Oak Ridge Financial Services, Inc.
Form 10-Q
November 14, 2011
Table of Contents

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 September 30, 2011

Commission File Number: 000-52640

OAK RIDGE FINANCIAL SERVICES, INC

(Exact name of registrant as specified in its charter)

North Carolina	**20-8550086**
(State or other jurisdiction of	**(I.R.S. Employer**

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 x No ¨

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares outstanding of each of the registrant s classes of common stock, as of November 1, 2011, was as follows:

Class	Number of Shares
Common Stock, no par value	**1,808,445**

Table of Contents

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, a 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;

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.

Table of Contents

Oak Ridge Financial Services, Inc.

Table of Contents

Table of Contents

Consolidated Balance Sheets

September 30, 2011 (Unaudited) and December 31, 2010 (Audited)

(Dollars in thousands)

	2011	2010
Assets		
Cash and due from banks	$ 3,570	$ 3,557
Interest-bearing deposits with banks	16,676	10,599
Total cash and cash equivalents	20,246	14,156
Time deposits	2,746	4,260
Securities available-for-sale	53,963	48,261
Securities held-to-maturity (fair values of $5,856 in 2011 and $7,625 in 2010)	5,794	7,534
Federal Home Loan Bank Stock, at cost	957	1,199
Loans, net of allowance for loan losses of $4,534 in 2011 and $4,375 in 2010	245,816	252,111
Property and equipment, net	10,130	10,352
Foreclosed assets	2,114	2,216
Accrued interest receivable	1,523	1,477
Bank owned life insurance	4,901	4,792
Other assets	2,452	2,650
Total assets	$ 350,642	$ 349,008
Liabilities and Stockholders Equity		
Liabilities		
Deposits:		
Noninterest-bearing	$ 32,421	$ 26,767
Interest-bearing	279,992	273,508
Total deposits	312,413	300,275
Long-term debt		9,000
Junior subordinated notes related to trust preferred securities	8,248	8,248
Accrued interest payable	210	173
Employee Stock Ownership Plan accrual		900
Other liabilities	1,766	2,539
Total liabilities	322,637	321,135
Stockholders equity		
Preferred stock, Series A, 7,700 shares authorized and outstanding; no par value, $1,000 per share liquidation preference	7,008	6,808
Common stock, no par value; 50,000,000 shares authorized; 1,808,445 and 1,792,876 issued and outstanding in 2011 and 2010, respectively	15,902	15,841
Warrant	1,361	1,361
Retained earnings	2,563	2,707
Accumulated other comprehensive income	1,171	1,156
Total stockholders equity	28,005	27,873

Total liabilities and stockholders equity	$ 350,642	$ 349,008

See Notes to Consolidated Financial Statements

Table of Contents

Consolidated Statements of Operations

***For the three and nine months ended September 30, 2011 and 2010* (Unaudited)**

(Dollars in thousands except per share data)

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Interest and dividend income				
Loans and fees on loans	$ 3,630	$ 3,791	$ 10,864	$ 11,216
Interest on deposits in banks	15	30	56	50
Federal Home Loan Bank stock dividends	2	1	7	3
Taxable investment securities	634	690	2,189	2,324
Total interest and dividend income	4,281	4,512	13,116	13,593
Interest expense				
Deposits	755	1,092	2,479	3,515
Short-term and long-term debt	43	57	141	152
Total interest expense	798	1,149	2,620	3,667
Net interest income	3,483	3,363	10,496	9,926
Provision for loan losses	960	761	2,827	1,898
Net interest income after provision for loan losses	2,523	2,602	7,669	8,028
Noninterest income				
Service charges on deposit accounts	87	163	382	557
Gain on sale of securities			258	386
Mortgage loan origination fees	60	188	168	372
Investment and insurance commissions	284	248	759	718
Fee income from accounts receivable financing	185	212	600	638
Debit card interchange income	165	129	459	355
Income earned on bank owned life insurance	37	42	109	125
Other service charges and fees	18	20	59	62
Total noninterest income	836	1,002	2,794	3,213
Noninterest expense				
Salaries	1,551	1,493	4,442	4,211
Employee benefits	211	131	577	445
Employee Stock Ownership Plan expense (reversal)	(25)	350		650
Occupancy expense	231	218	649	678
Equipment expense	225	215	652	634
Data and item processing	247	230	691	724
Professional and advertising	277	211	830	795
Stationary and supplies	89	79	315	208
Net loss on sale of foreclosed and repossessed assets	3		257	45
Expenses of foreclosed and repossessed assets	95	16	137	92
Telecommunications expense	54	56	164	173
FDIC assessment	7	115	285	384
Accounts receivable financing expense	57	68	188	211
Other-than-temporary impairment loss				21

Other expense	280	377	900	930
Total noninterest expense	3,302	3,559	10,087	10,201
Income before income taxes	57	45	376	1,040
Income tax expense (benefit)	(18)	4	30	346
Net income	$ 75	$ 41	$ 346	$ 694
Preferred stock dividends	(96)	(97)	(290)	(289)
Accretion of discount	(67)	(62)	(200)	(179)
Income (loss) available to common stockholders	$ (88)	$ (118)	$ (144)	$ 226
Basic earnings (loss) per common share	$ (0.05)	$ (0.07)	$ (0.08)	$ 0.13
Diluted earnings (loss) per common share	$ (0.05)	$ (0.07)	$ (0.08)	$ 0.13
Basic weighted average shares outstanding	1,808,445	1,791,474	1,797,695	1,791,474
Diluted weighted average shares outstanding	1,808,445	1,791,474	1,797,695	1,791,474

See Notes to Consolidated Financial Statements

Table of Contents

Consolidated Statements of Changes in Stockholders Equity and Comprehensive Income

Nine months ended September 30, 2011 and 2010 (Unaudited)

(Dollars in thousands except shares of common stock)

	Preferred stock, Series A	Common Stock Number	Common Stock Amount	Common stock warrant	Retained earnings	Accumulated other comprehensive income	Comprehensive income	Total
Balance December 31, 2009	$ 6,566	1,791,474	$ 15,831	$ 1,361	$ 2,602	$ 1,232		$ 27,592
Net income					694		$ 694	694
Net change in unrealized gain on investment securities available-for-sale, net of tax expense of $151						427	427	427
Reclassification adjustment for investment securities included in net income, net of tax expense of $144						(258)	(258)	(258)
Total comprehensive income							$ 863	
Preferred stock dividends					(289)			(289)
Preferred stock accretion	179				(179)			
Balance September 30, 2010	$ 6,745	1,791,474	$ 15,831	$ 1,361	$ 2,828	$ 1,401		$ 28,166

