CFFC 10-Q 9/30/2008

Section 1: 10-Q

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, 2008.

OR

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

For the transition period from __________________________ to__________________________

Commission file number 000-18261

COMMUNITY FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

VIRGINIA	**54-1532044**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

38 North Central Ave., Staunton, VA 24401
(Address of principal executive offices)

(540) 886-0796
(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 and 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 [X] No [ ]

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

Large accelerated filer [ ] Accelerated filer [ ] Non-Accelerated filer [ ] (do not check if a small reporting company) Small reporting company [X]

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

Number of shares of Common Stock, par value $.01 per share, outstanding at the close of business on October 31, 2008: 4,361,658.

COMMUNITY FINANCIAL CORPORATION

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Part I. Financial Information
Item 1. Financial Statements

COMMUNITY FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS

	September 30, 2008 (Unaudited)	March 31, 2008
ASSETS		
Cash (including interest-bearing deposits of approximately $1,126,157 and $12,762,079)	$ 2,393,379	$ 15,998,041
Securities		
Held to maturity	2,840,029	2,940,217
Available for sale, at fair value	689,675	9,562,410
Restricted investment in Federal Home Loan Bank stock, at cost	5,480,800	5,210,800
Loans receivable, net of allowance for loan losses of $3,351,059 and $3,214,771	458,188,436	437,173,797
Real estate owned and repossessed assets	2,112,292	592,609
Property and equipment, net	8,406,535	7,923,481
Accrued interest receivable		
Loans	1,979,695	1,953,550
Investments	85,444	125,523
Prepaid expenses and other assets	8,767,912	9,765,345
Total Assets	$ 490,944,197	$ 491,245,773
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits	$ 351,590,634	$ 350,730,834
Borrowings	104,000,000	96,000,000
Securities sold under agreement to repurchase	3,010,248	2,834,412
Advance payments by borrowers for taxes and insurance	130,184	150,545
Other liabilities	2,117,759	2,825,279
Total Liabilities	460,848,825	452,541,070
Stockholders' Equity		
Preferred stock $.01 par value, authorized 3,000,000 shares, none outstanding	---	---
Common stock, $0.01 par value, authorized 10,000,000 shares, 4,361,658 and 4,335,958 shares outstanding	43,617	43,360
Additional paid in capital	5,562,732	5,391,704
Retained earnings	24,858,283	34,992,515
Accumulated other comprehensive (loss)	(369,260)	(1,722,876)
Total Stockholders' Equity	30,095,372	38,704,703
Total Liabilities and Stockholders' Equity	$ 490,944,197	$ 491,245,773

See accompanying notes to unaudited interim consolidated financial statements.

COMMUNITY FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30		Six Months Ended September 30	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
INTEREST INCOME				
Loans	$ 7,185,657	$ 7,645,088	$ 14,338,826	$ 15,168,044
Investment securities	32,187	240,178	67,020	480,357
Other	124,392	299,253	416,182	593,732
Total interest income	7,342,236	8,184,519	14,822,028	16,242,133
INTEREST EXPENSE				
Deposits	2,617,460	3,103,551	5,493,791	6,049,991
Borrowed money	691,241	1,252,603	1,287,864	2,543,903
Total interest expense	3,308,701	4,356,154	6,781,655	8,593,894
NET INTEREST INCOME	4,033,535	3,828,365	8,040,373	7,648,239
PROVISION FOR LOAN LOSSES	600,544	217,225	752,542	352,701
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,432,991	3,611,140	7,287,831	7,295,538
NONINTEREST INCOME (LOSS)				
Service charges, fees and commissions	752,522	729,418	1,497,736	1,466,551
Other	96,071	127,317	190,849	219,222
Securities impairment	(11,053,341)	---	(11,053,341)	---
Total noninterest income (loss)	(10,204,748)	856,735	(9,364,756)	1,685,773
NONINTEREST EXPENSE				
Compensation & benefits	1,983,652	1,837,978	3,928,904	3,655,927
Occupancy	393,533	358,545	736,064	714,463
Data processing	383,391	359,877	694,031	694,069
Federal insurance premium	99,108	9,578	169,845	19,324
Advertising	113,202	159,384	207,524	219,409
Other	456,698	452,654	940,026	854,464
Total noninterest expense	3,429,584	3,178,016	6,676,394	6,157,656
INCOME (LOSS) BEFORE TAXES	(10,201,341)	1,289,859	(8,753,319)	2,823,655
INCOME TAXES	288,855	412,972	771,461	917,845
NET INCOME (LOSS)	$ (10,490,196)	$ 876,887	$ (9,524,780)	$ 1,905,810
BASIC EARNINGS (LOSS) PER SHARE	$ (2.41)	$ 0.20	$ (2.19)	$ 0.44
DILUTED EARNINGS (LOSS) PER SHARE	$ (2.41)	$ 0.20	$ (2.19)	$ 0.43
DIVIDENDS PER SHARE	$ 0.065	$ 0.065	$ 0.13	$ 0.13

See accompanying notes to unaudited interim consolidated financial statements.

COMMUNITY FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended September 30	
	2008	2007
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Net income (loss)	$ (9,524,780)	$ 1,905,810
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Provision for loan losses	752,542	352,701
Depreciation	283,280	305,184
Stock-based compensation expense	6,826	---
Amortization of premium and accretion of discount on securities, net	188	4,084
Securities impairment	11,053,341	---
(Decrease) in net deferred loan fees	(70,432)	(34,737)
(Decrease) in deferred income taxes	(94,464)	(80,072)
Decrease(increase) in other assets	997,433	(961,755)
(Decrease) increase in other liabilities	(707,520)	540,701
Net cash provided by operating activities	2,696,414)	2,031,916
INVESTING ACTIVITIES		
Proceeds from maturities of held to maturity securities	1,700,000	---
Purchase of held to maturity securities	(1,600,000)	---
Net increase in loans	(22,502,194)	(16,217,987)
Purchases of property and equipment	(748,523)	(162,865)
(Purchase) of FHLB stock	(270,000)	(315,000)
(Increase) in repossessed assets and real estate owned	(1,519,683)	(132,578)
Net cash absorbed by investing activities	(24,940,400)	(16,828,430)
FINANCING ACTIVITIES		
Dividends paid	(565,813)	(558,465)
Net increase in deposits	859,800	12,840,422
Proceeds from advances and other borrowed money	8,175,836	8,360,215
Proceeds from issuance of common stock	169,501	9,785
Net cash provided by financing activities	8,639,324	20,651,957
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(13,604,662)	5,855,443
CASH AND CASH EQUIVALENTS – beginning of period	15,998,041	3,625,796
CASH AND CASH EQUIVALENTS – end of period	$ 2,393,379	$ 9,481,239

See accompanying notes to unaudited interim consolidated financial statements

NOTE 1. - BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The accompanying consolidated financial statements include the accounts of Community Financial Corporation ("Community" or the "Company") and its wholly-owned subsidiary, Community Bank (the "Bank"). All significant intercompany balances and transactions have been eliminated in consolidation.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the six months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending March 31, 2009.

NOTE 2. - STOCK-BASED COMPENSATION PLAN

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123R, “Share-Based Payment” (SFAS 123R). SFAS 123R requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, such as stock options and restricted stock, based on the fair value of those awards at the date of grant and eliminates the choice to account for employee stock options under Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (APB 25). The Company adopted SFAS 123R effective April 1, 2006 using the modified prospective method and as such, results for prior periods have not been restated. Prior to April 1, 2006, no compensation expense was recognized for stock option grants as all such grants had an exercise price not less than fair market value on the date of grant.

Stock options of 5,000 shares were granted and $6,826 of stock-based compensation expense was recognized during the three and six month periods ended September 30, 2008. There were no stock options granted and no stock-based compensation expense was recognized during the three and six month periods ended September 30, 2007.

