment	Total	Individually evaluated for impairment	Collectively evaluated for impairment	Total

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Commercial	\$ 64	\$ 796	\$ 860	\$ 99	\$ 34,379	\$ 34,478
Construction and development	977	857	1,834	6,425	40,262	46,687
Residential, one-to-four families	123	1,185	1,308	939	73,105	74,044
Residential, 5 or more families	97	30	127	2,734	5,087	7,821
Nonfarm, nonresidential	46	174	220	4,131	84,280	88,411
Agricultural		1	1		2,298	2,298
Consumer		25	25		2,849	2,849
<b>Total</b>	<b>\$ 1,307</b>	<b>\$ 3,068</b>	<b>\$ 4,375</b>	<b>\$ 14,328</b>	<b>\$ 242,260</b>	<b>\$ 256,588</b>

Total nonaccrual loans will not equal loans individually evaluated for impairment as loans that are current or less than 90 days past due may still be considered impaired by management, even though it has been determined that there is no estimated loss of principal or interest on the underlying loan.

**Table of Contents****3. ALLOWANCE FOR LOAN LOSSES, continued**

The following table presents impaired loans as of March 31, 2011 (dollars in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial	\$ 283	\$ 283	\$
Construction and development	3,959	3,959	
Residential, one-to-four families	1,088	1,088	
Residential, 5 or more families	1,881	1,881	
Nonfarm, nonresidential	4,655	4,655	
Agricultural			
Consumer			
<b>Total impaired loans with no related allowance recorded</b>	<b>\$ 11,866</b>	<b>\$ 11,866</b>	<b>\$</b>
With an allowance recorded:			
Commercial	\$	\$	\$
Construction and development	2,195	2,320	783
Residential, one-to-four families	505	505	250
Residential, 5 or more families	852	852	83
Nonfarm, nonresidential	1,349	1,349	469
Agricultural			
Consumer			
<b>Total impaired loans with allowance recorded</b>	<b>\$ 4,901</b>	<b>\$ 5,026</b>	<b>\$ 1,585</b>
<b>Total</b>			
Commercial	\$ 283	\$ 283	\$
Construction and development	6,154	6,279	783
Residential, one-to-four families	1,593	1,593	250
Residential, 5 or more families	2,733	2,733	83
Nonfarm, nonresidential	4,655	4,655	469
<b>Total impaired loans</b>	<b>\$ 16,767</b>	<b>\$ 16,892</b>	<b>\$ 1,585</b>

The following table presents impaired loans as of December 31, 2010 (dollars in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial	\$	\$	\$
Construction and development	3,136	3,255	
Residential, one-to-four families	372	372	
Residential, 5 or more families	1,881	1,881	
Nonfarm, nonresidential	3,452	3,453	
Agricultural			
Consumer			
<b>Total impaired loans with no related allowance recorded</b>	<b>\$ 8,841</b>	<b>\$ 8,961</b>	<b>\$</b>

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With an allowance recorded:			
Commercial	\$ 99	\$ 159	\$ 64
Construction and development	3,290	3,290	977
Residential, one-to-four families	566	566	123
Residential, 5 or more families	853	853	97
Nonfarm, nonresidential	678	678	46
Agricultural			
Consumer			
Total impaired loans with allowance recorded	\$ 5,486	\$ 5,546	\$ 1,307
Total			
Commercial	\$ 99	\$ 159	\$ 64
Construction and development	6,426	6,545	977
Residential, one-to-four families	938	938	123
Residential, 5 or more families	2,734	2,734	97
Nonfarm, nonresidential	4,130	4,131	46
Total impaired loans	\$ 14,327	\$ 14,507	\$ 1,307

#### 4. JUNIOR SUBORDINATED DEBENTURES

In 2007, the Company issued \$8,248,000 of junior subordinated debentures to Oak Ridge Statutory Trust I (the Trust) in exchange for the proceeds of trust preferred securities issued by the Trust. The junior subordinated debentures are included in long-term debt and the Company's equity interest in the Trust is included in other assets.

The Trust was created by the Company on June 28, 2007, at which time the Trust issued \$8.0 million in aggregate liquidation amount of \$1 par value preferred capital trust securities which mature June 28, 2037. Distributions are payable on the securities at the floating rate equal to the three-month London Interbank Offered Rate (LIBOR) plus 1.60%, and the securities may be prepaid at par by the Trust at any time after June 28, 2012. The principal assets of the Trust are \$8.3 million of the Company's junior subordinated debentures which mature on June 28, 2037, and bear interest at the floating rate equal to the three-month LIBOR plus 1.60%, and which are callable by the Company after June 28, 2012. All \$248 thousand in the aggregate liquidation amount of the Trust's common securities are held by the Company.

#### 5. STOCK OPTION AND RESTRICTED STOCK PLANS

The Company has adopted both the *Employee Stock Option Plan* (Incentive Plan) and the *Director Stock Option Plan* (Nonstatutory Plan). Under each plan up to 178,937 shares may be issued for a total of 357,874 shares. Both of these plans expire on June 30, 2010. Options granted under both plans expire no more than 10 years from date of grant. Option exercise prices under both plans shall be set by a committee of the Board of Directors at the date of grant, but shall not be less than 100% of fair market value at the date of the grant. Options granted under either plan vest according to the terms of each particular grant.

During 2006, the Company adopted the Long-Term Stock Incentive Plan, which became effective on April 20, 2007. The Plan provides for the issuance of up to an aggregate of 500,000 shares of common stock in the form of stock options, restricted stock awards and performance unit awards. The Long-Term Stock Incentive Plan expires on April 20, 2017.

**Table of Contents****5. STOCK OPTION AND RESTRICTED STOCK PLANS, continued**

Compensation cost charged to income for the three months ended March 31, 2011 was approximately \$21 thousand. There was no compensation cost for the three months ended March 31, 2010.

**Stock Options**

Stock options may be issued as incentive stock options or as nonqualified stock options. The term of the option will be established at the time it is granted but shall not exceed ten years. Vesting will also be established at the time the option is granted. The exercise price may not be less than the fair market value of a share of common stock on the date the option is granted. It is the Company's policy to issue new shares of stock to satisfy option exercises.

**Restricted Stock Awards**

Restricted stock awards are subject to restrictions and the risk of forfeiture if conditions stated in the award agreement are not satisfied at the end of a restriction period. During the restriction period, restricted stock covered by the award will be held by the Company. If the conditions stated in the award agreement are satisfied at the end of the restriction period, the restricted stock will become unrestricted and the certificate evidencing the stock will be delivered to the employee.

