Oak Ridge Financial Services, Inc.
Form 10-Q
May 15, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

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 May 4, 2012, was as follows:

Class	Number of Shares
Common Stock, no par value	**1,808,745**

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements represent expectations and beliefs of Oak Ridge Financial Services, Inc. (hereinafter referred to as the Company) including but not limited to the Company s operations, performance, financial condition, growth or strategies. These forward-looking statements are identified by words such as expects , anticipates , should , estimates , believes and variations of these words and other similar statements. For this purpose, 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;
- Regulatory approval for paying dividends cannot be obtained;
- 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;

- Regulatory approvals for acquisitions cannot be obtained on the terms expected or on the anticipated schedule; and

- The effects of the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act and related regulations.

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

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Consolidated Balance Sheets

March 31, 2012 (Unaudited) and December 31, 2011 (Audited)

(Dollars in thousands)

	2012	2011
Assets		
Cash and due from banks	$ 3,666	$ 5,293
Interest-bearing deposits with banks	27,115	16,150
Total cash and cash equivalents	30,781	21,443
Time deposits	1,050	1,050
Securities available-for-sale	48,429	51,212
Securities held-to-maturity (fair values of $4,927 in 2012 and $5,204 in 2011)	4,959	5,211
Federal Home Loan Bank Stock, at cost	795	795
Loans held for sale	1,153	808
Loans, net of allowance for loan losses of $4,419 in 2012 and $4,446 in 2011	252,481	250,832
Property and equipment, net	9,872	9,973
Foreclosed assets	2,140	2,216
Accrued interest receivable	1,326	1,554
Bank owned life insurance	4,973	4,939
Other assets	1,976	2,122
Total assets	$ 359,935	$ 352,155
Liabilities and Stockholders Equity		
Liabilities		
Deposits:		
Noninterest-bearing	$ 31,131	$ 30,338
Interest-bearing	290,284	283,573
Total deposits	321,415	313,911
Junior subordinated notes related to trust preferred securities	8,248	8,248
Accrued interest payable	117	119
Other liabilities	2,147	1,929
Total liabilities	331,927	324,207
Stockholders equity		
Preferred stock, Series A, 7,700 shares authorized and outstanding; no par value, $1,000 per share liquidation preference	7,148	7,075
Common stock, no par value; 50,000,000 shares authorized; 1,808,745 issued and outstanding in 2012 and 2011	15,935	15,925
Warrant	1,361	1,361
Retained earnings	2,402	2,418
Accumulated other comprehensive income	1,162	1,169
Total stockholders equity	28,008	27,948
Total liabilities and stockholders equity	$ 359,935	$ 352,155

See Notes to Consolidated Financial Statements

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Consolidated Statements of Operations

***For the three months ended March 31, 2012 and 2011* (Unaudited)**

(Dollars in thousands except per share data)

	2012	2011
Interest and dividend income		
Loans and fees on loans	$ 3,434	$ 3,582
Interest on deposits in banks	13	22
Federal Home Loan Bank stock dividends	3	2
Taxable investment securities	706	834
Total interest and dividend income	4,156	4,440
Interest expense		
Deposits	674	893
Short-term and long-term debt	46	48
Total interest expense	720	941
Net interest income	3,436	3,499
Provision for loan losses	564	605
Net interest income after provision for loan losses	2,872	2,894
Noninterest income		
Service charges on deposit accounts	103	157
Mortgage loan origination fees	113	66
Investment and insurance commissions	262	202
Fee income from accounts receivable financing	164	208
Debit card interchange income	182	132
Income earned on bank owned life insurance	35	37
Other service charges and fees	66	18
Total noninterest income	925	820
Noninterest expense		
Salaries	1,688	1,465
Employee benefits	215	189
Occupancy expense	214	211
Equipment expense	210	210
Data and item processing	280	212
Professional and advertising	175	225
Stationary and supplies	77	122
Net cost of foreclosed assets	194	274
Telecommunications expense	69	53
FDIC assessment	77	132
Accounts receivable financing expense	49	66
Other expense	363	291
Total noninterest expense	3,611	3,450

Income before income taxes		186		264
Income tax expense		33		71
Net income	$	153	$	193
Preferred stock dividends		(96)		(96)
Accretion of discount		(73)		(67)
Income (loss) available to common stockholders	$	(16)	$	30
Basic earnings (loss) per common share	$	(0.01)	$	0.02
Diluted earnings (loss) per common share	$	(0.01)	$	0.02
Basic weighted average shares outstanding		1,808,745		1,795,649
Diluted weighted average shares outstanding		1,808,745		1,795,649

See Notes to Consolidated Financial Statements

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Consolidated Statements of Comprehensive Income (Loss)

***For the three months ended March 31, 2012 and 2011* (Unaudited)**

(Dollars in thousands except per share data)

	2012	2011
Net income	$ 153	$ 193
Other comprehensive income:		
Unrealized holding losses on securities available-for-sale	(11)	(309)
Tax effect	4	83
Other comprehensive income, net of tax	(7)	(226)
Comprehensive income (Loss)	$ 146	$ (33)

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Consolidated Statements of Changes in Stockholders Equity

Three months ended March 31, 2012 and 2011 (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	Total
Balance December 31, 2010	$ 6,808	1,792,876	$ 15,841	$ 1,361	$ 2,707	$ 1,156	$ 27,873
Net income					193		193
Other comprehensive income						(226)	(226)
Total comprehensive income							
Preferred stock dividends					(96)		(96)
Stock Option Expense			7				7
Common stock issued pursuant to restricted stock awards		2,773	14				14
Preferred stock accretion	67				(67)		
Balance March 31, 2011	$ 6,875	1,795,649	$ 15,862	$ 1,361	$ 2,737	$ 930	$ 27,765

	Preferred stock, Series A	Common Stock Number	Common Stock Amount	Common stock warrant	Retained earnings	Accumulated other comprehensive income	Total
Balance December 31, 2011	$ 7,075	1,808,445	$ 15,925	$ 1,361	$ 2,418	$ 1,169	$ 27,948
Net income					153		153
Other comprehensive income						(7)	(7)
Total comprehensive income							
Preferred stock dividends					(96)		(96)
Stock Option and restricted stock expense			10				10
Preferred stock accretion	73				(73)		
Balance March 31, 2012	$ 7,148	1,808,445	$ 15,935	$ 1,361	$ 2,402	$ 1,162	$ 28,008

See Notes to Consolidated Financial Statements

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Consolidated Statements of Cash Flows

Three months ended March 31, 2012 and 2011 **(Unaudited)**

(Dollars in thousands)

