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COMMUNITY FIRST BANCORP
Form 10-Q
May 15, 2007

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 Quarterly Period Ended March 31, 2007

Commission File No. 000-29640

COMMUNITY FIRST BANCORPORATION

(Exact name of registrant as specified in its charter)

South Carolina

58-2322486

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

449 HIGHWAY 123 BYPASS
SENECA, SOUTH CAROLINA 29678

(Address of principal executive offices, zip code)

(864) 886-0206

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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, 2,972,418 Shares Outstanding on April 30, 2007

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COMMUNITY FIRST BANCORPORATION

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PART I - FINANCIAL INFORMATION

Item 1. - Financial Statements

COMMUNITY FIRST BANCORPORATION

Consolidated Balance Sheets

Assets

Cash and due from banks	
Interest bearing deposits due from banks	
Federal funds sold	
Cash and cash equivalents	
Securities available-for-sale	
Securities held-to-maturity (fair value \$6,309 for 2007 and \$6,530 for 2006)	

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Other investments	
Loans	
Allowance for loan losses	
Loans - net	
Premises and equipment - net	
Accrued interest receivable	
Other assets	
Total assets	
Liabilities	
Deposits	
Noninterest bearing	
Interest bearing	
Total deposits	
Accrued interest payable	
Short-term borrowings	
Long-term debt	
Other liabilities	
Total liabilities	
Shareholders' equity	
Common stock - no par value; 10,000,000 shares authorized; issued and outstanding - 2,972,418 for 2007 and 2,958,558 for 2006	
Additional paid-in capital	
Retained earnings	
Accumulated other comprehensive income (loss)	
Total shareholders' equity	
Total liabilities and shareholders' equity	

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY FIRST BANCORPORATION
Consolidated Statements of Income

	(Unaudited)	
	Three Months Ended	
	March 31,	
	2007	2006
	----	----
	(Dollars in thousands, except per share)	
Interest income		
Loans, including fees	\$3,978	\$3,090
Interest bearing balances due from banks	1	2
Securities		
Taxable	938	931

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Tax-exempt	187	120
Other investments	15	11
Federal funds sold	542	493
	-----	-----
Total interest income	5,661	4,647
	-----	-----
Interest expense		
Time deposits \$100M and over	918	732
Other deposits	2,224	1,534
Short-term borrowings	3	2
Long-term debt	54	62
	-----	-----
Total interest expense	3,199	2,330
	-----	-----
Net interest income	2,462	2,317
Provision for loan losses	-	25
	-----	-----
Net interest income after provision	2,462	2,292
	-----	-----
Other income		
Service charges on deposit accounts	334	364
ATM interchange and other fees	105	86
Credit life insurance commissions	7	10
Other income	40	79
	-----	-----
Total other income	486	539
	-----	-----
Other expenses		
Salaries and employee benefits	811	729
Net occupancy expense	88	69
Furniture and equipment expense	102	104
Amortization of computer software	59	60
ATM interchange and related expenses	70	78
Other expense	404	396
	-----	-----
Total other expenses	1,534	1,436
	-----	-----
Income before income taxes	1,414	1,395
Income tax expense	457	484
	-----	-----
Net income	\$ 957	\$ 911
	=====	=====
Per share*		
Net income	\$ 0.32	\$ 0.31
Net income, assuming dilution	0.30	0.29
	-----	-----

* Per share information has been retroactively adjusted to reflect a 5% stock dividend effective December 18, 2006.

See accompanying notes to unaudited consolidated financial statements.

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Consolidated Statements of Changes in Shareholders' Equity

	(Unaudited)			
	Common Stock		Additional	Ret
	Number of	Amount	Paid-in	Ear
	Shares	-----	Capital	-----
	-----	-----	-----	-----
	(Dollars in thou			
Balance, January 1, 2006	2,798,409	\$ 26,956	\$ -	\$ -
Comprehensive income:				
Net income	-	-	-	-
Unrealized holding gains and losses on available-for-sale securities arising during the period, net of income taxes of \$87	-	-	-	-
Total other comprehensive income				
Total comprehensive income				
Share-based compensation	-	-	45	-
Balance, March 31, 2006	<u>2,798,409</u>	<u>\$ 26,956</u>	<u>\$ 45</u>	<u>\$ -</u>
Balance, January 1, 2007	2,958,558	\$ 30,061	\$ 593	\$ -
Comprehensive income:				
Net income	-	-	-	-
Unrealized holding gains and losses on available-for-sale securities arising during the period, net of income taxes of \$114	-	-	-	-
Total other comprehensive income				
Total comprehensive income				
Exercise of employee stock options	13,860	76	-	-
Balance, March 31, 2007	<u>2,972,418</u>	<u>\$ 30,137</u>	<u>\$ 593</u>	<u>\$ -</u>

