ATLANTIC COAST FEDERAL CORP
Form 10-Q
November 15, 2010

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

FORM 10-Q

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

For the quarterly period ended September 30, 2010

Commission file number: 000-50962

ATLANTIC COAST FEDERAL CORPORATION
(Exact name of registrant as specified in its charter)

Federal (State or other jurisdiction of incorporation or organization)	59-3764686 (I.R.S. Employer Identification No.)
505 Haines Avenue Waycross, Georgia (Address of principal executive offices)	31501 (Zip Code)

Registrant's telephone number, including area code: (800) 342-2824

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).
YES ¨ NO ¨.

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

Large Accelerated Filer ¨ Accelerated Filer ¨ Non-Accelerated Filer ¨ Smaller Reporting Company 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.

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

Class	Outstanding at November 8, 2010
Common Stock, $0.01 Par Value	13,415,874 shares

ATLANTIC COAST FEDERAL CORPORATION

Form 10-Q Quarterly Report

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PART I. FINANCIAL INFORMATION
Item I. Financial Statements
ATLANTIC COAST FEDERAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
September 30, 2010 and December 31, 2009
(Dollars in Thousands, Except Share Information)
(unaudited)

	September 30, 2010	December 31, 2009
ASSETS		
Cash and due from financial institutions	$ 6,042	$ 8,211
Short-term interest-earning deposits	15,601	28,933
Total cash and cash equivalents	21,643	37,144
Securities available for sale	176,528	177,938
Loans held for sale	49,597	8,990
Loans, net of allowance of $10,955 in 2010 and $13,810 in 2009	575,780	614,371
Federal Home Loan Bank stock, at cost	9,798	10,023
Land, premises and equipment, net	15,854	16,014
Bank owned life insurance	23,377	22,806
Other real estate owned	8,604	5,028
Accrued interest receivable and other assets	11,431	13,247
Total assets	$ 892,612	$ 905,561
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Non-interest-bearing demand	$ 37,046	$ 34,988
Interest-bearing demand	71,773	79,192
Savings and money market	182,143	160,784
Time	279,401	280,480
Total deposits	570,363	555,444
Securities sold under agreement to repurchase	92,800	92,800
Federal Home Loan Bank advances	167,765	182,694
Other borrowings	5,000	12,200
Accrued expenses and other liabilities	5,279	5,882
Total liabilities	841,207	849,020
Commitments and contingent liabilities	-	-
Preferred stock: $0.01 par value; 2,000,000 shares authorized none issued	-	-
Common stock: $0.01 par value; 18,000,000 shares authorized, shares issued 14,813,469 at September 30, 2010 and December 31, 2009	148	148
Additional paid in capital	61,500	61,225
Unearned employee stock ownership plan (ESOP) shares of 151,294 at September 30, 2010 and 186,208 at December 31, 2009	(1,513)	(1,862)
Retained earnings	7,787	16,777
Accumulated other comprehensive income	3,413	152

Treasury stock, at cost, 1,397,595 shares at September 30, 2010 and 1,375,260 at December 31, 2009		(19,930)		(19,899)
Total stockholders' equity		51,405		56,541
Total liabilities and stockholders' equity	$	892,612	$	905,561

The accompanying notes are an integral part of these unaudited consolidated financial statements.

ATLANTIC COAST FEDERAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in Thousands, Except Share Information)
(unaudited)

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2010	2009	2010	2009
Interest and dividend income				
Loans, including fees	$ 9,316	$ 10,094	$ 27,997	$ 31,183
Securities and interest-earning deposits in other financial institutions	1,883	2,123	6,096	5,987
Total interest and dividend income	11,199	12,217	34,093	37,170
Interest expense				
Deposits	2,462	3,819	7,925	12,566
Federal Home Loan Bank advances	1,554	1,714	4,675	5,135
Securities sold under agreements to repurchase	1,186	1,085	3,508	3,085
Other borrowings	114	-	203	-
Total interest expense	5,316	6,618	16,311	20,786
Net interest income	5,883	5,599	17,782	16,384
Provision for loan losses	3,090	6,650	14,306	18,657
Net interest income (loss) after provision for loan losses	2,793	(1,051)	3,476	(2,273)
Non-interest income (loss)				
Service charges and fees	1,032	1,099	2,864	3,119
Gain on sale of loans held for sale	349	147	531	448
Gain (loss) on sale of portfolio loans	46	(1,317)	(114)	(1,245)
Gain (loss) on sale of securities available for sale	(397)	117	831	333
Other than temporary impairment loss:				
Total impairment loss	(444)	(568)	(1,154)	(2,695)
Gain (loss) recognized in other comprehensive income	444	316	1,073	1,122
Net impairment loss recognized in earnings	-	(252)	(81)	(1,573)
Interchange fees	241	235	704	685
Other	287	2,210	849	2,762
Total non-interest income	1,558	2,239	5,584	4,529
Non-interest expense				
Compensation and benefits	2,838	2,861	7,845	8,403
Occupancy and equipment	547	674	1,632	1,962
FDIC insurance premiums	400	422	1,246	1,435
Foreclosed assets, net	560	318	681	1,308
Data processing	309	251	966	760
Outside professional services	465	316	1,195	1,477
Collection expense and repossessed asset losses	326	355	1,324	831
Goodwill impairment	-	2,811	-	2,811
Other	1,060	864	3,161	2,837
Total non-interest expense	6,505	8,872	18,050	21,824

Loss before income tax expense		(2,154)		(7,684)		(8,990)		(19,568)
Income tax expense		-		4,472		-		282
Net loss	$	(2,154)	$	(12,156)	$	(8,990)	$	(19,850)
Loss per common share:								
Basic	$	(0.16)	$	(0.93)	$	(0.68)	$	(1.52)
Diluted	$	(0.16)	$	(0.93)	$	(0.68)	$	(1.52)
Dividends declared per common share	$	-	$	-	$	-	$	0.02

The accompanying notes are an integral part of these unaudited consolidated financial statements.

ATLANTIC COAST FEDERAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (LOSS)
For the Nine Months Ended September 30, 2010
(Dollars in Thousands, Except Share Information)
(unaudited)

	COMMON STOCK	ADDITIONAL PAID IN CAPITAL	UNEARNED ESOP SHARES	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	TOTAL EQUITY
For the nine months ended September 30, 2010							
Balance at January 1, 2010	$ 148	$ 61,225	$ (1,862)	$ 16,777	$ 152	$ (19,899)	$ 56,541
ESOP shares earned, 34,914 shares	-	(267)	349	-	-	-	82
Management restricted stock expense	-	356	-	-	-	-	356
Stock options expense	-	210	-	-	-	-	210
Management restricted stock granted	-	(99)	-	-		99	-
Director's deferred compensation	-	75	-	-	-	(75)	-
RRP shares relinquished, 6,671 shares	-	-	-	-	-	(21)	(21)
Treasury stock purchased at cost, 22,500 shares	-	-	-	-	-	(34)	(34)
Comprehensive income (loss):							
Net loss	-	-	-	(8,990)	-	-	(8,990)
Other comprehensive income (loss)							
Net change in unrealized losses on securities available-for-sale net of reclassification and taxes	-	-	-	-	2,188	-	2,188
Change in unrealized gains (losses) on securities available-for-sale for which a portion of an	-	-	-	-	1,073	-	1,073

other-than-temporary impairment has been recognized in earnings, net of reclassification and taxes							
Total comprehensive income (loss)	-	-	-	(8,990)	3,261	-	(5,729)
Balance at September 30, 2010	$ 148	$ 61,500	$ (1,513)	$ 7,787	$ 3,413	$ (19,930)	$ 51,405

The accompanying notes are an integral part of these unaudited consolidated financial statements.

ATLANTIC COAST FEDERAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (LOSS)
For the Nine Months Ended September 30, 2009
(Dollars in Thousands, Except Share Information)
(unaudited)

	COMMON STOCK	ADDITIONAL PAID IN CAPITAL	UNEARNED ESOP SHARES	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	TOTAL EQUITY
For the nine months ended September 30, 2009							
Balance at January 1, 2009	$ 148	$ 60,061	$ (2,328)	$ 46,201	$ (308)	$ (19,814)	$ 83,960
ESOP shares earned, 34,914 shares	-	(171)	350	-	-	-	179
Management restricted stock expense	-	484	-	-	-	-	484
Stock options expense	-	236	-	-	-	-	236
Dividend declared ($0.02 per share)	-	-	-	(89)	-	-	(89)
Director's deferred compensation	-	16	-	-	-	(16)	-
Capital contribution by parent	-	400	-	-	-	-	400
RRP shares reliquished, 6,227 shares	-	29	-	-	-	(45)	(16)
Treasury stock purchased at cost, 7,400 shares	-	-	-	-	-	(29)	(29)
Comprehensive income (loss):							
Net loss	-	-	-	(19,850)	-	-	(19,850)
Other comprehensive income (loss)							
Net change in unrealized gains on securities available-for-sale net of reclassification and taxes	-	-	-	-	1,188	-	1,188

Change in unrealized gains (losses) on securities available-for-sale for which a portion of an other-than-temporary impairment has been recognized in earnings, net of reclassification and taxes		-		-		-		-		(668)		-	(668)
Total comprehensive income		-		-		-		(19,850)		520		-	(19,330)
Balance at September 30, 2009	$	148	$	61,055	$	(1,978)	$	26,262	$	212	$	(19,904)	$ 65,795

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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ATLANTIC COAST FEDERAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(unaudited)

	Nine months ended Sept. 30, 2010	2009
Cash flows from operating activities		
Net loss	(8,990)	(19,850)
Adjustments to reconcile net loss to to net cash from operating activities:		
Provision for loan losses	14,306	18,657
Gain on sale of loans held for sale	(531)	(448)
Loss on sale of portfolio loans	114	1,245
Loans originated for sale	(214,032)	(69,199)
Proceeds from sales of loans held for sale	180,390	63,067
Foreclosed assets, net	681	1,308
Gain on sale of securities available for sale	(831)	(333)
Other than temporary impairment loss on AFS securities	81	1,573
Loss on disposal of equipment	21	52
ESOP compensation expense	82	179
Share-based compensation expense	466	720
Net depreciation and amortization	1,918	1,691
Net change in accrued interest receivable	157	518
Net change in cash surrender value of bank owned life insurance	(571)	(550)
Goodwill impairment	-	2,811
Net change in other assets	1,752	183
Net change in accrued expenses and other liabilities	(602)	(1,015)
Net cash (used in) from operating activites	(25,589)	609
Cash flows from investing activities		
Proceeds from maturities and payments of securites available for sale	68,101	40,622
Proceeds from the sales of securities available for sale	40,958	47,295
Purchase of securities available for sale	(104,638)	(113,674)
Proceeds from sale of portfolio loans	7,025	16,020
Purchase of loans	(2,420)	-
Net change in loans	6,480	54,982
Expenditures on premises and equipment	(572)	(758)
Proceeds from the sale of other real estate owned	2,095	2,226
Purchase of FHLB stock	(135)	(1,028)
Redemption of FHLB stock	360	1,063
Net cash from investing activities	17,254	46,748

The accompanying notes are an integral part of these unaudited consolidated financial statements.

ATLANTIC COAST FEDERAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(unaudited)

	Nine months ended September 30, 2010	2009
Cash flows from financing activities		
Net change in deposits	$ 14,919	$ (24,449)
Proceeds from FHLB advances	33,071	20,000
Repayment of FHLB advances	(48,000)	(27,180)
Proceeds from other borrowings	5,000	-
Repayment of other borrowings	(12,200)	-
Capital contribution from parent	-	400
Share based compensation items	99	28
Treasury stock repurchased	(34)	(29)
RRP shares relinquished	(21)	(45)
Dividends paid	-	(89)
Net cash from financing activities	(7,166)	(31,364)
Net change in cash and cash equivalents	(15,501)	15,993
Cash and equivalents beginning of period	37,144	34,058
Cash and equivalents at end of period	$ 21,643	$ 50,051
Supplemental information:		
Interest paid	$ 16,384	$ 20,973
Income tax paid	15	9
Supplemental noncash disclosures:		
Loans transferred to other real estate	$ 6,372	$ 3,333
Loans transferred to held for sale	6,434	3,008

The accompanying notes are an integral part of these unaudited consolidated financial statements.

ATLANTIC COAST FEDERAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include Atlantic Coast Federal Corporation (or the "Company") and its wholly owned subsidiary, Atlantic Coast Bank (the "Bank"). All significant inter-company balances and transactions have been eliminated in consolidation. The principal activity of the Company is the ownership of the Bank's common stock, as such, the terms "Company" and "Bank" may be used interchangeably throughout this Form 10-Q.

The accompanying condensed consolidated balance sheet as of December 31, 2009, which was derived from our audited financial statements, and the unaudited condensed consolidated financial statements for the periods ended September 30, 2010 and September 30, 2009 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (all of which are normal and recurring in nature) considered necessary for (i) a fair presentation and (ii) to make such statements not misleading, have been included. Operating results for the nine month period ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. The 2009 Atlantic Coast Federal Corporation consolidated financial statements, as presented in the Company's Annual Report on Form 10-K, should be read in conjunction with these statements.

Certain items in the September 30, 2009 financial statements have been reclassified to conform to the current presentation. The reclassifications have no effect on net income or stockholders' equity as previously reported.

