

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2008

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

For the Transition Period from _____ to _____

Commission file number 000-52592

CONGAREE BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

South Carolina
(State or other jurisdiction
of incorporation)

20-3863936
(I.R.S. Employer
Identification No.)

1201 Knox Abbott Drive
Cayce, South Carolina 29033
(Address of principal executive offices)

(803) 794-2265
(Registrant's telephone number)

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

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

Large accelerated filer Accelerated filer
Non-accelerated (do not check if smaller reporting company) Smaller reporting company

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
1,764,439 shares of common stock, \$.01 par value per share, were issued and outstanding as of November 12, 2008.

CONGAREE BANCSHARES, INC.

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CONGAREE BANCSHARES, INC.
PART I – FINANCIAL INFORMATION**Item 1. Financial Statements****Consolidated Condensed Balance Sheets**

	September 30, 2008 <u>(unaudited)</u>	December 31, 2007 <u>(audited)</u>
Assets:		
Cash and due from banks	\$ 3,038,698	\$ 4,012,721
Federal funds sold	2,285,000	110,000
	<hr/>	<hr/>
Total cash and cash equivalents	5,323,698	4,122,721
Securities available-for-sale	13,888,105	14,833,432
Non-marketable equity securities	530,944	268,244

Loans receivable	105,766,360	55,288,904
Less allowance for loan losses	1,327,809	552,600
	<hr/>	<hr/>
Loans, net	104,438,551	54,736,304
Premises, furniture and equipment, net	4,167,935	3,960,573
Accrued interest receivable	416,765	338,183
Deferred tax asset	2,126,778	1,352,119
Other assets	567,946	228,991
	<hr/>	<hr/>
Total assets	\$ 131,460,722	\$ 79,840,567
	<hr/>	<hr/>
Liabilities:		
Deposits:		
Noninterest-bearing transaction accounts	\$ 10,382,611	\$ 4,911,717
Interest-bearing transaction accounts	4,481,273	5,670,104
Savings and money market	23,599,561	24,481,389
Time deposits \$100,000 and over	34,213,818	13,686,816
Other time deposits	41,801,864	11,529,784
	<hr/>	<hr/>
Total deposits	114,479,127	60,279,810
Federal funds purchased	-	3,658,000
Federal Home Loan Bank advances	3,000,000	-
Securities sold under agreements to repurchase	527,717	1,395,326
Accrued interest payable	260,308	65,019
Other liabilities	142,884	109,734
	<hr/>	<hr/>
Total liabilities	118,410,036	65,507,889
	<hr/>	<hr/>
Shareholders' equity:		
Preferred stock, \$.01 par value, 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, \$.01 par value, 10,000,000 shares authorized; 1,764,439 shares issued and outstanding	17,644	17,644
Capital surplus	17,363,653	17,141,232
Retained deficit	(4,370,315)	(2,913,102)
Accumulated other comprehensive income	39,704	86,904
	<hr/>	<hr/>
Total shareholders' equity	13,050,686	14,332,678
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$ 131,460,722	\$ 79,840,567
	<hr/>	<hr/>

See notes to consolidated condensed financial statements.

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CONGAREE BANCSHARES, INC.

**Consolidated Condensed Statements of Operations
(unaudited)**

	Nine months ended September 30,		Three months ended September 30,	
	2008	2007	2008	2007
Interest income:				
Loans, including fees	\$ 3,940,726	\$ 1,244,467	\$ 1,511,798	\$ 657,853
Securities available-for-sale, taxable	557,767	368,901	192,376	170,895
Federal funds sold and other	27,951	408,328	10,665	112,306
	<hr/>	<hr/>	<hr/>	<hr/>

Total	4,526,444	2,021,696	1,714,839	941,054
Interest expense:				
Time deposits \$100,000 and over	690,680	195,675	300,662	86,134
Other deposits	1,413,985	743,396	500,291	379,529
Other borrowings	81,690	36,066	31,914	23,748
Total	2,186,355	975,137	832,867	489,411
Net interest income	2,340,089	1,046,559	881,972	451,643
Provision for loan losses	945,403	327,000	342,735	89,000
Net interest income after provision for loan losses	1,394,686	719,559	539,237	362,643
Noninterest income:				
Service charges on deposit accounts	63,951	14,261	28,564	11,502
Residential mortgage origination fees	125,629	30,412	43,124	8,208
Loss on sale of other assets	(11,545)	-	-	-
Gain on sale of securities	71,599	-	-	-
Other	65,602	10,514	18,896	6,850
Total noninterest income	315,236	55,187	90,584	26,560
Noninterest expenses:				
Salaries and employee benefits	2,362,893	1,631,890	796,238	644,156
Net occupancy	275,793	93,991	104,105	31,247
Furniture and equipment	167,417	259,481	53,758	90,420
Other operating	1,111,376	886,650	359,958	283,269
Total noninterest expenses	3,917,479	2,872,012	1,314,059	1,049,092
Loss before income taxes	(2,207,557)	(2,097,266)	(684,238)	(659,889)
Income tax benefit	(750,344)	(669,517)	(253,705)	(176,899)
Net loss	\$ (1,457,213)	\$ (1,427,749)	\$ (430,533)	\$ (482,990)
Losses per share				
Basic loss per share	\$ (0.83)	\$ (.81)	\$ (.24)	\$ (.27)
Average shares outstanding	1,764,439	1,764,439	1,764,439	1,764,439

See notes to consolidated condensed financial statements.

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CONGAREE BANCSHARES, INC.

