FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2004-08-12** | Period of Report: **2004-06-30**
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FILER

SOUTHERN COMMUNITY BANCORP
CIK:**1110544**| IRS No.: **593619325** | State of Incorp.:**FL** | Fiscal Year End: **1231**
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SIC: **6022** State commercial banks

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SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2004

Commission File No. 000-49780

SOUTHERN COMMUNITY BANCORP

(Exact Name of Registrant as Specified in its Charter)

Florida	**59-3619325**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

250 North Orange Avenue, Orlando, Florida 32801

(Address of Principal Executive Offices)

(407) 648-1844

(Registrant' s telephone number, including area code)

Indicate by check number 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 past 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 checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act): Yes ☒ No ☐

As of August 4, 2004, the issuer had 7,307,469 outstanding shares of common stock, par value $1.00 per share.

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SOUTHERN COMMUNITY BANCORP
FORM 10-Q
June 30, 2004

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

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SOUTHERN COMMUNITY BANCORP AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (Unaudited)
($ in thousands, except per share amounts)

	At June 30,	
	2004	2003
Assets		
Cash and due from banks	$13,624	21,999
Interest-bearing deposits and federal funds sold	18,484	4,317
Cash and cash equivalents	32,108	26,316
Securities available for sale	115,562	117,613
Security held to maturity	2,881	3,427
Loans, net of allowance for loan losses of $10,010 in 2004 and $7,582 in 2003	819,626	611,214
Accrued interest receivable	3,567	2,896
Federal Home Loan Bank stock, at cost	1,588	1,729
Premises and equipment, net	20,757	18,496
Deferred income tax asset	4,763	1,609
Bank owned life insurance	6,820	5,075
Goodwill	971	971
Foreclosed assets, net	452	4

Other assets	855	551
Total assets	$1,009,950	789,901
Liabilities and Stockholders' Equity		
Liabilities:		
Non-interest-bearing demand deposits	99,665	58,940
Money-market deposits	177,303	109,039
Savings and NOW deposits	286,140	202,731
Time deposits	314,306	292,476
Total deposits	877,414	663,186
Other borrowings	50,004	52,237
Official checks	8,790	7,614
Other liabilities	1,909	2,038
Total liabilities	938,117	725,075
Stockholders' equity:		
Common stock, $1.00 par value, 10,000,000 shares authorized, 7,307,469 and 7,046,352 shares issued and outstanding in 2004 and 2003	7,307	7,046
Additional paid-in capital	56,962	54,118

Retained earnings	10,626	3,048
Accumulated other comprehensive income (loss)	(3,062)	614
Total stockholders' equity	71,833	64,826
Total liabilities and stockholders' equity	$1,009,950	789,901

See Accompanying Notes to Condensed Consolidated Financial Statements.

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SOUTHERN COMMUNITY BANCORP AND SUBSIDIARIES
Condensed Consolidated Balance Sheet
($ in thousands, except per share amounts)

	At December 31, 2003
Assets	
Cash and due from banks	$ 15,103
Interest-bearing deposits and federal funds sold	15,292
Cash and cash equivalents	30,395
Securities available for sale	109,157
Security held to maturity	3,272
Loans, net of allowance for loan losses of $8,883	718,969
Accrued interest receivable	3,026
Federal Home Loan Bank stock, at cost	1,934
Premises and equipment, net	20,967
Deferred income tax asset	3,659
Bank owned life insurance	5,189
Goodwill	971
Foreclosed assets, net	1,066

Other assets	644
Total assets	$ 899,249
Liabilities and Stockholders' Equity	
Liabilities:	
Non-interest-bearing demand deposits	76,123
Money-market deposits	117,586
Savings and NOW deposits	284,955
Time deposits	293,015
Total deposits	771,679
Other borrowings	51,423
Official checks	4,972
Other liabilities	3,334
Total liabilities	831,408
Stockholders' equity:	
Common stock, $1.00 par value, 10,000,000 shares authorized, 7,124,944 shares issued and outstanding	7,125
Additional paid-in capital	54,938
Retained earnings	6,916

Accumulated other comprehensive income (loss)	(1,138)
Total stockholders' equity	67,841
Total liabilities and stockholders' equity	$ 899,249

See Accompanying Notes to Condensed Consolidated Financial Statements.

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SOUTHERN COMMUNITY BANCORP AND SUBSIDIARIES
Condensed Consolidated Statements of Earnings (Unaudited)
($ in thousands, except per share amounts)

	Three months Ended June 30,	
	2004	**2003**
Interest income:		
Loans	$12,255	9,770
Securities	1,154	942
Other	90	44
Total interest income	13,499	10,756
Interest expense:		
Deposits	4,534	4,109
Other borrowings	383	183
Total interest expense	4,917	4,292
Net interest income	8,582	6,464
Provision for loan losses	478	975
Net interest income after provision for loan losses	8,104	5,489

Noninterest income:		
Service charges on deposit accounts	196	213
Other fees	257	361
Earnings on bank-owned life insurance	69	59
Gain on sale of securities available for sale	–	289
Other income	187	256
Total noninterest income	709	1,178
Noninterest expense:		
Salaries and employee benefits	2,860	2,367
Occupancy expense	1,064	926
Data processing	337	311
Printing and office supplies	56	97
Marketing and advertising	94	139
Professional fees	312	266
Other expense	568	559
Total noninterest expense	5,291	4,665

Earnings before income taxes	3,522	2,002
Income taxes	1,233	753
Net earnings	$2,289	1,249
Basic earnings per share	$.32	.18
Diluted earnings per share	$.30	.17
Dividends per share	–	–

See Accompanying Notes to Condensed Consolidated Financial Statements.

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SOUTHERN COMMUNITY BANCORP AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
(In thousands)

	Three months Ended June 30, 2004	Three months Ended June 30, 2003
Net earnings	$ 2,289	1,249
Net change in unrealized gain (loss) on securities available for sale, net of tax	(3,230)	(194)
Comprehensive income (loss)	$ (941)	1,055

See Accompanying Notes to Condensed Consolidated Financial Statements.

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SOUTHERN COMMUNITY BANCORP AND SUBSIDIARIES
Condensed Consolidated Statements of Earnings (Unaudited)
($ in thousands, except per share amounts)

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Interest income:		
Loans	$24,072	18,705
Securities	2,267	1,736
Other	163	77
Total interest income	26,502	20,518
Interest expense:		
Deposits	8,949	8,009
Other borrowings	758	191
Total interest expense	9,707	8,200
Net interest income	16,795	12,318
Provision for loan losses	1,444	1,720
Net interest income after provision for loan losses	15,351	10,598

Noninterest income:		
Service charges on deposit accounts	382	408
Other fees	508	624
Earnings on bank-owned life insurance	131	121
Gain on sale of securities available for sale	62	289
Other income	361	486
Total noninterest income	1,444	1,928
Noninterest expense:		
Salaries and employee benefits	6,052	4,696
Occupancy expense	2,165	1,770
Data processing	670	609
Printing and office supplies	170	179
Marketing and advertising	271	261
Professional fees	536	413
Other expense	1,219	989
Total noninterest expense	11,083	8,917

Earnings before income taxes	5,712	3,609
Income taxes	2,002	1,356
Net earnings	3,710	2,253
Basic earnings per share	.52	.33
Diluted earnings per share	.48	.31
Dividends per share	–	–

See Accompanying Notes to Condensed Consolidated Financial Statements.