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY FIRST BANCORPORATION
Consolidated Statements of Cash Flows

Operating activities

Net income .....	.....
Adjustments to reconcile net income to net cash provided by operating activities	
Provision for loan losses .....	.....
Depreciation .....	.....
Amortization of net loan fees and costs .....	.....
Securities accretion and premium amortization .....	.....
Gain on sale of foreclosed assets .....	.....
Decrease (increase) in interest receivable .....	.....
Increase in interest payable .....	.....
Decrease in prepaid expenses and other assets .....	.....
Increase in other accrued expenses .....	.....
Share-based compensation .....	.....
Net cash provided by operating activities .....	.....

Investing activities

Purchases of available-for-sale securities .....	.....
Maturities, calls and paydowns of securities available-for-sale .....	.....
Maturities, calls and paydowns of securities held-to-maturity .....	.....
Disposals of other investments .....	.....
Net increase in loans made to customers .....	.....
Purchases of premises and equipment .....	.....
Proceeds of sale of foreclosed assets .....	.....
Net cash used by investing activities .....	.....

Financing activities

Net increase in demand deposits, interest bearing transaction accounts and savings accounts
Net increase in certificates of deposit and other time deposits

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Decrease in short-term borrowings	
Exercise of employee stock options	
Net cash provided by financing activities	
Increase in cash and cash equivalents	
Cash and cash equivalents, beginning	
Cash and cash equivalents, ending	
Supplemental Disclosure of Cash Flow Information	
Cash paid during the period for	
Interest, net of \$15 capitalized during construction	
Income taxes	
Noncash investing and financing activities:	
Other comprehensive income (loss)	

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY FIRST BANCORPORATION

Notes to Unaudited Consolidated Financial Statements

Accounting Policies - A summary of significant accounting policies is included in Community First Bancorporation's (the "Company") Annual Report on Form 10-K for the year ended December 31, 2006 filed with the Securities and Exchange Commission. Certain amounts in the 2006 financial statements have been reclassified to conform to the current presentation.

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.

Nonperforming Loans - As of March 31, 2007, there were \$193,000 in nonaccrual loans and no loans 90 days or more past due and still accruing interest.

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 share is computed by dividing applicable net income 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 the Company's common stock at the average market price during the period. All 2006 per share information has been retroactively adjusted to give effect to a 5% stock dividend effective December 18, 2006. Net income per share and net income per share, assuming dilution, were computed as follows:

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Net income per share, basic

Numerator - net income

Denominator

Weighted average common shares issued and outstanding

Net income per share, basic

Net income per share, assuming dilution

Numerator - net income

Denominator

Weighted average common shares issued and outstanding

Effect of dilutive stock options

Total shares

Net income per share, assuming dilution

Stock-Based Compensation - As of March 31, 2007, the Company had two stock-based compensation plans. Effective January 1, 2006, the Company began accounting for compensation expenses related to stock options granted to employees and non-officer directors under the recognition and measurement principles of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)) using the modified prospective application method.

New Accounting Pronouncements - The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities," ("SFAS No. 159" or the "Statement") which is effective for fiscal years beginning after November 15, 2007. Under the provisions of SFAS No. 159, entities may choose, but are not required, to measure many financial instruments and certain other items at their fair values, with changes in the fair values of those instruments reported in earnings. While

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most of the Statement's provisions apply only to entities that elect the fair value option, SFAS No. 159 also applies to all entities with trading and available-for-sale securities, such as the Company. The Company has not determined what effect, if any, the Statement will have on its future financial statements, other agreements, or planned or intended changes in business practices.