	2012	2011
Cash flows from operating activities		
Net income	$ 153	$ 193
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	221	214
Provision for loan losses	564	605
Loss on sale of property and equipment		4
Income earned on bank owned life insurance	(35)	(37)
Losses and writedowns on foreclosed assets	120	244
Deferred income tax (benefit) expense	(150)	505
Origination of loans held for sale	(345)	
Net accretion of discounts and premiums on securities	63	(72)
Changes in assets and liabilities:		
Income taxes payable	106	(723)
Accrued income	228	(17)
Other assets	1	72
Accrued interest payable	(2)	29
Other liabilities	264	(49)
Net cash provided by operating activities	1,188	968
Cash flows from investing activities		
Activity in available-for-sale securities:		
Purchases		(9,120)
Maturities and repayments	2,705	3,435
Activity in held-to-maturity securities:		
Maturities and repayments	396	683
Time deposit maturities		240
Net decrease (increase) in loans	(2,808)	234
Purchases of property and equipment	(120)	(110)
Proceeds from sale of property and equipment		2
Proceeds from sale of foreclosed assets	569	625
Net cash provided by (used in) investing activities	742	(4,011)
Cash flows from financing activities		
Net increase in deposits	7,504	7,998
Dividends paid on preferred stock	(96)	(96)
Net cash provided by financing activities	7,408	7,902
Net increase in cash and cash equivalents	9,338	4,859
Cash and cash equivalents, beginning	21,443	14,156
Cash and cash equivalents, ending	$ 30,781	$ 19,015

See Notes to Consolidated Financial Statements

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Consolidated Statements of Cash Flows

Three months ended March 31, 2012 and 2011 **(Unaudited)**

(Dollars in thousands)

	2012	2011
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest	$ 722	$ 912
Taxes	$	$
Non-cash investing and financing activities		
Foreclosed assets acquired in settlement of loans	$ 613	$ 150

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(B) Basis of Financial Statement Presentation
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheets and the reported amounts of income and expenses for the periods presented. In management s opinion, the financial information, which is unaudited, reflects all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial information as of and for the three month period ended March 31, 2012, in conformity with GAAP. Actual results could differ significantly from those estimates. Operating results for the three-month period ended March 31, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2012.

The consolidated balance sheet as of December 31, 2011 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 Consolidated Financial Statements filed as part of the Company s Annual Report on Form 10-K for the year ended December 31, 2011 (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.

(D) Critical Accounting Policies

The Company s financial statements are prepared in accordance with GAAP. The Notes to the Consolidated 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 March 31, 2012 and 2011 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 March 31, 2012 and 2011, 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.

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(G) Recent Accounting Pronouncements

The following is a summary of recent authoritative pronouncements:

In April 2011, the criteria used to determine effective control of transferred assets in the Transfers and Servicing topic of the Accounting Standards Codification (ASC) was amended by Accounting Standards Update (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 were effective for the Company on January 1, 2012 and had no 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 were effective for the Company beginning January 1, 2012 and had no 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 and requires consecutive presentation of the statement of net income and other comprehensive income. The amendments were applicable to the Company on January 1, 2012 and have been applied retrospectively. In December 2011, the topic was further amended to defer the effective date of presenting reclassification adjustments from other comprehensive income to net income on the face of the financial statements. Companies should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect prior to the amendments while Financial Accounting Standards Board (FASB) redeliberates future requirements.

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.

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2. INVESTMENT SECURITIES

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

	March 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
Government-sponsored enterprise securities	$ 2,028	$ 81	$	$ 2,109
FNMA or GNMA mortgage-backed securities	14,010	419	(175)	14,254
Private label mortgage-backed securities	6,872	395		7,267
Municipal securities	12,261	693	(12)	12,942
SBA debentures	10,867	490		11,357
Other domestic debt securities	500			500
Total securities available-for-sale	$ 46,538	$ 2,078	$ (187)	$ 48,429
Held-to-maturity				
Private label mortgage-backed securities	$ 4,959	$ 239	$ (271)	$ 4,927
Total securities available-for-sale	$ 4,959	$ 239	$ (271)	$ 4,927

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
Government-sponsored enterprise securities	$ 2,029	$ 99	$	$ 2,128
FNMA or GNMA mortgage-backed securities	15,703	488	(142)	16,049
Private label mortgage-backed securities	7,582	278	(21)	7,839
Municipal securities	12,292	679		12,971
SBA debentures	11,204	521		11,725
Other domestic debt securities	500			500
Total securities available-for-sale	$ 49,310	$ 2,065	$ (163)	$ 51,212
Held-to-maturity				
Private label mortgage-backed securities	$ 5,211	$ 288	$ (295)	$ 5,204
Total securities available-for-sale	$ 5,211	$ 288	$ (295)	$ 5,204

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 Company did not record impairment charges during the three months ended March 31, 2012 or the three months ended March 31, 2011.

The Company had approximately $795 thousand at March 31, 2012 and December 31, 2011 of investments in stock of the Federal Home Loan Banks (FHLB), which is carried at cost. On November 3, 2011, FHLB paid a dividend for the third quarter of 2011 based on an annualized dividend rate of 0.80%. Management believes that the Company s investment in FHLB stock was not other-than-temporarily impaired as of March 31, 2012. 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 $3.7 million and $3.8 million at March 31, 2012 and December 31, 2011, respectively, were pledged as collateral on public deposits or for other purposes as required or permitted by law.

The Company had no gross realized gains on the sale of securities for the three months ended March 31, 2012 and 2011.

The following tables detail unrealized losses and related fair values in the Company s held-to-maturity and available-for-sale investment securities portfolios at March 31, 2012 and December 31, 2011. This information is aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2012 and December 31, 2011 (dollars in thousands).

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2. INVESTMENT SECURITIES, CONTINUED

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2012						
Available-for-sale						
Government sponsored enterprise securities	$	$	$	$	$	$
FNMA or GNMA mortgage-backed securities	2,830	(48)	4,076	(127)	6,906	(175)
Private label mortgage-backed securities						
Municipal Securities	540	(12)			540	(12)
SBA debentures						
Other domestic debt securities						
Total temporarily impaired securities	$ 3,370	$ (60)	$ 4,076	$ (127)	$ 7,446	$ (187)
Held-to-maturity						
Private label mortgage-backed securities	$ 683	$ (77)	$ 1,831	$ (194)	$ 2,514	$ (271)
Total temporarily impaired securities	$ 683	$ (77)	$ 1,831	$ (194)	$ 2,514	$ (271)

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2011						
Available-for-sale						
Government sponsored enterprise securities	$	$	$	$	$	$
FNMA or GNMA mortgage-backed securities	4,196	(83)	2,632	(58)	6,828	(141)
Private label mortgage-backed securities	3,167	(21)			3,167	(21)
SBA debentures						
Other domestic debt securities						
Total temporarily impaired securities	$ 7,363	$ (104)	$ 2,632	$ (58)	$ 9,995	$ (162)
Held-to-maturity						
Private label mortgage-backed securities	$	$	$ 1,835	$ (295)	$ 1,835	$ (295)
Total temporarily impaired securities	$	$	$ 1,835	$ (295)	$ 1,835	$ (295)