NOTE 2. USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reported periods, as well as the disclosures provided. Actual results could differ from those estimates. Estimates associated with the allowance for loan losses, realization of deferred tax assets and the fair values of securities and other financial instruments are particularly susceptible to material change in the near term.

NOTE 3. IMPACT OF CERTAIN ACCOUNTING PRONOUNCEMENTS

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 166, Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140 (ASC 810). The new accounting requirement amends previous guidance relating to the transfers of financial assets and eliminates the concept of a qualifying special purpose entity. This Statement must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. This Statement must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. Additionally, the disclosure provisions of this Statement were also amended and apply to transfers that occurred both before and after the effective date of this Statement. The adoption of this standard did not have a material effect on the Company's consolidated financial position or results of operations.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167, Amendments to FASB Interpretation No. 46(R) (ASC 810), which amended guidance for consolidation of variable interest entities by replacing the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. This Statement also requires additional disclosures about an enterprise's involvement in variable interest entities. This Statement is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Early adoption is prohibited. The adoption of this standard did not have a material effect on the Company's consolidated financial position or results of operations.

In January 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-06, an Amendment of FASB Statement No. 157 Fair Value Measurements (ASC 820), which amended guidance requiring new disclosures as follows:

1. Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers.

2. Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number).

This Update provides amendments to Subtopic 820-10 clarifying existing disclosures as follows:

1. Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities.

2. Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3.

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NOTE 3. IMPACT OF CERTAIN ACCOUNTING PRONOUNCEMENTS (continued)

This Update also includes conforming amendments to the guidance on employers’ disclosures about postretirement benefit plan assets (Subtopic 715-20). The conforming amendments to Subtopic 715-20 change the terminology from major categories of assets to classes of assets and provide a cross reference to the guidance in Subtopic 820-10 on how to determine appropriate classes to present fair value disclosures. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll- forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this standard did not have a material effect on the Company’s consolidated financial position or results of operations.

On July 21, 2010, the FASB issued ASU No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This new accounting guidance under Accounting Standards Codification (“ASC”) 310, Receivables, requires disclosure of additional information about the credit quality of an entity’s financing receivables and the allowance for credit losses. Disclosures must be disaggregated by class or portfolio segment and include, among other things, such items as a rollforward of the allowance for credit losses, certain credit quality indicators, past due and impaired loan information, and loan modification information. Except for the allowance rollforward and loan modification information, the new requirements will become effective for interim and annual reporting periods beginning with year-end December 31, 2010. Disclosure of the allowance rollforward and loan modification information will be required for the first quarter of 2011. The new guidance only relates to financial statement disclosures and will not affect the Company’s financial condition or results of operations.

NOTE 4. AVAILABLE FOR SALE SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities and the corresponding amounts of unrealized gains and losses therein:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
September 30, 2010	(Dollars in Thousands)			
U.S. Government-sponsored enterprises	$ 2,000	$ -	$ -	$ 2,000
State and municipal	946	15	(42)	919
Mortgage-backed securities residential	53,583	1,796	(19)	55,360
Collateralized mortgage obligations U.S. Govt.	108,600	2,003	(244)	110,359
Collateralized mortgage obligations - other	7,986	114	(210)	7,890
	$ 173,115	$ 3,928	$ (515)	$ 176,528
December 31, 2009	(Dollars in Thousands)			
U.S. Government-sponsored enterprises	$ 15,998	$ -	$ (246)	$ 15,752
State and municipal	947	-	(103)	844
Mortgage-backed securities residential	37,390	1,028	(8)	38,410
Collateralized mortgage obligations U.S. Govt.	101,236	1,530	(327)	102,439
Collateralized mortgage obligations - other	22,116	534	(2,157)	20,493
	$ 177,687	$ 3,092	$ (2,841)	$ 177,938

The amortized cost and fair value of debt securities segregated by contractual maturity as of September 30, 2010, is shown below. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	September 30, 2010 (Dollars in Thousands)	
	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -
Due from one to five years	2,000	2,000
Due from five to ten years	-	-
Due after ten years	946	919
Mortgage-backed securities - residential	53,583	55,360
Collateralized mortgage obligations - U.S. Government	108,600	110,359
Collateralized mortgage obligations - other	7,986	7,890
Total	$ 173,115	$ 176,528

NOTE 4. AVAILABLE FOR SALE SECURITIES (continued)

The following table summarizes the investment securities with unrealized losses at September 30, 2010 and December 31, 2009, aggregated by investment category and length of time in a continuous unrealized loss position:

(Dollars in Thousands)

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
September 30, 2010						
Government-sponsored enterprises	$ -	$ -	$ -	$ -	$ -	$ -
State and municipal	-	-	420	(42)	420	(42)
Mortgage-backed securities - residential	10,293	(19)	-	-	10,293	(19)
Collateralized mortgage obligations - U.S. Govt.	31,651	(244)	-	-	31,651	(244)
Collateralized mortgage obligations - other	2,780	(210)	-	-	2,780	(210)
Total	$ 44,724	$ (473)	$ 420	$ (42)	$ 45,144	$ (515)
December 31, 2009						
Government-sponsored enterprises	$ 15,752	$ (246)	$ -	$ -	$ 15,752	$ (246)
State and municipal	-	-	844	(103)	844	(103)
Mortgage-backed securities - residential	7,206	(8)	-	-	7,206	(8)
Collateralized mortgage obligations - U.S. Govt.	34,820	(327)	-	-	34,820	(327)
Collateralized mortgage obligations - other	7,118	(203)	9,462	(1,954)	16,580	(2,157)
Total	$ 64,896	$ (784)	$ 10,306	$ (2,057)	$ 75,202	$ (2,841)

Proceeds from sales, maturities and calls of securities available for sale were $109.1 million and $87.9 million for the nine months ended September 30, 2010 and 2009, respectively. Gross gains of $2.1 million and $502,000 and gross losses of $1.3 million and $169,000 were realized on these sales during the nine months ended September 30, 2010 and 2009, respectively. Gross gains of $866,000 and $237,000 and gross losses of $1.3 million and $120,000 were realized on these sales during the three months ended September 30, 2010 and 2009, respectively.

Gains and losses on sales of securities are recorded on the trade date and determined using the specific identification method.

Other-Than-Temporary-Impairment

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

In evaluating OTTI, management considers many factors, including: (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, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

NOTE 4. AVAILABLE FOR SALE SECURITIES (continued)

When OTTI is determined to have occurred, the amount of the OTTI recognized in earnings depends on whether we intend to sell the security or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss. If we intend to sell the security or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss, the OTTI recognized in earnings is equal to the entire difference between its amortized cost basis and its fair value at the balance sheet date. If we do not intend to sell the security and it is not more likely than not that we will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI is separated into the
amount representing the credit loss and the amount related to all other factors. The amount of the total related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized as a charge to earnings. The amount of the OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment.

As of September 30, 2010 the Company's security portfolio consisted of 101 securities, 20 of which were in an unrealized loss position. Nearly all unrealized losses are related to debt securities whose underlying collateral is residential mortgages. However, the majority of these securities were issued by government sponsored organizations as discussed below.

At September 30, 2010, approximately $167.7 million, or approximately 95% of the debt securities held by the Company were issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae, Freddie Mac and Ginnie Mae, institutions which the government has affirmed its commitment to support. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at September 30, 2010.

Collateralized Mortgage Obligations - Other

The Company's securities portfolio included 8 non-agency collateralized mortgage obligations with a fair value of $7.9 million at September 30, 2010. The Company evaluated the historical and expected future performance of the underlying collateral to determine if a future loss is expected which would result in a principal write-down. As a part of the evaluation, the Company reviewed deal specific data including loan-to-value ("LTV"), delinquency, foreclosures and cumulative loss to insure it has adequate credit support. This evaluation was completed utilizing a model to project future performance using collateral specific assumptions, such as expected future default rates, loss severity and prepayments.

The Company recorded an expense for other-than-temporary impairment of approximately $(81,000) in non-interest income on two private label mortgage-backed mezzanine (support) debt securities for the nine months ended September 30, 2010.

NOTE 4. AVAILABLE FOR SALE SECURITIES (continued)

The table below presents a reconciliation of the credit losses recognized in earnings for the nine month period ended September 30, 2010 and 2009:

	September 30, 2010	September 30, 2009
	(Dollars in Thousands)	
Beginning balance, January 1	$ 4,467	$ -
Amounts related to credit loss for which an other-than-temporary impairment was not previously recognized	-	182
Amounts realized for securities sold during the period	(960)	-
Amounts related to securities for which the company intends to sell or that it will be more likely than not the company will be required to sell prior to recovery of amortized cost basis	-	-
Reductions for increase in cash flows expected to be collected that are recognized over the remaining life of the security	-	-
Increases (decreases) to the amount related to the credit loss for which other-than-temporary impairment was previously recognized	(2,349)	1,391
Ending balance, September 30	$ 1,158	$ 1,573

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NOTE 5 - LOANS, NET

Loans. Following is a comparative composition of net loans as of September 30, 2010 and December 31, 2009:

	September 30, 2010	% of total loans	December 31, 2009	% of total loans
	(Dollars in Thousands)			
Real estate loans:				
One-to-four family	$ 277,840	47.9%	$ 306,968	49.3%
Commercial	73,196	12.6%	77,403	12.4%
Other (land and multi-family)	32,567	5.6%	37,591	6.0%
Total real estate loans	383,603	66.1%	421,962	67.7%
Real estate construction loans:				
One-to-four family	6,636	1.1%	4,189	0.7%
Commercial	5,684	1.0%	8,022	1.3%
Acquisition and development	2,358	0.4%	3,148	0.5%
Total real estate construction loans	14,678	2.5%	15,359	2.5%
Other loans:				
Home equity	86,896	15.0%	93,929	15.1%
Consumer	75,296	13.0%	73,870	11.9%
Commercial	19,553	3.4%	17,848	2.9%
Total other loans	181,745	31.3%	185,647	29.8%
Total loans	580,026	100%	622,968	100%
Allowance for loan losses	(10,955)		(13,810)	
Net deferred loan costs	6,823		5,122	
Premiums (discounts) on purchased loans	(114)		91	
Loans, net	$ 575,780		$ 614,371	

NOTE 5 - LOANS, NET (continued)

Allowance for loan losses activity for the nine months ended September 30, 2010 and 2009 was as follows:

	2010	2009
	(Dollars in Thousands)	
Beginning balance, January 1	$ 13,810	$ 10,598
Loans charged-off	(18,240)	(15,202)
Recoveries	1,079	722
Net charge-offs	(17,161)	(14,480)
Provision for loan losses	14,306	18,657
Ending balance, September 30	$ 10,955	$ 14,775

Impaired loans as of September 30, 2010 and December 31, 2009 were as follows:

	September 30, 2010	December 31, 2009
	(Dollars in Thousands)	
Loans with no allocated allowance for loan losses	$ 23,134	$ 27,692
Loans with an allocated allowance for loan losses	13,522	16,700
Total	$ 36,656	$ 44,392
Amount of the allowance for loan losses allocated to impaired loans	$ 2,260	$ 5,398
Amount of charge-offs taken on period-end impaired loans	$ 3,307	$ 2,157

Impaired loans included troubled debt restructurings of $20.9 million at September 30, 2010 and $22.7 million at December 31, 2009, of which $20.9 million and $19.9 million respectively, were performing according to the modified terms. Non-performing loans, including non-accrual loans, at September 30, 2010 and December 31, 2009 were $21.6 million and $35.2 million, respectively. There were no loans over 90 days past-due and still accruing interest as of September 30, 2010 and December 31, 2009. Non-performing loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified as impaired loans.

NOTE 6. INTEREST RATE SWAPS

The Company utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position by mitigating the impact of significant unexpected fluctuations in earnings caused by interest rate volatility or changes in the yield curve. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

The Company’s interest rate swap agreements do not qualify for hedge accounting treatment; accordingly changes in fair value are reported in current period earnings.

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NOTE 6. INTEREST RATE SWAPS (continued)

At September 30, 2010, summary information about these interest-rate swaps is as follows:

	September 30, 2010 (Dollars in Thousands)
Notional amounts	$ 25,000
Weighted average pay rates (3 month LIBOR, 2.50% floor)	2.50%
Weighted average receive rates (3 month LIBOR, 4.37% cap)	0.29%
Weighted average maturity (years)	1.0
Fair value of interest rate swaps	(267)

The following tables summarize the fair value of the interest rate swaps utilized by the Company:

	Liability Interest Rate Swaps			
	September 30, 2010		December 31, 2009	
	(Dollars in thousands)			
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swaps not designated as hedging instruments under SFAS 133:				
Interest rate contracts	Accrued expenses and other liabilities	$ (267)	Accrued expenses and other liabilities	$ (520)
Total interest rate swaps not designated as hedging instruments under SFAS 133:				
Total interest rate swaps		$ (267)		$ (520)

The effect of interest rate swaps for the nine months ended September 30, 2010 and 2009 are as follows:

		Nine Months Ended	
		September 30, 2010	September 30, 2009
	Location of Gain or (Loss) Recognized in Non-interest Income	(Dollars in Thousands) Amount of the Gain or (Loss) Recognized in Income	
Interest rate swaps not designated as hedging instruments under SFAS 133:			
Interest rate contracts	Other	$ (253)	$ (237)
Total		$ (253)	$ (237)

NOTE 7. FEDERAL HOME LOAN BANK ADVANCES

FHLB advances had a weighted-average maturity of 62 months and a weighted-average rate of 3.51% at September 30, 2010. The decrease in FHLB borrowings to $167.8 million at September 30, 2010 as compared to December 31, 2009 was due to repayments of $48.0 million which exceeded proceeds from advances of $33.1 million.