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

Forward Looking Statements

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Statements included in this report which are not historical in nature are intended to be, and are hereby identified as "forward looking statements" for purposes of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical facts. Such forward-looking statements may be identified, without limitation, by the use of the words "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "projects," and similar expressions. The Company's expectations, beliefs and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including without limitation, management's examination of historical operating trends, data contained in the Company's records and other data available from third parties, but there can be no assurance that management's beliefs, expectations or projections will result or be achieved or accomplished. The Company cautions readers that forward-looking statements, including without limitation, those relating to the Company's recent and continuing expansion, its future business prospects, revenues, working capital, liquidity, capital needs, interest costs, income, and adequacy of the allowance for loan losses, are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to several important factors herein identified, among others, and other risks and factors identified from time to time in the Company's reports filed with the Securities and Exchange Commission. The risks and uncertainties include, but are not limited to

- o our growth and our ability to maintain growth;
- o governmental monetary and fiscal policies, as well as legislative and regulatory changes;
- o the effect of interest rate changes on our level and composition of deposits, loan demand and the value of our collateral and securities;
- o the effects of competition from other financial institutions operating in our market area and elsewhere, including institutions operating locally, nationally and internationally, together with competitors that offer banking products and services by mail, telephone and computer and/or the Internet;
- o failure of assumptions underlying the establishment of our allowance for loan losses, including the value of collateral securing loans; and
- o loss of consumer confidence and economic disruptions resulting from terrorist activities.

The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Changes in Financial Condition

During the first three months of 2007, interest bearing deposits increased by \$24,143,000, or 9.0%. Certificates of deposit issued in denominations of \$100,000 grew by \$15,192,000, or 22.3% during the period primarily due to activity generated by local government bodies. These funds were used primarily to repay short-term borrowings of \$4,500,000 and to fund growth in federal funds sold. Loan growth was funded primarily by increases in non-governmental deposits and by allowing reductions to occur in some categories of securities. The Company believes its higher federal funds sold position gives it increased flexibility to fund loan requests or make investments in securities at attractive yields, and to meet normal demands for deposit withdrawals by its customers, while maintaining its exposure to future interest rate changes at an acceptable level.

Results of Operations

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The Company recorded consolidated net income of \$957,000 or \$.32 per share for the first quarter of 2007 compared with \$911,000, or \$.31 per share for the first quarter of 2006. Net income per share, assuming dilution was \$.30 for the 2007 period and \$.29 for the 2006 period. Net income per share amounts for 2006 have been retroactively adjusted to reflect a five percent stock dividend effective December 18, 2006.

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		Summary Income Statement	
For the Three Months Ended March 31,	2007	(Dollars in thousands)	
	----	2006	Dollar
		----	-----
Interest income	\$ 5,661	\$ 4,647	\$ 1,0
Interest expense	3,199	2,330	8
	-----	-----	-----
Net interest income	2,462	2,317	1
Provision for loan losses	-	25	(
Noninterest income	486	539	(
Noninterest expenses	1,534	1,436	(
Income tax expense	457	484	(
	-----	-----	-----
Net income	\$ 957	\$ 911	\$
	=====	=====	=====

Net Interest Income

Net interest income is the principal source of the Company's earnings. For the first quarter of 2007, net interest income totaled \$2,462,000, an increase of \$145,000 or 6.3% over the amount for the same period of 2006. The yield on interest earning assets increased to 6.39% for the 2007 period, compared with 5.69% for the 2006 period and the average rates paid for interest bearing liabilities were 4.34% and 3.42%, respectively. Accordingly, the average interest rate spread for the 2007 period was 22 basis points lower than for the 2006 period.

Market interest rates during the 2007 period were slightly higher than in the first quarter of 2006. In mid-2006, the Federal Reserve Board ended its prolonged process of raising short-term interest rates, which began in 2004, by adopting a more neutral stance toward interest rates. In the 2007 three-month period, the rates paid by the Company on deposits increased more than the rates that it receives from its loans and other invested funds primarily in response to competitive pressures. By increasing the percentage of loans to average earning assets, the Company believes that it can mitigate the effects of the decreased interest rate spread. The Company will not, however, lower its loan underwriting standards to accomplish this goal. The following table provides an analysis of the average amounts of the Company's assets and liabilities and the effective yields and rates on the various categories of its interest earning assets and interest bearing liabilities for the first quarter of 2007 and 2006.

