

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER 1-5735

PROVIDENT COMMUNITY BANCSHARES, INC.
(Exact name of registrant as specified in its Charter)

Delaware
(State or other Jurisdiction of
Incorporation or Organization)

57-1001177
(I.R.S. Employer
Identification No.)

2700 Celanese Road, Rock Hill, South Carolina 29732
(Address of Principal Executive Offices)

(803)-325-9400
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes No

The Corporation had 1,790,599 shares, \$0.01 par value, of common stock issued and outstanding as of August 6, 2009.

PROVIDENT COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES

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Part 1. Financial Information
PROVIDENT COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
June 30, 2009 and December 31, 2008

ASSETS	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
	<small>(DOLLARS IN THOUSANDS)</small>	
Cash and due from banks	\$ 10,198	8,424
Federal funds sold	13,686	12,946
Cash and cash equivalents	<u>23,884</u>	<u>21,370</u>
Investment and mortgage-backed securities		
Held to maturity (market value of \$3,755,000 and \$2,310,000 at June 30, 2009 and December 31, 2008)	3,934	2,430
Available for sale	<u>134,937</u>	<u>100,418</u>
Total investment and mortgage-backed securities	138,871	102,848
Loans, net of unearned fees	274,643	285,443
Allowance for loan losses (ALL)	<u>(7,842)</u>	<u>(6,778)</u>
Loans, net of ALL	266,801	278,665
Real estate acquired through foreclosure	3,622	667
Office properties and equipment, net	5,650	5,837
Federal Home Loan Bank stock, at cost	3,947	3,929
Federal Reserve Bank stock, at cost	599	599
Accrued interest receivable	1,919	2,087
Intangible assets	2,674	2,845
Cash surrender value of life insurance	9,132	9,577
Other assets	<u>7,249</u>	<u>5,794</u>
TOTAL ASSETS	\$ <u>464,348</u>	\$ <u>434,218</u>
LIABILITIES		
Demand and savings deposits	\$ 145,044	\$ 119,755
Time deposits	<u>190,270</u>	<u>187,066</u>
Total deposits	<u>335,314</u>	<u>306,821</u>
Advances from the Federal Home Loan Bank	64,500	69,500
Securities sold under agreements to repurchase	17,479	19,005
Floating rate junior subordinated deferrable interest debentures	12,372	12,372
Accrued interest payable	736	701
Other liabilities	<u>2,431</u>	<u>1,895</u>
TOTAL LIABILITIES	<u>432,832</u>	<u>410,294</u>
Commitments and contingencies-Note 5		
SHAREHOLDERS' EQUITY		
Serial preferred stock - \$0.01 par value		
authorized - 500,000 shares		
issued and outstanding - 9,266 and 0 shares	9,243	--
at June 30, 2009 and December 31, 2008, respectively		
Common stock - \$0.01 par value,		
authorized - 5,000,000 shares,		
issued and outstanding - 1,790,599 shares at June 30, 2009	20	20
and 1,787,092 at December 31, 2008, respectively		
Common stock warrants	25	--
Additional paid-in capital	12,919	12,903
Accumulated other comprehensive income (loss)	(938)	(1,696)
Retained earnings, substantially restricted	16,547	18,997
Treasury stock, at cost	<u>(6,300)</u>	<u>(6,300)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>31,516</u>	<u>23,924</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ <u>464,348</u>	\$ <u>434,218</u>

See notes to consolidated financial statements.

PROVIDENT COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
Three and Six Months Ended June 30, 2009 and 2008 (unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	(DOLLARS IN THOUSANDS EXCEPT PER SHARE)		(DOLLARS IN THOUSANDS EXCEPT PER SHARE)	
Interest Income:				
Loans	\$ 3,644	\$ 4,378	\$ 7,240	\$ 9,000
Deposits and federal funds sold	5	6	13	22
Interest and dividends on mortgage-backed securities	1,137	687	2,032	1,363
Interest and dividends on investment securities	558	629	1,196	1,490
Total interest income	5,344	5,700	10,481	11,875
Interest Expense:				
Deposit accounts	2,111	2,218	4,203	4,680
Floating rate junior subordinated deferrable interest debentures	135	175	285	384
Advances from the FHLB and other borrowings	758	843	1,542	1,845
Total interest expense	3,004	3,236	6,030	6,909
Net Interest Income	2,340	2,464	4,451	4,966
Provision for loan losses	925	365	3,625	675
Net interest income (loss) after provision for loan losses	1,415	2,099	826	4,291
Non-Interest Income:				
Fees for financial services	736	756	1,410	1,507
Other fees, net	31	28	53	50
Other-than-temporary-impairment write-down on securities	(782)	--	(1,091)	--
Net gain on sale of investments	285	66	379	177
Total non-interest income	270	850	751	1,734
Non-Interest Expense:				
Compensation and employee benefits	1,143	1,288	2,335	2,601
Occupancy and equipment	613	636	1,224	1,257
Deposit insurance premiums	273	7	329	15
Professional services	85	104	177	203
Advertising and public relations	27	81	57	143
Loan operations	92	32	179	66
Intangible amortization	76	104	171	208
Items processing	78	66	167	116
Telephone	47	45	100	94
Other	182	187	394	369
Total non-interest expense	2,616	2,550	5,133	5,072
Income (loss) before income taxes	(931)	399	(3,556)	953
Provision (benefit) for income taxes	(364)	83	(1,295)	217
Net income (loss)	(567)	316	(2,261)	736
Accretion of preferred stock to redemption value and preferred dividends accrued	118	--	143	--
Net income (loss) to common shareholders	\$ (685)	\$ 316	\$ (2,404)	\$ 736
Net income (loss) per common share (basic)	\$ (0.32)	\$ 0.18	\$ (1.26)	\$ 0.41
Net income (loss) per common share (diluted)	\$ (0.32)	\$ 0.18	\$ (1.26)	\$ 0.41
Cash dividend per common share	\$ 0.030	\$ 0.115	\$ 0.060	\$ 0.230
Weighted average number of common shares outstanding				
Basic	1,789,844	1,782,395	1,788,873	1,783,436
Diluted	1,789,844	1,783,708	1,788,873	1,794,027

See notes to consolidated financial statements.

PROVIDENT COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended June 30, 2009 and 2008 (unaudited)

	Six Months Ended	
	June 30, 2009	June 30, 2008
	(IN THOUSANDS)	
OPERATING ACTIVITIES:		
Net income (loss)	(\$2,261)	\$736
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,625	675
Amortization of intangibles	171	208
Depreciation expense	261	343
Recognition of deferred income, net of costs	(205)	(265)
Deferral of fee income, net of costs	141	209
Other than temporary impairment charge on AFS securities	1,091	--
Gain on investment transactions	(379)	(177)
Gain on sale of assets acquired from foreclosed loans	(2)	--
Changes in operating assets and liabilities:		
Decrease in accrued interest receivable	168	390
Increase in cash surrender value of life insurance	(200)	(199)
Increase in other assets	(1,455)	(26)
Increase (decrease) in other liabilities	537	(1,069)
Increase (decrease) in accrued interest payable	35	(99)
	<u>1,527</u>	<u>726</u>
Net cash provided by operating activities		
INVESTING ACTIVITIES:		
Purchase of investment and mortgage-backed securities:		
Available for sale	(87,918)	(14,242)
Held to maturity	(1,504)	--
Proceeds from sale of investment and mortgage- backed securities available for sale	20,294	6,821
Proceeds from maturity of investment and mortgage- backed securities:		
Available for sale	21,234	23,813
Held to maturity	250	696
Principal repayments on mortgage-backed securities:		
Available for sale	11,667	4,984
Net (increase) decrease in loans	5,281	(20,592)
Purchase of FHLB/FRB stock	(18)	(81)
Proceeds from sales of foreclosed assets, net of costs and improvements	69	--
Purchase of office properties and equipment	(74)	(254)
	<u>(30,719)</u>	<u>1,145</u>
Net cash (used) provided by investing activities		
FINANCING ACTIVITIES:		
Proceeds from the dividend reinvestment plan	16	61
Proceeds from issuance of preferred stock	9,240	--
Proceeds from issuance of warrants	25	--
Proceeds from redemption of life insurance	645	--
Dividends paid in cash	(107)	(411)
Dividends paid on preferred stock	(80)	--
Proceeds from the exercise of stock options	--	2
Split dollar post retirement liability recapitalization	--	(60)
Share repurchase program	--	(316)
Repayment of term borrowings, net	--	1,661
Decrease in other borrowings	(6,526)	(4,165)
Increase in deposit accounts	28,493	1,786
	<u>31,706</u>	<u>(1,442)</u>
Net cash (used) provided by financing activities		
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,514	429
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>21,370</u>	<u>11,890</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$23,884</u>	<u>\$12,319</u>
SUPPLEMENTAL DISCLOSURES:		
Cash paid for:		
Income taxes	\$510	\$281
Interest	5,995	7,008
Non-cash transactions:		
Loans foreclosed	\$2,891	--

See notes to consolidated financial statements.