The following summarizes the stock option activity for the six months ended September 30, 2008:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Intrinsic Value of Unexercised In-the-Money Options
Options outstanding, March 31, 2008	429,600	$ 8.28		
Granted	5,000	$ 5.71		
Exercised	(24,700)	$ 6.86		
Forfeited	(29,100)	$ 7.36		
Options outstanding, September 30, 2008	380,200	$ 8.41	4.7	
Options exercisable, September 30, 2008	380,200	$ 8.41	4.7	$99,690

The total intrinsic value of in-the-money options exercised during the six months ended September 30, 2008 was $370.

NOTE 3. - EARNINGS PER SHARE

Basic earnings per share is based on net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share shows the dilutive effect of additional common shares issuable under stock option plans. Diluted earnings per share is computed by dividing net earnings by the weighted average number of common shares and common share equivalents outstanding. Basic and diluted earnings per share are computed in the following table.

	For the Three Months Ended					
	September 30, 2008			September 30, 2007		
	(Loss)	Weighted Average Shares	Per Share amount	Income	Weighted Average Shares	Per Share Amount
Basic earnings (loss) per share						
Income (loss) available to common stockholders	$(10,490,196)	4,357,684	$ (2.41)	$ 876,887	4,297,120	$ 0.20
Effect of Dilutive Securities						
Options	---	---		---	96,981	
Diluted earnings (loss) per share						
Income (loss) available to common stockholders	$(10,490,196)	4,357,684	$ (2.41)	$ 876,887	4,394,101	$ 0.20

During the quarter ended September 30, 2008, no stock options were excluded in the calculation of earnings per share because they would have been anti-dilutive. During the quarter ended September 30, 2007, no stock options were excluded in the calculation of earnings per share because they would have been anti-dilutive.

	For the Six Months Ended					
	September 30, 2008			September 30, 2007		
	(Loss)	Weighted Average Shares	Per Share amount	Income	Weighted Average Shares	Per Share Amount
Basic earnings (loss) per share						
Income (loss) available to common stockholders	$ (9,524,780)	4,350,192	$ (2.19)	$ 1,905,810	4,296,430	$ 0.44
Effect of Dilutive Securities						
Options	---	---		---	119,600	
Diluted earnings (loss) per share						
Income (loss) available to common stockholders	$ (9,524,780)	4,350,192	$ (2.19)	$ 1,905,810	4,416,030	$ 0.43

NOTE 4. - STOCKHOLDERS' EQUITY

The following table presents the Bank's regulatory capital levels at September 30, 2008:

	Amount Required	Percent Required	Actual Amount	Actual Percent	Excess Amount
Tangible Capital	$ 7,517,000	1.50%	$ 36,551,000	7.29%	$ 29,034,000
Core Capital	20,046,000	4.00	36,551,000	7.29	16,505,000
Risk-based Capital	34,095,000	8.00	39,855,000	9.35	5,760,000

The Company’s primary source of funds for the payment of dividends to its stockholders is dividends from the Bank. Capital distributions by OTS-regulated savings banks, such as the Bank, are limited by regulation ("Capital Distribution Regulation"). Capital distributions are defined to include, in part, dividends, stock repurchases and cash-out mergers. The Capital Distribution Regulation permits a savings bank to make capital distributions during a calendar year equal to net income for the current year plus the previous two years net income, less capital distributions paid over the same period. Any distributions in excess of that amount requires prior OTS approval. The Capital Distribution Regulation requires that savings banks in holding company structures provide the applicable OTS Regional Director with a 30-day advance written notice of all proposed capital distributions whether or not advance approval is required by the regulation. The OTS may object to capital distributions if the bank is not meeting its regulatory capital requirements, the distribution raises safety and soundness concerns or is otherwise in violation of law.

NOTE 5. - SUPPLEMENTAL INFORMATION - STATEMENT OF CASH FLOWS

Total interest paid for the six months ended September 30, 2008 and 2007 was $7,358,584 and $8,357,702, respectively. Total income taxes paid for the six months ended September 30, 2008 and 2007 was $1,003,776 and $1,107, 191.

NOTE 6. - COMPREHENSIVE INCOME

Comprehensive income is defined as "the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners." Comprehensive income for the Company includes net income and unrealized gains and losses on securities available for sale. The following tables set forth the components of comprehensive income for the six-month periods ended September 30, 2008 and 2007:

	Six months Ended September 30	
	2008	2007
Net Income	$ (9,524,780)	$ 1,905,810
Other comprehensive income (loss), net of tax:		
Unrealized holding (losses) on available for sale securities arising during the period, net of deferred tax of $829,636	(9,699,725)	(674,560)
Adjustments for realized securities losses, net of tax of $0	11,053,341	---
Total other comprehensive income (loss), net of tax	1,353,616	(674,560)
Total comprehensive income (loss)	$ (8,171,164)	$ 1,231,250

NOTE 7. – DEFINED BENEFIT PENSION PLAN

The Company has a non-contributory defined benefit pension plan for which the components of net periodic benefit cost are as follows:

	Three Months Ended September 30	
	2008	2007
Service cost	$ 87,669	$ 77,336
Interest cost	53,010	44,055
Expected return on plan assets	(64,175)	(43,935)
Recognized net actuarial loss	4,888	6,608
	$ 81,392	$ 84,064

	Six Months Ended September 30	
	2008	2007
Service cost	$ 175,338	$ 154,672
Interest cost	106,020	88,110
Expected return on plan assets	(128,350)	(87,870)
Recognized net actuarial loss	9,776	13,216
	$ 162,784	$ 168,128

As disclosed in the Company's Form 10-K for the year ended March 31, 2008, a contribution of $492,000 to its pension plan is expected during the current fiscal year. As of September 30, 2008, no contributions have been made. The Company anticipates making all required contributions prior to March 31, 2009.

NOTE 8. – SECURITIES

Information pertaining to securities with gross unrealized losses at September 30, 2008, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Estimated Market Value	Gross Unrealized Losses	Estimated Market Value
Held to Maturity				
United States government and agency obligations	$ 8,010	$ 1,591,990	$ –	$ –
State and municipal obligations	–	–	1,367	198,662
	8,010	1,591,990	1,367	198,662
Available for Sale				
Equity securities	–	–	37,098	602,750
	$ 8,010	$ 1,591,990	$ 38,465	$ 801,412

At September 30, 2008, 5 debt securities had unrealized losses with aggregate depreciation of 0.52% from the Company's amortize basis. These unrealized losses related principally to government agencies. In analyzing an issuer's financial condition, management co whether the securities are issued by the federal government or its agencies and whether downgrades by bond debt rating agencie occurred. As management has the ability and intent to hold these debt securities until maturity or for a period of time sufficient to all any anticipated recovery in fair value, no declines are deemed to be other than temporary.

At September 30, 2008, due to the conservatorship of Fannie Mae and Freddie Mac in September, 2008 and the related restrictions outstanding preferred stock (including the elimination of dividends), the Company recorded an other than temporary impairment (OTTI cash charge with respect to the Fannie Mae and Freddie Mac preferred stock it owns of $11,053,000 for the quarter ended Septemb 2008. One of the preferred stock issues is the Freddie Mac preferred series

L with a par value of $50 per share. The dividend rate of this issue resets every five years based on the five year treasury rate. Th dividend reset date for this security is December 31, 2009.

Management evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

NOTE 9 - FAIR VALUE MEASUREMENTS

SFAS No. 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follow:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Securities

Where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy. Currently, all of the Company’s securities are considered to be Level 2 securities.

Impaired loans

SFAS No. 157 applies to loans measured for impairment using the practical expedients permitted by SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*, including impaired loans measured at an observable market price (if available), or at the fair value of the loan’s collateral (if the loan is collateral dependent). Fair value of the loan’s collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

Other real estate owned

Certain assets such as other real estate owned (OREO) are measured at the lesser of cost and fair value less cost to sell. We believe that the fair value component in its valuation follows the provisions of SFAS No. 157.