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SOUTHERN COMMUNITY BANCORP AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Unaudited)
(In thousands)

	Six months Ended June 30,	
	2004	2003
Net earnings	$3,710	2,253
Net change in unrealized gain (loss) on securities available for sale, net of tax	(1,924)	(343)
Comprehensive income	$1,786	$1,910

See Accompanying Notes to Condensed Consolidated Financial Statements.

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SOUTHERN COMMUNITY BANCORP AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	Six months Ended June 30, 2004	Six months Ended June 30, 2003
Cash flows from operating activities:		
Net earnings	$3,710	2,253
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for loan losses	1,444	1,720
Depreciation and amortization	918	835
Deferred income taxes	(68)	–
Gain on sale of securities available for sale	(62)	(289)
Net amortization of premiums and discounts on securities	257	737
Net amortization of deferred loan fees and costs	(960)	(642)
Common stock issued as compensation	635	222
Earnings on bank-owned life insurance	(131)	(121)
Net increase in accrued interest receivable	(541)	(90)
Net increase in other assets	(211)	(405)
Net increase in official checks	3,818	3,827

Net decrease in other liabilities	(1,032)	(22)
Net cash provided by operating activities	7,777	8,025
Cash flows from investing activities:		
Maturities, calls and repayments of securities available for sale	14,096	27,370
Repayments of security held to maturity	385	24
Purchases of securities available for sale	(25,712)	(76,720)
Proceeds from sale of securities available for sale	2,062	20,439
Net increase in loans	(101,540)	(112,127)
Redemption (purchase) of Federal Home Loan Bank stock	346	(1,517)
Purchases of premises and equipment	(708)	(639)
Net proceeds from sales of foreclosed assets	1,013	400
Purchase of bank owned life insurance	(1,500)	–
Net proceeds from sale of premises and equipment	–	160
Net cash used in investing activities	(111,558)	(142,610)
Cash flows from financing activities:		
Net increase in deposits	105,735	69,769

Net (decrease) increase in other borrowings	(1,419)	50,814
Proceeds from issuance of common stock, net	1,178	4,595
Net cash provided by financing activities	105,494	125,178
Net increase (decrease) in cash and cash equivalents	1,713	(9,407)
Cash and cash equivalents at beginning of period	30,395	35,723
Cash and cash equivalents at end of period	$32,108	26,316

(continued)

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SOUTHERN COMMUNITY BANCORP AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited), Continued
(In thousands)

	Six months Ended June 30,	
	2004	**2003**
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$9,746	8,208
Income taxes	$2,855	1,805
Noncash financing and investing activities:		
Change in accumulated other comprehensive income, net change in unrealized (gain) loss on securities available for sale, net of taxes	$(1,924)	(343)
Transfer of loans to foreclosed assets	$399	102
Tax benefit from exercise of stock options	$393	–

See Accompanying Notes to Condensed Consolidated Financial Statements.

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SOUTHERN COMMUNITY BANCORP AND SUBSIDIARIES
Condensed Consolidated Statement of Stockholders' Equity

Six Months Ended June 30, 2004
($ in thousands)

	Common Stock					
	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2003	7,124,944	$ 7,125	54,938	6,916	(1,138)	67,841
Net earnings (unaudited)	–	–	–	3,710	–	3,710
Net change in unrealized gain (loss) on securities available for sale, net of taxes of $703 (unaudited)	–	–	–	–	(1,924)	(1,924)
Common stock issued as compensation (unaudited)	51,925	52	583	–	–	635
Sale of common stock in connection with Employee Stock Purchase Plan (unaudited)	33,600	33	339	–	–	372
Proceeds from exercise of stock options (unaudited)	93,000	93	657	–	–	750
Tax benefit from exercise of stock options (unaudited)	–	–	393	–	–	393
Sale of common stock (unaudited)	4,000	4	52	–	–	56
Balance at June 30, 2004 (unaudited)	7,307,469	$ 7,307	56,962	10,626	(3,062)	71,833

See Accompanying Notes to Condensed Consolidated Financial Statements.

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SOUTHERN COMMUNITY BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited)

1. ***General.*** In the opinion of the management of Southern Community Bancorp and its subsidiaries (the “Company” or “Southern”), the accompanying condensed consolidated financial statements contain all adjustments (consisting principally of normal recurring accruals) necessary to present fairly the financial position at June 30, 2004 and 2003, the results of operations for the three-month and six month periods then ended, and cash flows for the six month periods ended June 30, 2004 and 2003. The results of operations and other data for the three months and six months ended June 30, 2004 are not necessarily indicative of the results to be expected for the year ending December 31, 2004.

Southern Community Bancorp (the “Holding Company”) owns all of the outstanding common stock of Southern Community Bank of Central Florida (the “Orlando Bank”), Southern Community Bank of Southwest Florida (the “Bonita Springs Bank”), and Southern Community Bank of South Florida (the “South Florida Bank”) (collectively, the “Banks”). The Banks are Florida chartered commercial banks and their deposits are insured up to the applicable limits by the Federal Deposit Insurance Corporation (“FDIC”) through the Bank Insurance Fund. Prior to October 1, 2003, the Orlando Bank had a 50% equity interest in Southern Community Bank Mortgage LLC (the “Mortgage Company”). The Mortgage Company originated, processed and closed loans in central Florida. On October 1, 2003, the Orlando Bank agreed to liquidate the Mortgage Company in exchange for $250,000.

The Orlando Bank owns all of the outstanding common stock of Southern Community Insurance Agency, Inc. (the “Insurance Agency”). The Insurance Agency refers customers of the Banks to certain insurance agencies for the purchase of insurance products.

