TSIANG BENJAMIN S
Form 4
June 09, 2005

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
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(Print or Type Responses)

1. Name and Address of Reporting Person *
TSIANG BENJAMIN S

(Last) (First) (Middle)

(Street)

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SINA CORP [sina]

3. Date of Earliest Transaction (Month/Day/Year)
06/07/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
EVP of Product Development

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
ordinary shares	06/07/2005		M		5,400	A	$ 15.47	215,202	D	
ordinary shares	06/07/2005		M		6,250	A	$ 24.23	221,452	D	
ordinary shares	06/07/2005		S		11,650	D	$ 31.4773 (1)	209,802	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

displays a currently valid OMB control number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. De Se (In
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
employee stock option (right to buy)	$ 15.47	06/07/2005		M			5,400	(2)	05/29/2013	ordinary shares	5,400	
employee stock option (right to buy)	$ 24.23	06/07/2005		M			6,250	(3)	07/27/2014	ordinary shares	6,250	
employee stock option (right to buy)	$ 1.88							(4)	08/14/2012	ordinary shares	18,750	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
TSIANG BENJAMIN S			EVP of Product Development	

Signatures

/s/ Benjamin Tsiang	06/09/2005
**Signature of Reporting Person	Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) average sales price per share based on range of sales prices from $31.44 to $31.52.

(2) options granted vest over a four-year period starting from 5/29/03. 12.5% of the options vest on 11/29/03 and the remaining options vest ratably on a monthly basis over the remaining 42 months. exercisable upon vested.

(3) options granted vest over a four-year period starting from 7/27/04. 12.5% of the options vest on 1/27/05 and the remaing options vest ratably on a monthly basis over the remaining 42 months. exercisable upon vested.

(4) options granted vest in 48 equal monthly installments starting from 8/14/02. exercisable upon vested.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Deposits

2,466

(2,048)

(456)

(38)

2,324

1,161

351

3,836

FHLB advances

1,045

(589)

(149)

307

1,246

203

92

1,541

Other borrowings

(39)

(175)

8

(206)

(483)

152

(61)

(392)

Total interest expense

3,472

(2,812)

(597)

63

3,087

1516

382

4,985

Net interest income

$

2,445

$

(633)

$

(154)

$

1,658

$

2,480

$

(573)

$

(113)

$

1,794

Provision for Loan Losses

We have established an allowance for loan losses through a provision for loan losses charged as an expense on our statement of income. We review our loan portfolio periodically to evaluate our outstanding loans and to measure both the performance of the portfolio and the adequacy of the allowance for loan losses. Please see the discussion below under Balance Sheet Review - Provision and Allowance for Loan Losses for a description of the factors we consider in determining the amount of the provision we expense each period to maintain this allowance.

Three and nine months ended September 30, 2008 and 2007

*F*or the three months ended September 30, 2008 and 2007, we incurred a noncash expense related to the provision for loan losses of $650,000 and $450,000, respectively, bringing the allowance for loan losses to $6.5 million and $5.4 million, respectively. The allowance represented

1.16% of gross loans at September 30, 2008 and 1.13% of gross loans at September 30, 2007. During the three months ended September 30, 2008, we charged-off $621,000 of loans and recorded virtually no recoveries on loans previously charged-off. During the three months ended September 30, 2007, we charged off $297,000 of loans and recorded $1,000 of recoveries on loans previously charged-off. The $621,000 and $296,000 net charge-offs during the third quarters of 2008 and 2007, respectively, represented an annualized rate of 0.45% and 0.25% of the average outstanding loan portfolio for the three months ended September 30, 2008 and 2007, respectively.

For the nine months ended September 30, 2008, we incurred a noncash expense related to the provision for loan losses of $2.0 million, bringing the allowance for loan losses to $6.5 million, or 1.16% of gross loans, as of September 30, 2008. The $2.0 million provision for the nine months ended September 30, 2008 related primarily to the level of charge-offs that occurred during this period. During the nine month period ended September 30, 2008, we charged-off $1.2 million in loans and recorded $10,000 of recoveries on loans previously charged-off. In comparison, for the nine months ended September 30, 2007, we added $1.3 million to the provision for loan losses, resulting in an allowance of $5.4 million at September 30, 2007. During the nine months ended September 30, 2007, we charged-off $823,000 of loans and recorded $31,000 of recoveries on loans previously charged-off.

At September 30, 2008, the allowance for loan losses represented 1.9 times the amount of non-performing loans. As a result of this level of coverage on non-performing loans and our internal loan calculation, we determined that the provisions of $650,000 and $2.0 million for the three and nine months ended September 30, 2008 were adequate.

Noninterest Income

The following table sets forth information related to our noninterest income.

		Three months ended September 30,				**Nine months ended September 30,**		
		2008		**2007**		**2008**		**2007**
		(Dollars in thousands)						
Loan fee income	$	38	$	45	**$**	126	$	121
Service fees on deposit accounts		177		111		468		293
Income from bank owned life insurance		114		96		312		278
Gain on sale of securities		7		-		7		-
Loss on other than temporary impairment		(1,841)		-		(1,841)		-
Real estate owned activity		(7)		(70)		(58)		109
Other income		85		65		245		188
Total noninterest income (loss)	$	(1,427)	$	247	**$**	(741)	$	989

Three months ended September 30, 2008 and 2007

Noninterest income for the three months ended September 30, 2008 was a loss of $1.4 million, a decrease of 677.7% over noninterest income of $247,000 for the same period of 2007. The $1.7 million decrease in noninterest income is primarily related to a pre-tax impairment charge of $1.8 million on our FNMA preferred stock and a $7,000 decrease in loan fee income. Partially offsetting these decreases were increases of $66,000 in service fees on deposit accounts, $18,000 in income from bank owned life insurance, a $7,000 gain on sale of securities, $63,000 in real estate owned activity and $20,000 in other income. Excluding the impairment charge, noninterest income for the third quarter 2008 was $414,000, a $167,000 increase, or 67.6%, compared to the same period in 2007.

Loan fee income consists primarily of late charge fees, fees from issuance of letters of credit, and mortgage origination fees we receive on residential loans funded and closed by a third party. Loan fees were $38,000 and $45,000 for the three months ended September 30, 2008 and 2007, respectively. The $7,000 decrease for the three months ended September 30, 2008 compared to the same period in 2007 related primarily to a $4,000 decrease in late charge fees, a $2,000 decrease in fees received from the issuance of letters of credit, and a $2,000 decrease in mortgage origination fees. Late charge fees were $26,000 and $30,000 for the third quarter of 2008 and 2007, respectively, while income related to amortization of fees on letters of credit was $11,000 and $13,000 for the three months ended September 30, 2008 and 2007, respectively. Mortgage origination fees were $0 and $2,000 for the three months ended September 30, 2008 and 2007, respectively.