NOTE 10 – SUBSEQUENT EVENTS

Subsequent to the September 30, 2008 quarter the Emergency Economic Stabilization Act was passed by Congress and signed by the President which permitted the OTTI loss to be deducted as an ordinary loss. This will result in a tax benefit in the December 31, 2008 quarter of approximately $4.2 million.

The Company is evaluating the provisions of the Capital Purchase Program under the Emergency Stabilization Act of 2008 that would permit the sale of preferred capital stock to the U S Treasury (UST). The Company anticipates that it will make application to the UST under this program.

11. Loans Receivable, Net

Loans receivable are summarized as follows:

	September 30, 2008	March 31, 2008
Residential real estate	**$ 132,396,154**	$ 122,604,826
Commercial real estate	**148,295,837**	150,059,098
Construction	**64,148,108**	53,891,019
Commercial business	**46,972,534**	41,577,858
Consumer	**84,775,487**	84,671,436
	476,588,120	452,804,237
Less:		
Loans in process	**16,176,032**	13,599,373
Deferred loan (costs), net	**(1,127,407)**	(1,183,704)
Allowance for loan losses	**3,351,059**	3,214,771
	18,399,684	15,630,440
	$ 458,188,436	$ 437,173,797

Loans serviced for others amounted to approximately $312,447 at September 30, 2008, and $390,094 at March 31, 2008. The loans are not included in the accompanying consolidated balance sheets.

Year Ended	**September 30, 2008**	March 31, 2008
Balance at beginning of year	**$ 3,214,771**	$ 3,078,397
Provision for loan loss	**732,542**	624,717
Loans charged-off	**(676,408)**	(623,055)
Recoveries of loans previously charged-off	**80,154**	134,712
Balance at end of year	**$ 3,351,059**	$ 3,214,771

Impaired loans without a valuation allowance totaled $29,851 as of September 30, 2008, and $47,768 as of March 31, 2008.

No additional funds are committed to be advanced in connection with impaired loans. There were no loans past due 90 days ar accruing interest.

Nonaccrual loans excluded from impaired loan disclosure amounted to $2,413,292 at September 30, 2008 and $1,026,298 at March 31, 2008. If interest on these loans had been accrued, such income would have approximated $71,998 for the six months ended September 30, 2008 and $44,880 for the year ended March 31, 2008.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

EXECUTIVE SUMMARY

The following information is intended to provide investors a better understanding of the financial position and the operating results of Community Financial Corporation ("Community" or the "Company" and its subsidiary, Community Bank (the "Bank"). The following is primarily from management's perspective and may not contain all information that is of importance to the reader. Accordingly, the information should be considered in the context of the consolidated financial statements and other related information contained herein.

Net income (loss) for the six months ended September 30, 2008 decreased $11,431,000 or 599.82% to ($9,525,000) compared to $1,906,000 for the six months ended September 30, 2008. Net income for the six months decreased due primarily to an Other Than Temporary Impairment (OTTI) adjustment on our FHLMC and FNMA Available for Sale securities of $11,053,000, provision for loan loss increase, and increases in noninterest expense resulting from higher expenses associated with compensation and federal insurance premiums. Net income for the six months ended September 30, 2008 excluding the OTTI would have been $1,528,000.

Net income (loss) for the three months ended September 30, 2008 decreased $11,367,000 or 1,296.3% to ($10,490,000) compared to $877,000 for the three months ended September 30, 2008. Net income for the quarter ended September 30, 2008 decreased due primarily to an Other Than Temporary Impairment charge on our FHLMC and FNMA Available for Sale securities of $11,053,000, an increase in the provision for loan loss, and increases in noninterest expense resulting from higher expenses associated with compensation and federal insurance premiums. Net income for the quarter ended September 30, 2008 excluding the OTTI would have been $563,000.

Subsequent to the September 30, 2008 quarter, the Emergency Economic Stabilization Act was passed by Congress and signed by the President which permitted the OTTI loss to be deducted as an ordinary loss for income tax purposes. This will result in a tax benefit in the December 31, 2008 quarter of approximately $4.2 million.

Net interest income for the quarter ended September 30, 2008 increased $205,000, or 5.4%, to $4.0 million compared to the quarter ended September 30, 2007. Net interest income, which is the difference between the interest income we earn on our interest-earning assets, such as loans and investment securities, and the interest we pay on interest-bearing liabilities, which are primarily deposits and borrowings, was impacted by both the change in our volume of interest earning assets and the interest rate spread between interest-earning assets and interest-bearing liabilities. The primary factor contributing to the increase in net interest income for the quarter ended September 30, 2008 was the growth in interest-earning assets, primarily loans, and lower rates on interest-bearing liabilities. The increase in net interest income for the current quarter was limited due to the elimination of dividends on the Freddie Mac preferred owned by the Bank. We had no purchases of investment securities during the three months ended September 30, 2008 and anticipate limited securities purchases during the remainder of the current fiscal year.

Management will continue to monitor asset growth to manage the level of regulatory capital and funds acquisition. We continue to monitor the impact changing interest rates may have on both the growth in interest-earning assets and our interest rate spread. The Bank has approximately $323.1 million in adjustable rate loans or 70.5% of total loans which reprice in five years or less, many of which are subject to annual and lifetime interest rate limits. The pace and extent of future interest rate changes will impact the Company's interest rate spread as well as limitations on interest rate adjustments on certain adjustable rate loans.

Funding for the growth in interest-earning assets combined with a falling interest rate environment has impacted the composition of our interest-bearing liabilities. The primary source of funding for increases in assets during the September 30, 2008 quarter was borrowed funds. Deposits were down due primarily to the seasonal nature of non-interest bearing transaction accounts. Management plans to remain competitive in our deposit pricing and anticipates that deposit growth will be the primary source of funding for asset growth during the remainder of the current fiscal year. During the September 30, 2008 quarter, we experienced increased competition for time deposits primarily from financial institutions which reported reduced capital as the result of losses related to subprime lending. These institutions' sources of funding have been reduced due to their reduced capital positions. Management is cognizant of the potential for additional compression in the Bank's margin related to the need to acquire funds and the pace of interest rate changes. Management will continue to monitor the level of deposits and borrowings in relation to the current interest rate environment.

Growth in our loan portfolio so far this fiscal year has exceeded our expectations. Growth in the Bank's loan portfolio for the September 30, 2008 quarter was primarily in construction, residential first mortgage and home equity loans and lines, offset by a decrease in commercial real estate loans. We anticipate that future loan growth will be primarily in commercial real estate. At September 30, 2008, our assets totaled $490.9 million, including net loans receivable of $458.2 million, compared to total assets of $491.2 million, including net loans receivable of $437.2 million, at March 31, 2008. Construction loans totaled $64.1 million or 13.5%, residential first mortgage loans were $132.4 million or 27.8% and home equity loans and lines were $38.0 million or 8.0% of our total loan portfolio at September 30, 2008 compared to construction loans of $53.9 million or 11.9%, residential first mortgage loans of $122.6 or 27.1%, and home equity loans and lines of $32.8 million or 7.2% at March 31, 2008.

At September 30, 2008, non-performing assets totaled approximately $4.5 million or .92% of assets compared to $1.6 million or .33% of assets at March 31, 2008. Our allowance for loan losses to non-performing assets was 74.0% and to total loans was .73% at September 30, 2008.

During our fiscal year 2008, we evaluated the benefits of the increased yields on our credit card portfolio with the higher risk and operating costs related to maintaining and servicing an unsecured credit card portfolio. We believed that offering a credit card product was important to our existing customer base and for obtaining new customers. As a result of this evaluation, we entered into an agent-bank relationship with an unaffiliated non-bank pursuant to which our customers can obtain credit cards with the Community Bank brand and for which we earn commissions for new accounts and a percentage of interchange fees, but for which we incur no liability or credit risk. At the same time, we sold our existing credit card portfolio to that unaffiliated organization. During the September 30, 2007 quarter, we sold our credit card portfolio with an approximate loan balance of $500,000, which resulted in a gain of $37,000.