Consolidated Statements of Shareholders' Equity (unaudited)

	Common Stock Shares	Common Stock Amount	Capital Surplus	Accumulated other comprehensive income (loss)	Retained deficit	Total
December 31, 2006	1,764,439	\$ 17,644	\$16,861,718	\$ (162)	\$ (821,979)	\$16,057,221
Net loss					(1,427,749)	(1,427,749)
Other comprehensive loss, net of						

taxes of \$60,345				(5,602)		(5,602)
Comprehensive loss						(1,433,351)
Stock and warrant compensation expense	-	-	230,290	-	-	230,290
September 30, 2007	<u>1,764,439</u>	<u>\$ 17,644</u>	<u>\$17,092,008</u>	<u>\$ (5,764)</u>	<u>\$(2,249,728)</u>	<u>\$14,854,160</u>
December 31, 2007	<u>1,764,439</u>	<u>\$ 17,644</u>	<u>\$17,141,232</u>	<u>\$ 86,904</u>	<u>\$(2,913,102)</u>	<u>\$14,332,678</u>
Net loss					(1,457,213)	(1,457,213)
Other comprehensive loss, net of taxes of \$20,454				(47,200)		(47,200)
Comprehensive loss						(1,504,413)
Stock and warrant compensation expense	-	-	222,421	-	-	222,421
September 30, 2008	<u>1,764,439</u>	<u>\$ 17,644</u>	<u>\$17,363,653</u>	<u>\$ 39,704</u>	<u>\$(4,370,315)</u>	<u>\$13,050,686</u>

See notes to consolidated condensed financial statements.

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CONGAREE BANCSHARES, INC.

Consolidated Statements of Cash Flows (unaudited)

	Nine Months Ended September 30,	
	<u>2008</u>	<u>2007</u>
Cash flow from operating activities		
Net loss	\$ (1,457,213)	\$ (1,427,749)
Adjustments to reconcile net loss to net cash used by operating activities:		
Provision for loan losses	945,403	327,000
Depreciation and amortization expense	190,478	88,839
Discount accretion and premium amortization	(43,163)	(38,634)
Deferred income tax benefit	(750,344)	(672,402)
Stock and warrant compensation expense	222,421	230,290
Increase in accrued interest receivable	(78,582)	(179,212)
Increase in accrued interest payable	195,289	40,029
Gain from sale of securities available-for-sale	(71,599)	-
Loss on sale of other real estate owned	11,545	-
Decrease (increase) in other assets	(261,123)	44,279
Increase in other liabilities	33,150	46,872
Net cash used in operating activities	<u>(1,063,738)</u>	<u>(1,540,688)</u>
Cash flow from investing activities		
Purchase of non-marketable equity securities	(262,700)	(155,344)
Proceeds from maturities/calls of securities available-for-sale	1,971,365	-
Proceeds from sales of securities available-for-sale	2,292,342	-
Purchase of securities available-for-sale	(3,275,133)	(9,894,918)

Net increase in loans receivable	(50,659,195)	(32,672,156)
Purchase of premises, furniture and equipment	(475,672)	(1,628,052)
Net cash used in investing activities	(50,408,993)	(44,350,470)
Cash flow from financing activities		
Increase in noninterest-bearing deposits	5,470,894	3,263,580
Increase in interest-bearing deposits	48,728,423	36,624,784
Decrease in federal funds purchased	(3,658,000)	-
Proceeds from Federal Home Loan Bank advances	3,000,000	-
Increase (decrease) in securities sold under agreements to repurchase	(867,609)	2,460,832
Net cash provided by financing activities	52,673,708	42,349,196
Net increase (decrease) in cash and cash equivalents	1,200,977	(3,541,962)
Cash and cash equivalents at beginning of the period	4,122,721	12,175,239
Cash and cash equivalents at end of the period	\$ 5,323,698	\$ 8,633,277

See notes to consolidated condensed financial statements.

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CONGAREE BANCSHARES, INC.

Notes to Consolidated Condensed Financial Statements

Note 1 – Business and Basis of Presentation

Business Activity and Organization

Congaree Bancshares, Inc. (the “Company”) is a South Carolina corporation organized to operate as a bank holding company pursuant to the Federal Bank Holding Company Act of 1956 and the South Carolina Bank Holding Company Act, and to own and control all of the capital stock of Congaree State Bank (the “Bank”). The Bank is a state chartered bank organized under the laws of South Carolina. From our inception in November 2005 and before opening the Bank for business on October 16, 2006, we engaged in organizational and pre-opening activities necessary to obtain regulatory approvals and to prepare our subsidiary, the Bank, to commence business as a financial institution. The Bank primarily is engaged in the business of accepting deposits insured by the Federal Deposit Insurance Corporation (the “FDIC”), and providing commercial, consumer and mortgage loans to the general public.

Basis of Presentation

The accompanying unaudited 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. Accordingly, they do not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the nine month period ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to the financial statements and footnotes thereto included in our Annual Report on Form 10-KSB for 2007 as filed with the Securities and Exchange Commission.

Note 2 – Summary of Significant Accounting Policies

A summary of these policies is included in our Annual Report on Form 10-KSB filed with the Securities and Exchange Commission for the year ended December 31, 2007. For further information, refer to the consolidated financial statements and footnotes thereto included

in our Annual Report on Form 10-KSB for 2007 as filed with the Securities and Exchange Commission. Accounting standards that have been issued or proposed by the Financial Accounting Standards Board that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

Statement of Cash Flow

For purposes of reporting cash flows, the Company considered certain highly liquid debt instruments purchased with a maturity of nine months to be cash equivalents. Cash equivalents include amounts due from banks and federal funds sold. Generally, federal funds are sold for one-day periods.

Loss Per Share

Basic loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding. Diluted loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding and dilutive common share equivalents using the treasury stock method. Dilutive common share equivalents include common shares issuable upon exercise of outstanding stock warrants and stock options. There were no dilutive common share equivalents outstanding during the nine months and three months ended September 30, 2008 and 2007 due to the net loss; therefore, basic loss per share and diluted earnings per share were the same.

	<u>For the Nine months ended September 30, 2008</u>	<u>For the Three months ended September 30, 2008</u>
Net loss per share - basic computation:		
Net loss to common shareholders	\$ (1,457,213)	\$ (430,533)
	<u>1,764,439</u>	<u>1,764,439</u>
Average common shares outstanding - basic		
Basic loss per share	\$ (0.83)	\$ (0.24)

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CONGAREE BANCSHARES, INC.