Service fees on deposit accounts consist primarily of service charges on our checking, money market, and savings accounts and the fee income received from client non-sufficient funds (NSF) transactions. Deposit fees were $177,000 and $111,000 for the three months ended September 30, 2008 and 2007, respectively. The $66,000 increase is primarily related to a $42,000 increase in NSF fees and a $24,000 increase in other deposit related fees. NSF fee income was $122,000 and $80,000 for the three months ended September 30, 2008 and 2007, respectively, representing 68.5% of total service fees on deposits in the 2008 period compared to 71.5% of total service fees on deposits in the 2007 period. The significant increase in NSF fee income is due primarily to an increased effort to collect rather than waive NSF fees from our clients. Service charges on deposit accounts were $43,000 and $19,000 for the three month periods ended September 30, 2008 and 2007, respectively. The $24,000 increase is due to the service charges on deposit accounts exceeding the interest earned credit on those same accounts as the rate earned on deposit balances has decreased with the decrease in short-term market rates.

We held $11.7 million of bank owned life insurance at the end of the third quarter of 2008. Income derived from this life insurance was $114,000 for the three months ended September 30, 2008 compared to $96,000 for the three months ended September 30, 2007.

During the three months ended September 30, 2008, we recorded a $7,000 gain on a Government sponsored security that was called. In addition, we recorded an impairment charge of $1.8 million, pre-tax, on our FNMA preferred stock, which was determined to have suffered an other-than-temporary impairment as a result of the Government s decision on September 7, 2008 to place the FNMA under conservatorship.

Real estate owned activity includes income and expenses from property held for sale and other real estate we own. For the three months ended September 30, 2008, we had a loss on real estate owned activity of $7,000, a $63,000 increase from the same period in 2007.

Other income consisted primarily of fees received on debit card transactions, sale of customer checks, wire transfers and courier fee income. Other income was $85,000 and $65,000 for the three months ended September 30, 2008 and 2007, respectively. The $20,000 increase relates primarily to a $13,000 increase in debit card transaction fees. Debit card transaction fees were $61,000 and $48,000 for the three months ended September 30, 2008 and 2007, respectively, and represented 71.9% and 73.4% of total other income for the third quarters of 2008 and 2007, respectively. The corresponding transaction costs associated with debit card transactions are included in noninterest data processing and related costs. The debit card transaction costs were $25,000 and $20,000 for the three months ended September 30, 2008 and 2007, respectively. The net impact of the fees received and the related cost of the debit card transactions on earnings for the three months ended September 30, 2008 and 2007 was $36,000 and $28,000, respectively.

Nine months ended September 30, 2008 and 2007

Noninterest income in the nine month period ended September 30, 2008 was a loss of $741,000, a decrease of 175.0% over noninterest income of $989,000 in the same period of 2007. The $1.7 million decrease in noninterest income is primarily related to a pre-tax $1.8 million impairment charge on FNMA preferred stock and $167,000 in other real estate owned activity. Partially offsetting these decreases were increases of $5,000 in loan fee income, $175,000 in service fees on deposit accounts, $34,000 in income from bank owned life insurance, $7,000 gain on sale of securities, and $57,000 in other income. Excluding the impairment charge, noninterest income for the nine months ended September 30, 2008 was $1.1 million, an $111,000, or 11.2%, increase compared to the same period in 2007.

Loan fee income consists primarily of late charge fees, fees from issuance of letters of credit and mortgage origination fees we receive on residential loans funded and closed by a third party. Loan fees were $126,000 and $121,000 for the nine months ended September 30, 2008 and 2007, respectively. The $5,000 increase for the nine months ended September 30, 2008 compared to the same period in 2007 related primarily to increases of $2,000 in late charge fees and $13,000 in fees received from the issuance of letters of credit, partially offset by a decrease of $11,000 in mortgage origination fees. Late charge fees were $78,000 and $76,000 for the nine months ended September 30, 2008 and 2007, respectively, while income related to amortization of fees on letters of credit was $40,000 and $27,000 for the first nine months of 2008 and 2007, respectively. Mortgage origination fees were $7,000 and $18,000 for the nine months ended September 30, 2008 and 2007, respectively, Service fees on deposits were $468,000 and $293,000 for the nine months ended September 30, 2008 and 2007, respectively. While the number of client accounts continues to grow, the $175,000 increase is primarily related to the amount of NSF fees collected in the first nine months of 2008 compared to the same period in 2007. NSF income increased $116,000 to $319,000 for the nine months ended September 30, 2008 from $203,000 for the same period in 2007, representing 68.1% of total service fees on deposits in the 2008 period compared to 69.2% of total service fees on deposits in the 2007 period. The increase in NSF fee income is due primarily to an increased effort to collect rather than waive NSF fees from our clients. In addition, service charges on deposit accounts increased $69,000 during the nine months ended September 30, 2008 to $127,000 from $58,000 for the same period in 2007 due to the service charges on deposit accounts exceeding the interest earned credit. The interest rate earned on deposit accounts has decreased in relation to short-term market rates. Partially offsetting the increase in NSF fees collected and service charges was an $8,000 decrease in overdraft fees which were $13,000 for the nine months ended September 30, 2008 compared to $22,000 for the same period in 2007.

We held $11.7 million of bank owned life insurance at the end of the third quarter of 2008. Income derived from this life insurance was $312,000 for the nine months ended September 30, 2008 compared to $278,000 in the nine months ended September 30, 2007.

During the three months ended September 30, 2008, we recorded a $7,000 gain on a Government sponsored security that was called. In addition, we recorded an impairment charge of $1.8 million, pre-tax, on our FNMA preferred stock, which was determined to have suffered an other-than-temporary impairment as a result of the Government s decision on September 7, 2008 to place the FNMA under conservatorship.

Real estate owned activity includes income and expenses from property held for sale and other real estate we own. For the nine months ended September 30, 2008, we had a loss on real estate owned activity of $58,000, a $167,000 decrease from the same period in 2007. For the nine months ended September 30, 2007, we had income from real estate activity of $109,000 which included a pre-tax gain of $319,000 on property held for sale. In addition, we leased a portion of the property held for sale and collected monthly rent of approximately $19,000 in March 2007. We also had income and expenses related to loans that were transferred into other real estate owned. Expenses on these properties exceeded income derived from the real estate by $247,000 for the nine months ended September 30, 2007.

Other income consisted primarily of fees received on debit card transactions, sale of customer checks, and wire transfers. Other income was $245,000 and $188,000 for the nine months ended September 30, 2008 and 2007, respectively. The $57,000 increase relates primarily to a $40,000 increase in debit card transaction fees and an $11,000 increase in other fee income. Debit card transaction fees were $170,000 and $130,000 for the nine months ended September 30, 2008 and 2007, respectively and represented 69.4% of total other income for the first nine months of 2008 and 2007. The corresponding transaction costs associated with debit card transactions are included in noninterest data processing and related costs. The debit card transaction costs were $69,000 and $55,000 for the nine months ended September 30, 2008 and 2007, respectively. The net impact of the fees received and the related cost of the debit card transactions on earnings for the nine months ended September 30, 2008 and 2007 was $101,000 and $75,000, respectively. Other fee income, which includes ACH processing fees, was $25,000 and $14,000 for the nine months ended September 30, 2008 and 2007, respectively.

Noninterest expenses

The following table sets forth information related to our noninterest expenses.

