

COMMUNITY FIRST BANCORP

Form 10-Q

August 15, 2011

[Table of Contents](#)

**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 June 30, 2011

Commission File No. 000-29640

**COMMUNITY FIRST BANCORPORATION**

(Exact name of registrant as specified in its charter)

**South Carolina**

(State or other jurisdiction of  
incorporation or organization)

**58-2322486**

(IRS Employer Identification No.)

**449 HIGHWAY 123 BYPASS**

**SENECA, SOUTH CAROLINA 29678**

(Address of principal executive offices, zip code)

**(864) 886-0206**

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(Registrant's telephone number, including area code)

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, 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). (This is the first report for which an Interactive Data File is required to be filed and posted by the registrant). 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 definitions 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   
(Do not check if a smaller reporting company)

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, no par or stated value, 3,972,976 Shares Outstanding on August 2, 2011

Table of Contents

COMMUNITY FIRST BANCORPORATION

FORM 10-Q

Index

	<b>Page</b>
<u>PART I</u>	<u>FINANCIAL INFORMATION</u>
<u>Item 1.</u>	<u>Financial Statements</u>
	<u>Consolidated Balance Sheets</u> 3
	<u>Consolidated Statements of Income</u> 4
	<u>Consolidated Statements of Changes in Shareholders' Equity</u> 6
	<u>Consolidated Statements of Cash Flows</u> 7
	<u>Notes to Unaudited Consolidated Financial Statements</u> 9
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 25
<u>Item 4.</u>	<u>Controls and Procedures</u> 36
<u>PART II -</u>	<u>OTHER INFORMATION</u>
<u>Item 6.</u>	<u>Exhibits</u> 37
<u>SIGNATURE</u>	38

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

## COMMUNITY FIRST BANCORPORATION

## Consolidated Balance Sheets

	(Unaudited) June 30, 2011	December 31, 2010
	(Dollars in thousands)	
<b>Assets</b>		
Cash and due from banks	\$ 1,913	\$ 1,711
Interest bearing balances due from banks	37,754	39,171
Cash and cash equivalents	39,667	40,882
Securities available-for-sale	158,366	169,369
Securities held-to-maturity (fair value \$5,722 for 2011 and \$6,817 for 2010)	5,303	6,389
Other investments	1,254	1,363
Loans	237,656	256,834
Allowance for loan losses	(5,953)	(5,756)
Loans - net	231,703	251,078
Premises and equipment - net	8,002	8,170
Accrued interest receivable	2,226	2,491
Bank-owned life insurance	9,841	9,666
Foreclosed assets	15,382	11,395
Net deferred tax assets	1,921	2,233
Other assets	2,114	2,723
Total assets	\$ 475,779	\$ 505,759
<b>Liabilities</b>		
Deposits		
Noninterest bearing	\$ 46,748	\$ 46,844
Interest bearing	372,453	398,466
Total deposits	419,201	445,310
Accrued interest payable	1,152	1,698
Short-term borrowings		5,000
Long-term debt	6,500	6,500
Other liabilities	2,287	1,939
Total liabilities	429,140	460,447
<b>Shareholders equity</b>		
Preferred stock - Series A - non-voting 5% cumulative - \$1,000 per share liquidation preference; 5,000 shares authorized; issued and outstanding - 3,150 shares	3,126	3,126
Preferred stock - no par value; 9,995,000 shares authorized; None issued and outstanding		
Common stock - no par value; 10,000,000 shares authorized; issued and outstanding - 3,972,976 for 2011 and 2010	39,931	39,931

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Additional paid-in capital	748	748
Retained earnings	1,763	1,396
Accumulated other comprehensive income	1,071	111
Total shareholders' equity	46,639	45,312
Total liabilities and shareholders' equity	\$ 475,779	\$ 505,759

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

## COMMUNITY FIRST BANCORPORATION

## Consolidated Statements of Income

	(Unaudited)			
	Three Months		Period Ended June 30,	
2011	2011	2010	2011	Six Months
	(Dollars in thousands, except per share)			
<b>Interest income</b>				
Loans, including fees	\$ 3,655	\$ 4,053	\$ 7,278	\$ 8,057
Interest bearing balances due from banks	15	32	43	70
Securities				
Taxable	1,108	1,332	2,232	2,617
Tax-exempt	175	197	352	396
Other investments	3	2	5	2
Total interest income	4,956	5,616	9,910	11,142
<b>Interest expense</b>				
Time deposits \$100M and over	469	746	1,031	1,479
Other deposits	743	1,436	1,613	2,855
Long-term debt	63	73	127	149
Total interest expense	1,275	2,255	2,771	4,483
<b>Net interest income</b>	3,681	3,361	7,139	6,659
Provision for loan losses	1,450	1,125	2,700	2,250
<b>Net interest income after provision</b>	2,231	2,236	4,439	4,409
<b>Other income</b>				
Service charges on deposit accounts	268	309	528	610
Debit card transaction fees	198	214	381	350
Net losses on sales of securities available-for-sale	(6)		(6)	
Increase in value of bank-owned life insurance	86	90	175	182
Other income	44	79	100	86
Total other income	590	692	1,178	1,228
<b>Other expenses</b>				
Salaries and employee benefits	1,198	1,204	2,418	2,323
Net occupancy expense	134	138	273	283
Furniture and equipment expense	94	96	173	186
Amortization of computer software	99	97	196	209
Debit card transaction expenses	125	123	241	223
FDIC insurance expense	232	235	464	633
Other expense	694	570	1,398	1,091
Total other expenses	2,576	2,463	5,163	4,948
<b>Income before income taxes</b>	245	465	454	689
Income tax expense (benefit)	(26)	66	8	83
<b>Net income</b>	271	399	446	606
Deductions for amounts not available to common shareholders:				
	(40)	(40)	(99)	(99)

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Dividends declared or accumulated on preferred  
stock

<b>Net income available to common shareholders</b>	\$	231	\$	359	\$	347	\$	507
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See accompanying notes to unaudited consolidated financial statements.

Table of Contents

COMMUNITY FIRST BANCORPORATION

Consolidated Statements of Income - continued

	(Unaudited)					
	Three Months		Period Ended June 30,		Six Months	
	2011	2010	2011	2010	2011	2010
	(Dollars in thousands, except per share)					
<b>Per common share*</b>						
Net income	\$	0.06	\$	0.09	\$	0.13
Net income, assuming dilution		0.06		0.09		0.13

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\* Per common share information has been retroactively adjusted to reflect a 5% stock dividend effective December 16, 2010.

See accompanying notes to unaudited consolidated financial statements.



Table of Contents

## COMMUNITY FIRST BANCORPORATION

## Consolidated Statements of Changes in Shareholders' Equity

(Unaudited)

	Shares of Common Stock	Preferred Stock	Common Stock	Additional Paid-in Capital (Dollars in thousands)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance, January 1, 2010</b>	3,782,415	\$ 3,126	\$ 38,923	\$ 748	\$ 1,434	\$ 587	\$ 44,818
Comprehensive income:							
Net income					606		606
Unrealized holding gains and losses on available-for-sale securities arising during the period, net of income taxes of \$817						1,459	1,459
Total other comprehensive income							1,459
Total comprehensive income							2,065
Dividends paid on preferred stock					(79)		(79)
Exercise of employee stock options	1,744		17				17
<b>Balance, June 30, 2010</b>	3,784,159	\$ 3,126	\$ 38,940	\$ 748	\$ 1,961	\$ 2,046	\$ 46,821
<b>Balance, January 1, 2011</b>	3,972,976	\$ 3,126	\$ 39,931	\$ 748	\$ 1,396	\$ 111	\$ 45,312
Comprehensive income:							
Net income					446		446
Unrealized holding gains and losses on available-for-sale securities arising during the period, net of income taxes of \$535						956	956
Reclassification adjustment, net of income tax effects of \$2						4	4
Total other comprehensive income							960
Total comprehensive income							1,406
Dividends paid on preferred stock					(79)		(79)
<b>Balance, June 30, 2011</b>	3,972,976	\$ 3,126	\$ 39,931	\$ 748	\$ 1,763	\$ 1,071	\$ 46,639