Comprehensive Income

Accounting principles generally require that recognized income, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

The change in the components of other comprehensive income and related tax effects are as follows for the nine months ended September 30, 2008 and 2007:

	<u>Nine months ended September 30,</u>	
	<u>2008</u>	<u>2007</u>
Change in unrealized gains (losses) on securities available-for-sale	\$ 84	\$ (8,571)
Reclassification adjustment for gain realized in net income during the period	(71,599)	-
Net change in unrealized gains on securities	(71,515)	(8,571)
Tax effect	24,315	2,969
Net-of-tax amount	<u>\$ (47,200)</u>	<u>\$ (5,602)</u>

Note 3 – Recently Issued Accounting Pronouncements

The following is a summary of recent authoritative pronouncements:

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations," ("SFAS 141(R)") which replaces SFAS 141. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141(R) is effective for acquisitions by the Company taking place on or after January 1, 2009. Early adoption is prohibited. Accordingly, a calendar year-end company is required to record and disclose business combinations following existing accounting guidance until January 1, 2009. The Company will assess the impact of SFAS 141(R) if and when a future acquisition occurs.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51" ("SFAS 160"). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Before this statement, limited guidance existed for reporting noncontrolling interests (minority interest). As a result, diversity in practice exists. In some cases minority interest is reported as a liability and in others it is reported in the mezzanine section between liabilities and equity. Specifically, SFAS 160 requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interests. SFAS 160 is effective for the Company on January 1, 2009. Earlier adoption is prohibited. The Company is currently evaluating the impact, if any, the adoption of SFAS 160 will have on its financial position, results of operations and cash flows.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improving the transparency of financial reporting. It is intended to enhance the current disclosure framework in SFAS 133 by requiring that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. This disclosure better conveys the purpose of derivative use in terms of the risks that the entity is intending to manage. SFAS 161 is effective for the Company on January 1, 2009. This pronouncement does not impact

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accounting measurements but will result in additional disclosures if the Company is involved in material derivative and hedging activities at that time.

In February 2008, the FASB issued FASB Staff Position No. 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions" ("FSP 140-3"). This FSP provides guidance on accounting for a transfer of a financial asset and the transferor's repurchase financing of the asset. This FSP presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (linked transaction) under SFAS No. 140. However, if certain criteria are met, the initial transfer and repurchase financing are not evaluated as a linked transaction and are evaluated separately under Statement 140. FSP 140-3 will be effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years and earlier application is not permitted. Accordingly, this FSP is effective for the Company on January 1, 2009. The Company is currently evaluating the impact, if any, the adoption of FSP 140-3 will have on its financial position, results of operations or cash flows.

In April 2008, the FASB issued FASB Staff Position No. 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3"). This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets". The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R), "Business Combinations," and other U.S. generally accepted accounting principles. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and early adoption is prohibited. Accordingly, this FSP is effective for the Company on January 1, 2009. The Company does not believe the adoption of FSP 142-3 will have a material impact on its financial position, results of operations or cash flows.

In May 2008, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 162, "The Hierarchy of Generally Accepted Accounting Principles," ("SFAS No. 162"). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). SFAS No. 162

will be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board's amendments to AU Section 411, "*The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.*" The FASB has stated that it does not expect SFAS No. 162 will result in a change in current practice. The application of SFAS No. 162 will have no effect on the Company's financial position, results of operations or cash flows.

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

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

- Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as U.S. Treasuries, and money market funds.
- Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, mortgage back securities, municipal bonds, corporate debt securities, and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain derivative contracts and impaired loans.

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- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. For example, this category generally includes certain private equity investments, retained residual interests in securitizations, residential mortgage servicing rights, and highly-structured or long-term derivative contracts.

Available-for-sale investment securities (\$13,888,105 at September 30, 2008) are the only assets whose fair values are measured on a recurring basis using Level 2 inputs.

The Company has no liabilities carried at fair value or measured at fair value on a nonrecurring basis.

The Company is predominantly an asset based lender with real estate serving as collateral on a substantial majority of loans. Loans which are deemed to be impaired are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. Such fair values are obtained using independent appraisals, which the Company considers to be level 2 inputs. The aggregate carrying amount of impaired loans at September 30, 2008 was \$153,406.

FASB Staff Position No. FAS 157-2 delays the implementation of SFAS 157 until the first quarter of 2009 with respect to goodwill, other intangible assets, real estate and other assets acquired through foreclosure and other non-financial assets measured at fair value on a nonrecurring basis.

The Company has no assets or liabilities whose fair values are measured using level 3 inputs.

FSP SFAS 133-1 and FIN 45-4, "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161," ("FSP SFAS 133-1 and FIN 45-4") was issued September 2008, effective for reporting periods (annual or interim) ending after November 15, 2008. FSP SFAS 133-1 and FIN 45-4 amends SFAS 133 to require the seller of credit derivatives to disclose the nature of the credit derivative, the maximum potential amount of future payments, fair value of the derivative, and the nature of any recourse provisions. Disclosures must be made for entire hybrid instruments that have embedded credit derivatives.

The staff position also amends FIN 45 to require disclosure of the current status of the payment/performance risk of the credit derivative guarantee. If an entity utilizes internal groupings as a basis for the risk, how the groupings are determined must be disclosed as well as how the risk is managed.

The staff position encourages that the amendments be applied in periods earlier than the effective date to facilitate comparisons at initial adoption. After initial adoption, comparative disclosures are required only for subsequent periods.

FSP SFAS 133-1 and FIN 45-4 clarifies the effective date of SFAS 161 such that required disclosures should be provided for any reporting period (annual or quarterly interim) beginning after November 15, 2008. The adoption of this Staff Position will have no material effect on the Company's financial position, results of operations or cash flows.

The SEC's Office of the Chief Accountant and the staff of the FASB issued press release 2008-234 on September 30, 2008 ("Press Release") to provide clarifications on fair value accounting. The Press Release includes guidance on the use of management's internal assumptions and the use of "market" quotes. It also reiterates the factors in SEC Staff Accounting Bulletin ("SAB") Topic 5M which should be considered when determining other-than-temporary impairment: the length of time and extent to which the market value has been less than cost; financial condition and near-term prospects of the issuer; and the intent and ability of the holder to retain its investment for a period of time sufficient to allow for any anticipated recovery in market value.