Dramatic declines in the housing market, with decreasing home prices and increasing delinquencies and foreclosures, have negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of assets by many financial institutions. General downward economic trends, reduced availability of commercial credit and increasing unemployment have negatively impacted the credit performance of commercial and consumer credit, resulting in additional write-downs. Concerns over the stability of the financial markets and the economy have resulted in decreased lending by financial institutions to their customers and to each other. This market turmoil and tightening of credit has led to increased delinquencies, lack of customer confidence, increased market volatility and widespread reduction in general business activity. Financial institutions have experienced decreased access to deposits or borrowings.

Our ability to assess the creditworthiness of customers and to estimate the losses inherent in our credit exposure is made more difficult and complex under these difficult market and economic conditions. We also expect to face increased regulation and government oversight as a result of these downward trends. This increased government action may increase our costs and limit our ability to pursue certain business opportunities. We also may be required to pay even higher FDIC premiums than the recently increased level, because financial institution failures resulting from the depressed market conditions have depleted and may continue to deplete the FDIC insurance fund and reduce the FDIC’s ratio of reserves to insured deposits.

We do not expect these difficult conditions to improve in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market and economic conditions on us, our customers and the other financial institutions in our market. As a result, we may experience increases in foreclosures, delinquencies and customer bankruptcies, as well as more restricted access to funds.

The recently enacted Emergency Economic Stabilization Act of 2008 (“EESA”) authorizes the U.S. Department of the Treasury (“Treasury Department”) to purchase from financial institutions and their holding companies up to $700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies in a troubled asset relief program (”TARP”). The purpose of TARP is to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. The Treasury Department has allocated $250 billion towards the TARP Capital Purchase Program (“CPP”). Under the CPP, Treasury will purchase debt or equity securities from participating institutions. The TARP also will include direct purchases or guarantees of troubled asset of financial institutions. The Company anticipates it will make application to the Treasury Department to participate in this program.

EESA also increased FDIC deposit insurance on most accounts from $100,000 to $250,000. This increase is in place until the end of 2009 and is not covered by deposit insurance premiums paid by the banking industry. In addition, the FDIC has implemented two temporary programs to provide deposit insurance for the full amount of most non-interest bearing transaction accounts through the end of 2009 and to guarantee certain unsecured debt of financial institutions and their holding companies through June 2012. Financial institutions have until December 5, 2008 to opt out of these two programs. We expect to participate only in the program that provides unlimited deposit insurance coverage through December 31, 2009 for noninterest-bearing transaction accounts (typically business checking accounts) and certain funds swept into noninterest-bearing savings accounts. Under that program, we will pay a 10 basis points fee (annualized) on the balance of each covered account in excess of $250,000, while the extra deposit insurance is in place. At September 30, 2008, we had $1.5 million in such accounts in excess of $250,000.

The purpose of these legislative and regulatory actions is to stabilize the volatility in the U.S. banking system. EESA, TARP and the FDIC's recent regulatory initiatives may not have the desired effect. If the volatility in the market and the economy continue or worsen, our business, financial condition, results of operations, access to funds and the price of our stock could be materially and adversely impacted.

CRITICAL ACCOUNTING POLICIES

General

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The financial information contained within our statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset or relieving a liability. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of our transactions would be the same, the timing of events that would impact our transactions could change.

Allowance for Loan Losses

The allowance for loan losses is an estimate of the losses that may be sustained in our loan portfolio. The allowance is based on two basic principles of accounting: (i) Statement of Financial Accounting Standard ("SFAS") No.5, Accounting for Contingencies, which requires that losses be accrued when they are probable of occurring and estimable and (ii) SFAS No. 114, Accounting by Creditors for Impairment of a Loan, which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

The allowance for loan losses is maintained at a level considered by management to be adequate to absorb future loan losses currently inherent in the loan portfolio. Management's assessment of the adequacy of the allowance is based upon type and volume of the loan portfolio, past loan loss experience, existing and anticipated economic conditions, and other factors which deserve current recognition in estimating future loan losses. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Additions to the allowance are charged to operations. Subsequent recoveries, if any, are credited to the allowance. Loans are charged-off partially or wholly at the time management determines collectibility is not probable. Management's assessment of the adequacy of the allowance is subject to evaluation and adjustment by the Company's regulators.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

FINANCIAL CONDITION

The Company's total assets decreased $302,000 to $490.9 million at September 30, 2008 from $491.2 million at March 31, 2008 due to decrease in cash of $2.0 million, interest bearing deposits of $11.6 million and securities available for sale of $8.9 million, offset by an increase in loans receivable of $21.0 million. The increase in loans was funded with an increase in FHLB Advances and borrowings of $8.2 million and decreases in cash of $2.0 million and interest bearing deposits of $11.6 million at September 30, 2008 from March 31, 2008. FHLB Advances increased by $4.0 million and other borrowings increased by $4.2 million. Stockholders' equity decreased $8.6 million to $30.1 million at September 30, 2008, from $38.7 million at March 31, 2008, due to the loss for the six months of $9.5 million and cash dividend payments, offset by the elimination of unrealized losses on securities.

At September 30, 2008, non-performing assets totaled approximately $4.5 million or .92% of assets compared to $1.6 million or .33% of assets at March 31, 2008. Non-performing assets at September 30, 2008 were comprised of repossessed assets of $2.1million and non accrual loans of $2.4 million. Included in the total non-performing assets at September 30, 2008 was one relationship of approximately $2.1 million which includes $1.5 million of residential lots. At September 30, 2008, our allowance for loan losses to non-performing assets was 74.0% and to total loans was .73% compared to 313.3% and .73%, respectively at March 31, 2008. At September 30, 2008 delinquent loans to total loans was 1.38% compared to .86% at March 31, 2008. Based on current market values of the properties securing these loans, management anticipates no significant losses in excess of the allowance for losses previously recorded.

As of June 30, 2008, there were also $6.1 million in loans with respect to which known information about the possible credit problems of the borrowers or the cash flows of the security properties have caused management to have doubts as to the ability of the borrowers to comply with present loan repayment terms and which may result in the future inclusion of such items in the non-performing loan categories. These loans are comprised primarily of residential real estate loans. No individual loan in this category has a balance that exceeds $300,000.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of funds are customer deposits, advances from the Federal Home Loan Bank of Atlanta, amortization and prepayment of loans and funds provided from operations. Management maintains investments in liquid assets based upon its assessment of (i) our need for funds, (ii) expected deposit flows, (iii) the yields available on short-term liquid assets, (iv) the liquidity of our loan portfolio and (v) the objectives of our asset/liability management program. Management believes that the Bank will continue to have adequate liquidity for the foreseeable future. Cash flow projections are regularly reviewed and updated to assure that adequate liquidity is provided. As of September 30, 2008, the Bank's liquidity ratio (liquid assets as a percentage of net withdrawable savings and current borrowings) was 3.8%.

The Bank has a line of credit with the FHLB equal to 26% of the Bank’s assets, subject to the amount of collateral pledged. Under the terms of its collateral agreement with the FHLB, the Bank provides a blanket lien covering all of its residential first mortgage loans, home equity lines of credit, multi-family loans and commercial loans. In addition, the Bank pledges as collateral its capital stock in and deposits with the FHLB. Based on the collateral pledged as of September 30, 2008, the total amount of borrowing available under the FHLB line of credit was approximately $129,590,000. At September 30, 2008, principal obligations to the FHLB consisted of $72,000,000 in floating-rate, overnight borrowings and $20,000,000 in fixed-rate convertible advances.

The Company had a line of credit with a bank in the amount of $5,000,000 at September 30, 2008 of which $4,000,000 had been drawn on the line.