2. ***Loan Impairment and Losses.*** The Company performs a quarterly loan loss analysis to identify impaired loans. The Company’ s impaired loans were as follows (in thousands):

	At June 30, 2004	At June 30, 2003	At December 31, 2003
Gross loans with no related allowance	$–	–	–
Gross loans with related allowance	900	900	900
Less: Allowance on the loans	(180)	(90)	(45)
Net investment in impaired loans	$720	810	855

The average net investment in collateral dependent impaired loans and interest income recognized and received on these loans were as follows (in thousands):

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003

Average net investment in impaired loans	$ 788	833	822	844
Interest income recognized or impaired loans	$ –	–	–	–
Interest income received on impaired loans	$ –	–	–	–

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An analysis of the change in the allowance for loan losses was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Balance at beginning of period	$ 9,764	6,886	8,883	6,262
Provision charged to earnings	478	975	1,444	1,720
Net charge-offs	(232)	(279)	(317)	(400)
Balance at end of period	$ 10,010	7,582	10,010	7,582

Non-accrual and past due loans were as follows (in thousands):

	At June 30,		At December 31,
	2004	2003	2003
Non-accrual loans	$1,657	3,026	1,737
Past due ninety days or more, but still accruing	–	309	133
	$1,657	3,335	1,870

3. ***Earnings Per Share.*** Earnings per share of common stock were computed on the basis of the weighted-average number of shares of common stock outstanding. Diluted earnings per share were computed based on the weighted-average number of shares outstanding plus the effect of outstanding stock options, computed using the treasury stock method. The following table presents the calculations of earnings per share ($ in thousands, except per share amounts):

	Three Months Ended June 30,					
	2004			2003		
	Earnings	Weighted-Average Shares	Per Share Amount	Earnings	Weighted-Average Shares	Per Share Amount
Basic earnings per share:						

Net earnings available to common stockholders	$ 2,289	7,229,701	$ .32	$ 1,249	6,796,085	$ .18
Effect of dilutive securities - Incremental shares from assumed exercise of options		507,268			411,391	
Diluted earnings per share:						
Net earnings available to common stockholders and assumed conversion	$ 2,289	7,736,969	$ .30	$ 1,249	7,207,476	$ .17

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	Six Months Ended June 30,					
	2004			2003		
	Earnings	Weighted-Average Shares	Per Share Amount	Earnings	Weighted-Average Shares	Per Share Amount
Basic earnings per share:						
Net earnings available to common stockholders	$ 3,710	7,195,871	$ .52	$ 2,253	6,888,083	$ .33
Effect of dilutive securities - Incremental shares from assumed exercise of options		519,428			372,021	
Diluted earnings per share:						
Net earnings available to common stockholders and assumed Conversion	$ 3,710	7,715,299	$ .48	$ 2,253	7,260,104	$ .31

4. ***Regulatory Capital.*** The Holding Company, the Orlando Bank, the Bonita Springs Bank and the South Florida Bank are required to maintain certain minimum regulatory capital requirements. The following is a summary at June 30, 2004 of the regulatory capital requirements and the actual capital on a percentage basis:

	Actual	Regulatory Requirement
Total capital to risk-weighted assets		
Consolidated	10.13%	8.00 %
Bonita Springs Bank	10.31%	8.00 %
Orlando Bank	10.77%	8.00 %
South Florida Bank	10.52%	8.00 %

Tier I capital to risk-weighted assets		
Consolidated	7.73 %	4.00 %
Bonita Springs Bank	9.28 %	4.00 %
Orlando Bank	7.57 %	4.00 %
South Florida Bank	9.41 %	4.00 %
Tier I capital to total assets - leverage ratio		
Consolidated	7.25 %	4.00 %
Bonita Springs Bank	9.19 %	4.00 %
Orlando Bank	6.74 %	4.00 %
South Florida Bank	9.27 %	4.00 %

5. ***Stock Option Plans.*** The Company has several stock option plans under which the Company is authorized to issue shares of its common stock to employees and directors pursuant to stock options and restricted stock grants. Vesting periods are established as awards are granted. At June 30, 2004, there were 1,377,810 shares available to be issued in connection with future awards under the option plans.

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A summary of stock option transactions for the six-month periods ended June 30, 2004 and 2003 follows ($ in thousands, except per share amounts):

	Number of Options	Range Of Per Share Option Price	Weighted-Average Per Share Price	Aggregate Option Price
Balance at December 31, 2002	984,165	$ 7.50-10.50	$ 8.18	$ 8,054
Granted	15,900	10.50-14.00	11.76	187
Balance at June 30, 2003	1,000,065	7.50-14.00	8.24	8,241
Balance at December 31, 2003	1,070,440	7.50-14.00	8.25	8,829
Granted	60,500	14.00	14.00	847
Forfeited	(23,750)	7.50-10.50	7.66	(182)
Exercised	(93,000)	7.50-8.80	8.06	(750)
Balance at June 30, 2004	1,014,190	$7.50-14.00	$ 8.62	$ 8,744

The following table illustrates the effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation ($ in thousands, except per share amounts).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net earnings, as reported	$ 2,289	1,249	3,710	2,253

Deduct: Total stock-based employee compensation determined under the fair value based method for all options, net of related tax effect	(66)	(75)	(132)	(145)
Proforma net earnings	$ 2,223	1,174	3,578	2,108
Basic earnings per share:				
As reported	$ .32	.18	.52	.33
Proforma	$ .31	.17	.50	.31
Diluted earnings per share:				
As reported	$ .30	.17	.48	.31
Proforma	$ .29	.16	.46	.29

In order to calculate the fair value of the options, it was assumed that there would be no dividends paid by the Company over the exercise period, the expected life of the options would be the entire exercise period and stock volatility would be zero due to the lack of an active market for the stock. For purposes of pro forma disclosures, the estimated fair value is treated as expense during the vesting period. The following information summarizes the fair value of options granted under the option plans during the period:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Risk-free interest rate	–	3.94 %	4.76 %	4.26 %
Weighted-average grant-date fair value per option of options issued during the period	–	$ 4.42	$5.11	$4.25

6. ***Other Events.*** On March 19, 2004, the Company entered into an Agreement and Plan of Merger with First National Bankshares of Florida, Inc. (“FLB”), pursuant to which the Company would be merged with and into FLB. The merger is expected to be consummated in the third quarter of 2004 subject to regulatory and shareholder approvals.

On August 2, 2004, FLB entered into a definitive agreement with Fifth Third Bancorp (“FITB”). Under this agreement, FITB will acquire all of outstanding common shares of FLB. The acquisition is expected to be consummated in the first quarter of 2005 pending regulatory and shareholder approval.

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SOUTHERN COMMUNITY BANCORP AND SUBSIDIARIES

Review by Independent Registered Public Accounting Firm

Hacker, Johnson & Smith PA, the Company' s independent registered public accounting firm, have made a limited review of the financial data as of June 30, 2004 and 2003 and for the three- and six-month periods then ended, presented in this document, in accordance with standards established by the Public Company Accounting Oversight Board.

Their report furnished pursuant to Article 10 of Regulation S-X is included herein.

Report of Independent Registered Public Accounting Firm

Southern Community Bancorp
Orlando, Florida:

We have reviewed the accompanying condensed consolidated balance sheets of Southern Community Bancorp and Subsidiaries (the "Company") as of June 30, 2004 and 2003, and the related condensed consolidated statements of earnings and comprehensive income for the three- and six-month periods then ended, the related condensed consolidated statement of stockholders' equity for the six month period ended June 30, 2004 and the related condensed consolidated statements of cash flows for the six-month period ended June 30, 2004 and 2003. These interim financial statements are the responsibility of the Company' s management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquires of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board, the consolidated balance sheet as of December 31, 2003, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated January 14, 2004, except for Note 23 as to which the date is March 19, 2004, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2003, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

HACKER, JOHNSON & SMITH PA
Orlando, Florida
August 2, 2004

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

This Form 10-Q contains "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward looking statements represent Southern's expectations and beliefs including, but not limited to, statements concerning Southern's operations, performance, financial condition, growth or strategies. For this purpose, any statements contained in this Form 10-Q that are not statements of historical fact may be deemed to be forward looking statements. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "estimate," "anticipate" or "continue" or the negative or other variations thereof or comparable terminology are intended to identify forward looking statements. The statements by their nature involve substantial risks and uncertainties, certain of which are beyond Southern's control, and actual results may differ materially depending on a variety of important factors, including but not limited to the potential impact of changes in interest rates, competition, credit risks and collateral, changes in local or regional economic conditions, the ability of Southern to continue its growth strategy, dependence on management and key personnel, and regulatory supervision.