On October 10, 2008, the FASB issued FSP SFAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP SFAS 157-3"). This FSP clarifies the application of SFAS No. 157, "Fair Value Measurements" in a market that is not active and provides an example to illustrate key considerations in determining

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the fair value of a financial asset when the market for that asset is not active. The FSP is effective upon issuance, including prior periods for which financial statements have not been issued. For the Company, this FSP is effective for the quarter ended September 30, 2008.

The Company considered the guidance in the Press Release and in FSP SFAS 157-3 when conducting its review for other-than-temporary impairment as of September 30, 2008 and determined that it did not result in a change to its impairment estimation techniques.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

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

The following discussion reviews our results of operations and assesses our financial condition. You should read the following discussion and analysis in conjunction with the accompanying consolidated financial statements. The commentary should be read in conjunction with the discussion of forward-looking statements, the financial statements, and the related notes and the other statistical information included in this report.

DISCUSSION OF FORWARD-LOOKING STATEMENTS

This report contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are based on many assumptions and estimates and are not guarantees of future performance. Our actual results may differ materially from those anticipated in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control. The words "may," "would," "could," "will," "expect," "anticipate," "believe," "intend," "plan," and "estimate," as well as similar expressions, are meant to identify

such forward-looking statements. Our actual results may differ materially from the results discussed in the forward-looking statements, and our operating performance each quarter is subject to various risks and uncertainties that include, without limitation, those described under the heading "Risk Factors" in our Annual Report for the year ended December 31, 2007 filed with the Securities and Exchange Commission, and the following:

- significant increases in competitive pressure in the banking and financial services industries;
- changes in the interest rate environment which could reduce anticipated or actual margins;
- changes in political conditions or the legislative or regulatory environment;
- general economic conditions, either nationally or regionally and especially in our primary service area, becoming less favorable than expected, resulting in, among other things, a deterioration in credit quality;
- changes occurring in business conditions and inflation;
- changes in technology;
- changes in deposit flows;
- changes in monetary and tax policies;
- the level of allowance for loan loss;
- the rate of delinquencies and amounts of charge-offs;
- the rates of loan growth and the lack of seasoning in our loan portfolio;
- adverse changes in asset quality and resulting credit risk-related losses and expenses;
- loss of consumer confidence and economic disruptions resulting from terrorist activities;
- changes in the securities markets; and
- other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission.

These risks are exacerbated by the recent developments in national and international financial markets, and we are unable to predict what effect these uncertain market conditions will have on our company. During 2008, the capital and credit markets have experienced extended volatility and disruption. In the last 90 days, the volatility and disruption have reached unprecedented levels. There can be no assurance that these unprecedented recent developments will not materially and adversely affect our business, financial condition and results of operations.

All forward-looking statements in this report are based on information available to us as of the date of this report. We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

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CONGAREE BANCSHARES, INC.

Overview

Our Bank opened for business on October 16, 2006. All activities of the Company prior to that date relate to the organization of the Bank. The following discussion describes our results of operations for the nine months and three months ended September 30, 2008 and 2007 and also analyzes our financial condition as of September 30, 2008.

Like most community banks, we derive the majority of our income from interest we receive on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on which we pay interest. Consequently, one of the key measures of our success is our amount of net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits, also known as net interest margin. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities, which is referred to as net interest spread.

There are risks inherent in all loans, so we maintain an allowance for loan losses to absorb probable losses on existing loans that may become uncollectible. We establish and maintain this allowance by charging a provision for loan losses against our operating earnings. In the following section, we have included a detailed discussion of this process.

In addition to earning interest on our loans and investments, we earn income through fees and other expenses we charge to our clients. We describe the various components of this non-interest income, as well as our non-interest expense, in the following discussion.

In response to financial conditions affecting the banking system and financial markets and the potential threats to the solvency of investment banks and other financial institutions, the United States government has taken unprecedented actions. On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act of 2008 (the "EESA"). Pursuant to the EESA, the U.S. Treasury will have the authority to, among other things, purchase mortgages, mortgage-backed securities, and other financial instruments from

financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. On October 14, 2008, the U.S. Department of Treasury announced the Capital Purchase Program under the EESA, pursuant to which the Treasury intends to make senior preferred stock investments in participating financial institutions. We are evaluating whether to participate in the Capital Purchase Program. Regardless of our participation, governmental intervention and new regulations under these programs could materially and adversely affect our business, financial condition and results of operations.

Critical Accounting Policies

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States of America and with general practices within the banking industry in the preparation of our financial statements. Our significant accounting policies are described in the footnotes to our audited consolidated financial statements as of December 31, 2007, as filed on our Annual Report on Form 10-KSB.

Certain accounting policies involve significant judgments and assumptions by us that have a material impact on the carrying value of certain assets and liabilities. We consider these accounting policies to be critical accounting policies. The judgment and assumptions we use are based on historical experience and other factors, which we believe to be reasonable under the circumstances. Because of the nature of the judgment and assumptions we make, actual results could differ from these judgments and estimates that could have a material impact on the carrying values of our assets and liabilities and our results of operations.

Allowance for Loan Losses

We believe the allowance for loan losses is the critical accounting policy that requires the most significant judgment and estimates used in preparation of our consolidated financial statements. Some of the more critical judgments supporting the amount of our allowance for loan losses include judgments about the credit worthiness of borrowers, the estimated value of the underlying collateral, the assumptions about cash flow, determination of loss factors for estimating credit losses, the impact of current events and conditions, and other factors impacting the level of probable inherent losses. Under different conditions or using different assumptions, the actual amount of credit losses incurred by us may be different from management's estimates provided in our consolidated financial statements. Refer to the portion of this discussion that addresses our allowance for loan losses for a more complete discussion of our processes and methodology for determining our allowance for loan losses.

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CONGAREE BANCSHARES, INC.

