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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

OR

o 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 001-12669

SCBT FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

South Carolina	**57-0799315**
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)
520 Gervais Street	
Columbia, South Carolina	**29201**
(Address of principal executive offices)	(Zip Code)

(800) 277-2175

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 o No o

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

Large Accelerated Filer o	Accelerated Filer x
Non-Accelerated Filer o	Smaller Reporting Company o

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

Indicate the number of shares outstanding of each of issuer s classes of common stock, as of the latest practicable date:

Class	**Outstanding as of October 31, 2009**
Common Stock, $2.50 par value	12,724,936

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SCBT Financial Corporation and Subsidiaries

September 30, 2009 Form 10-Q

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

SCBT Financial Corporation and Subsidiaries

Condensed Consolidated Balance Sheets

(Dollars in thousands, except par value)

	September 30, 2009 (Unaudited)	December 31, 2008 (Note 1)	September 30, 2008 (Unaudited)
ASSETS			
Cash and cash equivalents:			
Cash and due from banks	**$ 56,400**	$ 47,024	$ 56,813
Interest-bearing deposits with banks	**174**	1,441	357
Federal funds sold and securities purchased under agreements to resell	**118,791**	1,000	22,500
Money market mutual funds	**50**		
Total cash and cash equivalents	**175,415**	49,465	79,670
Investment securities:			
Securities held to maturity (fair value of $22,029, $23,577 and $23,547, respectively)	**21,540**	24,228	24,560
Securities available for sale, at fair value	**175,272**	183,220	198,899
Other investments	**15,416**	14,779	15,502
Total investment securities	**212,228**	222,227	238,961
Loans held for sale	**20,077**	15,742	11,419
Loans	**2,209,403**	2,316,076	2,279,726
Less allowance for loan losses	**(34,297)**	(31,525)	(29,199)
Loans, net	**2,175,106**	2,284,551	2,250,527
Premises and equipment, net	**72,523**	66,392	64,056
Goodwill	**62,888**	62,888	62,888
Other assets	**58,447**	65,445	59,224
Total assets	**$ 2,776,684**	$ 2,766,710	$ 2,766,745
LIABILITIES AND SHAREHOLDERS EQUITY			
Deposits:			
Noninterest-bearing	**$ 335,565**	$ 303,689	$ 313,700
Interest-bearing	**1,791,554**	1,849,585	1,825,027
Total deposits	**2,127,119**	2,153,274	2,138,727
Federal funds purchased and securities sold under agreements to repurchase	**211,606**	172,393	224,328
Other borrowings	**144,048**	177,477	172,738
Other liabilities	**12,128**	18,638	11,365
Total liabilities	**2,494,901**	2,521,782	2,547,158
Shareholders equity:			
Preferred stock - $.01 par value; authorized 10,000,000 shares; no shares issued and outstanding			
	31,781	28,127	25,564

Common stock - $2.50 par value; authorized 40,000,000 shares; 12,712,476, 11,250,603 and 10,225,776 shares issued and outstanding						
Surplus		**195,660**		166,815		141,911
Retained earnings		**60,561**		59,171		57,534
Accumulated other comprehensive loss		**(6,219)**		(9,185)		(5,422)
Total shareholders equity		**281,783**		244,928		219,587
Total liabilities and shareholders equity	**$**	**2,776,684**	$	2,766,710	$	2,766,745

The Accompanying Notes are an Integral Part of the Financial Statements.

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SCBT Financial Corporation and Subsidiaries

Condensed Consolidated Statements of Income (unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Interest income:				
Loans, including fees	**$ 32,598**	$ 35,727	**$ 99,688**	$ 107,528
Investment securities:				
Taxable	**1,991**	2,760	**6,505**	8,356
Tax-exempt	**243**	291	**709**	1,212
Federal funds sold and securities purchased under agreements to resell	**183**	177	**349**	835
Money market funds	**3**		**68**	
Deposits with banks	**2**	3	**6**	50
Total interest income	**35,020**	38,958	**107,325**	117,981
Interest expense:				
Deposits	**7,070**	11,231	**24,999**	36,527
Federal funds purchased and securities sold under agreements to repurchase	**138**	1,392	**381**	5,069
Other borrowings	**1,431**	1,678	**4,547**	5,252
Total interest expense	**8,639**	14,301	**29,927**	46,848
Net interest income	**26,381**	24,657	**77,398**	71,133
Provision for loan losses	**6,990**	2,785	**16,554**	6,362
Net interest income after provision for loan losses	**19,391**	21,872	**60,844**	64,771
Noninterest income:				
Service charges on deposit accounts	**4,089**	4,157	**11,493**	11,994
Mortgage banking income	**1,451**	507	**4,846**	2,777
Bankcard services income	**1,278**	1,247	**3,750**	3,679
Trust and investment services income	**588**	725	**1,950**	2,102
Securities gains	**82**		**82**	340
Total other-than-temporary impairment losses	**(5,252)**	(9,760)	**(7,734)**	(9,760)
Portion of impairment losses recognized in other comprehensive loss	**3,048**		**4,986**	
Net impairment losses recognized in earnings	**(2,204)**	(9,760)	**(2,748)**	(9,760)
Other	**307**	431	**1,110**	1,807
Total noninterest income	**5,591**	(2,693)	**20,483**	12,939
Noninterest expense:				
Salaries and employee benefits	**10,649**	10,164	**30,685**	32,248
Net occupancy expense	**1,582**	1,528	**4,724**	4,520
Furniture and equipment expense	**1,507**	1,577	**4,566**	4,667
Information services expense	**1,381**	1,249	**4,109**	3,569
FDIC assessment and other regulatory charges	**956**	457	**4,473**	1,354
OREO expense and loan related	**2,497**	360	**4,538**	892
Advertising and marketing	**579**	771	**1,800**	2,782
Professional fees	**376**	597	**1,367**	1,638
Amortization of intangibles	**131**	144	**394**	433
Other	**2,139**	2,249	**6,366**	6,817
Total noninterest expense	**21,797**	19,096	**63,022**	58,920
Earnings:				

Income before provision for income taxes		**3,185**		83		**18,305**		18,790
Provision (benefit) for income taxes		**1,014**		(41)		**6,229**		6,554
Net income		**2,171**		124		**12,076**		12,236
Preferred stock dividends						**1,115**		
Accretion on preferred stock discount						**3,559**		
Net income available to common shareholders	**$**	**2,171**	$	124	**$**	**7,402**	$	12,236
Earnings per common share:								
Basic	**$**	**0.17**	$	0.01	**$**	**0.62**	$	1.21
Diluted	**$**	**0.17**	$	0.01	**$**	**0.62**	$	1.19
Dividends per common share	**$**	**0.17**	$	0.17	**$**	**0.51**	$	0.51
Weighted-average common shares outstanding:								
Basic		**12,547**		10,121		**11,874**		10,111
Diluted		**12,605**		10,274		**11,922**		10,252

The Accompanying Notes are an Integral Part of the Financial Statements.