	Three months ended September 30,		Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
	(Dollars in thousands)			
Compensation and benefits	$ 1,625	$ 1,547	$ 5,149	$ 4,479
Professional fees	127	131	368	416
Marketing	154	139	450	387
Insurance	141	116	413	328
Occupancy	437	337	1,134	1,081
Data processing and related costs	347	310	1,012	865
Telephone	50	29	126	97
Other	159	176	560	459
Total noninterest expenses	$ 3,040	$ 2,785	$ 9,212	$ 8,112

Three months ended September30, 2008 and 2007

We incurred noninterest expenses of $3.0 million for the three months ended September 30, 2008 compared to $2.8 million for the three months ended September 30, 2007. Average interest-earning assets increased 17.7% during this period, while noninterest expenses increased 9.2%.

For the three months ended September 30, 2008, compensation and benefits, occupancy, and data processing and related costs represented 79.2% of the total noninterest expense compared to 78.8% for the same period in 2007.

Nine months ended September 30, 2008 and 2007

We incurred noninterest expenses of $9.2 million for the nine months ended September 30, 2008 compared to $8.1 million for the nine months ended September 30, 2007. Average interest-earning assets increased 21.4% during this period, while noninterest expenses increased 13.6%.

For the nine months ended September 30, 2008 and 2007 compensation and benefits, occupancy, and data processing and related costs represented 79.2% of the total noninterest expense.

The following table sets forth information related to our compensation and benefits.

	Three months ended September 30,		**Nine months ended September 30,**	
	2008	**2007**	**2008**	**2007**
	(Dollars in thousands)			
Base compensation	$ 1,293	$ 1,055	$ 3,695	3,023
Incentive compensation	73	276	638	759
Total compensation	1,366	1,331	4,333	3,782
Benefits	299	254	940	813
Capitalized loan origination costs	(40)	(38)	(124)	(116)
Total compensation and benefits	$ 1,625	$ 1,547	$ 5,149	4,479

Three months ended September 30, 2008 and 2007

Compensation and benefits expense was $1.6 million and $1.5 million for the three months ended September 30, 2008 and 2007, respectively. Compensation and benefits represented 53.5% and 55.5% of our total noninterest expense for the three months ended September 30, 2008 and 2007, respectively. The $78,000 increase in compensation and benefits in the third quarter of 2008 compared to the same period in 2007 resulted from increases of $238,000 in base compensation and $45,000 in benefits expense, partially offset by a $203,000 decrease in incentive compensation and a $2,000 increase in loan origination compensation expense, which is required to be capitalized and amortized over the life of the loan as a reduction of loan interest income.

The $238,000 increase in base compensation expense related to the cost of 13 additional employees as well as annual salary increases. Ten of the new employees were hired to staff and support our two additional branch office locations while the remaining three employees were hired to further enhance our credit review, finance and information technology departments. Incentive compensation represented 4.5% and 17.8 % of total compensation and benefits for the three months ended September 30, 2008 and 2007, respectively. The incentive compensation expense recorded for the third quarters of 2008 and 2007 represented an accrual of the estimated incentive compensation earned during the third quarter of the respective year. The incentive compensation accrual was reduced in the third quarter of 2008 when management determined that certain corporate objectives affecting incentive compensation would not be achieved. Benefits expense increased $45,000 in the third quarter of 2008 compared to the same period in 2007. Benefits expense represented 21.9% and 19.1% of the total compensation for the three months ended September 30, 2008 and 2007, respectively.

Nine months ended September 30, 2008 and 2007

Compensation and benefits expense was $5.1 million and $4.5 million for the nine months ended September 30, 2008 and 2007, respectively. Compensation and benefits represented 55.9% and 55.2% of our total noninterest expense for the nine months ended September 30, 2008 and 2007, respectively. The $670,000 increase in compensation and benefits in the first nine months of 2008 compared to the same period in 2007 resulted from increases of $672,000 in base compensation and $127,000 in benefits expense, partially offset by a $121,000 decrease in incentive compensation and an $8,000 increase in loan origination compensation expense, which is required to be capitalized and amortized over the life of the loan as a reduction of loan interest income.

The $672,000 increase in base compensation expense related to the cost of 13 additional employees as well as annual salary increases. Ten of the new employees were hired to staff and support our two additional branch office locations while the remaining three employees were hired to further enhance our credit review, finance and information technology departments. Incentive compensation represented 12.4% and 16.9 % of total compensation and benefits for the nine months ended September 30, 2008 and 2007, respectively. The incentive compensation expense recorded for the first nine months of 2008 and 2007 represented an accrual of the estimated incentive compensation earned during the first nine months of the respective year. Benefits expense increased $127,000 in the first nine months of 2008 compared to the same period in 2007. Benefits expense represented 21.7% and 21.5% of the total compensation for the nine months ended September 30, 2008 and 2007, respectively.

The following tables set forth information related to our data processing and related costs.

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			

Data processing costs	$	266	$	227	$	776	$	623
Debit card transaction expense		25		20		69		55
Courier expense		26		29		73		83
Other expenses		30		34		94		104
Total data processing and related costs	$	347	$	310	$	1,012	$	865

Data processing and related costs were $347,000 and $310,000, an increase of $37,000, for the three months ended September 30, 2008 and 2007, respectively. During the first nine months of 2008 and the same period of 2007, our data processing and related costs were $1.0 million and $865,000, respectively, an increase of $147,000.

During the three months ended September 30, 2008, our data processing costs for our core processing system were $266,000 compared to $227,000 for the three months ended September 30, 2007. We have contracted with an outside computer service company to provide our core data processing services. Costs for our core data processing services increased $39,000, or 17.2%, from $266,000 to $227,000 for the three months ended September 30, 2008 compared to the same period in 2007. The increases in costs were caused by a higher number of loan and deposit accounts. A significant portion of the fee charged by the third party processor is directly related to the number of loan and deposit accounts and the related number of transactions. During the nine months ended September 30, 2008 and 2007, data processing costs for our core processing system were $776,000 and $623,000, respectively, an increase of $153,000, or 24.6%.

We receive income from debit card transactions performed by our clients. Since we outsource this service, we are charged related transaction expenses from our merchant service provider. Debit card transaction expense was $25,000 and $20,000 for the three months ended September 30, 2008 and 2007, respectively. During the first nine months of 2008 and 2007, debit card transaction expense was $69,000 and $55,000, respectively.

Occupancy expense represented 14.4% and 12.1% of total noninterest expense for the three months ended September 30, 2008 and 2007, respectively. Occupancy expense for the three months ended September 30, 2008 and 2007 was $437,000 and $337,000, respectively, an increase of $100,000. The increase is primarily due to the increased costs of depreciation and rent expense associated with our two new retail offices which opened in July 2008. For the nine months ended September 30, 2008, occupancy expense increased $53,000 to $1.1 million from the same period ended September 30, 2007. Occupancy expense represented 12.3% and 13.3% of total noninterest expense for the first nine months of 2008 and 2007, respectively.

The remaining $40,000 increase in noninterest expense for the three month period ended September 30, 2008 compared to the same period in 2007 resulted primarily from increases of $15,000 in marketing expenses, $25,000 in insurance, and $21,000 in telephone expenses, partially offset by decreases of $4,000 in professional fees and $17,000 in other noninterest expenses. The increase in marketing expenses relates primarily to our new Greenville and Columbia offices, as well as expanding our market awareness in those areas while the $25,000 increase in insurance costs is related to the growth in deposits and the FDIC deposit insurance assessment based on our deposit balances. In addition, telephone expenses have increased with the addition of our two new offices and the additional number of employees. The decrease in professional fees is due primarily to the additional costs incurred during 2007 related to the name change of our company while the decrease in other noninterest expenses relates primarily to a reduction in collection expenses compared to the same period in 2007.