NOTE 8. OTHER BORROWINGS

Other borrowings were $5.0 million at June 30, 2010. The Company borrowed $5.0 million, at market rates, from another financial institution in June 2010 which is secured by shares of the Company’s common stock owned by Atlantic Coast Federal, MHC. The Company’s Executive Chairman of the Board also serves as the president and chief executive officer and a director of the financial institution from which the borrowing was obtained. The Company contributed $2.9 million to Atlantic Coast Bank as additional capital and used the remaining proceeds to pay off the remaining balance of $2.1 million of other borrowings.

NOTE 9. LOSS PER COMMON SHARE

Basic loss per common share is computed by dividing net loss by the weighted-average number of common shares outstanding for the period, reduced for average unallocated ESOP shares and average unearned restricted stock awards. Diluted loss per common share is computed by dividing net loss by the average number of common shares outstanding for the period increased for the dilutive effect of unvested stock options and stock awards. The dilutive effect of the unvested stock options and stock awards is calculated under the treasury stock method utilizing the average market value of the Company's stock for the period. A reconciliation of the numerator and denominator of the basic and diluted loss per common share computation for the three and nine months ended September 30, 2010 and 2009 is as follows:

	(Dollars in Thousands, except per share data)			
	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
Basic				
Net loss	$ (2,154)	$ (12,156)	$ (8,990)	$ (19,850)
Weighted average common shares outstanding	13,375,999	13,419,026	13,381,965	13,427,182
Less: Average unallocated ESOP shares	(186,208)	(232,760)	(186,208)	(232,760)
Average unvested restricted stock awards	(21,117)	(63,955)	(44,922)	(94,253)
Average Shares	13,168,674	13,122,311	13,150,835	13,100,169
Basic loss per common share	$ (0.16)	$ (0.93)	$ (0.68)	$ (1.52)
Diluted				
Net loss	$ (2,154)	$ (12,156)	$ (8,990)	$ (19,850)
Weighted average shares outstanding from above	13,168,674	13,122,311	13,150,835	13,100,169
Add:Dilutive effects of assumed exercise of stock options	-	-	-	-
Dilutive effects of full vesting of stock awards	-	-	-	-
Average shares and dilutive potential common shares	13,168,674	13,122,311	13,150,835	13,100,169
Diluted loss per common share	$ (0.16)	$ (0.93)	$ (0.68)	$ (1.52)

Stock options for shares of common stock were not considered in computing diluted earnings per common share for the three and nine months ended September 30, 2010 and 2009, respectively. There was no dilutive effect as each period reported a net loss.

NOTE 10. TOTAL COMPREHENSIVE LOSS

Comprehensive loss consists of net loss and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available-for-sale and unrealized gains and losses on cash flow hedges. Following is a summary of other comprehensive income (loss) for the three and nine months ended September 30, 2010 and 2009:

	(Dollars in Thousands)			
	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net loss	$ (2,154)	$ (12,156)	$ (8,990)	$ (19,850)
Other comprehensive income (loss):				
Change in securities available for sale:				
Unrealized holding gains (losses) arising during the period	(582)	1,397	2,956	2,329
Less reclassification adjustments for (gains) losses recognized in income	398	(117)	(831)	(333)
Net unrealized gains	(184)	1,280	2,125	1,996
Income tax effect	(11)	(486)	63	(808)
Net of tax effect	(195)	794	2,188	1,188
Other-than-temporary-impairment on available-for-sale debt securities recorded in other comprehensive income	432	(696)	1,123	451
Less other-than-temporary-impairment on available-for-sale debt securities associated with credit loss realized in income	-	(252)	(81)	(1,573)
Income tax effect	12	360	31	454
Net of tax effect	444	(588)	1,073	(668)
Total other comprehensive income (loss)	249	206	3,261	520
Comprehensive loss	$ (1,905)	$ (11,950)	$ (5,729)	$ (19,330)

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NOTE 11. FAIR VALUE

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (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. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other 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.

Level 3: Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate fair values:

Investment Securities:
The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Discounted cash flows are calculated using spread to swap and LIBOR curves that are updated to incorporate loss severities, volatility, credit spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

Interest Rate Swaps:
The fair value of interest rate swaps is based on derivative valuation models using market data inputs as of the valuation date (Level 2 inputs).

NOTE 11. FAIR VALUE (continued)

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at September 30, 2010 Using:			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in Thousands)		
Assets:				
Available for sale				
U.S. government-sponsored entities and agencies	$ 2,000	-	$ 2,000	-
State and municipal	919	-	919	-
Mortgage-backed securities – residential	55,360	-	55,360	-
Collateralized mortgage obligations – U.S. Govt.	110,359	-	110,359	
Collateralized mortgage obligations - other	7,890	-	4,991	2,899
Liabilities:				
Interest rate swap	$ (267)	-	$ (267)	

	Fair Value Measurements at December 31, 2009 Using:			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in Thousands)		
Assets:				
Available for sale securities				
U.S. government-sponsored entities and agencies	$ 15,752	-	$ 15,752	-
State and municipal	844	-	844	-
Mortgage-backed securities – residential	38,410	-	38,410	-
Collateralized mortgage obligations – U.S. Govt.	102,439	-	102,439	-
Collateralized mortgage obligations – other	20,493	-	19,141	1,352
Liabilities:				
Interest rate swap	$ (520)	$ -	$ (520)	$ -

Fair value adjustments for interest rate swaps resulted in a gain of $253,000 for the nine months ended September 30, 2010.

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NOTE 11. FAIR VALUE (continued)

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine month period ended September 30, 2010:

	Investment Securities Available-for-sale (Dollars in thousands)	
Balance of recurring Level 3 assets at January 1, 2010	$	1,352
Total realized and unrealized gains (losses):		
Included in earnings - realized		768
Included in earnings - unrealized		-
Included other comprehensive income		(740)
Proceeds from maturities and payments, net		(7,738)
Transfers in and/or out of Level 3		9,257
Balance of recurring Level 3 assets at September 30, 2010	$	2,899

Market conditions for certain debt securities has resulted in unreliable or unavailable fair values, often resulting in transfers in and / or out of Level 3. The Company determined that one debt security totaling $2.9 million was more appropriately evaluated as a Level 3 asset as of September 30, 2010. This one security was priced as a Level 2 asset at December 31, 2009. Three securities evaluated as Level 3 assets as of December 31, 2009 were priced as Level 2 assets as of September 30, 2010.

Level 3 assets were evaluated utilizing models, that included certain unobservable inputs, to project future performance using collateral assumptions, such as expected future default rates, expected future severity rates, prepayments and recoveries.

NOTE 11. FAIR VALUE (continued)

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements at September 30, 2010 Using:			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in Thousands)		
Assets:				
Other real estate owned	$ 8,604	$ -	$ -	$ 8,604
Impaired loans – collateral dependent	24,830	$ -	$ -	24,830

	Fair Value Measurements at December 31, 2009 Using:			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in Thousands)		
Assets:				
Other real estate owned	$ 5,028	$ -	$ -	$ 5,028
Impaired loans – collateral dependent	$ 28,773	$ -	$ -	$ 28,773

Other Real Estate Owned:
Assets acquired through or in lieu of loan foreclosure are initially recorded at fair value, based on appraisals, less estimated selling costs, at the date of foreclosure, establishing a new cost basis. The fair value of the Company's other real estate owned is determined using Level 3 inputs which include current and prior appraisals and estimated costs to sell. Changes in fair value are recorded directly as an adjustment to current earnings through non-interest expense. Costs relating to improvement of property may be capitalized, whereas costs relating to the holding of property are expensed.

Impaired loans:
Impaired loans which are collateral dependent are measured for impairment using the fair value of the collateral. Collateral dependent loans had a carrying amount of $24.8 million and $28.8 million, net of a valuation allowance of $2.3 million and $5.4 million at September 30, 2010 and December 31, 2009, respectively. Provision for loan losses of $868,000 and $2.3 million was recorded on impaired loans during the nine months ended September 30, 2010 and 2009, respectively.

NOTE 12. FAIR VALUE OF FINANCIAL INSTRUMENTS

Carrying amount and estimated fair value of financial instruments, not previously presented, were as follows:

	As of September 30, 2010		As of December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(Dollars in Thousands)			
FINANCIAL ASSETS				
Cash and cash equivalents	$ 21,643	$ 21,643	$ 37,144	$ 37,144
Loans held for sale	49,597	49,597	8,990	8,990
Loans, net	575,780	581,609	614,371	614,229
Federal Home Loan Bank stock	9,798	n/a	10,023	n/a
Accrued interest receivable	3,104	3,104	3,261	3,261
FINANCIAL LIABILITIES				
Deposits	570,363	572,721	555,444	557,094
Securities sold under agreements to repurchase	92,800	106,739	92,800	102,537
Federal Home Loan Bank advances	167,765	184,746	182,694	201,227
Other borrowings	5,000	5,000	12,200	12,200
Accrued interest payable	1,245	1,245	1,318	1,318

The methods and assumptions used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, accrued interest, demand and savings deposits and variable rate loans or deposits that re-price frequently and fully. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent re-pricing or re-pricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair value of debt (FHLB advances, securities sold under agreements to repurchase and other borrowings) is based on current rates for similar financing. It was not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability. The estimated fair value of other financial instruments and off-balance-sheet loan commitments approximate cost and are not considered significant to this presentation.

The Bank is a member of the Federal Home Loan Bank of Atlanta and as such, is required to maintain a minimum investment in stock of the Federal Home Loan Bank that varies with the level of advances outstanding with the Federal Home Loan Bank. The stock is bought from and sold to the Federal Home Loan Bank based upon its $100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated for impairment. In accordance with this guidance, the stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) The significance of the decline in net assets of the Federal Home Loan Bank as compared to the capital stock amount and the length of time this situation has persisted (b) Commitments by the Federal Home Loan Bank to make payments required by law or regulation and the level of such payments in relation to the operating performance (c) The impact of legislative and regulatory changes on the customer base of the Federal Home Loan Bank and (d) The liquidity position of the Federal Home Loan Bank.

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NOTE 13. INCOME TAXES

Under generally accepted accounting principles, the Company considers at each reporting period all available evidence, both positive and negative, to determine whether, based on the weight of that evidence, a valuation allowance is needed to reduce its deferred tax asset to an amount that is more likely than not to be realized. A determination of the need for a valuation allowance for the deferred tax assets is dependent upon management's evaluation of both positive and negative evidence. Positive evidence includes the probability of achieving forecasted future taxable income, applicable tax planning strategies and assessments of the current and future economic and business conditions. Negative evidence includes the Company's cumulative losses and expiring tax credit carryforwards. At September 30, 2010, the Company evaluated the expected realization of its federal and state deferred tax assets which, prior to a valuation allowance, totaled $17.4 million and was primarily comprised of future tax benefits associated with the allowance for loan losses and net operating loss carryforwards. Based on this evaluation it was concluded that a valuation allowance continues to be required for the federal deferred tax asset. The realization of the deferred tax asset is dependent upon generating taxable income. The Company also continues to maintain a valuation allowance for the state deferred tax asset.

If the valuation allowance is reduced or eliminated, future tax benefits will be recognized as a reduction to income tax expense which will have a positive non-cash impact on our net income and stockholders' equity.

Income tax expense (benefit) was as follows:

	Year to date	
	September 30, 2010	September 30, 2009
Pre-tax loss	$ (8,990)	$ (19,568)
Effective tax rate	37.8%	38.1%
Tax benefit	(3,398)	(7,448)
Increase in valuation allowance - federal	3,145	7,142
Increase in valuation allowance - state	253	588
Income tax expense (benefit)	$ -	$ 282

NOTE 14 - STOCK CONVERSION

On August 2, 2010, the Board of Directors of Atlantic Coast Federal Corporation amended a plan originally approved on June 16, 2010, to convert the Mutual Holding Company from the mutual to stock form of organization. The Mutual Holding Company is a federally chartered mutual holding company and currently owns approximately 65%, of the outstanding shares of common stock of the Company, which owns 100% of the issued and outstanding shares of the capital stock of Atlantic Coast Bank (the "Bank"). Pursuant to the terms of Atlantic Coast Federal, MHC's plan of conversion and reorganization, Atlantic Coast Federal, MHC will convert from the mutual holding company to the stock holding company corporate structure. As part of the conversion, we are offering for sale in a subscription offering, and possibly in a community and/or a syndicated community offering, the majority ownership interest of Atlantic Coast Federal Corporation that is currently owned by Atlantic Coast Federal, MHC. Upon the completion of the conversion and offering, Atlantic Coast Federal, MHC will cease to exist, and we will complete the transition from partial to full public stock ownership. Upon completion of the conversion, existing public stockholders of Atlantic Coast Federal Corporation will receive shares of common stock of Atlantic Coast Financial Corporation in exchange for their shares of Atlantic Coast Federal Corporation common stock in order to maintain the public stockholders' existing percentage ownership in our organization (excluding any new shares purchased by them in the offering).