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SCBT Financial Corporation and Subsidiaries

Condensed Consolidated Statements of Changes in Shareholders Equity (unaudited)

Nine Months Ended September 30, 2009 and 2008

(Dollars in thousands, except per share data)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2007		$	10,160,432	$ 25,401	$ 140,652	$ 50,499	$ (1,487)	$ 215,065
Comprehensive income:								
Net income						12,236		12,236
Change in net unrealized loss on securities available for sale, net of tax							(3,935)	(3,935)
Total comprehensive income								8,301
Cash dividends declared at $.51 per share						(5,201)		(5,201)
Stock options exercised			8,266	21	157			178
Employee stock purchases			12,960	32	297			329
Restricted stock awards			48,089	120	(120)			
Common stock repurchased			(3,971)	(10)	(118)			(128)
Share-based compensation expense					1,043			1,043
Balance, September 30, 2008		$	10,225,776	$ 25,564	$ 141,911	$ 57,534	$ (5,422)	$ 219,587
Balance, December 31, 2008		$	11,250,603	$ 28,127	$ 166,815	$ 59,171	$ (9,185)	$ 244,928
Comprehensive income:								
Net income						12,076		12,076
Change in pension liability for plan curtailment, net of tax							1,283	1,283
Change in net unrealized gain on securities available for sale, net of tax							4,940	4,940
Noncredit portion of other-than-temporary impairment losses recognized in earnings, net of tax							(3,091)	(3,091)
Change in unrealized losses on derivative financial instruments qualifying as cash flow hedges, net of tax							(166)	(166)
Total comprehensive income								15,042
Cash dividends on Series T preferred stock at annual dividend rate of 5%		3,559				(4,674)		(1,115)
Cash dividends declared at $.51 per share						(6,012)		(6,012)
Issuance of Series T preferred stock, net of issuance costs	64,779	61,220			3,412			64,632
Repurchase of Series T preferred stock and warrants	(64,779)	(64,779)			(1,400)			(66,179)

Stock options exercised	9,702	24	123			147
Employee stock purchases	17,515	44	276			320
Restricted stock awards	89,402	224	(224)			
Common stock repurchased	(11,246)	(29)	(296)			(325)
Share-based compensation expense			1,096			1,096
Common stock issued in public offering	1,356,500	3,391	25,858			29,249
Balance, September 30, 2009	$ 12,712,476	$ 31,781	$ 195,660	$ 60,561	$ (6,219)	$ 281,783

The Accompanying Notes are an Integral Part of the Financial Statements.

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SCBT Financial Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows (unaudited)

(Dollars in thousands)

	Nine Months Ended September 30, 2009	2008
Cash flows from operating activities:		
Net income	$ **12,076**	$ 12,236
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**5,091**	3,719
Provision for loan losses	**16,554**	6,362
Other-than-temporary impairment on securities	**2,748**	9,760
Gain on sale of securities	**(82)**	(340)
Share-based compensation expense	**1,096**	1,043
Loss on disposal of premises and equipment	**103**	23
Net accretion of investment securities	**(117)**	(205)
Net change in loans held for sale	**(4,335)**	5,932
Net change in miscellaneous assets and liabilities	**167**	(8,286)
Net cash provided by operating activities	**33,301**	30,244
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale	**2,410**	2,020
Proceeds from maturities and calls of investment securities held to maturity	**2,685**	3,595
Proceeds from maturities and calls of investment securities available for sale	**52,043**	63,393
Proceeds from sales of other investment securities	**451**	1,329
Purchases of investment securities held to maturity		(6,679)
Purchases of investment securities available for sale	**(46,068)**	(56,810)
Purchases of other investment securities	**(1,088)**	(3,019)
Net decrease (increase) in customer loans	**92,891**	(200,410)
Purchases of premises and equipment	**(5,358)**	(11,945)
Proceeds from sale of premises and equipment	**2**	17
Net cash provided by (used in) investing activities	**97,968**	(208,509)
Cash flows from financing activities:		
Net increase (decrease) in deposits	**(26,155)**	210,837
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings	**18,119**	(75,839)
Proceeds from FHLB advances		185,400
Repayment of FHLB advances	**(18,000)**	(152,507)
Issuance of preferred stock and warrants, net of issuance costs	**64,632**	
Repurchase of preferred stock and warrants	**(66,179)**	
Common stock issuance	**29,569**	329
Common stock repurchased	**(325)**	(128)
Dividends paid on preferred stock	**(1,115)**	
Dividends paid on common stock	**(6,012)**	(5,201)
Stock options exercised	**147**	178
Net cash provided by (used in) financing activities	**(5,319)**	163,069
Net increase in cash and cash equivalents	**125,950**	(15,196)
Cash and cash equivalents at beginning of period	**49,465**	95,333
Cash and cash equivalents at end of period	$ **175,415**	$ 80,137
Supplemental Disclosures:		
Cash paid for:		

Interest	**$**	**32,303**	$	48,845
Income taxes	**$**	**5,455**	$	10,091

The Accompanying Notes are an Integral Part of the Financial Statements.

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SCBT Financial Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain prior period information has been reclassified to conform to the current period presentation, and these reclassifications had no impact on net income or equity as previously reported. Operating results for the nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

The condensed consolidated balance sheet at December 31, 2008, has been derived from the audited financial statements at that date, but does not include all of the information and disclosures required by accounting principles generally accepted in the United States for complete financial statements.

The information contained in the consolidated financial statements and accompanying notes included in SCBT Financial Corporation s (the Company) annual report on Form 10-K for the year ended December 31, 2008 should be referenced when reading these unaudited condensed consolidated financial statements.

Subsequent events have been evaluated through November 9, 2009, which is the date of financial statement issuance.

Note 2 Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162*. This statement modifies the Generally Accepted Accounting Principles (GAAP) hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature. Effective July 2009, the FASB Accounting Standards Codification (ASC), also known collectively as the Codification, is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the SEC. Nonauthoritative guidance and literature would include, among other things, FASB Concepts Statements, American Institute of Certified Public Accountants Issue Papers and Technical Practice Aids and accounting textbooks. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance. It is organized by topic, subtopic, section, and paragraph, each of which is identified by a numerical designation. FASB ASC 105-10, *Generally Accepted Accounting Principles* became applicable beginning in third quarter of 2009. All accounting references have been updated, and therefore SFAS references have been replaced with ASC references except for SFAS references that have not been integrated into the codification.