	Preferred stock, Series A	Common Stock Number	Common Stock Amount	Common stock warrant	Retained earnings	Accumulated other 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					346		$ 346	346
Net change in unrealized gain on investment securities available-for-sale, net of tax benefit of $109						173	173	173
Reclassification adjustment for investment securities included in net income, net of tax expense of $100						(158)	(158)	(158)
Total comprehensive income							$ 361	
Preferred stock dividends					(290)			(290)
Stock option expense			19					19
Common stock issued pursuant to restricted stock awards		15,569	42					42
Preferred stock accretion	200				(200)			
Balance September 30, 2011	$ 7,008	1,808,445	$ 15,902	$ 1,361	$ 2,563	$ 1,171		$ 28,005

See Notes to Consolidated Financial Statements

Table of Contents

Consolidated Statements of Cash Flows

***Nine months ended September 30, 2011 and 2010* (Unaudited)**

(Dollars in thousands)

	2011	2010
Cash flows from operating activities		
Net income	$ 346	$ 694
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	658	668
Provision for loan losses	2,827	1,898
Gain on sale of securities	(258)	(386)
Loss on sale of property and equipment	4	21
Income earned on bank owned life insurance	(109)	(125)
Net loss on sale of foreclosed and repossessed assets	257	45
Deferred income tax (benefit) expense	424	(124)
Employee Stock Ownership Plan accrual	(900)	
Income taxes payable	(1,058)	172
Net accretion of discounts and premiums on securities	(28)	(358)
Changes in assets and liabilities:		
Accrued income	(46)	(122)
Other assets	(22)	262
Accrued interest payable	37	(1)
Other liabilities	75	701
Net cash provided by operating activities	2,207	3,345
Cash flows from investing activities		
Activity in available-for-sale securities:		
Purchases	(15,257)	
Sales	2,195	4,719
Maturities and repayments	7,581	7,776
Activity in held-to-maturity securities:		
Maturities and repayments	1,781	1,896
Time deposit maturities	1,514	
Redemptions of Federal Home Loan Bank stock	242	96
Net decrease (increase) in loans	2,456	(5,919)
Purchases of property and equipment	(442)	(351)
Proceeds from sale of property and equipment	2	29
Proceeds from sale of foreclosed assets	963	1,074
Net cash used in investing activities	1,035	9,320
Cash flows from financing activities		
Net increase in deposits	12,138	2,840
Dividends paid on preferred stock	(290)	(289)
Repayment of long-term debt	(9,000)	
Net cash provided by financing activities	2,848	2,551
Net increase in cash and cash equivalents	6,090	15,216
Cash and cash equivalents, beginning	14,156	11,071

Cash and cash equivalents, ending	$ 20,246	$ 26,287

See Notes to Consolidated Financial Statements

Table of Contents

Consolidated Statements of Cash Flows

Nine months ended September 30, 2011 and 2010 **(Unaudited)**

(Dollars in thousands)

	2011	2010
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest	$ 2,583	$ 3,668
Taxes	$ 694	$ 308
Non-cash investing and financing activities		
Foreclosed assets acquired in settlement of loans	$ 1,375	$ 881

See Notes to Consolidated Financial Statements

8

Table of Contents

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- and nine-month periods ended September 30, 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- and nine-month periods ended September 30, 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

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

Table of Contents

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(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. 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 September 30, 2011 and 2010 the warrant issued to the U.S. Treasury, covering approximately 164,000 shares, 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 September 30, 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(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 have been presented in Note 4.

In April 2011, the criteria used to determine effective control of transferred assets in the Transfers and Servicing topic of the ASC was amended by ASU 2011-03. The requirement for the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms and the collateral maintenance implementation guidance related to that criterion were removed from the assessment of effective control. The other criteria to assess effective control were not changed. The amendments are effective for the Company beginning January 1, 2012 but are not expected to have a material effect on the financial statements.

ASU 2011-04 was issued in May 2011 to amend the Fair Value Measurement topic of the ASC by clarifying the application of existing fair value measurement and disclosure requirements and by changing particular principles or requirements for measuring fair value or for disclosing information about fair value measurements. The amendments will be effective for the Company beginning January 1, 2012 but are not expected to have a material effect on the financial statements.

The Comprehensive Income topic of the ASC was amended in June 2011. The amendment eliminates the option to present other comprehensive income as a part of the statement of changes in stockholders equity. The amendment requires consecutive presentation of the statement of net income and other comprehensive income and requires an entity to present reclassification adjustments from other comprehensive income to net income on the face of the financial statements. The amendments will be applicable to the Company on January 1, 2012 and will be applied retrospectively.

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):

	September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
Government-sponsored enterprise securities	$ 2,030	$ 114	$	$ 2,144
FNMA or GNMA mortgage-backed securities	17,388	543	(161)	17,770
Private label mortgage-backed securities	7,978	269	(59)	8,188
Municipal securities	12,690	713	(6)	13,397
SBA debentures	11,479	485		11,964
Other domestic debt securities	500			500
Total securities available-for-sale	$ 52,065	$ 2,124	$ (226)	$ 53,963
Held-to-maturity				
Private label mortgage-backed securities	$ 5,917	$ 243	$ (304)	$ 5,856
Total securities available-for-sale	$ 5,917	$ 243	$ (304)	$ 5,856

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
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
Held-to-maturity				
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 nine months ended September 30, 2011. Impairment charges of $21 thousand were recorded during the nine months ended September 30, 2010.

The Bank had approximately $957,000 and $1.2 million at September 30, 2011 and December 31, 2010, respectively, of investments in stock of the Federal Home Loan Banks (FHLB), which is carried at cost. On May 19, 2011, FHLB paid a dividend for the second quarter of 2011 based on an annualized dividend rate of 0.80%. Management believes that its investment in FHLB stock was not other-than-temporarily impaired as of

September 30, 2011. 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 $3.8 million and $4.3 million at September 30, 2011 and December 31, 2010, respectively, 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 nine months ended September 30, 2011 and 2010 were $258,000 and $386,000, respectively.

Table of Contents

2. INVESTMENT SECURITIES, continued

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 September 30, 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 September 30, 2011 and December 31, 2010 (dollars in thousands).