PROVIDENT COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
Six Months Ended June 30, 2009 and 2008 (unaudited)

	Preferred Stock		Common Stock		Warrants	Additional Paid-in Capital	Retained Earnings, Substantially Restricted	Accumulated Other Comprehensive Income (loss)	Treasury Stock at Cost	Total Shareholders' Equity
	Shares	Amount	Shares	Amount						
BALANCE AT DECEMBER 31, 2007			1,794,866	\$20		\$12,781	\$20,276	\$191	(\$5,955)	\$27,313
Net income							736			736
Other comprehensive loss, net of tax on unrealized holding losses on securities available for sale arising during period								(837)		(837)
Less reclassification adjustment for gains included in net income								<u>133</u>		<u>133</u>
Comprehensive income										32
Stock option activity, net			1,424			2				2
Dividend reinvestment plan contributions			3,667			61				61
Cumulative effect of change in accounting principal							(60)			(60)
Share repurchase program			(16,920)						(316)	(316)
Cash dividend (\$.23 per share)							(411)			(411)
BALANCE AT JUNE 30, 2008			1,783,037	\$20		\$12,844	\$20,541	(\$513)	(\$6,271)	\$26,621
BALANCE AT DECEMBER 31, 2008			1,787,092	\$20		\$12,903	\$18,997	(\$1,696)	(\$6,300)	\$23,924
Net income (loss)							(2,261)			(2,261)
Other comprehensive loss, net of tax on unrealized holding losses on securities available for sale arising during period								1,221		1,221
Less reclassification adjustment for gains and other than temporary investment charge in net loss								<u>(463)</u>		<u>(463)</u>
Comprehensive loss										(1,503)
Dividend reinvestment plan contributions			3,507			16				16
Issuance of preferred stock	9,266	9,240								9,240
Issuance of common stock warrants					25					25
Accretion of Preferred Stock to redemption value		3					(3)			--
Preferred stock dividend							(79)			(79)
Cash dividend (\$.06 per share)							(107)			(107)
BALANCE AT June 30, 2009	9,266	\$9,243	1,790,599	\$20	\$25	\$12,919	\$16,547	(\$938)	(\$6,300)	\$31,516

(Dollars in Thousands, Except Share Data)

PROVIDENT COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Presentation of Consolidated Financial Statements

The accompanying unaudited consolidated financial statements of Provident Community Bancshares, Inc. (the "Corporation") were prepared in accordance with instructions for Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of consolidated financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments which are, in the opinion of management, necessary for the fair presentation of the interim consolidated financial statements have been included. All such adjustments are of a normal and recurring nature. The results of operations for the six months ended June 30, 2009 are not necessarily indicative of the results which may be expected for the entire calendar year. Certain amounts in the prior year's financial statements have been reclassified to conform to current year classifications. Subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet should be recognized at the balance sheet date. Subsequent events that provide evidence about conditions that arose after the balance sheet date but before financial statements are issued, or are available to be issued, are not required to be recognized. The date through which subsequent events have been evaluated must be disclosed, as well as whether it is the date the financial statements were issued or the date the financial statements were available to be issued.

Recently Issued Accounting Standards

The following is a summary of recent authoritative pronouncements that may affect accounting, reporting, and disclosure of financial information by the Corporation.

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, "The *FASB Accounting Standards Codification*TM and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162," ("SFAS 168"). SFAS 168 establishes the *FASB Accounting Standards Codification*TM ("Codification") as the source of authoritative generally accepted accounting principles ("GAAP") for nongovernmental entities. The Codification does not change GAAP. Instead, it takes the thousands of individual pronouncements that currently comprise GAAP and reorganizes them into approximately 90 accounting Topics, and displays all Topics using a consistent structure. Contents in each Topic are further organized first by Subtopic, then Section and finally Paragraph. The Paragraph level is the only level that contains substantive content. Citing particular content in the Codification involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure. FASB suggests that all citations begin with "FASB ASC," where ASC stands for *Accounting Standards Codification*. SFAS 168, (FASB ASC 105-10-05, 10, 15, 65, 70) is effective for interim and annual periods ending after September 15, 2009 and will not have an impact on the Corporation's financial position but will change the referencing system for accounting standards.

FASB Staff Position ("FSP") Emerging Issues Task Force ("EITF")99-20-1, "Amendments to the Impairment Guidance of EITF Issue No. 99-20," ("FSP EITF 99-20-1") was issued in January 2009. Prior to the FSP, other-than-temporary impairment was determined by using either EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transferor in Securitized Financial Assets," ("EITF 99-20") or SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," ("SFAS 115") depending on the type of security. EITF 99-20 required the use of market participant assumptions regarding future cash flows regarding the probability of collecting all cash flows previously projected. SFAS 115 determined impairment to be other than temporary if it was probable that the holder would be unable to collect all amounts due according to the

contractual terms. To achieve a more consistent determination of other-than-temporary impairment, the FSP amends EITF 99-20 to determine any other-than-temporary impairment based on the guidance in SFAS 115, allowing management to use more judgment in determining any other-than-temporary impairment. The FSP was effective for reporting periods ending after December 15, 2008. Management has reviewed the Corporation's security portfolio and evaluated the portfolio for any other-than-temporary impairments.

On April 9, 2009, the FASB issued three staff positions related to fair value which are discussed below.

FSP SFAS 115-2 and SFAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," ("FSP SFAS 115-2 and SFAS 124-2") categorizes losses on debt securities available-for-sale or held-to-maturity determined by management to be other-than-temporarily impaired into losses due to credit issues and losses related to all other factors. Other-than-temporary impairment (OTTI) exists when it is more likely than not that the security will mature or be sold before its amortized cost basis can be recovered. An OTTI related to credit losses should be recognized through earnings. An OTTI related to other factors should be recognized in other comprehensive income. The FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. Annual disclosures required in SFAS 115 and FSP SFAS 115-1 and SFAS 124-1 are also required for interim periods (including the aging of securities with unrealized losses).

FSP SFAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly" recognizes that quoted prices may not be determinative of fair value when the volume and level of trading activity has significantly decreased. The evaluation of certain factors may necessitate that fair value be determined using a different valuation technique. Fair value should be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction, not a forced liquidation or distressed sale. If a transaction is considered to not be orderly, little, if any, weight should be placed on the transaction price. If there is not sufficient information to conclude as to whether or not the transaction is orderly, the transaction price should be considered when estimating fair value. An entity's intention to hold an asset or liability is not relevant in determining fair value. Quoted prices provided by pricing services may still be used when estimating fair value in accordance with SFAS 157; however, the entity should evaluate whether the quoted prices are based on current information and orderly transactions. Inputs and valuation techniques are required to be disclosed in addition to any changes in valuation techniques.

FSP SFAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" requires disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements and also requires those disclosures in summarized financial information at interim reporting periods. A publicly traded company includes any company whose securities trade in a public market on either a stock exchange or in the over-the-counter market, or any company that is a conduit bond obligor. Additionally, when a company makes a filing with a regulatory agency in preparation for sale of its securities in a public market it is considered a publicly traded company for this purpose.

The three staff positions are effective for periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, in which case all three must be adopted. The Corporation adopted staff positions as of June 30, 2009. The adoption of the staff positions did not have a material impact on the Corporation's financial condition or results of operations.

Also on April 1, 2009, the FASB issued FSP SFAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies." The FSP requires that assets acquired and liabilities assumed in a business combination that arise from a contingency be recognized at fair value. If fair value cannot be determined during the measurement period as determined in SFAS 141 (R), the

asset or liability can still be recognized if it can be determined that it is probable that the asset existed or the liability had been incurred as of the measurement date and if the amount of the asset or liability can be reasonably estimated. If it is not determined to be probable that the asset/liability existed/was incurred or no reasonable amount can be determined, no asset or liability is recognized. The entity should determine a rational basis for subsequently measuring the acquired assets and assumed liabilities. Contingent consideration agreements should be recognized initially at fair value and subsequently reevaluated in accordance with guidance found in paragraph 65 of SFAS 141 (R). The FSP is effective for business combinations with an acquisition date on or after the beginning of the Corporation's first annual reporting period beginning on or after December 15, 2008. The Corporation will assess the impact of the FSP if and when a future acquisition occurs.

The Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 111 on April 9, 2009 to amend Topic 5.M., "Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities" and to supplement FSP SFAS 115-2 and SFAS 124-2. SAB 111 maintains the staff's previous views related to equity securities; however debt securities are excluded from its scope. The SAB provides that "other-than-temporary" impairment is not necessarily the same as "permanent" impairment and unless evidence exists to support a value equal to or greater than the carrying value of the equity security investment, a write-down to fair value should be recorded and accounted for as a realized loss. The SAB was effective upon issuance.

SFAS 165 (FASB ASC 855-10-05, 15, 25, 45, 50, 55), "Subsequent Events," ("SFAS 165") was issued in May 2009 and provides guidance on when a subsequent event should be recognized in the financial statements. Subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet should be recognized at the balance sheet date. Subsequent events that provide evidence about conditions that arose after the balance sheet date but before financial statements are issued, or are available to be issued, are not required to be recognized. The date through which subsequent events have been evaluated must be disclosed, as well as whether it is the date the financial statements were issued or the date the financial statements were available to be issued. For nonrecognized subsequent events which should be disclosed to keep the financial statements from being misleading, the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made, should be disclosed. The standard is effective for interim or annual periods ending after June 15, 2009.