Income Taxes

We use assumptions and estimates in determining income taxes payable or refundable for the current year, deferred income tax liabilities and assets for events recognized differently in our financial statements and income tax returns, and income tax benefit or expense. Determining these amounts requires analysis of certain transactions and interpretation of tax laws and regulations. Management exercises judgment in evaluating the amount and timing of recognition of resulting tax liabilities and assets. These judgments and estimates are reevaluated on a continual basis as regulatory and business factors change. No assurance can be given that either the tax returns submitted by us or the income tax reported on the financial statements will not be adjusted by either adverse rulings by the United States Tax Court, changes in the tax code, or assessments made by the Internal Revenue Service. We are subject to potential adverse adjustments, including, but not limited to, an increase in the statutory federal or state income tax rates, the permanent non-deductibility of amounts currently considered deductible either now or in future periods, and the dependency on the generation of future taxable income, including capital gains, in order to ultimately realize deferred income tax assets.

Results of Operations

General

Nine and Three months ended September 30, 2008 and 2007

Our net loss was \$1,457,213 and \$1,427,749 for the nine months ended September 30, 2008 and 2007, respectively. The increase in net loss is primarily due to an increase in the provision for loan losses and increase in noninterest expenses.

Our net loss was \$430,533 and \$482,990 for the three months ended September 30, 2008 and 2007, respectively. The decrease in net loss is primarily due to an increase in net interest income.

Net Interest Income

Our primary source of revenue is net interest income. Net interest income is the difference between income earned on interest-bearing assets and interest paid on deposits and borrowings used to support such assets. The level of net interest income is determined by the balances of interest-earning assets and interest-bearing liabilities and corresponding interest rates earned and paid on those assets and liabilities, respectively. In addition to the volume of and corresponding interest rates associated with these interest-earning assets and interest-bearing liabilities, net interest income is affected by the timing of the repricing of these interest-earning assets and interest-bearing liabilities. The impact of the Federal Reserve's recent interest rate decreases will result in a decrease in both the yields on our variable rate assets and the rates that we pay for our short-term deposits and borrowings. The net interest spread and net interest margin decreased during the nine months ended September 30, 2008 as a result of the bank having more interest-bearing liabilities than interest-earning assets that repriced as market rates decreased over the period. Our net interest margins for the nine months ended September 30, 2008 and 2007 were 3.26% and 3.52%, respectively. Our net interest margins for the three months ended September 30, 2008 and 2007 were 3.11% and 3.40%, respectively.

Net interest income was \$2,340,089 during the nine months ended September 30, 2008, compared to \$1,046,559 for the same period in 2007. Interest income of \$4,526,444 for the nine months ended September 30, 2008 included \$3,940,726 on loans, \$557,767 on investment securities and \$27,951 on federal funds sold and other. Total interest expense of \$2,186,355 for the nine months ended September 30, 2008 included \$2,104,665 related to deposit accounts and \$81,690 on federal funds purchased and other borrowings.

Net interest income was \$881,972 for the quarter ended September 30, 2008, compared to \$451,643 for the same period in 2007. Interest income of \$1,714,839 for the quarter ended September 30, 2008 included \$1,511,798 on loans, \$192,376 on investment securities and \$10,665 on federal funds sold and other. Total interest expense of \$832,867 for the quarter ended September 30, 2008 included \$800,953 related to deposit accounts and \$31,914 on federal funds purchased and other borrowings.

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CONGAREE BANCSHARES, INC.

Provision for Loan Losses

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

Our provision for loan losses for the nine months ended September 30, 2008 was \$945,403, an increase of \$618,403, or 189.11%, over our provision of \$327,000 for the nine months ended September 30, 2007. For the three months ended September 30, 2008, the provision charged to expense was \$342,735, an increase of \$253,735, or 285.1%, over our provision of \$89,000 for the three months ended September 30, 2007. This increase in provision expense is due to an increase in net loan originations in the current year and quarter compared to the comparable time periods in 2007 and the result of certain loans becoming impaired in 2008. The allowance as a percentage of gross loans has been increased from approximately 1.00% to 1.26% as of September 30, 2007 and 2008, respectively, due to management's evaluation of the adequacy of the reserve for possible loan losses given the size, mix, and quality of the current loan portfolio. Management also relies on our limited history of past-dues and charge-offs, as well as peer data to determine our loan loss allowance.

Noninterest Income

Noninterest income during the nine months ended September 30, 2008 was \$315,236, compared to \$55,187 for the same period in 2007. Noninterest income for the nine months ended September 30, 2008 consisted primarily of gains on the sale of investment securities and mortgage loan origination fees. Noninterest income for the nine months ended September 30, 2007 consisted primarily of mortgage loan origination fees. The increase of \$260,049 is primarily the result of a gain on sale of investment securities of \$71,599, an increase in mortgage loan origination fees of \$95,217, and an increase in service charges on deposit accounts of \$49,690.

Noninterest income for the quarter ended September 30, 2008 was \$90,584, compared to \$26,560 for the quarter ended September 30, 2007. Noninterest income for the quarters ended September 30, 2008 and 2007 consisted primarily of mortgage loan origination fees. The increase of \$64,024 is primarily the result of an increase in mortgage loan origination fees of \$34,916, insurance premium income increase of \$12,046, and an increase in service charges on deposit accounts of \$17,062.

Noninterest Expenses

The following table sets forth information related to our noninterest expenses for the nine months and three months ended September 30, 2008 and 2007.

	Nine months ended September 30,		Three months ended September 30,	
	2008	2007	2008	2007
Compensation and benefits	\$ 2,362,893	\$ 1,631,890	\$ 796,238	\$ 564,046
Occupancy and equipment	443,210	353,472	157,863	121,667
Data processing and related costs	258,563	67,503	85,960	39,990
Marketing, advertising and shareholder communications	136,372	330,259	(5,142)	93,059
Legal and audit	201,651	100,946	44,599	82,037
Supplies, postage and telephone	137,816	139,393	39,801	45,661
Insurance	30,861	30,709	9,051	11,639
Credit related expenses	96,483	50,186	39,820	(11,210)
Courier and armored carrier service	11,046	540	5,363	84
Regulatory fees and FDIC insurance	66,963	22,516	27,470	11,761
Other	171,621	144,598	113,036	90,358
Total noninterest expense	\$ 3,917,479	\$ 2,872,012	\$ 1,314,059	\$ 1,049,092

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CONGAREE BANCSHARES, INC.