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2011						
Available-for-sale						
Government sponsored enterprise securities	$	$	$	$	$	$
FNMA or GNMA mortgage-backed securities	8,443	(161)			8,443	(161)
Private label mortgage-backed securities	3,262	(59)			3,262	(59)
Municipal Securities	1,712	(6)			1,712	(6)
SBA debentures						
Other domestic debt securities						
Total temporarily impaired securities	$ 13,417	$ (226)	$	$	$ 13,417	$ (226)
Held-to-maturity						
Private label mortgage-backed securities	$ 871	$ (27)	$ 1,956	$ (277)	$ 2,827	$ (304)
Total temporarily impaired securities	$ 871	$ (27)	$ 1,956	$ (277)	$ 2,827	$ (304)

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2010						
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 September 30, 2011, the unrealized losses in the available-for-sale portfolio relate to six Federal National Mortgage Association (FNMA) mortgage-backed-securities. 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. Additionally, there are two available-for-sale municipal securities with market values less than amortized cost. These two securities are rated AA and AAA, respectively, by Standard and Poor s, and post-purchase review of the credit quality of the issuers by the Company has reinforced the credit-worthiness of the municipalities. Therefore, the Company believes the deterioration in value is attributable to changes in market rates, and expects these securities to be paid in full and that any temporary impairment will be fully recoverable prior to or at maturity. Lastly, there is one available-for-sale private label mortgage-backed-security that has a credit rating of C at September 30, 2011, and three held-to-maturity mortgage-backed securities with credit ratings of C, C and CC, respectively. The private label held-to-maturity securities are rated Caa2 by Moody s as of September 30, 2011. 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. The most recent impairment testing performed as of September 30, 2011 indicated that projected principal repayments on these private label mortgage-backed-securities were in excess of their recorded values on that same date. As of September 30, 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.

Table of Contents

2. INVESTMENT SECURITIES, continued

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.

On August 5, 2011, Standard & Poor s rating agency lowered the long-term rating of the U.S. government and federal agencies from AAA to AA+. On that same date, the Bank was notified by the FDIC that for risk-based capital purposes, the risk weights for Treasury securities and other securities issued or guaranteed by the U.S. government, government agencies, and government-sponsored entities will not change. The treatment of Treasury securities and other securities issued or guaranteed by the U.S. government, government agencies, and government-sponsored entities under other federal banking agency regulations, including, for example, the Federal Reserve Board s Regulation W, will also be unaffected.

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 September 30, 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	$ 997	$ 1,032	$	$
Due after one year through five years	2,795	2,842		
Due after five years through ten years	17,636	18,415		
Due after ten years	30,637	31,674	5,916	5,856
	$ 52,065	$ 53,963	$ 5,916	$ 5,856

Table of Contents

3. ALLOWANCE FOR LOAN LOSSES

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 nine months ending September 30, 2011 and 2010 (dollars in thousands):

For the nine months ended September 30, 2011

	$0,000	$0,000	$0,000	$0,000	$0,000	$0,000	$0,000	$0,000	$0,000
Allowance for Loan Losses	**Commercial**	**Real estate Construction and development**	**Residential, one-to-four families**	**Residential, 5 or more families**	**Other commercial real estate**	**Agricultural**	**Consumer**	**Unallocated**	**Total**
Allowance for credit losses:									
Beginning balance	$ 815	$ 1,970	$ 1,237	$ 120	$ 208	$ 1	$ 24	$	$ 4,375
Charge-offs	(80)	(1,286)	(512)	(214)	(701)		(14)		(2,807)
Recoveries	1	123					15		139
Provision	(472)	1,400	168	330	1,395	3	3		2,827
Ending balance	$ 264	$ 2,207	$ 893	$ 236	$ 902	$ 4	$ 28	$	$ 4,534

For the nine months ended September 30, 2010

	$0,000	$0,000	$0,000	$0,000	$0,000	$0,000	$0,000	$0,000	$0,000
Allowance for Loan Losses	**Commercial**	**Real estate Construction and development**	**Residential, one-to-four families**	**Residential, 5 or more families**	**Other commercial real estate**	**Agricultural**	**Consumer**	**Unallocated**	**Total**
Allowance for credit losses:									
Beginning balance	$ 402	$ 1,489	$ 1,123	$	$ 615	$	$ 37	$	$ 3,666
Charge-offs	(201)	(786)	(596)				(23)		(1,606)
Recoveries	8						20		28
Provision	304	695	298		509		92		1,898
Ending balance	$ 513	$ 1,398	$ 824	$	$ 1,125	$	$ 126	$	$ 3,986

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 does not include the undisbursed portion of construction loans in process for loans graded Pass.

As of September 30, 2011 (dollars in thousands):

	Pass	Special Mention	Substandard and lower	Total
Commercial	$ 31,799	$ 718	$ 1,465	$ 33,982
Real estate construction and development	28,211	8,368	5,306	41,885
Residential, one-to-four families	67,768	4,487	1,562	73,817
Residential, 5 or more families	4,140	855	1,080	6,075
Other commercial real estate	78,158	6,260	5,119	89,537
Agricultural	2,929			2,929
Consumer	2,109	16	1	2,126
Total	$ 215,114	$ 20,704	$ 14,533	$ 250,351

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

	Pass	Special Mention	Substandard and lower	Total
Commercial	$ 33,646	$ 408	$ 424	$ 34,478
Real estate 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
Other commercial real estate	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 September 30, 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	$ 148	$ 59	$ 207	$ 33,775	$ 33,982	$
Real estate construction and development	950	2,062	3,012	38,873	41,885	

Residential, one-to-four families	1,433	198	1,631	72,186	73,817	241
Residential, 5 or more families		1,080	1,080	4,995	6,075	
Other commercial real estate	913	2,560	3,473	86,064	89,537	263
Agricultural				2,929	2,929	
Consumer	2	1	3	2,123	2,126	
Total	$ 3,446	$ 5,960	$ 9,406	$ 240,945	$ 250,351	$ 504

16

Table of Contents

3. ALLOWANCE FOR LOAN LOSSES, continued

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 Past 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	$
Real estate 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	
Other commercial real estate	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 September 30, 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	$	$ 264	$ 264	$ 1,275	$ 32,707	$ 33,982
Real estate construction and development	713	1,494	2,207	4,673	37,212	41,885
Residential, one-to-four families	47	846	893	1,071	72,746	73,817
Residential, 5 or more families	31	205	236	1,071	5,004	6,075
Other commercial real estate	247	655	902	5,117	84,420	89,537
Agricultural		4	4		2,929	2,929
Consumer		28	28		2,126	2,126
Total	$ 1,038	$ 3,496	$ 4,534	$ 13,207	$ 237,144	$ 250,351