Agreement and Plan of Merger Between Southern and First National Bankshares of Florida, Inc.

On March 19, 2004, Southern and First National Bankshares of Florida, Inc. ("FLB") entered into an Agreement of Plan of Merger, pursuant to which FLB has agreed to acquire Southern through the merger of Southern with and into FLB. Under the terms of the merger agreement, at the effective time of the merger, each outstanding share of Southern common stock will be converted into the right to receive 1.6686 shares of FLB common stock, provided that if the average closing price of FLB common stock exceeds $19.42 over the 20 consecutive trading days ending on the fifth day prior to the merger (such average closing price, the "Closing FLB Value"), the exchange ratio will be reduced to an amount that will result in each share of Southern common stock being exchanged for a number of shares of FLB common stock having a value (based on the Closing FLB Value) equal to the average of $32.40 ($19.42 multiplied by 1.6686) and the product of 1.6686 multiplied by the Closing FLB Value.

If the average closing price of FLB common stock over the 20 trading days ending on the day that the last required regulatory or shareholder approval for the merger is obtained is less than $14.56, Southern will have the right to terminate the merger agreement.

The merger is intended to constitute a tax free organization under the Internal Revenue Code of 1986 as amended (except as to any cash paid to a Southern shareholder in lieu of a fractional share of FLB common stock).

Consummation of the merger is subject to various conditions, including approval of the merger agreement by the shareholders of Southern and FLB, receipt of banking regulatory approvals and receipt of opinions of counsel as to the tax-free nature of certain aspects of the merger. Southern reported the execution of the merger agreement in a Form 8-K filed with the Securities and Exchange Commission on March 22, 2004. The merger is currently expected to be consummated during the third quarter of 2004.

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Results of Operations - Three Months Ended June 30, 2004 and 2003

Southern had net earnings for the second quarter of 2004 of $2.3 million, compared to $1.2 million for the comparable period in 2003. Earnings before income taxes in the second quarter of 2004 were $3.5 million compared $2.0 million in the second quarter of 2003. The improvement in earnings was primarily due to a substantial increase in net interest income, which grew from $6.5 million in the second quarter of 2003 to $8.6 million in the second quarter of 2004. As discussed below, the increase in net interest income was principally a result of the growth in Southern' s assets.

Net Interest Income. Southern' s operating results depend primarily on Southern' s net interest income, which is a difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities. Net interest income is determined by the difference between yields earned on interest-earning assets and rates paid on interest- bearing liabilities and the relative amounts of interest-earning assets and interest-bearing liabilities. Southern' s interest rates spread is affected by regulatory, economic and competitive factors that influence interest rates, loan demand and deposit flows. In addition, Southern' s net earnings are also affected by the level of non-performing loans and foreclosed assets, as well as the level of its non-interest income, and its non-interest expenses, such as salaries and employee benefits and occupancy expense.

Interest income for the second quarter of 2004 was $13.5 million, compared to $10.8 million for the second quarter of 2003. The growth in interest income primarily reflects the growth in Southern' s assets, which grew from $789.9 million at June 30, 2003 to $1 billion at June 30, 2004. This growth was partially offset by a decrease in the average yield earned on interest-earning assets. During the same period, net loans grew from $611.2 million to $819.6 million. The increase in assets is primarily attributable to the growth of Southern' s business in southeast and southwest Florida, where Southern opened three branches in 2003 and 2004.

Interest expense increased from $4.3 million for the second quarter of 2003 to $4.9 million for the comparable 2004 period. This was due to a combination of higher level of deposits and borrowings and a decrease in the average cost of deposits. Most of the deposit growth was attributable to Southern' s new branches in southeast and southwest Florida.

Southern' s net interest margin decreased from approximately 3.8% for the second quarter of 2003 to approximately 3.6% for the second quarter of 2004. The decrease in the net interest margin was principally due to a change in the mix of Southern' s assets and liabilities. In this connection, Southern' s loans represented a higher percentage of total assets in the second quarter of 2004 than in the second quarter of 2003. This shift improved Southern' s net interest margin because loans are Southern' s highest yielding category of interest-earning assets.

Noninterest Income. Noninterest income in the second quarter of 2004 totaled $709,000, compared with $1.2 million in 2003. Included in the 2003 period was a gain on sale of securities available for sale of $289,000. Service charges on deposit accounts totaled $196,000 in the second quarter of 2004, down from $213,000 in 2003, due to higher levels of deposits which do not pay service charges (such as certificates of deposit). Other fees and other income totaled $444,000 in 2004, down from $617,000 in 2003, primarily caused by a decrease in mortgage referral fees after the liquidation of Southern Community Bank Mortgage, LLC in October 2003.

Provision for Loan Losses. The provision for loan losses totaled $478,000 in the second quarter of 2004 compared to $975,000 in 2003. The allowance for loan losses at June 30, 2004 was $10.0 million. See "Allowance and Provision for Loan Losses" below.

Noninterest Expenses. Noninterest expenses for the second quarter of 2004 totaled $5.3 million, up 13.4% from $4.7 million in 2003. Noninterest expenses included the following:

Salaries and employee benefits represented 54.1% of total non-interest expenses in 2004. Salaries and employee benefits increased 20.8% to $2.9 million in 2004 from $2.4 million in 2003. The increase was primarily due to the addition of employees in connection with the new branches in southeast and southwest Florida, together with salary increases and higher benefit costs.

Occupancy expense in 2004 totaled $1.1 million, up 14.9% from $926,000 in 2003. This increase was primarily due to the opening of the new branches.

Other non-interest expenses for the second quarter of 2004 totaled $1.4 million, down 0.4% from 2003. Other non-interest expenses include data processing, printing and office supplies, marketing and advertising, professional fees and other expenses.

Income Taxes. Income taxes totaled $1.2 million in 2004 (effective rate of 35.0%) compared to $753,000 in 2003 (effective rate of 37.6%).

Results of Operations - Six Months Ended June 30, 2004 and 2003

Southern had net earnings for the first half of 2004 of $3.7 million, compared to $2.3 million for the comparable period in 2003. Earnings before income taxes in the first half of 2004 were $5.7 million compared $3.6 million in the first half of 2003. The improvement in earnings was primarily due to a substantial increase in net interest income, which grew from $12.3 million in the first half of 2003 to $16.8 million in the first half of 2004. As discussed below, the increase in net interest income was principally a result of the growth in its assets.