The FASB issued SFAS 166 (not yet reflected in FASB ASC), "Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140," ("SFAS 166") in June 2009. SFAS 166 limits the circumstances in which a financial asset should be derecognized when the transferor has not transferred the entire financial asset by taking into consideration the transferor's continuing involvement. The standard requires that a transferor recognize and initially measure at fair value all assets obtained (including a transferor's beneficial interest) and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. The concept of a qualifying special-purpose entity is removed from SFAS 140 along with the exception from applying FIN 46(R). The standard is effective for the first annual reporting period that begins after November 15, 2009, for interim periods within the first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Corporation does not expect the standard to have any impact on the Corporation's financial position.

SFAS 167 (not yet reflected in FASB ASC), "Amendments to FASB Interpretation No. 46(R)," ("SFAS 167") was also issued in June 2009. The standard amends FIN 46(R) to require a company to analyze whether its interest in a variable interest entity ("VIE") gives it a controlling financial interest. A company must assess whether it has an implicit financial responsibility to ensure that the VIE operates as designed when determining whether it has the power to direct the activities of the VIE that significantly impact its economic performance. Ongoing reassessments of whether a company is the primary beneficiary is also required by the standard. SFAS 167 amends the criteria to qualify as a primary beneficiary as well as how to determine the

determine the existence of a VIE. The standard also eliminates certain exceptions that were available under FIN 46(R). SFAS 167 is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. Comparative disclosures will be required for periods after the effective date. The Corporation does not expect the standard to have any impact on the Corporation's financial position.

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 Corporation's financial position, results of operations or cash flows.

2. Income (Loss) Per Share

Basic income (loss) per common share amounts for the three and six months ended June 30, 2009 and 2008 were computed based on the weighted average number of common shares outstanding during the period. Diluted income (loss) per share adjusts for the dilutive effect of outstanding common stock options during the periods utilizing the treasury stock method. Common stock equivalents included in the diluted earnings (loss) per share calculation for the six months ended June 30, 2009 and 2008 were 0 and 10,591, respectively. Anti-dilutive common stock equivalents that were excluded in the diluted earnings per share calculation for the six months ended June 30, 2009 and 2008 were 94,113 and 85,157 respectively.

3. Assets Pledged

Approximately \$92,323,000 and \$80,590,000 of debt securities at June 30, 2009 and December 31, 2008, respectively, were pledged by Provident Community Bank, N.A. (the "Bank") as collateral to secure deposits of the State of South Carolina, and Union, Laurens and York counties along with additional borrowings and repurchase agreements. The Bank pledges as collateral for Federal Home Loan Bank advances commercial and residential real estate mortgage loans under a collateral agreement with the Federal Home Loan Bank whereby the Bank maintains, free of other encumbrances, qualifying mortgages (as defined) with unpaid principal balances equal to, when discounted at 75% of the unpaid principal balances, 100% of total advances. As part of the total assets pledged, the Bank will also pledge securities to cover additional advances from the Federal Home Loan Bank that exceed the qualifying mortgages balance along with security repurchase lines with various brokerage houses.

4. Fixed/Floating Rate Junior Subordinated Deferrable Interest Debentures

On July 18, 2006, the Corporation sponsored the creation of Provident Community Bancshares Capital Trust I ("Capital Trust I"). The Corporation is the owner of all of the common securities of Capital Trust I. On July 21, 2006, Capital Trust I issued \$4,000,000 in the form of fixed/floating rate capital securities through a pooled trust preferred securities offering. The proceeds from this issuance, along with the Corporation's \$124,000 capital contribution for Capital Trust I's common securities, were used to acquire \$4,124,000 aggregate principal amount of the Corporation's floating rate junior subordinated deferrable interest debentures due October 1, 2036, which constitute the sole asset of Capital Trust I. The interest rate on the debentures and the capital securities will be equal to 7.393% for the first five years. Thereafter, the interest rate is variable and adjustable quarterly at 1.74% over the three-month LIBOR. The debentures are subject to redemption at par at the option of the Corporation, subject to prior regulatory approval, in whole or in part on any interest payment date after October 1, 2011. The debentures are also subject to redemption prior to October 1, 2011 at up to 103.7% of par after the occurrence of certain events.

On November 28, 2006, the Corporation sponsored the creation of Provident Community Bancshares Capital Trust ("Capital Trust II"). The Corporation is the owner of all of the common securities of the Trust. On

December 15, 2006, the Trust issued \$8,000,000 in the form of floating rate capital securities through a pooled trust preferred securities offering. The proceeds of Capital Trust II were utilized for the redemption of Union Financial Bancshares Statutory Trust issued on December 18, 2001. The proceeds from this issuance, along with the Corporation's \$248,000 capital contribution for the Trust's common securities, were used to acquire \$8,247,000 aggregate principal amount of the Corporation's floating rate junior subordinated deferrable interest debentures due March 1, 2037, which constitute the sole asset of the Capital Trust II. The interest rate on the debentures and the capital securities is variable and adjustable quarterly at 1.74% over the three-month LIBOR. The debentures are subject to redemption at par at the option of the Corporation, subject to prior regulatory approval, in whole or in part on any interest payment date after March 1, 2012. The debentures are also subject to redemption prior to March 1, 2012 at 103.5% of par after the occurrence of certain events.

A summary of the Subordinated Deferrable Interest Debentures issued and outstanding follows:

Name	Amount Outstanding at June 30,		Rate	Prepayment Option Date	Maturity	Distribution Payment Frequency
	2009	2008				
Provident Community Bancshares Capital Trust I	4,000,000	4,000,000	7.39%	October 1, 2011	October 1, 2036	Quarterly
Provident Community Bancshares Capital Trust II	<u>8,000,000</u>	<u>8,000,000</u>	2.41%	March 1, 2012	March 1, 2037	Quarterly
Total	<u>\$12,000,000</u>	<u>\$12,000,000</u>				

5. Contingencies and loan commitments

In the ordinary course of business, the Bank enters into financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These instruments expose the Bank to credit risk in excess of the amount recognized on the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Total credit exposure at June 30, 2009 related to these items is summarized below:

<u>Loan Commitments:</u>	<u>Contract Amount</u>
Approved loan commitments	\$ 1,076,000
Commitments of fund commercial and construction loans	207,000
Unused portions of loans and credit lines	<u>41,036,000</u>
Total loan commitments	<u>\$ 42,319,000</u>

Loan commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Loan commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the counter party. Collateral held is primarily residential and commercial property. Commitments outstanding at June 30, 2009 consisted of fixed and adjustable rate loans at rates ranging from 5.5% to 7.5%. Commitments to originate loans generally expire within 30 to 60 days.

Commitments to fund loans, including credit lines (principally variable rate, consumer lines secured by real estate and overdraft protection) totaled approximately \$42,319,000 at June 30, 2009. Of these lines, the outstanding loan balances totaled approximately \$72,755,000.

6. Fair Value of Financial Instruments

The Corporation utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Effective January 1, 2008, the Corporation adopted SFAS No. 157, "Fair Value Measurements" ("SFAS 157") which provides a framework for measuring and disclosing fair value under generally accepted accounting principles. SFAS 157 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

Fair Value Hierarchy

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Valuation is based upon quoted prices in active markets for identical assets or liabilities.
- Level 2** Valuation is based upon quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Valuation is based upon quoted prices for similar assets or liabilities; quoted prices in markets that are not active; and model-based techniques whose value is determined using pricing models, discounted cash flow methodologies and similar techniques.

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

Investment Securities Available-for-Sale

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 and U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 may include asset-backed securities in less liquid markets.

Loans

The Corporation is predominantly an asset based lender with real estate serving as collateral on a substantial majority of loans. The Corporation does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and the related impairment is charged against the allowance or a specific allowance 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. Loans which are deemed to be impaired are primarily valued at the fair values of the underlying real estate collateral. Such fair values are obtained using collateral net liquidation value, market value of similar debt, enterprise value, and discounted cash flows. Those impaired loans not requiring a specific allowance represent loans for which the fair value of the expected repayment or collateral meet or exceed the recorded investment in such loans. The Corporation considers all non-accrual loans to be impaired. Therefore, at June 30, 2009, loans classified as impaired under FASB 114 totaled \$21.0 million and carried a specific reserve of \$4.5 million. At June 30, 2009 total impaired loans that did not carry a specific reserve were \$7.2 million. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is not observable market price, the Corporation records the impaired loans as nonrecurring Level 3.