At March 31, 2012, the unrealized losses in the available-for-sale portfolio relate to seven 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 is one available-for-sale municipal securities with market values less than amortized cost. This security is rated AAA, by Standard and Poor s, and post-purchase review of the credit quality of the issuer by the Company has reinforced the credit-worthiness of the municipality. Therefore, the Company believes the deterioration in value is attributable to changes in market rates, and expects these security to be paid in full and that any temporary impairment will be fully recoverable prior to or at maturity. Lastly, there are three held-to-maturity mortgage-backed securities with credit ratings of C, C and CC. The private label held-to-maturity securities are rated Caa2 by Moody s as of March 31, 2012. 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 March 31, 2012 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 March 31, 2012, management does not have the intent to sell any of the securities classified as available-for-sale in the table above and believes it is more likely than not that the Company will not have to sell any such securities before a recovery of the cost. The unrealized losses are largely due to increases in the market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or re-pricing date or if market yields for such securities decline.

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2. INVESTMENT SECURITIES, CONTINUED

At December 31, 2011, the unrealized losses in the available-for-sale portfolio relate to five 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. In the held-to-maturity portfolio there are two held-to-maturity mortgage-backed securities with credit ratings of B. The private label held-to-maturity securities are rated Caa2 by Moody s as of December 31, 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 December 31, 2011 indicated that projected principal repayments on both securities were in excess of their recorded values on that same date. As of December 31, 2011, management does not have the intent to sell any of the securities classified as available-for-sale in the table above and believes it is more likely than not that the Company will not have to sell any such securities before a recovery of the cost. The unrealized losses are largely due to increases in the market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or re-pricing date or if market yields for such securities decline.

Maturities of mortgage-backed securities are presented based on contractual amounts. Actual maturities will vary as the underlying loans prepay. The scheduled maturities of securities at March 31, 2012 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	$ 999	$ 1,010	$	$
Due after one year through five years	3,089	3,139		
Due after five years through ten years	14,958	15,861		
Due after ten years	27,492	28,419	4,959	4,926
	$ 46,538	$ 48,429	$ 4,959	$ 4,926

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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 three months ending March 31, 2012 and 2011 (dollars in thousands):

For the three months ended March 31, 2012

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	Total
Allowance for credit losses:								
Beginning balance	$ 200	$ 2,072	$ 875	$ 380	$ 892	$ 4	$ 23	$ 4,446
Charge-offs		(273)	(259)		(56)		(4)	(592)
Recoveries							1	1
Provision	(22)	4	566	16	(1)		1	564
Ending balance	$ 178	$ 1,803	$ 1,182	$ 396	$ 835	$ 4	$ 21	$ 4,419

For the three months ended March 31, 2011

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	Total
Allowance for credit losses:								
Beginning balance	$ 815	$ 1,970	$ 1,237	$ 120	$ 208	$ 1	$ 24	$ 4,375
Charge-offs	(37)	(453)	(142)				(10)	(642)
Recoveries	123						4	127
Provision	(219)	209	94	(13)	531	1	2	605
Ending balance	$ 682	$ 1,726	$ 1,189	$ 107	$ 739	$ 2	$ 20	$ 4,465

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3. ALLOWANCE FOR LOAN LOSSES, CONTINUED

The following table lists the loan grades utilized by the Company that serve as credit quality indicators. The following tables list the loan grades utilized by the Company that serve as credit quality indicators. Loans graded as pass are generally loans that require either minimal or no supervision by the Company and are supported by either or both the borrower(s) and guarantor(s) debt capacity and liquidity. Loans graded special mention are generally characterized by negative conditions, that if not remedied, will be inadequate to protect the Company s credit position at some future date. Loans graded as substandard are those where the Company is inadequately protected by sound net worth and paying capacity of the borrower(s) and guarantor(s). The total balance does not include the undisbursed portion of construction loans in process for loans graded as pass.

As of March 31, 2012 (dollars in thousands):

	Pass	Special Mention	Substandard and lower	Total
Commercial	$ 28,672	$ 3,490	$ 1,654	$ 33,816
Real estate construction and development	28,629	7,058	3,301	38,988
Residential, one-to-four families	80,097	2,673	2,411	85,181
Residential, 5 or more families	5,110	331	765	6,206
Other commercial real estate	76,783	4,806	6,416	88,005
Agricultural	2,740			2,740
Consumer	1,980	12		1,992
Total	$ 224,011	$ 18,370	$ 14,547	$ 256,928

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

	Pass	Special Mention	Substandard and lower	Total
Commercial	$ 32,467	$ 1,957	$ 1,642	$ 36,066
Real estate construction and development	28,969	8,283	4,043	41,295
Residential, one-to-four families	76,638	2,829	1,898	81,365
Residential, 5 or more families	4,502	848	793	6,143
Other commercial real estate	73,999	4,846	6,624	85,469
Agricultural	2,876			2,876
Consumer	2,111	13		2,124
Total	$ 221,562	$ 18,776	$ 15,000	$ 255,338

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3. ALLOWANCE FOR LOAN LOSSES, CONTINUED

The following table summarizes the past due loans by category as of March 31, 2012 (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	$ 75	$ 71	$ 146	$ 33,670	$ 33,816	$
Real estate construction and development	948	752	1,700	37,288	38,988	
Residential, one-to-four families	1,018	2,348	3,366	81,815	85,181	130
Residential, 5 or more families	510	765	1,275	4,931	6,206	
Other commercial real estate	376	4,552	4,928	83,077	88,005	132
Agricultural				2,740	2,740	
Consumer	16		16	1,976	1,992	
Total	$ 2,943	$ 8,488	$ 11,431	$ 245,497	$ 256,928	$ 262

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

	30-89 Days Past Due	Greater than 90 Days Past Due (Nonaccrual)	Total Past Due	Current	Total loans	Past due 90 days or more and still accruing
Commercial	$ 15	$ 70	$ 85	$ 35,979	$ 36,066	$
Real estate construction and development	816	690	1,506	39,789	41,295	
Residential, one-to-four families	1,620	754	2,374	78,989	81,365	
Residential, 5 or more families		793	793	5,352	6,143	
Other commercial real estate	1,515	2,300	3,815	81,656	85,469	
Agricultural				2,876	2,876	
Consumer	13		13	2,111	2,124	
Total	$ 3,979	$ 4,607	$ 8,586	$ 246,752	$ 255,338	$

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3. ALLOWANCE FOR LOAN LOSSES, CONTINUED