The following table summarizes the allowance for loan losses and recorded investment in loans as of December 31, 2010 (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	$ 64	$ 796	$ 860	$ 99	$ 34,379	$ 34,478

Real estate 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
Other commercial real estate	46	174	220	4,131	84,280	88,411
Agricultural		1	1		2,298	2,298
Consumer		25	25		2,849	2,849
Total	$ 1,307	$ 3,068	$ 4,375	$ 14,328	$ 242,260	$ 256,588

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 September 30, 2011 (dollars in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial	$ 1,275	$ 1,275	$
Real estate construction and development	2,900	2,900	
Residential, one-to-four families	313	313	
Residential, 5 or more families	629	852	
Other commercial real estate	2,665	2,664	
Agricultural			
Consumer			
Total impaired loans with no related allowance recorded	$ 7,782	$ 8,004	$
With an allowance recorded:			
Commercial	$	$	$
Real estate construction and development	1,773	2,348	713
Residential, one-to-four families	757	757	47
Residential, 5 or more families	443	443	31
Other commercial real estate	2,452	2,717	247
Agricultural			
Consumer			
Total impaired loans with allowance recorded	$ 5,425	$ 6,265	$ 1,038
Total			
Commercial	$ 1,275	$ 1,275	$
Real estate construction and development	4,673	5,248	713
Residential, one-to-four families	1,070	1,070	47
Residential, 5 or more families	1,072	1,295	31
Other commercial real estate	5,117	5,381	247
Total impaired loans	$ 13,207	$ 14,269	$ 1,038

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	$	$	$
Real estate construction and development	3,136	3,255	
Residential, one-to-four families	372	372	
Residential, 5 or more families	1,881	1,881	
Other commercial real estate	3,452	3,453	
Agricultural			
Consumer			
Total impaired loans with no related allowance recorded	$ 8,841	$ 8,961	$

With an allowance recorded:			
Commercial	$ 99	$ 159	$ 64
Real estate construction and development	3,290	3,290	977
Residential, one-to-four families	566	566	123
Residential, 5 or more families	853	853	97
Other commercial real estate	678	678	46
Agricultural			
Consumer			
Total impaired loans with allowance recorded	$ 5,486	$ 5,546	$ 1,307
Total			
Commercial	$ 99	$ 159	$ 64
Real estate 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
Other commercial real estate	4,130	4,131	46
Total impaired loans	$ 14,327	$ 14,507	$ 1,307

Table of Contents

4. TROUBLED DEBT RESTRUCTURINGS

As a result of adopting the amendments in ASU 2011-02, the Bank reassessed all restructurings that occurred on or after the beginning of the fiscal year of adoption (January 1, 2011) to determine whether they are considered troubled debt restructurings (TDRs) under the amended guidance. The Bank identified as TDRs certain loans for which the allowance for loan losses had previously been measured under a general allowance methodology. Upon identifying those loans as TDRs, The Bank identified them as impaired under the guidance in ASC 310-10-35. The amendments in ASU 2011-02 require prospective application of the impairment measurement guidance in ASC 310-10-35 for those loans newly identified as impaired. At the end of the first interim period of adoption (September 30, 2011), the recorded investment in loans for which the allowance was previously measured under a general allowance methodology and are now impaired under ASC 310-10-35 was $6.2 million, and the allowance for loan losses associated with those loans, on the basis of a current evaluation of loss was $142 thousand.

	For the nine months ended September 30, 2011		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Real estate construction and development	2	2,035	2,035
Residential, one-to-four families	6	533	533
Other commercial real estate	5	3,788	3,523

	For the three months ended September 30, 2011		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Real estate construction and development	1	2,151	2,151
Other commercial real estate	2	268	268

During the nine months ended September 30, 2011, the Bank modified 13 loans that were considered to be troubled debt restructurings. Substantially all of the restructurings involved a reduction in the borrower s payment to interest only from principal and interest for a period ranging from six to twelve months to allow the borrower to offset what the Bank considers to be a temporary cash flow shortage.

	For the nine months ended September 30, 2011		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings That Subsequently Defaulted During the Period:			
Other commercial real estate	1	$ 1,434	$ 1,169

There was no troubled debt restructurings that subsequently defaulted during the three months ended September 30, 2011.

In the determination of the allowance for loan losses, management considers troubled debt restructurings and subsequent defaults by evaluating them as part of the Bank s impairment analysis, which is formally conducted on a quarterly basis.

5. 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 September 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 September 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 September 28, 2012. The principal assets of the Trust are $8.3 million of the Company s junior subordinated debentures which mature on September 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 September 28, 2012. All $248 thousand in the aggregate liquidation amount of the Trust s common securities are held by the Company.

6. 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 expired on September 30, 2010. Options that were granted under both plans expire no more than 10 years from date of grant. Option exercise prices under both plans were set by a committee of the Board of Directors at the date of grant, but were not 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.

Compensation cost charged to income for the nine months ended September 30, 2011 was approximately $31 thousand. There was no compensation cost for the nine months ended September 30, 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.

Table of Contents

6. STOCK OPTION AND RESTRICTED STOCK PLANS, continued

A summary of the status of stock options as of September 30, 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			23,500	4.82
Forfeited			(47,525)	9.78
Expired	(88,281)	8.80		
Options outstanding, end of year	230,427	$ 9.73	323,458	$ 10.23

Information regarding the stock options outstanding at September 30, 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	8.92 Years	$ 4.82	$
$ 8.80- 9.99				$
$10.00-10.39	119,794	2.92 Years	10.00	
$10.40-11.20	87,133	2.67 Years	10.68	
	230,427	3.44 Years	$ 9.73	$

Information regarding the stock options outstanding and exercisable as of September 30, 2011 is as follows:

Range of Exercise Prices	Number Outstanding and Exercisable	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
$10.00-10.39	119,794	2.92 Years	$ 10.00	
$10.40-11.20	86,896	2.67 Years	$ 10.68	
	206,690	2.81 Years	$ 10.29	$

No options were granted or contractually vested for the nine months ended September 30, 2011. In the nine months ended September 30, 2011, 23,500 options were granted and no options contractually vested. In the nine month ending September 30, 2011 and 2010, the Company granted 15,569 and 3,539 shares of restricted stock, respectively. Of the restricted stock grants issued in 2011, 10,096 shares have a two-year vesting period, and 5,473 shares have a one-year vesting period. Of the restricted stock grants issued in 2010, 1,674 shares have a two-year vesting period, and 2,501 shares vest immediately.