A summary of the status of stock options as of March 31, 2011 and 2010, and changes during the years then ended, is presented below:

	2011		2010	
	Number	Weighted Average Option Price	Number	Weighted Average Option Price
Options outstanding, beginning of year	318,708	\$ 9.47	347,483	\$ 9.86
Granted				
Forfeited				
Options outstanding, end of year	318,708	\$ 9.47	347,483	\$ 9.86

Information regarding the stock options outstanding at March 31, 2011 is as follows (dollars in thousands):

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$4.50-8.79	23,500	9.42 Years	\$ 4.82	\$
\$8.80-9.99	88,281	0.08 Years	\$ 8.80	\$
\$10.00-10.39	119,794	3.42 Years	\$ 10.00	\$
\$10.40-11.20	87,133	3.17 Years	\$ 10.68	\$
	318,708	2.87 Years	\$ 9.47	\$

Information regarding the stock options outstanding and exercisable as of March 31, 2011 are as follows:

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<b>Range of Exercise Prices</b>	<b>Number Outstanding and Exercisable</b>	<b>Weighted Average Remaining Contractual Life</b>	<b>Weighted Average Exercise Price</b>	<b>Aggregate Intrinsic Value</b>
\$8.80-9.99	88,281	0.08 Years	\$ 8.80	\$
\$10.00-10.39	119,794	3.42 Years	\$ 10.00	
\$10.40-11.20	86,896	3.17 Years	\$ 10.68	
	294,971	2.60 Years	\$ 9.84	\$

No options were granted or contractually vested for the three months ended March 31, 2011 and 2010. In the three months ended March 31, 2011, the Company granted 2,773 shares of restricted stock. There were no restricted stock grants during the three months ended March 31, 2010.

**Table of Contents****6. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value estimates are made by management at a specific point in time, based on relevant information about the financial instrument and the market. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument nor are potential taxes and other expenses that would be incurred in an actual sale considered. Fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions and/or the methodology used could significantly affect the estimates disclosed. Similarly, the fair values disclosed could vary significantly from amounts realized in actual transactions.

The following table presents the carrying values and estimated fair values of the Company's financial instruments at March 31, 2011 and December 31, 2010 (dollars in thousands):

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets</b>				
Cash and cash equivalents	\$ 19,015	\$ 19,015	\$ 14,156	\$ 14,156
Federal funds sold				
Time deposits	4,020	4,020	4,260	4,260
Securities, available-for-sale	53,645	53,645	48,261	48,261
Securities, held-to-maturity	6,946	6,946	7,534	7,625
Federal Home Loan Bank Stock	1,199	1,199	1,199	1,199
Loans, net of allowance for loan losses	251,414	251,989	252,111	253,294
Bank owned life insurance	4,828	4,828	4,792	4,792
<b>Financial liabilities</b>				
Deposits	308,273	302,866	300,275	297,603
Junior subordinated notes related to trust preferred securities	8,248	8,248	8,248	8,248
Long-term debt	9,000	9,000	9,000	9,000

The estimated fair values of net loans, deposits and long-term obligations at December 31 are based on estimated cash flows discounted at market interest rates. The carrying values of other financial instruments, including various receivables and payables, approximate fair value. The carrying amounts and the fair values of the junior subordinated notes related to trust preferred securities and long-term debt are equal as the rates on the underlying obligations repriced every three months. The fair value of off-balance sheet financial instruments is considered immaterial. Off-balance sheet financial instruments are commitments to extend credit and are either short-term in nature or subject to immediate repricing.

**Fair Value Hierarchy**

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

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**6. FAIR VALUE OF FINANCIAL INSTRUMENTS, continued**

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

There were no changes to the techniques used to measure fair value during the period.

Following is a description of valuation methodologies used for assets recorded at fair value.

***Investment Securities Available-for-Sale***

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

***Loans***

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment using one of several methods, including collateral value, market price and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At both March 31, 2011 and December 31, 2010, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

***Foreclosed Assets***

Foreclosed assets are adjusted to fair value upon transfer of the loans to other real estate owned. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charged to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

**Table of Contents****6. FAIR VALUE OF FINANCIAL INSTRUMENTS, continued***Assets recorded at fair value on a recurring basis*

<b>March 31, 2011 (Dollars in thousands)</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Government-sponsored enterprise securities	\$ 2,145	\$	\$ 2,145	\$
FNMA or GNMA mortgage-backed securities	17,744	2,989	14,755	
Private label mortgage-backed securities	12,592		12,592	
Municipal securities	8,300		8,300	
SBA debentures	12,364		12,364	
Other domestic debt securities	500			500
<b>Investment securities available-for-sale</b>	<b>\$ 53,645</b>	<b>\$ 2,989</b>	<b>\$ 50,156</b>	<b>\$ 500</b>
<b>Total assets at fair value</b>	<b>\$ 53,645</b>	<b>\$ 2,989</b>	<b>\$ 50,156</b>	<b>\$ 500</b>
<b>December 31, 2010 (Dollars in thousands)</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Government-sponsored enterprise securities	\$ 2,170	\$	\$ 2,170	\$
FNMA or GNMA mortgage-backed securities	13,803	6,348	7,455	
Private label mortgage-backed securities	14,344		14,344	
Municipal securities	4,681	4,681		
SBA debentures	12,763		12,763	
Other domestic debt securities	500			500
<b>Investment securities available-for-sale</b>	<b>\$ 48,261</b>	<b>\$ 11,029</b>	<b>\$ 36,732</b>	<b>\$ 500</b>
<b>Total assets at fair value</b>	<b>\$ 48,261</b>	<b>\$ 11,029</b>	<b>\$ 36,732</b>	<b>\$ 500</b>

*Assets recorded at fair value on a nonrecurring basis*

<b>March 31, 2011 (Dollars in thousands)</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Construction and development loans	\$ 1,412	\$	\$	\$ 1,412
Revolving, open-end loans secured by one-to-four family residential properties				
Closed-end first lien loans secured by one-to-four family residential properties	255			255
Commercial and industrial loans				
Secured by multifamily (5 or more) residential properties	769			769
Secured by nonfarm nonresidential properties	880			880
<b>Impaired loans receivable</b>	<b>3,316</b>			<b>3,316</b>
Foreclosed assets	1,253			1,253
<b>Total assets at fair value</b>	<b>\$ 6,396</b>	<b>\$</b>	<b>\$</b>	<b>\$ 6,396</b>
<b>Total liabilities at fair value</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>December 31, 2010 (Dollars in thousands)</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Construction and development loans	\$ 2,313	\$	\$	\$ 2,313
Revolving, open-end loans secured by one-to-four family residential properties				

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Closed-end first lien loans secured by one-to-four family residential properties	443			443
Commercial and industrial loans	35			35
Secured by multifamily (5 or more) residential properties	757			757
Secured by nonfarm nonresidential properties	632			632
Impaired loans receivable	4,180			4,180
Foreclosed assets	2,216			2,216
Total assets at fair value	\$ 6,396	\$	\$	\$ 6,396
Total liabilities at fair value	\$	\$	\$	\$

**Table of Contents****6. FAIR VALUE OF FINANCIAL INSTRUMENTS, continued**

The table below presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (level 3) during the three-month periods ending March 31, 2011 and 2010.

<b>(Dollars in thousands)</b>	<b>Available-for Sale Securities</b>
Balance, January 1, 2011	\$ 500
Total gains or losses (realized/unrealized):	
Included in earnings	
Included in other comprehensive income	
Purchases, issuances, and settlements	
Transfers in to/out of Level 3	
<b>Balance, March 31, 2011</b>	<b>\$ 500</b>

<b>(Dollars in thousands)</b>	<b>Available-for Sale Securities</b>
Balance, January 1, 2010	\$ 500
Total gains or losses (realized/unrealized):	
Included in earnings	
Included in other comprehensive income	
Purchases, issuances, and settlements	
Transfers in to/out of Level 3	
<b>Balance, March 31, 2010</b>	<b>\$ 500</b>

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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Management's discussion and analysis is intended to assist readers in understanding and evaluating our consolidated financial condition and results of operations. This discussion should be read in conjunction with our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010.