At September 30, 2008 we had commitments to purchase or originate $21.7 million of loans. Certificates of deposit scheduled to mature in one year or less at September 30, 2008, totaled $215.1 million. Based on our historical experience, management believes that a significant portion of such deposits will remain with us. Management further believes that loan repayments and other sources of funds will be adequate to meet our foreseeable short-term and long-term liquidity needs. At September 30, 2008, we had brokered or internet time deposits of $6.3 million.

The Bank’s regulatory capital changed from “well capitalized” at June 30, 2008 to “adequately capitalized” at September 30, 2008 due to the OTTI charge related to its Fannie Mae and Freddie Mac preferred stock. The Company is considering the alternatives to regain the “well capitalized” capital status including participation in the U.S. Treasury Capital Purchase Program. The maximum available under this program is approximately $12.8 million of preferred stock.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2008 and 2007.

General. Net income (loss) for the three months ended September 30, 2008 decreased $11,367,000 or 1,296.3% to ($10,490,000) from $877,000 for the three months ended September 30, 2007. Net interest income increased $205,000, the provision for loan losses increased $383,000, non-interest income decreased $11,061,000 and non-interest expense increased $252,000 during the three months ended September 30, 2008 compared to the same period in 2008. Return on equity for the three months ended September 30, 2008 was (121.6)% compared to 8.96% for the three month period ended September 30, 2008. Return on assets was (8.51)% for quarter ended September 30, 2008 compared to 0.74% for the same period in the previous fiscal year.

Interest Income. Total interest income decreased by $842,000 to $7.3 million for the three months ended September 30, 2008, from $8.2 million for the three months ended September 30, 2008, due to lower yields partially offset by higher average loan balances. Investment securities income decreased by $208,000 due to lower average balances as a result of calls and maturities on securities. Other interest income decreased due to elimination of dividends on FHLMC common and preferred stock and a lower yield on FHLB stock. The decrease in yields was due to lower market interest rates generally. The average yield earned on interest-earning assets was 6.39% for the three months ended September 30, 2008 compared to 7.12% for the three months ended September 30, 2007.

Interest Expense. Total interest expense decreased by $1,047,000 to $3.3 million for the quarter ended September 30, 2008, from $4.4 million for the quarter ended September 30, 2008. Interest on deposits decreased by $486,000 to $2.6 million for the quarter ended September 30, 2008 from $3.1 million for the quarter ended June 30, 2008 due to a decrease in the average rate paid partially offset by higher average deposit balances. Interest expense on borrowed money decreased by $561,000 to $691,000 for the quarter ended September 30, 2008 compared to the quarter ended September 30, 2007. A decrease in the average rate paid on borrowings from 5.23% to 2.65% offset by an increase in the average balance of borrowings from $97.2 million for the September 30, 2007 quarter to $104.5 million for the September 30, 2008 quarter accounted for the decrease. The average rate paid on interest-bearing liabilities was 3.08% during the three months ended September 30, 2008 compared to 3.99% for the three months ended September 30, 2007.

Provision for Loan Losses. The provision for loan losses increased by $383,000 to $601,000 for the three months ended September 30, 2008, from $217,000 for the three months ended September 30, 2007. The amount of the provision for loan losses for the quarter ended September 30, 2008 was based on management's assessment of the inherent risk associated with the increase in our loan portfolio and the level of our allowance for loan losses. We provide valuation allowances for anticipated losses on loans and real estate when management determines that a significant decline in the value of the collateral or cash flows has occurred, as a result of which the value of the collateral or cash flows is less than the amount of the unpaid principal of the related loan plus estimated costs of acquisition and sale. In addition, we also provide allowances based on the dollar amount and type of collateral securing our loans in order to protect against unanticipated losses. At September 30, 2008, management believes its allowance for loan losses was adequate to absorb any probable losses inherent in the Company's loan portfolio. Although management believes that it uses the best information available to make such determinations, future adjustments to allowances may be necessary, and net income could be significantly affected, if circumstances differ substantially from the assumptions used in making the initial determinations.

Noninterest Income. Noninterest income (loss) decreased by $11,061,000 to ($10,205,000) for the three months ended September 30, 2008, from $857,000 for the three months ended September 30, 2007 due primarily to an Other Than Temporary Impairment adjustment on our FHLMC and FNMA available for sale securities of $11,053,000. The Bank has established relationships with other institutions where the Bank receives fees in return for completed customer mortgage loan applications for the institution's approval and funding. We anticipate this relationship will continue to be a source of fee and service charge income for the Bank.

Noninterest Expense. Noninterest expense increased by $252,000 to $3.4 million for the three months ended September 30, 2008 compared to the same period last year. The increase in noninterest expense resulted primarily from compensation related expenses due generally to merit increases, additional loan and retail personnel and federal deposit insurance premiums.

Federal deposit insurance premiums during the three months ended September 30, 2008 totaled $99,000, compared to $10,000 for the same period in 2007. These premiums are expected to increase in 2009 due to recent strains on the Federal Deposit Insurance Corporation ("FDIC") deposit insurance fund due to the cost of large bank failures and increase in the number of troubled banks. The current rates for FDIC assessments have ranged from 5 to 43 basis points, depending on the health of the insured institution. The FDIC has proposed increasing the current deposit insurance assessment rates uniformly for all institutions by 7 basis points (to a range from 12 to 50 basis points) for the first quarter of 2009. The proposed rule would also alter the way the FDIC calculates federal deposit insurance assessment rates beginning in the second quarter of 2009 and thereafter. The FDIC also proposed that it could increase assessment rates in the future without formal rulemaking.

Taxes. Taxes decreased by $124,000 to $289,000 for the three months ended September 30, 2008, from $413,000 for the three months ended September 30, 2007. The effective tax rate increased from 32.0% for the September 30, 2007 quarter to 33.9% for the September 30, 2008 quarter.

<u>Six Months Ended September 30, 2008 and 2007.</u>

General. Net income (loss) for the six months ended September 30, 2008 decreased $7,619,000 or 399.8% compared to $1,906,000 for the six months ended September 30, 2007. Net income for the six months decreased due primarily to an Other Than Temporary Impairment adjustment on our FHLMC and FNMA Available for Sale securities of $11,053,000, an increase in the provision for loan loss and increases in noninterest expense resulting from higher expenses associated with compensation and federal insurance premium. Return on equity for the six months ended September 30, 2008 was (48.53)% compared to 10.49% for the six month period ended September 30, 2007 Return on assets was (3.88)% for six months ended September 30, 2008 compared to .87% for the same period in the previous fiscal year.

Interest Income. Total interest income decreased by $1.4 million or 8.7% to $14.8 million for the six months ended September 30, 2008, from $16.2 million for the six months ended September 30, 2007 due to a decrease in loan yields, a decrease in average investment security balances and the elimination of FHLMC common and preferred stock dividends and a lower dividend rate on the FHLB stock offset by an increase in average loan balances. The yield on loans and securities decreased from 7.12% to 6.31% for the same periods.

Interest Expense. Total interest expense decreased by $1.8 million or 21.1% to $6.8 million for the six months ended September 30, 2008, from the six months ended September 30, 2007 Interest on deposits decreased to $5.5 million for the six months ended September 30, 2008, from $6.1 million for the same period last year due to a decrease in the average rate paid on deposit balances offset by an increase in the average deposit balances. The rate paid on deposits decreased from 3.64% for the six months ended September 30, 2007 to 3.14% for the same period in the current fiscal year. Interest expense on borrowed money decreased to $1.3 months ended September 30, 2007 from $25 million for the six months ended September 30, 2008 due to both a decrease in the average outstanding balance on borrowings and the average rate on borrowing balances. The average balance on borrowings decreased from $98.0 months ended September 30, 2007 $97.1 million for the six months ended September 30, 2008. The average rate paid on borrowings decreased from 5.19% for the six months ended September 30, 2007to 2.65% for the six month period ended September 30, 2008.