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 based on an observable market price or a current appraised value, the Corporation records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is not observable market price, the Corporation records the OREO as nonrecurring Level 3.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets are subject to impairment testing. Goodwill and other intangible assets measured at fair value on a nonrecurring basis relate to intangible assets (deposit premium intangible) that were acquired in connection with acquisitions and were valued at their fair market values at the time of acquisition. As such, the Corporation classifies goodwill and other intangible assets subjected to nonrecurring value adjustments as Level 3.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis at June 30, 2009 are as follows:

	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Available for Sale Securities	\$134,937,000	\$32,938,000	\$97,144,000	\$4,855,000

Assets and liabilities measured at fair value on a recurring basis at December 31, 2008 are as follows:

	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Available for Sale Securities	\$100,418,000	\$28,236,000	\$67,337,000	\$4,845,000

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period ended June 30, 2009.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
	Investment Securities Available-for-Sale
Beginning balance at December 31, 2008	\$4,845,000
Transfers in and/or out of Level 3	<u>10,000</u>
Ending balance at June 30, 2009	<u>\$4,855,000</u>

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Corporation may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period.

Assets measured at fair value on a nonrecurring basis at June 30, 2009 are as follows:

	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Loans	\$20,999,000	\$--	\$--	\$20,999,000
Other real estate owned	3,622,000	--	--	3,622,000
Goodwill and intangible assets	<u>2,674,000</u>	<u>--</u>	<u>--</u>	<u>2,674,000</u>
Total assets at fair value	<u>\$27,295,000</u>	<u>\$--</u>	<u>\$--</u>	<u>\$27,295,000</u>

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2008 are as follows:

	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Loans	\$16,001,000	\$--	\$--	\$16,001,000
Other real estate owned	667,000	--	--	667,000
Goodwill and intangible assets	<u>2,845,000</u>	<u>--</u>	<u>--</u>	<u>2,845,000</u>
Total assets at fair value	<u>\$19,513,000</u>	<u>\$--</u>	<u>\$--</u>	<u>\$19,513,000</u>

The estimated fair values of the Corporation's financial instruments were as follows at June 30, 2009 (in thousands):

	June 30, 2009	
	Carrying Amount	Fair Value
<u>Financial assets</u>		
Cash and due from banks	\$23,884	\$23,884
Securities available for sale.....	134,937	134,937
Securities held to maturity	3,934	3,755
Federal Home Loan Bank stock, at cost.....	3,947	3,947
Federal Reserve Bank stock, at cost.....	599	599
Loans, net.....	266,801	272,901
Accrued interest receivable	1,919	1,919
Cash surrender value of life insurance	9,132	9,132
<u>Financial liabilities</u>		
Deposits.....	\$335,314	\$339,300
Advances from FHLB and other borrowings.....	64,500	64,835
Securities sold under agreement to repurchase	17,479	17,645
Floating rate junior subordinated deferrable interest debentures ..	12,372	12,037
Accrued interest payable	736	736
<u>Off-balance-sheet assets (liabilities)</u>		
Commitments to extend credit	(\$42,319)	(\$42,319)

The estimated fair values of the Corporation's financial instruments were as follows at December 31, 2008 (in thousands):

	December 31, 2008	
	Carrying Amount	Fair Value
<u>Financial assets</u>		
Cash and due from banks	\$21,370	\$21,370
Securities available for sale.....	100,418	100,418
Securities held to maturity	2,430	2,310
Federal Home Loan Bank stock, at cost.....	3,929	3,929
Federal Reserve Bank stock, at cost.....	599	599
Loans, net.....	278,665	286,004
Accrued interest receivable	2,087	2,087
Cash surrender value of life insurance	9,577	9,577
<u>Financial liabilities</u>		
Deposits.....	\$306,821	\$315,542
Advances from FHLB and other borrowings.....	69,500	70,394
Securities sold under agreement to repurchase	19,005	19,232
Floating rate junior subordinated deferrable interest debentures ..	12,372	11,636
Accrued interest payable	701	701
<u>Off-balance-sheet assets (liabilities)</u>		
Commitments to extend credit	(\$55,845)	(\$55,845)

7. Preferred Stock

On March 13, 2009, as part of the United States Department of the Treasury's Capital Purchase Program, the Corporation issued 9,266 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, \$1,000 per share liquidation preference, and a warrant to purchase up to 178,880 shares of the Corporation's common stock for a period of ten years at an exercise price of \$7.77 per share in exchange for \$9,266,000 in cash from the United States Department of the Treasury. The proceeds, net of issuance costs consisting primarily of legal fees, were allocated between the preferred stock and the warrant on a pro rata basis, based upon the

estimated market values of the preferred stock and the warrant. As a result, \$25,000 of the proceeds were allocated to the warrant, which increased additional paid-in-capital from common stock. The amount allocated to the warrant is considered a discount on the preferred stock and will be amortized using the level yield method over a five-year period through a charge to retained earnings. Such amortization will not reduce net income, but will reduce income available for common shares.

The preferred stock pays cumulative dividends of 5% per year for the first five years and 9% per year thereafter. The Corporation may redeem the preferred stock at its liquidation preference plus accrued and unpaid dividends at any time with the prior regulatory approval. The securities purchase agreement between the Corporation and the United States Department of the Treasury limits, for three years, the rate of dividend payments on the Corporation's common stock to the amount of its last quarterly cash dividend before participation in the program of \$0.03 per share unless an increase is approved by the Department of the Treasury, limits the Corporation's ability to repurchase its common stock for three years and subjects the Corporation to certain executive compensation limitations included in the Emergency Economic Stabilization Act of 2008, as amended by the American Recovery and Reinvestment Act of 2009.

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

Critical Accounting Policies

The Corporation has adopted various accounting policies which govern the application of accounting principles generally accepted in the United States of America in the preparation of financial statements.

Certain accounting policies involve significant judgments and assumptions by management. Management considers such accounting policies to be critical accounting policies. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made by management, actual results could differ from these judgments and estimates which could have a material impact on the carrying values of assets and liabilities and the results of operations of the Corporation.

The Corporation believes the allowance for loan losses is a critical accounting policy that requires significant judgments and estimates used in the preparation of consolidated financial statements. Management reviews the level of the allowance on a monthly basis and establishes the provision for loan losses based on the composition and size of the loan portfolio, overall portfolio quality, delinquency and charge-off levels, a review of specific problem loans, loss experience, economic conditions, and other factors related to the collectibility of the loan portfolio. A portion of the allowance is established by segregating the loans by residential mortgage, commercial and consumer and assigning allocation percentages based on historical loss experience and delinquency trends. The applied allocation percentages are reevaluated at least annually to ensure their relevance in the current economic environment. Accordingly, increases in the size of the loan portfolio and the increased emphasis on commercial real estate and commercial business loans, which carry a higher degree of risk of default and, thus, a higher allocation percentage, increases the allowance. Additionally, a portion of the allowance is established based on the level of classified assets.

Although the Corporation believes that it uses the best information available to establish the allowance for loan losses, future additions to the allowance may be necessary based on estimates that are susceptible to change as a result of changes in economic conditions and other factors. In addition, the Office of the Comptroller of the Currency, as an integral part of its examination process, will periodically review the

Corporation's allowance for loan losses. Such agency may require the Corporation to recognize adjustments to the allowance based on its judgments about information available to it at the time of its examination.

Forward Looking Statements

Management's discussion and analysis of financial condition and results of operations and other portions of this Form 10-Q may contain certain "forward-looking statements" concerning the future operations of the Corporation and the Bank. These forward-looking statements are generally identified by the use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions. Management intends to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this statement for the express purpose of availing the Corporation of the protections of such safe harbor with respect to all forward-looking statements contained in this report. Management's ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors which could effect actual results include interest rate trends, the general economic climate in the Corporation's and the Bank's market area and the country as a whole, the ability of the Corporation and the Bank to control costs and expenses, competitive products and pricing, loan delinquency rates, the quality and composition of the loan and investment portfolios, changes in accounting principles and guidelines and changes in federal and state laws and regulations. The Corporation provides greater detail regarding some of these factors in its Form 10-K for the year ended December 31, 2008, including in the Risk Factors section of that report, and in its other SEC reports. These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements.

Except as required by applicable law or regulation, the Corporation does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward looking statements to reflect events or circumstances after the date of these statements or to reflect the occurrence of anticipated or unanticipated events.

Financial Condition

Assets

Total assets of the Corporation increased \$30,130,000, or 6.9%, to \$464,348,000 at June 30, 2009 from \$434,218,000 at December 31, 2008. Investments and mortgage-backed securities increased \$36,023,000, or 35.0%, from December 31, 2008 to June 30, 2009 due to the purchase of agency mortgage-backed securities that were funded primarily with deposit growth. Net loans decreased \$11,864,000 from December 31, 2008 to June 30, 2009, due primarily to a significant reduction in loan demand as a result of economic conditions currently present in South Carolina.

Investment and Mortgage-backed Securities

An other than temporary investment charge of \$1,091,000 was recorded for the period ended June 30, 2009 that was related to investment securities. The other than temporary impairment charge was due to write-downs recorded on trust preferred securities as a result of projected shortfalls of interest and principal payments in the cash flow analysis of the securities.