We are a commercial bank holding company, incorporated in 2007. The accompanying consolidated financial statements include the accounts and transactions of the Company and its wholly-owned subsidiary, the Bank. All significant intercompany transactions and balances are eliminated in consolidation.

The Bank was incorporated and began banking operations in 2000. The Bank is engaged in commercial banking predominantly in Guilford and Forsyth Counties, North Carolina. The Bank is operating under the banking laws of North Carolina and the rules and regulations of the Federal Deposit Insurance Corporation ( FDIC ) and the North Carolina Commissioner of Banks. The Bank's primary source of revenue is derived from loans to customers, who are predominantly individuals and small to medium size businesses in Guilford County.

### **Executive Overview**

#### ***Executive Summary***

For the first three months of 2011, with the continuing impact of a sluggish economy, management has continued to focus on managing credit quality, building liquidity sources, managing capital, and improving operational earnings of the Company. As always, we continue our on-going efforts of meeting the financial services needs of our customers and communities, especially in this challenging economic environment.

#### ***Managing Credit Quality***

Senior management continues to work closely with credit administration and our lending staff to insure that adequate resources are in place to proactively manage through the current slowdown in the real estate markets and overall economy. When problems are identified, management remains diligent in assessing the situation, moving quickly to minimize losses, while being sensitive to the borrower's effectiveness as an operator, the long-term viability of the business or project, and the borrower's commitment to working with the Bank to achieve an acceptable resolution of the credit. As the economic slowdown has continued, we have experienced a rise in non-performing assets, and we address each situation on a case-by-case basis. When faced with possible loss situations, management may determine it is in the shareholders' best long-term interest to work with the borrower or oversee a viable project through to completion.

We anticipate that a prolonged economic slowdown will place significant pressure on the consumers and businesses in North Carolina. We have attempted to proactively address the needs of the Bank, our borrowers, and the community through our Community Loan Investment Program, which has been in place since February 2009, and offers incentives to buyers of our builder homes financed by the Bank. Through our Community Loan Investment Program, which is being utilized by the majority of our builders, as of December 31, 2010 we have been able to move 16 out of 19 jumbo homes and 15 out of 19 conventional homes out of our builder construction portfolio either to permanent mortgages placed with other lenders or permanent mortgages financed by the Bank to qualified borrowers. The program has resulted in the reduction of our exposure to jumbo homes from \$10.5 million to \$2.1 million, and the reduction of our exposure to conventional homes from \$4.9 million to \$800 thousand. This program can be accessed through our website at [www.bankofoakridge.com](http://www.bankofoakridge.com).

We have also extended the Community Loan Investment Program to cover the residential lot inventory of our development borrowers, and rolled out an incentive program targeted specifically at our financed lots in April of 2011.

#### ***Building Liquidity Sources***

Management has continued to focus on providing additional liquidity sources, both on-balance sheet and off. During the three months ended March 31, 2011, we had a continuation of the significant shift that was present in 2010 in our deposit mix as noninterest-bearing and interest-bearing checking accounts increased \$2.2 million and \$804 thousand, respectively, from December 31, 2010 to March 31, 2011, driven by what we believe was a move away from large financial institutions to smaller community banks like ours. The increase in noninterest-bearing and interest-bearing checking accounts allowed us to decrease time deposits by \$719 thousand from December 31, 2010 to March 31, 2011.

**Table of Contents****Managing Capital**

The Company was able to bolster its capital levels through its \$7.7 million participation in the Capital Purchase Program ( CPP ) on January 30, 2009. Of the total \$7.7 million CPP funds received, to date \$1.1 million of the CPP funds have been contributed to the Bank as additional equity capital. Approximately \$6.8 million in unused capital, which includes approximately \$100,000 in earnings since the Company received the CPP funds, are retained by the Company but could be pushed down to the Bank if needed. With total risk-based capital levels at the Bank of 12.0% at March 31, 2011, the Bank is above the minimum 10% requirement to be classified as well-capitalized. If the remaining \$6.8 million of available capital at the Company were contributed to the Bank as additional equity capital, the Bank's total risk-based capital ratio would be 14.7% at March 31, 2011 and would place it well above the minimum well-capitalized requirement of 10%. Despite healthy capital levels, due to significant uncertainty surrounding the depth or the length of the current economic slowdown, management continues to be diligent in its efforts to maintain healthy levels of excess capital above minimum requirements. In early 2011, the Company's Board of Directors and senior executives had two separate presentations with investment firms to look at the feasibility of raising common equity to allow the Company to repay the U.S. Treasury for its \$7.7 million investment in the Company through the CPP. The Company has concluded that at the current time it is not feasible, due to weak equity market conditions, or preferable, due to the potential dilution of current shareholders, to raise equity in the open markets. However, the Company established an Employee Stock Ownership Plan ( ESOP ) in the second quarter of 2010 as one possible vehicle to generate equity. During the year ended December 31, 2010, the Company, at the request of the Board of Directors, made a \$900,000 pre-tax ESOP accrual that may be converted to common equity of the Company at a later date. The Company believes that there are many advantages to an ESOP as a vehicle to raise capital, with the principal ones being favorable tax treatment of ESOP contributions, possible lower dilution to existing shareholders compared to an equity offering, and the promotion in our marketplace of every employee as a participant in the ESOP owning a part of the Company.

**Improving Operational Earnings**

Proforma earnings (non-GAAP), as shown in the table below, were \$1.0 million for three months ended March 31, 2011, compared to \$903 thousand for same period in 2010, an increase of approximately \$100 thousand or 15.9%.

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	<i>(dollars in thousands)</i>	
Income before income taxes (GAAP)	\$ 264	\$ 1,008
Add:		
Provision for loan losses	605	353
Net cost of foreclosed assets	274	24
Subtract:		
Pretax gain on sale of securities		(386)
Preferred stock dividends	(96)	(96)
Proforma earnings (Non-GAAP)	\$ 1,047	\$ 903

Our core strategies continue to be (1) grow the loan portfolio while maintaining high asset quality; (2) increase noninterest income; (3) grow core deposits; (4) manage expenses; and (5) make strategic investments in personnel and technology to increase revenue and increase efficiency.

**Challenges**

We have grown steadily since the opening of the Bank in April of 2000, and our business has become more dynamic and complex in recent years as we have enhanced or added delivery channels, products and services, and lines of businesses. While the achievement of our strategic initiatives and established long-term financial goals is subject to many uncertainties and challenges, management has identified the challenges that are most relevant and most likely to have a near-term effect on operations, which are presented below:

Continuing to maintain our asset quality, especially in an uncertain and weak economic environment;

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Addressing the challenges associated with a weak economic environment in our geographic market;

Improving efficiency and controlling noninterest expenses;

Maintaining our net interest margin in the current interest rate environment;

Increasing core deposits;

Increasing interest and noninterest revenue;

Controlling costs associated with the current heightened regulatory environment;

Volatility in the mortgage banking business;

Competition from bank and nonbank financial service providers; and

Intense price competition.

**Table of Contents****Comparison of Results of Operations for the Three-month Period Ending March 31, 2011 and 2010****Net Income**

The following table summarizes components of income and expense and the changes in those components for the three-month period ended March 31, 2011 as compared to the same period in 2010.