Provision for Loan Losses. The provision for loan losses increased to $753,000 for the six months ended September 30, 2008 from $353,000 for the months ended September 30, 2007 based on managements' review of the inherent risk associated with the increase in the commercial real estate lending portfolio and anticipated charge-offs related to certain loans for which we have established specific reserves.

Noninterest Income. Noninterest income (loss) decreased by $11,051,000 to ($9,365,000) for the six months ended September 30, 2008, from $1,686,000 for the six months ended September 30, 2007 due primarily to an Other Than Temporary Impairment adjustment on our FHLMC and FNMA available for sale securities of $11,053,000.

Noninterest Expenses. Noninterest expenses increased $519,000 for the six months ended September 30, 2008, compared to the same period last year. The increase in noninterest expense resulted primarily from compensation related expenses due generally to merit increases, additional loan and retail personnel and federal deposit insurance premiums.

Taxes. Taxes decreased to $771,000 for the six months ended September 30, 2008, from $918,000 for the six months ended September 30, 2007. The effective tax rate increased to 33.5% for the September 30, 2008 period from 32.5% for the same period ended September 30, 2007.

OFF BALANCE SHEET ARRANGEMENTS

There has not been a significant change in our off balance sheet arrangements from the information reported in our annual 10-K for the period ended March 31, 2008.

CONTRACTUAL OBLIGATIONS

There has not been a significant change in our contractual obligations from the information reported in our annual 10-K for the period ended March 31, 2008.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 (R), "Business Combinations" (SFAS 141(R)). The Standard will significantly change the financial accounting and reporting of business combination transactions. SFAS 141(R) establishes the criteria for how an acquiring entity in a business combination recognizes the assets acquired and liabilities assumed in the transaction; establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. Acquisition related costs including finder's fees, advisory, legal, accounting valuation and other professional and consulting fees are required to be expensed as incurred. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008 and early implementation is not permitted. The Company does not expect the implementation to have a material impact on its consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No.160, "Noncontrolling Interests in Consolidated Financial Statements" (SFAS 160). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures to clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company does not expect the implementation of SFAS 160 to have a material impact on its consolidated financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133" (SFAS 161). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about how and why an entity uses derivative instruments, how derivative instrumentsand related hedged items are accounted for under Statement 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. The Company does not expect the implementation of SFAS 161 to have a material impact on its consolidated financial statements.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, "The Hierarchy of Generally Accepted Accounting Principles" (SFAS 162). This Statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS 162 becomes effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411. The Company does not expect the implementation of SFAS 162 to have a material impact on its consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2, "Effective Date of FASB Statement No. 157" (FSP 157-2). FSP FAS 157-2 delays the effective date of SFAS 157, "Fair Value Measurements," for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The delay is intended to allow the FASB and constituents additional time to consider the effect of various implementation issues that have arisen, or that may arise, from the application of Statement 157. FSP 157-2 defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years, for items within the scope of this FSP. Examples of items to which the deferral would and would not apply are listed in the FSP. The Company does not expect the implementation of FSP 157-2 to have a material impact on its consolidated financial statements.

In October 2008, the FASB issued FSP 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" (FSP 157-3). FSP 157-3 clarifies the application of SFAS 157, "Fair Value Measurements," in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP was effective upon issuance, including prior periods for which financial statements have not been issued.

Disclosure Regarding Forward-Looking Statements

This document, including information incorporated by reference, contains, and future filings by Community Financial Corporation on Form 10-K, Form 10-Q and Form 8-K and future oral and written statements by Community Financial Corporation and its management may contain, forward-looking statements about Community Financial Corporation which we believe are within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, without limitation, statements with respect to anticipated future operating and financial performance, including revenue creation, lending origination, operating efficiencies, loan sales, charge-offs and loan loss provisions, growth opportunities, interest rates, acquisition and divestiture opportunities, and synergies, efficiencies, cost savings and funding advantages. These forward-looking statements are based on currently available competitive, financial and economic data and management's views and assumptions regarding future events. These forward-looking statements are inherently uncertain, and investors must recognize that actual results may differ from those expressed or implied in the forward-looking statements. Accordingly, Community Financial Corporation cautions readers not to place undue reliance on any forward-looking statements.

Many of these forward-looking statements appear in this document in Management's Discussion and Analysis. Words such as may, could, should, would, believe, anticipate, estimate, expect, intend, plan and similar expressions are intended to identify these forward-looking statements. The important factors discussed below, as well as other factors discussed elsewhere in this document and factors identified in our filings with the Securities and Exchange Commission and those presented elsewhere by our management from time to time, could cause actual results to differ materially from those indicated by the forward-looking statements made in this document. Among the factors that could cause our actual results to differ from these forward-looking statements are:

- the strength of the United States economy in general and the strength of the local economies in which we conduct our operations; general economic conditions, either nationally or regionally, may be less favorable than expected, resulting in, among other things, a deterioration in the credit quality of our loans and other assets;
- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board;
- financial market, monetary and interest rate fluctuations, particularly the relative relationship of short-term interest rates to long-term interest rates;
- the timely development of and acceptance of new products and services of Community Financial Corporation and Community Bank, and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services;
- the impact of changes in financial services laws and regulations (including laws concerning taxes, accounting standards, banking, securities and insurance); legislative or regulatory changes may adversely affect the business in which we are engaged;
- the impact of technological changes;
- changes in consumer spending and saving habits; and
- our success at managing the risks involved in the foregoing.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk since March 31, 2008 year end. Market risk is discussed as part of management’s discussion and analysis under asset/liability management in the Company’s annual report for March 31, 2008.

ITEM 4T. CONTROLS AND PROCEDURES

An evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Act")) as of September 30, 2008, was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and several other members of the Company's senior management. The Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures in effect were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is: (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. In addition, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Act) that occurred during the quarter ended September 30, 2008, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Company does not expect that its disclosure controls and procedures and internal control over financial reporting will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls may be circumvented by the individual acts of some persons, by collusion of two or more people, or by override of the control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable.

Item 1A. Risk Factors

Not required for smaller reporting company

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

Not Applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable.

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

The Company held an annual meeting of stockholders on July 30, 2008. The following directors were elected for a three year term at the meeting: Charles F. Andersen and Charles W. Fairchilds. The following directors' term of office continued after the meeting:, Jane C. Hickok, P. Douglas Richard, Dale C. Smith, Morgan N. Trimyer, Jr. and James R. Cooke, Jr..

The only matter voted on at the annual meeting was the election of the following two directors, each for a term of three years:

	For	Withheld
Charles F. Andersen	3,450,949	57,034
Charles W. Fairchilds	3,474,689	33,294

Item 5. Other Information

Not applicable.

Item 6. Exhibits

See Exhibit Index

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.

COMMUNITY FINANCIAL CORPORATION

Date: November 12, 2008

By: ____________________
R. Jerry Giles
Chief Financial Officer
(Duly Authorized Officer)