For the nine month period ended September 30, 2008, remaining noninterest expenses increased $230,000 from the same period in 2007. Of this amount, marketing expenses represented $63,000 of the increase, $85,000 was related to insurance, $29,000 related to telephone expenses and other expenses represented $101,000 of the increase. Partially offsetting these increases was a $48,000 decrease in professional fees due to the additional costs incurred during 2007 related to the name change of our company. The increase in marketing expenses relates primarily to our new Greenville and Columbia offices, as well as expanding our market awareness in those areas while the $85,000 increase in insurance costs is related to the growth in deposits and the FDIC deposit insurance assessment based on our deposit balances. In addition, telephone expenses have increased with the addition of our two new offices and the additional number of employees. A significant portion of the increase in other expenses is due to increased costs of postage and office supplies, business meals, education expenses and deposit account losses.

We recorded an income tax benefit of $148,000 for the three months ended September 30, 2008 compared to an expense of $478,000 during the same period in 2007. For the nine months ended September 30, 2008, income tax expense was $630,000 compared to $1.3 million for the same period in 2007. Our effective tax rate was (54.0)% and 33.3%, respectively, for the three month periods ended September 30, 2008 and 2007, respectively, and 29.8% and 32.4% for the nine month periods ended September 30, 2008and 2007, respectively.

The impact of the loss on the other than temporary impairment and income from tax-exempt municipal securities and bank owned life insurance resulted in the negative tax rate for the three months ended September 30, 2008. Below is a table reflecting the actual income tax expense (benefit) compared to the income (loss) before taxes and the proforma income, excluding the impairment charge, for the three and nine month periods ended September 30, 2008. The decrease in the effective tax rate, based on operating earnings, for the 2008 periods compared to 2007 results primarily from the tax exempt income on additional bank owned life insurance which we purchased in the third quarter of 2008.

	Three Months Ended September 30, 2008		**Nine Months Ended September 30, 2008**	
	Actual	**Proforma**	**Actual**	**Proforma**
	(Dollars in thousands)			
Income (loss) before taxes	$ (274)	1,566	$ 2,112	3,952
Income tax expense (benefit)	$ (148)	417	$ 630	1,195

Effective tax rate	(54.0) %	26.6 %	29.8 %	30.2 %

As a result of the passage of the EESA, the bank s ability to utilize the loss on the FNMA preferred stock against ordinary income was considered in determining that the company did not need to establish a valuation allowance for the deferred tax asset that was recorded in relation to the $1.8 million impairment charge.

Balance Sheet Review

General

At September 30, 2008, we had total assets of $696.6 million, consisting principally of $554.8 million in loans, $90.0 million in investments, $12.0 million in federal funds sold, and $9.2 million in cash and due from banks, and $11.7 in bank owned life insurance. Our liabilities at September 30, 2008 totaled $658.9 million, which consisted principally of $477.8 million in deposits, $161.7 million in FHLB advances and related debt, and $13.4 million in junior subordinated debentures. At September 30, 2008, our shareholders equity was $37.7 million.

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At December 31, 2007, we had total assets of $628.1 million, consisting principally of $503.1 million in loans, $87.5 million in investments, $9.3 million in federal funds sold, $7.7 million in cash and due from banks and $8.9 million in bank owned life insurance. Our liabilities at December 31, 2007 totaled $589.9 million, consisting principally of $412.8 million in deposits, $158.5 million in FHLB advances, and $13.4 million of junior subordinated debentures. At December 31, 2007, our shareholders equity was $38.3 million.

Federal Funds Sold

At September 30, 2008, our federal funds sold were $12.0 million, or 1.7% of total assets. At December 31, 2007, our $9.3 million in federal funds sold on an overnight basis comprised 1.5% of total assets.

Investments

Contractual maturities and yields on our investments that are available for sale and are held to maturity at September 30, 2008 are shown in the following table. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. We had no securities with maturities less than one year at September 30, 2008.

		One to Five Years			Five to Ten Years			Over Ten Years			Total	
		Amount	**Yield**		**Amount**	**Yield**		**Amount**	**Yield**		**Amount**	**Yield**
		(Dollars in thousands)										
Available for Sale												
Government sponsored enterprises	$	-	-	$	11,989	5.05 %	$	6,844	5.06 %	$	18,832	5.06 %
State and political subdivisions		-	-		628	3.81 %		3,021	3.79 %		3,649	3.80 %
Mortgage-backed securities		460	4.69 %		7,369	4.87 %		38,219	5.77 %		46,048	5.61 %
Preferred stock		-	-		-	-		174	8.44 %		174	8.44 %
Total	$	460	4.69 %	$	19,986	4.95 %	$	48,258	5.55 %	$	68,703	5.45 %
Held to Maturity												
Mortgage-backed securities	$	259	3.98 %		-	-	$	12,595	4.64 %	$	12,854	4.63%

At September 30, 2008, our investments included securities issued by the Federal Home Loan Mortgage Corporation and Federal National Mortgage Association with carrying values of $16.3 million, and $37.8 million, respectively.

The amortized costs and the fair value of our investments at September 30, 2008 and December 31, 2007 are shown in the following table.

		September 30, 2008				December 31, 2007		
		Amortized Cost		**Fair Value**		**Amortized Cost**		**Fair Value**
		(Dollars in thousands)						
Available for Sale								
Government sponsored enterprises	$	19,485	$	18,832	$	10,992	$	11,078
State and political subdivisions		3,791		3,649		3,793		3,736
Mortgage-backed securities		49,037		46,047		47,061		47,172
Preferred stock		174		174		2,019		2,024
Total	$	72,487	$	68,703	$	63,865	$	64,010
Held to Maturity								
Mortgage-backed securities	$	13,235	$	12,994	$	14,819	$	14,573

Other investments totaled $8.5 million at September 30, 2008 and consisted primarily of Federal Home Loan Bank stock with a cost of $6.7 million, Federal Reserve Bank stock with a cost of $1.3 million, and investments in Greenville First Statutory Trust I and Trust II of $186,000 and $217,000, respectively.

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At September 30, 2008, we had $90.0 million in our investment securities portfolio which represented approximately 12.9% of our total assets. We held U.S. Government sponsored enterprise securities, municipal securities, and mortgage-backed securities with a fair value of $81.2 million and an amortized cost of $85.2 million for an unrealized loss of $4.0 million. We believe, based on industry analyst reports and credit ratings that the deterioration in value of these securities, except for our FNMA preferred stock for which we recorded an impairment charge of $1.8 million in the third quarter 2008, is attributed to changes in market interest rates and not in the credit quality of the issuer and therefore, these losses are not considered other-than-temporary. We have the ability and intent to hold these securities until such time as the value recovers or the securities mature.

At December 31, 2007, the $87.5 million in our investment securities portfolio represented approximately 13.9% of our total assets. We held government sponsored enterprise securities, municipal securities, and mortgage-backed securities with a fair value of $78.6 million and an amortized cost of $78.7 million for an unrealized loss of $101,000.

Contractual maturities and yields on our available for sale and held to maturity investments at December 31, 2007 are shown in the following table. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. At December 31, 2007, we had no securities with a maturity of less than one year.