**Condensed Consolidated Statements of Income (Dollars in thousands)**

	For the Three Months Ended March 31, 2011	Changes from the Prior Year	
		Amount	%
Total interest income	\$ 4,440	\$ (193)	(4.2)
Total interest expense	941	(368)	(28.1)
Net interest income	3,499	175	5.3
Provision for loan losses	605	252	71.4
Net interest income after provision for loan losses	2,894	(77)	(2.6)
Noninterest income	820	(375)	(31.4)
Noninterest expense	3,450	292	9.2
Income before income taxes	264	(744)	(73.8)
Income tax expense (benefit)	71	(298)	(80.8)
Net income	193	(446)	(69.8)
Preferred stock dividend and accretion of discount	163	8	5.2
Net income available to common shareholders	\$ 30	\$ (454)	(93.8)

**Net Interest Income**

Net interest income (the difference between the interest earned on assets, such as loans and investment securities and the interest paid on liabilities, such as deposits and other borrowings) is our primary source of operating income. Net interest income for the three months ended March 31, 2011 was \$3.5 million, an increase of \$175 thousand or 5.3% when compared to net interest income of \$3.3 million for the three months ended March 31, 2010.

The level of net interest income is determined primarily by the average balances (volume) of interest-earning assets and interest-bearing liabilities and the various rate spreads between our interest-earning assets and our interest-bearing liabilities. Changes in net interest income from period to period result from increases or decreases in the volume of interest-earning assets and interest-bearing liabilities, increases or decreases in the average interest rates earned and paid on such assets and liabilities, the ability to manage the interest-earning asset portfolio (which includes loans), and the availability of particular sources of funds, such as non interest bearing deposits.

Interest income decreased \$193 thousand or 4.2% for the three months ended March 31, 2011 compared to the same three months of 2010. The decreases for the three months ended March 31, 2011 are primarily due to decreases in rates earned on these assets. The yield on average earning assets decreased 42 basis points for the three months ended March 31, 2011 to 5.36% from 5.78% for the same period in 2010. Management attributes the decrease in the yield on our earning assets to the decline in yields available on investments as well as a slight decline in the offering rates on new loans.

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Our average cost of funds during the first quarter of 2011 was 1.30%, a decrease of 51 basis points when compared to 1.81% for the first quarter of 2010. Average rates paid on deposits decreased 55 basis points from 1.86% for the three months ended March 31, 2010 to 1.31% for the three months ended March 31, 2011, while our average cost of borrowed funds increased 2 basis points during the first quarter of 2011 compared to the same period in 2010. Total interest expense decreased \$368 thousand or 28.1% during the first three months of 2011 compared to the same period in 2010, primarily the result of decreased market rates paid on these deposit liabilities, with no such decline on the rates paid on borrowings.

The banking industry uses two key ratios to measure profitability of net interest income: net interest rate spread and net interest margin. The net interest rate spread measures the difference between the average yield on earning assets and the average rate paid on interest-bearing liabilities. The net interest rate spread does not consider the impact of non-interest-bearing deposits and gives a direct perspective on the effect of market interest rate movements. The net interest margin is defined as net interest income as a percentage of total average earning assets and takes into account the positive effects of investing non-interest bearing deposits in earning assets.

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Our annualized net interest margin for the three months ended March 31, 2011 was 4.28% compared to 4.20% in the same period in 2010 while our annualized net interest spread for the three months ended March 31, 2011 was 4.06% compared to 3.97% in the same period in 2010.

Management plans to continue to improve net interest income by growing our balance sheet while maintaining a constant or improving interest margin, however, it will be difficult to improve net interest income in the future if the growth in earning assets does not occur and we are unable to maintain or increase the yield on average earning assets while maintaining or decreasing the cost of funds on borrowings.

**Noninterest Income**

Noninterest income, principally charges and fees assessed for the use of our services, is a significant contributor to net income. The following table presents the components of noninterest income for the three months ended March 31, 2011 and 2010 (dollars in thousands).

**Sources of Noninterest Income (Dollars in thousands)**

	For the Three Months Ended March 31, 2011	Changes from the Prior Year	
		Amount	%
Service charges on deposit accounts	\$ 157	\$ (43)	(21.5)
Gain on sale of securities		(386)	(100.0)
Mortgage loan origination fees	66	5	8.2
Investment and insurance commissions	202	10	5.2
Fee income from accounts receivable financing	208	18	9.5
Debit card interchange income	132	28	26.9
Income earned on bank owned life insurance	37	(6)	(14.0)
Other service charges and fees	18	(1)	(5.3)
<b>Total noninterest income</b>	<b>\$ 820</b>	<b>\$ (375)</b>	<b>(31.4)</b>

Noninterest income decreased \$375 thousand or 31.4% to \$820 thousand for the three months ended March 31, 2011 compared to \$1.2 million for the same period in 2010. The increase in noninterest income for the three months ended March 31, 2011 is primarily due to decreases on gain on sale of securities of \$386 thousand and service charges on deposit accounts of \$43 thousand, offset by increases in debit card interchange income of \$28 thousand and fee income from accounts receivable financing of \$18 thousand. Smaller increases in decreases in noninterest income accounted for the remainder of the net decrease. Service charges on deposit accounts decreased \$43 thousand or 21.5% to \$157 thousand for the three months ended March 31, 2011 compared to \$200 thousand for the same period in 2010. The primary reason for the decline in service charges on deposit accounts was a decline in overdraft charges on checking accounts; management expects this trend to continue in the near future due to new FDIC guidelines covering automated overdraft programs that go into effect in July of 2011. Investment and insurance commissions increased slightly by \$10 thousand or 5.2% to \$202 thousand for the three months ended March 31, 2011 compared to \$192 thousand for the same period in 2010. Management is continuing to expand the line of business, Oak Ridge Wealth Management, that generates the income in this noninterest income category. Fee income from accounts receivable financing increased slightly by \$18 thousand or 9.5% to \$208 thousand for the three months ended March 31, 2011 compared to \$190 thousand for the same period in 2010. Debit card interchange income increased by \$28 thousand or 26.9% to \$132 thousand for the three months ended March 31, 2011 compared to \$104 thousand for the same period in 2010. The primary reason for the increase was the continued expansion of a debit card rewards program that was started in the fourth quarter of 2009 as well as an increase in the number of noninterest and interest-bearing checking accounts. Income earned on bank owned life insurance decreased by \$6 thousand or 14.0% to \$37 thousand for the same period in 2010. The primary reason for the decline was a decline in rates on the underlying life insurance policies.

**Table of Contents****Noninterest Expense**

Noninterest expense increased \$292 thousand or 9.2% to \$3.5 million for the three months ended March 31, 2011 compared to \$3.2 million for the same period in 2010. The following table presents the components of noninterest expense for the three ended March 31, 2011 and dollar and percentage changes from the same period in 2010.