The most significant component of noninterest expense is compensation and benefits, which totaled \$2,362,893 for the nine months ended September 30, 2008, compared to \$1,631,890 for the nine months ended September 30, 2007. The increase primarily related to staff additions associated with the bank's growth, performance raises and increases in bank-paid employee health care and other insurance costs. Data processing and related expense increased from \$67,503 for the nine months ended September 30, 2007, to \$258,563 for the nine months ended September 30, 2008, primarily due to an increase in our core processor charges because of the increased volume of new accounts. Legal and audit fees increased from \$100,946 for the nine months ended September 30, 2007, to \$201,651 for the nine months ended September 30, 2008, primarily due to third-party consultant costs incurred for compliance, loan and internal audit reviews.

The most significant component of noninterest expense is compensation and benefits, which totaled \$796,237 for the three months ended September 30, 2008, compared to \$564,046 for the three months ended September 30, 2007. The increase primarily related to staff additions associated with the bank's growth, performance raises and increases in bank-paid employee health care and other insurance costs. Data processing and related expense increased from \$39,990 for the three months ended September 30, 2007, to \$85,960 for the three months ended September 30, 2008, primarily due to an increase in our core processor charges because of the increased volume of new accounts.

Income Tax Benefit

The Company had no currently taxable income for the nine months and three months ended September 30, 2008 and 2007. The Company has recorded a deferred tax benefit based on an effective rate of 34%.

Balance Sheet Review

General

At September 30, 2008, total assets were \$131,460,722, compared to \$79,840,567 at December 31, 2007, representing an increase of \$51,620,155, or 64.65%. The increase in assets resulted from volume increases in our loan portfolio and related increases in our funding sources of deposits and other borrowings. Interest-earning assets comprised approximately 92.15% and 87.61% of total assets at September 30, 2008 and December 31, 2007, respectively. Gross loans totaled \$105,766,360 and investment securities were \$14,419,049 at September 30, 2008.

Deposits totaled \$114,479,127 at September 30, 2008 and \$60,279,810 at December 31, 2007. Federal Home Loan Bank Advances were \$3,000,000 at September 30, 2008. Shareholders' equity was \$13,050,686 and \$14,332,678 at September 30, 2008 and December 31, 2007, respectively.

Loans

Since loans typically provide higher interest yields than other interest-earning assets, it is our goal to ensure that the highest percentage of our earning assets is invested in our loan portfolio. Gross loans outstanding at September 30, 2008 were \$105,766,360, or 87.31%, of interest-earning assets and 80.45% of total assets, compared to \$55,288,904, or 79.04%, of interest-earning assets and 69.25% of total assets at December 31, 2007.

Loans secured by real estate mortgages comprised approximately 85.65% of loans outstanding at September 30, 2008. Most of our real estate loans are secured by residential and commercial properties. We do not generally originate traditional long term residential mortgages, but we do issue traditional second mortgage residential real estate loans and home equity lines of credit. We obtain a security interest in real estate whenever possible, in addition to any other available collateral. This collateral is taken to increase the likelihood of the ultimate repayment of the loan. Generally, we limit the loan-to-value ratio on loans we make to 80%. Commercial loans and lines of credit represented approximately 11.48% of our loan portfolio at September 30, 2008. Our construction and development loans represented approximately 16.35% of our loan portfolio at September 30, 2008.

Due to the short time our portfolio has existed, the loan mix shown below may not be indicative of the ongoing portfolio mix. We attempt to maintain a relatively diversified loan portfolio to help reduce the risk inherent in concentration of certain types of collateral.

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CONGAREE BANCSHARES, INC.

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

	<u>September 30, 2008</u>		<u>December 31, 2007</u>	
	<u>Amount</u>	<u>Percentage of Total</u>	<u>Amount</u>	<u>Percentage of Total</u>
Real Estate:				
Construction and development and land	\$ 17,293,097	16.35%	\$ 8,188,004	14.81%
Commercial	30,802,466	29.12	22,048,484	39.88
Residential mortgages	18,461,508	17.45	3,803,706	6.88
Home equity lines	24,037,432	22.73	12,082,002	21.85
Total real estate	90,594,503	85.65	46,122,196	83.42
Commercial	12,138,298	11.48	7,505,415	13.58
Consumer	3,033,559	2.87	1,661,293	3.00
Gross loans	105,766,360	100%	55,288,904	100%
Less allowance for loan losses	(1,327,809)		(552,600)	
Total loans, net	\$ 104,438,551		\$ 54,736,304	

Provision and Allowance for Loan Losses

We have established an allowance for loan losses through a provision for loan losses charged to expense on our consolidated statement of operations. The allowance for loan losses for the nine months ended September 30, 2008 and 2007 is presented below:

	<u>Nine Months Ended September 30,</u>	
	<u>2008</u>	<u>2007</u>
Balance at beginning of the period	\$ 552,600	\$ 50,000
Provision for loan losses	945,403	327,000
Loans charged-off	(170,194)	-
Recoveries of loans previously charged-off	-	-
Balance at end of the period	\$ 1,327,809	\$ 377,000

The allowance for loan losses was \$1,327,809 and \$552,600 as of September 30, 2008 and December 31, 2007, respectively, and represented 1.26% of outstanding loans at September 30, 2008, compared to 1.00% at December 31, 2007.

The allowance for loan losses represents an amount which we believe will be adequate to absorb probable losses on existing loans that may become uncollectible. Our judgment as to the adequacy of the allowance for loan losses is based on a number of assumptions about future events, which we believe to be reasonable, but which may or may not prove to be accurate. Our determination of the allowance for loan losses is based on evaluations of the collectibility of loans, including consideration of factors such as the balance of impaired loans, the quality, mix, and size of our overall loan portfolio, economic conditions that may affect the borrower's ability to repay, the amount and quality of collateral securing the loans, our historical loan loss experience, and a review of specific problem loans. We also consider subjective issues such as changes in the lending policies and procedures, changes in the local/national economy, changes in volume or type of credits, changes in volume/severity of problem loans, quality of loan review and board of director oversight, concentrations of credit, and peer group comparisons. Due to our limited operating history, to date the provision for loan losses has been made primarily as a result of our assessment of general loan loss risk compared to banks of similar size and maturity.