	One to Five Years		Five to Ten Years		Over Ten Years		Total	
	Amount	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**
			(Dollars in thousands)					
Available for Sale								
Government sponsored enterprises	$ -	-	$ 11,078	5.71%	$ -	-	$ 11,078	5.71 %
State and political subdivisions	-	-	-	-	3,736	3.79 %	3,736	3.79 %
Mortgage-backed securities	531	4.56 %	8,739	4.78 %	37,902	5.87 %	47,172	5.66 %
Preferred stock	-	-	-	-	2,024	7.88 %	2,024	7.88 %
Total	$ 531	4.56 %	$ 19,817	5.30 %	$ 43,662	5.79 %	$ 64,010	5.63 %
Held to Maturity								
Mortgage-backed securities	$ -	-	$ 333	3.93 %	$ 14,486	4.66 %	$ 14,819	4.64 %

At December 31, 2007, our investments included securities issued by the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation with carrying values of $37.6 million and $16.2 million, respectively.

Other investments totaled $8.7 million at December 31, 2007 and consisted of Federal Reserve Bank stock with a cost of $1.0 million, investments in Greenville First Statutory Trust I and II of $186,000 and $217,000, respectively, and Federal Home Loan Bank stock with a cost of $7.2 million.

Loans

Since loans typically provide higher interest yields than other types of interest earning assets, a substantial percentage of our earning assets are invested in our loan portfolio. For the nine months ended September 30, 2008 and 2007, average loans were $542.7 million and $445.9 million, respectively. Before the allowance for loan losses, total loans outstanding at September 30, 2008 were $561.3 million. Average loans for the year ended December 31, 2007 were $459.2 million. Before the allowance for loan losses, total loans outstanding at December 31, 2007 were $508.9 million.

The principal component of our loan portfolio is loans secured by real estate mortgages. Most of our real estate loans are secured by residential or commercial property. We do not generally originate traditional long term residential mortgages, but we do issue traditional second mortgage residential real estate loans and home equity lines of credit. We obtain a security interest in real estate whenever possible, in addition to any other available collateral. This collateral is taken to increase the likelihood of the ultimate repayment of the loan. Generally, we limit the loan-to-value ratio on loans we make to 80%. Due to the short time our portfolio has existed, the current mix may not be indicative of the ongoing portfolio mix. We attempt to maintain a relatively diversified real estate loan portfolio to help reduce the risk inherent in concentration in certain types of collateral.

The following table summarizes the composition of our loan portfolio at September 30, 2008 and December 31, 2007.

	September 30, 2008		**December 31, 2007**	
	Amount	**% of Total**	**Amount**	**% of Total**
	(Dollars in thousands)			
Real estate:				
Commercial:				
Owner occupied	$ 111,947	20.0 %	$ 114,168	22.4 %
Non-owner occupied	150,338	26.8 %	147,478	29.0 %
Construction	54,210	9.6 %	38,464	7.6 %
Total commercial real estate	316,495	56.4 %	300,110	59.0 %
Consumer:				
Residential	59,823	10.7 %	59,815	11.7 %
Home equity	58,700	10.4 %	46,806	9.2 %
Construction	8,658	1.5 %	7,154	1.4 %
Total consumer real estate	127,181	22.6 %	113,775	22.3 %

Total real estate		443,676	79.0 %	413,885	81.3 %
Commercial business		106,929	19.1 %	86,863	17.1 %
Consumer-other		11,648	2.1 %	9,051	1.8 %
Deferred origination fees, net		(979)	(0.2)%	(949)	(0.2)%
Total gross loans, net of deferred fees		561,274	100.0 %	508,850	100.0 %
Less allowance for loan losses		(6,492)		(5,751)	
Total loans, net	$	554,782		$ 503,099	

Maturities and Sensitivity of Loans to Changes in Interest Rates

The information in the following tables is based on the contractual maturities of individual loans, including loans which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms upon maturity. Actual repayments of loans may differ from the maturities reflected below because borrowers have the right to prepay obligations with or without prepayment penalties.

The following table summarizes the loan maturity distribution by type and related interest rate characteristics at September 30, 2008.

	One year or less	After one but within five years	After five years	Total
		(Dollars in thousands)		
Real estate mortgage	$ 66,510	$ 247,822	$ 66,476	$ 380,808
Real estate construction	32,704	14,211	15,953	62,868
Total real estate	99,214	262,033	82,429	443,676
Commercial business	55,756	46,957	4,216	106,929
Consumer-other	4,775	6,208	665	11,648
Deferred origination fees, net	(316)	(483)	(180)	(979)
Total gross loans, net of deferred fees	$ 159,429	$ 314,715	$ 87,130	$ 561,274
Loans maturing after one year with:				
Fixed interest rates				$ 234,195
Floating interest rates				$ 167,650

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The following table summarizes the loan maturity distribution by type and related interest rate characteristics at December 31, 2007.

	One year or less	After one but within five years	After five years	Total
	(Dollars in thousands)			
Real estate mortgage	$ 70,081	$ 251,978	$ 46,208	$ 368,267
Real estate construction	17,418	21,256	6,944	45,618
Total real estate	87,499	273,234	53,152	413,885
Commercial business	48,659	37,477	727	86,863
Consumer other	4,568	3,973	510	9,051
Deferred origination fees, net	(258)	(577)	(114)	(949)
Total gross loans, net of deferred fees	$ 140,468	$ 314,107	$ 54,275	$ 508,850
Loans maturing after one year with:				
Fixed interest rates				$ 229,060
Floating interest rates				$ 139,322

Provision and Allowance for Loan Losses

We have established an allowance for loan losses through a provision for loan losses charged to expense on our statement of income. The allowance for loan losses represents an amount which we believe will be adequate to absorb probable losses on existing loans that may become uncollectible. Our judgment as to the adequacy of the allowance for loan losses is based on a number of assumptions about future events, which we believe to be reasonable, but which may or may not prove to be accurate. Our determination of the allowance for loan losses is based on evaluations of the collectability of loans, including consideration of factors such as the balance of impaired loans, the quality, mix, and size of our overall loan portfolio, economic conditions that may affect the borrower s ability to repay the loan, the amount and quality of collateral securing the loans, our historical loan loss experience, and a review of specific problem loans. We also consider subjective issues such as changes in the lending policies and procedures, changes in the local/national economy, changes in volume or type of credits, changes in volume/severity of problem loans, quality of loan review and board of director oversight, concentrations of credit, and peer group comparisons. Due to our limited operating history, the provision for loan losses has been made primarily as a result of our assessment of general loan loss risk compared to banks of similar size and maturity. Due to the rapid growth of our bank over the past several years and our short operating history, a large portion of the loans in our loan portfolio and of our lending relationships are of relatively recent origin. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process known as seasoning. As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because our loan portfolio is relatively new, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned, which may be higher than current levels. If delinquencies and defaults increase, we may be required to increase our provision for loan losses, which would adversely affect our results of operations and financial condition. Periodically, we adjust the amount of the allowance based on changing circumstances. We charge recognized losses to the allowance and add subsequent recoveries back to the allowance for loan losses. There can be no assurance that charge-offs of loans in future periods will not exceed the allowance for loan losses as estimated at any point in time or that provisions for loan losses will not be significant to a particular accounting period.