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NOTE 14 - STOCK CONVERSION (continued)

In connection with the conversion, shares of common stock of a new successor holding company, representing the ownership interest of the Mutual Holding Company, will be offered for sale to depositors of the Bank. The following persons and employee benefit plan have subscription rights to purchase shares of common stock of the new holding company in the following order of priority: (1) depositors of record as of March 31, 2009; (2) the Bank's employee stock ownership plan; (3) depositors of record as of the end of the calendar quarter preceding the commencement of the offering; and (4) depositors entitled to vote on the conversion proposal. If necessary, shares will be offered to the general public. In addition, upon completion of the conversion of the Mutual Holding Company, shares of the Company's common stock held by public stockholders will be exchanged for shares of a new corporation, which will become the Bank's new parent holding company. As a result of the conversion and offering, the Mutual Holding Company and Company will cease to exist. The conversion is subject to approval of the Office of Thrift Supervision ("OTS") as well as the approval of the Mutual Holding Company's members (depositors of the Bank) and the Company's stockholders. Proxy materials setting forth information relating to the conversion and offering will be sent to the members of the Mutual Holding Company and stockholders of the Company for their consideration. The offering will be made only by means of a prospectus in accordance with federal law and all applicable state securities laws. The conversion and offering are expected to be completed in the fourth quarter of 2010.

Expenses capitalized related to the stock conversion were $1.1 million as of September 30, 2010. Expenses capitalized will be netted from proceeds if the offering is successful. Alternatively, expenses capitalized will be expensed in the event the offering is terminated.

NOTE 15 SUBSEQUENT EVENT

Following its most recent examination, the Company was advised by the Office of Thrift Supervision ("OTS") that it would require the Company and its banking subsidiary to enter into supervisory agreements with the agency containing certain provisions and restrictions as described below. The Company was also informed that in a separate informal agreement, the OTS will impose an Individual Minimum Capital Requirement (IMCR) for Atlantic Coast Bank that will require it to achieve and maintain levels of capital greater than those required for a federal savings bank to be classified as well-capitalized. The Company anticipates, based upon discussions with the OTS, that the IMCR will require that Atlantic Coast Bank reach a core capital level of up to 7% by March 30, 2011 or June 30, 2011 and a risk based capital level of up to 11% by March 30, 2011 or June 30, 2011 and maintain these levels until the OTS removes the requirement.

Based on discussions with the OTS the Company expects the supervisory agreement will require its board and management to prepare regular forecasts and projections regarding Bank earnings and capital, along with monitoring of various financial metrics. Further the Company expects to be subject to the following operating restrictions: (1) Atlantic Coast Federal Corporation and Atlantic Coast Bank may not increase their assets in any quarter greater than the amount of interest credited on its deposit accounts without prior written approval from the OTS; (2) Atlantic Coast Federal Corporation and Atlantic Coast Bank may not add any new director to their Boards of Directors, employ any new senior executive officer or change the duties of any senior executive officer without providing 30 days advance written notice to the OTS; (3) Atlantic Coast Federal Corporation and Atlantic Coast Bank may not make any payment or enter into an agreement to make a payment, to an officer or employee that is contingent upon their termination of service, subject to certain exceptions; (4) prior written approval of the OTS must be obtained before the payment of any dividend or other capital distribution by Atlantic Coast Federal Corporation or Atlantic Coast Bank; (5) Atlantic Coast Federal Corporation and Atlantic Coast Bank may not enter into, renew or revise any contractual arrangement related to compensation or benefits with any director or officer unless they receive prior approval of the Office of Thrift Supervision; (6) Atlantic Coast Federal Corporation and Atlantic Coast Bank may not enter

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NOTE 15 SUBSEQUENT EVENT (continued)

into any third party contracts outside of the normal course of business without providing 30 days advance written notice to the OTS and receiving a written notice of non-objection; (7) Atlantic Coast Federal Corporation and Atlantic Coast Bank are not eligible to have applications or notices processed by the OTS on an expedited basis which would make executing future mergers and acquisitions more difficult; (8) Atlantic Coast Federal Corporation and Atlantic Coast Bank may not engage in transactions with any affiliate or subsidiary without providing 30 days advance written notice to the OTS and receiving a written notice of non-objection; and (9) Atlantic Coast Bank may not increase the level of brokered deposits, excluding interest credited, without the prior written approval of the OTS.

ATLANTIC COAST FEDERAL CORPORATION

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This Form 10-Q contains forward-looking statements that are not historical or current facts. When used in this filing and in future filings by Atlantic Coast Federal Corporation with the Securities and Exchange Commission, in Atlantic Coast Federal Corporation's press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases, "anticipate," "would be," "will allow," "intends to," "will likely result," "are expected to," will continue," "is anticipated," "estimated," "projected," or similar expressions intended to identify, "forward looking statements." Such statements are subject to risks and uncertainties, including but not limited to changes in economic conditions in Atlantic Coast Federal Corporation's market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in Atlantic Coast Federal Corporation's market area, changes in the position of banking regulators on the adequacy of our allowance for loan losses, and competition, all or some of which could cause actual results to differ materially from historical earnings and those presently anticipated or projected.

Atlantic Coast Federal Corporation wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and advise readers that various factors, including regional and national economic conditions, substantial changes in levels of market interest rates, credit and other risks of lending and investing activities, and competitive and regulatory factors, could affect Atlantic Coast Federal Corporation's financial performance and could cause Atlantic Coast Federal Corporation's actual results for future periods to differ materially from those anticipated or projected.

Atlantic Coast Federal Corporation does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

Critical Accounting Policies

Certain accounting policies are important to the portrayal of the Company's financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances, including, but without limitation, changes in interest rates, performance of the economy, financial condition of borrowers and laws and regulations. Management believes that its critical accounting policies include determining the allowance for loan losses, determining the fair value of securities and accounting for deferred income taxes. Atlantic Coast Federal Corporation's accounting policies are discussed in detail in Note 1 of the Notes to the Consolidated Financial Statements included in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission.

Allowance for Loan Losses

An allowance for loan losses ("allowance") is maintained to reflect probable incurred losses in the loan portfolio. The allowance is based on ongoing assessments of the estimated losses incurred in the loan portfolio and is established as these losses are recognized through a provision for loan losses charged to earnings. Generally, loan losses are charged against the allowance when management believes the uncollectibity of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Due to declining real estate values in our markets and the condition of the United States economy in general, it is increasingly likely that impairment allowances on non-performing collateral dependent loans, particularly one-to four-family residential loans, will not be recoverable and represent a confirmed loss. As a consequence the Company recognizes the charge-off of impairment allowances on non-performing one-to four family residential loans in the period the loan is classified as such. This accelerates the recognition of charge-offs but has no impact on the impairment evaluation process.

The reasonableness of the allowance is reviewed and established by management, within the context of applicable accounting and regulatory guidelines, based upon its evaluation of then-existing economic and business conditions affecting the Bank's key lending areas. Senior credit officers monitor the conditions discussed above continuously and reviews are conducted quarterly with the Bank's senior management and Board of Directors.

Management's methodology for assessing the reasonableness of the allowance consists of several key elements, which include a general loss component by type of loan and specific allowances for identified problem loans. The allowance also incorporates the results of measuring impaired loans.

The general loss component is calculated by applying loss factors to outstanding loan balances based on the internal risk evaluation of the loans or pools of loans. Changes to the risk evaluations relative to both performing and non-performing loans affect the amount of this component. Loss factors are based on the Bank's recent loss experience, current market conditions that may impact real estate values within the Bank's primary lending areas, and on other significant factors that, in management's judgment, may affect the ability to collect loans in the portfolio as of the evaluation date. Other significant factors that exist as of the balance sheet date that may be considered in determining the adequacy of the allowance include credit quality trends (including trends in non-performing loans expected to result from existing conditions), collateral values, geographic foreclosure rates, new and existing home inventories, loan volumes and concentrations, specific industry conditions within portfolio segments and recent charge-off experience in particular segments of the portfolio. The impact of the general loss component on the allowance began increasing during 2008 and 2009. The increases reflected the deterioration of market conditions, and the increase in the recent loan loss experience that has resulted from management's proactive approach to charging off losses on impaired loans.

Management also evaluates the allowance for loan losses based on a review of certain large balance individual loans. This evaluation is inherently subjective as it requires material estimates including the amounts and timing of future cash flows management expects to receive on impaired loans that may be susceptible to significant change. For all specifically reviewed loans where it is probable the Bank will be unable to collect all amounts due according to the terms of the loan agreement, impairment is determined by computing a fair value based on either discounted cash flows using the loan's initial interest rate or the fair value of the collateral if the loan is collateral dependent. No specific allowance is recorded unless the fair value is less than the carrying value. Large groups of smaller balance homogeneous loans, such as individual consumer and residential loans are collectively evaluated for impairment and are excluded from the specific impairment evaluation; for these loans, the allowance for loan losses is calculated in accordance with the allowance for loan losses policy described above. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures.

Fair Value of Securities Available for Sale

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. In determining OTTI, management considers many factors, including: (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, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When OTTI is determined to have occurred, the amount of the OTTI recognized in earnings depends on whether we intend to sell the security or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss. If we intend to sell the security or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss, the OTTI recognized in earnings is equal to the entire difference between its amortized cost basis and its fair value at the balance sheet date. If we do not intend to sell the security and it is not more likely than not that we will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI is separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized as a charge to earnings. The amount of the OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment. The Company recorded an other-than-temporary impairment charge of $81,000 in non-interest income on two private label mortgage-backed mezzanine (support) debt securities for the nine months ended September 30, 2010. The Company recorded an other-than-temporary impairment charge of $1.6 million for the nine months ended September 30, 2009.

Deferred Income Taxes

After converting to a federally chartered savings association, Atlantic Coast Bank became a taxable organization. Income tax expense (benefit) is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary difference between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates and operating loss carryforwards. The Company’s principal deferred tax assets result from the allowance for loan losses and operating loss carryforwards. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. The Internal Revenue Code and applicable regulations are subject to interpretation with respect to the determination of the tax basis of assets and liabilities for credit unions that convert charters and become a taxable organization. Since Atlantic Coast Bank’s transition to a federally chartered thrift, Atlantic Coast Federal Corporation has recorded income tax expense based upon management’s interpretation of the applicable tax regulations. Positions taken by the Company in preparing our federal and state tax returns are subject to the review of taxing authorities, and the review by taxing authorities of the positions taken by management could result in a material adjustment to the financial statements.

All available evidence, both positive and negative, is considered when determining whether or not a valuation allowance is necessary to reduce the carrying amount to a balance that is considered more likely than not to be realized. The determination of the realizability of deferred tax assets is highly subjective and dependent upon judgment concerning management’s evaluation of such evidence. Positive evidence considered includes the probability of achieving forecasted taxable income and the ability to implement tax planning strategies to accelerate taxable income recognition. Negative evidence includes the Company’s cumulative losses. Following the initial establishment of a valuation allowance, if the Company is unable to generate sufficient pre-tax income in future periods or otherwise fails to meet forecasted operating results, an additional valuation allowance may be required. Any valuation allowance is required to be recorded during the period identified. As of September 30, 2010, the Company had a valuation allowance of $17.4 million for the net deferred tax asset.

Comparison of Financial Condition at September 30, 2010 and December 31, 2009

General. Total assets decreased $13.0 million to $892.6 million at June 30, 2010 as compared to $905.6 million at December 31, 2009. The primary reason for the decrease in assets was a decrease in net loans of $38.6 million as well as a decrease in cash of $15.5 million, partially offset by the increase in loans held for sale of $40.6 million. Total deposits increased $14.9 million to $570.4 million at September 30, 2010 from $555.4 million at December 31, 2009. Core deposits grew by $16.0 million, while time deposits decreased by $1.0 million.

Following is a summarized comparative balance sheet as of September 30, 2010 and December 31, 2009:

	September 30, 2010	December 31, 2009	Increase (decrease) Dollars	Percentage
	(Dollars in Thousands)			
Assets				
Cash and cash equivalents	$ 21,643	$ 37,144	$ (15,501)	-41.7%
Securitites available for sale	176,528	177,938	(1,410)	-0.8%
Loans	586,735	628,181	(41,446)	-6.6%
Allowance for loan losses	(10,955)	(13,810)	2,855	-20.7%
Loans, net	575,780	614,371	(38,591)	-6.3%
Loans held for sale	49,597	8,990	40,607	451.7%
Other assets	69,064	67,118	1,946	2.9%
Total assets	$ 892,612	$ 905,561	$ (12,949)	-1.4%
Liabilities and Stockholders' equity				
Deposits				
Non-interest bearing demand	$ 37,046	$ 34,988	$ 2,058	5.9%
Interest bearing demand	71,773	79,192	(7,419)	-9.4%
Savings and money market	182,143	160,784	21,359	13.3%
Time	279,401	280,480	(1,079)	-0.4%
Total deposits	570,363	555,444	14,919	2.7%
Federal Home Loan Bank advances	167,765	182,694	(14,929)	-8.2%
Securities sold under agreements to repurchase	92,800	92,800	-	0.0%
Other borrowings	5,000	12,200	(7,200)	-59.0%
Accrued expenses and other liabilities	5,279	5,882	(603)	-10.3%
Total liabilities	841,207	849,020	(7,813)	-0.9%
Stockholders' equity	51,405	56,541	(5,136)	-9.1%
Total liabilities and stockholders' equity	$ 892,612	$ 905,561	$ (12,949)	-1.4%

Securities available for sale. Securities available for sale is comprised primarily of debt securities of U.S. Government-sponsored enterprises and mortgage-backed securities (MBS). The investment portfolio decreased approximately $1.4 million to $176.5 million at September 30, 2010, from $177.9 million at December 31, 2009. We recognized a charge for other-than-temporary impairment (OTTI) of approximately $(81,000) in non-interest income (loss) on two private label collateralized mortgage obligation mezzanine (support) debt securities for the nine months ended September 30, 2010. In order to reduce risk of additional OTTI charges the Company sold six securities totaling $3.4 million at a loss of $1.3 million during the third quarter ended September 30, 2010.