Net Interest Income. Interest income for the first half of 2004 was $26.5 million, compared to $20.5 million for the first half of 2003. The growth in interest income primarily reflects the growth in Southern' s assets, which grew from $789.9 million at

June 30, 2003 to $1 billion at June 30, 2004. This growth was partially offset by a decrease in the average yield earned on interest-earning assets. During the same period, net loans grew from $611.2 million to $819.6 million. The increase in assets is primarily attributable to the growth of Southern' s business in southeast and southwest Florida, where Southern opened three branches in 2003 and 2004.

Interest expense increased from $8.2 million for the first half of 2003 to $9.7 million for the comparable 2004 period. This was due to a combination of higher level of deposits and borrowings and a decrease in the average cost of deposits. Most of the deposit growth was attributable to Southern' s new branches in southeast and southwest Florida.

Southern' s net interest margin decreased from approximately 3.8% for the first half of 2003 to approximately 3.6% for the first half of 2004. The decrease in the net interest margin was principally due to a change in the mix of Southern' s assets and liabilities. In this connection, Southern' s loans represented a higher percentage of total assets in the second quarter of 2004 than in the second quarter of 2003. This shift improved Southern' s net interest margin because loans are Southern' s highest yielding category of interest earning assets.

Noninterest Income. Noninterest income in the first half of 2004 totaled $1.4 million, compared with $1.9 million in 2003. The decrease is partly attributable to a $227,000 decrease in gain on sale of securities available for sale. Service charges on deposit accounts totaled $382,000 in 2004, down from $408,000 in 2003. Other fees and other income totaled $869,000 in 2004, down from $1.1 million in 2003, primarily caused by a decrease in mortgage referral fees after the liquidation of Southern Community Bank Mortgage, LLC in October 2003.

Provision for Loan Losses. The provision for loan losses totaled $1.4 million in the first half of 2004 compared to $1.7 million in 2003. The allowance for loan losses at June 30, 2004 was $10.0 million. See "Allowance and Provision for Loan Losses" below.

Noninterest Expenses. Noninterest expenses for the first half of 2004 totaled $11.1 million, up 24.3% from $8.9 million in 2003. Noninterest expenses included the following:

Salaries and employee benefits represented 54.6% of total non-interest expenses in 2004. Salaries and employee benefits increased 28.9% to $6.1 million in 2004 from $4.7 million in 2003. The increase was primarily due to the addition of employees in connection with the new branches in southeast and southwest Florida, together with salary increases and higher benefit costs.

Occupancy expense in 2004 totaled $2.2 million, up 22.3% from $1.8 million in 2003. This increase was primarily due to the opening of the new branches.

Other non-interest expenses for the first half of 2004 totaled $2.9 million, up 16.9% from $2.5 million in 2003. Other non-interest expenses include data processing, printing and office supplies, marketing and advertising, professional fees and other expenses. The increase resulted from the opening of additional branches as well as the overall growth of Southern.

Income Taxes. Income taxes totaled $2.0 million in 2004 (effective rate of 35.0%) compared to $1.4 million in 2003 (effective rate of 37.6%).

Capital Expenditures

Southern makes capital expenditures in order to improve its ability to provide quality services to its customers. Capital expenditures for the six months ended June 30, 2004 equaled $708,000 compared to $639,000 in 2003. Most of these expenses in 2004 were related to the purchase of equipment and construction of new branches.

Asset Quality and Credit Risk

Securities. Southern maintains a high quality investment portfolio including securities of U.S. government entities, mortgage-backed securities and municipal bonds. Southern believes that the securities have very little risk of default. At June 30, 2004, all but one of the securities held in Southern' s investment portfolio were classified available for sale and all were rated "A" or better (with a majority rated triple "A"). A rating of "A" or better means that the bonds are of "upper medium grade, with strong ability to repay, possibly with some susceptibility to adverse economic conditions or changing circumstances." Ratings are assigned by independent rating agencies and are subject to the accuracy of reported information concerning the issuers and the subjective judgment and analysis of the rating agencies. They are not a guarantee of collectibility.

The following table sets forth information regarding the composition and carrying amounts of the investment portfolio at June 30, 2004 and 2003:

Investment Portfolio

	At June 30,	
	2004	**2003**
	(in thousands)	
Available for Sale:		
U.S. Government agencies securities	$43,264	45,538
Mortgage-backed securities	49,810	70,246
Municipal bonds	22,488	1,829
	$115,562	117,613
Held to Maturity-		
Mortgage-backed securities	$2,881	3,427

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Loans. Southern maintains a high quality portfolio of real estate, commercial and consumer loans. All loans over individual lending limits are reviewed and approved by Southern' s loan committee, which ensures that loans comply with applicable credit standards. In most cases, Southern requires collateral from the borrowers. The type and amount of collateral varies, but may include residential or commercial real estate, deposits held by financial institutions, U.S. Treasury securities, other marketable securities and personal property. Southern monitors collateral values to ensure that they are maintained at proper levels.

As of June 30, 2004, the majority of Southern' s real estate loans were loans secured by real estate in central and south Florida. This level of concentration could present a potential credit risk to Southern because the ultimate collectibility of these loans is susceptible to adverse changes in real estate market conditions in these markets. Southern has sought to address this risk by limiting most loans to a maximum of 75% of the appraised value of the underlying real estate and maximum amortization schedules of 20 years with maturity dates not exceeding five years.

The following table divides Southern' s loan portfolio into five categories. Most of the loans are short-term and may be renewed or rolled over at maturity. At that time, Southern undertakes a complete review of the borrower' s credit worthiness and the value of any collateral. If these items are satisfactory, Southern will generally renew the loan at prevailing interest rates.

Types of Loans

	At June 30,	
	2004	**2003**
	(in thousands)	
Commercial	$97,421	142,317
Commercial real estate	356,059	244,473
Residential real estate	81,036	58,839
Construction	283,579	161,378
Consumer and other	14,135	14,043
Total loans	832,230	621,050
Less:		
Allowance for loan losses	(10,010)	(7,582)
Net deferred loan fees and other discounts	(2,594)	(2,254)

Loans, net	$819,626	611,214

Commercial Loans. Southern makes commercial loans to businesses located in its target markets. The credit risk associated with business lending is influenced by general economic conditions, deterioration in a borrower' s capital position resulting in increasing debt to equity ratios, deterioration in a borrower' s cash position resulting in a liquidity problem, and decreasing revenues due to inefficient operations of the borrower. These loans are generally secured by corporate assets, marketable securities or other liquid financial instruments. These loans totaled approximately $97.4 million or 11.7% of total loans at June 30, 2004, compared with $142.3 million or 22.9% of total loans at June 30, 2003.

Real Estate Loans. Southern' s real estate loans totaled $720.7 million or 86.6% of total loans at June 30, 2004, and $464.7 million or 74.8% at June 30, 2003.