EXHIBIT INDEX

Exhibit Number	Document
3.1	Amended and Restated Articles of Incorporation, filed on July 5, 1996 as an exhibit to the Registrant’s Definitive Proxy Statement on Schedule 14A (SEC File No. 000-18265), are incorporated herein by reference.
3.2	Bylaws, as amended and restated, filed on December 20, 2007 as Exhibit 3.2 to the Registrant’s Current Report on Form 8-K (SEC File No. 000-18265), is incorporated herein by reference.
4	Registrant’s Specimen Common Stock Certificate, filed on June 29, 1999 as Exhibit 4 to the Annual Report on Form 10-KSB (SEC File No. 000-18265) for the fiscal year ended March 31, 1999, is incorporated herein by reference.
10.1	Amended and Restated Employment Agreement by and between Community Bank and P. Douglas Richard, filed on May 5, 2006, as Exhibit 99.2 to the Registrant’s Current Report on Form 8-K (SEC File No. 000-18265), is incorporated herein by reference.
10.2	Form of Change in Control Agreement by and between Community Financial Corporation and each of P. Douglas Richard and Chris P. Kyriakides, filed on May 5, 2006 as Exhibit 99.4 to the Registrant’s Current Report on Form 8-K (SEC File No. 000-18265), is incorporated herein by reference.
10.3	Registrant’s 1996 Incentive Plan, filed on July 5, 1996 as an exhibit to the Registrant’s Definitive Proxy Statement on Schedule 14A (SEC File No. 000-18265), is incorporated herein by reference.
10.4	Amended and Restated Employment Agreement by and between Community Bank and Chris P. Kyriakides, filed on May 5, 2006 as Exhibit 99.3 to the Registrant’s Current Report on Form 8-K (SEC File No. 000-18265), is incorporated herein by reference.
10.5	Form of Change in Control Agreement by and between Community Financial Corporation and each of R. Jerry Giles and Benny N. Werner, filed on May 5, 2006 as Exhibit 99.5 to the Registrant’s Current Report on Form 8-K (SEC File No. 000-18265), is incorporated herein by reference.
10.6	Retirement Agreements by and between Community Bank and Non-Employee Directors filed on June 29, 2004 as an exhibit to the Registrant’s Annual Report on Form 10-KSB (SEC File No. 000-18265) for the fiscal year ended March 31, 2004, and incorporated here by reference.
10.7	Form of First Amendment to the Retirement Agreements by and between Community Bank and Non-Employee Directors, filed on June 29, 2005 as an exhibit to the Registrant’s Annual Report on Form 10-K (SEC File No. 000-18265) for the fiscal year ended March 31, 2005, is incorporated here by reference.
10.8	Salary Continuance Agreements by and between Community Bank and Officers Richard, Kyriakides, Giles, Smiley and Werner filed on June 29, 2004 as an exhibit to the Registrant’s Annual Report on Form 10-KSB (SEC File No. 000-18265) for the fiscal year ended March 31, 2004, and incorporated here by reference.
10.9	Form of Director Deferred Fee Agreement, as amended, filed on June 29, 2005 as an exhibit to the Registrant’s Annual Report on Form 10-K (SEC File No. 000-18265) for the fiscal year ended March 31, 2005, is incorporated here by reference.
10.10	Registrant’s 2003 Stock Option and Incentive Plan, filed on September 27, 2003 as an exhibit to the Registrant’s Definitive Proxy Statement on Schedule 14A (SEC File No. 000-18265), is incorporated herein by reference.

10.11	Form of Incentive Stock Option Agreement and Non-Qualified Stock Option Agreement for Registrant's 2003 Stock Option and Incentive Plan, filed on August 12, 2005 as an exhibit to the Registrant's Quarterly Report on Form 10-Q (SEC File No. 000-18265) for the quarter ended June 30, 2005, are incorporated herein by reference.
10.12	Employment Agreement by and between Community Bank and Norman C. Smiley, III, filed on June 16, 2008 as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (SEC File No. 000-18265), is incorporated herein by reference.
10.13	Change in Control Agreement by and between Community Financial Corporation and Norman C. Smiley, III, filed on June 16, 2008 as an exhibit to the Registrant's Current Report on Form 8-K (SEC File No. 000-18265), is incorporated herein by reference.
10.14	Form of Change in Control Agreement by and between Community Financial Corporation and Lyle Moffett, filed on July 1, 2008 as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (SEC File No. 000-18265), is incorporated herein by reference.
10.15	Form of Change in Control Agreement by and between Community Financial Corporation and John Howeton is filed with this Form 10-Q.
11	Statement re computation of per share earnings (see Note 12 of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K).
31.1	Rule 13(a)-14(a) Certification (Chief Executive Officer)
31.2	Rule 13(a)-14(a) Certification (Chief Financial Officer)
32	Section 1350 Certifications

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Section 2: EX-10.15

CHANGE OF CONTROL AGREEMENT

THIS AGREEMENT is entered into as of the 24th day of September, 2008 (the "Effective Date") by and between Community Financial Corporation ("CFC"), a Virginia corporation, and JOHN HOWERTON (the "Executive").

WITNESSETH:

WHEREAS, CFC owns 100% of the outstanding stock of Community Bank (the "Bank"), a federally chartered savings bank;

WHEREAS, Executive is the Senior Vice President/Director of Retail Banking of the Bank, and as such is a key officer whose continued dedication, availability, advice and counsel to the Bank is deemed important to the Boards of Directors of CFC and the Bank and to their respective stockholders;

WHEREAS, CFC and the Bank wish to retain the services of Executive free from any distractions or conflicts that could arise as a result of a change in control of CFC or the Bank.

NOW, THEREFORE, to assure the Bank and CFC of Executive's continued dedication, the availability of his advice and counsel to the Board of Directors of the Bank and CFC free of any distractions resulting from a change of control, and for other good and valuable consideration, the receipt and adequacy whereof each party hereby acknowledges, CFC and Executive hereby agree as follows:

1. TERM OF AGREEMENT: This Agreement shall remain in effect until cancelled by either party hereto, upon not less than 24 months prior written notice to the other party. The execution of this Agreement shall automatically cancel and void any severance agreement which otherwise might be in effect between Executive and Bank.

2. CHANGE OF CONTROL: If there is a Change of Control of the Bank or of CFC during the term of this

Agreement, Executive shall be entitled to a severance payment in the event the Executive suffers an Involuntary Termination within six (6) months preceding or 24 months after the Change in Control, unless such termination is for Cause. The amount of such severance payment shall equal twenty-four (24) months of Executive's then current salary.

3. LIMITATION OF BENEFITS: It is the intention of the parties that no payment be made or benefit provided to the Executive that would constitute an "excess parachute payment" within the meaning of Section 280G of the Code and any regulations thereunder, thereby resulting in a loss of an income tax deduction by CFC or the imposition of an excise tax on the Executive under Section 4999 of the Code. If the independent accountants serving as auditors for CFC immediately prior to the date of a Change of Control determine that some or all of the payments or benefits scheduled under this Agreement, when combined with any other payments or benefits provided to the Executive on a Change of Control by CFC, the Bank and any affiliate of CFC or the Bank required to be aggregated with CFC or the Bank under Section 280G of the Code, would constitute nondeductible excess parachute payments by CFC under Section 280G of the Code, then the payments or benefits scheduled under this Agreement will be reduced to one dollar less than the maximum amount which may be paid or provided without causing any such payments or benefits scheduled under this Agreement or otherwise provided on a Change of Control to be nondeductible. The determination made as to the reduction of benefits or payments required hereunder by the independent accountants shall be binding on the parties. The Executive shall have the right to designate within a reasonable period which payments or benefits scheduled under this Agreement will be reduced; provided, however, that if no direction is received from the Executive, CFC shall implement the reductions under this Agreement in its discretion.

4. LITIGATION - OBLIGATIONS - SUCCESSORS:

(a) If litigation shall be brought or arbitration commenced to challenge, enforce or interpret any provision of this Agreement, and such litigation or arbitration does not end with judgment in favor of CFC, CFC hereby agrees to indemnify the Executive for his reasonable attorney's fees and disbursements incurred in such litigation or arbitration.

(b) CFC's obligation to pay the Executive the compensation and benefits and to make the arrangements provided herein shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which CFC may have against him or anyone else. All amounts payable by CFC hereunder shall be paid without notice or demand. The Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise.

(c) CFC will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of CFC, by agreement in form and substance satisfactory to the Executive, to expressly assume and agree to perform this Agreement in its entirety. Failure of CFC to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle the Executive to the compensation described in Section 2. As used in this Agreement, "CFC" shall mean Community Financial Corporation and any successor to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Section 4 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

5. NOTICES: For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:	John Howerton 3384 Cesford Grange Keswick, VA 22947
If to CFC:	Community Financial Corporation 38 N. Central Avenue P.O. Box 1209 Staunton, VA 24402-1209

or at such other address as any party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

6. MODIFICATION - WAIVERS - APPLICABLE LAW: No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing, signed by the Executive and on behalf of CFC by such officer as may be specifically designated by the Board of Directors of CFC. No waiver by either party hereto at any time of any breach by the other party hereto of, or in compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the Commonwealth of Virginia.