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

## COMMUNITY FIRST BANCORPORATION

## Consolidated Statements of Cash Flows

	(Unaudited) Six Months Ended June 30,	
	2011	2010
	(Dollars in thousands)	
<b>Operating activities</b>		
Net income	\$ 446	\$ 606
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	2,700	2,250
Depreciation	186	192
Amortization of net loan fees and costs	36	(21)
Securities accretion and premium amortization	493	661
Net losses on sales of securities available-for-sale	6	
Increase in value of bank-owned life insurance	(175)	(182)
Writedowns of foreclosed assets	45	
Net losses (gains) on sale of foreclosed assets	67	(8)
Decrease (increase) in interest receivable	265	(427)
(Decrease) increase in interest payable	(546)	1,038
Decrease in prepaid expenses and other assets	609	856
Deferred income taxes	(225)	
Increase in other accrued expenses	348	312
Net cash provided by operating activities	4,255	5,277
<b>Investing activities</b>		
Purchases of securities available-for-sale	(28,974)	(95,381)
Maturities, calls and paydowns of securities available-for-sale	38,527	58,537
Maturities, calls and paydowns of securities held-to-maturity	1,085	1,253
Proceeds from sales of securities available-for-sale	2,449	
Proceeds from sales of other investments	109	
Net decrease (increase) in loans made to customers	11,835	(1,440)
Purchases of premises and equipment	(18)	(67)
Additional investments in foreclosed assets		(29)
Proceeds from sale of foreclosed assets	705	461
Net cash provided (used) by investing activities	25,718	(36,666)
<b>Financing activities</b>		
Net increase (decrease) in demand deposits, interest bearing transaction accounts and savings accounts	1,182	(3,689)
Net (decrease) increase in certificates of deposit and other time deposits	(27,291)	33,644
Repayments of short-term borrowings	(5,000)	
Repayments of long-term debt		(1,500)
Cash dividends paid on preferred stock	(79)	(79)
Exercise of employee stock options		17
Net cash (used) provided by financing activities	(31,188)	28,393
<b>Decrease in cash and cash equivalents</b>	<b>(1,215)</b>	<b>(2,996)</b>
<b>Cash and cash equivalents, beginning</b>	<b>40,882</b>	<b>47,483</b>
<b>Cash and cash equivalents, ending</b>	<b>\$ 39,667</b>	<b>\$ 44,487</b>

See accompanying notes to unaudited consolidated financial statements.



Table of Contents

COMMUNITY FIRST BANCORPORATION

Consolidated Statements of Cash Flows - continued

	(Unaudited) Six Months Ended June 30,	
	2011	2010
	(Dollars in thousands)	
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid during the period for		
Interest	\$ 3,317	\$ 3,445
Income taxes	59	4
Net transfers from loans to foreclosed assets	4,804	1,485
Noncash investing and financing activities:		
Other comprehensive income	960	1,459

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

COMMUNITY FIRST BANCORPORATION

Notes to Unaudited Consolidated Financial Statements

(Dollar amounts in thousands, except per share)

**Accounting Policies** A summary of significant accounting policies is included in Community First Bancorporation's (the Company, our, we, and similar references) Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission. Certain amounts in the 2010 financial statements have been reclassified to conform to the current presentation. Such reclassifications had no effect on net income or retained earnings for any period.

**Management Opinion** In the opinion of management, the accompanying unaudited consolidated financial statements of Community First Bancorporation reflect all adjustments necessary for a fair presentation of the results of the periods presented. Such adjustments were of a normal, recurring nature.

Table of Contents

**Investment Securities** The following table presents information about amortized cost, unrealized gains, unrealized losses, and estimated fair values of securities:

	June 30, 2011			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
(Dollars in thousands)				
<b>Available-for-sale</b>				
Mortgage-backed securities issued by US				
Government agencies	\$ 1,001	\$ 65	\$	\$ 1,066
Government sponsored enterprises (GSEs)	113,947	667	534	114,080
Mortgage-backed securities issued by GSEs				
State, county and municipal	25,497	1,138		26,635
	16,251	401	67	16,585
Total	\$ 156,696	\$ 2,271	\$ 601	\$ 158,366

<b>Held-to-maturity</b>				
Mortgage-backed securities issued by US				
Government agencies	\$	\$	\$	\$
Government sponsored enterprises (GSEs)				
Mortgage-backed securities issued by GSEs				
State, county and municipal	5,303	419		5,722
Total	\$ 5,303	\$ 419	\$	\$ 5,722

	December 31, 2010			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
(Dollars in thousands)				
<b>Available-for-sale</b>				
Mortgage-backed securities issued by US				
Government agencies	\$ 1,128	\$ 52	\$	\$ 1,180
Government sponsored enterprises (GSEs)	130,492	863	1,495	129,860
Mortgage-backed securities issued by GSEs				
State, county and municipal	20,145	983		21,128
	17,432	130	361	17,201
Total	\$ 169,197	\$ 2,028	\$ 1,856	\$ 169,369

<b>Held-to-maturity</b>				
Mortgage-backed securities issued by US				
Government agencies	\$	\$	\$	\$
Government sponsored enterprises (GSEs)				
Mortgage-backed securities issued by GSEs				
State, county and municipal	6,389	428		6,817
Total	\$ 6,389	\$ 428	\$	\$ 6,817



Table of Contents

The fair value and amortized cost of securities by contractual maturity are shown below:

	<b>June 30, 2011</b>				
	<b>Due within one year</b>	<b>Due after one through five years</b>	<b>Due after five through ten years</b>	<b>Due after ten years</b>	<b>Total</b>
	(Dollars in thousands)				
<u>Available-for-sale at fair value</u>					
Non-mortgage-backed securities issued by GSEs	\$	\$ 31,045	\$ 47,144	\$ 35,891	\$ 114,080
State, county and municipal issuers		533	4,036	12,016	16,585
		31,578	51,180	47,907	130,665
Mortgage-backed securities issued by:					
US Government agencies					1,066
GSEs					26,635
Total available-for-sale					\$ 158,366
<u>Held-to-maturity at amortized cost</u>					
Mortgage-backed securities issued by:					
GSEs					\$ 5,303
Total held-to-maturity					\$ 5,303



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Table of Contents

The estimated fair values and gross unrealized losses of our investment securities whose fair values were less than amortized cost as of June 30, 2011 and December 31, 2010 which had not been determined to be other-than-temporarily impaired are presented below. We evaluate all available-for-sale securities and all held-to-maturity securities for impairment as of each balance sheet date. The securities have been segregated in the table by investment category and the length of time that individual securities have been in a continuous unrealized loss position.

	June 30, 2011					
	Less than 12 Months		Continuously in Unrealized Loss Position for a Period of 12 Months or more		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
(Dollars in thousands)						
Available-for-sale						
US Government agencies	\$	\$	\$	\$	\$	\$
Government-sponsored enterprises (GSEs)	32,440	534			32,440	534
Mortgage-backed securities issued by GSEs						
State, county and municipal securities	1,644	38	481	29	2,125	67
Total	\$ 34,084	\$ 572	\$ 481	\$ 29	\$ 34,565	\$ 601
Held-to-maturity						
GSEs	\$	\$	\$	\$	\$	\$
Total	\$	\$	\$	\$	\$	\$
December 31, 2010						
	Less than 12 Months		Continuously in Unrealized Loss Position for a Period of 12 Months or more		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
(Dollars in thousands)						
Available-for-sale						
GSEs	\$ 60,543	\$ 1,495	\$	\$	\$ 60,543	\$ 1,495
Mortgage-backed securities issued by GSEs						
State, county and municipal securities	9,648	306	455	55	10,103	361
Total	\$ 70,191	\$ 1,801	\$ 455	\$ 55	\$ 70,646	\$ 1,856
Held-to-maturity						
GSEs	\$	\$	\$	\$	\$	\$
	\$	\$	\$	\$	\$	\$

As of June 30, 2011, 31 securities had been continuously in an unrealized loss position for less than 12 months and one security had been continuously in an unrealized loss position for 12 months or more. As of December 31, 2010, 74 securities had been continuously in an unrealized loss position for less than 12 months and one security had been continuously in an unrealized loss position for 12 months or more. We do not consider these investments to be other-than-temporarily impaired because the unrealized losses involve primarily issuances of state, county and municipal government issuers and mortgage-backed securities issued by GSEs. We also believe that the impairments resulted from current credit market disruptions, and note that there have been no failures by the issuers to remit periodic interest payments as required, nor are we aware that any such issuer has given notice that it expects that it will be unable to make any such future payment according to the terms of the bond indenture. Although we classify a majority of our investment securities as available-for-sale, management has not determined that any specific securities will be disposed of prior to maturity and believes that we have both the ability and the intent to hold those investments until a recovery of fair value,



Table of Contents

including until maturity. Substantially all of the issuers of state, county and municipal securities were rated at least investment grade as of June 30, 2011 and December 31, 2010.

Our subsidiary bank is a member of the Federal Home Loan Bank of Atlanta ( FHLB ) and, accordingly, is required to own restricted stock in that institution in amounts that may vary from time to time. Because of the restrictions imposed, the stock may not be sold to other parties, but is redeemable by the FHLB at the same price as that at which it was acquired by the subsidiary. We evaluate this security for impairment based on the probability of ultimate recoverability of the par value of the investment. No impairment has been recognized based on this evaluation.

During the first six months of 2011, we sold two available-for-sale securities for gross proceeds of \$2,449 and net losses of \$6. During the first six months of 2010, we had no sales of available-for-sale securities. There were no transfers of available-for-sale securities to other categories in the 2011 and 2010 six-month periods.