Southern makes real estate loans secured by commercial real estate, including loans to acquire or refinance office buildings, warehouses and apartments. These loans generally require a loan to value ratio of not more than 75%. Most of these loans have a maturity of five years or less. Almost all of these loans are secured by real property located in central and south Florida. These loans totaled $356.1 million or 42.8% of total loans at June 30, 2004 compared with $244.5 million or 39.4% of total loans at June 30, 2003. The growth in commercial real estate loans was primarily due to new loans originated in southeast Florida. Risks associated with commercial real estate mortgage loans include reliability of appraisals, deterioration of market values, environmental contamination, and accelerated depreciation of property due to deferred maintenance.

Residential real estate loans totaled $81.0 million or 9.7% of total loans at June 30, 2004, compared with $58.8 million or 9.5% at June 30, 2003. Residential real estate mortgage loans are predominately adjustable rate home mortgages which generally require a loan-to-collateral value ratio of not more than 90% and equity credit lines which generally limit the loan-to-collateral value ratio to not more than 90%. Most loans have a maximum term of five to seven years. Almost all of the residential real estate mortgage loans are secured by homes in central and south Florida. Risks associated with residential real estate mortgage loans include reliability of appraisals, deterioration of market values, environmental contamination, and accelerated depreciation of property due to deferred maintenance.

Construction loans totaled $283.6 million or 34.1% of total loans at June 30, 2004 compared to $161.4 million or 26.0% of total loans at June 30, 2003. The increase in construction loans was due in part to the refocusing of marketing efforts. Southern primarily makes construction loans on property located in central and south Florida.

Consumer and Other Loans. Southern offers consumer loans and personal and secured loans. The security for these loans ordinarily consists of automobiles, consumer goods, marketable securities, certificates of deposit and similar items. These loans totaled approximately $14.1 million or 1.7% of total loans, on June 30, 2004, compared with $14.0 million or 2.3% of total loans, on June 30, 2003. Risks associated with installment loans include borrowers' loss of employment, and rapid depreciation of loan collateral.

Commitments. The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are commitments to extend credit, standby letters of credit, undisbursed loans in process and unused lines of credit and may involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the condensed consolidated balance sheets. The contract amounts of these instruments reflect the extent of involvement the Company has in these financial instruments.

The Company' 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 Company uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

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. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer' s credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management' s credit evaluation of the counterparty.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved is essentially the same as that involved in extending loans to customers.

Southern had legally binding commitments to extend credit, including unused lines of credit and letters of credit, totaling $289.5 million at June 30, 2004.

Nonperforming Assets and Past Due Loans

Nonperforming assets consist of nonaccrual loans and assets acquired in partial or total satisfaction of problem loans which are known as "foreclosed assets." Past due loans are loans that are delinquent 30 days or more which are still accruing interest.

Southern' s credit review and approval process is critical to Southern' s ability to minimize non-performing assets on a long term basis. In addition to the negative impact on interest income, non-performing assets also increase operating costs due to the expense of collection efforts. It is Southern' s policy to place all loans which are past due 90 days or more on non-accrual status, subject to exceptions made on a case by case basis.

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The following table presents Southern' s non-performing assets and past due loans:

Non-Performing Assets and 90 Day Past Due Loans

	At June 30, 2004	At June 30, 2003
	(In thousands)	
Nonaccrual loans	$1,657	3,026
Foreclosed assets	452	4
Total nonperforming assets	$2,109	3,030
Accruing loans past due 90 days or more	$–	309

Southern' s non-performing loans and loans past due 90 days were $2.1 million at June 30, 2004, or 0.25% of total loans of $832.2 million. Non-performing loans at June 30, 2004 consisted of commercial and residential real estate loans. Southern believes that its non-performing loans are well secured and are unlikely to result in any material losses. Total non-performing assets and accruing loans past due 90 days or more totaled $2.1 million at June 30, 2004, compared to $3.3 million at June 30, 2003.

Allowance and Provision for Loan Losses

Southern evaluates the adequacy of its allowance for loan losses as part of its ongoing credit review and approval process. The review process is intended to identify, as early as possible, customers who may be facing financial difficulties. Once identified, the extent of the client' s financial difficulty is carefully monitored by Southern' s loan review officer, who recommends to the loan committee the portion of any credit that needs a specific reserve allocation or should be charged off. Other factors considered by the loan committee in evaluating the adequacy of the allowance include overall loan volume, historical net loan loss experience, the level and composition of non-accrual and past due loans, local economic conditions, and value of any collateral. From time to time, specific amounts of the reserve are designated for certain loans in connection with the loan committee' s review of the officer' s analysis of the adequacy of the allowance for loan losses.

While the largest portion of this allowance is typically intended to cover specific loan losses, it is considered a general reserve which is available for all credit-related purposes. The allowance is not a precise amount, but is derived based upon the above factors and represents management' s best estimate of the amount necessary to adequately cover probable losses from current credit exposures. The provision for loan losses is a charge against current earnings and is determined by management as the amount needed to maintain an adequate allowance.

Management relied on these factors, as well as its assessment of the financial condition of specific clients facing financial difficulties, in deciding to increase the allowance for loan losses to $10.0 million at June 30, 2004, from $8.9 million at December 31, 2003 and $7.6 million at June 30, 2003.

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Financial Condition

Southern' s goal is to maintain a high quality and liquid balance sheet. Southern seeks to achieve this objective through increases in collateralized loans, a strong portfolio of real estate loans and a stable portfolio of investment securities of high quality.

During the second quarter of 2004, Southern' s total assets decreased by 1.4%, from $1.023 billion at March 31, 2004 to $1.009 billion at June 30, 2004. This decrease was primarily attributable to Southern' s effort to increase profitability by reducing rates on its deposit accounts. These efforts resulted in a 7.3% decrease in deposits.

Cash and Cash Equivalents. Southern had cash and cash equivalents of $32.1 million at June 30, 2004, compared to $76.9 million at March 31, 2004. This decrease was primarily the result of the redeployment of Southern' s cash and cash equivalents into loans.

Securities. On June 30, 2004, securities were $118.4 million or compared to $120.5 million on March 31, 2004. Southern' s goal during the second quarter was to maintain its investment portfolio until the completion of the merger with FLB.

Loans. Net loans were $819.6 million as of June 30, 2004, compared to $787.7 million as of March 31, 2004. Southern continued its efforts to improve earnings by redeploying cash and cash equivalents into loans in the second quarter. See "Asset Quality and Credit Risk – Loans," above.

Interest-Bearing Liabilities. Interest-bearing liabilities primarily consisted of interest-bearing deposits and other borrowings. Total interest-bearing liabilities were $827.8 million at June 30, 2004, down from $893.1 million in March 31, 2004. The decrease in Southern' s deposits reflects the impact of the Southern' s efforts to improve profitability by decreasing rates on deposits. Other borrowings increased to $50.0 million at June 30, 2004 from $48.9 million at March 31, 2004. Other borrowings consist of Federal Home Loan Bank advances, subordinated debentures and borrowings under Southern' s line of credit. In this connection, Southern established a new $10.0 million line of credit agreement with First National Bank of Florida during the second quarter of 2004. Southern has borrowed $7.0 million under this facility, with approximately $5.0 million being used to repay Southern' s prior $5.0 million line of credit with SunTrust Bank and the balance being used to make capital contributions to Southern' s banking subsidiaries. The new line of credit bears interest at 90-day LIBOR plus 1.85%, with interest payable quarterly and the entire balance due 364 days after funding.