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The following table summarizes the activity related to our allowance for loan losses for the nine months ended September 30, 2008 and 2007:

	September 30, 2008 (Dollars in thousands)	2007
Balance, beginning of period	$ 5,751	$ 4,949
Loans charged-off	(1,219)	(823)
Recoveries of loans previously charged-off	10	31
Net loans (charged-off) recovery	$ (1,209)	$ (792)
Provision for loan losses	1,950	1,290
Balance, end of period	$ 6,492	$ 5,447
Allowance for loan losses to gross loans	1.16%	1.13%
Net charge-offs to average loans	0.30%	0.24%

We do not allocate the allowance for loan losses to specific categories of loans. Instead, we evaluate the adequacy of the allowance for loan losses on an overall portfolio basis utilizing our credit grading system which we apply to each loan. We have retained an independent consultant to review the loan files on a test basis to confirm our internal grading of our loans.

Nonperforming Assets

The following table shows the nonperforming assets, percentages of total assets, and the related percentage of allowance for loan losses for the nine months ended September 30, 2008 and the year ended December 31, 2007.

	September 30, 2008 (Dollars in thousands)	December 31, 2007
Loans over 90 days past due (1)	$ 2,654	$ 4,382

Loans on nonaccrual:				
Mortgage		2,754		4,316
Commercial		658		75
Consumer		31		45
Total nonaccrual loans		3,443		4,436
Troubled debt restructuring		-		-
Total of nonperforming loans		3,443		4,436
Other nonperforming assets		2,061		268
Total nonperforming assets	$	5,504	$	4,704
Percentage of total assets		0.79 %		0.75 %
Percentage of nonperforming loans and assets to gross loans		0.98 %		0.92 %

(1) All loans over 90 days past due are on and included in loans on nonaccrual.

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The allowance for loan losses was $6.5 million and $5.8 million at September 30, 2008 and December 31, 2007, respectively or 1.16% and 1.13% of outstanding loans, respectively. During the year ended December 31, 2007, we had net charged-off loans of $1.3 million. During the nine months ended September 30, 2008 and 2007 we had net charge-offs of $1.2 million and $792,000, respectively.

At September 30, 2008 and December 31, 2007, nonaccrual loans represented 0.61% and 0.87% of total loans, respectively. At September 30, 2008 and December 31, 2007, we had $3.4 million and $4.4 million of loans, respectively, on nonaccrual status. Generally, a loan is placed on nonaccrual status when it becomes 90 days past due as to principal or interest, or when we believe, after considering economic and business conditions and collection efforts, that the borrower s financial condition is such that collection of the loan is doubtful. A payment of interest on a loan that is classified as nonaccrual is recognized as income when received**.**

Other nonperforming assets, which includes real estate acquired through foreclosure, was $2.1 million and $268,000 at September 30, 2008 and December 31, 2007, respectively. At September 30, 2008, other nonperforming assets consisted of three properties, two of which are residential properties valued at $158,000 and $11,000, respectively. The third property is commercial real estate valued at $1.9 million. We believe that these properties are appropriately valued at the lower of cost or market as of September 30, 2008.

The amount of foregone interest income on the nonaccrual loans in the first nine months of 2008 was approximately $226,000. The amount of interest income recorded in the first nine months of 2008 for loans that were on nonaccrual at September 30, 2008 was approximately $57,000.

At September 30, 2008, impaired loans amounted to approximately $13,000 for which a $13,000 reserve was allocated in the allowance.

Deposits and Other Interest-Bearing Liabilities

Our primary source of funds for loans and investments is our deposits, advances from the FHLB, and short-term repurchase agreements. National and local market trends over the past several years suggest that consumers have moved an increasing percentage of discretionary savings funds into investments such as annuities, stocks, and fixed income mutual funds. Accordingly, it has become more difficult to attract deposits. We have chosen to obtain a portion of our certificates of deposits from areas outside of our market. The deposits obtained outside of our market area generally have comparable rates compared to rates being offered for certificates of deposits in our local market. We also utilize out-of-market deposits in certain instances to obtain longer-term deposits than are readily available in our local market. The amount of out-of-market deposits was $155.3 million at December 31, 2007 and $192.6 million at September 30, 2008.

Core deposits, which exclude out-of-market deposits and time deposits of $100,000 or more, provide a relatively stable funding source for our loan portfolio and other earning assets. Our core deposits were $214.8 million and $196.0 million at September 30, 2008 and December 31, 2007, respectively. Although core deposits do not include deposits obtained out-of-market, we believe the $192.6 million of out-of-market funds to be a stable source of funding. Except for the event of death, these deposits do not have the ability to prepay.

We anticipate being able to either renew or replace these out-of-market deposits when they mature, although we may not be able to replace them with deposits with the same terms or rates. Our loan-to-deposit ratio was 117% and 123% at September 30, 2008 and December 31, 2007, respectively.

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The following table shows the average balance amounts and the average rates paid on deposits held by us for the nine months ended September 30, 2008 and 2007.

		2008			**2007**	
		Amount	**Rate**		**Amount**	**Rate**
		(Dollars in thousands)				
	$	32,369	- %	$	31,023	- %

Noninterest bearing demand deposits						
Interest bearing demand deposits		39,135	1.08 %		34,327	1.68 %
Money market accounts		88,284	2.01 %		84,014	3.59 %
Savings accounts		1,841	0.35 %		1,509	0.68 %
Time deposits less than $100,000		47,770	4.05 %		44,526	5.03 %
Time deposits $100,000 or greater		252,603	4.44 %		178,958	5.21 %
Total deposits	$	462,002	3.32 %	$	379,299	4.05 %

The increase in time deposits of $100,000 or more for the nine months ended September 30, 2008 compared to the 2007 period resulted primarily from a $47.2 million increase in wholesale deposits.

All of our time deposits are certificates of deposits. The maturity distribution of our time deposits of $100,000 or more at September 30, 2008 was as follows:

		September 30, 2008
		(Dollars in thousands)
Three months or less	$	58,650
Over three through six months		69,484
Over six through twelve months		48,902
Over twelve months		84,158
Total	$	261,194

Another aspect of the EESA (in addition to the Capital Purchase Plan described above) which became effective on October 3, 2008 is a temporary increase of the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor. The basic deposit insurance limit will return to $100,000 after December 31, 2009. At September 30, 2008 the bank had time deposits of $100,000 or more of $261.2 million. Approximately $213.4 million or 81.7% of these deposits would be covered under the new FDIC insurance coverage. An additional $900,000 or 0.34% of these deposits, are to local public entities that are required to have securities as collateral.

In addition, our bank anticipates participating in the FDIC's Temporary Liquidity Guarantee Program which was announced October 14, 2008 as part of EESA. This guarantee applies to the following:

Funds in non-interest-bearing transaction deposit accounts (up to $500 billion) held by FDIC-insured banks until December 31, 2009.

All FDIC institutions are covered until December 5, 2008 at no cost. After this initial period expires, the institution must opt out if it no longer wishes to participate in the program; otherwise, it will be assessed for future participation. There will be a 75-basis point fee to protect new debt issues and an additional 10-basis point fee to fully cover non-interest bearing deposit transaction accounts.