Table of Contents

7. 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 September 30, 2011 and December 31, 2010 (dollars in thousands):

	September 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 20,246	$ 20,246	$ 14,156	$ 14,156
Time deposits	2,746	2,746	4,260	4,260
Securities, available-for-sale	53,963	53,946	48,261	48,261
Securities, held-to-maturity	5,794	5,856	7,534	7,625
Federal Home Loan Bank Stock	957	957	1,199	1,199
Loans, net of allowance for loan losses	245,816	248,787	252,111	253,294
Bank owned life insurance	4,901	4,901	4,792	4,792
Financial liabilities				
Deposits	312,413	316,776	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

The estimated fair values of net loans, deposits and long-term obligations 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 reprice 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.

7. 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 September 30, 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

7. FAIR VALUE OF FINANCIAL INSTRUMENTS, continued

Assets recorded at fair value on a recurring basis

September 30, 2011 (Dollars in thousands)	Total	Level 1	Level 2	Level 3
Government-sponsored enterprise securities	$ 2,144	$	$ 2,144	$
FNMA or GNMA mortgage-backed securities	17,770		17,770	
Private label mortgage-backed securities	8,188		8,188	
Municipal securities	13,397	2,221	11,176	
SBA debentures	11,964		11,964	
Other domestic debt securities	500			500
Investment securities available-for-sale	$ 53,963	$ 2,221	$ 51,242	$ 500
Total assets at fair value	$ 53,963	$ 2,221	$ 51,242	$ 500

December 31, 2010 (Dollars in thousands)	Total	Level 1	Level 2	Level 3
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
Investment securities available-for-sale	$ 48,261	$ 11,029	$ 36,732	$ 500
Total assets at fair value	$ 48,261	$ 11,029	$ 36,732	$ 500

Assets recorded at fair value on a nonrecurring basis

September 30, 2011 (Dollars in thousands)	Total	Level 1	Level 2	Level 3
Real estate construction and development loans	$ 1,186	$	$	$ 1,186
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				
Commercial and industrial loans				
Secured by multifamily (5 or more) residential properties	629			629
Secured by other commercial real estate	1,169			1,169
Impaired loans receivable	2,984			2,984
Foreclosed assets	2,114			2,114
Total assets at fair value	$ 5,098	$	$	$ 5,098
Total liabilities at fair value	$	$	$	$

December 31, 2010 (Dollars in thousands)	Total	Level 1	Level 2	Level 3
Real estate construction and development loans	$ 2,313	$	$	$ 2,313
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	443			443
Commercial and industrial loans	35			35
Secured by multifamily (5 or more) residential properties	757			757
Secured by other commercial real estate	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

7. 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 nine-month periods ending September 30, 2011 and 2010.

(Dollars in thousands)	Available-for Sale Securities
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	
Balance, September 30, 2011	$ 500

(Dollars in thousands)	Available-for Sale Securities
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	
Balance, September 30, 2010	$ 500

Table of Contents

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 nine months of 2011, with the continuing impact of a sluggish economy, management has continued to focus on managing credit quality, building liquidity sources and managing capital. 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 s homes financed by the Bank. Through our Community Loan Investment Program, which is being utilized by the majority of our builders , as of September 30, 2011 we have been able to move 17 out of 19 jumbo homes and 16 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 $1.2 million, and the reduction of our exposure to conventional homes from $4.9 million to $704 thousand. This program can be accessed through our website at 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 nine months ended September 30, 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 $5.7 million and $6.5 million, respectively, from December 31, 2010 to September 30, 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 $13.4 million from December 31, 2010 to September 30, 2011.

26

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 $4.6 million of the CPP funds have been contributed to the Bank as additional equity capital. Approximately $3.3 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 13.5% at September 30, 2011, the Bank is above the minimum 10% requirement to be classified as well-capitalized. If the remaining $3.3 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 14.8% at September 30, 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.

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.

Table of Contents

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;
- 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.

Comparison of Results of Operations for the Three- and nine-month Periods Ending September 30, 2011 and 2010

Net Income

The following table summarizes components of income and expense and the changes in those components for the three- and nine-month periods ended September 30, 2011 as compared to the same period in 2010.

Condensed Consolidated Statements of Income (Dollars in thousands)

	For the Three Months Ended	Changes from the Prior Year	For the Nine Months Ended	Changes from the Prior Year

	September 30, 2011	Amount	%	September 30, 2011	Amount	%
Total interest income	$ 4,281	$ (231)	(5.1)	$ 13,116	$ (477)	(3.5)
Total interest expense	798	(351)	(30.5)	2,620	(1,047)	(28.6)
Net interest income	3,483	120	3.6	10,496	570	5.7
Provision for loan losses	960	199	26.1	2,827	929	48.9
Net interest income after provision for loan losses	2,523	(79)	(3.0)	7,669	(359)	(4.5)
Noninterest income	836	(166)	(16.6)	2,794	(419)	(13.0)
Noninterest expense	3,302	(257)	(7.2)	10,087	(114)	(1.1)
Income (loss) before income taxes	57	12	26.7	376	(664)	(63.8)
Income tax expense (benefit)	(18)	(22)	(550.0)	30	(316)	(91.3)
Net income	75	34	82.9	346	(348)	(50.1)
Preferred stock dividend and accretion of discount	(163)	(4)	2.5	(490)	(22)	4.7
Net income available to common shareholders	$ (88)	$ 30	(25.4)	$ (144)	$ (370)	(163.7)

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 September 30, 2011 was $3.5 million, an increase of $120 thousand or 3.6% when compared to net interest income of $3.4 million for the three months ended September 30, 2010. For the nine months ended September 30, 2011, net interest income was $10.5 million, an increase of $570 thousand or 5.7% when compared to net interest income of $9.9 million for the same period in 2010.

Table of Contents

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 $231 thousand or 5.1% for the three months ended September 30, 2011 compared to the same three months of 2010. Interest income decreased $477 thousand or 3.5% for the nine months ended September 30, 2011 compared to the same nine months in 2010. The decreases for the three and nine months ended September 30, 2011 are primarily due to decreases in rates earned on these assets. The yield on average earning assets decreased 30 basis points for the three months ended September 30, 2011 to 5.19% from 5.49% for the same period in 2010. For the first nine months of 2011, the yield on average earning assets decreased 29 basis points to 5.29% compared to 5.58% at September 30, 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.