Liquidity and Rate Sensitivity

The principal functions of asset and liability management are to provide for adequate liquidity, to manage interest rate exposure by maintaining a prudent relationship between rate sensitive assets and liabilities and to manage the size and composition of the balance sheet so as to maximize net interest income.

Liquidity is the ability to provide funds at minimal cost to meet fluctuating deposit withdrawals or loan demand. These demands are met by maturing assets and the capacity to raise funds from internal and external sources. Southern primarily utilizes cash, federal funds sold and securities available for sale to meet its liquidity needs. Although not utilized in managing daily liquidity needs, the sale of investment securities provides a secondary source of liquidity.

Fluctuating interest rates, increased competition and changes in the regulatory environment continue to significantly affect the importance of interest-rate sensitivity management. Rate sensitivity arises when interest rates on assets change in a different period of time or a different proportion than that of interest rates on liabilities. The primary objective of interest-rate sensitivity management is to prudently structure the balance sheet so that movements of interest rates on assets and liabilities are highly correlated and produce a reasonable net interest margin even in periods of volatile interest rates.

Regular monitoring of assets and liabilities that are rate sensitive within 30 days, 90 days, 180 days and one year is an integral part of Southern’ s rate-sensitivity management process. It is Southern’ s policy to maintain a reasonable balance of rate-sensitive assets and liabilities on a cumulative one year basis, thus minimizing net interest income exposure to changes in interest rates. Southern’ s sensitivity position at June 30, 2004 was such that net interest income would decrease modestly if there were an increase in short-term interest rates.

Southern monitors the interest rate risk sensitivity with traditional gap measurements. These gap measurements have certain limitations in their ability to accurately portray interest sensitivity; however, they do provide a static reading of Southern’ s interest rate risk exposure.

As of June 30, 2004, Southern was liability sensitive (interest-sensitive liabilities subject to repricing exceeded interest-sensitive assets subject to repricing) on a 365-day basis to the extent of $80.1 million. This negative gap at June 30, 2004 was 7.9% of total assets compared with a negative gap of 12.7% at June 30, 2003. Southern’ s target gap position is in the range of negative 20% and positive 20%. The change in Southern’ s gap position reflects a shift from longer-maturity interest-earning assets.

While the absolute level of gap is a measurement of interest rate risk, the quality of the assets and liabilities in the balance sheet must be analyzed in order to understand the degree of interest rate risk taken by Southern. Southern does not invest in any derivative products in order to manage or hedge its interest rate risk.

Capital

One of Southern’ s primary objectives is to maintain a strong capital position to merit the confidence of customers, bank regulators and stockholders. A strong capital position helps Southern withstand unforeseen adverse developments and take advantage of attractive lending and investment opportunities when they arise.

Southern’ s capital position improved during the second quarter of 2004 because of a 1.4% decrease in Southern’ s total assets, as well as the positive impact of net earnings of $2.3 million during this quarter.

Southern’ s tier one capital was 7.73% and the total capital was 10.13% of risk-based assets at June 30, 2004. These risk-based capital ratios were in excess of the minimum requirements of 4.0% for tier one and 8.0% for total risk-based capital ratios. Southern’ s leverage ratio (tier one capital to total average quarterly assets) of 7.25% at June 30, 2004, was also in excess of the minimum 4.0% requirement.

Southern’ s goal is to maintain the regulatory capital of each of its banks so that they are “well capitalized” under applicable federal banking regulations. On June 30, 2004, all of the banks had achieved this objective.

During the first quarter 2004, Southern borrowed $5.0 million from SunTrust Bank pursuant to a revolving line of credit. Southern utilized the proceeds of this loan to make capital contributions to each of its subsidiary banks. During the second quarter of 2004, Southern refinanced this loan with a new line of credit with First National Bank of Florida. Southern borrowed $7.0 million under the new line, with approximately $5.0 million being used to repay the SunTrust loan and $2.0 million being used to make additional capital contributions to Southern’ s subsidiary banks.

Southern anticipates that it will need to continue to increase its capital in order to maintain its planned growth. Southern intends to increase its capital through a combination of earnings from operations, loans from third parties, and the sale of securities.

Unrealized Gain on Securities Available for Sale

Southern’ s comprehensive income for the three and six months ended June 30, 2004 decreased as a result of the $3.2 million and $1.9 million, respectively, in net unrealized loss in the market value of its investment securities that are available for sale during these periods. The drop in market value was due to the increase in long-term interest rates during these periods. As a result of the losses, Southern’ s accumulated other comprehensive income (loss) increased from a $1.1 million loss at December 31, 2003 to a loss of $3.1 million at June 30, 2004.

Critical Accounting Policies

Southern’ s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. A summary of Southern’ s significant accounting policies is set forth in Southern’ s consolidated financial statements contained in Southern’ s Form 10-K for the fiscal year ended December 31, 2004.

Southern believes that of its significant accounting policies, those described below involve a high degree of judgment and complexity. These critical accounting policies require estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in the consolidated financial statements. Due to their nature, estimates involve judgment based upon available information. Actual results or amounts could differ from estimates and the difference could have a material impact on the consolidated financial statements. Therefore, understanding these policies is important in understanding the reported results of operations and the financial position of Southern.

Loan Portfolio. A variety of factors impact the carrying value of Southern' s loan portfolio, including the calculation of the allowance for loan losses, valuation of underlying collateral, the timing of loan charge-offs and the amount and amortization of loan fees and deferred origination costs.

Southern believes that the determination of the allowance for loan losses represents a critical accounting policy. The allowance for loan losses is maintained at a level management considers to be adequate to absorb probable loan losses inherent in the portfolio, based on evaluations of the collectibility and historical loss experience of loans. Credit losses are charged and recoveries are credited to the allowance. Provisions for loan losses are based on Southern' s review of the historical loan loss experience and such factors which, in management' s judgment, deserve consideration under existing economic conditions in estimating probable credit losses. The allowance is based on ongoing assessments of the probable estimated losses inherent in the loan portfolio. Southern' s methodology for assessing the appropriate allowance level consists of several key elements described below.

Large commercial loans that exhibit probable or observed credit weaknesses are subject to individual review. Where appropriate, reserves are allocated to individual loans based on Southern' s estimate of the borrower' s ability to repay the loan given the availability of collateral, other sources of cash flows, and available legal options. Included in the review of individual loans are those that are impaired as provided in Statement of Financial Accounting Standards No. 114, "*Accounting by Creditors for Impairment of a Loan*" as amended. Any specific reserves for impaired loans are measured based on the fair market value of the underlying collateral. Southern evaluates the collectibility of both principal and interest when assessing the need for a special reserve. Historical loss rates are applied to other commercial loans not subject to specific reserve allocations.