**Loans** Loans consisted of the following:

	June 30, 2011	December 31, 2010
	(Dollars in thousands)	
Commercial, financial and industrial	\$ 19,325	\$ 20,474
Real estate - construction	17,681	23,730
Real estate - mortgage	178,927	187,940
Consumer installment	21,723	24,690
Total	237,656	256,834
Allowance for loan losses	(5,953)	(5,756)
Loans - net	\$ 231,703	\$ 251,078

The following table provides information about the payment status of loans:

Table of Contents

As of June 30, 2011	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans
	(Dollars in thousands)					
Commercial, financial and industrial	\$ 217	\$ 28	\$ 1,159	\$ 1,404	\$ 17,921	\$ 19,325
Real estate - construction	224		4,272	4,496	13,185	17,681
Real estate - mortgage	2,141	309	9,664	12,114	166,813	178,927
Consumer installment	294	29	394	717	21,006	21,723
Total	\$ 2,876	\$ 366	\$ 15,489	\$ 18,731	\$ 218,925	\$ 237,656

As of December 31, 2010	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans
	(Dollars in thousands)					
Commercial, financial and industrial	\$ 254	\$ 214	\$ 855	\$ 1,323	\$ 19,151	\$ 20,474
Real estate - construction	485	662	6,082	7,229	16,501	23,730
Real estate - mortgage	1,834	2,093	8,974	12,901	175,039	187,940
Consumer installment	294	256	433	983	23,707	24,690
Total	\$ 2,867	\$ 3,225	\$ 16,344	\$ 22,436	\$ 234,398	\$ 256,834

Nonaccrual loans totaled \$15,489 and \$16,344 as of June 30, 2011 and December 31, 2010, respectively. Troubled debt restructurings, not including such loans that are included in nonaccrual loans, totaled \$7,170 as of June 30, 2011 and \$5,457 as of December 31, 2010. As of June 30, 2011 and December 31, 2010, we had no loans past due 90 days or more and still accruing interest.

Loans that we grade Management Attention and Special Mention are not believed to represent more than a minimal likelihood of loss. Those grades indicate that a change in the borrowers' circumstances, or some other event, has occurred such that an elevated level of monitoring is warranted. Such loans are generally evaluated collectively for purposes of estimating the allowance for loan losses. Loans graded Substandard are believed to present a moderate likelihood of loss due to the presence of well-defined weakness in the borrowers' financial condition such as a change in their demonstrated payment history, the effects of lower collateral values combined with other financial difficulties the borrowers may be experiencing, or deterioration of other indicators of the borrowers' ability to service the loan as agreed. Loans graded Doubtful are believed to present a high likelihood of loss due to severe deterioration of a borrower's financial condition, severe past due status and/or substantial deterioration of collateral value, or other factors. Loans graded Substandard or Doubtful are evaluated individually for impairment. Management updates the internal risk grading system no less often than monthly. The following table provides information about how we grade loans internally:

Table of Contents

As of June 30, 2011	Management Attention	Internally Assigned Risk Grade			Total
		Special Mention	Substandard	Doubtful	
		(Dollars in thousands)			
Commercial, financial and industrial	\$ 1,323	\$ 2,922	\$ 1,800	\$	\$ 6,045
Real estate - construction	2,683	995	7,775		11,453
Real estate - mortgage	20,775	9,858	19,365		49,998
Consumer installment	1,255	1,002	1,006		3,263
	\$ 26,036	\$ 14,777	\$ 29,946	\$	\$ 70,759

As of December 31, 2010	Management Attention	Internally Assigned Risk Grade			Total
		Special Mention	Substandard	Doubtful	
		(Dollars in thousands)			
Commercial, financial and industrial	\$ 524	\$ 577	\$ 1,385	\$	\$ 2,486
Real estate - construction	1,953	2,980	7,953		12,886
Real estate - mortgage	12,628	8,326	12,795	237	33,986
Consumer installment	1,177	684	806		2,667
	\$ 16,282	\$ 12,567	\$ 22,939	\$ 237	\$ 52,025

Impaired loans generally are nonaccrual loans, loans that are 90 days or more delinquent as to principal or interest payments, and other loans where, based on current information and events, it is probable that we will be unable to collect principal and interest payments according to the contractual terms of the loan agreements, including loans whose terms have been modified in a troubled debt restructuring. A loan is not considered to be impaired, however, if any periods of delay or shortfalls of amounts expected to be collected are insignificant or if we expect that we will be able to collect all amounts due including accrued interest during the period of delay.

Following is a summary of our impaired loans, by class:

Table of Contents

As of June 30, 2011	Recorded Investment	Unpaid Principal Balance	Related Allowance (Dollars in thousands)	Year-to-Date Average Recorded Investment	Year-to-Date Interest Income Recognized
With no related allowance recorded:					
Commercial, financial and industrial	\$ 250	\$ 250	\$	\$ 209	\$ 5
Real estate - construction	2,399	3,249		2,645	
Real estate - mortgage	9,767	10,254		9,878	46
Consumer installment	11	11		173	1
With an allowance recorded:					
Commercial, financial and industrial	\$ 1,080	\$ 1,080	\$ 830	\$ 924	\$ 3
Real estate - construction	1,589	1,617	19	1,218	
Real estate - mortgage	2,134	2,570	1,184	3,747	19
Consumer installment	496	496	228	331	9
Total:					
Commercial, financial and industrial	\$ 1,330	\$ 1,330	\$ 830	\$ 1,133	\$ 8
Real estate - construction and mortgage	15,889	17,690	1,203	17,488	65
Consumer installment	507	507	228	504	10
Total	\$ 17,726	\$ 19,527	\$ 2,261	\$ 19,125	\$ 83

As of December 31, 2010	Recorded Investment	Unpaid Principal Balance	Related Allowance (Dollars in thousands)	Year-to-Date Average Recorded Investment	Year-to-Date Interest Income Recognized
With no related allowance recorded:					
Commercial, financial and industrial	\$ 167	\$ 167	\$	\$ 73	\$
Real estate - construction	2,890	3,462		2,569	13
Real estate - mortgage	9,989	10,638		7,761	118
Consumer installment	334	334		262	
With an allowance recorded:					
Commercial, financial and industrial	\$ 767	\$ 767	\$ 515	\$ 455	\$
Real estate - construction	846	874	45	1,523	41
Real estate - mortgage	5,360	5,529	1,632	6,465	
Consumer installment	166	166	66	273	
Total:					
Commercial, financial and industrial	\$ 934	\$ 934	\$ 515	\$ 528	\$
Real estate - construction and mortgage	19,085	20,503	1,677	18,318	172
Consumer installment	500	500	66	535	
Total	\$ 20,519	\$ 21,937	\$ 2,258	\$ 19,381	\$ 172

Table of Contents

The following table provides information about how we evaluated loans for impairment, the amount of the allowance for loan losses estimated for loans subjected to each type of evaluation, and the related total amounts, by portfolio segment as of date indicated:

As of June 30, 2011	Secured by Real Estate	Other (Dollars in thousands)	Total
<b>Allowance for credit losses</b>			
Ending balance	\$ 3,956	\$ 1,997	\$ 5,953
Ending balance - individually evaluated for impairment	\$ 1,203	\$ 1,058	\$ 2,261
Ending balance - collectively evaluated for impairment	\$ 2,753	\$ 939	\$ 3,692
<b>Loans</b>			
Ending balance	\$ 196,608	\$ 41,048	\$ 237,656
Ending balance - individually evaluated for impairment	\$ 15,889	\$ 1,837	\$ 17,726
Ending balance - collectively evaluated for impairment	\$ 180,719	\$ 39,211	\$ 219,930

As of December 31, 2010	Secured by Real Estate	Other (Dollars in thousands)	Total
<b>Allowance for credit losses</b>			
Ending balance	\$ 3,753	\$ 2,003	\$ 5,756
Ending balance - individually evaluated for impairment	\$ 1,504	\$ 754	\$ 2,258
Ending balance - collectively evaluated for impairment	\$ 2,249	\$ 1,249	\$ 3,498
<b>Loans</b>			
Ending balance	\$ 211,520	\$ 45,314	\$ 256,834
Ending balance - individually evaluated for impairment	\$ 18,425	\$ 2,094	\$ 20,519
Ending balance - collectively evaluated for impairment	\$ 193,095	\$ 43,220	\$ 236,315

During the six months ended June 30, 2011, we continued to experience higher-than-normal (pre-recession) amounts of net charge-offs and relatively high levels of past due and nonaccrual loans. These and other measures of credit quality, as well as continuing weakness in real estate prices, relatively low levels of activity in the real estate market and the continuing high unemployment in our market areas, indicate that our loan customers and collateral values remain under stress. Accordingly, we have recorded higher-than-normal provision and allowance for loan losses to recognize those conditions. We have not changed our accounting policy or the methodology used to estimate the allowance for loan losses since December 31, 2010. The following table provides information about activity in the allowance for loan losses by portfolio segment for the six months ended June 30, 2011:

Table of Contents

For the six months ended June 30, 2011	Secured by Real Estate	Other (Dollars in thousands)	Total
<b>Allowance for credit losses</b>			
Balance, January 1, 2011	\$ 3,753	\$ 2,003	\$ 5,756
Provision charged to expense	2,420	280	2,700
Recoveries		55	55
Charge-offs	(2,217)	(341)	(2,558)
Balance at June 30, 2011	\$ 3,956	\$ 1,997	\$ 5,953

**Earnings Per Share** Basic earnings per common share is computed by dividing net income applicable to common shares by the weighted average number of common shares outstanding. Diluted earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding and any dilutive potential common shares and dilutive stock options. It is assumed that all dilutive stock options are exercised at the beginning of each period and that the proceeds are used to purchase shares of our common stock at the average market price during the period. All 2010 per share information was retroactively adjusted to give effect to a 5% stock dividend effective December 16, 2010. Stock options outstanding for the periods presented were not dilutive because the exercise prices were greater than the market value of the underlying shares. Net income per common share and net income per share, assuming dilution, were computed as follows:

	Period Ended June 30,			
	2011	Three Months 2010		Six Months 2010
	(Dollars in thousands, except per share amounts)			
<b>Net income per common share, basic</b>				
Numerator - net income available to common shareholders	\$ 231	\$ 359	\$ 347	\$ 507
<b>Denominator</b>				
Weighted average common shares issued and outstanding	3,972,976	3,973,367	3,972,976	3,972,451
Net income per common share, basic	\$ .06	\$ .09	\$ .09	\$ .13
<b>Net income per common share, assuming dilution</b>				
Numerator - net income available to common shareholders	\$ 231	\$ 359	\$ 347	\$ 507
<b>Denominator</b>				
Weighted average common shares issued and outstanding	3,972,976	3,973,367	3,972,976	3,972,451
Effect of dilutive stock options				
Total common shares	3,972,976	3,973,367	3,972,976	3,972,451
Net income per common share, assuming dilution	\$ .06	\$ .09	\$ .09	\$ .13

**Stock-Based Compensation** Our 1998 stock option plan terminated on March 19, 2008 and no further options may be issued under the plan. A total of 271,581 unexpired and non-forfeited options outstanding under the plan remain exercisable until their expiration dates.

**Income Taxes** Net deferred tax assets totaled \$1,921 as of June 30, 2011. Approximately \$554 of these net deferred tax assets is supported by available carrybacks and \$1,367 is dependent upon projected future taxable income. Based on the available carrybacks and our projections of future federal taxable income, we believe it is more likely than not that we will





Table of Contents

be able to realize the related tax benefits. Consequently, no valuation allowance for net deferred tax assets was recorded as of June 30, 2011 and December 31, 2010.

**Fair Value Measurements** Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants at the measurement date. A three-level hierarchy is used for fair value measurements based upon the transparency of the inputs to the valuation of an asset or liability as of the measurement date. In developing estimates of the fair values of assets and liabilities, no consideration of large position discounts for financial instruments quoted in active markets is allowed. However, an entity is required to consider its own creditworthiness when valuing its liabilities. For disclosure purposes, fair values for assets and liabilities are shown in the level of the hierarchy that correlates with the lowest level input that is significant to the fair value measurement in its entirety.

The three levels of the fair value input hierarchy are described as follows:

Level 1 inputs reflect quoted prices in active markets for identical assets or liabilities.

Level 2 inputs reflect observable inputs that may consist of quoted market prices for similar assets or liabilities, quoted prices that are not in an active market, or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets or liabilities being valued.

Level 3 inputs reflect the use of pricing models and/or discounted cash flow methodologies using other than contractual interest rates or methodologies that incorporate a significant amount of management judgment, use of the entity's own data, or other forms of unobservable data.

The following is a summary of the measurement attributes applicable to assets that are measured at fair value on a recurring basis:

Description	June 30, 2011	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale	\$	\$	158,366	\$

(Dollars in thousands)

Fair Value Measurement at Reporting Date Using		
Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs

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Description	December 31, 2010	(Level 1)	(Level 2)	(Level 3)
			(Dollars in thousands)	
Securities available-for-sale	\$		\$ 169,369	\$

Level 2 inputs for our securities available-for-sale are obtained from an independent third-party that uses a process that may incorporate current market prices, benchmark yields, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, other reference data and industry and economic events that a market participant would be expected to use in valuing the securities. Not all of the inputs listed apply to each individual security at each measurement date. The independent third party assigns specific securities into an asset class for the purpose of assigning the applicable level of the fair value hierarchy used to value the securities. At June 30, 2011 and December 31, 2010, all of our securities available-for-sale were valued using Level 2 inputs, as described above.

We did not have any liabilities measured at fair value on a recurring basis at either period end.

Table of Contents

The following is a summary of the measurement attributes applicable to assets measured at fair value on a non-recurring basis during the six month period ended June 30, 2011 and the twelve month period ended December 31, 2010 and which remained outstanding at the end of each period:

Description	June 30, 2011	Fair Value Measurement at Reporting Date 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)	
Collateral-dependent impaired loans	\$		\$ 17,726	\$
Land held for sale			139	
Foreclosed assets			15,382	

Description	December 31, 2010	Fair Value Measurement at Reporting Date 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)	
Collateral-dependent impaired loans	\$		\$ 20,312	\$
Land held for sale			139	
Foreclosed assets			11,395	

The fair value measurements shown above were made to reduce cost-based measurements to fair value measurements at initial recognition, or to adjust fair value based measurements subsequent to initial recognition, due to changes in the circumstances of individual assets during the period. For collateral-dependent impaired loans, the measurements reflect our belief that we will receive repayment solely from the liquidation of the underlying collateral. As a practical expedient, such loans may be valued by comparing the fair value of the collateral securing the loan with the loan's carrying value. If the carrying value exceeds the fair value of the collateral, the excess is charged to the allowance for loan losses. If the fair value of the collateral exceeds the loan's carrying amount, no adjustment is made, the loan continues to be carried at historical cost, and the loan is not included in the table.

The value of other real estate obtained through loan foreclosure is adjusted, if needed, upon the acquisition of each property to the lower of the recorded investment in the loan or the fair value of the property as determined by a recently performed independent appraisal, less the estimated costs to sell. Similarly, the fair value of repossessions is measured by reference to dealers' quotes or other market information believed to reliably reflect the value of the specific property held. Immaterial adjustments may be made by management to reflect property-specific factors such as age or condition. Losses recognized when loans are initially transferred to or otherwise included in any of the categories shown above are reported as loan losses. Subsequent to initial recognition, changes in fair value measurements of other real estate and repossessions are included in other income or other expenses, as applicable.

We did not have any liabilities measured at fair value on a non-recurring basis at either period end.

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Accounting standards require disclosure of the estimated fair value of certain on-balance sheet and off-balance sheet financial instruments and the methods and assumptions used to estimate their fair values. A financial instrument is defined as cash, evidence of an ownership interest in an entity or a contract that creates a contractual obligation or right to deliver or receive cash or another financial instrument from a second entity on potentially favorable or unfavorable terms. Affected financial instruments that are not carried at fair value on the Consolidated Balance Sheets are discussed below. Accordingly, these fair value disclosures provide only a partial estimate of the Company's fair value.

Table of Contents

For cash and due from banks, interest bearing deposits due from banks and federal funds sold, the carrying amount approximates fair value because these instruments generally mature in 90 days or less. The carrying amounts of accrued interest receivable or payable approximate fair values.

The fair value of held-to-maturity mortgage-backed securities issued by Government sponsored enterprises is estimated based on dealers' quotes for the same or similar securities.

The fair value of FHLB stock is estimated at its cost. The FHLB historically has redeemed its outstanding stock at that value.

Fair values are estimated for loans using discounted cash flow analyses, based on interest rates currently offered for loans with similar terms and credit quality. We do not engage in originating, holding, guaranteeing, servicing or investing in loans where the terms of the loan product give rise to a concentration of credit risk.

The fair value of deposits with no stated maturity (noninterest bearing demand, interest bearing transaction accounts and savings) is estimated as the amount payable on demand, or carrying amount, as required by the ASC. The fair value of time deposits is estimated using a discounted cash flow calculation that applies rates currently offered to aggregate expected maturities.

The fair values of short-term borrowings, if any, approximate their carrying amounts.

The fair values of fixed rate long-term debt instruments are estimated using discounted cash flow analyses, based on the borrowing rates currently in effect for similar borrowings. The fair values of variable rate long-term debt instruments are estimated at the carrying amount.