	At September 30, 2010			
	Amortized Cost	Fair Value	Number of Securities	Cumulative OTTI
	(Dollars in Thousands)			
Private label collateralized mortgage obligations with OTTI	$ 1,492	$ 1,301	2	$ 1,158
Private label collateralized mortgage obligations with no OTTI	6,494	6,588	6	-
Total private label collateralized mortgage obligations	$ 7,986	$ 7,889	8	$ 1,158

At September 30, 2010, approximately $167.7 million, or 95%, of the debt securities held by the Company were issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae, Freddie Mac and Ginnie Mae, institutions which the government has affirmed its commitment to support. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at September 30, 2010.

Loans. Portfolio loans declined approximately 6.3% to $575.8 million at June 30, 2010 as compared to $614.4 million at December 31, 2009 due to increased payoffs of one- to four-family residential loans in the first nine months of 2010, the sale of approximately $7.2 million of non-performing loans in the first nine months of 2010, and the transfer of $6.4 million from portfolio loans to loans held for sale.

Total loan originations increased $168.2 million to $267.1 million for the nine months ended September 30, 2010 from $98.9 million for the same period in 2009. Origination of loans held for sale in the secondary market increased $144.9 million to $214.0 million during the first nine months of 2010, from $69.2 million for the same period in 2009. Portfolio loan production increased $23.3 million to $53.0 million for the nine months ended September 30, 2010 from $29.7 million for the same period in 2009. Origination of residential loans held for sale was strong as consumers took advantage of historically low interest rates and the availability of certain federal income tax credits. The balance of loans held for sale increased as the Company began to expand its mortgage lending business during the third quarter of 2010.

Until critical economic factors stabilize, such as unemployment and residential real estate values management believes portfolio loan balances will continue to decline as the Company emphasizes the sale of mortgages it originates in the secondary market rather than retaining them in its portfolio. Due to a favorable interest rate environment, production of one-to four-family residential loans held for sale in the secondary market is expected to continue its moderate pace. The strategy of selling the majority of originated loans in the secondary market also compliments the Bank's desire to reduce portfolio loan balances in order to maximize capital efficiently.

Allowance for loan losses. The allowance for loan losses was $11.0 million, or 1.87% of total loans compared to $13.8 million or 2.22% of total loans outstanding at September 30, 2010 and December 31, 2009, respectively.

Non-performing assets:	September 30, 2010		December 31, 2009	
	(Dollars in Thousands)			
Real Estate Loans				
One-to-four-family	$	9,573	$	12,343
Commercial		1,025		3,895
Other		5,376		9,638
Construction - One-to-four-family		-		-
Construction - Commercial		1,681		4,988
Construction - Acquisition & Development		404		404
Other Loans - Consumer				
Home Equity		2,295		2,973
Other		972		909
Commercial		227		-
Total non-performing loans		21,553		35,150
Other real estate owned		8,604		5,028
Total non-performing assets	$	30,157	$	40,178
Total troubled debt restructurings (TDR)	$	20,880	$	22,660
Total impaired loans (including TDR)	$	36,656	$	44,392
Non-performing loans to total loans		3.67%		5.64%
Non-performing loans to total assets		2.41%		3.88%
Non-performing assets to total assets		3.38%		4.44%

Non-performing loans were $21.6 million or 3.67% of total loans and $35.2 million, or 5.64% of total loans at September 30, 2010, and December 31, 2009, respectively. The decrease was primarily due to the transfer of $6.4 million to other real estate owned, the sale of $6.3 million of non-performing residential loans and a $3.3 million charge-off of a non-performing commercial real estate loan. Total impaired loans decreased $7.5 million to $36.9 million at September 30, 2010 from $44.4 million at December 31, 2009. As of September 30, 2010, total non-performing one- to four-family residential loans of $9.6 million included $6.8 million of one- to four-family residential loans that had been written-down to the estimated fair value of their collateral. Further declines in the fair value of the collateral, or a decision to sell loans as distressed assets, could result in additional losses. The total allowance allocated for impaired loans decreased to $2.2 million at September 30, 2010 from $5.4 million at December 31, 2009. As of September 30, 2010, and December 31, 2009, all non-performing loans were classified as non-accrual, and there were no loans 90 days past due and accruing interest as of September 30, 2010 and December 31, 2009. Troubled debt restructured ("TDR") loans were $20.9 million as of September 30, 2010, as compared to $22.7 million at December 31, 2009. These loans were primarily comprised of residential mortgage loans collateralized by real estate and were evaluated for impairment as required under GAAP.

The tables below compare the general component, which is available for the entire loan portfolio, and specific components of the allowance for loan losses to non-performing loans as of September 30, 2010 and December 31, 2009:

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Comparison of Loan Loss Allowance to Non-Performing Loans
September 30, 2010

	Non-Performing Loans	Amount of General and Specific Loan Loss Allowance	Percent of General and Specific Loan Loss Allowance to Non-Performing Loans
	(Dollars in Thousands)		
Real Estate Loans			
One-to four-family	$ 9,573	$ 3,873	40.46%
Commercial	1,025	752	73.37%
Other (land & multi-family)	5,376	1,495	27.81%
Real Estate Construction			
Construction One-to four family	-	16	-
Construction Commercial	1,681	13	0.77%
Acquistion & Development	404	110	27.23%
Other Loans			
Home Equity	2,295	2,044	89.06%
Consumer	972	2,421	249.07%
Commercial	227	231	101.76%
Totals	$ 21,553	$ 10,955	50.83%

Comparison of Loan Loss Allowance to Non-Performing Loans
December 31, 2009

	Non-Performing Loans	Amount of Loan Loss Allowance	% of Loan Loss Allowance to Non-Performing Loans
	(Dollars in Thousands)		
Real Estate Loans			
One-to four-family	$ 12,343	$ 3,446	27.92%
Commercial	3,895	575	14.76%
Other (land & multi-family)	9,638	1,305	13.54%
Real Estate Construction			
Construction One-to four family	-	47	-
Construction Commercial	4,988	3,322	66.60%
Acquistion & Development	404	110	27.23%
Other Loans			
Home Equity	2,973	2,240	75.34%
Consumer	909	2,447	269.20%
Commercial	-	318	-
Totals	$ 35,150	$ 13,810	39.29%

The following table sets forth an analysis of the allowance for loan losses:

	September 30, 2010	September 30, 2009
Balance at beginning of period	$ 13,810	$ 10,598
Charge-offs:		
Real Estate Loans		
One-to four-family	7,906	5,982
Commercial	1,261	690
Other (Land & Multi-family)	1,416	3,393
Real Estate Construction Loans		
Construction One-to four family	-	50
Construction Commercial	3,307	-
Acquistion & Development	-	-
Other Loans		
Home equity	2,306	3,696
Consumer	1,346	801
Commercial	698	590
Total charge-offs	18,240	15,202
Recoveries:		
Real Estate Loans		
One-to four-family	648	212
Commercial	-	-
Other (Land & Multi-family)	123	17
Real Estate Construction Loans		
Construction One-to four family	-	-
Construction Commercial	-	-
Acquistion & Develpoment	-	-
Other Loans		
Home equity	88	204
Consumer	213	271
Commercial	7	18
Total recoveries	1,079	722
Net charge-offs	17,161	14,480
Provision for loan losses	14,306	18,657
Balance at end of period	$ 10,955	$ 14,775

During the nine months ended September 30, 2010 loan charge-offs included approximately $6.4 million of partial charge-offs of one-to four- family residential loans identified as non-performing, of which $2.8 million was related to the sale of $6.3 million of non-performing one- to four-family residential loans. Charge-offs in 2010 also included $3.3 million on one commercial loan for which a specific allowance had previously been established. Due to the decline in real estate values over the past two years, the Company believes it is appropriate and prudent to reduce the carrying balance of non-performing one-to four-family residential loans by the expected loss amount rather than providing a general allowance.

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Deferred Income Taxes. As of both September 30, 2010 and December 31, 2009 the Company concluded that, while improved operating results are expected as the economy begins to improve and the Bank's non-performing assets decline, the variability of the credit related costs are such that a more likely than not conclusion of realization of the Company's deferred tax asset could not be supported. Consequently the Company has recorded a valuation allowance of $17.4 million for the full amount of the net federal and state deferred tax assets as of September 30, 2010. Until such time as the Company determines it is more likely than not that it is able to generate taxable income, no tax benefits will be recorded in future periods to reduce net losses before taxes. However, at such time in the future that the Company records taxable income or determines that realization of the deferred tax asset is more likely than not, some or all of the valuation allowance may be available as a tax benefit.

Deposits. Total deposits were $570.4 million at September 30, 2010, an increase of $14.9 million from $555.4 million at December 31, 2009. Core deposits grew by $16.0 million, while time deposits decreased by $1.0 million. At September 30, 2010, time deposits include $61.4 million of brokered deposits acquired as part of a liquidity management strategy following the sale of our Lake City, Florida branch on December 31, 2009. As a part of its capital preservation strategy, the Bank intentionally lowered rates on time deposits beginning in the second half of 2009 in order to reduce those deposits consistent with loan balances decreases. Management believes near term deposit growth will be moderate with an emphasis on core deposits to match asset growth expectations. Dramatic changes in the short-term interest rate environment could affect the availability of deposits in our local market and therefore cause the Bank to promote time deposit growth in order to meet liquidity needs.

Securities sold under agreements to repurchase. Securities sold under agreements to repurchase, which are secured by mortgage-backed securities, had a carrying amount of $124.8 million at September 30, 2010, compared to $119.9 million at December 31, 2009. The agreements carry various periods of fixed interest rates that convert to callable floating rates in the future. Upon conversion, each agreement may be terminated in whole by the lender each following quarter. There is no termination penalty if terminated by the lender. There have been no early terminations as of September 30, 2010. At maturity or termination, the securities underlying the agreements will be returned to the Company. The Company had $92.8 million of such agreements as of September 30, 2010 and December 31, 2009.

Securities sold under agreements to repurchase are financing arrangements that mature within ten years, beginning in January 2014. At maturity, the securities underlying the agreements are returned to the Company. Information concerning securities sold under agreements to repurchase as of September 30, 2010 is summarized as follows:

	(Dollars in Thousands)	
Average daily balance during the period	$	92,800
Average interest rate during the period		5.04%
Maximum month-end balance	$	92,800
Weighted average interest rate at period end		5.11%

Depending on the availability of suitable securities and the prevailing interest rates and terms of alternative sources of funds, the Company may continue to sell securities under agreements to repurchase in the future to fund growth; however the Company does not plan to be active in the market in the near term.

Federal Home Loan Bank advances. FHLB advances had a weighted-average maturity of 62 months and a weighted-average rate of 3.51% at September 30, 2010. The decrease in FHLB borrowings to $167.8 million at September 30, 2010 as compared to December 31, 2009 was due to repayments of $48.0 million which exceeded proceeds from advances of $33.1 million. The Company expects to continue to utilize FHLB advances to manage short and long- term liquidity needs to the extent it has borrowing capacity, needs funding and the interest expense of FHLB advances is attractive compared to deposits and other alternative sources of funds. However, with the FDIC's new deposit insurance premium assessment schedule raising assessment rates in order to recapitalize the Deposit Insurance Fund, which takes into consideration an institution's FHLB borrowings, our FDIC assessment may increase, should any additional FHLB borrowings outpace deposit growth.

Other borrowings. Other borrowings were $5.0 million at September 30, 2010. The Company borrowed $5.0 million from another financial institution in June 2010 which is secured by shares of the Company's common stock owned by Atlantic Coast Federal, MHC. The Company contributed $2.9 million to Atlantic Coast Bank as additional capital and used the remaining proceeds to pay off the remaining balance of $2.1 million of other borrowings.

Stockholders' equity. Stockholders' equity decreased by approximately $5.1 million to $51.4 million at September 30, 2010 from $56.5 million at December 31, 2009 as the net loss of $9.0 million for the nine months ended September 30, 2010 was partially offset by the $3.3 million increase in other comprehensive income. Other comprehensive income for the nine months ended September 30, 2010 was $3.3 million due to higher market values on available-for-sale securities.

The Company's equity to assets ratio decreased to 5.76% at September 30, 2010, from 6.24% at December 31, 2009. The decrease was due to the net loss of $9.0 million for the nine months ended September 30, 2010, partially offset by the increase in other comprehensive income. Despite this decrease, Atlantic Coast Bank continued to be well in excess of all minimum regulatory capital requirements, and is considered "well capitalized" under those formulas. Total risk-based capital to risk-weighted assets was 10.7%, Tier 1 capital to risk-weighted assets was 9.4%, and Tier 1 capital to adjusted total assets was 5.6% at September 30, 2010. These ratios as of December 31, 2009 were 11.4%, 10.2% and 6.1%, respectively.