In May 2009, the FASB issued FASB Statement No. 165 found in ASC 855-10, *Subsequent Events*. The guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The Company adopted the provisions of ASC 855-10 during the period ended June 30, 2009 which did not impact its financial statements. The Company evaluated all events or transactions that occurred after September 30, 2009, through November 9, 2009, the date the Company issued these financial statements. During this period the Company did not have any material subsequent events that required recognition in the Company s disclosures to the September 30, 2009 financial statements.

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Note 2 Recent Accounting Pronouncements (continued)

In April 2009, the FASB issued a FASB Staff Position (FSP) 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*. FASB ASC 820-10-65-4 in topic 820, *Fair Value Measurements and Disclosures*, includes the transition and open effective date information related to this FSP. The guidance allows an entity to determine whether a market is not active for a financial asset, considered in relation to normal market activity for that asset, using a list of factors provided in the guidance to aid in making that assessment. If, after evaluating the relevant factors, the evidence indicates the market is not active, the entity would determine whether a quoted price in that market is associated with a distressed transaction. The determination of whether transactions are distressed should be based on the weight of the available evidence. The guidance provides illustrative circumstances that could indicate that a transaction is not orderly (i.e., distressed). More weight should be placed on transactions that are orderly and less weight placed on transactions that are not orderly. The guidance requires new disclosures relating to fair value measurement inputs and valuation techniques (including changes in inputs and valuation techniques). The guidance is effective for periods ending after June 15, 2009 with early adoption permitted. The Company had previously determined that transactions in the market for its pooled trust preferred securities were disorderly using guidance from ASC 820-10-35 to determining the fair value of a financial asset when the market for that asset is not active. Therefore the adoption of ASC 820-10-65-4 did not have a material impact on the Company s results of operations.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. FASB ASC 320-10-65-1 in topic 320, *Investments Debt and Equity Securities*, includes the transition and open effective date information related to this FSP. The guidance will change (1) the method for determining whether an other-than-temporary impairment exists for debt securities and (2) the amount of an impairment charge to be recorded in earnings. To determine whether an other-than-temporary impairment exists, an entity will assess the likelihood of selling the security prior to recovering its cost basis. This is a change from the current requirement for an entity to assess whether it has the intent and ability to hold a security to recovery. If the entity intends to sell the debt security or it is more-likely-than-not that the entity will be required to sell the debt security prior to recovering its cost basis, the security should be written down to fair value with the full charge recorded in earnings. If the entity does not intend to sell the debt security and it is not more-likely-than-not that the entity will be required to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there are credit losses associated with the security. In that case: (1) where credit losses exist, the portion of the impairment related to those credit losses should be recognized in earnings; (2) any remaining difference between the fair value and the cost basis should be recognized as part of other comprehensive income. The entity will be required to present on the face of the income statement both the total of any other-than-temporary impairment loss, and the noncredit portion recorded in other comprehensive income as an adjustment thereto. The entity is required to provide enhanced disclosures, including its methodology and key inputs used for determining the amount of credit losses recorded in earnings. On adoption, the noncredit portion of an other-than-temporary impairment previously recognized in retained earnings should be reclassified to other comprehensive income as a cumulative effect adjustment if the entity does not intend to sell the debt security and it is not more-likely-than-not that the entity will be required to sell the security prior to recovery. The impairment model for equity securities is unaffected by this guidance. The guidance is effective for periods ending after June 15, 2009 with early adoption permitted. See Note 3 Investment Securities for the effect of the adoption of this guidance.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. FASB ASC 825-10-65-1 in topic 825, *Financial Instruments*, includes the transition and open effective date information related to this FSP. The guidance will increase the frequency of fair value disclosures from annual only to quarterly to provide financial statement users with more timely information about the effects of current market conditions on their financial instruments. The guidance requires public entities to disclose in their interim financial statements the fair value of all financial instruments within the scope of FASB ASC 825-10-50 as well as the method(s) and significant assumptions used to estimate the fair value of those financial instruments. The guidance is effective for periods ending after June 15, 2009 with early adoption permitted. While the Company expanded its disclosure in accordance with the guidance, its adoption did not have a material impact on the Company s results of operations.

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Note 2 Recent Accounting Pronouncements (continued)

In April 2009, the FASB issued FSP No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*. FASB ASC 805-10-65-1 in topic 805, *Business Combinations*, includes the transition and open effective date information related to this FSP. The guidance amends and clarifies the accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies. Assets acquired and liabilities assumed in a business combination that arise from contingencies should be recognized at fair value on the acquisition date if fair value can be determined during the measurement period. If fair value can not be determined, companies should typically account for the acquired contingencies using existing guidance. Contingent consideration arrangements of an acquiree assumed by the acquirer as part of a business combination will be accounted for as contingent consideration by the acquirer. The guidance is effective for fiscal years beginning after December 15, 2008. The Company will prospectively apply the guidance to all business combinations completed on or after January 1, 2009. The Company has no business combinations currently scheduled.

In June 2008, the FASB issued a FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. FASB ASC 260-10-65-2 in topic 260, *Earnings Per Share*, includes the transition and open effective date information related to this FSP. The guidance applies to the calculation of earnings per share (EPS) for share-based payment awards with rights to dividends or dividend equivalents. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. This guidance is effective for financial statements issued in fiscal years beginning after December 15, 2008. Adoption of this guidance did not have a significant impact on the Company s EPS calculation and related disclosures.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets*. FASB ASC 350-30-65-1 in topic 350, *Intangibles Goodwill and Other*, includes the transition and open effective date information related to this FSP. The guidance amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets. This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. The guidance is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Adoption of the guidance will be prospective on any future acquisitions by the Company.

In February 2008, the FASB issued FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157*. FASB ASC 820-10-65-1 in topic 820, *Fair Value Measurements and Disclosures*, includes the transition and open effective date information related to this FSP. The guidance deferred the effective date of the disclosure requirement for nonfinancial assets and nonfinancial liabilities until the beginning the first quarter of 2009. The Company has adopted the guidance (see Note 10 Fair Value).