The following table presents the carrying amounts and fair values of our financial instruments:

	June 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(Dollars in thousands)				
<b>Financial assets</b>				
Cash and due from banks	\$ 1,913	\$ 1,913	\$ 1,711	\$ 1,711
Interest bearing deposits due from banks	37,754	37,754	39,171	39,171
Securities available-for-sale	158,366	158,336	169,369	169,369
Securities held-to-maturity	5,303	5,722	6,389	6,817
Federal Home Loan Bank stock	1,254	1,254	1,363	1,363
Loans	231,703	233,759	251,078	252,385
Accrued interest receivable	2,226	2,226	2,491	2,491
<b>Financial liabilities</b>				

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Deposits	419,201	420,818	445,310	446,763
Accrued interest payable	1,152	1,152	1,698	1,698
Short-term borrowings			5,000	5,000
Long-term debt	6,500	6,524	6,500	6,528

The estimated fair values of off-balance-sheet financial instruments such as loan commitments and standby letters of credit are generally based upon fees charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties creditworthiness. The vast majority of the banking subsidiary's loan commitments do not involve the charging of a fee, and fees associated with outstanding standby letters of credit are not material. For loan commitments and standby letters of credit, the committed interest rates are either variable or approximate current interest rates offered for similar commitments. Therefore, the estimated fair values of these off-balance-sheet financial instruments are nominal.

The following is a summary of the notional or contractual amounts and estimated fair values of the Company's off-balance sheet financial instruments:

Table of Contents

	June 30, 2011		December 31, 2010	
	Notional/ Contract Amount	Estimated Fair Value	Notional/ Contract Amount	Estimated Fair Value
	(Dollars in thousands)			
Off-balance sheet commitments				
Loan commitments	\$ 28,462	\$	\$ 26,834	\$
Standby letters of credit	1,224		869	



Table of Contents

**Other Expenses** Other expenses consisted of the following:

	Three Months		Period Ended June 30,		Six Months	
	2011	2010	2010	2011	2010	2011
	(Dollars in thousands)					
Salaries and employee benefits	\$ 1,198	\$ 1,204	\$ 2,418	\$ 2,323		
Net occupancy expense	134	138	273	283		
Furniture and equipment expense	94	96	173	186		
Amortization of computer software	99	97	196	209		
Debit card transaction expenses	125	123	241	223		
FDIC insurance expense	232	235	464	633		
Other expense						
Stationery, printing and postage	73	75	162	162		
Telephone	48	58	110	103		
Advertising and promotion	50	33	93	57		
Professional services	153	139	228	261		
Directors compensation	35	43	83	78		
Foreclosed assets costs and expenses, net	205	85	406	140		
Other	130	137	316	290		
Total	\$ 2,576	\$ 2,463	\$ 5,163	\$ 4,948		

**Pending Transaction** On April 25, 2011, our wholly-owned subsidiary bank, Community First Bank, entered into a definitive agreement to acquire Bank of Westminster, Westminster, South Carolina, in an all cash transaction. Bank of Westminster is privately held and has one office with \$28,000 in deposits and \$30,000 in total assets as of June 30, 2011. The transaction, which is subject to approval by Bank of Westminster shareholders as well as state and federal regulators, is expected to close during the fourth quarter of 2011.

**New Accounting Pronouncements** In April 2011, the Financial Accounting Standards Board ( FASB ) updated Accounting Standards Codification ( ASC ) Topic 310, Receivables to provide guidance to help creditors in determining whether they have granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. We will be required to apply this guidance in the third quarter of 2011. The effects of the guidance will be applied retrospectively to January 1, 2011. Early adoption is permitted. If, in applying these amendments retrospectively, we identify receivables that are newly considered impaired because of the guidance, we will apply the amendments prospectively for those receivables and will be required to disclose certain information about those receivables at that time. We have not yet determined the effect that implementing this guidance will have on our financial condition or results of operations.

In May 2011, FASB updated ASC Topic 820 Fair Value Measurements to more closely align fair value measurement and disclosure requirements in U. S. Generally Accepted Accounting Principles ( GAAP ) with the requirements of International Financial Reporting Standards ( IFRS ). This Update changes the wording of some of the GAAP requirements, including clarifying the intent about the application of existing fair value measurement and disclosure requirements and expanding the disclosures required about fair value measurements. The amendments in the Update are effective for public entities for periods beginning after December 15, 2011 and are to be applied prospectively. Early application is not permitted for public entities. We have not yet determined the effect that implementing this guidance will have on our financial condition or results of operations.

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In June 2011, FASB updated ASC Topic 220 Comprehensive Income to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The Update is also intended to facilitate convergence of GAAP and IFRS. The Update requires that all entities that report any items of comprehensive income in any period presented will present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments are required for public entities for fiscal years and interim periods within those years beginning after December 31, 2011 and are to be applied retrospectively. Although early application is permitted, we do not plan to implement this Update until its mandatory effective date. Because this Update

Table of Contents

affects only presentation matters, it is not expected to result in any effect on our financial condition or results of operations when implemented.

**CAUTIONARY NOTICE WITH RESPECT TO FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements within the meaning of the securities laws. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements.

All statements that are not historical facts are statements that could be forward-looking statements. You can identify these forward-looking statements through the use of words such as may, will, should, could, would, expect, anticipate, assume, indicate, contemplate, predict, target, potential, believe, intend, estimate, project, continue, or other similar words. Forward-looking statements include, but are not limited to, statements regarding the Company's future business prospects, revenues, working capital, liquidity, capital needs, interest costs, income, business operations and proposed services.

These forward-looking statements are based on current expectations, estimates and projections about the banking industry, management's beliefs, and assumptions made by management. Such information includes, without limitation, discussions as to estimates, expectations, beliefs, plans, strategies, and objectives concerning future financial and operating performance. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially from those expressed or forecasted in such forward-looking statements. The risks and uncertainties include, but are not limited to:

- future economic and business conditions;
- lack of sustained growth and disruptions in the economies of the Company's market areas, including, but not limited to, declining real estate values and increasing levels of unemployment;
- government monetary and fiscal policies;
- the effects of changes in interest rates on the levels, composition and costs of deposits, loan demand, and the values of loan collateral, securities, and interest sensitive assets and liabilities;
- the effects of credit rating downgrades on the values of investment securities issued or guaranteed by various governments and governmental agencies, including the United States of America;
- the effects of competition from a wide variety of local, regional, national and other providers of financial, investment, and insurance services, as well as competitors that offer banking products and services by mail, telephone, computer and/or the Internet;
- credit risks;
- higher than anticipated levels of defaults on loans;

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- perceptions by depositors about the safety of their deposits;
- capital adequacy;
- the failure of assumptions underlying the establishment of the allowance for loan losses and other estimates, including the value of collateral securing loans;
- ability to continue to weather the current economic downturn;
- ability to realize anticipated tax benefits;
- loss of consumer or investor confidence;
- availability of liquidity sources;
- the risks of opening new offices, including, without limitation, the related costs and time of building customer relationships and integrating operations as part of these endeavors and the failure to achieve expected gains, revenue growth and/or expense savings from such endeavors;
- the risks related to acquiring other financial institutions;
- changes in laws and regulations, including tax, banking and securities laws and regulations;
- changes in the requirements of regulatory authorities;
- changes in accounting policies, rules and practices;
- cost and difficulty of implementing changes in technology and products;
- the effects of war or other conflicts, acts of terrorism or other catastrophic events that may affect general economic conditions and economic confidence; and
- other factors and information described in this report and in any of the other reports that we file with the Securities and Exchange Commission under the Securities Exchange Act of 1934.

Table of Contents

All forward-looking statements are expressly qualified in their entirety by this cautionary notice. We have no obligation, and do not undertake, to update, revise or correct any of the forward-looking statements after the date of this report. We have expressed our expectations, beliefs and projections in good faith and believe they have a reasonable basis. However, there is no assurance that these expectations, beliefs or projections will result or be achieved or accomplished.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**(Dollar amounts, except per share data, are in thousands)**

**Changes in Financial Condition**

During the first six months of 2011, we focused on identifying and managing problem loans, more actively marketing foreclosed assets acquired by the Bank, and preparing for the anticipated merger of Community First Bank and Bank of Westminster. The unemployment rates for Oconee and Anderson Counties, South Carolina were 11.3% and 11.1%, respectively for June 2011, compared with 11.5% for each county in June 2010 and, for December 2010, 11.1% for Oconee County and 10.8% for Anderson County.

Because the underlying economic conditions have not improved significantly in our market areas, we continue to experience high levels of nonaccrual and past due loans and elevated incidences of foreclosures and repossessions. Activity in real estate transactions continues to be below normal and the values of properties remain at unusually lower levels.

Due to decreased demand for quality loans and the low interest rates available on securities, we have not been aggressive in replacing maturing time deposits. To facilitate the decrease in deposits, we used some of the proceeds of securities called or otherwise disposed and loan payments received to repay the matured deposits. Consequently, our total assets decreased by approximately \$30,000 during the first six months of 2011 and the Company's leverage ratio increased from 8.8% as of December 31, 2010 to 9.1% as of June 30, 2011. Similarly, Community First Bank's leverage ratio increased from 7.9% as of December 31, 2010 to 8.2% as of June 30, 2011.