**Sources of Noninterest Expense (Dollars in thousands)**

	For the Three Months Ended March 31, 2011	Changes from the Prior Year	
		Amount	%
Salaries	\$ 1,465	\$ 63	4.5
Employee benefits	189	36	23.5
Occupancy expense	211	(25)	(10.6)
Equipment expense	210	16	8.2
Data and items processing	212	(17)	(7.4)
Professional and advertising	225	(135)	(37.5)
Stationary and supplies	122	61	100.0
Net cost of foreclosed assets	274	250	1,041.7
Telecommunications expense	53	(4)	(7.0)
FDIC assessment	132	1	0.8
Accounts receivable financing expense	66	7	11.9
Other expense	291	39	15.5
<b>Total noninterest expense</b>	<b>\$ 3,450</b>	<b>\$ 292</b>	<b>9.2</b>

Salary expense increased \$63 thousand or 4.5% to \$1.5 million for the three months ended March 31, 2011 compared to \$1.4 million for the same period in 2010. The increases were due to salary increases of approximately 3.0% that were effective January 1, 2011.

Employee benefits increased \$36 thousand or 23.5% to \$189 thousand for the three months ended March 31, 2011 compared to \$153 thousand for the same period in 2010. The increase from 2010 to 2011 was largely a result of a \$32 thousand increase in group health insurance premiums from 2010 to 2011.

Occupancy expense decreased \$25 thousand or 10.6% to \$211 thousand for the three months ended March 31, 2011 compared to \$236 thousand for the same period in 2010. The decline in occupancy expense was primarily due to a decrease of \$18 thousand in repairs and maintenance expense from 2010 to 2011.

Equipment expense increased \$16 thousand or 8.2% to \$210 thousand for the three months ended March 31, 2011 compared to \$194 thousand for the same period in 2010. An increase of \$12 thousand in loss on sale of fixed assets was the primary cause of the overall increase.

Data and items processing expense decreased \$17 thousand or 7.4% to \$212 thousand for the three months ended March 31, 2011 compared to \$229 thousand for the same period in 2010. A decrease in data and items processing expense of \$33 thousand was due a conversion from outsourced items processing to in-house items processing that took place in June of 2010. Offsetting this decline were increases of \$13 thousand in ATM and debit card expenses and foreign ATM rebates to the Bank's customers. Smaller increases and decreases made up the rest of the net decrease in this expense category.

Professional and advertising expenses decreased \$135 thousand or 37.5% to \$225 thousand for the three months ended March 31, 2011 compared to \$360 thousand for the same period in 2010. Declines of \$95 thousand and \$22 thousand in marketing expenses and consultant fees, respectively, from 2010 to 2011 contributed to most of the decrease. Other smaller increases and decreases made up the rest of the net decrease.

Stationary and supply expenses increased \$61 thousand or 100% to \$122 thousand for the three months ended March 31, 2011 compared to \$61 thousand for the same period in 2010. Increased mailings to current and potential clients contributed to the increase from 2010 to 2011.

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Net cost of foreclosed assets increased \$250 thousand or 1,041.7% to \$274 thousand for the three months ended March 31, 2011 compared to \$24 thousand for the same period in 2010. Writedowns and losses on the sale of foreclosed assets largely contributed to the increase, as management continued to focus on disposing of non-earning foreclosed assets.

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Telecommunications expense and FDIC assessments were relatively unchanged from 2010 to 2011.

Other expense increased \$39 thousand or 15.5% to \$291 thousand for the three months ended March 31, 2011 compared to \$252 thousand for the same period in 2010. Increases from 2010 to 2011 of \$22 thousand and \$29 thousand in employee recruitment fees and loan collection expenses, respectively, accounted for most of the increase and were offset by a decrease of \$14 thousand in employee training expenses during the same period. Other smaller increases and decreases made up the rest of the net decrease.

### **Income Taxes**

Income tax expense decreased \$298 thousand or 80.8% to \$71 thousand for the three months ended March 31, 2011 compared to \$369 thousand for the same period in 2010. The decrease in income tax expense was primarily attributable to two factors. First, net income before income tax expense decreased from \$1.0 million in 2010 to \$264 thousand in 2011. Second, the Company purchased approximately \$8.3 million in municipal bonds in December of 2010 and January of 2011 on which the interest income was tax-exempt. The tax benefit from the municipal securities had the effect of lowering the Company's effective tax rate from 36.6% in 2010 to 26.9% in 2011.

### ***Analysis of Financial Condition at March 31, 2011 and December 31, 2010***

#### **Loans Receivable**

As of March 31, 2011, total loans increased to \$256 million, down 0.2% from total loans of \$256.5 million at December 31, 2010. The small decline in loans in the first three months of 2011 is the result of our continuing high credit standards as well the lack of small business and consumer loan demand.

#### **Allowance for Loan Losses**

We consider the allowance for loan losses adequate to cover estimated probable loan losses relating to the loans outstanding as of each reporting period. The procedures and methods used in the determination of the allowance necessarily rely upon various judgments and assumptions about economic conditions and other factors affecting our loans. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Those agencies may require us to recognize adjustments to the allowance for loan losses based on their judgments about the information available to them at the time of their examinations. No assurance can be given that we will not in any particular period sustain loan losses that are sizable in relation to the amount reserved or that subsequent evaluations of the loan portfolio, in light of conditions and factors then prevailing, will not require significant changes in the allowance for loan losses or future charges to earnings.

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The following table summarizes the balances of loans outstanding, average loans outstanding, changes in the allowance arising from charge-offs and recoveries by category and additions to the allowance that have been charged to expense.

**Analysis of the Allowance for Loan Losses (Dollars in thousands)**

	At March 31,	
	2010	2009
Allowance for loan losses at beginning of period	\$ 4,375	\$ 3,667
Loans charged off:		
Real estate - mortgage	(595)	(210)
Home equity lines of credit		
Commercial and industrial	(37)	(5)
Loans to individuals	(10)	(6)
<b>Total charge-offs</b>	<b>(642)</b>	<b>(221)</b>
Recoveries:		
Real estate - mortgage		
Home equity lines of credit		
Commercial and industrial	123	5
Loans to individuals	4	8
<b>Total recoveries</b>	<b>127</b>	<b>13</b>
Net charge-offs	(515)	(208)
Provision for loan losses	605	353
Allowance for loan losses at end of period	\$ 4,465	\$ 3,812
<b>Total loans outstanding at end of period</b>	<b>\$ 255,879</b>	<b>\$ 251,919</b>
Average loans outstanding	\$ 255,752	\$ 251,983
Ratios:		
Ratio of annualized net loan charge-offs to average loans outstanding	0.81%	0.33%
Ratio of allowance for loan losses to loans outstanding at period-end	1.74%	1.51%

At March 31, 2011, our allowance for loan losses as a percentage of loans was 1.74%, up from 1.71% at December 31, 2010 and 1.51% at March 31, 2010. The increase in part reflects the increase in our historical loss rate as our charge-offs have increased during the past year. Also, the increase reflects the recognition of additional loans identified as being impaired. In evaluating the allowance for loan losses, we prepare an analysis of our current loan portfolio through the use of historical loss rates, homogeneous risk analysis grouping to include probabilities for loss in each group by risk grade, estimation of years to impairment in each homogeneous grouping, analysis of internal credit processes, and past due loan portfolio performance and overall economic conditions, both regionally and nationally.

Historical loss calculations for each homogeneous risk group are based on a weighted average loss ratio calculation. The most previous quarter's loss history is used in the loss history and is adjusted to reflect current losses in the homogeneous risk groups. Current losses translate into a higher loss ratio which is further increased by the associated risk grades within the group. The impact is to more quickly recognize and increase the loss history in a respective grouping, resulting in an increase in the allowance for that particular homogeneous group. For those groups with little or no loss history, management bases the historical factor based on current economic conditions and their potential impact on that particular loan group.