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CONGAREE BANCSHARES, INC.

Due to our short operating history, the loans in our loan portfolio and our lending relationships are of very recent origin. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process known as seasoning. As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because our loan portfolio is new, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned, which may be higher than current levels. If delinquencies and defaults increase, we may be required to increase our provision for loan losses, which would adversely affect our results of operations and financial condition. Periodically, we will adjust the amount of the allowance based on changing circumstances. We will charge recognized losses to the allowance and add subsequent recoveries back to the allowance for loan losses. There can be no assurance that charge-offs of loans in future periods will not exceed the allowance for loan losses as estimated at any point in time or that provisions for loan losses will not be significant to a particular accounting period.

Because of our short operating history and the lack of seasoning of our loan portfolio, we do not allocate the allowance for loan losses to specific categories of loans. Instead, we evaluate the adequacy of the allowance for loan losses on an overall portfolio basis utilizing our credit grading system which we apply to each loan. We have retained an independent consultant to review the loan files on a test basis to assess the grading of samples of loans.

There were no nonaccrual or nonperforming loans at December 31, 2007, and there were no accruing loans which were contractually past due 90 days or more as to principal or interest payments for this same period. The Bank did have two nonaccrual loans with a balance outstanding of \$153,406 at September 30, 2008; however, there were no other nonperforming loans for this time period. The Bank charged off nine loans during the third quarter of 2008, for a total of \$227,224. Three of these loans were in the South Carolina Capital Access Program (SCCAP) and the Bank was able to recover \$95,985 of the loan amount charged-off. Thus, the net charge-offs for the third quarter were \$131,239, or 0.12%, of total loans. Generally, a loan will be placed on nonaccrual status when it becomes 90 days past due as to principal or interest, or when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of the loan is doubtful. A payment of interest on a loan that is classified as nonaccrual will be recognized as income when received. At September 30, 2008, we were not aware of any additional potential problem loans, nor were any additional loans considered impaired other than the aforementioned nonaccrual loans. Our allowance for loan losses has increased primarily as a result of the national economic conditions in which we are operating.

Deposits

Our primary source of funds for our loans and investments is our deposits. Total deposits as of September 30, 2008 and December 31, 2007 were \$114,479,127 and \$60,279,810, respectively. The following table shows the balance outstanding and the average rates paid on deposits for the quarter ending September 30, 2008 and the year ending December 31, 2007.

	<u>September 30, 2008</u>		<u>December 31, 2007</u>	
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
Non-interest bearing demand deposits	\$ 10,382,611	-%	\$ 4,911,717	-%
Interest-bearing checking	4,481,273	0.83	5,670,104	1.54
Money market	22,985,169	3.04	24,037,611	4.82
Savings	614,392	1.02	443,778	1.84

Time deposits less than \$100,000	41,801,864	4.21	11,529,784	5.20
Time deposits \$100,000 and over	34,213,818	4.10	13,686,816	5.29
	<hr/>	<hr/>	<hr/>	<hr/>
Totals	\$ 114,479,127	3.61	\$ 60,279,810	4.78
	<hr/>	<hr/>	<hr/>	<hr/>

Core deposits, which exclude time deposits of \$100,000 or more and brokered certificates of deposit, provide a relatively stable funding source for our loan portfolio and other earning assets. Our core deposits were \$80,311,123 at September 30, 2008. Our loan-to-deposit ratio was 92.39% and 91.72% at September 30, 2008 and December 31, 2007, respectively. Due to the competitive interest rate environment in our market, we utilized brokered certificates of deposit as a funding source in 2007 and 2008 when we were able to procure these certificates at interest rates less than those in the local market. Brokered certificates of deposit purchased outside our primary market totaled \$12,943,000 at September 30, 2008. All of our time deposits are certificates of deposits.

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CONGAREE BANCSHARES, INC.

Another aspect of EESA (in addition to the Capital Purchase Plan described above) which became effective on October 3, 2008 is a temporary increase of the basic limit on federal deposit insurance coverage from \$100,000 to \$250,000 per depositor. The basic deposit insurance limit will return to \$100,000 after December 31, 2009. At September 30, 2008, the Bank had time deposits of \$100,000 or more of \$34,231,018. Approximately \$6,259,886, or 18.28%, of those deposits would be covered under the new FDIC insurance coverage. An additional \$4,943,679, or 14.44%, of these deposits, are to local public entities that are required to have securities as collateral.

In addition, our subsidiary Congaree State Bank anticipates opting out of the FDIC's Temporary Liquidity Guarantee Program which was announced October 14, 2008 as part of EESA. This guarantee applies to the following transactions:

- All newly issued senior unsecured debt (up to \$1.5 trillion) issued on or before June 30, 2009, including promissory notes, commercial paper, inter-bank funding, and any unsecured portion of secured debt. For eligible debt issued on or before June 30, 2009, coverage would only be provided for three years beyond that date, even if the liability has not matured; and
- Funds in non-interest-bearing transaction deposit accounts (up to \$500 billion) held by FDIC-insured banks until December 31, 2009.

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

Borrowings and lines of credit

At September 30, 2008, the bank had short-term lines of credit with correspondent banks to purchase a maximum of \$7,900,000 in unsecured federal funds on a one to fourteen day basis for general corporate purposes. The interest rate on borrowings under these lines is the prevailing market rate for federal funds purchased. These accommodation lines of credit are renewable annually and may be terminated at any time at the correspondent bank's sole discretion. At September 30, 2008, we had none outstanding compared to \$3,658,000 outstanding at December 31, 2007.

We are also a member of the Federal Home Loan Bank. At September 30, 2008, we had \$3,000,000 outstanding at an interest rate of 2.62%, with a maturity date of February 25, 2013. At December 31, 2007, we had no balance outstanding in Federal Home Loan Bank borrowings. The bank borrowed the funds to reduce the cost of funds on money used to fund loans.