Comparison of Results of Operations for the Three Months Ended September 30, 2010 and 2009.

General. Net loss for the three months ended September 30, 2010, was $2.2 million, which was an improvement of $10.0 million from a net loss of $12.2 million for the same period in 2009. The Company did not record any tax benefit for the three months ended September 30, 2010 following the establishment of a valuation allowance on the net deferred tax asset during 2009. The loss before income taxes was $2.2 million for the three months ended September 30, 2010 as compared to a loss before income taxes of $7.7 million for the same period in 2009. The reduction in loss before income taxes was primarily due to a $3.6 million decrease in provision for loan losses, a $284,000 increase in net interest income, and a decrease in non-interest expense of $2.4 million, partially offset by a $693,000 decrease in non-interest income

Average Balances, Net Interest Income, Yields Earned and Rates Paid. The following table sets forth certain information for the three months ended September 30, 2010 and 2009. The average yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented.

	For the three months ended September 30,					
	2010			2009		
	(Dollars in Thousands)					
	Average Balance	Interest	Average Yield /Cost	Average Balance	Interest	Average Yield /Cost
INTEREST-EARNING ASSETS						
Loans receivable(1)	$ 617,473	$ 9,316	6.03%	$ 684,784	$ 10,094	5.90%
Securites(2)	198,620	1,835	3.70%	180,391	2,080	4.61%
Other interest-earning assets(3)	30,360	48	0.63%	46,365	43	0.37%
Total interest-earning assets	846,453	11,199	5.29%	911,540	12,217	5.36%
Non-interest earning assets	52,754			60,138		
Total assets	$ 899,207			$ 971,678		
INTEREST-BEARING LIABILITIES						
Savings deposits	$ 52,923	$ 91	0.69%	$ 34,978	$ 34	0.39%
Interest bearing demand accounts	75,585	240	1.27%	76,012	353	1.86%
Money market accounts	122,807	342	1.11%	142,344	525	1.48%
Time deposits	284,606	1,789	2.51%	322,273	2,907	3.61%
Securities sold under agreements to repurchase	92,800	1,186	5.11%	92,800	1,714	7.39%
Federal Home Loan Bank advances	170,511	1,554	3.65%	177,656	1,085	2.44%
Other borrowings	5,000	114	9.12%	-	-	-
Total interest-bearing liabilities	804,232	5,316	2.64%	846,063	6,618	3.13%
Non-interest bearing liabilities	41,584			48,276		
Total liabilities	845,816			894,339		
Stockholders' equity	53,391			77,339		
Total liabilities and stockholders' equity	$ 899,207			$ 971,678		
Net interest income		$ 5,883			$ 5,599	
Net interest spread			2.65%			2.23%
Net earning assets	$ 42,221			$ 65,477		
Net interest margin(4)			2.78%			2.46%
Average interest-earning assets to average interest-bearing liabilities		105.25%			107.74%	

(1) Calculated net of deferred loan fees. Nonaccrual loans included as loans carrying a zero yield, includes loans held for sale.
(2) Calculated based on carrying value. Not full tax equivalents, as the numbers would not change materially from those presented in the table.

(3) Includes Federal Home Loan Bank stock at cost and term deposits with other financial institutions.
(4) Net interest income divided by average interest-earning assets.

Rate/Volume Analysis. The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities as of and for the three months ended June 30, 2010 as compared to the same period in 2009. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in volume multiplied by the old rate; and (2) changes in rate, which are changes in rate multiplied by the old volume; and (3) changes not solely attributable to rate or volume have been allocated proportionately to the change due to volume and the change due to rate.

	Increase/(Decrease) Due to		Total Increase (Decrease)
	Volume	Rate	
	(Dollars in Thousands)		
INTEREST-EARNING ASSETS			
Loans receivable	$ (1,011)	$ 233	$ (778)
Securities	204	(448)	(244)
Other interest-earning assets	(20)	24	4
Total interest-earning assets	(827)	(191)	(1,018)
INTEREST-BEARING LIABILITIES			
Savings deposits	23	33	56
Interest bearing demand accounts	(2)	(110)	(112)
Money market accounts	(66)	(118)	(184)
Time deposits	(311)	(807)	(1,118)
Securities sold under agreements to repurchase	-	101	101
Federal Home Loan Bank advances	(67)	(93)	(160)
Other borrowings	115	-	115
Total interest-bearing liabilities	(308)	(994)	(1,302)
Net interest income	$ (519)	$ 803	$ 284

Interest income. Total interest income declined $1.0 million to $11.2 million for the three months ended September 30, 2010 from $12.2 million for the three months ended September 30, 2009 primarily due the decrease in interest income on loans. Interest income on loans decreased to $9.3 million for the three months ended September 30, 2010 from $10.1 million for the same period in 2009. This decrease was due primarily to a decline in the average balance of loans, which decreased $67.3 million to $617.5 million for the three months ended September 30, 2010 from $684.8 million for the prior year period. Interest income earned on securities decreased for the three months ended September 30, 2010 as compared to the same period in 2009, as the increase in the average balance of $18.2 million was more than offset by lower interest rates on new purchases of securities, which resulted in a 91 basis point decline in average rate.

Interest income was adversely impacted by continued low interest rates and the unavailability of higher yielding interest-earning assets.

Interest expense. Interest expense declined by $1.3 million to $5.3 million for the three months ended September 30, 2010 from $6.6 million for the three months ended September 30, 2009. The decrease in interest expense for the three months ended September 30, 2010, as compared to the same period in 2009, was due to lower average rates paid on interest-bearing liabilities, primarily time deposits, as well as the decrease in average outstanding balances of time deposits. The average rate paid on time deposits decreased 110 basis points to 2.51% for the three months ended September 30, 2010 as compared to 3.61% the same period in 2009. Interest expense includes $114,000 related to other borrowings for the three months ended September 30, 2010 compared to $0 for the three months ended September 30, 2009.

Net interest income. Net interest income increased $284,000 to $5.9 million for the three months ended September 30, 2010 from $5.6 million for the three months ended September 30, 2009, as the decrease in interest expense was greater than the decrease in interest income. Our net interest rate spread, which is the difference between the interest rate earned on interest-earning assets and the interest rate paid on interest-bearing liabilities, increased 42 basis points to 2.65% for the third quarter of 2010 as compared to 2.23% for the same quarter in 2009. For the same comparative periods, our net interest margin, which is net interest income expressed as a percentage of our average interest earning assets, increased 32 basis points to 2.78% as compared to 2.46% for the same quarter in 2009. The improvement in net interest margin was primarily due to the 81 basis point decrease in the average interest rate of deposits, to 1.84% for the three months ended September 30, 2010 as compared to 2.65% for the same period in 2009.

Provision for loan losses. Provision for loan losses of $3.1 million and $6.7 million were made during the three months ended September 30, 2010 and 2009, respectively. The decrease in the provision for loan losses was primarily due to a provision for loan losses of $2.0 million recorded during the third quarter of 2009 to provide a general allowance for loans held in the portfolio, previously supported by a cash deposit maintained with the Company by an ongoing originator and lower charge-offs. Net charge-offs in 2010 also included $759,000 of partial write-downs on one- to four-family residential loans that became non-performing during the three months ended September 30, 2010. Net charge-offs for the three months ended September 30, 2010 were $2.4 million as compared to $3.7 million for the same period in 2009. Home equity loan charge-offs were $274,000 during the three months ended September 30, 2010 as compared to $1.7 million during the same period in 2009. Beginning in the second quarter of 2009 the Company adopted the policy of writing down loans when they are classified as non-performing rather than recording a general allocation.

Non-interest income. The components of non-interest income for the three months ended September 30, 2010 and 2009 were as follows:

	2010	2009	Increase(decrease) Dollars	Increase(decrease) Percentage
		(Dollars in Thousands)		
Service charges and fees	$ 1,032	$ 1,111	$ (79)	-7.1%
Gain on sale of loans held for sale	349	147	202	137.4%
Gain (loss) on sale of portfolio loans	46	(1,317)	1,363	-
(Loss) gain on available for sale securities	(397)	117	(514)	-439.3%
Other than temporary impairment losses	-	(252)	252	-100.0%
Interchange fees	241	235	6	2.6%
Other	287	2,210	(1,923)	-87.0%
	$ 1,558	$ 2,251	$ (693)	-30.8%

Non-interest income for the three months ended September 30, 2010 decreased $693,000 to $1.6 million as compared to $2.3 million for the same three months in 2009. The decrease was primarily due to the non-recurrence of other non-interest income items in 2009 including a $2.0 million gain resulting from a settlement agreement with an ongoing originator whereby the Company assumed responsibility for credit losses on a pool of loans, and a $397,000 loss on sale of available-for-sale securities during the three months ended September 30, 2010, partially offset by the non-recurrence of other non-interest income items in 2009 including the loss on sale of portfolio loans of $1.3 million as well as a $252,000 other-than-temporary-impairment loss.

Non-interest expense. The components of non-interest expense for the three months ended September 30, 2010 and 2009 were as follows:

					Increase(decrease)		
		2010		2009		Dollars	Percentage
				(Dollars in Thousands)			
Compensation and benefits	$	2,838	$	2,861	$	(23)	-0.8%
Occupancy and equipment		547		674		(127)	-18.8%
FDIC insurance premiums		400		422		(22)	-5.2%
Foreclosed assets, net		560		318		242	76.1%
Data processing		309		251		58	23.1%
Outside professional services		465		316		149	47.2%
Collection expense and repossessed asset losses		326		355		(29)	-8.2%
Goodwill impairment		-		2,811		(2,811)	-100.0%
Other		1,060		876		184	21.0%
	$	6,505	$	8,884	$	(2,379)	-26.8%

Non-interest expense decreased $2.4 million to $6.5 million for the three months ended September 30, 2010 from $8.9 million for the same three months ended September 30, 2009. Components of the decrease included the non-recurrence of a $2.8 million write-off of the entire amount of the Company's goodwill during 2009, partially offset by a higher loss on foreclosed assets, higher other expenses including advertising and insurance, as well as higher outside professional services.

Income tax. The Company recorded no income tax benefit for the three months ended September 30, 2010 as compared to an expense of $4.5 million for the same period in 2009 due to the Company's establishment of a valuation reserve for net deferred tax assets during 2009. The recognition of future tax benefits or the reversal of the valuation reserve is dependent upon the Company's ability to generate future taxable income.

Comparison of Results of Operations for the Nine Months Ended September 30, 2010 and 2009.

General. Net loss for the nine months ended September 30, 2010 was $9.0 million, which was an improvement of $10.9 million from a net loss of $19.9 million for the same period in 2009. The $10.6 million reduction in loss before income taxes was primarily due to a $1.4 million increase in net interest income, a reduction in provision for loans losses of $4.4 million, a $1.0 million increase in non-interest income and a decrease in non-interest expense of $3.8 million.

Average Balances, Net Interest Income, Yields Earned and Rates Paid. The following table sets forth certain information for the nine months ended September 30, 2010 and 2009. The average yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented.

	For the nine months ended September 30,					
	2010			2009		
	(Dollars in Thousands)					
	Average Balance	Interest	Average Yield /Cost	Average Balance	Interest	Average Yield /Cost
INTEREST-EARNING ASSETS						
Loans receivable(1)	$ 621,703	$ 27,997	6.00%	$ 714,394	$ 31,182	5.82%
Securites(2)	199,873	5,954	3.97%	169,450	5,902	4.64%
Other interest-earning assets(3)	31,216	142	0.61%	47,174	86	0.24%
Total interest-earning assets	852,792	34,093	5.33%	931,018	37,170	5.32%
Non-interest earning assets	51,342			58,747		
Total assets	$ 904,134			$ 989,765		
INTEREST-BEARING LIABILITIES						
Savings deposits	$ 46,157	$ 233	0.67%	$ 34,621	$ 99	0.38%
Interest bearing demand accounts	78,075	885	1.51%	73,712	1,076	1.95%
Money market accounts	123,174	1,075	1.16%	139,766	1,834	1.75%
Time deposits	292,254	5,732	2.62%	337,970	9,556	3.77%
Securities sold under agreements to repurchase	92,800	3,508	5.04%	92,800	5,135	7.38%
Federal Home Loan Bank advances	171,577	4,675	3.63%	182,688	3,085	2.25%
Other borrowings	3,218	203	8.41%	-	-	#DIV/0!
Total interest-bearing liabilities	807,255	16,311	2.69%	861,557	20,785	3.22%
Non-interest bearing liabilities	40,814			48,283		
Total liabilities	848,069			909,840		
Stockholders' equity	56,065			79,925		
Total liabilities and stockholders' equity	$ 904,134			$ 989,765		
Net interest income		$ 17,782			$ 16,385	
Net interest spread			2.64%			2.11%
Net earning assets	$ 45,537			$ 69,461		
Net interest margin(4)			2.78%			2.35%
Average interest-earning assets to average interest-bearing liabilities		105.64%			108.06%	

(1) Calculated net of deferred loan fees. Nonaccrual loans included as loans carrying a zero yield.
(2) Calculated based on carrying value. Not full tax equivalents, as the numbers would not change materially from those presented in the table.
(3) Includes Federal Home Loan Bank stock at cost and term deposits with other financial institutions.

(4) Net interest income divided by average interest-earning assets.