Our average cost of funds during the three months ended September 30, 2011 was 1.11%, a decrease of 47 basis points when compared to 1.58% for the three months ended September 30, 2010. Average rates paid on deposits decreased 50 basis points from 1.60% for the three months ended September 30, 2010 to 1.10% for the three months ended September 30, 2011, while our average cost of borrowed funds increased 21 basis points during the three months ended September 30, 2011 compared to the same period in 2010. Total interest expense decreased $351 thousand or 30.5% during the three months ended September 30, 2011 compared to the same period in 2010, primarily the result of decreased market rates paid on these liabilities. For the nine months ended September 30, 2011, our cost of funds was 1.21%, a decrease of 48 basis points when compared to 1.69% for the same period in 2010. Average rates on deposits decreased 51 basis points from 1.72% to 1.21% for the first nine months of 2011, while our cost of borrowed funds increased 6 basis points compared to the same period a year ago. Total interest expense decreased $1.0 million or 28.6% during the nine months of 2011 compared to the same period in 2010, primarily the result of decreased market rates paid on these liabilities.

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.

Our annualized net interest margin for the three months ended September 30, 2011 was 4.08% compared to 3.91% for the same period in 2010, while our net interest spread increased 13 basis points during the same period. For the nine months ended September 30, 2011, our net interest margin was 4.08% compared to 3.89% for the nine months ended September 30, 2010 while our net interest spread increased 16 basis points.

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 is unable to maintain or increase the yield on average earning assets while maintaining or decreasing the cost of funds on borrowings.

Table of Contents

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 and nine months ended September 30, 2011 and 2010 (dollars in thousands).

Sources of Noninterest Income (Dollars in thousands)

	For the Three Months Ended September 30, 2011	Changes from the Prior Year		For the Nine Months Ended September 30, 2011	Changes from the Prior Year	
		Amount	%		Amount	%
Service charges on deposit accounts	$ 87	$ (76)	(46.6)	$ 382	$ (175)	(31.4)
Gain on sale of securities			N/A	258	(128)	(33.2)
Mortgage loan origination fees	60	(128)	(68.1)	168	(204)	(54.8)
Investment and insurance commissions	284	36	14.5	759	41	5.7
Fee income from accounts receivable financing	185	(27)	(12.7)	600	(38)	(6.0)
Debit card interchange income	165	36	27.9	459	104	29.3
Income earned on bank owned life insurance	37	(5)	(11.9)	110	(16)	(12.7)
Other service charges and fees	18	(2)	(10.0)	58	(3)	(4.9)
Total noninterest income	$ 836	$ (166)	(16.6)	$ 2,794	$ (419)	(13.0)

Noninterest income decreased $166 thousand or 16.6% to $836 thousand for the three months ended September 30, 2011 compared to $1.0 million for the same period in 2010. For the nine months ended September 30, 2011 noninterest income decreased $419 thousand or 13.0% to $2.8 million compared to $3.2 million for the same period in 2010. The decrease in noninterest income in the three months ended September 30, 2011 is primarily due to decreases from 2010 to 2011 in service charges on deposit accounts and mortgage loan origination fees. The year to date decrease in noninterest income is the result of decreases in the majority of noninterest income categories with the exception of investment and insurance commissions and debit card interchange income. Service charges on deposit accounts decreased $76 thousand and $175 thousand, respectively for the three and nine months ended September 30, 2011 as compared to the same periods in 2010. The primary reason for this decline were decreases in non sufficient funds fees due to a greater customer awareness of such fees and regulations regarding such fees that affect the entire banking industry. Gain on sale of securities decreased $128 thousand for the nine months ended September 30, 2011 compared to the same period of 2010. The decline in the nine months ended September 30, 2011 compared to the same period in 2010 was due to a greater gain on sale of securities in 2010 as compared to 2011. Mortgage loan origination fees decreased $128 thousand and $204 thousand, respectively for the three and nine months ended September 30, 2011 as compared to the same periods in 2010. The primary reason for the decrease was a decline in mortgage closings from 2010 to 2011 as the overall market for home purchases and refinancing remained relatively weak. Investment and insurance commissions increase $36 thousand and $41 thousand, respectively for the three and nine months ended September 30, 2011 as compared to the same periods in 2010. Fee income from accounts receivable financing decreased $27 thousand and $38 thousand, respectively for the three and nine months ended September 30, 2011 as compared to the same periods in 2010. The primary reason for the decrease was lower receivables of existing clients in 2011 as compared to 2010. Debit card interchange income increased $36 thousand and $104 thousand for the three and nine months ended September 30, 2011, respectively, as compared to the same periods in 2010. The primary reason for the increase was primarily the result of continued emphasis by management in the promotion of a debit card rewards program that caused higher cardholder usage in 2011 as compared to 2010. To a lesser extent, some of the increases were caused by the continued growth of checking accounts at the Bank during the three and nine months ending September 30, 2011 as compared to the same periods in 2010.

Table of Contents

Noninterest Expense

Noninterest expense decreased 7.2% for the three months ended September 30, 2011 compared to the same period in 2010, and decreased 1.1% for the nine months ended September 30, 2011 compared to the same period in 2010.

Sources of Noninterest Expense (Dollars in thousands)

	For the Three Months Ended September 30, 2011	Changes from the Prior Year		For the Nine Months Ended September 30, 2011	Changes from the Prior Year	
		Amount	%		Amount	%
Salaries	$ 1,551	$ 58	3.9	$ 4,442	$ 231	5.5
Employee benefits	211	80	(58.0)	577	132	29.7
Employee Stock Ownership Plan	(25)	(375)	(107.1)		(650)	(100.0)
Occupancy expense	231	13	6.0	649	(29)	(4.3)
Equipment expense	225	10	4.7	652	18	2.8
Data and items processing	247	17	7.4	691	(33)	(4.6)
Professional and advertising	277	66	31.3	830	35	4.4
Stationary and supplies	89	10	12.7	315	107	51.4
Net loss on sale of foreclosed and repossessed assets	3	3	N/A	257	212	471.1
Expenses of foreclosed and repossessed assets	95	79	493.8	137	45	48.9
Telecommunications expense	54	(2)	(3.6)	164	(9)	(5.2)
FDIC assessment	7	(108)	(93.9)	285	(99)	(25.8)
Accounts receivable financing expense	57	(11)	(16.2)	188	(23)	(10.9)
Total other-than-temporary impairment loss			N/A		(21)	(100.0)
Other expense	280	(97)	(25.7)	900	(30)	(3.2)
Total noninterest expense	$ 3,302	$ (257)	(7.2)	$ 10,087	$ (114)	(1.1)

Salary expense for the three and nine months ended September 30, 2011 increased $58 thousand and $231 thousand, respectively, compared to the same prior year periods. The increases were due to regular salary increases and market adjustments that went into effect for all employees on January 1, 2011, as well as new positions that were added during the nine months ended September 30, 2011.

