



February 5, 2010

Dear Shareholder:

We want to report that Peoples Bancorporation recorded net earnings for the fourth quarter of 2009 of \$62,000, compared to a loss of \$2,897,000 for the fourth quarter of 2008. For all of 2009, the Company recorded net earnings of \$320,000 compared to a loss of \$8,376,000 for all of 2008. We are encouraged by our operating results for the fourth quarter of 2009 and by the fact that we recorded profitable operations for three out of the four quarters in 2009.

As reported to you in our last communication, Management had determined it to be appropriate to continue to make significant provisions for loan losses during 2009. This continued in the fourth quarter as the Company recorded additional provisions of \$1,350,000 for the quarter bringing the total provisions for loan losses for all of 2009 to \$4,958,000, compared to \$13,820,000 for all of 2008. More detailed information about our 2009 performance and operations will be contained in our Annual Report to Shareholders which will be sent to you in April of this year, and in our Annual Report on Form 10-K which will be filed with the Securities and Exchange Commission no later than March 31, 2010.

Although we believe there are some bright signs appearing in the economy, there are still many issues yet to be resolved. The historically high unemployment rate, the slow rate of consumer spending and the suffering real estate market, all continue to plague our economy and nearly all financial institutions, both large and small.

Our Company continues to maintain capital well in excess of levels required by its regulators. As we enter 2010, we continue to focus on strengthening our balance sheet and increasing core deposits, making loans, providing for loan losses as needed, controlling expenses, and looking for opportunities to increase our revenues.

Sincerely,

A handwritten signature in black ink that reads 'R. Riggie Ridgeway'.

R. Riggie Ridgeway
Chief Executive Officer

A handwritten signature in black ink that reads 'L. Andrew Westbrook, III'.

L. Andrew Westbrook, III
President & Chief Operating Officer

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PEOPLES BANCORPORATION, INC.
CONSOLIDATED FINANCIAL HIGHLIGHTS
(Unaudited)

(Amounts in thousands except share information)

<u>Income Statement</u>	Three Months Ended December 31,		
	<u>2009</u>	<u>2008</u>	<u>Change</u>
Net interest income	\$ 4,863	\$ 3,776	28.79%
Provision for loan losses	1,350	4,935	-72.64%
Other income	940	881	6.70%
Other expense	<u>4,573</u>	<u>4,436</u>	3.09%
Loss before income taxes	(120)	(4,714)	-97.45%
Benefit for income taxes	<u>(182)</u>	<u>(1,817)</u>	-89.98%
Net income (loss)	<u>\$ 62</u>	<u>\$ (2,897)</u>	-102.14%
Dividends paid or accumulated on preferred stock	172	-	100.00%
Net amortization of preferred stock	33	-	100.00%
Net loss available to common shareholders	<u>\$ (143)</u>	<u>\$ (2,897)</u>	-95.06%
Return on average assets (1) (2)	0.04%	-2.12%	
Return on average common equity (1) (3)	-1.35%	-27.57%	

Net loss per common share

Basic	\$ (0.02)	\$ (0.41)
Diluted	\$ (0.02)	\$ (0.41)

<u>Income Statement</u>	Twelve Months Ended December 31,		
	<u>2009</u>	<u>2008</u>	<u>Change</u>
Net interest income	\$ 17,895	\$ 16,634	7.58%
Provision for loan losses	4,958	13,820	-64.12%
Other income	3,980	732	443.72%
Other expense	<u>17,286</u>	<u>17,106</u>	1.05%
Loss before income taxes	(369)	(13,560)	-97.28%
Benefit for income taxes	<u>(689)</u>	<u>(5,184)</u>	-86.71%
Net income (loss)	<u>\$ 320</u>	<u>\$ (8,376)</u>	-103.82%
Dividends paid or accumulated on preferred stock	385	-	100.00%
Net amortization of preferred stock	73	-	100.00%
Net loss available to common shareholders	<u>\$ (138)</u>	<u>\$ (8,376)</u>	-98.35%
Return on average asset s (1) (2)	0.06%	-1.51%	
Return on average common equity (1) (3)	-0.33%	-17.83%	

Net loss per common share

Basic	\$ (0.02)	\$ (1.19)
Diluted	\$ (0.02)	\$ (1.19)

<u>Balance Sheet</u>	As of December 31,		
	<u>2009</u>	<u>2008</u>	<u>Change</u>
Total assets	\$ 556,601	\$ 559,875	-0.58%
Gross loans	373,574	398,711	-6.30%
Allowance for loan losses	7,431	9,217	-19.38%
Loans, net	366,143	389,494	-6.00%
Securities	116,213	112,247	3.53%
Total earning assets	504,799	520,908	-3.09%
Total deposits	484,996	445,369	8.90%
Shareholders' equity	54,443	41,512	31.15%
Book value per share	5.96	5.87	1.53%

(1) Annualized

(2) Return on average assets is calculated as net income (loss) divided by average assets.

(3) Return on average common equity is calculated as net income (loss) available to common shareholders divided by average common equity.

PEOPLES BANCORPORATION, INC.
CONSOLIDATED FINANCIAL DATA
(Unaudited)

	December 31, <u>2009</u>	September 30, <u>2009</u>	June 30, <u>2009</u>	March 31, <u>2009</u>	December 31, <u>2008</u>
<u>Asset Quality Data</u>					
Nonperforming loans					
Non-accrual loans	\$ 14,881	\$ 20,153	\$ 17,746	\$ 14,056	\$ 16,950
Past due loans 90 days + and still accruing	<u>-</u>	<u>214</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total nonperforming loans	14,881	20,367	17,746	14,056	16,950
Other real estate owned	<u>11,488</u>	<u>10,073</u>	<u>3,919</u>	<u>4,921</u>	<u>5,428</u>
Total nonperforming assets	<u>\$ 26,369</u>	<u>\$ 30,440</u>	<u>\$ 21,665</u>	<u>\$ 18,977</u>	<u>\$ 22,378</u>
Net charge-offs for quarter ended	\$ 1,276	\$ 2,481	\$ 678	\$ 2,309	\$ 3,353
Nonperforming assets as a percentage of total loans and other real estate	6.85%	7.73%	5.50%	4.78%	5.54%
Nonperforming assets to total assets	4.74%	5.56%	4.00%	3.37%	4.00%
Allowance for loan losses to nonperforming loans	49.94%	36.12%	44.00%	54.16%	54.38%
Allowance for loan losses to total loans outstanding	1.99%	1.92%	2.00%	1.94%	2.31%
Quarterly net charge-offs to total loans outstanding	0.34%	0.65%	0.17%	0.59%	0.84%
<u>Capital Ratios</u>					
Total Capital (to risk-weighted assets)	14.29%	14.03%	14.18%	10.95%	10.77%
Tier 1 Capital (to risk-weighted assets)	13.03%	12.78%	12.92%	9.70%	9.49%
Tier 1 Capital (to average assets)	9.50%	9.65%	9.74%	7.27%	7.33%