The following table summarizes the allowance for loan losses and recorded investment in loans as of March 31, 2012 (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	$	$ 178	$ 178	$ 1,525	$ 32,291	$ 33,816
Real estate construction and development	126	1,677	1,803	3,717	35,271	38,988
Residential, one-to-four families	129	1,053	1,182	1,842	83,339	85,181
Residential, 5 or more families		396	396	752	5,454	6,206
Other commercial real estate	23	812	835	6,405	81,600	88,005
Agricultural		4	4		2,740	2,740
Consumer		21	21		1,992	1,992
Total	$ 278	$ 4,141	$ 4,419	$ 14,241	$ 242,687	$ 256,928

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

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually evaluated for impairment	Collectively evaluated for impairment	Total	Individually evaluated for impairment	Collectively evaluated for impairment	Total
Commercial	$	$ 200	$ 200	$ 1,275	$ 34,789	$ 36,066
Real estate construction and development	301	1,771	2,072	4,583	36,712	41,295
Residential, one-to-four families	1	874	875	1,230	80,133	81,365
Residential, 5 or more families		380	380	765	5,380	6,143
Other commercial real estate	72	820	892	6,240	79,231	85,469
Agricultural		4	4		2,876	2,876
Consumer		23	23		2,124	2,124
Total	$ 374	$ 4,072	$ 4,446	$ 14,093	$ 241,245	$ 255,338

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3. ALLOWANCE FOR LOAN LOSSES, CONTINUED

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.

The following table presents impaired loans as of March 31, 2012 (dollars in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial	$ 1,525	$ 1,525	$
Real estate construction and development	3,064	3,834	
Residential, one-to-four families	920	996	
Residential, 5 or more families	752	1,261	
Other commercial real estate	4,983	5,489	
Agricultural			
Consumer			
Total impaired loans with no related allowance recorded	$ 11,244	$ 13,005	$
With an allowance recorded:			
Commercial	$	$	$
Real estate construction and development	653	653	126
Residential, one-to-four families	922	922	128
Residential, 5 or more families			
Other commercial real estate	1,422	1,422	24
Agricultural			
Consumer			
Total impaired loans with allowance recorded	$ 2,997	$ 2,997	$ 278
Total			
Commercial	$ 1,525	$ 1,525	$
Real estate construction and development	3,717	4,487	126
Residential, one-to-four families	1,842	1,918	128
Residential, 5 or more families	752	1,261	
Other commercial real estate	6,405	6,911	24
Total impaired loans	$ 14,241	$ 16,102	$ 278

The following table presents impaired loans as of December 31, 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	3,227	3,988	
Residential, one-to-four families	1,206	1,206	
Residential, 5 or more families	765	1,289	
Other commercial real estate	6,017	6,547	
Agricultural			
Consumer			
Total impaired loans with no related allowance recorded	$ 12,490	$ 14,305	$
With an allowance recorded:			
Commercial	$	$	$
Real estate construction and development	1,355	1,355	301
Residential, one-to-four families	24	24	1
Residential, 5 or more families			
Other commercial real estate	223	223	72
Agricultural			
Consumer			
Total impaired loans with allowance recorded	$ 1,602	$ 1,602	$ 374
Total			
Commercial	$ 1,275	$ 1,275	$
Real estate construction and development	4,583	5,343	301
Residential, one-to-four families	1,230	1,230	1
Residential, 5 or more families	765	1,289	
Other commercial real estate	6,240	6,770	72
Total impaired loans	$ 14,093	$ 15,907	$ 374

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4. TROUBLED DEBT RESTRUCTURINGS

There were no troubled debt restructured loans for the quarter ended March 31, 2012. When restructuring loans the Company reports the recorded investment in the loans prior to a modification and also the recorded investment in the loans after the loans were restructured. Reductions in the recorded investment are primarily due to the partial charge-off of the principal balance prior to modification.

The following table presents loans that were modified as troubled debt restructurings during the previous twelve months and for which there was a payment default during the three months ended March 31, 2012.

	Number of loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Adjustment to Reserves as a Result of the Restructuring
Extended payment terms:				
Other commercial real estate	2	$ 368	$ 368	$

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.

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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). Both of these plans expired on September 30, 2010. Under each plan, the Company could issue up to 178,937 shares for a total of 357,874 shares. 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 three months ended March 31, 2012 and 2011 was approximately $10 thousand and $21 thousand, respectively.

Stock Options

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

Restricted Stock Awards

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

A summary of the status of stock options as of March 31, 2012 and 2011, and changes during the years then ended, is presented below:

	2012		2011	
	Number	Weighted Average Option Price	Number	Weighted Average Option Price
Options outstanding, beginning of year	232,427	$ 9.68	318,708	$ 9.47
Granted				
Forfeited				
Expired				
Options outstanding, end of year	232,427	$ 9.68	318,708	$ 9.47

Information regarding the stock options outstanding and exercisable at March 31, 2012 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	25,500	8.42 Years	$ 4.82	$
$ 8.80-9.99				
$10.00-10.39	120,031	2.42 Years	10.00	

$10.40-11.20	86,896	2.17 Years	10.68	
	232,427	2.98 Years	$ 9.68	$

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6. STOCK OPTION AND RESTRICTED STOCK PLANS, CONTINUED

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

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
$ 4.50-8.79	25,500	9.42 Years	$ 4.82	$
$ 8.80-9.99	88,281	0.08 Years	8.80	
$10.00-10.39	119,794	3.42 Years	10.00	
$10.40-11.20	87,133	3.17 Years	10.68	
	318,708	2.91 Years	$ 9.44	$

No options were granted or contractually vested for the three months ended March 31, 2012 and 2011.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company utilizes fair value measurements to record fair value adjustments for certain assets and to determine fair value disclosures. Available-for-sale securities and forward sale loan commitments are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record other assets at fair value, such as loans held-for-investment and certain other assets. These nonrecurring fair value adjustments usually involve writing the asset down to fair value or the lower of cost or market value.

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.

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.

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

Available-for-Sale Investment Securities

Available-for-sale investment securities 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 and private label entities, municipal bonds and corporate debt securities. There have been no changes in valuation techniques for the quarter ended March 31, 2012. Valuation techniques are consistent with techniques used in prior periods.

Mortgage Loans Held-for-Sale

Loans held-for-sale are carried at lower of cost or market value. The fair value of loans held-for-sale is based on what secondary markets are currently offering for portfolios with similar characteristics. The changes in fair value of the assets are largely driven by changes in interest rates subsequent to loan funding and changes in the fair value of servicing associated with the mortgage loan held for sale. As such, the Company classifies loans measured at fair value on a nonrecurring basis as a Level 2 asset. At March 31, 2012 the cost of the Company s mortgage loans held-for-sale approximated the market value. Accordingly, the Company s loans held-for-sale are carried at cost. There have been no changes in valuation techniques for the quarter ended March 31, 2012. Valuation techniques are consistent with techniques used in prior periods.