Employee benefits for the three and nine months ended September 30, 2011 increased $80 thousand and $132 thousand, respectively, over the same prior year periods. The principal reason for this increase were increases in health care premiums for the Bank and its employees that went into effect on June 1, 2011, as well as a higher number of employees during 2011 than 2010.

Employee Stock Ownership Plan expense for the three and nine months ended September 30, 2011 decreased $375 thousand and $650 thousand, respectively, over the same prior year periods. The principal reason for these decreases were that no contributions were made to Employee Stock Ownership Plan accrual in the three and nine months ended September 30, 2011 compared to the same period in 2010.

Occupancy, equipment and data and items processing expenses for the three and nine months ended September 30, 2011 were relatively unchanged compared to the same prior year periods.

Professional and advertising expenses for the three and nine months ended September 30, 2011 increased $66 thousand and $35 thousand, respectively, over the same prior year period. In both the three and nine month periods, increases in marketing and advertising expenses offset by decreases in audit and consulting fees accounted for the net increase.

Stationary and supplies expenses for the three and nine months ended September 30, 2011 increased $10 thousand and $107 thousand, respectively, over the same prior year period. In both the three and nine month periods, greater mailings to customers and prospects accounted for the majority of the increase.

Net loss on sale of foreclosed and repossessed assets for the three and nine months ended September 30, 2011 increased $3 thousand and $212 thousand, respectively, over the same prior year periods. The primary reason was higher write-downs on other real estate during the three and nine months in 2011 when compared to same periods in 2010.

Table of Contents

Expenses of foreclosed and repossessed assets for the three and nine months ended September 30, 2011 increased $79 thousand and $45 thousand, respectively, over the same prior year periods. The primary reason was a higher level of carrying expenses in 2011 compared to 2010.

Telecommunications expense for the three and nine months ended September 30, 2011 was relatively unchanged compared to the same prior year periods.

FDIC assessment for the three and nine months ended September 30, 2011 decreased $108 thousand and $99 thousand, respectively, over the same prior year period. The FDIC assessment expense is primarily due to the expensing of a prepaid asset that was established in 2009 when FDIC insured banks were required to pay an estimated three years of FDIC assessments in order to replenish the FDIC insurance fund. The Bank s assessment was based on an annualized average rate of growth of 5% in the Bank s deposits during that time. The Bank s actual rate of growth has been less than 5% which has resulted in a smaller expense than originally projected.

Accounts receivable financing expense for the three and nine months ended September 30, 2011 decreased $11 thousand and $23 thousand, respectively, over the same prior year periods. Most of the decline is attributable to the decline in fee income from accounts receivable financing during over the same periods from 2010 to 2011.

Total other-than-temporary impairment loss in each of the three and nine months ended September 30, 2010 decreased $21 thousand over the same prior year periods. The Company performs quarterly impairment testing on its investment portfolio, and additional impairment losses were recorded in 2010 as a result.

Other expense for the three and nine months ended September 30, 2010 decreased $97 thousand and $30 thousand, respectively, over the same prior year periods. The primary reasons for the decreases were lower deposit and debit card losses and lower training and education expenses.

Income Taxes

Income tax expense for the nine months ended September 30, 2011 decreased $316 thousand over the same period in 2010. The primary reason was a decline in net income before income tax expense from 2010 to 2011, as well as the tax deductibility of interest in 2011 on municipal bonds that were purchased near the end of 2010 and at the beginning of 2011. The tax benefit of the interest on municipal bonds had the effect of lowering the Company s effective tax rate from 33.3% for the nine months ended September 30, 2010 to 8.0% for the same period in 2011.

Analysis of Financial Condition at September 30, 2011 and December 31, 2010

Loans Receivable

As of September 30, 2011, total loans decreased to $250.3 million, down 2.4% from total loans of $256.5 million at December 31, 2010. The decline in loans in the first nine 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.

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.

Table of Contents

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

	At September 30, 2011	2010
Allowance for loan losses at beginning of period	$ 4,375	$ 3,666
Loans charged off:		
Real estate - mortgage	(2,012)	(1,382)
Home equity lines of credit		
Commercial and industrial	(781)	(201)
Loans to individuals	(14)	(23)
Total charge-offs	(2,807)	(1,606)
Recoveries:		
Real estate - mortgage	123	
Home equity lines of credit		
Commercial and industrial	1	8
Loans to individuals	15	20
Total recoveries	139	28
Net charge-offs	(2,667)	(1,578)
Provision for loan losses	2,827	1,898
Allowance for loan losses at end of period	$ 4,534	$ 3,986
Total loans outstanding at end of period	$ 250,351	$ 254,942
Average loans outstanding	$ 253,821	$ 252,347
Ratios:		
Ratio of annualized net loan charge-offs to average loans outstanding	1.40%	0.83%
Ratio of allowance for loan losses to loans outstanding at period-end	1.81%	1.56%

At September 30, 2011, our allowance for loan losses as a percentage of loans was 1.81%, up from 1.71% at December 31, 2010 and 1.56% at September 30, 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 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.

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.

Table of Contents

Net charge-offs of $2.7 million in the first nine months of 2011 increased by $1.1 million when compared to the same period in 2010. Net charge-offs from real estate secured loans were $1.9 million and $1.4 million in 2011 and 2010, respectively. Net charge-offs from commercial and industrial loans was $780 thousand in the first nine months of 2011 compared to $193 thousand during the same period in 2010. Net recoveries from loans to individuals was $1 thousand in the first nine months of 2011, net charge offs from loans to individuals were $3 thousand in the same period in 2010.