Held to Maturity-Securities classified as held to maturity consisted of the following (in thousands):

	<u>June 30, 2009</u>		<u>December 31, 2008</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Municipal Securities	<u>\$3,934</u>	<u>\$3,755</u>	<u>\$2,430</u>	<u>\$2,310</u>

Available for Sale-Securities classified as available for sale consisted of the following (in thousands):

	<u>June 30, 2009</u>		<u>December 31, 2008</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Investment Securities:				
U.S. Agency Obligations	\$ 5	\$ 5	\$ 6	\$ 6
Government Sponsored Enterprises	32,586	32,933	27,901	28,230
Municipal Securities	5,782	6,009	6,135	6,358
Trust Preferred Securities	<u>11,218</u>	<u>7,632</u>	<u>12,325</u>	<u>8,392</u>
Total Investment Securities	<u>49,591</u>	<u>46,579</u>	<u>46,367</u>	<u>42,986</u>
Mortgage-backed Securities:				
Fannie Mae	44,163	44,984	31,989	32,385
Ginnie Mae	33,968	34,596	21,311	21,878
Freddie Mac	7,972	8,204	2,551	2,574
Collateralized Mortgage Obligations	<u>686</u>	<u>574</u>	<u>809</u>	<u>595</u>
Total Mortgage-backed Securities	<u>86,789</u>	<u>88,358</u>	<u>56,660</u>	<u>57,432</u>
Total Available for Sale	<u>\$136,380</u>	<u>\$134,937</u>	<u>\$103,027</u>	<u>\$100,418</u>

Loans

Loans decreased to \$266,801,000 at June 30, 2009 compared to \$278,665,000 at December 31, 2008. The Corporation had loan originations of \$18.3 million for the period ended June 30, 2009 that were offset by loan amortization and payoffs. The Corporation continues to focus on growth of higher yielding consumer loans and specific commercial lending products that minimizes concentration risk to the loan portfolio. However, higher lending standards and lower customer demand has contributed to the reduction in the loan portfolio thus far for 2009.

Loans receivable consisted of the following (in thousands):

	<u>June 30,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
Mortgage loans:		
Fixed-rate residential	\$11,479	\$12,847
Adjustable-rate residential	6,621	7,388
Commercial real estate	114,234	110,589
Construction	<u>3,222</u>	<u>5,867</u>
Total mortgage loans	<u>135,556</u>	<u>136,691</u>
Commercial loans:		
Commercial non-real estate	30,784	27,946
Commercial lines of credit	<u>54,986</u>	<u>66,066</u>
Total commercial loans	<u>85,770</u>	<u>94,012</u>
Consumer loans:		
Home equity	17,461	17,371
Consumer and installment	35,988	39,301
Consumer lines of credit	<u>308</u>	<u>330</u>
Total consumer loans	<u>53,757</u>	<u>57,002</u>
Total loans	<u>275,083</u>	<u>287,705</u>
Less:		
Undisbursed portion of interim construction loans	(207)	(1,926)
Unamortized loan discount	(346)	(383)
Allowance for loan losses	(7,842)	(6,778)
Net deferred loan origination costs	<u>113</u>	<u>47</u>
Total, net	<u>\$266,801</u>	<u>\$278,665</u>
Weighted-average interest rate of loans	5.14%	5.47%

Real estate acquired through foreclosure increased \$2,955,000, to \$3,622,000 at June 30, 2009 from \$667,000 at December 31, 2008, as a result of foreclosure on commercial real estate properties. All foreclosed properties are reappraised and recorded at the lower of cost or fair market value.

Other Assets

Cash surrender value of life insurance decreased \$445,000, or 4.6%, to \$9,132,000 at June 30, 2009 from \$9,577,000 at December 31, 2008, due primarily to the redemption of certain life insurance policies on former employees and to reduce carrier exposure.

Other assets increased \$1,455,000, or 25.1%, to \$7,249,000 at June 30, 2009 from \$5,794,000 at December 31, 2008, due primarily to an increase in a net deferred tax receivable that was related to the mark-to-market adjustment for investments available for sale.

Liabilities

Total liabilities increased \$22,538,000 to \$432,832,000 at June 30, 2009 from \$410,294,000 at December 31, 2008. Deposits increased \$28,493,000, or 9.39%, to \$335,314,000 at June 30, 2009 from \$306,821,000 at December 31, 2008. The overall growth includes a \$25,289,000 increase in transaction accounts as a result of a special product promotion, while certificate accounts increased \$3,204,000. The Corporation continues to target lower-cost demand deposit accounts through media advertising and special product promotions.

Deposit accounts were as follows (in thousands):

<u>Account Type</u>	<u>June 30, 2009</u>			<u>December 31, 2008</u>		
	<u>Rate</u>	<u>Balance</u>	<u>%</u>	<u>Rate</u>	<u>Balance</u>	<u>%</u>
NOW accounts:						
Commercial non-interest-bearing	--	\$18,320	5.46%	--	\$17,002	5.54%
Non-commercial	2.29%	83,281	24.84%	2.06%	68,033	22.18%
Money market checking accounts	1.55%	29,937	8.93%	2.17%	22,313	7.27%
Regular savings	0.50%	<u>13,506</u>	<u>4.03%</u>	0.57%	<u>12,407</u>	<u>4.04%</u>
Total demand and savings deposits	1.68%	<u>145,044</u>	<u>43.26%</u>	1.92%	<u>119,755</u>	<u>39.03%</u>
Time deposits:						
Up to 3.00%		79,981	23.85%		41,720	13.60%
3.01 %- 4.00%		64,389	19.20%		79,176	25.80%
4.01 %- 5.00%		44,788	13.36%		58,962	19.22%
5.01 %- 6.00%		1,084	0.32%		7,180	2.34%
6.01 %- 7.00%		<u>28</u>	<u>0.01%</u>		<u>28</u>	<u>0.01%</u>
Total time deposits	3.12%	<u>190,270</u>	<u>56.74%</u>	3.56%	<u>187,066</u>	<u>60.97%</u>
Total deposit accounts	2.50%	<u>\$335,314</u>	<u>100.00%</u>	2.91%	<u>\$306,821</u>	<u>100.00%</u>

FHLB advances decreased \$5,000,000 to \$64,500,000 at June 30, 2009 from \$69,500,000 at December 31, 2008. The maturity of the advances from the FHLB is as follows (in thousands):

	<u>June 30, 2009</u>		<u>December 31, 2008</u>	
	<u>Balance</u>	<u>Wtd Avg Rate</u>	<u>Balance</u>	<u>Wtd Avg Rate</u>
Contractual Maturity:				
Within one year - fixed rate	\$5,000	4.93%	\$5,000	2.93%
After one but within three years - fixed rate	--	--%	5,000	4.93%
After one but within three years - adjustable rate	22,000	4.58%	22,000	4.58%
Greater than five years - adjustable rate	<u>37,500</u>	3.89%	<u>37,500</u>	3.89%
Total advances	<u>\$64,500</u>	4.20%	<u>\$69,500</u>	4.11%

The Bank pledges as collateral for the advances its investment securities and has entered into a blanket collateral agreement with the FHLB whereby the Bank maintains, free of other encumbrances, qualifying loans with unpaid principal balances equal to, when discounted at 50% to 75% of the unpaid principal balances, 100% of total advances.

Shareholders' Equity

On March 13, 2009, the Corporation sold \$9,266,000 in preferred shares and warrants to purchase 178,880 shares of common stock, \$0.01 par value, at an exercise price of \$7.77 per share to the United States

Department of Treasury pursuant to the federal government's Troubled Asset Relief Program Capital Purchase Program. Shareholders' equity increased \$7,592,000, or 31.7%, to \$31,516,000 at June 30, 2009 from \$23,924,000 at December 31, 2008 due primarily to the share issuance of \$9,266,000 and a \$758,000 decrease in unrealized losses on securities available for sale, offset by common stock dividend payments of \$0.06 per share at a cost of \$107,000, preferred stock dividend payments of \$79,000 and a net loss of \$2,261,000. At June 30, 2009, all of the Bank's capital ratios continued to be sufficient to classify it as a well-capitalized institution by regulatory measures.

Liquidity

Liquidity is the ability to meet demand for loan disbursements, deposit withdrawals, repayment of debt, payment of interest on deposits and other operating expenses. The primary sources of liquidity are deposits, loan repayments, borrowings, maturity and sale of securities and interest payments.

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit outflows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. The primary investing activities of the Corporation are the origination of commercial and consumer loans, and the purchase of investment and mortgage-backed securities. These activities are funded primarily by principal and interest payments on loans and investment securities, deposit growth, securities sold under agreements to repurchase and FHLB advances.

At June 30, 2009, the Corporation's investment in marketable securities totaled \$138,871,000, nearly all of which was available for sale. Approximately \$92,323,000 and \$80,590,000 of debt securities at June 30, 2009 and December 31, 2008, respectively, were pledged by the Bank as collateral to secure deposits of the State of South Carolina, and Union, Laurens and York counties along with additional borrowings and repurchase agreements.

Outstanding loan commitments (including commitments to fund credit lines) totaled \$42,319,000 at June 30, 2009. Management of the Corporation anticipates that it will have sufficient funds available to meet its current loan commitments.