7. INVALIDITY - ENFORCEABILITY: The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect. Any provision in this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability without invalidating or affecting the remaining provisions of this Agreement, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

8. SUCCESSOR RIGHTS: This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive should die while any amounts would still be payable to him hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to his executor or, if there is no such executor, to his estate.

9. HEADINGS: Descriptive headings contained in this Agreement are for convenience only and shall not control or affect the meaning or construction of any provision in this Agreement.

10. ARBITRATION: Any dispute, controversy or claim arising under or in connection with this Agreement shall be settled exclusively by arbitration in Staunton, Virginia (or as close thereto as feasible) in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect. CFC shall pay all administrative fees associated with such arbitration. Judgment maybe entered on the arbitrator's award in any court having jurisdiction. Subject to Section 4(a), unless otherwise provided in the rules of the American Arbitration Association, the arbitrators shall, in their award, allocate between the parties the costs of arbitration, which shall include reasonable attorneys' fees and expenses of the parties, as well as the arbitrator's fees and expenses, in such proportions as the arbitrators deem just.

11. CONFIDENTIALITY - NONSOLICITATION:

(a) The Executive acknowledges that CFC may disclose certain confidential information to the Executive during the term of this Agreement to enable him to perform his duties hereunder. The Executive hereby covenants and agrees that he will not, without the prior written consent of CFC, during the term of this Agreement or at any time thereafter, disclose or permit to be disclosed to any third party by any method whatsoever any of the confidential information of CFC or its affiliates. For purposes of this Agreement, "confidential information" shall include, but not be limited to, any and all records, notes, memoranda, data, ideas, processes, methods, techniques, systems, formulas, patents, models, devices, programs, computer software, writings, research, personnel information, customer information, CFC's or the Bank's financial information, plans, or any other information of whatever nature in the possession or control of CFC or its affiliates which has not been published or disclosed to the general public, or which gives to CFC or its affiliates an opportunity to obtain an advantage over competitors who do not know of or use it. The Executive further agrees that if his employment is terminated for any reason, he will leave with CFC or the Bank and will not take originals or copies of any records, papers, programs, computer software and documents and all matter of whatever nature which bears secret or confidential information of CFC or its affiliates.

(b) The foregoing paragraph shall not be applicable if and to the extent the Executive is required to testify in a judicial or regulatory proceeding pursuant to an order of a judge or administrative law judge issued after the Executive and his legal counsel urge that the aforementioned confidentiality be preserved.

(c) The foregoing covenants will not prohibit the Executive from disclosing confidential or other information to other employees of CFC or its affiliates or any third parties to the extent that such disclosure is necessary to the performance of his duties under this Agreement.

12. COMPLIANCE WITH SECTION 409A OF THE CODE: Notwithstanding anything herein to the contrary, any payments to be made in accordance with this Agreement shall not be made prior to the date that is 185 calendar days from the date of termination of employment of the Executive if it is determined by CFC in good faith that such payments are subject to the limitations set forth at Section 409A of the Code and regulations promulgated thereunder, and payments made in advance of such date would result in the requirement that Executive pay additional interest and taxes in accordance with Section 409A(a)(1)(B) of the Code.

13. DEFINITIONS: The term "Cause" shall mean the Executive's personal dishonesty, incompetence, willful misconduct, breach of a fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule, or regulation (other than traffic violations or similar offenses) or final cease-and desist order, or material breach of any provision of this Agreement. No act or failure to act by the Executive shall be considered willful unless the Executive acted or failed to act with an absence of good faith and without a reasonable belief that his action or failure to act was in the best interest of CFC or its affiliates.

The term "Involuntary Termination" shall mean (i) termination of employment of the Executive without Cause such that the Executive is no longer employed by the Bank or any affiliate thereof; (ii) a reduction in the amount of the Executive's base salary compared to the amount of Executive's base salary as of March 31 of the most recent calendar year; (iii) a material adverse change in the Executive's benefits, contingent benefits or vacation, other than as part of an overall program applied uniformly and with equitable effect on all senior officers of the Bank; (iv) a requirement that the Executive perform services principally at a location more than 50 miles from Staunton, Virginia; or (v) a material demotion of the Executive, including, but not limited to, a material diminution of the Executive 's title, duties or responsibilities.

The term "Change of Control" shall mean any of the following events occurring: (i) the acquisition by any "person" or "group" (as defined in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934 ("Exchange Act")), other than CFC, any subsidiary of CFC or their employee benefit plans, directly or indirectly, as "beneficial owner" (as defined in Rule 13d-3, under the Exchange Act) of securities of CFC representing twenty percent (20%) or more of either the then outstanding shares or the combined voting power of the then outstanding securities of CFC; (ii) either a majority of the directors of CFC elected at CFC's annual stockholders meeting shall have been nominated for election other than by or at the direction of the "incumbent directors" of CFC, or the "incumbent directors" shall cease to constitute a majority of the directors of CFC. The term "incumbent director" shall mean any director who was a director of CFC on the Effective Date and any individual who becomes a director of CFC subsequent to the Effective Date and who is elected or nominated by or at the direction of at least two-thirds of the then incumbent directors; (iii) the shareholders of CFC approve (x) a merger, consolidation or other business combination of CFC with any other "person" or "group" (as defined in Sections 13(d) and 14(d) of the Exchange Act) or affiliate thereof, other than a merger or consolidation that would result in the outstanding common stock of CFC immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into common stock of the surviving entity or a parent or affiliate thereof) at least fifty percent (50%) of the outstanding common stock of CFC or such surviving entity or a parent or affiliate thereof outstanding immediately after such merger, consolidation or other business combination, or (y) a plan of complete liquidation of CFC or an agreement for the sale or disposition by CFC of all or substantially all of CFC's assets; or (iv) any other event or circumstance which is not covered by the foregoing subsections but which the Board of Directors of CFC determines to affect control of CFC and with respect to which the Board of Directors adopts a resolution that the event or circumstance constitutes a Change of Control for purposes of the Agreement.

The Change of Control Date is the date on which an event described in (i), (ii), (iii) or (iv) occurs.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the Effective Date referred to above.

		EXECUTIVE
ATTEST:	______________________	By: /s/ ______________________
		John Howerton
		COMMUNITY FINANCIAL CORPORATION
ATTEST:	______________________	By: /s/ ______________________

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Section 3: EX-31.1

Exhibit 31.1

Rule 13a-14(a) CERTIFICATIONS

I, P. Douglas Richard, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Community Financial Corporation (the "Registrant");

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 consolidated financial statements, and other financial information included in this report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the Registrant and have:

a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any changes in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent of evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 12, 2008

/s/ P. Douglas Richard
P. Douglas Richard
President and Chief Executive Officer

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Section 4: EX-31.2

Exhibit 31.2

I, R. Jerry Giles, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Community Financial Corporation (the "Registrant");

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 consolidated financial statements, and other financial information included in this report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the Registrant and have:

a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

d) disclosed in this report any changes in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 12, 2008

/s/ R. Jerry Giles
R. Jerry Giles
Senior Vice President and Chief Financial Officer

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Section 5: EX-32

Exhibit 32

CERTIFICATION

Each of the undersigned hereby certifies in his capacity as an officer of Community Financial Corporation (the "Company") that the quarterly report of the Company on Form 10-Q for the period ended September 30, 2008 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition of the Company at the end of such period and the results of operations of the Company for such period.

Date: November 12, 2008

/s/ P. Douglas Richard
P. Douglas Richard
President and Chief Executive Officer

/s/ R. Jerry Giles
R. Jerry Giles
Chief Financial Officer
(Duly Authorized Officer)

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