Impaired Loans

The Company does not record loans held-for-investment 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 in accordance with the Receivables topic of the FASB Accounting Standards Codification. The fair value of impaired loans is estimated using one of several methods, including collateral value (through appraisal processes), market value of similar debt, enterprise value, liquidation value 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 March 31, 2012, all of the impaired loans were evaluated based on the fair value of the collateral. The Company records impaired loans as nonrecurring Level 3. There have been no changes in valuation techniques for the quarter ended March 31, 2012. Valuation techniques are consistent with techniques used in prior periods.

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7. FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

Other Real Estate Owned

Other real estate owned (OREO) is adjusted to fair value upon transfer of the loans to OREO. Subsequently, OREO is carried at the lower of carrying value or fair 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 measured due to further deterioration in the value of the OREO since initial recognition, the Company records the foreclosed asset as nonrecurring Level 3. The current carrying value of OREO at March 31, 2012 is $2.1 million. At December 31, 2011 the carrying value of OREO was $2.2 million. There have been no changes in valuation techniques for the quarter ended March 31, 2012. Valuation techniques are consistent with techniques used in prior periods.

The following tables present assets measured at fair value on a recurring basis:

March 31, 2012 (Dollars in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Government-sponsored enterprise securities	$ 2,109	$	$ 2,109	$
FNMA or GNMA mortgage-backed securities	14,253	997	13,256	
Private label mortgage-backed securities	7,267		7,267	
Municipal securities	12,943		12,943	
SBA debentures	11,357		11,357	
Other domestic debt securities	500			500
Investment securities available-for-sale	$ 48,429	$ 997	$ 46,932	$ 500
Total assets at fair value	$ 48,429	$ 997	$ 46,932	$ 500

December 31, 2011 (Dollars in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Government-sponsored enterprise securities	$ 2,128	$	$ 2,128	$
FNMA or GNMA mortgage-backed securities	16,049		16,049	
Private label mortgage-backed securities	7,598		7,598	
Municipal securities	13,212	1,914	11,298	
SBA debentures	11,725		11,725	
Other domestic debt securities	500			500
Investment securities available-for-sale	$ 51,212	$ 1,914	$ 48,798	$ 500
Total assets at fair value	$ 51,212	$ 1,914	$ 48,798	$ 500

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7. FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

Assets recorded at fair value on a nonrecurring basis

March 31, 2012 (Dollars in thousands)	Total	Level 1	Level 2	Level 3
Construction and development loans	$	$	$	$
Land and acquisition and development loans	1,140			1,140
Closed-end first lien loans secured by one-to-four family residential properties	953			953
Multifamily	1,261			1,261
Secured by nonfarm nonresidential properties	2,498			2,498
Impaired loans receivable	5,852			5,852
Foreclosed assets	2,140			2,140
Total assets at fair value	$ 7,992	$	$	$ 7,992
Total liabilities at fair value	$	$	$	$

December 31, 2011 (Dollars in thousands)	Total	Level 1	Level 2	Level 3
Construction and development loans	$ 702	$	$	$ 702
Land and acquisition and development loans	653			653
Closed-end first lien loans secured by one-to-four family residential properties	24			24
Secured by nonfarm nonresidential properties	223			223
Impaired loans receivable	1,602			1,602
Foreclosed assets	2,216			2,216
Total assets at fair value	$ 3,818	$	$	$ 3,818
Total liabilities at fair value	$	$	$	$

The following table provides Quantitative Information about Level 3 Fair Value Measurements

	Fair Value at March 31, 2012	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Input Value
Impaired Loans	$ 2,997	Appraised Value	Appraisals and/or sales of comparable properties	n/a
Foreclosed assets	$ 2,140	Appraised Value/ Comparable Sales/ Other Estimates from Independent Sources	Appraisals and/or sales of comparable properties/ Independent quotes/bids	n/a

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7. FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

The following table presents the carrying values and estimated fair values of the Company s financial instruments at March 31, 2012 and December 31, 2011 (dollars in thousands):

	000000	000000	000000	000000	000000
	March 31, 2012				
	Carrying amount	Estimated fair value	Level 1	Level 2	Level 3
	(Amounts in thousands)				
Financial assets:					
Cash and cash equivalents	$ 30,781	$ 30,781	$ 30,781	$	$
Time deposits	1,050	1,050		1,050	
Securities, available-for-sale	48,429	48,429	997	46,932	500
Securities, held-to-maturity	4,959	4,929		4,929	
Federal Home Loan Bank stock	795	795	795		
Loans, net of allowance for loan losses	252,481	255,819			255,819
Bank owned life insurance	4,973	4,973			4,973
Financial liabilities:					
Deposits	321,415	326,327		326,327	
Junior subordinated notes related to trust preferred securities	8,248	8,248			8,248

	000000	000000	000000	000000	000000
	December 31, 2011				
	Carrying amount	Estimated fair value	Level 1	Level 2	Level 3
	(Amounts in thousands)				
Financial assets:					
Cash and cash equivalents	$ 21,443	$ 21,443	$ 21,443	$	$
Time deposits	1,050	1,050		1,050	
Securities, available-for-sale	51,212	51,212	1,914	48,798	500
Securities, held-to-maturity	5,211	5,204		5,204	
Federal Home Loan Bank stock	795	795	795		
Loans, net of allowance for loan losses	250,832	254,148			254,148
Bank owned life insurance	4,939	4,939			4,939
Financial liabilities:					
Deposits	313,911	318,708		318,708	
Junior subordinated notes related to trust preferred securities	8,248	8,248			8,248

The table below presents reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (level 3) during 2011 and 2012.

(Dollars in thousands)	**Available-for Sale Securities**
Balance, January 1, 2012	$ 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, March 31, 2012	$	500

(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, March 31, 2011	$	500

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, 2011.

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

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

Executive Overview

Executive Summary

For the first three months of 2012, 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 March 31, 2012 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 three months ended March 31, 2012, we had a continued shift in our deposit mix as noninterest-bearing and interest-bearing checking accounts increased $1.2 million and $3.4 million, respectively, from year end 2011 to March 31, 2012, driven by what we believe was a move away from large financial institutions to smaller community banks like ours.

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 $3.4 million in unused capital, which includes approximately $115,000 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 March 31, 2012, the Bank is above the minimum 10% requirement to be classified as well-capitalized. If the remaining $3.4 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 March 31, 2012 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 2012, 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

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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.

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.

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Comparison of Results of Operations for the Three Month Period Ending March 31, 2012

Net Income

The following table summarizes components of income and expense and the changes in those components for the three-month period ended March 31, 2012 as compared to the same period in 2011.