Rate/Volume Analysis. The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities as of and for the nine months ended September 30, 2010 as compared to the same period in 2009. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in volume multiplied by the old rate; and (2) changes in rate, which are changes in rate multiplied by the old volume; and (3) changes not solely attributable to rate or volume have been allocated proportionately to the change due to volume and the change due to rate.

	Increase/(Decrease) Due to		Total Increase (Decrease)
	Volume	Rate	
	(Dollars in Thousands)		
INTEREST-EARNING ASSETS			
Loans receivable	$ (4,149)	$ 964	$ (3,185)
Securities	983	(929)	54
Other interest-earning assets	(38)	93	55
Total interest-earning assets	(3,204)	128	(3,076)
INTEREST-BEARING LIABILITIES			
Savings deposits	41	92	133
Interest bearing demand accounts	61	(252)	(191)
Money market accounts	(199)	(560)	(759)
Time deposits	(1,171)	(2,653)	(3,824)
Securities sold under agreements to repurchase	-	422	422
Federal Home Loan Bank advances	(306)	(153)	(459)
Other borrowings	203	-	203
Total interest-bearing liabilities	(1,371)	(3,104)	(4,475)
Net interest income	$ (1,833)	$ 3,232	$ 1,399

Interest income. Total interest income declined $3.1 million to $34.1 million for the nine months ended September 30, 2010 from $37.2 million for the nine months ended September 30, 2009 because of a decrease in interest income on loans. Interest income on loans decreased to $28.0 million for the nine months ended September 30, 2010 from $31.2 million for the same period in 2009. This decrease was due primarily to a decline in the average balance of loans, which decreased $92.7 million to $621.7 million for the nine months ended September 30, 2010 from $714.4 million for the prior year period. Interest income earned on securities increased for the nine months ended September 30, 2010 as compared to the same period in 2009 due to an increase in the average balance of $30.4 million, which was nearly offset by lower interest rates on new purchases of comparable securities, which resulted in a 67 basis point decline in average rate.

Interest income was adversely impacted by continued low interest rates and the unavailability of higher yielding interest-earning assets.

Interest expense. Interest expense declined by $4.5 million to $16.3 million for the nine months ended September 30, 2010 from $20.8 million for the nine months ended September 30, 2009. The decrease in interest expense for the nine months ended September 30, 2010, as compared to the same period in 2009, was due to the combination of lower average rates paid on interest-bearing liabilities, primarily time deposits, as well as the decrease in average outstanding balances of time deposits. The average rate paid on time deposits decreased 115 basis points to 2.62% for the nine months ended September 30, 2010 as compared to 3.77% the same period in 2009. Interest expense includes

$203,000 related to other borrowings for the nine months ended September 30, 2010 as compared to $0 for the nine months ended September 30, 2009.

Net interest income. Net interest income increased $1.4 million to $17.8 million for the nine months ended September 30, 2010 from $16.4 million for the nine months ended September 30, 2009, as the decrease in interest expense was greater than the decrease in interest income. Our net interest rate spread, which is the difference between the interest rate earned on interest-earning assets and the interest rate paid on interest-bearing liabilities, increased 54 basis points to 2.64% for the nine months ended September 30, 2010 as compared to 2.10% for the same period in 2009. For the same comparative periods, our net interest margin, which is net interest income expressed as a percentage of our average interest earning assets, increased 43 basis points to 2.78% as compared to 2.35% for the same period in 2009. The improvement in net interest margin was primarily due to the 89 basis point decrease in the average interest rate of deposits, to 1.96% for the nine months ended September 30, 2010 as compared to 2.85% for the same period in 2009.

Provision for loan losses. Provision for loan losses of $14.3 million and $18.7 million were made during the nine months ended September 30, 2010 and 2009, respectively. The decrease in provision for loan losses was primarily due to a provision for loan losses of $2.0 million recorded during the third quarter of 2009 to provide a general allowance for loans held in the portfolio, previously supported by a cash deposit maintained with the Company by an ongoing originator, the $41.4 million decrease in the balance of portfolio loans as of September 30, 2010 as compared to December 31, 2009, offset by an increase in charge-offs. Net charge-offs for the nine months ended September 30, 2010 were $17.2 million as compared to $14.5 million for the same period in 2009. The increased charge-offs included $2.7 million of loss on a distressed loan sale of $6.3 million of non-performing one- to four-family residential loans in June 2010. Net charge-offs in 2010 also included $3.4 million of partial write-downs on one- to four-family residential loans that became non-performing during the nine months ended September 30, 2010 as well as a $3.3 million charge-off on one non-performing commercial loan, for which a specific allowance had previously been established. Beginning in the second quarter of 2009 the Company adopted the policy of writing down loans when they are classified as non-performing rather than recording a general allocation.

Non-interest income. The components of non-interest income for the nine months ended September 30, 2010 and 2009 were as follows:

			Increase(decrease)	
	2010	2009	Dollars	Percentage
	(Dollars in Thousands)			
Service charges and fees	$ 2,864	$ 3,153	$ (289)	-9.2%
Gain on sale of loans held for sale	531	448	83	18.5%
Loss on sale of portfolio loans	(114)	(1,245)	1,131	-
Gain on available for sale securities	831	333	498	149.5%
Other than temporary impairment losses	(81)	(1,573)	1,492	-94.9%
Interchange fees	704	685	19	2.8%
Other	849	2,762	(1,913)	-69.3%
	$ 5,584	$ 4,563	$ 1,021	22.4%

Non-interest income for the nine months ended September 30, 2010 increased $1.0 million to $5.6 million as compared to $4.6 million for the same nine months in 2009. The increase was primarily due to the $1.5 million lower other-than-temporary-impairment loss, the $1.1 million lower loss on sale of portfolio loans, and the $498,000 higher gain on sale of available-for-sale securities and $83,000 higher gain on sale of loans held for sale , partially offset by the non-recurrence of other non-interest income items in 2009 including a $2.0 million gain resulting from a settlement agreement with an ongoing originator whereby the Company assumed responsibility for credit losses on a pool of loans.

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Non-interest expense. The components of non-interest expense for the nine months ended September 30, 2010 and 2009 were as follows:

					Increase(decrease)	
		2010		2009	Dollars	Percentage
			(Dollars in Thousands)			
Compensation and benefits	$	7,845	$	8,403	$ (558)	-6.6%
Occupancy and equipment		1,632		1,962	(330)	-16.8%
FDIC insurance premiums		1,246		1,435	(189)	-13.2%
Foreclosed assets, net		681		1,308	(627)	-47.9%
Data processing		966		760	206	27.1%
Outside professional services		1,195		1,477	(282)	-19.1%
Collection expense and repossessed asset losses		1,324		831	493	59.3%
Goodwill impairment		-		2,811	(2,811)	-100.0%
Other		3,161		2,837	324	11.4%
	$	18,050	$	21,824	$ (3,774)	-17.3%

Non-interest expense decreased $3.8 million to $18.1 million for the nine months ended September 30, 2010 from $21.8 million for the same nine months ended September 30, 2009. Components of the decrease included the non-recurrence of a $2.8 million write-off of the entire amount of the Company's goodwill during 2009, lower compensation and benefits due to expense reduction initiatives implemented during 2009, lower occupancy and equipment expenses due primarily to the sale of our Lake City, Florida branch on December 31, 2009 and the relocation of our Florida Regional Center in June 2009, lower outside professional services and a lower loss on foreclosed assets, partially offset by increased legal, collection and administrative expenses associated with other real estate owned and foreclosures.

Income tax. The Company recorded no income tax benefit for the nine months ended September 30, 2010 as compared to an expense of $282,000 for the same period in 2009 due to the Company's establishment of a valuation reserve for net deferred tax assets during 2009. The recognition of future tax benefits or the reversal of the valuation reserve is dependent upon the Company's ability to generate future taxable income.

Liquidity

Management maintains a liquidity position it believes adequate to provide funding for loan demand and deposit run-off that may occur in the normal course of business. The Company relies on a number of different sources in order to meet potential liquidity demands. The primary sources of funds are increases in deposit accounts and cash flows from loan payments and the securities portfolio. The scheduled amortization of loans and securities as well as proceeds from borrowings, are predictable sources of funds. Other funding sources, however, such as deposit inflows from new deposits, mortgage prepayments and mortgage loan sales are greatly influenced by market interest rates, economic conditions and competition.

During the nine months ended September 30, 2010, cash and cash equivalents decreased $15.5 million from $37.1 million as of December 31, 2009, to $21.6 million as of September 30, 2010. Cash used in operating activities of $32.0 million, combined with cash used in financing activities of $7.2 million, was more than cash from investing activities of $23.7 million. Primary sources of cash were from sales of loans held for sale of $180.4 million, proceeds from maturities and payments of available-for-sale securities of $68.1 million, proceeds from sales of securities available-for-sale of $41.0 million, proceeds from FHLB advances of $33.1 million, net increases in deposits of $14.9 million, net decreases in loans of $12.9 million, proceeds from sale of portfolio loans of $7.0 million and proceeds from other borrowings of $5.0 million. Primary uses of cash included loans originated for sale $220.5 million, purchases of available-for-sale securities of $104.6 million, repayments of FHLB borrowings of $48.0 million and repayments of other borrowings of $12.2 million.

During 2009, cash and cash equivalents increased $16.0 million from $34.1 million as of December 31, 2008, to $50.1 million as of September 30, 2009. Cash from investing activities of $46.7 million and cash from operating activities of $609,000 was more than cash used in financing activities of $31.4 million. Primary sources of cash were net decreases in loans of $55.0 million, proceeds from sales of securities available-for-sale of $47.3 million, proceeds from maturities and payments of available-for-sale securities of $40.6 million, FHLB borrowings of $20.0 million and proceeds from sale of portfolio loans of $16.0 million. Primary uses of cash included purchases of available-for-sale securities of $113.7 million and net decreases in deposit accounts of $24.4 million. The additional borrowings from the FHLB as well as some cash were used to replace maturing FHLB debt of $27.2 million.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is subject to interest rate risk to the extent that its interest-bearing liabilities, primarily deposits and FHLB advances, re-price more rapidly or at different rates than its interest-earning assets. In order to minimize the potential for adverse effects of material prolonged increases or decreases in interest rates on our results of operations, management has adopted an asset and liability management policy. The Board of Directors sets the asset and liability policy for the Company, which is implemented by the Asset/Liability Committee (“Committee”).

The purpose of this Committee is to communicate, coordinate and control asset/liability management consistent with our business plan and board approved policies. The Committee establishes and monitors the volume and mix of assets and funding sources taking into account relative costs and spreads, interest rate sensitivity and liquidity needs. The objectives are to manage assets and funding sources to produce results that are consistent with liquidity, capital adequacy, growth, risk, and profitability goals.

The Committee generally meets at least monthly to review, among other things, economic conditions and interest rate outlook, current and projected liquidity needs and capital position, anticipated changes in the volume and mix of assets and liabilities and interest rate exposure limits versus current projections pursuant to market value of portfolio equity analysis and income simulations. The Committee utilizes two models, a Net Portfolio Value model and a Net Interest Income Sensitivity model, as discussed below. The Committee recommends appropriate strategy changes based on this review. The Committee is responsible for reviewing and reporting the effects of the policy implementations and strategies to the Board of Directors at least quarterly.

A key element of Atlantic Coast Federal Corporation’s asset/liability plan is to protect net earnings by managing the maturity or re-pricing mismatch between its interest-earning assets and rate-sensitive liabilities. Historically, the Company has sought to reduce exposure to its earnings through the use of adjustable rate loans and through the sale of certain fixed rate loans in the secondary market, and by extending funding maturities through the use of FHLB advances.

Net Portfolio Value. The Office of Thrift Supervision requires the computation of amounts by which the net present value of an institution’s cash flow from assets, liabilities and off-balance sheet items (the institution’s net portfolio value or “NPV”) would change in the event of a range of assumed changes in market interest rates. Given the current relatively low level of market interest rates, an NPV calculation for an interest rate decrease of greater than 100 basis points has not been prepared. A basis point equals one-hundredth of one percent, and 100 basis points equals one percent. An increase in interest rates from 3% to 4% would mean, for example, a 100 basis point increase in the “Change in Interest Rates” column below.

Net Interest Income Sensitivity. Net interest income is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest we pay on our interest-bearing liabilities, such as deposits and borrowings. In our model, we estimate what our net interest income would be for a rolling forward twelve-month period using historical data for assumptions such as loan prepayment rates and deposit decay rates, the current term structure for interest rates, and current deposit and loan offering rates. We then calculate what the net interest income would be for the same period in the event of an instantaneous 100, 200 and 300 basis point increase or a 100 basis point decrease in market interest rates.

At September 30, 2010

Change in Interest Rates (basis points) (1)	Estimated NPV (2)	Estimated (Decrease) in NPV Amount	Percent	NPV as a Percentage of Present Value of Assets (3) NPV Ratio (4)	Increase (Decrease) (basis points)	Net Interest Income Estimated Net Interest Income	Increase (Decrease) in Estimated Net Interest Income Amount	Percent
				(Dollars in Thousands)				
+300	$ 55,023	$ (3,645)	(6.2)%	6.19%	(12)	$ 24,480	$ (482)	(1.93)%
+200	61,375	2,707	4.6%	6.78%	47	24,760	(202)	(0.81)%
+100	63,544	4,876	8.3%	6.90%	60	24,862	(100)	(0.40)%
0	58,668	-	-	6.31%	-	24,962	-	-
-100	52,028	(6,640)	(11.3)%	5.56%	(75)	24,817	(145)	(0.58)%

(1) Assumes an instantaneous uniform change in interest rates at all maturities.
(2) NPV is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.
(3) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.
(4) NPV Ratio represents NPV divided by the present value of assets.