Capital Resources

Total shareholders equity at September 30, 2008 was $37.7 million. At December 31, 2007, total shareholders equity was $38.3 million. The decrease during the first nine months of 2008 resulted primarily from the $2.6 million net unrealized holding loss on securities, partially offset by the $1.5 million of net income earned, which includes the $1.2 million impairment charge on our FNMA preferred stock, and $429,000 of exercised stock options and warrants.

The following table shows the return on average assets (net income divided by average total assets), return on average equity (annualized net income divided by average equity), and equity to assets ratio (average equity divided by average total assets) for the nine months ended September 30, 2008 and the year ended December 31, 2007. Since our inception, we have not paid any cash dividends.

	September 30, 2008	December 31, 2007
Return on average assets	0.29 %	0.60 %
Return on average equity	5.02 %	9.40 %
Average equity to average assets ratio	5.81 %	6.35 %

Our return on average assets was 0.29% for the nine months ended September 30, 2008, a decrease from 0.60% for the year ended December 31, 2007. In addition, our return on average equity decreased to 5.02% from 9.40% for the nine months ended September 30, 2008 and the year ended December 31, 2007, respectively. The decrease in the equity to assets ratio is a function of the $83.5 million increase in average assets compared to the $3.1 million increase in average equity.

Under the capital adequacy guidelines, regulatory capital is classified into two tiers. These guidelines require an institution to maintain a certain level of Tier 1 and Tier 2 capital to risk-weighted assets. Tier 1 capital consists of common shareholders equity, and a limited amount of qualifying preferred stock, reduced by the unrealized gain or loss on securities available for sale and certain intangible assets. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100% based on the risks believed to be inherent in the type of asset. Tier 2 capital consists of Tier 1 capital plus the general reserve for loan losses, subject to certain limitations, and preferred stock that did not qualify as Tier 1 capital. We are also required to maintain capital at a minimum level based on total average assets, which is known as the Tier 1 leverage ratio.

At both the holding company and bank level, we are subject to various regulatory capital requirements administered by the federal banking agencies. To be considered adequately capitalized under these capital guidelines, we must maintain a minimum total risk-based capital of 8%, with at least 4% being Tier 1 capital. In addition, we must maintain a minimum Tier 1 leverage ratio of at least 4%. To be considered well-capitalized, we must maintain total risk-based capital of at least 10%, Tier 1 capital of at least 6%, and a leverage ratio of at least 5%.

The following table sets forth the holding company s and the bank s various capital ratios at September 30, 2008 and at December 31, 2007. For all periods, the bank was considered well capitalized and the holding company met or exceeded its applicable regulatory capital requirements.

	September 30, 2008		December 31, 2007	
	Holding Company	**Bank**	**Holding Company**	**Bank**
Total risk-based capital	10.3 %	12.3 %	11.1 %	12.4 %
Tier 1 risk-based capital	9.2 %	11.2 %	10.0 %	11.3 %
Leverage capital	7.7 %	9.4 %	8.3 %	9.5 %

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Effect of Inflation and Changing Prices

The effect of relative purchasing power over time due to inflation has not been taken into account in our consolidated financial statements. Rather, our financial statements have been prepared on an historical cost basis in accordance with generally accepted accounting principles.

Unlike most industrial companies, our assets and liabilities are primarily monetary in nature. Therefore, the effect of changes in interest rates will have a more significant impact on our performance than will the effect of changing prices and inflation in general. In addition, interest rates may generally increase as the rate of inflation increases, although not necessarily in the same magnitude. As discussed previously, we seek to manage the relationships between interest sensitive assets and liabilities in order to protect against wide rate fluctuations, including those resulting from inflation.

Off-Balance Sheet Risk

Commitments to extend credit are agreements to lend money to a client as long as the client has not violated any material condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. At September 30, 2008, unfunded commitments to extend credit were $96.1 million, of which $17.7 million was at fixed rates and $78.4 million was at variable rates. At December 31, 2007, unfunded commitments to extend credit were $104.5 million, of which approximately $65.0 million was at fixed rates and $39.5 million was at variable rates. A significant portion of the unfunded commitments related to consumer equity lines of credit. Based on historical experience, we anticipate that a significant portion of these lines of credit will not be funded. We evaluate each client s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on our credit evaluation of the borrower. The type of collateral varies but may include accounts receivable, inventory, property, plant and equipment, and commercial and residential real estate.

At September 30, 2008 and December 31, 2007, there was a $4.0 million and $2.8 million commitment under letters of credit, respectively. The credit risk and collateral involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Since most of the letters of credit are expected to expire without being drawn upon, they do not necessarily represent future cash requirements.

Except as disclosed in this document, we are not involved in off-balance sheet contractual relationships, unconsolidated related entities that have off-balance sheet arrangements or transactions that could result in liquidity needs or other commitments that significantly impact earnings.

Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates, which principally arises from interest rate risk inherent in our lending, investing, deposit gathering, and borrowing activities. Other types of market risks, such as foreign currency exchange rate risk and commodity price risk, do not generally arise in the normal course of our business. Our asset/liability management committee (ALCO) monitors and considers methods of managing exposure to interest rate risk. We have both an internal ALCO consisting of executive management that meets at various times during each month and a board ALCO that meets monthly. The ALCOs are responsible for maintaining the level of interest rate sensitivity of our interest sensitive assets and liabilities within board-approved limits.

We actively monitor and manage our interest rate risk exposure principally by measuring our interest sensitivity gap, which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given period of time. Interest rate sensitivity can be managed by repricing assets or liabilities, selling securities available for sale, replacing an asset or liability at maturity, or adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities repricing in this same time interval helps to hedge the risk and minimize the impact on net interest income of rising or falling interest rates. We generally would benefit from increasing market rates of interest when we have an asset-sensitive gap position and generally would benefit from decreasing market rates of interest when we are liability-sensitive.

We were liability sensitive during the year ended December 31, 2007 and through the nine months ended September 30, 2008. Our variable rate loans and a majority of our deposits reprice over a 12-month period. Approximately 40% and 39% of our loans were variable rate loans at September 30, 2008 and December 31, 2007, respectively. The ratio of cumulative gap to total earning assets after 12 months is (24.5%) because $161.0 million more liabilities will reprice in a 12 month period than assets. However, our gap analysis is not a precise indicator of our interest sensitivity position. The analysis presents only a static view of the timing of maturities and repricing opportunities, without taking into consideration that changes in interest rates do not affect all assets and liabilities equally. For example, rates paid on a substantial portion of core deposits may change contractually within a relatively short time frame, but those rates are viewed by us as significantly less interest-sensitive than market-based rates such as those paid on noncore deposits. Net interest income may be affected by other significant factors in a given interest rate environment, including changes in the volume and mix of interest-earning assets and interest-bearing liabilities.

Liquidity and Interest Rate Sensitivity

Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss, and the ability to raise additional funds by increasing liabilities. Liquidity management involves monitoring our sources and uses of funds in order to meet our day-to-day cash flow requirements while maximizing profits. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of our investment portfolio is fairly predictable and subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to the same degree of control.