We believe that our liquidity position continues to provide us with sufficient flexibility to fund loan requests or make investments in securities at attractive yields, and to meet normal demands for deposit withdrawals by our customers. Management also believes that our current balance sheet positions maintain our exposures to changes in interest rates at acceptable levels.

**Results of Operations**

Three Months Ended June 30, 2011 and 2010

We recorded consolidated net income of \$271 for the second quarter of 2011 compared with \$399 for the second quarter of 2010. After deducting amounts applicable to dividends on preferred stock and not available to common shareholders, net income per common share and net income per common share, assuming dilution was \$.06 for the 2011 quarter and \$.09 for the 2010 period. Net income per common share

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amounts for 2010 were retroactively adjusted to reflect a five percent stock dividend effective December 16, 2010.

Net interest income for the 2011 second quarter was \$3,681, an increase of \$320, or 9.5%, over the 2010 second quarter. Total interest income for the 2011 second quarter was \$660 lower than for the same 2010 quarter, primarily due to lower amounts of loans outstanding and lower rates earned on investment securities. Total interest expense for the 2011 quarter was \$980 lower than for the same period of 2010, primarily due to lower interest rates paid for deposits and, to a lesser extent, lower average amounts of deposits outstanding.

The provision for loan losses for the second quarter of 2011 increased by \$325 over the amount for the same period of 2010 due to continuing elevated amounts of net charge-offs, nonaccrual loans and potential problem loans. These negative factors are the result of continuing weak economic conditions, especially with respect to lower valuations for commercial and residential real estate, and high levels of unemployment. Until the economic environment improves, we expect that relatively large provisions for loan losses will be needed.

Noninterest income for the second quarter of 2011 was \$102 lower than for the same period of 2010. Service charges on deposit accounts for the 2011 three-month period were \$41 lower than for the same 2010 period and fees earned for originating mortgage loans decreased by \$36. Noninterest expense for the 2011 second quarter increased by \$113 from the amount recorded for the same 2010 period, primarily as a result of higher expenses related to the acquisition and carrying of foreclosed assets. Our FDIC deposit insurance expense for the second quarter of 2011 is little changed from the amount expensed in the same period of 2010, due to lower amounts of insured deposits and our withdrawal from the

Table of Contents

FDIC's Transaction Account Guarantee Program during the 2010 period. All deposit accounts continue to be insured up to the \$250,000 limit currently in effect.

For the Three Months Ended June 30,	Summary Income Statement (Dollars in thousands)				
	2011	2010	Dollar Change	Percentage Change	
Interest income	\$ 4,956	\$ 5,616	\$ (660)	-11.8%	
Interest expense	1,275	2,255	(980)	-43.5%	
Net interest income	3,681	3,361	320	9.5%	
Provision for loan losses	1,450	1,125	325	28.9%	
Noninterest income	590	692	(102)	-14.7%	
Noninterest expenses	2,576	2,463	113	4.6%	
Income tax expense (benefit)	(26)	66	(92)	-139.4%	
Net income	271	399	(128)	-32.1%	
Preferred stock dividends paid or accumulated	(40)	(40)		0.0%	
Net income available to common shareholders	\$ 231	\$ 359	\$ (128)	-35.7%	

## Six Months Ended June 30, 2011 and 2010

We recorded consolidated net income of \$446 for the six months ended June 30, 2011, compared with \$606 for the first half of 2010. After deducting amounts applicable to dividends on preferred stock and not available to common shareholders, net income per common share was \$.09 and \$.13 for the 2011 and 2010 six-month periods, respectively. No potentially dilutive stock options were outstanding at either June 30, 2011 or June 30, 2010. Net income per share amounts for 2010 have been retroactively adjusted to reflect a five percent stock dividend effective December 16, 2010.

Net interest income for the first six months of 2011 increased by \$480, or 7.2%, from the 2010 amount. Total interest income decreased by \$1,232, primarily due to lower average amounts of loans and lower rates earned on taxable securities. Total interest expense for the 2011 six-month period was \$1,712 less than for the same 2010 period due to lower rates paid on deposits and lower average amounts of time deposits outstanding in the 2011 period.

Noninterest income for the first six months of 2011 decreased by \$50 from the amount for the same period of 2010, primarily as a result of lower amounts of service charges on deposit accounts.

Noninterest expenses for the 2011 period increased by \$215 or 4.3% over the amount for the 2010 six-month period. Salaries and employee benefits increased by \$95 and expenses related to foreclosed assets increased by \$266. Expenses for FDIC deposit insurance were \$169 lower than for the prior year period due to stabilization of the assessment rate and a reduction in the amount of the assessment base from the prior year amounts.

**Summary Income Statement**  
(Dollars in thousands)

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For the Six Months Ended June 30,	2011		2010		Dollar Change	Percentage Change
Interest income	\$	9,910	\$	11,142	\$ (1,232)	-11.1%
Interest expense		2,771		4,483	(1,712)	-38.2%
Net interest income		7,139		6,659	480	7.2%
Provision for loan losses		2,700		2,250	450	20.0%
Noninterest income		1,178		1,228	(50)	-4.1%
Noninterest expenses		5,163		4,948	215	4.3%
Income tax expense		8		83	(75)	-90.4%
Net income		446		606	(160)	-26.4%
Preferred stock dividends paid or accumulated		(99)		(99)		0.0%
Net income available to common shareholders	\$	347	\$	507	\$ (160)	-31.6%



Table of Contents

**Net Interest Income**

Three Months Ended June 30, 2011 and 2010

The average yield on interest earning assets decreased to 4.44% for the 2011 three-month period from 4.50% for the 2010 three-month period, primarily due to lower average amounts of loans in the 2011 period. Also contributing to the lower yield was a reduction of the yield on taxable securities from 3.34% for the 2010 three-month period to 2.83% for the 2011 three-month period. Interest rates paid for deposits were lower in the 2011 period as well. The average rate paid for interest-bearing liabilities during the 2011 three-month period was 1.33%, compared with 2.07% in the same period of 2010. As a result of these factors, the average interest rate spread for the 2011 period was 68 basis points higher than for the 2010 period.

Floors on the rates for some variable rate loans prevented loan rates from falling further while a significant amount of time deposits were not renewed at maturity. Generally, the time deposits that were renewed at maturity, or that have been acquired recently, carry lower rates than previously due to the low market rates currently in effect.

Table of Contents

	Average Balances, Yields and Rates Three Months Ended June 30,					
	Average Balances	2011 Interest Income/ Expense	Yields/ Rates (1)	Average Balances	2010 Interest Income/ Expense	Yields/ Rates (1)
(Dollars in thousands)						
<b>Assets</b>						
Interest-bearing balances due from banks	\$ 30,090	\$ 15	0.20%	\$ 53,216	\$ 32	0.24%
<b>Securities</b>						
Taxable	157,165	1,108	2.83%	160,150	1,332	3.34%
Tax exempt (2)	17,059	175	4.11%	19,380	197	4.08%
Total investment securities	174,224	1,283	2.95%	179,530	1,529	3.42%
Other investments	1,305	3	0.92%	1,307	2	0.61%
Loans (2) (3) (4)	242,375	3,655	6.05%	266,219	4,053	6.11%
Total interest earning assets	447,994	4,956	4.44%	500,272	5,616	4.50%
Cash and due from banks	2,018			1,916		
Allowance for loan losses	(5,766)			(6,276)		
Valuation allowance - available-for-sale securities	881			2,621		
Premises and equipment	8,042			8,498		
Other assets	30,287			22,336		
Total assets	\$ 483,456			\$ 529,367		
<b>Liabilities and shareholders equity</b>						
<b>Interest bearing deposits</b>						
Interest bearing transaction accounts	\$ 79,534	\$ 94	0.47%	\$ 52,550	\$ 83	0.63%
Savings	20,059	22	0.44%	29,947	30	0.40%
Time deposits \$100M and over	118,624	469	1.59%	150,994	746	1.98%
Other time deposits	161,227	627	1.56%	194,955	1,323	2.72%
Total interest bearing deposits	379,444	1,212	1.28%	428,446	2,182	2.04%
Long-term debt	6,500	63	3.89%	7,868	73	3.72%
Total interest bearing liabilities	385,944	1,275	1.33%	436,314	2,255	2.07%
Noninterest bearing demand deposits	48,386			42,969		
Other liabilities	3,251			3,745		
Shareholders equity	45,875			46,339		
Total liabilities and shareholders equity	\$ 483,456			\$ 529,367		
Interest rate spread			3.11%			2.43%
Net interest income and net yield on earning assets		\$ 3,681	3.30%		\$ 3,361	2.69%
Interest free funds supporting earning assets	\$ 62,050			\$ 63,958		

(1) Yields and rates are annualized

(2) Yields on tax exempt instruments have not been adjusted to a tax-equivalent basis.