The Corporation closely monitors its liquidity position on a daily basis. Time deposits that are scheduled to mature in one year or less from June 30, 2009, totaled \$143,373,000. The Corporation relies primarily on competitive rates, customer service, and long-standing relationships with customers to retain deposits. From time to time, the Corporation will also offer special products to its customers to increase retention and to attract new deposits. Based upon the Corporation's experience with deposit retention and current retention strategies, management believes that, although it is not possible to predict future terms and conditions upon renewal, a significant portion of such deposits will remain with the Corporation. If the Corporation requires funds beyond its ability to generate them internally, additional sources of funds are available through FHLB advances, securities sold under agreements to repurchase and lines of credit. At June 30, 2009, the Corporation had outstanding \$64,500,000 of FHLB borrowings and \$17,479,000 of securities sold under agreements to repurchase. At June 30, 2009, the Corporation had unused short-term lines of credit to purchase federal funds from unrelated banks totaling \$4,000,000 and the ability to borrow an additional \$50,000,000 from secured borrowing lines. Lines of credit are available on a one-to-ten day basis for general purposes of the Corporation. All of the lenders have reserved the right to withdraw these lines at their option.

Capital Management

The Bank and the Corporation are subject to various regulatory capital requirements administered by banking regulators. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Corporation's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt

corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weights and other factors.

Quantitative measures established by regulations to ensure capital adequacy require the Bank and the Corporation to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets (as defined in the regulations). Management believes, as of June 30, 2009, that the Bank and the Corporation met the capital adequacy requirements to which they are subject.

As of June 30, 2009, the Bank was "well capitalized" under the regulatory framework for prompt corrective action based on its capital ratio calculations. In order to be "well capitalized", the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table.

Under present regulations of the Office of the Comptroller of the Currency, the Bank must have core capital (leverage requirement) equal to 4.0% of assets, of which 1.5% must be tangible capital, excluding intangible assets. The Bank must also maintain risk-based regulatory capital as a percent of risk weighted assets at least equal to 8.0%. In measuring compliance with capital standards, certain adjustments must be made to capital and total assets.

The following tables present the total risk-based, Tier 1 risk-based and Tier 1 leverage requirements for the Corporation and the Bank (dollars in thousands).

June 30, 2009

	<u>Actual</u>		<u>Regulatory Minimum</u>		<u>"Well Capitalized"</u>	
	Amount \$	Ratio %	Amount \$	Ratio %	Amount \$	Ratio %
Leverage ratio						
Corporation	40,598	8.82%	18,416	4.00%	n/a	n/a
Bank	39,712	8.63%	18,412	4.00%	23,015	5.00%
Tier 1 capital ratio						
Corporation	40,598	13.13%	12,369	4.00%	n/a	n/a
Bank	39,712	12.86%	12,354	4.00%	18,531	6.00%
Total risk-based capital ratio						
Corporation	45,690	14.78%	24,737	8.00%	n/a	n/a
Bank	43,622	14.12%	24,708	8.00%	30,885	10.00%

Off-Balance Sheet Risk

In the normal course of operations, the Corporation engages in a variety of financial transactions that, in accordance with generally accepted accounting principles are not recorded in its financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of legally binding agreements to lend money to customers at predetermined interest rates for a specified period of time. Outstanding loan commitments (including commitments to fund credit lines) totaled \$42,319,000 at June 30, 2009. Each customer's credit worthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on the credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, property, plant and equipment, commercial and residential real estate. The credit risk on these commitments is managed by subjecting each customer to normal underwriting and risk management processes. For the period ended June 30, 2009, the Corporation did not engage in any off-balance sheet transactions reasonably likely to have a material effect on its financial condition, results of operation or cash flows.

Results of operations for the three months ended June 30, 2009 and 2008

General

The Corporation recorded a net loss of \$567,000 for the three months ended June 30, 2009 as compared to net income of \$316,000 for the same period in 2008. An increase in the provision loan losses to \$925,000 for the three months ended June 30, 2009 compared to \$365,000 for the three months ended June 30, 2008, an other-than-temporary impairment charge of \$782,000 on trust preferred securities and the FDIC special assessment all had a negative impact on earnings in 2009. In addition, the operating results were impacted by a compression of the net interest margin caused by declining interest rates and a decrease in non-interest income due to the write-down of investment securities.

Average Yields and Rates
(dollars in thousands)

	<u>Three Months Ended June 30,</u>					
	<u>2009</u>			<u>2008</u>		
	<u>Average Balance</u>	<u>Interest</u>	<u>Average Yield/Cost</u>	<u>Average Balance</u>	<u>Interest</u>	<u>Average Yield/Cost</u>
Interest-earning assets:						
Loans (1)	\$281,347	\$3,644	5.18%	\$276,355	\$4,378	6.34%
Mortgage-backed securities	91,130	1,137	4.99%	52,041	687	5.28%
Investment securities	44,648	543	4.87%	40,655	562	5.53%
Other interest-earning assets	<u>15,776</u>	<u>20</u>	<u>0.49%</u>	<u>5,658</u>	<u>73</u>	<u>5.18%</u>
Total interest-earning assets	432,901	<u>5,344</u>	<u>4.94%</u>	374,709	<u>5,700</u>	<u>6.08%</u>
Non-interest-earning assets	<u>30,172</u>			<u>32,608</u>		
Total assets	<u>\$463,073</u>			<u>\$407,317</u>		
Interest-bearing liabilities:						
Deposits	314,075	2,111	2.69%	255,630	2,218	3.47%
Floating rate junior subordinated deferrable interest debentures	12,372	135	4.36%	12,372	175	5.65%
FHLB advances and other borrowings	<u>83,105</u>	<u>758</u>	<u>3.65%</u>	<u>91,084</u>	<u>843</u>	<u>3.70%</u>
Total interest-bearing liabilities	409,552	<u>3,004</u>	<u>2.93%</u>	359,086	<u>3,236</u>	<u>3.60%</u>
Non-interest-bearing sources:						
Non-interest-bearing deposits	18,278			17,773		
Non-interest-bearing liabilities	<u>3,530</u>			<u>3,838</u>		
Total liabilities	431,360			380,697		
Shareholders' equity	<u>31,713</u>			<u>26,620</u>		
Total liabilities and shareholders' equity	<u>\$463,073</u>			<u>\$407,317</u>		
Net interest income		<u>\$2,340</u>			<u>\$2,464</u>	
Interest rate spread			2.01%			2.48%
Impact of non-interest-bearing deposits			<u>0.15</u>			<u>0.15</u>
Net interest margin			2.16%			<u>2.63%</u>

(1) Average balances of loans include non-accrual loans.

Interest Income

Interest income decreased \$356,000, or 6.2%, to \$5,344,000 for the three months ended June 30, 2009 as compared to the same period in 2008. Interest income on loans decreased by 16.77%, or \$734,000, to \$3,644,000 for the three months ended June 30, 2009 from \$4,378,000 for the three months ended June 30, 2008, due to declining market interest rates, offset by a higher average balance of loans. Interest on deposits and federal funds sold, combined with interest and dividends on investment and mortgage-backed securities increased \$378,000 for the three months ended June 30, 2009 to \$1,700,000 from \$1,322,000 during the same period in 2008 due to higher average balances, partially offset by lower investment yields due to declining market interest rates.

Interest Expense

Interest expense decreased \$232,000, or 7.2%, to \$3,004,000 for the three months ended June 30, 2009 as compared to \$3,236,000 for the three months ended June 30, 2008. Interest expense on deposit accounts decreased \$107,000, or 4.8%, to \$2,111,000 for the three months ended June 30, 2009 from \$2,218,000 during the same period in 2008 due primarily to lower market interest rates and a shift in the composition of the deposit portfolio from certificates of deposits to transaction accounts, offset by higher average balances. The Corporation continues to target lower cost demand deposit accounts versus higher cost certificates of deposits in order to reduce overall funding costs. Interest expense on borrowings decreased \$85,000, or 10.1%, for the three months ended June 30, 2009 as compared to the same period in the previous year due to lower market interest rates and lower average balances. Interest expense on floating rate junior subordinated deferrable interest debentures decreased \$40,000, or 22.9%, to \$135,000 for the three months ended June 30, 2009 from \$175,000 during the same period in 2008 due to lower market rates.

Provision for Loan Losses

During the three months ended June 30, 2009, the provision for loan losses was \$925,000 as compared to \$365,000 for the same period in the previous year due to an increase in nonperforming loans and loans charged-off. During the three months ended June 30, 2009, bad debt charge-offs, net of recoveries, were \$1,276,000 as compared to \$56,000 for the same period in the previous year. The increase in bad debt charge-offs over the previous year relates to additional write-downs required for two commercial loans during the three months ended June 30, 2009. Nonperforming assets increased \$18,740,000 from \$5,881,000 at June 30, 2008 to \$24,621,000 at June 30, 2009. The increase in nonperforming loans over the previous year related primarily to commercial real estate relationships that have been affected by the downturn in the residential housing market. Slow housing conditions have affected these borrowers' ability to sell the completed projects in a timely manner. Specific reserves for nonperforming loans at June 30, 2009 were \$4,450,000 compared to \$967,000 for nonperforming loans at June 30, 2008. Management believes the specific reserves allocated to these and other non accrual loans will offset losses, if any, arising from less than full recovery of the loans from the supporting collateral. Management has sought to provide the amount estimated to be necessary to maintain an allowance for loan losses that is adequate to cover the level of loss that management believed to be inherent in the portfolio as a whole, taking into account the Corporation's experience, economic conditions and information about borrowers available at the time of the analysis. However, management expects further deterioration of economic conditions in the Corporation's market areas is likely in the short-term, especially with respect to real estate related activities and real property values. Consequently, management expects that further additions in provisions for loan losses could be needed in the future.