In managing its asset/liability mix the Company, depending on the relationship between long and short-term interest rates, market conditions and consumer preference, may place somewhat greater emphasis on maximizing its net interest margin than on strictly matching the interest rate sensitivity of its assets and liabilities. Management believes that the increased net income which may result from an acceptable mismatch in the actual maturity or re-pricing of its asset and liability portfolios can, during periods of declining or stable interest rates, provide sufficient returns to justify the increased exposure to sudden and unexpected increases in interest rates which may result from such a mismatch. Management believes that Atlantic Coast Federal Corporation's level of interest rate risk is acceptable under this approach. In evaluating Atlantic Coast Federal Corporation's exposure to interest rate movements, certain shortcomings inherent in the NII/NPV methodology must be considered. For example, although certain assets and liabilities may have similar maturities or re-pricing periods, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in interest rates. Additionally, certain assets, such as adjustable-rate mortgages, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a significant change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in our NII/NPV methodology. Finally, the ability of many borrowers to service their debt may decrease in the event of an interest rate increase. Atlantic Coast Federal Corporation considers all of these factors in monitoring its exposure to interest rate risk.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures. As of the end of the period covered by this Quarterly Report on Form 10-Q, the Registrant's principal executive officer and principal financial officer have concluded that the Registrant's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities and Exchange Act of 1934 (the "Exchange Act")) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

(b) Changes in internal controls. There were no changes in the Registrant’s internal control over financial reporting (as defined in Rule 13a-15(f)) that occurred during the quarter ended September 30, 2010, that have materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ATLANTIC COAST FEDERAL CORPORATION

FORM 10-Q

September 30, 2010

Part II - Other Information

Item 1. Legal Proceedings

The Company is involved in various legal actions and claims arising in the normal course of business. In the opinion of management, these legal actions and claims are not expected to have a material adverse impact on the Company's financial condition and results of operations.

Item 1A. Risk Factors

We have been advised by the Office of Thrift Supervision ("OTS") that we will be required toenter into a supervisory agreement with the agency, which will limit our operations and mayadversely affect our financial performance.

Following our most recent examination, we were informed by the OTS that it would requireAtlantic Coast Bank and Atlantic Coast Federal Corporation to enter into supervisory agreementswith the agency containing provisions substantially similar to those contained in the existing memorandum of understanding in addition to other operating restrictions as noted below. The Bank was also informed that in a separate agreement, the Office of Thrift Supervision will impose an Individual Minimum Capital Requirement for Atlantic Coast Bank that will require it to achieve and maintain levels of capital greater than those required for a federal savings bank to be classified as well-capitalized. The Company anticipates, based upon discussions with the Office of Thrift Supervision, that the Individual Minimum Capital Requirement will require that Atlantic Coast Bank reach a core capital level of up to 7% by March 31, 2011 or June 30, 2011 and a risk based capital level of up to 11% by March 31, 2011 or June 30, 2011 and maintain these levels until the Office of Thrift Supervision removes the requirement. Until the Individual Minimum Capital Requirement is finalized, the Bank will not know with certainty the precise capital levels we will be required to reach and maintain or the exact date when the Bank will need to meet such requirements.

Until the supervisory agreements and Individual Minimum Capital Requirement are finalized, which the Company anticipates will be before the end of 2010, the Company will not know with certainty the scope of the requirements and restrictions that will be placed upon Atlantic Coast Federal Corporation and Atlantic Coast Bank. In the event the Company and Bank are in material non-compliance with the terms of the supervisory agreements and Individual Minimum Capital Requirement, the Office of Thrift Supervision has the authority to subject us to the terms of a more restrictive enforcement order such as a cease and desist order, to impose civil money penalties on the Company and Bank and our directors and officers, and to remove directors and officers from their positions with Atlantic Coast Federal Corporation and Atlantic Coast Bank.

The Office of Thrift Supervision has informed us that the supervisory agreements will subject us to the following additional operating restrictions: (1) Atlantic Coast Federal Corporation and Atlantic Coast Bank may not increase their assets in any quarter greater than the amount of interest credited on its deposit accounts without prior written approval from the Office of Thrift Supervision; (2) Atlantic Coast Federal Corporation and Atlantic Coast Bank may not add any new director to their Boards of Directors, employ any new senior executive officer or change the duties of any senior executive officer without providing 30 days advance written notice to the Office of Thrift Supervision; (3) Atlantic Coast Federal Corporation and Atlantic Coast Bank may not make any payment or enter into an agreement to make a payment, to an officer or employee that is contingent upon their termination of service, subject to certain exceptions; (4) prior written approval of the Office of Thrift Supervision must be obtained before the payment of any dividend or other capital distribution by Atlantic Coast Federal Corporation or Atlantic Coast Bank; (5) Atlantic Coast Federal Corporation and Atlantic Coast Bank may not enter into, renew or revise any contractual arrangement related to compensation or benefits with any director or officer unless they receive prior approval of the Office of Thrift Supervision; (6) Atlantic Coast Federal Corporation and Atlantic Coast Bank may not enter into any third party contracts outside of the normal course of business without providing 30 days advance written notice to the Office of Thrift Supervision and receiving a written notice of non-objection; (7) Atlantic Coast Federal Corporation and Atlantic Coast Bank are not eligible to have applications or notices processed by the Office of Thrift Supervision on an expedited basis, which would make executing future mergers and acquisitions more difficult; (8) Atlantic Coast Federal Corporation and Atlantic Coast Bank may not engage in transactions with any affiliate or subsidiary without providing 30 days advance written notice to the Office of Thrift Supervision and receiving a written notice of non-objection; and (9) Atlantic Coast Bank may not increase the level of brokered deposits, excluding interest credited, without the prior written approval of the Office of Thrift Supervision.

We have experienced net losses for the nine months of 2010 and each of the last two fiscal years and we may not return to profitability in the near future.

We have experienced net losses of $9.0 million for the first nine months of 2010 and $29.3 million and $2.8 million for the years ended December 31, 2009 and 2008, respectively. The losses have been primarily related to non-performing assets, which necessitated a provision for loan losses of $24.9 million for the year ended December 31, 2009, compared to a provision of $13.9 million for the year ended December 31, 2008. We charged off $21.7 million of loans during 2009 as compared to $9.8 million during 2008. Non-accrual loans (generally loans 90 days or more past due in principal or interest payments) decreased to $21.6 million, or 3.67% of total loans at September 30, 2010, compared to 25.5 million, or 3.43% of total loans at December 31, 2008. We experienced other than temporary impairment losses in the investment portfolio of $4.5 million and $81,000 for the year ended December 31, 2009 and for the first nine months of 2010, respectively. In addition, during the year ended December 31, 2009, management deemed it appropriate to write off our entire goodwill balance of $2.8 million, and establish a valuation allowance of $16.2 million, or 100% of our net deferred tax asset. As a result of these factors and other conditions such as weakness in our local economy, we may not be able to generate sustainable net income or achieve profitability in the near future.

Our memorandum of understanding with the Office of Thrift Supervision imposes certain limits on our operations and could affect our liquidity.

In August 2009, Atlantic Coast Bank entered into a memorandum of understanding with the Office of Thrift Supervision addressing certain areas of our operations. Under the memorandum we are required to (1) utilize a four quarter roll forward budget to address, among other things, capital adequacy, appropriate allowances for loan and lease losses and a liquidity analysis, (2) ensure that the book value of our bank owned life insurance does not exceed 25% of our total capital, (3) review and enhance our liquidity policy, (4) develop a written plan to mitigate any risks to our capital and liquidity from our repurchase agreements, (5) reduce our brokered deposits to not more than $52.5 million by June 30, 2011, (6) obtain Office of Thrift Supervision approval for the payment of any dividends, (7) develop a plan to enhance our compliance management program (including Bank Secrecy Act and anti-money laundering programs) and (8) correct all deficiencies and weaknesses identified in our 2009 Report of Examination. The requirement to reduce the level of brokered deposits may affect our ability to have sufficient liquid assets for our operations. It may also cause us to pay higher rates on retail deposits to replace our use of brokered deposits. We may not increase our level of brokered deposits above the limit permitted by the Office of Thrift Supervision without the prior approval of the agency. We believe we will be able to reduce the level of our brokered deposits from $61.3 million as of September 30, 2010 to the level required by the memorandum of understanding within the required time period. The restriction on the payment of dividends without Office of Thrift Supervision approval will affect our ability to pay dividends in the future unless we have sufficient assets at Atlantic Coast Financial Corporation to pay dividends without reliance on dividends from Atlantic Coast Bank. We have addressed all the corrective actions mandated in the memorandum and we believe we are in compliance with the requirements of the memorandum. In the event that Atlantic Coast Bank should become in material non-compliance with the memorandum of understanding, the Office of Thrift Supervision has the authority to subject us to a more formal enforcement action, such as a cease and desist order.

Financial reform legislation recently enacted by Congress will, among other things, eliminate the Office of Thrift Supervision, tighten capital standards, create a new Consumer Financial Protection Bureau and result in new laws and regulations that are expected to increase our costs of operations.

Congress has recently enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which will significantly change the current bank regulatory structure and affect the lending, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act will eliminate our current primary federal regulator, the Office of Thrift Supervision, and require Atlantic Coast Bank to be regulated by the Office of the Comptroller of the Currency (the primary federal regulator for national banks). The Dodd-Frank Act also authorizes the Board of Governors of the Federal Reserve System to supervise and regulate all savings and loan holding companies like Atlantic Coast Financial Corporation, in addition to bank holding companies which it currently regulates. As a result, the Federal Reserve Board’s current regulations applicable to bank holding companies, including holding company capital requirements, will apply to savings and loan holding companies like Atlantic Coast Financial Corporation. These capital requirements are substantially similar to the capital requirements currently applicable to Atlantic Coast Bank, as described in “Supervision and Regulation— Federal Banking Regulation—Capital Requirements.” The Dodd-Frank Act also requires the Federal Reserve Board to set minimum capital levels for bank holding companies that are as stringent as those required for the insured depository subsidiaries, and the components of Tier 1 capital would be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. The legislation also establishes a floor for capital of insured depository institutions that cannot be lower than the standards in effect today, and directs the federal banking regulators to implement new leverage and capital requirements within 18 months that take into account off-balance sheet activities and other risks, including risks relating to securitized products and derivatives. The Dodd-Frank Act also creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions such as Atlantic Coast Bank, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets will be examined by their applicable bank regulators. The new legislation also weakens the federal preemption available for national banks and federal savings associations, and gives state attorney generals the ability to enforce applicable federal consumer protection laws.

The legislation also broadens the base for Federal Deposit Insurance Corporation insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2009, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2013. Lastly, the Dodd-Frank Act will increase stockholder influence over boards of directors by requiring companies to give stockholders a non-binding vote on executive compensation and so-called “golden parachute” payments, and by authorizing the Securities and Exchange Commission to promulgate rules that would allow stockholders to nominate their own candidates using a company’s proxy materials. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not.

It is difficult to predict at this time what effect the new legislation and implementing regulations will have on community banks with regards to the lending and credit practices of such banks. Moreover, many of the provisions of the Dodd-Frank Act will not take effect for at least a year, and the legislation requires various federal agencies to promulgate numerous and extensive implementing regulations over the next several years. Although the substance and scope of these regulations cannot be determined at this time, it is expected that the legislation and implementing regulations, particularly those relating to the new Consumer Financial Protection Bureau, will increase our operating and compliance costs.

Our Executive Chairman of the Board also serves as the president and chief executive officer of another financial institution and such responsibilities could affect his ability to devote sufficient time to his position with Atlantic Coast Financial Corporation.

Our Executive Chairman of the Board, Jay S. Sidhu, also serves as the president and chief executive officer and a director of New Century Bank, located in Phoenixville, Pennsylvania. As the president and chief executive officer of New Century Bank, Mr. Sidhu is a full-time employee. Mr. Sidhu’s duties at New Century Bank have the potential to cause him to devote less of his time to his responsibilities at Atlantic Coast Financial Corporation, thereby potentially reducing his effectiveness in overseeing our strategic plan. A reduction in the time that Mr. Sidhu may devote to our operations could adversely affect our ability to successfully implement our strategic plan and our results of operations.

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

None. The Company suspended its stock repurchase program in March 2009.

Item 3. Defaults Upon Senior Securities

None

Item 4. Removed and reserved

Item 5. Other Information

None

Item 6. Exhibits

a. Exhibits

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32. Certification of Chief Executive Officer and Chief Financial Officer of Atlantic Coast Federal Corporation pursuant to Section 906

ATLANTIC COAST FEDERAL CORPORATION

FORM 10-Q

September 30, 2010

Part II - Other Information

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.

	ATLANTIC COAST FEDERAL CORPORATION (Registrant)
Date: November 15, 2010	/s/ G. Thomas Frankland G. Thomas Frankland, Interim President and Chief Executive Officer
Date: November 15, 2010	/s/ Thomas B. Wagers, Sr. Thomas B. Wagers, Sr. Senior Vice–President and Chief Financial Officer