	At September 30,	
	2011	2010
Allowance for loan losses at beginning of period	$ 4,375	$ 3,666
Loans charged off:		
Real estate - mortgage	(2,012)	(1,382)
Home equity lines of credit		
Commercial and industrial	(781)	(201)
Loans to individuals	(14)	(23)
Total charge-offs	(2,807)	(1,606)
Recoveries:		
Real estate - mortgage	123	
Home equity lines of credit		
Commercial and industrial	1	8
Loans to individuals	15	20
Total recoveries	139	28
Net charge-offs	(2,667)	(1,578)
Provision for loan losses	2,827	1,898
Allowance for loan losses at end of period	$ 4,534	$ 3,986
Total loans outstanding at end of period	$ 250,351	$ 254,942
Average loans outstanding	$ 253,821	$ 252,347
Ratios:		
Ratio of annualized net loan charge-offs to average loans outstanding	1.40%	0.83%
Ratio of allowance for loan losses to loans outstanding at period-end	1.81%	1.56%

Asset quality remains a top priority for us. For the nine months ended September 30, 2011, annualized net loan charge-offs were 1.40% of average loans compared to annualized net charge-offs of 0.83% for the nine months ended September 30, 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 and commercial and industrial loans in the nine months ended September 30, 2011. The allowance for loan losses to loans increased to 1.81% at September 30, 2011 from 1.56% at September 30, 2010, reflecting the increase in our historical loss rate as our charge-offs have increased during the past year. The ratio of our allowance for loan losses to nonperforming loans decreased to 70% as of September 30, 2011 compared to 83% at December 31, 2010. The decrease is the result of our allowance increasing approximately 4% from December 31, 2010 to September 30, 2011 and our nonperforming loans increasing approximately 23% during the same period.

Table of Contents

Loans Considered Impaired

We review our nonperforming loans and other groups of loans based on loan size or other factors for impairment. At September 30, 2011, we had loans totaling $15.5 million (which includes $9.8 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 September 30, 2011.

Analysis of Loans Considered Impaired (Dollars in thousands)

	Number of Loans	Loan Balances Outstanding	Allocated Reserves
Non-accrual loans	12	$ 5,295	$ 889
Restructured loans	10	4,772	112
Total nonperforming loans	22	$ 10,067	$ 1,011
Other impaired loans with allocated reserves	2	2,293	27
Impaired loans without allocated reserves	1	847	
Total impaired loans	25	$ 13,207	$ 1,038

At September 30, 2011 and December 31, 2010, nonperforming assets were approximately 2.45% 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 September 30, 2011.

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 $54.0 million at September 30, 2011, compared to $48.3 million at December 31, 2010. The overall increase was due to purchases of securities totaling approximately $15.3 million, repayments and accretion of discount of approximately $7.6 million, sales of approximately $1.9 million, and a decline in the unrealized gain of $24 thousand. Our held-to-maturity investment securities totaled $5.8 million at September 30, 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 approximately $1.7 million. 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 and nine months ended September 30, 2011. There were impairment charges on subinvestment grade securities for the nine months ended September 30, 2010 of $21 thousand.

Deposits

Deposits increased to $312.4 million, or 4.0% as of September 30, 2011 compared to deposits of $300.3 million at December 31, 2010. Noninterest-bearing deposits increased $5.7 million, or 21.1%, from December 31, 2010 to September 30, 2011, and total interest-bearing deposits increased $6.5 million, or 2.4%, during the same period of time.

Table of Contents

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 September 30, 2011 and December 31, 2010. At September 30, 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 September 30, 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 December 31, 2010. There was no long-term debt outstanding as of September 30, 2011, as the Bank repaid these borrowings out of existing liquidity during the three months ended September 30, 2011.

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 September 30, 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 September 17, 2012 or afterwards, in whole or in part, on any December 17, March 17, September 17 or September 17. Redemption is mandatory at September 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.

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 nine months of 2011, the Bank s brokered and internet generated time deposits decreased $1.4 million to $61.9 million as the Bank chose to raise these funds at lower rates than local time deposits. Of the total brokered deposits of $61.9 million as of September 30, 2011, $38.9 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 $20.6 million and $18.0 million of advances from the FHLB at September 30, 2011 and December 31, 2010, respectively. At December 31, 2010, we had outstanding FHLB advances totaling $9.0 million, there were no FHLB advances outstanding at September 30, 2011.

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 September 30, 2011 and December 31, 2010, we owned 9,570 and 11,987 shares of the FHLB s $100 par value capital stock, respectively.

We also had unsecured Federal Funds lines in the aggregate amount of $6.0 million available to us at September 30, 2011 under which we can borrow funds to meet short-term liquidity needs. At September 30, 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 September 30, 2011, we had $723 thousand in loan participations sold. We believe that our liquidity sources are adequate to meet our operating needs.

Table of Contents

Capital Resources and Shareholders Equity

As of September 30, 2011, our total shareholders equity was $28.0 million (consisting of common shareholders equity of $21.0 million and preferred stock of $7.0 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 $88 thousand to $21.0 million at September 30, 2011 from $21.1 million at December 31, 2010. We experienced a increase of $15 thousand in accumulated other comprehensive income associated with our available-for-sale securities portfolio, payment of dividends of $290 thousand on preferred shares, and accretion of preferred stock discount of $200 thousand. These decreases were offset by increases due to net income of $346 thousand and an increase in common stock of $61 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 September 30, 2011, all capital ratios place the Bank in excess of the minimum necessary to be considered well-capitalized under bank regulatory guidelines.

	At September 30, 2011		
	Actual Ratio	Minimum Requirement	Well-Capitalized Requirement
Total risk-based capital ratio	13.5%	8.0%	10.0%
Tier 1 risk-based capital ratio	12.2%	4.0%	6.0%
Leverage ratio	9.2%	4.0%	5.0%

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.

Table of Contents

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 September 30, 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 during the three and nine months ended September 30, 2011 that has materially affected or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Table of Contents

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 September 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 September 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 September 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.

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.

Table of Contents

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)(i)	Certification of Ronald O. Black
Exhibit (31)(ii)	Certification of Thomas W. Wayne
Exhibit (32)	Certification of Periodic Financial Report Pursuant to 18 U.S.C. Section 1350.
Exhibit (101)	The following materials from the Company s 10-Q Report for the quarterly period ended September 30, 2011, formatted in XBRL: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Changes in Shareholders Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) the Notes to the Condensed Consolidated Financial Statements, tagged as blocks of text.*

* Furnished, not filed

Table of Contents

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: November 14, 2011	/s/ Ronald O. Black Ronald O. Black President and Chief Executive Officer (Duly Authorized Representative)
Date: November 14, 2011	/s/ Thomas W. Wayne Thomas W. Wayne Chief Financial Officer (Duly Authorized Representative)

41