Note 3 Investment Securities

The following is the amortized cost and fair value of investment securities held to maturity:

(Dollars in thousands)		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
September 30, 2009:								
State and municipal obligations	**$**	**21,540**	**$**	**513**	**$**	**(24)**	**$**	**22,029**
December 31, 2008:								
State and municipal obligations	$	24,228	$	84	$	(735)	$	23,577

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Note 3 Investment Securities (continued)

The following is the amortized cost and fair value of investment securities available for sale:

(Dollars in thousands)		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
September 30, 2009:								
Government-sponsored enterprises debt *	**$**	**37,671**	**$**	**301**	**$**	**(38)**	**$**	**37,934**
State and municipal obligations		**23,593**		**557**		**(380)**		**23,770**
Mortgage-backed securities **		**100,222**		**5,006**				**105,228**
Trust preferred (collateralized debt obligations)		**14,259**				**(6,305)**		**7,954**
Corporate stocks		**369**		**75**		**(58)**		**386**
	$	**176,114**	**$**	**5,939**	**$**	**(6,781)**	**$**	**175,272**
December 31, 2008:								
Government-sponsored enterprises debt *	$	28,207	$	465	$		$	28,672
State and municipal obligations		11,449		8		(899)		10,558
Mortgage-backed securities **		130,009		3,510		(14)		133,505
Trust preferred (collateralized debt obligations)		17,011				(6,928)		10,083
Corporate stocks		369		35		(2)		402
	$	187,045	$	4,018	$	(7,843)	$	183,220

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* - Government-sponsored enterprises are comprised of debt securities offered by Federal Home Loan Mortgage Corporation (FHLMC) or Freddie Mac, Federal National Mortgage Association (FNMA) or Fannie Mae, Federal Home Loan Bank (FHLB), and Federal Farm Credit Banks (FFCB).

** - Mortgage-backed securities are issued by government-sponsored enterprises.

The following is the amortized cost and fair value of other investment securities:

(Dollars in thousands)		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
September 30, 2009:								
Federal Reserve Bank stock	**$**	**5,132**	**$**		**$**		**$**	**5,132**
Federal Home Loan Bank stock		**8,952**						**8,952**
Investment in unconsolidated subsidiaries		**1,332**						**1,332**
	$	**15,416**	**$**		**$**		**$**	**15,416**
December 31, 2008:								
Federal Reserve Bank stock	$	4,337	$		$		$	4,337
Federal Home Loan Bank stock		9,110						9,110
Investment in unconsolidated subsidiaries		1,332						1,332
	$	14,779	$		$		$	14,779

The Company has determined that the investment in Federal Reserve Bank stock and Federal Home Loan Bank stock is not other than temporarily impaired as of September 30, 2009 and ultimate recoverability of the par value of these investments is probable.

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Note 3 Investment Securities (continued)

The amortized cost and fair value of investment securities at September 30, 2009 by contractual maturity are detailed below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

	Held to Maturity		Available for Sale	
(Dollars in thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 1,296	$ 1,308	$ 4,725	$ 4,804
Due after one year through five years	599	608	10,270	10,584
Due after five years through ten years	3,624	3,777	39,309	40,844
Due after ten years	16,021	16,336	121,810	119,040
	$ 21,540	$ 22,029	$ 176,114	$ 175,272

Information pertaining to the Company s securities available for sale with gross unrealized losses at September 30, 2009 and December 31, 2008, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position is as follows:

	Less Than Twelve Months		Twelve Months or More	
(Dollars in thousands)	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**
September 30, 2009:				
Securities Held to Maturity				
State and municipal obligations	**$ 24**	**$ 1,793**	**$**	**$**
Securities Available for Sale				
Government-sponsored enterprises debt	**$ 38**	**$ 8,095**	**$**	**$**
State and municipal obligations	**380**	**5,280**		
Mortgage-backed securities				
Trust preferred (collateralized debt obligations)	**450**	**2,274**	**5,855**	**5,680**
Corporate stocks			**58**	**194**
	$ 868	**$ 15,649**	**$ 5,913**	**$ 5,874**
December 31, 2008:				
Securities Held to Maturity				
State and municipal obligations	$ 735	$ 17,944	$	$
Securities Available for Sale				
Government-sponsored enterprises debt	$	$	$	$
State and municipal obligations	899	10,014		
Mortgage-backed securities	11	2,767	3	1,503
Trust preferred (collateralized debt obligations)	3,408	6,452	3,522	3,949
	$ 4,318	$ 19,233	$ 3,525	$ 5,452

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Note 3 Investment Securities (continued)

The following table presents a rollforward of the amount of credit losses on the Company s investment securities recognized in earnings for the three and nine months ended September 30, 2009 for debt securities held and not intended to be sold:

(Dollars in thousands)	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Balance at beginning of period	$ 544	$
Credit losses on debt securities for which other-than-temporary impairment was not previously recognized		
PreTSL IX B-3	699	699
PreTSL X B-1		427
PreTSL X B-3		117
PreTSL XI B-1	39	39
PreTSL XIII B-2	50	50
PreTSL XVI C	575	575
Subtotal	1,363	1,907
Additional credit losses on debt securities for which other-than-temporary impairment was previously recognized		
PreTSL X B-1	655	655
PreTSL X B-3	186	186
Subtotal	841	841
Balance at end of period	$ 2,748	$ 2,748

During the three months ended September 30, 2009, the Company evaluated its pooled trust preferred collateralized debt obligations (TRUPs) for Other-than-Temporary Impairment (OTTI). As a result of this analysis, the Company recorded $2.2 million in credit-related OTTI charges in earnings. This OTTI charge was taken on six of the eight TRUPs, and ranged from $39,000 to $699,000 per security. In addition, the Company recognized $1.9 million, or $3.0 million on a pre-tax basis, for the non-credit impairment associated with the same six TRUPs in other comprehensive income (OCI) (equity).

During the three months ended June 30, 2009, the Company adopted FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-than-Temporary Impairments,* in FASB ASC 320-10-65-1 which requires that credit related OTTI on debt securities be recognized in earnings while noncredit related OTTI on debt securities not expected to be sold be recognized in OCI. As a result of its analysis, the Company recorded $544,000 in credit-related OTTI charges in earnings during the three months ended June 30, 2009. This OTTI charge in earnings was taken on two pooled TRUPs that are classified as available for sale securities. In addition, the Company recognized $1.2 million, or $1.9 million on a pre-tax basis, for the non-credit impairment associated with the same two TRUPs in OCI (in equity).

On at least a quarterly basis, the Company reviews its investment portfolio for indications of impairment. This review includes analyzing the length of time and the extent to which fair value has been lower than the cost, the financial condition and near-term prospects of the issuers, including any specific events which may influence the operations of the issuers. The Company evaluates its intent and ability to hold investments for a period of time sufficient to allow for any anticipated recovery in the market, including consideration of its investment strategy, its cash flow needs, liquidity position, capital adequacy and interest rate risk position. Additionally, the risk of further OTTI charges may be influenced by additional bank failures, prolonged recession of the U.S. economy, changes in real estate values, interest deferrals, and whether the federal government continues to provide financial assistance to financial institutions.

The TRUPs represent beneficial interests in securitized financial assets that the Company analyzes within the scope of FASB ASC 320, *Investments Debt and Equity Securities* and are evaluated for OTTI using management s best estimates of future cash flows. If these estimated cash flows determine that it is probable an adverse change in the discounted present value of future cash flows has occurred, then an OTTI charge would be recognized in accordance with FASB ASC 320, *Investments Debt and Equity Securities*. There is risk that this continued collateral deterioration would result in the Company recording OTTI charges in the future.