Condensed Consolidated Statements of Income (Dollars in thousands)

	For the Three Months Ended March 31, 2012	Changes from the Prior Year Amount	%
Total interest income	$ 4,156	$ (284)	(6.4)
Total interest expense	720	(221)	(23.5)
Net interest income	3,436	(63)	(1.8)
Provision for loan losses	564	(41)	(6.8)
Net interest income after provision for loan losses	2,872	(22)	(.8)
Noninterest income	925	105	12.8
Noninterest expense	3,611	161	4.7
Income before income taxes	186	(78)	(29.5)
Income tax expense	33	(38)	(53.5)
Net income	153	(40)	(20.7)
Preferred stock dividend and accretion of discount	169	6	3.7
Net income (loss) available to common shareholders	$ (16)	$ (46)	(153.3)

Net Interest Income

Net interest income (the difference between the interest earned on assets, such as loans and investment securities and the interest paid on liabilities, such as deposits and other borrowings) is our primary source of operating income. Net interest income for the three months ended March 31, 2012 was $3.4 million, a decrease of $63 thousand or 1.8% when compared to net interest income of $3.5 million for the three months ended March 31, 2011.

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 $284 thousand or 6.4% for the three months ended March 31, 2012 compared to the same three months of 2011. The decrease for the three months ended March 31, 2012 is primarily due to decreases on rates earned on these assets. The yield on average earning assets decreased 32 basis points for the three months ending March 31, 2012 to 5.04% from the same period in 2011. Management attributes the decrease in the yield on our earning assets to the decline in offering rates on new and renewed loans, offset by a small increase in the yield on investment securities.

Our average cost of funds during the three months ended March 31, 2012 was 0.98%, a decrease of 32 basis points when compared to 1.30% for the three months ended March 31, 2011. Average rates paid on deposits decreased 36 basis points from 1.31% for the three months ended March 31, 2011 to 0.95% for the three months ended March 31, 2012, while our average cost of borrowed funds increased 110 basis points during the three months ended March 31, 2012 compared to the same period in 2011. Total interest expense decreased $221 thousand or 23.5% during the three months ended March 31, 2012 compared to the same period in 2011, 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.

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Our annualized net interest margin for the three months ended March 31, 2012 was 4.22% compared to 4.28% for the same period in 2011, while our net interest spread was 4.06% for both of the three month periods ending March 31, 2012 and 2011.

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

Noninterest Income

Noninterest income increased 12.8% for the three months ended March 31, 2012 compared to the same period in 2011.

Sources of Noninterest Income (Dollars in thousands)

	For the Three Months Ended March 31, 2012	Changes from the Prior Year	
		Amount	%
Service charges on deposit accounts	$ 103	$ (54)	(34.4)
Mortgage loan origination fees	113	47	71.2
Investment and insurance commissions	262	60	29.7
Fee income from accounts receivable financing	164	(44)	(21.2)
Debit card interchange income	182	50	37.9
Income earned on bank owned life insurance	35	(2)	(5.4)
Other service charges and fees	66	48	266.7
Total noninterest income	$ 925	$ 105	12.8

Noninterest income increased $105 thousand or 12.8% to $925 thousand for the three months ended March 31, 2012 compared to $820 thousand for the same period in 2011. The increase in noninterest income in the three months ended March 31, 2012 is primarily due to increases in mortgage loan origination fees, investment and insurance commissions, debit card interchange income, and other service charges and fees, offset by decreases in service charges on deposit accounts, fee income from accounts receivable financing, and income earned on bank owned life insurance. Service charges on deposit accounts decreased $54 thousand for the three months ended March 31, 2012 as compared to the same period in 2011. 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. Mortgage loan origination fees increased $47 thousand for the three months ended March 31, 2012 as compared to the same period in 2011. The primary reason for this increase were new mortgage loan officers hired near the end of 2011 that were more productive than those employed by the Bank during the three months ended March 31, 2011. Investment and insurance commissions increased $60 thousand for the three months ended March 31, 2012 as compared to the same periods in 2011, largely due to the continued growth in 2012 of recurring investment commission income as compared to 2011. Fee income from accounts receivable financing decreased $44 thousand for the three months ended March 31, 2012 as compared to the same period in 2011. The primary reason for the decrease was lower receivables of existing clients and fewer clients in 2012 as compared to 2011. Debit card interchange income increased $50 thousand for the three months ended March 31, 2012 as compared to the same period in 2011. The primary reason for the increase was the continued growth of consumer checking accounts with debit cards at the Bank during 2011 and the first three months of 2012. Other service charges and fees increased $18 thousand for the three months ended March 31, 2012 as compared to the same period in 2011.

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Noninterest Expense

Noninterest expense increased 4.7% for the three months ended March 31, 2012 compared to the same period in 2011.

Sources of Noninterest Expense (Dollars in thousands)

	For the Three Months Ended March 31, 2012	Changes from the Prior Year	
		Amount	%
Salaries	$ 1,688	$ 223	15.2
Employee benefits	215	26	13.8
Occupancy expense	214	3	1.4
Equipment expense	210	0	N/A
Data and items processing	280	68	32.1
Professional and advertising	175	(50)	(22.2)
Stationary and supplies	77	(45)	(36.9)
Net cost of foreclosed assets	194	(80)	(29.2)
Telecommunications expense	69	16	30.2
FDIC assessment	77	(55)	(41.7)
Accounts receivable financing expense	49	(17)	(25.8)
Total other-than-temporary impairment loss			N/A
Other expense	363	72	24.7
Total noninterest expense	$ 3,611	$ 161	4.7

Salary expense for the three months ended March 31, 2012 increased $223 thousand as compared to the same prior year period. The increases were due to regular salary increases and market adjustments that went into effect for all employees on January 1, 2012, as well as new positions that were added throughout 2011.

Employee benefits for the three months ended March 31, 2012 increased $26 thousand over the same prior year period. 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 the first three months of 2012 as compared to the same period in 2011.

Occupancy and Equipment expenses for the three months ended March 31, 2012 were relatively unchanged compared to the same prior year period.

Data and other processing expenses increased $68 thousand over the same prior year period, primarily due to enhancements to the Bank s internet banking bill payment systems as well as the purchase of other internet based products in the second half of 2011.

Professional and advertising expenses for the three months ended March 31, 2012 decreased $50 thousand over the same prior year period. The majority of the decrease was due to declines in marketing and advertising expenses in 2012 as compared to 2011.

Stationary and supplies expenses for the three months ended March 31, 2012 decreased $45 thousand over the same prior year period. The decline was caused by decreases in mailings to customers.

Net cost of foreclosed assets for the three months ended March 31, 2012 decreased $80 thousand over the same prior year period. The primary reason for the decline were lower losses and writedowns on foreclosed assets in 2012 compared to 2011, offset by higher expenses in 2012 as compared to 2011.

Telecommunications expense for the three months ended March 31, 2012 increased $16 thousand over the same prior year period. The increase was caused by an upgrade of the Bank s telecommunication capacity in 2012.

FDIC assessment for the three months ended March 31, 2012 decreased $55 thousand 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. Some of the decrease was also related to the adoption of a new assessment formula by the FDIC, effective in the second quarter of 2011.