Non-Interest Income

Total non-interest income decreased \$580,000, or 68.2%, to \$270,000 for the three months ended June 30, 2009 from \$850,000 for the same period in the previous year. The decrease was due primarily to an other-than-temporary impairment charge of \$782,000 from write-downs recorded on trust preferred securities as a result of projected shortfalls of interest and principal payments in the cash flow analysis of the securities. Fees from financial services decreased \$20,000, or 2.6%, to \$736,000 for the three months ended June 30, 2009 from \$756,000 for the same period in the previous year. The decrease was due to lower loan fees from a reduction in loan volumes along with lower fees generated from third party investment brokerage and financing receivables programs as a result of lower product volumes. Gain on sale of investments were \$285,000 for the three months ended June 30, 2009 compared to \$66,000 for the same period in the previous year as the Corporation sold investment securities in order to improve yield spreads and to fund growth in higher-yielding loans.

Non-Interest Expense

For the three months ended June 30, 2009, total non-interest expense increased \$66,000 to \$2,616,000 from \$2,550,000 for the same period in 2008. Without the FDIC special assessment, non-interest expense would have decreased \$145,000, reflecting managements efforts to control expenses. Compensation and employee benefits decreased \$145,000, or 11.3%, to \$1,143,000 for the three months ended June 30, 2009 from \$1,288,000 for the same period in 2008 due primarily to reductions in accrued incentive compensation expense and reductions in employee pension benefits costs. Occupancy and equipment expense decreased \$23,000, or 3.6%, to \$613,000 for the three months ended June 30, 2009 from \$636,000 for the same period in 2008 due primarily to lower depreciation expenses as a result of reductions in capital expenses for the current year. Deposit insurance premiums expense increased \$266,000, to \$273,000 for the three months ended June 30, 2009 from \$7,000 for the same period in 2008, due to higher FDIC premium assessments as a result of a special assessment that was charged to all federally insured banks and an increase in assessment rates. Professional services expense decreased \$19,000, or 18.3%, to \$85,000 for the three months ended June 30, 2009 from \$104,000 for the same period in 2008 due primarily to reduction in legal and consultant expenses. Advertising/public relations expense decreased \$54,000, or 66.7%, to \$27,000 for the three months ended June 30, 2009 from \$81,000 for the same period in 2008 due primarily to lower deposit product and promotion expenses. Loan operations expense increased \$60,000, or 187.5%, to \$92,000 for the three months ended June 30, 2009 from \$32,000 for the same period in 2008, due primarily to higher costs associated with loan foreclosures. Intangible amortization expense decreased \$28,000, or 26.9%, to \$76,000 for the three months ended June 30, 2009 from \$104,000 for the same period in 2008, due to deposit premiums related to branch acquisitions becoming fully amortized. Items processing expense increased \$12,000, or 18.2%, to \$78,000 for the three months ended June 30, 2009 from \$66,000 for the same period in 2008, due primarily to an increase in transaction accounts and the installation of branch capture units in banking centers.

Results of operations for the six months ended June 30, 2009 and 2008

General

The Corporation recorded a net loss of \$2,261,000 for the six months ended June 30, 2009 as compared to net income of \$736,000 for the same period in 2008. The decrease in net income for the period was due primarily to provision for loan losses of \$3,625,000 for the six months ended June 30, 2009 compared to \$675,000 for the six months ended June 30, 2008. In addition, the operating results were impacted by a compression of the net interest margin caused by declining interest rates and a decrease in non-interest income due to an other than temporary impairment charge of \$1,091,000 related to investment securities. The other than temporary impairment charge of \$1,091,000 was due to write-downs recorded on trust preferred securities as a result of projected shortfalls of interest and principal payments in the cash flow analysis of the securities.

Average Yields and Rates
(dollars in thousands)

	<u>Six Months Ended June 30,</u>					
	<u>2009</u>			<u>2008</u>		
	<u>Average Balance</u>	<u>Interest</u>	<u>Average Yield/Cost</u>	<u>Average Balance</u>	<u>Interest</u>	<u>Average Yield/Cost</u>
Interest-earning assets:						
Loans (1)	\$282,936	\$7,240	5.12%	\$270,183	\$9,000	6.66%
Mortgage-backed securities	78,292	2,032	5.19%	51,472	1,363	5.30%
Investment securities	46,107	1,167	5.06%	49,128	1,365	5.56%
Other interest-earning assets	<u>18,452</u>	<u>42</u>	<u>0.46%</u>	<u>6,090</u>	<u>147</u>	<u>4.84%</u>
Total interest-earning assets	425,787	<u>10,481</u>	<u>4.92%</u>	376,873	<u>11,875</u>	<u>6.08%</u>
Non-interest-earning assets	<u>29,964</u>			<u>32,791</u>		
Total assets	<u>\$455,751</u>			<u>\$409,664</u>		
Interest-bearing liabilities:						
Deposits	308,403	4,203	2.73%	255,787	4,680	3.66%
Floating rate junior subordinated deferrable interest debentures	12,372	285	4.61%	12,372	384	6.21%
FHLB advances and other borrowings	<u>85,604</u>	<u>1,542</u>	<u>3.60%</u>	<u>94,244</u>	<u>1,845</u>	<u>3.92%</u>
Total interest-bearing liabilities	406,379	<u>6,030</u>	<u>2.97%</u>	362,403	<u>6,909</u>	<u>3.81%</u>
Non-interest-bearing sources:						
Non-interest-bearing deposits	18,671			16,808		
Non-interest-bearing liabilities	<u>2,981</u>			<u>2,951</u>		
Total liabilities	428,031			382,162		
Shareholders' equity	<u>27,720</u>			<u>27,502</u>		
Total liabilities and shareholders' equity	<u>\$455,751</u>			<u>\$409,664</u>		
Net interest income		<u>\$4,451</u>			<u>\$4,966</u>	
Interest rate spread			1.95%			2.49%
Impact of non-interest-bearing deposits			<u>0.14</u>			<u>0.15</u>
Net interest margin			2.09%			<u>2.64%</u>

(1) Average balances of loans include non-accrual loans.

Interest Income

Interest income decreased \$1,394,000, or 11.7%, to \$10,481,000 for the six months ended June 30, 2009 as compared to the same period in 2008. Interest income on loans decreased by 19.6%, or \$1,760,000, to \$7,240,000 for the six months ended June 30, 2009 from \$9,000,000 for the six months ended June 30, 2008, due to declining market interest rates, offset by a higher average balance of loans. Interest on deposits and federal funds sold, combined with interest and dividends on investment and mortgage-backed securities increased \$366,000 for the six months ended June 30, 2009 to \$3,241,000 from \$2,875,000 during the same period in 2008 due to higher average balances, partially offset by lower investment yields due to declining market interest rates.

Interest Expense

Interest expense decreased \$879,000, or 12.7%, to \$6,030,000 for the six months ended June 30, 2009 as compared to \$6,909,000 for the six months ended June 30, 2008. Interest expense on deposit accounts decreased \$477,000, or 10.2%, to \$4,203,000 for the six months ended June 30, 2009 from \$4,680,000 during the same period in 2008 due primarily to lower market interest rates and a shift in the composition of the deposit portfolio from certificates of deposits to transaction accounts, offset by higher average balances. The Corporation continues to target lower cost demand deposit accounts versus higher cost certificates of deposits in order to reduce overall funding costs. Interest expense on borrowings decreased \$303,000, or 16.4%, for the six months ended June 30, 2009 as compared to the same period in the previous year due to lower market interest rates and lower average balances. Interest expense on floating rate junior subordinated deferrable interest debentures decreased \$99,000, or 25.8%, to \$285,000 for the six months ended June 30, 2009 from \$384,000 during the same period in 2008 due to lower market rates.

Provision for Loan Losses

During the six months ended June 30, 2009, the provision for loan losses was \$3,625,000 as compared to \$675,000 for the same period in the previous year due to an increase in nonperforming loans and loans charged-off and loan growth. During the six months ended June 30, 2009, bad debt charge-offs, net of recoveries, were \$2,561,000 as compared to \$246,000 for the same period in the previous year. The increase in bad debt charge-offs over the previous year relates to additional write-downs required for commercial real estate loans during the six months ended June 30, 2009. The Corporation's loan loss allowance at June 30, 2009 was approximately 2.8% of the Corporation's outstanding loan portfolio compared to 1.3% of the Corporation's outstanding loan portfolio at June 30, 2008.

The changes in the allowance for loan losses consisted of the following for the three months ended June 30, 2009.