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Note 3 Investment Securities (continued)

At September 30, 2009, the book value of the Company s TRUPs totaled $14.3 million with an estimated fair value of $8.0 million. One of these securities is a senior tranche (MMCaps I A) and the remaining seven securities are mezzanine tranches. As of March 31, 2009, all of these securities were downgraded by both Moody s and Fitch, except for the MMCaps I A security which is rated A3/AAA. There have been no further changes in the securities ratings as of June 30, 2009 or as of September 30, 2009.

As of September 30, 2009, the following table provides detail of the Company s pooled TRUPs, which all have been in an unrealized loss position greater than twelve months:

		Current Information for the Securities						Deferral / Default Statistics		
(Dollars in thousands)	Class	# of Issuers	Book Value	Fair Value	Unrealized Loss	Credit Ratings (1)	Receiving Principal / Interest Contract-ually at 9/30/09?	Deferral / Defaults % of Total Collateral Balance (3)	Excess Subordination (4) Amount	% of Current Performing Collateral
PreTSL IX B-3	Mezzanine	51	$ 2,283	$ 1,301	$ (982)	Ca / CC	Yes / Yes	26.3%	$ 1,300	0.4%
PreTSL X B-1	Mezzanine	58	2,428	1,038	(1,390)	Ca / CC	Yes / No (2)	28.6%	$	0.0%
PreTSL X B-3	Mezzanine	58	679	297	(382)	Ca / CC	Yes / No (2)	28.6%	$	0.0%
PreTSL XI B-1	Mezzanine	67	2,961	1,444	(1,517)	Ca / CC	Yes / Yes	17.8%	$ 60,000	11.5%
PreTSL XIII B-2	Mezzanine	68	950	460	(490)	Ca / CC	Yes / Yes	17.0%	$ 44,500	10.3%
PreTSL XIV B-2	Mezzanine	63	1,800	930	(870)	Ca / CC	Yes / Yes	17.1%	$ 47,500	11.0%
PreTSL XVI C	Mezzanine	58	435	210	(225)	Ca / CC	Yes / No (2)	27.9%	$ 1,000	0.0%
MMCaps I A	Senior	29	2,723	2,274	(449)	A3 / AAA	Yes / Yes	9.2%	$ 81,004	32.6%
Total			$ 14,259	$ 7,954	$ (6,305)					

Notes to table above:

(1) Credit Ratings represent Moody s and Fitch ratings (S&P does not rate these securities).

(2) Interest on this security is currently not being paid in cash, but is being added (capitalized) to the bond balance, a process known as a payment in kind (PIK). This is the result of a current, temporary interest shortfall being experienced due to the amount of deferrals/defaults within the given deal, and therefore, there is not enough interest available to pay the current interest on the given class of notes or breaching the principal coverage test of the class of notes immediately senior to the given class. The Company has three TRUPs, PreTSL X B-1, X B-3, and XVI C, which are PIKing.

(3) This ratio represents the amount of specific deferrals/defaults that are known or projected for the following quarter to the total amount of collateral for a given deal. Fewer deferrals/defaults produce a lower ratio.

(4) Excess subordination amount is the additional defaults/deferrals necessary in the next reporting period to deplete the entire credit enhancement (excess interest and over-collateralization) beneath our tranche within each pool to the point that would cause a break in yield. This amount assumes that all currently performing collateral continues to perform. A break in yield means that our security would not be expected to receive all the contractual cash flows (principal and interest) by maturity. The percent of current performing collateral is the ratio of the excess subordination amount to current performing collateral a higher percent means there is more excess subordination to absorb additional defaults/deferrals, and the better our security is protected from loss.

When evaluating TRUPs for OTTI, the Company determines a credit related portion and a noncredit related portion. The credit related portion is recognized in earnings and represents the net present value of the expected shortfall in future cash flows. The noncredit related portion is recognized in other comprehensive income, and represents the difference between the book value and the fair value of the security less the amount of the credit related impairment. A discounted cash flow analysis under FASB ASC 320, *Investments Debt and Equity Securities,* provides the best estimate of credit related OTTI for these securities. The determination of whether it is probable that an adverse change in estimated cash flows has occurred is evaluated by comparing the present value of the estimated cash flows previously projected (at June 30, 2009) with the present value of the projected remaining cash flows at September 30, 2009. The Company considers this cash flow analysis to be its primary evidence when determining whether credit related OTTI exists.

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Note 3 Investment Securities (continued)

Results of a discounted cash flow test are significantly affected by other variables such as the estimate of future cash flows, credit worthiness of the underlying issuers and determination of the likelihood of defaults of the underlying collateral. Below is a description of the process employed by the Company in reviewing these TRUPs:

I. Review of Individual Issuers/Banks

Within each of the eight pooled trust preferred securities, the Company reviews each issuer (typically a bank or insurance company) individually. This review includes obtaining quarterly financial information and monitoring news releases and pertinent information relative to those issuers on a daily basis. The Company specifically reviews the financial ratios of asset quality (including Texas ratio analysis), capitalization, earnings trends, profitability, capital adequacy and participation in the Troubled Asset Relief Program of each issuer. The Company believes the Texas Ratio (TR) is a prominent indicator of the stress a financial institution is experiencing. The information is compiled both on a specific issuer basis and on a pooled basis relative to each security. The TR is calculated by taking nonperforming assets and loans, including past due 90 days or more, divided by tangible equity plus loan loss reserve. Specifically, the Company accounts for defaults that have occurred, deferrals which have occurred, and then for deferrals/defaults for which we have specific information that indicates a deferral/default is likely to occur and create specific loss and recovery assumptions for each bank in these categories. In addition, the Company stratifies the pooled information for the performing issuers based upon the TR to assess the at risk issuers within each security. Based on the results of this analysis, the Company ensures that actual deferrals/defaults as well as forecasted deferrals/defaults of specific institutions are appropriately factored into the cash flow projections for each security. This review is used to provide a reasonableness and sensitivity analysis of the assumptions used to support the discounted cash flow analysis results described below in III.

II. Break in Yield (BIY)/Stress Analysis

The Company has received analyses from outside analysts that are reviewed. This data provides the Company with an indication of how much more in immediate deferrals/defaults are needed to trigger a BIY of the security. A BIY means that the TRUPs would not be expected to collect all contractual cash flows (principal and interest) by maturity. This BIY analysis <u>does not project</u> any future defaults; rather, it solves for the amount of deferrals that would trigger a BIY if the deferrals occurred <u>at the next payment date</u>. This stress analysis is used as an indicator which allows the Company to make reasonable judgments regarding the likelihood of the existence of OTTI at any reporting date. Excess subordination is considered by the Company to be the amount of immediate additional defaults/deferrals necessary to deplete the entire credit enhancement beneath our tranche within each pool to the point that results in a BIY. A declining ratio of excess subordination to performing collateral is an indicator of the need for additional review, such as comparing back to the credit quality of the pool of issuing banks.