Capital Resources

Total shareholders' equity was \$13,050,686 at September 30, 2008, a decrease of \$1,281,992 from \$14,332,678 at December 31, 2007. The decrease is primarily due to the net loss for the nine months of \$1,457,213. In addition, equity decreased as a result of the change in unrealized losses on securities of \$47,200. Equity increased \$222,421 as a result of stock based compensation.

The Federal Reserve and bank regulatory agencies require bank holding companies and financial institutions to maintain capital at adequate levels based on a percentage of assets and off-balance sheet exposures, adjusted for risk weights ranging from 0% to 100%. The Federal Reserve guidelines contain an exemption from the capital requirements for "small bank holding companies", which in 2006 were

amended to cover most bank holding companies with less than \$500 million in total assets that do not have a material amount of debt or equity securities outstanding registered with the SEC. Although we file periodic reports with the SEC, we believe that because our stock is not registered under Section 12 of the Securities Exchange Act and is not listed on any exchange or otherwise actively traded, the Federal Reserve Board will interpret its new guidelines to mean that we qualify as a small bank holding company. Nevertheless, our Bank remains subject to these capital requirements. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Regardless, our Bank is "well capitalized" under these minimum capital requirements as set per bank regulatory agencies.

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CONGAREE BANCSHARES, INC.

Under the capital adequacy guidelines, regulatory capital is classified into two tiers. These guidelines require an institution to maintain a certain level of Tier 1 and Tier 2 capital to risk-weighted assets. Tier 1 capital consists of common shareholders' equity, excluding the unrealized gain or loss on securities available for sale, minus certain intangible assets. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100% based on the risks believed to be inherent in the type of asset. Tier 2 capital consists of Tier 1 capital plus the general reserve for loan losses, subject to certain limitations. We are also required to maintain capital at a minimum level based on total average assets, which is known as the Tier 1 leverage ratio.

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

The following table sets forth the bank capital ratios at September 30, 2008. For all periods, the bank was considered "well capitalized".

	(Dollars in thousands)					
	Actual		Adequately Capitalized Requirement		Well Capitalized Requirement	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk weighted assets	\$11,000	10.04%	\$ 8,765	8.00%	\$10,956	10.00%
Tier 1 capital to risk weighted assets	\$ 9,672	8.83%	\$ 4,382	4.00%	\$ 6,574	6.00%
Tier 1 capital to average assets	\$ 9,672	8.24%	\$ 4,695	4.00%	\$ 5,869	5.00%

We believe that our capital is sufficient to fund the activities of the bank in its initial stages of operation and that the rate of asset growth will not negatively impact the capital base. We have no plans for significant capital expenditures in 2008.

Off-Balance Sheet Risk

Through the Bank, we have made contractual commitments to extend credit in the ordinary course of our business activities. These commitments are legally binding agreements to lend money to our clients at predetermined interest rates for a specified period of time. We evaluate each client's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on our credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, property, plant and equipment, commercial and residential real estate. We manage the credit risk on these commitments by subjecting them to normal underwriting and risk management processes.

At September 30, 2008, we had issued commitments to extend credit of approximately \$25,711,911 through various types of lending arrangements. There were no standby letters of credit included in the commitments.

Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. A significant portion of the unfunded commitments relate to consumer equity lines of credit and commercial lines of credit. Based on historical experience, we anticipate that a portion of these lines of credit will not be funded.

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

impact earnings.

Liquidity

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

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CONGAREE BANCSHARES, INC.

At September 30, 2008, our liquid assets, consisting of cash and due from banks and federal funds sold, amounted to \$5,323,698, or approximately 4.05% of total assets. Our investment securities available for sale at September 30, 2008 amounted to \$13,888,105, or approximately 10.56% of total assets. Unpledged investment securities traditionally provide a secondary source of liquidity since they can be converted into cash in a timely manner. At September 30, 2008, \$7,258,828 of our investment securities were pledged to secure public entity deposits and as collateral for securities sold under agreement to repurchase.

Our ability to maintain and expand our deposit base and borrowing capabilities serves as our primary source of liquidity. We plan to meet our future cash needs through the liquidation of temporary investments and the generation of deposits. In addition, we will receive cash upon the maturities and sales of loans and maturities, calls and prepayments on investment securities. We maintain federal funds purchased lines of credit with correspondent banks totaling \$13,200,000. Availability on these lines of credit was \$12,265,000 at September 30, 2008. We are a member of the Federal Home Loan Bank ("FHLB"), from which applications for borrowings can be made. The FHLB requires that investment securities or qualifying mortgage loans be pledged to secure advances from them. We are also required to purchase FHLB stock in a percentage of each advance. At September 30, 2008 we had \$3,000,000 outstanding at the FHLB. We believe that our existing stable base of core deposits along with continued growth in this deposit base will enable us to successfully meet our long term liquidity needs.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures

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

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

CONGAREE BANCSHARES, INC.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

There are no pending legal proceedings to which we are a party or of which any of our property is the subject.

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

Not applicable.

Item 3. Default Upon Senior Securities

Not applicable.

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

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

- 10.1 Amendment No. 1 to the Congaree Bancshares, Inc. 2007 Stock Incentive Plan adopted October 15, 2008.
- 31.1 Rule 13a-14(a) Certification of the Principal Executive Officer.
- 31.2 Rule 13a-14(a) Certification of the Principal Financial Officer.
- 32 Section 1350 Certifications.

CONGAREE BANCSHARES, INC.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 14, 2008

By: /s/ F. Harvin Ray, Jr.
F. Harvin Ray, Jr.

President & Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2008

By: /s/ Charlie T. Lovering
Charlie T. Lovering
Chief Financial Officer
(Principal Financial and Accounting Officer)

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CONGAREE BANCSHARES, INC.

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
10.1	Amendment No. 1 to the Congaree Bancshares, Inc. 2007 Stock Incentive Plan adopted October 15, 2008.
31.1	Rule 13a-14(a) Certification of the Principal Executive Officer.
31.2	Rule 13a-14(a) Certification of the Principal Financial Officer.
32	Section 1350 Certifications.

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