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Accounts receivable financing expense for the three months ended March 31, 2012 decreased $17 thousand over the same prior year period. Most of the decline is attributable to the decline in fee income from accounts receivable financing from 2011 to 2012.

Other expense for the three months ended March 31, 2012 increased $72 thousand over the same prior year period. The primary reason for the increase was higher appraisal fees on new and renewed loans.

Income Taxes

Income tax expense for the three months ended March 31, 2012 decreased $38 thousand over the same period in 2011. The primary reason was a decline in net income before income tax expense from 2011 to 2012, as well as the deductibility of interest for tax purposes of municipal securities that were purchased between August and December 2011. The tax benefit of the interest on municipal bonds had the effect of lowering the Company s effective tax rate from 26.9% for the three months ended March 31, 2011 to 17.7% for the same period in 2012.

Analysis of Financial Condition at March 31, 2012 and December 31, 2011

Loans Receivable

As of March 31, 2012, loans, net of allowance for loan losses, increased to $252.5 million, up 0.7% from $252.5 million at December 31, 2011. The increase is due to increased calling efforts of the Bank s commercial loan officers and branch managers.

Allowance for Loan Losses

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

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

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

	At March 31, 2012	2011
Allowance for loan losses at beginning of period	$ 4,446	$ 4,375
Loans charged off:		
Real estate Construction & Development	(273)	(453)
Residential 1-4 Families	(259)	(142)
Residential 5 or More Families		
Other Commercial Real Estate	(56)	
Commercial		(37)
Consumer	(4)	(10)
Total charge-offs	(592)	(642)
Recoveries:		
Real estate Construction & Development		
Residential 1-4 Families		
Residential 5 or More Families		
Other Commercial Real Estate		
Commercial		123
Consumer	1	4
Total recoveries	1	127
Net charge-offs	(591)	(515)
Provision for loan losses	564	605
Allowance for loan losses at end of period	$ 4,419	$ 4,465
Total loans outstanding at end of period	$ 256,900	$ 255,879
Average loans outstanding	$ 254,091	$ 255,752
Ratios:		
Ratio of annualized net loan charge-offs to average loans outstanding	0.93%	0.81%
Ratio of allowance for loan losses to loans outstanding at period-end	1.72%	1.74%

At March 31, 2012, our allowance for loan losses as a percentage of loans was 1.72%, down from 1.74% at December 31, 2011 and 1.74% at March 31, 2011. The decrease in the allowance as a percentage of loans from March 31, 2011 to March 31, 2012 is primarily due to a decline in the specific reserves allocated to impaired loans, offset by an increase in the general allowance due to increased historical charge offs 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.

Net charge-offs of $600 thousand in the first three months of 2012 increased by $76 thousand when compared to the same period in 2011. Net charge-offs from real estate secured loans were $600 thousand and $600 thousand in 2012 and 2011, respectively. Net charge-offs from commercial loans were 0 in the first three months of 2012 compared to $37 thousand during the same period in 2011. Net recoveries from loans to individuals was $1 thousand in the first three months of 2012, net charge offs from loans to individuals were $4 thousand in the same period in 2012.

Asset quality remains a top priority for us. For the three months ended March 31, 2012, annualized net loan charge-offs were .93% of average loans compared to annualized net charge-offs of 0.81% for the three months ended March 31, 2011. The ratio of annualized net charge-offs to average loans increased mainly due to a higher than normal level of loan recoveries in the three months ended March 31, 2011. Total charge offs declined from $642 thousand to $592 thousand during the three months ended March 31, 2012 and 2011, respectively. The ratio of our allowance for loan losses to nonperforming loans decreased to 70% as of March 31, 2012 compared to 97% at December 31, 2011. The decrease is the result of our allowance decreasing approximately 1% from December 31, 2011 to March 31, 2012 and our nonperforming loans increasing approximately 90% during the same period.

Loans Considered Impaired

We review our nonperforming loans and other groups of loans based on loan size or other factors for impairment. At March 31, 2012, 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, 2011. Loans are considered impaired if, based on current information, circumstances or events, it is probable that the Bank will not collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. However, treating a loan as impaired does not necessarily mean that we expect to incur a loss on that loan, and our impaired loans may include loans that currently are performing in accordance with their terms. For example, if we believe it is probable that a loan will be collected, but not according to its original agreed upon payment schedule, we may treat that loan as impaired even though we expect that the loan will be repaid or collected in full. As indicated in the table below, when we believe a loss is probable on a non-collateral dependent impaired loan, a portion of our reserve is allocated to that probable loss. If the loan is deemed to be collateral dependent, the principal balance is written down immediately, or a portion of our reserve is allocated to that probable loss, to reflect the current market valuation based on a current independent appraisal.

The following table sets forth the number and volume of loans net of previous charge-offs considered impaired and their associated reserve allocation, if any, at March 31, 2012.

Analysis of Loans Considered Impaired (Dollars in thousands)

As of March 31, 2012 (dollars in thousands):

	Number of Loans	Loan Balances Outstanding	Allocated Reserves
Non-accrual loans	10	$ 4,347	$ 80
Restructured loans	9	4,743	127
Total nonperforming loans	19	$ 9,090	$ 207
Other impaired loans with allocated reserves	1	538	71
Impaired loans without allocated reserves	5	4,613	
Total impaired loans	26	$ 14,241	$ 278

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

	Number of Loans	Loan Balances Outstanding	Allocated Reserves
Non-accrual loans	10	$ 3,476	$ 25
Restructured loans	8	4,591	103
Total nonperforming loans	18	$ 8,067	$ 128
Other impaired loans with allocated reserves	2	1,206	246
Impaired loans without allocated reserves	7	4,820	
Total impaired loans	27	$ 14,093	$ 374

As of March 31, 2012 there was $538 thousand in other impaired loans with allocated reserves which represent one loan to a building contractor. As of December 31, 2011 there was $1.2 million in other impaired loans with allocated reserves which represent three loans to two building contractors.

Investment Portfolio

Our available-for-sale investment securities totaled $48.4 million at March 31, 2012, compared to $51.2 million at December 31, 2011. The overall decrease was due to repayments and accretion of discount of approximately $2.7 million and a decline in the unrealized gain of $12 thousand. Our held-to-maturity investment securities totaled $5.0 million at March 31, 2012 and $5.2 million at December 31, 2011, with the decline between these two periods resulting from principal payments and accretion of a discount of approximately $396 thousand. Investable funds not otherwise utilized are temporarily invested as Federal Funds sold or as interest-bearing balances at other banks, the level of which is affected by such considerations as near-term loan demand and liquidity needs. Subinvestment grade available-for-sale and held-to-maturity private label mortgage-backed securities are analyzed on a quarterly basis for impairment by utilizing an independent third party that performs an analysis of the estimated principal the Bank is expected to collect on these securities. The result of this analysis determines whether the Bank records an impairment loss on these securities. There were no impairment charges on subinvestment grade securities for the three months ended March 31, 2012 and March 31, 2011.