III. Discounted Cash Flow Analysis

Next, management evaluates each of these securities under FASB ASC 325-40-65-1 and ASC 320-10-65-1, considering the context of our deemed likelihood (or not) of OTTI garnered from the stress analysis above. When performing this detailed cash flow analysis, management works with independent third parties to identify its best estimate of the cash flows to be collected over the life of the security. If the estimated results of the present value of expected cash flows is less than the amortized cost basis of the security, an OTTI is considered to have occurred (a credit loss exists). If there is no credit loss, then any impairment is deemed to be temporary.

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Note 3 Investment Securities (continued)

The following assumptions were used at September 30, 2009:

- The Company assumes all currently existing defaults will have a 0% recovery rate, and all currently existing deferrals will default immediately and will have a 15% recovery rate after two years;

- Using information from the pool s trustee, the Company projects specific additional deferrals/defaults for institutions that are likely to defer or default but have not made public announcements as of the date of the analysis;

- The Company assumes that additional annual deferrals/defaults would be 3% (annually) in 2009; 3% in 2010; 2.5% in 2011; 2.0% in 2012; 1.0% in 2013; and 25 basis points applied annually (**each** year) until maturity. Management changed to these assumptions in the second quarter of 2009 given the continued and accelerated pace of bank failures, and therefore deferrals / defaults within each security. The annual deferral/default rates assumed for 2009-2013 are representative of the rate of bank failures which occurred from 1988-1992 from statistics provided by FTN Financial on FDIC bank failures each year from 1934-2008;

- The Company assumes recoveries on future projected deferrals/defaults will be at an aggregate rate of 5% after two-years (a two-year lag) lowered from 15% at June 30, 2009;

- The Company assumes prepayments of 1% annually to reflect the current environment and a change in credit conditions that would lead to a reasonable expectation of very low prepayments.

IV. Review of Test Results and Analysis

Both (Discounted Cash Flow Analysis and BIY/Stress Analysis) of the test results and analyses referenced above are reviewed together to allow management to arrive at a reasonable conclusion of the existence of OTTI at any point in time. Currently, this complete analysis is performed at the end of each reporting period when actual payments have been made by the trustee on each security and cash flows can be modeled, but the data for this analysis is gathered and considered each day as it becomes available.

Based upon the analysis performed by management as of September 30, 2009, the Company deemed it probable that all contractual principal and interest payments on six of the eight TRUPs, except for PreTSL XIV B-2 and MMCaps I A, will not be collected. The analysis on these six TRUPs resulted in a $2.2 million credit-related OTTI charge during the three months ended September 30, 2009 and for the nine months ended September 30, 2009 resulted in a $2.7 million credit-related OTTI charge.

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Note 4 Loans and Allowance for Loan Losses

The Company s loan portfolio is comprised of the following:

(Dollars in thousands)	September 30, 2009	December 31, 2008	September 30, 2008
Commercial non-owner occupied real estate:			
Construction and land development	**$ 484,540**	$ 535,638	$ 558,261
Commercial non-owner occupied	**311,903**	330,792	313,637
Total commercial non-owner occupied real estate	**796,443**	866,430	871,898
Consumer real estate:			
Consumer owner occupied	**284,941**	293,521	288,808
Home equity loans	**244,855**	222,025	212,131
Total consumer real estate	**529,796**	515,546	500,939
Total real estate	**1,326,239**	1,381,976	1,372,837
Commercial owner occupied real estate	**461,199**	423,345	407,296
Commercial and industrial	**197,544**	251,929	231,300
Other income producing property	**139,617**	141,516	130,096
Consumer	**73,800**	95,098	102,415
Other loans	**11,004**	22,212	35,782
Total loans	**2,209,403**	2,316,076	2,279,726
Less, allowance for loan losses	**(34,297)**	(31,525)	(29,199)
Loans, net	**$ 2,175,106**	$ 2,284,551	$ 2,250,527

An analysis of the changes in the allowance for loan losses is as follows:

(Dollars in thousands)	September 30, 2009	2008
Balance at beginning of period	**$ 31,525**	$ 26,570
Loans charged-off	**(14,891)**	(4,474)
Recoveries of loans previously charged-off	**1,109**	741
Net charge-offs	**(13,782)**	(3,733)
Provision for loan losses	**16,554**	6,362
Balance at end of period	**$ 34,297**	$ 29,199

At September 30, 2009 and 2008, there were $28.2 million and $10.8 million, respectively, of loans classified as impaired because it is probable that the Company will be unable to collect all principal and interest payments due according to the terms of the related loan agreements. Specific reserves allocated to these impaired loans totaled $2.8 million and $525,000 at September 30, 2009 and 2008, respectively. At September 30, 2009, there were approximately $15.1 million of impaired loans with specific reserves. At September 30, 2009, there were approximately $13.1 million in impaired loans for which there are no specific reserves. The average recorded investments in impaired loans for the quarters ended September 30, 2009 and 2008 were $25.7 million and $859,000, respectively.

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Note 5 Deposits

The Company s total deposits are comprised of the following:

(Dollars in thousands)	September 30, 2009	December 31, 2008	September 30, 2008
Certificates of deposit	**$ 920,265**	$ 1,131,828	$ 1,116,379
Interest-bearing demand deposits	**707,603**	575,991	558,589
Demand deposits	**335,566**	303,689	313,700
Savings deposits	**161,443**	141,379	147,562
Other time deposits	**2,242**	387	2,497
Total deposits	**$ 2,127,119**	$ 2,153,274	$ 2,138,727

The aggregate amounts of time deposits in denominations of $100,000 or more at September 30, 2009, December 31, 2008, and September 30, 2008 were $474.3 million, $510.2 million and $509.7 million, respectively. The Company did not have brokered certificates of deposit at September 30, 2009. The Company had brokered certificates of deposits of $110.0 million and $106.2 million, respectively, at December 31, 2008 and September 30, 2008.

Note 6 Participation in U.S. Treasury Capital Purchase Program

On May 20, 2009, the Company entered into a repurchase letter agreement with the United States Department of the Treasury, pursuant to which the Company repurchased all 64,779 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series T, having a liquidation preference of $1,000 per share for an aggregate purchase price of approximately $64.8 million, which included accrued and unpaid dividends of approximately $45,000. Previously, on January 16, 2009, the Company issued and sold the Preferred Shares, along with a warrant to purchase 303,083 shares of the Company s common stock, to the Treasury for an aggregate purchase price of $64.8 million as part of the Treasury s Troubled Assets Relief Program Capital Purchase Program, pursuant to a Purchase Letter Agreement.