(3) Nonaccrual loans are included in the average loan balances and income on such loans is recognized on a cash basis.

(4) Includes immaterial amounts of loan fees.



Table of Contents

Six Months Ended June 30, 2011 and 2010

For the first half of 2011, the average yield on interest earning assets was 4.30%, compared with 4.50% for the 2010 period. Yields were either lower or only slightly higher on substantially all significant types of earning assets in the 2011 period. Loan yields decreased slightly because, on average, relatively more loans were on nonaccrual status in the 2011 six month period. Yields on taxable securities continue to decline as securities that were obtained in previous periods with higher rates are redeemed currently.

Average rates paid on interest-bearing deposits were lower in the 2011 period as well, averaging 1.35% compared with 2.05% in the 2010 six-month period. Decreases in interest rates paid resulted from the Federal Reserve's ongoing policy to maintain certain interest rates within its purview at low levels.

Table of Contents

	Average Balances, Yields and Rates Six Months Ended June 30,					
	Average Balances	2011 Interest Income/ Expense	Yields/ Rates (1)	Average Balances	2010 Interest Income/ Expense	Yields/ Rates (1)
(Dollars in thousands)						
<b>Assets</b>						
Interest-bearing balances due from banks	\$ 39,996	\$ 43	0.22%	\$ 60,921	\$ 70	0.23%
<b>Securities</b>						
Taxable	158,956	2,232	2.83%	150,887	2,617	3.50%
Tax exempt (2)	17,192	352	4.13%	19,446	396	4.11%
Total investment securities	176,148	2,584	2.96%	170,333	3,013	3.57%
Other investments	1,334	5	0.76%	1,307	2	0.31%
Loans (2) (3) (4)	247,254	7,278	5.94%	266,272	8,057	6.10%
Total interest earning assets	464,732	9,910	4.30%	498,833	11,142	4.50%
Cash and due from banks	2,160			1,952		
Allowance for loan losses	(5,766)			(6,123)		
Valuation allowance - available-for-sale securities	386			2,118		
Premises and equipment	8,083			8,530		
Other assets	29,508			22,874		
Total assets	\$ 499,103			\$ 528,184		
<b>Liabilities and shareholders equity</b>						
<b>Interest bearing deposits</b>						
Interest bearing transaction accounts	\$ 77,065	\$ 181	0.47%	\$ 54,489	\$ 167	0.62%
Savings	30,826	53	0.35%	33,073	57	0.35%
Time deposits \$100M and over	122,458	1,031	1.70%	146,288	1,479	2.04%
Other time deposits	164,602	1,379	1.69%	192,050	2,631	2.76%
Total interest bearing deposits	394,951	2,644	1.35%	425,900	4,334	2.05%
Long-term debt	6,500	127	3.94%	7,934	149	3.79%
Total interest bearing liabilities	401,451	2,771	1.39%	433,834	4,483	2.08%
Noninterest bearing demand deposits	48,767			44,685		
Other liabilities	3,338			3,890		
Shareholders equity	45,547			45,775		
Total liabilities and shareholders equity	\$ 499,103			\$ 528,184		
Interest rate spread			2.91%			2.42%
Net interest income and net yield on earning assets		\$ 7,139	3.10%		\$ 6,659	2.69%
Interest free funds supporting earning assets	\$ 63,281			\$ 64,999		

(1) Yields and rates are annualized

(2) Yields on tax exempt instruments have not been adjusted to a tax-equivalent basis.

(3) Nonaccrual loans are included in the average loan balances and income on such loans is recognized on a cash basis.

(4) Includes immaterial amounts of loan fees.



Table of Contents**Provision and Allowance for Loan Losses**

The provision for loan losses was \$1,450 for the second quarter of 2011, compared with \$1,125 for the second quarter of 2010. For the first half of 2011, the provision for loan losses was \$2,700, compared with \$2,250 for the first half of 2010. At June 30, 2011, the allowance for loan losses was 2.50% of loans, up from 2.24% at December 31, 2010 and 2.42% at June 30, 2010.

For the first six months of 2011, net charge-offs totaled \$2,503 compared with \$1,875 in net charge offs during the same period of 2010. The higher levels of charge-offs in 2011 reflect the continuing distressed conditions in our local economies, especially lower real estate values. No particular industries or groups of borrowers are disproportionately represented among the loans charged off. If local economic conditions and real estate values do not improve, it is likely that we will continue to experience elevated levels of both net charge-offs and provisions for loan losses. The activity in the allowance for loan losses is summarized in the table below:

	<b>Six Months Ended June 30, 2011</b>	<b>Year Ended December 31, 2010</b>	<b>Six Months Ended June 30, 2010</b>
	(Dollars in thousands)		
Allowance at beginning of period	\$ 5,756	\$ 6,052	\$ 6,052
Provision for loan losses	2,700	4,525	2,250
Net charge-offs	(2,503)	(4,821)	(1,875)
Allowance at end of period	\$ 5,953	\$ 5,756	\$ 6,427
Allowance as a percentage of loans outstanding at period end	2.50%	2.24%	2.42%
Loans at end of period	\$ 237,656	\$ 256,834	\$ 265,349

Table of Contents**Impaired and Potential Problem Loans**

	Nonaccrual Loans	90 Days or More Past Due and Still Accruing	Troubled Debt Restructurings (Dollars in thousands)	Total Nonperforming Loans	Percentage of Total Loans
January 1, 2009	\$ 11,799	\$	\$	\$ 11,799	4.36%
Net change	2,835			2,835	
March 31, 2009	14,634			14,634	5.31%
Net change	2,882			2,882	
June 30, 2009	17,516			17,516	6.41%
Net change	(2,632)			(2,632)	
September 30, 2009	14,884			14,884	5.52%
Net change	(1,014)			(1,014)	
December 31, 2009	13,870			13,870	5.19%
Net change	2,575			2,575	
March 31, 2010	16,445			16,445	6.15%
Net change	(603)			(603)	
June 30, 2010	15,842			15,842	5.97%
Net change	(880)		2,988	2,108	
September 30, 2010	14,962		2,988	17,950	6.85%
Net change	1,382		2,469	3,851	
December 31, 2010	16,344		5,457	21,801	8.49%
Net change	4,244		7,049	11,293	
March 31, 2011	20,588		12,506	33,094	13.36%
Net change	(4,334)		(5,336)	(9,670)	
June 30, 2011	\$ 16,254	\$	\$ 7,170	\$ 23,424	9.86%

As of June 30, 2011, we had troubled debt restructurings ( TDRs ) totaling \$7,170 that are not included in the amounts of nonaccrual loans or loans 90 days past due and still accruing in the table above. Approximately 97% of the amount of those TDRs have collateral consisting of real estate. TDRs are considered to be impaired loans.

Potential problem loans include loans, other than impaired loans, that management has identified as having possible credit problems sufficient to cast doubt upon the abilities of the borrowers to comply with the current repayment terms. Such loans are generally included in the amounts of Management Attention and Special Mention loans included in the table captioned Internally Assigned Risk Grade included in the section captioned Loans in the Notes to Consolidated Financial Statements.

South Carolina's 10.5% unemployment rate as of June 2011 was not significantly different from the 10.7% previously reported for June 2010. The unemployment rates for Oconee and Anderson Counties were approximately 11.3% and 11.1%, respectively, for June 2011 compared with 11.5% for each of those counties as of June 2010. The unemployment rates for both counties increased in each of May and June 2011 on a month-to-month basis. The prolonged period of high unemployment and generally poor economic conditions has caused many individuals and companies to deplete their cash reserves. When economic activity again becomes more robust and employment levels increase more broadly and on a sustained basis, we expect that many of our customers will need to replenish those reserves before they can again repay their debts in an orderly manner. As a result, we believe that there will be a prolonged period during which the ability of some of our loan customers to repay their debts will be reduced, which could lead to higher amounts of nonaccrual, past due and potential problem loans and higher loan losses, all of which could result in higher provisions for loan losses.



**Foreclosed Assets**

During the first six months of 2011, foreclosed assets increased by \$3,987 to \$15,382. In that period, we acquired seventeen foreclosed real estate properties with current carrying values totaling \$4,798. We sold six foreclosed real estate

Table of Contents

properties that had carrying values of \$597 for proceeds of \$530, realizing net losses of \$67, and recorded valuation allowances totaling \$45 during that period.

During the first half of 2011, we acquired one repossessed property which has a carrying value of \$6 and sold two repossessed properties for proceeds of \$175 with no gain or loss recognized.

Foreclosed assets represent a significant challenge. In addition to their status as non-earning assets, the expenses of carrying these properties are substantial. Such expenses are included in noninterest expenses and may include expenses for items such as property taxes, utilities, maintenance and repairs, and property owner fees. Consequently, we are dedicating more time and resources to our efforts to dispose of these assets in a prudent manner.