Loans are considered impaired if, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. The measurement of impaired loans is based on either the fair value of the underlying collateral, the present value of the future cash flows discounted at the historical effective interest rate stipulated in the loan agreement, or the estimated market value of the loan. In measuring the fair value of the collateral, management uses a

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comparison to the recent selling price of similar assets, which is consistent with those that would be utilized by unrelated third parties.

While we believe that our management uses the best information available to determine the allowance for loan losses, unforeseen market conditions could result in adjustments to the allowance for loan losses, and net income could be significantly affected if circumstances differ substantially from the assumptions used in making the final determination. Because these factors and management's assumptions are subject to change, the allocation is not necessarily indicative of future loan portfolio performance.

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Loans are charged-off against the Bank's allowance for loan losses as soon as the loan becomes uncollectible. Unsecured loans are considered uncollectible when no regularly scheduled monthly payment has been made within three months, the loan matured over 90 days ago and has not been renewed or extended or the borrower files for bankruptcy. Secured loans are considered uncollectible when the liquidation of collateral is deemed to be the most likely source of repayment. Once secured loans reach 90 days past due, they are placed into non-accrual status unless the loan is considered to be well secured and in process of collection. If the loan is deemed to be collateral dependent, the principal balance is either written down immediately or reserved as a write-down in the Bank's allowance model to reflect the current market valuation based on an independent appraisal which may be adjusted by management based on more recent market conditions. Included in the write-down is the estimated expense to liquidate the property and typically an additional allowance for the foreclosure discount. Generally, if the loan is unsecured the loan must be charged-off in full while if it is secured the loan is charged down to the net liquidation value of the collateral.

Net charge-offs of \$515 thousand in the first three months of 2011 increased by \$307 thousand when compared to the same period in 2010. Charge-offs from real estate secured loans were \$595 thousand and \$210 thousand in 2011 and 2010, respectively. Charge-offs from commercial and industrial loans were \$37 thousand in the first three months of 2011 compared to \$5 thousand during the same period in 2010. Charge-offs from loans to individuals were \$4 thousand and \$5 thousand in the first three months of 2011 and 2010, respectively. There were minimal recoveries in the first three months of 2010, however, there were \$123 thousand in commercial and industrial loan recoveries during the same period in 2011.

Asset quality remains a top priority for us. For the three months ended March 31, 2011, annualized net loan charge-offs were 0.81% of average loans compared to annualized net chargeoffs of 0.33% for the three months ended March 31, 2010. The ratio of annualized net charge-offs to average loans increased mainly due to the Bank writing off and writing down a number of real estate loans in the three months ended March 31, 2011. The allowance for loan losses to loans increased to 1.74% at March 31, 2011 from 1.51% at March 31, 2010, reflecting the increase in our historical loss rate as our charge-offs have increased during the past year. Also, the increase reflects the recognition of additional loans identified as being impaired which require specific reserves. The ratio of our allowance for loan losses to nonperforming loans decreased to 44% as of March 31, 2011 compared to 83% at December 31, 2010. The decrease is the result of our allowance increasing approximately 2% from December 31, 2010 to March 31, 2011 and our nonperforming loans increasing approximately 95% during the same period.

**Loans Considered Impaired**

We review our nonperforming loans and other groups of loans based on loan size or other factors for impairment. At March 31, 2011, we had loans totaling \$16.8 million (which includes \$10.1 million in nonperforming loans) which were considered to be impaired compared to \$14.3 million at December 31, 2010. Loans are considered impaired if, based on current information, circumstances or events, it is probable that the Bank will not collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. However, treating a loan as impaired does not necessarily mean that we expect to incur a loss on that loan, and our impaired loans may include loans that currently are performing in accordance with their terms. For example, if we believe it is probable that a loan will be collected, but not according to its original agreed upon payment schedule, we may treat that loan as impaired even though we expect that the loan will be repaid or collected in full. As indicated in the table below, when we believe a loss is probable on a non-collateral dependent impaired loan, a portion of our reserve is allocated to that probable loss. If the loan is deemed to be collateral dependent, the principal balance is written down immediately, or a portion of our reserve is allocated to that probable loss, to reflect the current market valuation based on a current independent appraisal.

The following table sets forth the number and volume of loans net of previous charge-offs considered impaired and their associated reserve allocation, if any, at March 31, 2011.

**Analysis of Loans Considered Impaired (Dollars in thousands)**

	Number of Loans	Loan Balances Outstanding	Allocated Reserves
Non-accrual loans	16	\$ 8,999	\$ 1,093
Restructured loans	6	660	
<b>Total nonperforming loans</b>	<b>22</b>	<b>\$ 9,659</b>	<b>\$ 1,093</b>
Other impaired loans with allocated reserves	1	1,405	492

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Impaired loans without allocated reserves	5	5,703	
Total impaired loans	28	\$ 16,767	\$ 1,585

At March 31, 2011 and December 31, 2010, nonperforming assets were approximately 3.23% and 2.14%, respectively, of the loans outstanding at such dates. The general downturn in the overall economy and its effect on several large borrowers of the Bank has contributed to the overall increase in nonperforming assets from year end 2010 to March 31, 2011.

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Any loans that are classified for regulatory purposes as loss, doubtful, substandard or special mention, and that are not included as nonperforming loans, do not (i) represent or result from trends or uncertainties that management reasonably expects will materially impact future operating results; or (ii) represent material credits about which management has any information which causes management to have serious doubts as to the ability of such borrower to comply with the loan repayment terms.

### **Investment Portfolio**

Our available-for-sale investment securities totaled \$53.7 million at March 31, 2011, compared to \$48.3 million at December 31, 2010. The overall increase was due to purchases of securities totaling approximately \$9.1 million, repayments and accretion of discount on these securities of \$3.4 million, and a decline in the unrealized gain on these securities of \$367 thousand. Our held-to-maturity investment securities totaled \$6.9 million at March 31, 2011 and \$7.5 million at December 31, 2010, with the decline between these two periods resulting from principal payments and accretion of a discount of \$677 thousand. Investable funds not otherwise utilized are temporarily invested as Federal Funds sold or as interest-bearing balances at other banks, the level of which is affected by such considerations as near-term loan demand and liquidity needs. Subinvestment grade available-for-sale and held-to-maturity private label mortgage-backed securities are analyzed on a quarterly basis for impairment by utilizing an independent third party that performs an analysis of the estimated principal the Bank is expected to collect on these securities. The result of this analysis determines whether the Bank records an impairment loss on these securities. There were no impairment charges on subinvestment grade securities for the three months ended March 31, 2010 and 2011.

### **Deposits**

Deposits increased to \$308.3 million, up 2.7% as of March 31, 2011 compared to deposits of \$300.3 million at December 31, 2010. Noninterest-bearing deposits increased \$2.2 million, or 8.4%, from December 31, 2010 to March 31, 2011, and total interest-bearing deposits increased \$5.8 million, or 2.1%, during the same period of time. Most of the increases in deposits were concentrated in non-interest demand, NOW, and money market and savings deposits. During this same time management continued a conscious effort to reduce time deposits, particularly brokered and internet generated time deposits, by paying lower market rates on these products. This resulted in a decrease in time deposits from December 31, 2010 to March 31, 2011.