The Company recognized a charge of approximately $3.3 million for the nine months ended September 30, 2009 in the form of an accelerated dividend to account for the difference between the original purchase price for the preferred stock and its redemption price. In addition to this charge, the Company recognized a dividend on the preferred stock including the accretion on the preferred stock discount of approximately $1.1 million, for a total effective dividend of approximately $4.7 million for the nine months ended September 30, 2009, charged to net income available to common shareholders.

On June 24, 2009, the Company entered into an agreement with the Treasury to repurchase the warrant that was issued to the Treasury in connection with the preferred stock. Pursuant to the terms of the agreement, the Company repurchased the warrant for a purchase price of $1.4 million. As a result of the warrant repurchase, the Company has repurchased all securities issued to the Treasury under the Capital Purchase Program.

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Note 7 Retirement Plans

The Company and its subsidiary bank provide certain retirement benefits to their employees in the form of a non-contributory defined benefit pension plan and an employees savings plan. The non-contributory defined benefit pension plan covers all employees hired on or before December 31, 2005, who have attained age 21, and who have completed one year of eligible service. Employees hired on or after January 1, 2006 are not eligible to participate in the non-contributory defined benefit pension plan. On this date, a new benefit formula applies only to participants who have not attained age 45 or who do not have five years of service. During the nine months ended September 30, 2009, the Company suspended the accrual of benefits for plan participants under the non-contributory defined benefit plan and recorded a curtailment gain in earnings of $782,000, before tax, and a change in pension liability for plan curtailment of $1.3 million, net of tax, in other comprehensive income.

The components of net periodic pension expense recognized during the three and nine months ended September 30 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2009**	**2008**	**2009**	**2008**
Service cost	**$ 189**	$ 165	**$ 567**	$ 497
Interest cost	**258**	258	**836**	773
Expected return on plan assets	**(350)**	(336)	**(1,054)**	(1,006)
Amortization of prior service cost		(43)	**(86)**	(130)
Recognized net actuarial loss	**76**	79	**318**	236
Net periodic pension expense	**$ 173**	$ 123	**$ 581**	$ 370

The Company contributed $350,000 and $1.1 million to the pension plan for the three and nine months ended September 30, 2009 and anticipates making similar additional quarterly contributions during the remainder of the year.

Electing employees are eligible to participate in the employees savings plan, under the provisions of Internal Revenue Code Section 401(k), after attaining age 21. Plan participants elect to contribute portions of their annual base compensation as a before tax contribution. The Company matches 50% of these contributions up to a 6% employee contribution for employees hired before January 1, 2006 who were age 45 and higher with five or more vesting years of service. The Company matches 100% of these contributions up to a 6% employee contribution for current employees under age 45 or with less than five years of service. Employees hired on January 1, 2006 or thereafter will not participate in the defined benefit pension plan, but are eligible to participate in the employees savings plan and the Company matches 100% of the employees contributions up to a 6%. Effective April 1, 2009, the Company temporarily suspended the employer match contribution to all participants in the plan.

Employees can enter the savings plan on or after the first day of each month. The employee may enter into a salary deferral agreement at any time to select an alternative deferral amount or to elect not to defer in the Plan. If the employee does not elect an investment allocation, the plan administrator will select a retirement-based portfolio according to the employee s number of years until normal retirement age. The plan s investment valuations are generally provided on a daily basis.

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Note 8 Earnings Per Share

Basic earnings per share are calculated by dividing net income available to common shareholders by the weighted-average shares of common stock outstanding during each period. The Company s diluted earnings per share are based on the weighted-average shares of common stock outstanding during each period plus the maximum dilutive effect of common stock issuable upon exercise of stock options or vesting of restricted shares. The weighted-average number of shares and equivalents are determined after giving retroactive effect to stock dividends and stock splits.

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars and shares in thousands)	**2009**	**2008**	**2009**	**2008**
Basic earnings per share:				
Net income available to common shareholders	**$ 2,171**	$ 124	**$ 7,402**	$ 12,236
Weighted-average basic shares	**12,547**	10,121	**11,874**	10,111
Basic earnings per share	**$ 0.17**	$ 0.01	**$ 0.62**	$ 1.21
Diluted earnings per share:				
Net income available to common shareholders	**$ 2,171**	$ 124	**$ 7,402**	$ 12,236
Weighted-average basic shares	**12,547**	10,121	**11,874**	10,111
Effect of dilutive securities	**58**	153	**48**	141
Weighted-average dilutive shares	**12,605**	10,274	**11,922**	10,252
Diluted earnings per share	**$ 0.17**	$ 0.01	**$ 0.62**	$ 1.19

The calculation of diluted earnings per share excludes outstanding stock options that have exercise prices greater than the average market price of the common shares for the year as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2009**	**2008**	**2009**	**2008**
Number of shares	256,925	45,545	256,925	57,095
Range of exercise prices	$25.53 - $39.74	$34.65 - $39.74	$25.53 - $39.74	$32.82 - $39.74

Note 9 Share-Based Compensation

The Company s 1999 and 2004 stock option programs are long-term retention programs intended to attract, retain, and provide incentives for key employees and non-employee directors in the form of incentive and non-qualified stock options and restricted stock.

Stock Options

With the exception of non-qualified options granted to directors under the 1999 and 2004 plans, which in some cases may be exercised at any time prior to expiration and in some other cases may be exercised at intervals less than one year following the grant date, incentive stock options granted under the plans may not be exercised in whole or in part within one year following the date of the grant, as these incentive stock options become exercisable in 25% increments ratably over the four year period following the grant date. The options are granted at an exercise price at least equal to the fair value of the common stock at the date of grant and have terms ranging from five to ten years. No options were granted under the 1999 plan after January 2, 2004, and the plan is closed other than for any options still unexercised and outstanding. The 2004 plan is the only plan from which new share-based compensation grants may be issued. It is the Company s policy to grant options out of the 661,500 shares registered under the 2004 plan.

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Note 9 Share-Based Compensation (continued)

Activity in the Company s stock option plans is summarized in the following table. All information has been retroactively adjusted for stock dividends and stock splits.