Deposits

Deposits increased to $321.4 million, or 2.4% as of March 31, 2012 compared to deposits of $313.9 million at December 31, 2011. Noninterest-bearing deposits increased $793 thousand, or 2.6%, from December 31, 2011 to March 31, 2012, and total interest-bearing deposits increased $6.7 million, or 2.4%, during the same period of time.

Borrowings

Short-term debt includes sweep accounts, advances from the FHLB having maturities of one year or less, Federal Funds purchased and repurchase agreements. The Company had no short-term debt at March 31, 2012 and December 31, 2011. At March 31, 2012 we had Federal Funds purchased lines of credit totaling $6.0 million. These lines are intended for short-term borrowings and are subject to restrictions limiting the frequency and terms of advances. The Company had no outstanding balances under these lines of credit at March 31, 2012.

Long-term debt consists of advances from FHLB with maturities greater than one year. The Company had no long-term borrowings from the FHLB at March 31, 2012 and December 31, 2011. There was no long-term debt outstanding as of March 31, 2012, as the Company repaid these borrowings out of existing liquidity during the three months ended March 31, 2012.

Junior Subordinated Debentures

In 2007, the Company issued $8.2 million of junior subordinated debentures to the Trust in exchange for the proceeds of trust preferred securities issued by the Trust. The junior subordinated debentures are included in long-term debt and the Company s equity interest in the Trust is included in other assets. Junior subordinated debentures totaled $8.2 million on March 31, 2012 and December 31, 2011.

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, June 17 or September 17. Redemption is mandatory at September 17, 2037. The Company guarantees the trust preferred securities through the combined operations of the junior subordinated debentures and other related documents. The Company s obligations under the guarantee are unsecured and subordinate to the senior and subordinated indebtedness of the Company.

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 three months of 2012, 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 March 31, 2012, $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 $21.6 million and $18.4 million of advances from the FHLB at March 31, 2012 and December 31, 2011, respectively. The Company had no outstanding FHLB advances at March 31, 2012 and December 31, 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 March 31, 2012 and December 31, 2011, we owned 7,949 shares of the FHLB s $100 par value capital stock.

We also had unsecured Federal Funds lines in the aggregate amount of $6.0 million available to us at March 31, 2012 under which we can borrow funds to meet short-term liquidity needs. At March 31, 2012, we did not have any advances under these Federal Funds lines. Another source of funding available is loan participations sold to other commercial banks (in which we retain the servicing rights). As of March 31, 2012, we had $743 thousand in loan participations sold. We believe that our liquidity sources are adequate to meet our operating needs.

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Capital Resources and Shareholders Equity

As of March 31, 2012, our total shareholders equity was $28.0 million (consisting of common shareholders equity of $20.9 million and preferred stock of $7.1 million) compared with total shareholders equity of $27.9 million as of December 31, 2011 (consisting of common shareholders equity of $20.9 million and preferred stock of $7.0 million).

Common shareholders equity decreased by approximately $14 thousand to $20.9 million at March 31, 2012 from $20.9 million at December 31, 2011. We experienced a decrease of $7 thousand in accumulated other comprehensive income associated with our available-for-sale securities portfolio and payment of dividends of $96 thousand on preferred shares. These decreases were offset by increases due to net income of $153 thousand and an increase in common stock of $10 thousand associated with the expensing of restricted stock and stock options.

The Bank is subject to minimum capital requirements. As the following table indicates, at March 31, 2012, all capital ratios place the Bank in excess of the minimum necessary to be considered well-capitalized under bank regulatory guidelines.

	At March 31, 2012		
	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	8.9%	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 has had and will continue to have major effects on the financial services industry, including the organization, financial condition and operations of banks and bank holding companies. Management is currently evaluating the impact of the Act; however, uncertainty remains as to its operational impact, which could have a material adverse impact on the Company s business, results of operations and financial condition. Many of the provisions of the Act are aimed at financial institutions that are significantly larger than us. Notwithstanding this, there are many other provisions that we are subject to and will have to comply with, including any new rules applicable to us promulgated by the Bureau of Consumer Financial Protection, a new regulatory body dedicated to consumer protection. As rules and regulations are promulgated by the agencies responsible for implementing and enforcing the Act, we will have to address each to ensure compliance with applicable provisions of the Act and compliance costs are expected to increase.

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ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

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

ITEM 4. Controls and Procedures

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

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

Under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the Company s management has evaluated the effectiveness of its internal control over financial reporting as of March 31, 2012 based on the criteria established in a report entitled Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and the interpretive guidance issued by the SEC in Release No. 34-55929. Based on this evaluation, the Company s management has evaluated and concluded that the Company s internal control over financial reporting was effective as of March 31, 2012.

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 March 31, 2012 that has materially affected or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Part II. Other Information

ITEM 6. EXHIBITS

15(a) Exhibits

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

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

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15(a) Exhibits

Exhibit (10)(xv)	Oak Ridge Financial Services, Inc. Long-Term Stock Incentive Plan, incorporated herein by reference to Exhibit (10)(xiii) to the Form 10-QSB filed with the SEC on May 15, 2007.
Exhibit (10)(xvi)	Bank of Oak Ridge 2012 Semi-Annual Incentive Plan, incorporated herein by reference to Exhibit 10(xvi) filed with SEC on March 26, 2012.
Exhibit (10)(xvii)	Letter Agreement, dated January 30, 2009, between the Company and the United States Department of the Treasury, with respect to the issuance and sale of the Fixed Rate Cumulative Perpetual Preferred Stock, Series A and the Warrant, incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the SEC on February 2, 2009.
Exhibit (10)(xviii)	Form of Employment Agreement Amendment, dated January 30, 2009 among the Company, the Bank and the senior executive officers, incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the SEC on February 2, 2009.
Exhibit (10)(xix)	Bank of Oak Ridge Employee Stock Ownership Plan and Trust effective January 1, 2010, incorporated herein by reference to Exhibit 99.1 of the Current Report in Form 8-k filed with the SEC on September 24, 2010.
Exhibit (14)	Code of Ethics for Senior Officers Policy incorporated herein by reference to Exhibit 14 to the Form 8-K filed with the SEC on March 28, 2008.
Exhibit (31.1)	Certification of Ronald O. Black.
Exhibit (31.2)	Certification of Thomas W. Wayne.
Exhibit (32)	Certificate 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

Oak Ridge Financial Services, Inc.

Signatures

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

	Oak Ridge Financial Services, Inc. (Registrant)
Date: May 15, 2012	/s/ Ronald O. Black Ronald O. Black President and Chief Executive Officer (Duly Authorized Representative)
Date: May 15, 2012	/s/ Thomas W. Wayne Thomas W. Wayne Chief Financial Officer (Duly Authorized Representative)