### **Borrowings**

Short-term debt includes sweep accounts, advances from the FHLB having maturities of one year or less, Federal Funds purchased and repurchase agreements. The Company had no short-term debt at March 31, 2011 and December 31, 2010. At March 31, 2011 we had Federal Funds purchased lines of credit totaling \$6.0 million. These lines are intended for short-term borrowings and are subject to restrictions limiting the frequency and terms of advances. The Company had no outstanding balances under these lines of credit at March 31, 2011.

Long-term debt consists of advances from FHLB with maturities greater than one year. Our long-term borrowings from the FHLB totaled \$9.0 million on March 31, 2011 and December 31, 2010.

### **Junior Subordinated Debentures**

In 2007, the Company issued \$8.2 million of junior subordinated debentures to the Trust in exchange for the proceeds of trust preferred securities issued by the Trust. The junior subordinated debentures are included in long-term debt and the Company's equity interest in the Trust is included in other assets. Junior subordinated debentures totaled \$8.2 million on March 31, 2011 and December 31, 2010.

The junior subordinated debentures pay interest quarterly at an annual rate, reset quarterly, equal to LIBOR plus 1.60%. The debentures are redeemable on June 17, 2012 or afterwards, in whole or in part, on any December 17, March 17, June 17 or September 17. Redemption is mandatory at June 17, 2037. The Bank guarantees the trust preferred securities through the combined operations of the junior subordinated debentures and other related documents. The Bank's obligations under the guarantee are unsecured and subordinate to the senior and subordinated indebtedness of the Bank.

The trust preferred securities presently qualify as Tier 1 regulatory capital and are reported in Federal Reserve regulatory reports as a minority consolidated interest in a consolidated subsidiary. On March 1, 2005, the Federal Reserve Board issued a final rule stating that trust preferred securities will continue to be included in Tier 1 capital, subject to stricter quantitative and qualitative standards. For bank holding companies, trust preferred securities will continue to be included in Tier 1 capital up to 25% of core capital elements (including trust preferred securities) net of goodwill less any associated deferred tax liability.



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### Liquidity

Liquidity refers to our continuing ability to meet deposit withdrawals, fund loan and capital expenditure commitments, maintain reserve requirements, pay operating expenses and provide funds for payment of dividends, debt service and other operational requirements. Liquidity is immediately available from five major sources: (a) cash on hand and on deposit at other banks; (b) the outstanding balance of Federal Funds sold; (c) lines for the purchase of Federal Funds from other banks; (d) lines of credit established at the FHLB, less existing advances; and (e) our investment securities portfolio. All our debt securities are of investment grade quality and, if the need arises, can promptly be liquidated on the open market or pledged as collateral for short-term borrowing.

Consistent with our general approach to liquidity management, loans and other assets of the Bank are funded primarily using a core of local deposits, proceeds from retail repurchase agreements and excess Bank capital. In the first three months of 2011, the Bank's brokered and internet generated time deposits increased \$23.4 million to \$66.5 million as the Bank chose to raise these funds at lower rates than local time deposits. Of the total brokered deposits of \$66.5 million as of March 31, 2011, \$44.1 million were time deposits to customers within the Bank's market issued under the Certificate of Deposit Account Registry Service.

We are a member of the FHLB of Atlanta. Membership, along with a blanket collateral commitment of our one-to-four family residential mortgage loan portfolio, our home equity line of credit portfolio, and selected investment securities provided us the ability to draw up to \$20.4 million and \$18.0 million of advances from the FHLB at March 31, 2011 and December 31, 2010, respectively. At March 31, 2011 and December 31, 2010, we had outstanding FHLB advances totaling \$9.0 million.

As a requirement for membership, we invest in stock of the FHLB in the amount of 1.0% of our outstanding residential loans or 5.0% of our outstanding advances from the FHLB, whichever is greater. That stock is pledged as collateral for any FHLB advances drawn by us. At both March 31, 2011 and December 31, 2010, we owned 11,987 shares of the FHLB's \$100 par value capital stock.

We also had unsecured Federal Funds lines in the aggregate amount of \$6.0 million available to us at March 31, 2011 under which we can borrow funds to meet short-term liquidity needs. At March 31, 2011, we did not have any advances under these Federal Funds lines. Another source of funding available is loan participations sold to other commercial banks (in which we retain the servicing rights). As of March 31, 2011, we had \$607 thousand in loan participations sold. We believe that our liquidity sources are adequate to meet our operating needs.

### Capital Resources and Shareholders' Equity

As of March 31, 2011, our total shareholders' equity was \$27.8 million (consisting of common shareholders' equity of \$20.9 million and preferred stock of \$6.9 million) compared with total shareholders' equity of \$27.9 million as of December 31, 2010 (consisting of common shareholders' equity of \$21.1 million and preferred stock of \$6.8 million).

Common shareholders' equity decreased by approximately \$108 thousand to \$20.9 million at March 31, 2011 from \$21.1 million at December 31, 2010. We experienced a decrease of \$235 thousand in accumulated other comprehensive income associated with our available-for-sale securities portfolio, payment of dividends of \$96 thousand on preferred shares in January 2011, and accretion of preferred stock discount of \$67 thousand in the first three months of 2011. These decreases were offset by increases due to net income of \$193 thousand and an increase in common stock of \$21 thousand associated with the issuance of restricted stock and stock options.

The Bank is subject to minimum capital requirements. As the following table indicates, at March 31, 2011, all capital ratios place the Bank in excess of the minimum necessary to be considered well-capitalized under bank regulatory guidelines.

	Actual Ratio	At March 31, 2011	
		Minimum Requirement	Well-Capitalized Requirement
Total risk-based capital ratio	12.0%	8.0%	10.0%
Tier 1 risk-based capital ratio	10.8%	4.0%	6.0%
Leverage ratio	8.0%	4.0%	5.0%

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**Recent Accounting Pronouncements**

Please refer to Note 1 (G) of our consolidated financial statements for a summary of recent authoritative pronouncements that could impact our accounting, reporting, and/or disclosure of financial information.

**Recent Laws and Regulations**

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Act) was signed into law on July 21, 2010. The Act is a significant piece of legislation that will have major effects on the financial services industry, including the organization, financial condition and operations of banks and bank holding companies. Management is currently evaluating the impact of the Act; however, uncertainty remains as to its operational impact, which could have a material adverse impact on the Company's business, results of operations and financial condition. Many of the provisions of the Act are aimed at financial institutions that are significantly larger than us. Notwithstanding this, there are many other provisions that we are subject to and will have to comply with, including any new rules applicable to us promulgated by the Bureau of Consumer Financial Protection, a new regulatory body dedicated to consumer protection. As rules and regulations are promulgated by the agencies responsible for implementing and enforcing the Act, we will have to address each to ensure compliance with applicable provisions of the Act and compliance costs are expected to increase.

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**ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

Pursuant to Item 305(e) of Regulation S-K, the Company, as a smaller reporting company, is not required to provide the information required by this Item.

**ITEM 4. Controls and Procedures**

The Company's management, under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer of the Company (its principal executive officer and principal financial officer, respectively) have concluded based on their evaluation as of the end of the period covered by this Report, that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Chief Executive Officer and the Chief Financial Officer of the Company, as appropriate to allow timely decisions regarding required disclosure.