Options	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Yrs.)	Aggregate Intrinsic Value (000 s)
Outstanding at January 1, 2009	351,553	$ 26.94		
Granted	33,288	27.48		
Exercised	(9,702)	15.13		
Expired/Forfeited	(477)	37.01		
Outstanding at September 30, 2009	374,662	27.28	5.14	$ 1,185
Exercisable at September 30, 2009	300,377	26.21	4.36	$ 1,165
Weighted-average fair value of options granted during the year	$ 9.75			

The fair value of options is estimated at the date of grant using the Black-Scholes option pricing model and expensed over the options vesting periods. The following weighted-average assumptions were used in valuing options issued:

	Nine Months Ended September 30, 2009	2008
Dividend yield	**2.00%**	1.87%
Expected life	**6 years**	6 years
Expected volatility	**45%**	37%
Risk-free interest rate	**1.87%**	3.44%

As of September 30, 2009, there was $514,000 of total unrecognized compensation cost related to nonvested stock option grants under the plans. The cost is expected to be recognized over a weighted-average period of 1.31 years as of September 30, 2009. The total fair value of shares vested during the nine months ended September 30, 2009 was $309,000.

Restricted Stock

The Company from time-to-time also grants shares of restricted stock to key employees and non-employee directors. These awards help align the interests of these employees and directors with the interests of the shareholders of the Company by providing economic value directly related to increases in the value of the Company s stock. The value of the stock awarded is established as the fair market value of the stock at the time of the grant. The Company recognizes expenses, equal to the total value of such awards, ratably over the vesting period of the stock grants. Grants to employees have typically vested over a 48-month period, and beginning in 2007, some grants cliff vest after four years. Also, some grants issued during 2008 to certain employees cliff vest after ten years. Grants to non-employee directors typically vest within a 12-month period. On January 22, 2009, the Company issued 69,600 shares of restricted stock to replace the cash-based Supplemental Executive Retirement Plan agreements for three executives of the Company. These grants vest on December 31 of each year with final vesting at the end of the month in which the executive reaches his retirement age of 60 years old.

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Note 9 Share-Based Compensation (continued)

Nonvested restricted stock for the nine months ended September 30, 2009 is summarized in the following table. All information has been retroactively adjusted for stock dividends and stock splits.

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2009	99,557	$ 31.57
Granted	93,257	26.77
Vested	(28,410)	26.69
Forfeited	(3,855)	32.82
Nonvested at September 30, 2009	160,549	29.62

As of September 30, 2009, there was $3.5 million of total unrecognized compensation cost related to nonvested restricted stock granted under the plans. This cost is expected to be recognized over a weighted-average period of 5.1 years as of September 30, 2009. The total fair value of shares vested during the nine months ended September 30, 2009 was $758,000.

Note 10   Commitments and Contingent Liabilities

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities, which are not reflected in the accompanying financial statements. The commitments and contingent liabilities include guarantees, commitments to extend credit, and standby letters of credit. At September 30, 2009, commitments to extend credit and standby letters of credit totaled $500.5 million. The Company does not anticipate any material losses as a result of these transactions.

Note 11 Fair Value

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States, and enhances disclosures about fair value measurements. FASB ASC 820 clarifies that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions.

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

FASB ASC 820 establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

Level 1 Observable inputs such as quoted prices in active markets;

Level 2 Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3 Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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

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Note 11 Fair Value (continued)

Investment Securities

Securities available for sale are valued on a recurring basis at quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange or U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities and debentures issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets. Securities held to maturity are valued at quoted market prices or dealer quotes similar to securities available for sale. The carrying value of Federal Reserve Bank and Federal Home Loan Bank stock approximates fair value based on their redemption provisions.

Pooled trust preferred securities are Level 3 securities under the three-tier fair value hierarchy because of an absence of observable inputs for these and similar securities in the debt markets. The Company has determined that (1) there are few observable transactions and market quotations available and they are not reliable for purposes of determining fair value at September 30, 2009, and (2) an income valuation approach technique (present value technique) that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs will be equally or more representative of fair value than the market approach valuation technique used at prior measurement dates. This income valuation approach requires numerous steps in determining fair value. These steps include estimating credit quality of the collateral, generating asset defaults, forecasting cash flows for underlying collateral, and determining losses given default assumption.

Mortgage Loans Held for Sale

Mortgage loans held for sale are carried at the lower of cost or market value. The fair values of mortgage loans held for sale are based on commitments on hand from investors within the secondary market for loans with similar characteristics. As such, the fair value adjustments for mortgage loans held for sale is nonrecurring Level 2.

Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan may be considered impaired and an allowance for loan losses may be established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment using estimated fair value methodologies. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At September 30, 2009, substantially all of the impaired loans were evaluated based on the fair value of the collateral because such loans were considered collateral dependent. Impaired loans, where an allowance is established based on the fair value of collateral, require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company considers the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company considers the impaired loan as nonrecurring Level 3.

Other Real Estate Owned (OREO)

OREO, consisting of properties obtained through foreclosure or in satisfaction of loans, is reported at the lower of cost or fair value, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources, adjusted for estimated selling costs (Level 2). At the time of foreclosure, any excess of the loan balance over the fair value of the real estate held as collateral is treated as a charge against the allowance for loan losses. Gains or losses on sale and generally any subsequent adjustments to the value are recorded as a component of OREO expense.

Derivative Financial Instruments

Fair value is estimated using pricing models of derivatives with similar characteristics, at which point the derivatives are classified within Level 2 of the hierarchy. (See Note 14 - Derivative Financial Instruments for additional information).

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Note 11 Fair Value (continued)

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The tables below present the recorded amount of assets and liabilities measured at fair value on a recurring basis.

(Dollars in thousands)	Fair Value September 30, 2009	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Securities available for sale:				
Government-sponsored enterprises debt	$ 37,934	$	$ 37,934	$
State and municipal obligations	23,770		23,770	
Mortgage-backed securities	105,229		105,229	
Trust preferred (collateralized debt obligations)	7,954			7,954
Corporate stocks	385	350	35	
Total securities available for sale	$ 175,272	$ 350	$ 166,968	$ 7,954
Liabilities				
Derivative financial instruments	$ 268	$	$ 268	$

(Dollars in thousands)	Fair Value December 31, 2008	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Securities available for sale:				
Government-sponsored enterprises debt	$ 28,672	$	$ 28,672	$
State and municipal obligations	10,558		10,558	
Mortgage-backed securities	133,505		133,505	
Trust preferred (collateralized debt obligations)	10,083			10,083
Corporate stocks	402	367	35	
Total securities available for sale	$ 183,220	$ 367	$ 172,770	$ 10,083

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Note 11 Fair Value (continued)

(Dollars in thousands)	Fair Value September 30, 2008	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Securities available for sale:				
Government-sponsored enterprises debt	$ 39,131	$	$ 39,131	$
State and municipal obligations	10,370		10,370	
Mortgage-backed securities	136,243		136,243	
Trust preferred (collateralized debt obligations)	12,112		12,112	