**Noninterest Income**

Noninterest income totaled \$590 for the second quarter of 2011 compared with \$692 for the second quarter of 2010. Net losses on sales of securities available-for-sale were \$6 in the 2011 period. There were no such sales in the 2010 period. Service charges on deposit accounts were \$41 lower for the 2011 period due to lower incidences of insufficient funds transactions. Similarly, transaction fees for debit cards for the 2011 period decreased by \$16 from the amount for the 2010 period.

For the six months ended June 30, 2011, noninterest income totaled \$1,178 compared with \$1,228 for the first half of 2010. Service charges and fees for deposit accounts were \$82 lower for the 2011 period due to a decrease in the level of chargeable consumer activity. Debit card transaction fees increased by \$31, however, due to increased activity in the first quarter of 2011. Net losses on sales of securities available-for-sale were \$6 for the 2011 six-month period, with no such activity in the 2010 period.

**Noninterest Expenses**

Noninterest expenses totaled \$2,576 for the second quarter of 2011 compared with \$2,463 for the second quarter of 2010, representing an increase of \$113. Expenses related to foreclosed assets were \$120 more in the 2011 three-month period than they were in the same 2010 period due to higher amounts of such assets held in 2011.

Noninterest expenses for the six months ended June 30, 2011 totaled \$5,163, an increase of \$215 over the amount for the first half of 2010. Deposit insurance assessments for the 2011 six-month period totaled \$464 compared with \$633 for the same period of 2010. The decrease for the 2011 period resulted from a lower assessment base resulting primarily from lower amounts of insured deposits. Expenses related to foreclosed assets were \$266 more in the first half of 2011 than in the same period of 2010, primarily because we now hold a larger number of such properties.

**Income Taxes**

For the second quarter of 2011, we recorded an income tax benefit of \$26, compared with income tax expense of \$66 for the same period of 2010. The income tax benefit in the 2011 period resulted from lower amounts of taxable net income.

As of June 30, 2011, we have net deferred tax assets totaling \$1,921. Approximately \$554 is realizable from available carrybacks to prior years taxable income. Realization of the remaining \$1,367 is dependent primarily on our ability to generate taxable income in the future. Based on our previous operating history and projection of taxable income for the next three years, we believe it is more likely than not that we will be able to realize these assets. Consequently, we have not provided a valuation allowance for these assets. However, forecasting necessarily requires that we make judgments and assumptions about uncertain future events. As more empirical evidence becomes available, or as other events occur that might cause us to revise our assumptions and judgments, it is possible that our forecasts could change and it might then be necessary for us to provide a valuation allowance by a charge to income tax expense to reduce the net deferred tax assets to an amount that we believe is more likely than not to be realized.

For purposes of calculating its regulatory capital ratios as of June 30, 2011, the Bank was required to exclude from capital \$1,421 of net deferred tax assets. Generally, the Bank is required to exclude from Tier 1 and Total capital the lesser of 10% of the Bank's total assets or the amount of deferred tax assets that exceeds the amount realizable from carryback years plus the amount realizable from federal taxable income forecasted for the next twelve months.

Table of Contents**Liquidity**

Liquidity is the ability to meet current and future obligations through the liquidation or maturity of existing assets or the acquisition of additional liabilities. We manage both assets and liabilities to achieve appropriate levels of liquidity. Cash and short-term investments are our primary sources of asset liquidity. These funds provide a cushion against short-term fluctuations in cash flow from both deposits and loans. Securities available-for-sale are the principal source of secondary asset liquidity. However, the availability of this source is influenced by market conditions. Individual and commercial deposits represent our primary source of funds for credit activities. We have significant amounts of credit availability under FHLB lines of credit and federal funds purchased facilities.

As of June 30, 2011, the ratio of loans to total deposits was 56.7%, compared with 57.7% as of December 31, 2010. We believe that liquidity sources are adequate to meet our operating needs.

**Capital Resources**

During the first half of 2011, our capital increased by \$1,327 as the result of net income of \$446 for the first six months of 2011, plus a \$960 change in unrealized gains and losses on available-for-sale securities, net of deferred income tax effects, less \$79 paid for dividends on preferred stock. Any unrealized losses on available-for-sale securities are not considered to be other than temporary. Our available-for-sale securities primarily consist of debt issuances of government-sponsored enterprises. Even though these instruments are not directly guaranteed by the U. S. Government, they are generally considered to be of high quality and default risk is believed to be remote. Therefore, the changes in market values are believed to be the result only of changes in market interest rates. We currently have both the intent and the ability to hold such securities until the market value recovers, including until maturity.

The Company and its banking subsidiary (the Bank) are subject to regulatory risk-based capital adequacy standards. Under these standards, bank holding companies and banks are required to maintain certain minimum ratios of capital to risk-weighted assets and average total assets. Under the provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), federal bank regulatory authorities are required to implement prescribed prompt corrective actions upon the deterioration of the capital position of a bank. If the capital position of an affected institution were to fall below certain levels, increasingly stringent regulatory corrective actions are mandated.

The June 30, 2011 risk based capital ratios for the Company and the Bank are presented in the following table, compared with the well capitalized and minimum ratios under the regulatory definitions and guidelines:

	<b>Tier 1</b>	<b>Total Capital</b>	<b>Leverage</b>
Community First Bancorporation	15.1%	16.3%	9.1%
Community First Bank	13.6%	14.9%	8.2%
Minimum well-capitalized requirement	6.0%	10.0%	6.0%
Minimum requirement	4.0%	8.0%	5.0%

**Off-Balance-Sheet Arrangements**

In the normal course of business, the Bank is party to financial instruments with off-balance-sheet risk including commitments to extend credit and standby letters of credit. Such instruments have elements of credit risk in excess of the amount recognized in the balance sheet. The exposure to credit loss in the event of nonperformance by the other parties to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. Generally, the same credit policies used for on-balance-sheet instruments, such as loans, are used in extending loan commitments and standby letters of credit.

Following are the off-balance-sheet financial instruments whose contract amounts represent credit risk:

	<b>June 30, 2011</b>	
	<b>(Dollars in thousands)</b>	
Loan commitments	\$	28,462
Standby letters of credit		1,224

Loan commitments involve agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and some involve payment of

Table of Contents

a fee. Many of the commitments are expected to expire without being fully drawn; therefore, the total amount of loan commitments does not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if any, upon extension of credit is based on management's credit evaluation of the borrower. Collateral held varies but may include commercial and residential real properties, accounts receivable, inventory and equipment.

Standby letters of credit are conditional commitments to guarantee the performance of a customer to a third party. The credit risk involved in issuing standby letters of credit is the same as that involved in making loan commitments to customers. Many letters of credit will expire without being drawn upon and do not necessarily represent future cash requirements. The Bank receives fees for loan commitments and standby letters of credit. The amount of such fees was not material for the three months or six months ended June 30, 2011.

As described under Liquidity, management believes that its various sources of liquidity provide the resources necessary for the Bank to fund the loan commitments and to perform under standby letters of credit, if the need arises. Neither the Company nor the Bank is involved in other off-balance sheet contractual relationships or transactions that could result in liquidity needs or other commitments or significantly impact earnings.

Table of Contents

**Item 4. Controls and Procedures**

Based on the evaluation required by 17 C.F.R. Section 240.13a-15(b) or 240.15d-15(b) of the issuer's disclosure controls and procedures (as defined in 17 C.F.R. Sections 240.13a-15(e) and 240.15d-15(e)), the issuer's chief executive officer and chief financial officer concluded such controls and procedures, as of the end of the period covered by this report, were effective.

There has been no change in the Company's internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

**PART II OTHER INFORMATION**

**Item 6. - Exhibits**

- |          |   |
|----------|---|
| 31.      | Rule 13a-14(a)/15d-14(a) Certifications           |
| 32.      | Certifications Pursuant to 18 U.S.C. Section 1350 |
| 101.INS* | XBRL Instance Document.                           |
| 101.SCH* | XBRL Taxonomy Extension Schema.                   |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase.     |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase.           |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase.    |
| 101.DEF* | XBRL Taxonomy Definition Linkbase.                |

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\* As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.



Table of Contents

SIGNATURE

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

COMMUNITY FIRST BANCORPORATION

August 15, 2011  
Date

/s/ Frederick D. Shepherd, Jr.  
Frederick D. Shepherd, Jr., Chief Executive Officer and  
Chief Financial Officer

Table of Contents

EXHIBIT INDEX

31.	Rule 13a-14(a)/15d-14(a) Certifications	
32.	Certifications Pursuant to 18 U.S.C. Section 1350	
101.INS*	XBRL Instance Document.	Filed herewith.
101.SCH*	XBRL Taxonomy Extension Schema.	Filed herewith.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase.	Filed herewith.
101.LAB*	XBRL Taxonomy Extension Label Linkbase.	Filed herewith.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase.	Filed herewith.
101.DEF*	XBRL Taxonomy Definition Linkbase.	Filed herewith.

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\* As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.