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Exchange Act Rules 13a-15(f). A system of internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the Company's management has evaluated the effectiveness of its internal control over financial reporting as of March 31, 2011 based on the criteria established in a report entitled Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and the interpretive guidance issued by the SEC in Release No. 34-55929. Based on this evaluation, the Company's management has evaluated and concluded that the Company's internal control over financial reporting was effective as of March 31, 2011.

**Changes in Internal Control Over Financial Reporting.**

There was no change in the Company's internal control over financial reporting that occurred during the first quarter of 2011 that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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**Part II. Other Information**

**ITEM 6. EXHIBITS**

**15(a) Exhibits**

Exhibit (3)(i)	Articles of Incorporation, incorporated herein by reference to Exhibit (3)(i) to the Form 8-K filed with the SEC on May 10, 2007.
Exhibit (3)(ii)	Bylaws, incorporated herein by reference to Exhibit (3)(ii) to the Form 8-K filed with the SEC on May 10, 2007.
Exhibit (4)(i)	Specimen Stock Certificate, incorporated herein by reference to Exhibit 4 to the Form 8-K filed with the SEC on May 10, 2007.
Exhibit (4)(ii)	Articles of Amendment, filed with the North Carolina Department of the Secretary of State on January 28, 2009, incorporated herein by reference to Exhibit 4.1 of the Current Report on Form 8-K filed with the SEC on February 2, 2009.
Exhibit (4)(iii)	Form of Certificate for the Fixed Rate Cumulative Perpetual Preferred Stock, Series A, incorporated herein by reference to Exhibit 4.2 of the Current Report on Form 8-K filed with the SEC on February 2, 2009.
Exhibit (4)(iv)	Warrant for Purchase of Shares of Common Stock issued by the Company to the United States Department of the Treasury on January 30, 2009, incorporated herein by reference to Exhibit 4.3 of the Current Report on Form 8-K filed with the SEC on February 2, 2009.
Exhibit (10)(i)	Employment Agreement with Ronald O. Black, as amended, incorporated herein by reference to Exhibit (10)(i) to the Form 8-K filed with the SEC on March 28, 2008.
Exhibit (10)(ii)	Employment Agreement with L. William Vasaly, III, as amended, incorporated herein by reference to Exhibit (10)(ii) to the Form 8-K filed with the SEC on March 28, 2008.
Exhibit (10)(iii)	Employment Agreement with Thomas W. Wayne, as amended, incorporated herein by reference to Exhibit (10)(iii) to the Form 8-K filed with the SEC on March 28, 2008.
Exhibit (10)(iv)	Outparcel Ground Lease between J.P. Monroe, L.L.C. and Bank of Oak Ridge dated June 1, 2002, incorporated herein by reference to Exhibit (10)(iv) to the Form 8-K filed with the SEC on March 28, 2008.
Exhibit (10)(v)	Ground and Building Lease between KRS of Summerfield, LLC and Bank of Oak Ridge dated September 25, 2002, incorporated herein by reference to Exhibit (10)(v) to the Form 8-K filed with the SEC on March 28, 2008.
Exhibit (10)(vi)	Ground Lease between Friendly Associates XVIII LLLP and Bank of Oak Ridge dated September 13, 2004, incorporated herein by reference to Exhibit (10)(vi) to the Form 8-K filed with the SEC on March 28, 2008.
Exhibit (10)(vii)	Bank of Oak Ridge Second Amended and Restated Director Stock Option Plan (amended March 16, 2004; approved by stockholders June 8, 2004), incorporated herein by reference to Exhibit 10(ix) to the Form 8-K filed with the SEC on March 28, 2008.
Exhibit (10)(viii)	Bank of Oak Ridge Second Amended and Restated Employee Stock Option Plan (amended March 16, 2004; approved by stockholders June 8, 2004), incorporated herein by reference to Exhibit (10)(x) to the Form 8-K filed with the SEC on March 28, 2008.
Exhibit (10)(ix)	Salary Continuation Agreements with Ronald O. Black, L. William Vasaly III and Thomas W. Wayne dated January 20, 2006, incorporated herein by reference to Exhibits (10)(ix) to (10)(xi) to Form 8-K filed with the SEC on March 28, 2008.
Exhibit (10)(x)	Amended Endorsement Split Dollar Agreement between Bank of Oak Ridge and Ronald O. Black, incorporated herein by reference to Exhibit (10)(xiii) to the Form 8-K filed with the SEC on December 21, 2007.

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- Exhibit (10)(xi) Amended Endorsement Split Dollar Agreement between Bank of Oak Ridge and L. William Vasaly III, incorporated herein by reference to Exhibit (10)(xiv) to the Form 8-K filed with the SEC on December 21, 2007.
- Exhibit (10)(xii) Amended Endorsement Split Dollar Agreement between Bank of Oak Ridge and Thomas W. Wayne, incorporated herein by reference to Exhibit (10)(xv) to the Form 8-K filed with the SEC on December 21, 2007.
- Exhibit (10)(xiii) Indemnification Agreement, incorporated herein by reference to Exhibit (10)(xvi) to the Form 8-K filed with the SEC on March 7, 2008.
- Exhibit (10)(xiv) Contract for the Purchase and Sale of Real Property, incorporated herein by reference to Exhibit 99.1 to the Form 8-K filed with the SEC on January 14, 2008.

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**15(a) Exhibits**

Exhibit (10)(xv)	Oak Ridge Financial Services, Inc. Long-Term Stock Incentive Plan, incorporated herein by reference to Exhibit (10)(xiii) to the Form 10-QSB filed with the SEC on May 15, 2007.
Exhibit (10)(xvii)	Letter Agreement, dated January 30, 2009, between the Company and the United States Department of the Treasury, with respect to the issuance and sale of the Fixed Rate Cumulative Perpetual Preferred Stock, Series A and the Warrant, incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the SEC on February 2, 2009.
Exhibit (10)(xviii)	Form of Employment Agreement Amendment, dated January 30, 2009 among the Company, the Bank and the senior executive officers, incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the SEC on February 2, 2009.
Exhibit (10)(xix)	Bank of Oak Ridge Employee Stock Ownership Plan and Trust effective January 1, 2010, incorporated herein by reference to Exhibit 99.1 of the Current Report in Form 8-k filed with the SEC on September 24, 2010.
Exhibit (14)	Code of Ethics for Senior Officers Policy incorporated herein by reference to Exhibit 14 to the Form 8-K filed with the SEC on March 28, 2008.
Exhibit (31.1)	Certification of Ronald O. Black
Exhibit (31.2)	Certification of Thomas W. Wayne
Exhibit (32)	Certification of Periodic Financial Report Pursuant to 18 U.S.C. Section 1350.

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**Oak Ridge Financial Services, Inc.**

**Signatures**

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Oak Ridge Financial Services, Inc.  
(Registrant)

Date: May 13, 2011

/s/ Ronald O. Black  
Ronald O. Black  
President and Chief Executive Officer  
(Duly Authorized Representative)

Date: May 13, 2011

/s/ Thomas W. Wayne  
Thomas W. Wayne  
Chief Financial Officer  
(Duly Authorized Representative)