	(in thousands)
Balance at beginning of period	\$6,778
Provision for loan losses	3,625
Charge-offs, net	<u>(2,561)</u>
Balance at end of period	<u>\$7,842</u>

The following table sets forth information with respect to the Bank's nonperforming assets at the dates indicated (dollars in thousands):

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
Non-accruing loans which are contractually past due 90 days or more:		
Residential real estate	\$ 535	\$ 389
Commercial	19,239	13,345
Consumer	<u>1,225</u>	<u>2,267</u>
Total nonperforming loans	20,999	16,001
Real estate acquired through foreclosure and repossessed assets	<u>3,622</u>	<u>667</u>
Total nonperforming assets	<u>\$24,621</u>	<u>\$16,668</u>
Nonperforming loans to total loans	<u>8.95%</u>	<u>5.98%</u>
Nonperforming assets to total assets	<u>5.30%</u>	<u>3.84%</u>
Allowance for loan losses to total loans outstanding	<u>2.85%</u>	<u>2.37%</u>
Allowance for loan losses to Nonperforming loans	<u>37.34%</u>	<u>42.36%</u>
Allowance for loan losses	<u>\$7,842</u>	<u>\$6,778</u>

Loans which management identifies as impaired generally will be nonperforming loans. Non-performing assets increased \$7,953,000 to \$24,621,000 at June 30, 2009, or 5.30% of total assets, as compared to \$16,668,000 or 3.84% of total assets, at December 31, 2008. The majority of this increase relates primarily to four commercial real estate relationships totaling \$9,700,000 that have been affected by the downturn in the residential housing market. Slow housing conditions have affected these borrowers' ability to sell the completed projects in a timely manner. These loans are currently being carried at management's best estimate of net realizable value, although no assurance can be given that no further losses will be incurred on these loans until the collateral has been acquired and liquidated or other arrangement can be made. Interest income that would have been recorded for the period ended June 30, 2009 had non-accruing loans been current in accordance with their original terms amounted to approximately \$457,000. There was no interest included in interest income on such loans for the period ended June 30, 2009. Management has allocated specific reserves to these and other non-accrual loans that it believes will offset losses, if any, arising from less than full recovery of the loans from the supporting collateral. Specific reserves for nonperforming loans at June 30, 2009 were \$4,450,000 compared to \$3,536,000 for nonperforming loans at December 31, 2008. These additional reserves are based on management's evaluation of a number of factors, including the estimated value of the collateral supporting each of these loans. Management believes that the combination of specific reserves in the allowance for loan losses and established impairment of these loans will be adequate to account for the current risk associated with these loans as of June 30, 2009. Management continues to evaluate and assess all nonperforming assets on a regular basis as part of its well-established loan monitoring and review process.

Included in nonperforming assets as of June 30, 2009 is \$3.6 million in other real estate owned, or 14.7% of total nonperforming assets as of this date. The balance in other real estate owned consists of property acquired through

foreclosure. The properties are being actively marketed and maintained with the primary objective of liquidating the collateral at a level which most accurately approximates fair market value and allows recovery of as much of the unpaid balance as possible upon the sale of the properties in a reasonable period of time. The carrying value of these assets are believed to be representative of their fair market value, although there can be no assurance that the ultimate proceeds from the sale of these assets will be equal to or greater than the carrying values.

Non-Interest Income

Total non-interest income decreased \$983,000, or 56.7%, to \$751,000 for the six months ended June 30, 2009 from \$1,734,000 for the same period in the previous year. The decrease was due primarily to other than temporary impairment charges of \$1,091,000 from write-downs recorded on trust preferred securities as a result of projected shortfalls of interest and principal payments in the cash flow analysis of the securities. Fees from financial services decreased \$97,000, or 6.4%, to \$1,410,000 for the six months ended June 30, 2009 from \$1,507,000 for the same period in the previous year. The decrease was due to lower loan fees from a reduction in loan volumes along with lower fees generated from third party investment brokerage and financing receivables programs as a result of lower product volumes. Gain on sale of investments were \$379,000 for the six months ended June 30, 2009 compared to \$177,000 for the same period in the previous year, as the Corporation sold investment securities in order to improve yield spreads and to fund growth in higher-yielding loans.

Non-Interest Expense

For the six months ended June 30, 2009, total non-interest expense increased \$61,000, or 1.2%, to \$5,133,000 from \$5,072,000 for the same period in 2008. Compensation and employee benefits decreased \$266,000, or 10.2%, to \$2,335,000 for the six months ended June 30, 2009 from \$2,601,000 for the same period in 2008 due primarily to reductions in accrued incentive compensation expense and reductions in employee pension benefits costs. Occupancy and equipment expense decreased \$33,000, or 2.6%, to \$1,224,000 for the six months ended June 30, 2009 from \$1,257,000 for the same period in 2008 due primarily to lower depreciation expenses as a result of reductions in capital expenses for the current year. Deposit insurance premiums expense increased \$314,000, to \$329,000 for the six months ended June 30, 2009 from \$15,000 for the same period in 2008, due to higher FDIC premium assessments as a result of a special assessment that was charged to all federally insured banks. Professional services expense decreased \$26,000, or 12.8%, to \$177,000 for the six months ended June 30, 2009 from \$203,000 for the same period in 2008 due primarily to reduction in legal and consultant expenses. Advertising/public relations expense decreased \$86,000, or 60.1%, to \$57,000 for the six months ended June 30, 2009 from \$143,000 for the same period in 2008 due primarily to lower deposit product and promotion expenses. Loan operations expense increased \$113,000, or 171.2%, to \$179,000 for the six months ended June 30, 2009 from \$66,000 for the same period in 2008, due primarily to higher costs associated with loan foreclosures. Intangible amortization expense decreased \$37,000, or 17.8%, to \$171,000 for the six months ended June 30, 2009 from \$208,000 for the same period in 2008, due to deposit premiums related to branch acquisitions becoming fully amortized. Items processing expense increased \$51,000, or 44.0%, to \$167,000 for the six months ended June 30, 2009 from \$116,000 for the same period in 2008, due primarily to an increase in transaction accounts and the installation of branch capture units in banking centers.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable as the registrant is a smaller reporting company.

Item 4T. Controls and Procedures

The Corporation's management, including the Corporation's principal executive officer and principal financial officer, have evaluated the effectiveness of the Corporation's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer

concluded that, as of the end of the period covered by this report, the Corporation's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Corporation files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Corporation's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in the Corporation's internal control over financial reporting identified in connection with the evaluation required by Rule 13(a)-15(e) that occurred during the quarter that has materially affected or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Corporation is not involved in any legal proceedings. The Bank is not involved in any pending legal proceedings other than routine legal proceedings occurring in the normal course of business. Management believes that these proceedings are immaterial to the Corporation's financial condition and results of operations.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2008, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Corporation did not repurchase any shares during the three months ended June 30, 2009. As part of the Corporation's participation in the Troubled Asset Relief Program Capital Purchase Program, prior to the earlier of March 6, 2012 or the date on which the preferred stock issued to the Treasury Department has been redeemed in full or transferred to non-affiliates, the Corporation cannot repurchase any shares of its common stock without the prior approval of the Treasury Department.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of the Stockholders of the Corporation was held on April 22, 2009. The results of the vote on the matters presented at the meeting is as follows:

1. The following individuals were elected as directors, each for a three-year term by the following vote:

	<u>Votes For</u>	<u>Votes Withheld</u>
Russell H. Smart	1,268,931	109,059
Philip C. Wilkins	1,268,993	108,997

2. The following individual was elected as directors for a one-year term by the following vote:

	<u>Votes For</u>	<u>Votes Withheld</u>
Dwight V. Neese	1,263,458	114,532

3. The appointment of Elliott Davis, LLC, as auditors for the Corporation for the year ending December 31, 2008 was ratified by the stockholders by the following vote:

For <u>1,395,350</u>	Against <u>19,779</u>	Abstain <u>3,480</u>
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Item 5. Other Information

None

Item 6. Exhibits

31(a) Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

31(b) Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer

32(a) Chief Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32(b) Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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.

PROVIDENT COMMUNITY BANCSHARES, INC.
(Registrant)

Date: August 7, 2009

By: /s/ Dwight V. Neese
Dwight V. Neese, President and
Chief Executive Officer

Date: August 7, 2009

By: /s/ Richard H. Flake
Richard H. Flake, Executive Vice President
and Chief Financial Officer

EXHIBIT 31 (a)
CERTIFICATION

I, Dwight V. Neese, certify that:

1. I have reviewed this Form 10-Q of Provident Community Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted account principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2009

/s/ Dwight V. Neese _____
Dwight V. Neese
President and Chief Executive Officer

EXHIBIT 31 (b)
CERTIFICATION

I, Richard H. Flake, certify that:

1. I have reviewed this Form 10-Q of Provident Community Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted account principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2009

/s/ Richard H. Flake

Richard H. Flake

Executive Vice President and Chief Financial Officer

EXHIBIT 32.a
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADDED BY
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Provident Community Bancshares, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2009 as filed with the Securities and Exchange Commission (the "Report"), I, Dwight V. Neese, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

/s/ Dwight V. Neese
Dwight V. Neese
President and Chief Executive Officer

Date: August 7, 2009

EXHIBIT 32.b
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADDED BY
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Provident Community Bancshares, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2009 as filed with the Securities and Exchange Commission (the "Report"), I, Richard H. Flake, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

/s/ Richard H. Flake _____
Richard H. Flake
Executive Vice President and Chief Financial Officer

Date: August 7, 2009