Homogenous loans, such as installment and residential mortgage loans, are not individually reviewed by management. Reserves are established for each pool of loans based on the expected net charge-offs. Loss rates are based on the average net charge-off history by loan category.

Historical loss rates for commercial and consumer loans may be adjusted for significant factors that, in management' s judgment, reflect the impact of any current conditions or loss recognition. Factors which management considers in the analysis include the effects of the local economy, trends in the nature and volume of loans (delinquencies, charge-offs, nonaccrual and problem loans), changes in the internal lending policies and credit standards, collection practices, and examination results from bank regulatory agencies and Southern' s internal credit review function.

An unallocated reserve is maintained to recognize the imprecision in estimating and measuring loss when evaluating reserves for individual loans or pools of loans.

Specific reserves on individual loans and historical loss rates are reviewed throughout the year and adjusted as necessary based on changing borrower and collateral conditions and actual collection and charge-off experience.

Based on the procedures discussed above, management believes that allowance for loan losses was adequate to absorb estimated loan losses associated with the loan portfolio at June 30, 2004. Actual results could differ from these estimates. However, since the allowance is affected by management’ s judgment and uncertainties, there is the likelihood that materially different amounts would be reported under different conditions or assumptions. To the extent that the economy changes, collateral values change, reserve factors change, or the nature and volume of problem loans change, Southern may need to adjust its provision for loan losses. Material additions to Southern’ s provision for loan losses would result in a decrease in net earnings and capital.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. The Company’ s market risk arises primarily from interest-rate risk inherent in its lending and deposit taking activities. The Company has little or no risk related to trading accounts, commodities or foreign exchange.

The Company actively monitors and manages its interest rate risk exposure. The primary objective in managing interest-rate risk is to limit, within established guidelines, the adverse impact of changes in interest rates on the Company’ s net interest income and capital, while adjusting the Company’ s asset-liability structure to obtain the maximum yield-cost spread on that structure. Management relies primarily on its asset-liability structure to control interest rate risk. However, a sudden and substantial increase in interest rates could adversely impact the Company’ s earnings, to the extent that the interest rates borne by assets and liabilities do not change at the same speed, to the same extent, or on the same basis. There have been no significant changes in the Company’ s market risk exposure since December 31, 2003.

Item 4. Controls and Procedures

Southern maintains controls and procedures designed to ensure that information required to be disclosed in the reports that Southern files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of these controls and procedures as of June 30, 2004, the Chief Executive Officer and Chief Financial Officer of Southern concluded that Southern’ s disclosure controls and procedures, as designed and implemented, were effective.

Southern made no significant changes in its internal controls over financial reporting during the quarter ended June 30, 2004 that have materially affected, or are reasonably likely to materially affect, the Company’ s internal control over financial reporting.

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PART II
OTHER INFORMATION

Item 2. Changes in Securities.

During the quarter ended June 30, 2004, Southern issued shares of its common stock in the following transactions which were not registered under the Securities Act of 1933, as amended:

On June 17, 2004, Southern issued 73,000 shares to certain employees and directors in connection with their exercise of outstanding stock options. Southern received $600,000 in payment of the exercise price of these options.

On June 17, 2004, Southern issued 10,000 shares as a stock grant to its chief executive officer pursuant to the terms of an existing stock grant agreement. These shares were valued at $14.00 per share.

On June 17, 2004, Southern issued 3,288 shares to certain directors in lieu of directors' fees earned in January and February 2004. These shares were valued at $14.00 per share.

On June 17, 2004, Southern issued 5,620 shares to employees pursuant to Southern's Stock Purchase Plan with respect to contributions made between January 1, 2004 and March 19, 2004. These shares were valued at $14.00 per share.

Item 6. Exhibits.

(a) Exhibits.

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2003
31.2	Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2003
32.1	Certification of Chief Executive Officer pursuant to Section 18 U.S.C. Section 1350, as adopted by Section 906 of Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 18 U.S.C. Section 1350, as adopted by Section 906 of Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K.

Not applicable.

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SIGNATURES

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

SOUTHERN COMMUNITY BANCORP
(Registrant)

Date: August 12, 2004	/s/ Charlie W. Brinkley, Jr. Charlie W. Brinkley, Jr. Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)
Date: August 12, 2004	/s/ Stephen R. Jeuck Stephen R. Jeuck Chief Financial Officer (Principal Accounting Officer)

EXHIBIT INDEX

Ex. No.	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2003
31.2	Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2003
32.1	Certification of Chief Executive Officer pursuant to Section 18 U.S.C. Section 1350, as adopted by Section 906 of Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 18 U.S.C. Section 1350, as adopted by Section 906 of Sarbanes-Oxley Act of 2002

Exhibit 31.1

SECTION 302 CERTIFICATION

I, Charlie W. Brinkley, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Southern Community Bancorp (the "Issuer");

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 issuer as of, and for, the periods presented in this report;

4. The Issuer' 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)) for the Issuer 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 Issuer, 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) Evaluated the effectiveness of the Issuer' 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

   (c) Disclosed in this report any change in the Issuer' s internal control over financial reporting that occurred during the Issuer' s most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Issuer' s internal control over financial reporting; and

5. The Issuer' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Issuer' s auditors and the audit committee of the Issuer' 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 Issuer' 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 significant role in the Issuer' s internal control over financial reporting.

Date: August 12, 2004

/s/ Charlie W. Brinkley, Jr.

Charlie W. Brinkley, Jr.

Chairman of the Board

Chief Executive Officer

Exhibit 31.2

SECTION 302 CERTIFICATION

I, Stephen R. Jeuck, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Southern Community Bancorp (the "Issuer");

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 Issuer as of, and for, the periods presented in this report;

4. The Issuer' 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)) for the Issuer 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 issuer, 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) Evaluated the effectiveness of the issuer' 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

   (c) Disclosed in this report any change in the issuer' s internal control over financial reporting that occurred during the Issuer' s most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the issuer' s internal control over financial reporting; and

5. The issuer' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer' s auditors and the audit committee of the issuer' 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 issuer' 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 significant role in the issuer' s internal control over financial reporting.

Date: August 12, 2004

/s/ Stephen R. Jeuck

Stephen R. Jeuck

Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Quarterly Report of Southern Community Bancorp (the "Corporation") on Form 10-Q for the period ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charlie W. Brinkley, Jr., Chairman of the Board of Directors and Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(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 result of operations of the Corporation.

Date: August 12, 2004

/s/ Charlie W. Brinkley, Jr.
Charlie W. Brinkley, Jr.
Chairman of the Board of Directors
and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Corporation and will be retained by the Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Quarterly Report of Southern Community Bancorp (the "Corporation") on Form 10-Q for the period ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen R. Jeuck, Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(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 result of operations of the Corporation.

Date: August 12, 2004

/s/ Stephen R. Jeuck

Stephen R. Jeuck
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Corporation and will be retained by the Corporation and furnished to the Securities and Exchange Commission or its staff upon request.