At September 30, 2008, our liquid assets, consisting of cash and due from banks and federal funds sold, amounted to $21.2 million, or 3.0%, of total assets. Our investment securities at September 30, 2008 amounted to $90.0 million, or 12.9% of total assets. Investment securities traditionally provide a secondary source of liquidity since they can be converted into cash in a timely manner. However, $68.0 million of these securities are pledged against outstanding debt. Therefore, the related debt would need to be repaid prior to the securities being sold in order for these securities to be converted to cash. At December 31, 2007, our liquid assets amounted to $17.0 million, or 2.7% of total assets. Our investment securities at December 31, 2007 amounted to $87.5 million, or 13.9% of total assets. However, substantially all of these securities were pledged against outstanding debt.

Our ability to maintain and expand our deposit base and borrowing capabilities serves as our primary source of liquidity. We plan to meet our future cash needs through the liquidation of temporary investments, the generation of deposits, and from additional borrowings. In addition, we will receive cash upon the maturity and sale of loans and the maturity of investment securities. We maintain four federal funds purchased lines of credit with correspondent banks totaling $43.8 million for which there were no borrowings against the lines at September 30, 2008. We are also a member of the Federal Home Loan Bank of Atlanta (FHLB), from which applications for borrowings can be made for leverage purposes. The FHLB requires that securities, qualifying mortgage loans, and stock of the FHLB owned by the bank be pledged to secure any advances from the FHLB. The unused borrowing capacity currently available from the FHLB at September 30, 2008 was $10.6 million, based on the bank s $6.7 million investment in FHLB stock, as well as qualifying mortgages available to secure any future borrowings. The company also has a $15.0 million revolving line of credit with another bank for which $3.0 million was unused at September 30, 2008.

On September 20, 2005, we signed a ten-year, five-month lease on our new headquarters and main office. The lease provides for annual lease rate escalations based on cost of living adjustments.

We believe that our existing stable base of core deposits, borrowings from the FHLB, and short-term repurchase agreements will enable us to successfully meet our long-term liquidity needs.

Asset/liability management is the process by which we monitor and control the mix and maturities of our assets and liabilities. The essential purposes of asset/liability management are to ensure adequate liquidity and to maintain an appropriate balance between interest sensitive assets and liabilities in order to minimize potentially adverse impacts on earnings from changes in market interest rates. We have both an internal ALCO consisting of executive management that meets at various times during each month and a board ALCO that meets monthly. The ALCOs are responsible for maintaining the level of interest rate sensitivity of our interest sensitive assets and liabilities within board-approved limits.

The following table sets forth information regarding our rate sensitivity as of September 30, 2008 for each of the time intervals indicated. The information in the table may not be indicative of our rate sensitivity position at other points in time. In addition, the maturity distribution indicated in the table may differ from the contractual maturities of the earning assets and interest-bearing liabilities presented due to consideration of prepayment speeds under various interest rate change scenarios in the application of the interest rate sensitivity methods described above.

	Within three months	After three but within twelve months	After one but within five years	After five years	Total
	(Dollars in thousands)				
Interest-earning assets:					
Federal funds sold	$ 12,003	$ -	$ -	$ -	$ 12,003
Investment securities	2,635	7,250	26,214	45,458	81,557
Loans	249,874	48,994	189,501	67,974	556,343
Total interest-earning assets	$ 264,512	$ 56,244	$ 215,715	$ 113,432	$ 649,903
Interest-bearing liabilities:					
Money market and NOW	$ 125,274	$ -	$ -	$ -	$ 125,274
Regular savings	1,873	-	-	-	1,873
Time deposits	75,203	147,667	92,470	-	315,340
FHLB advances and related debt	71,025	35,075	45,600	10,000	161,700
Junior subordinated debentures	13,403	-	-	-	13,403
Total interest-bearing liabilities	$ 286,778	$ 182,742	$ 138,070	$ 10,000	$ 617,590
Period gap	$ (22,266)	$ (126,498)	$ 77,645	$ 103,432	
Cumulative gap	(22,266)	(148,764)	(71,119)	32,313	
Ratio of cumulative gap to total earning assets	(3.4%)	(22.9%)	(10.9%)	5.0 %	

The following table sets forth information regarding our rate sensitivity, as of December 31, 2007, at each of the time intervals.

	Within three months	After three but within twelve months	After one but within five years	After five years	Total
	(Dollars in thousands)				
Interest-earning assets:					
Federal funds sold	$ 9,257	$ -	$ -	$ -	$ 9,257
Investment securities	2,875	19,042	27,984	28,928	78,829
Loans	204,533	49,411	202,907	47,351	504,202

Total earning assets	$ 216,665	$ 68,453	$ 230,891	$ 76,279	$ 592,288
Interest-bearing liabilities:					
Money market and NOW	$ 118,273	$ -	$ -	$ -	$ 118,273
Regular savings	1,692	-	-	-	1,692
Time deposits	82,554	160,578	18,126	-	261,258
FHLB advances and related debt	95,520	14,000	39,000	10,000	158,520
Junior subordinated debentures	13,403	-	-	-	13,403
Total interest-bearing liabilities	$ 311,442	$ 174,578	$ 57,126	$ 10,000	$ 553,146
Period gap	$ (94,777)	$ (106,125)	$ 173,765	$ 66,279	
Cumulative gap	(94,777)	(200,902)	(27,137)	39,142	
Ratio of cumulative gap total assets total earning assets	(16.0 %)	(33.9 %)	(4.6 %)	6.6 %	

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Accounting, Reporting, and Regulatory Matters

Recently Issued Accounting Standards

The following is a summary of recent authoritative pronouncements that affect accounting, reporting, and disclosure of financial information by us:

In May, 2008, the FASB issued Statement SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles, (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). SFAS No. 162 will be effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board s amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles* . The application of the Statement will have no effect on the Company s financial position, results of operations or cash flows.

June, 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities, (FSP EITF 03-6-1). The Staff Position provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and must be included in the earnings per share computation. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period earnings per share data presented must be adjusted retrospectively. Early application is not permitted. The adoption of the Staff Position will have no material effect on the Company s financial position, results of operations or cash flows.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

There have been no material changes in our quantitative and qualitative disclosures about market risk as of September 30, 2008 from that presented in our annual report on Form 10-K for the year ended December 31, 2007. See Market Risk and Liquidity and Interest Rate Sensitivity in Item 2, Management Discussion and Analysis of Financial Condition and Results of Operations for quantitative and qualitative disclosures about market risk, which information is incorporated herein by reference.

Item 4. Controls and Procedures.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our current disclosure controls and procedures are effective as of September 30, 2008. There have been no significant changes in our internal controls over financial reporting during the fiscal quarter ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

PART II. OTHER INFORMATION

Item 6. Exhibits.

10.1	Amendment No. 1 Southern First Bancshares, Inc. 2000 Stock Incentive Plan adopted October 21, 2008.
31.1	Rule 13a-14(a) Certification of the Principal Executive Officer.
31.2	Rule 13a-14(a) Certification of the Principal Financial Officer.
32	Section 1350 Certifications.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOUTHERN FIRST BANCSHARES, INC.
Registrant

Date: November 14, 2008

/s/R. Arthur Seaver, Jr.
R. Arthur Seaver, Jr.
Chief Executive Officer

Date: November 14, 2008

/s/James M. Austin, III
James M. Austin, III
Chief Financial Officer

INDEX TO EXHIBITS

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