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		Average Balances, Three Months E	
	Average Balances	2007 Interest Income/ Expense	Yields/ Rates (1)
	-----	-----	-----
			(Dollars
Assets			
Interest-bearing deposits due from banks	\$ 65	\$ 1	6.24%
Securities			
Taxable	88,406	938	4.30%
Tax exempt (2)	19,692	187	3.85%
	-----	-----	
Total investment securities	108,098	1,125	4.22%
Other investments	980	15	6.21%
Federal funds sold	42,231	542	5.20%
Loans (2) (3)	207,998	3,978	7.76%
	-----	-----	
Total interest earning assets	359,372	5,661	6.39%
Cash and due from banks	7,684		
Allowance for loan losses	(2,228)		
Valuation allowance - AFS securities	(1,216)		
Premises and equipment	7,907		
Other assets	3,788		

Total assets	\$ 375,307		
	=====		
Liabilities and shareholders' equity			
Interest bearing deposits			
Interest bearing transaction accounts	\$ 55,233	\$ 433	3.18%
Savings	40,297	353	3.55%
Time deposits \$100M and over	80,238	918	4.64%
Other time deposits	117,466	1,438	4.96%
	-----	-----	
Total interest bearing deposits	293,234	3,142	4.35%
Short-term borrowings	50	3	24.33%
Long-term debt	5,500	54	3.98%
	-----	-----	
Total interest bearing liabilities	298,784	3,199	4.34%
Noninterest bearing demand deposits	39,691		
Other liabilities	3,178		
Shareholders' equity	33,654		

Total liabilities and shareholders' equity	\$ 375,307		
	=====		
Interest rate spread			2.05%
Net interest income and net yield on earning assets		\$ 2,462	2.78%
Interest free funds supporting earning assets	\$ 60,588		

(1) Yields and rates are annualized

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

(3) Nonaccruing loans are included in the loan balance and income from such

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loans is recognized on a cash basis. The amounts of such loans and income are not material.

Upon opening its newest Seneca office in 2006, the Company began offering a premium rate of interest for certain relatively liquid interest

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bearing accounts. While there have been some incremental decreases in those rates recently, the rates offered for those deposits continue to be relatively high from an historical perspective. In addition, other local financial institutions have increased their rates for these and other similar products as well and, as a result, competition for these deposits among these institutions is intense.

Over the course of the past few years, the Company added to its holdings of tax-exempt state, county and municipal securities significantly and, until recently, the yields on those investments increased as well. As a result of the growth in the amounts of such securities held, the Company's 2007 first quarter income includes \$187,000 earned on those investments, compared with \$120,000 in the same period of 2006.

The Company continues to pursue strategies that are expected to increase its market share in its local market areas in Anderson and Oconee Counties of South Carolina. The Company serves Oconee County from four offices which are located in Seneca, Walhalla and Westminster. The Company serves the Anderson County market from offices in Anderson and Williamston. The Company is planning to open an additional office on Highway 81 in Anderson County. Construction is expected to begin during the second quarter of 2007.

Provision and Allowance for Loan Losses

The Company made no provision for loan losses during the 2007 first quarter, compared with \$25,000 for the comparable period of 2006. At March 31, 2007, the allowance for loan losses was 1.04% of loans, down slightly from 1.10% at December 31, 2006. During the 2007 three month period, net charge-offs totaled \$45,000, compared with \$19,000 in net charge offs during the same period of 2006. As of March 31, 2007, there was \$193,000 in nonaccrual loans and no loans 90 days or more past due and still accruing interest. As of March 31, 2006, there was \$579,000 in nonaccrual loans and no loans 90 days or more past due and still accruing interest. The activity in the allowance for loan losses is summarized in the table below:

	Three Months Ended March 31, 2007	Year Decem
	-----	-----
	(Dollars)	
Allowance at beginning of period	\$ 2,242	\$
Provision for loan losses	-	
Net charge-offs	(45)	
	-----	--
Allowance at end of period	\$ 2,197	\$
	=====	==
Allowance as a percentage of loans outstanding		
at period end	1.04%	
Loans at end of period	\$ 212,053	\$

Non-Performing and Potential Problem Loans

	Nonaccrual Loans -----	90 Days or More Past Due and Still Accruing -----	Total Nonperforming Loans -----	Percent of Tot Loan -----
			(Dollars in thousands)	
January 1, 2006	\$ 900	\$ 5	\$ 905	0.5
Net change	(321)	(5)	(326)	
March 31, 2006	579	-	579	0.3
Net change	(82)	-	(82)	
June 30, 2006	497	-	497	0.2
Net change	(16)	-	(16)	
September 30, 2006	481	-	481	0.2
Net change	(431)	-	(431)	
December 31, 2006	50	-	50	0.0
Net change	143	-	143	
March 31, 2007	\$ 193	\$ -	\$ 193	0.0

Potential problem loans include loans, other than non-performing 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. However, the amount of potential problem loans does not reflect management's expectations of losses, if any, that may be realized from those loans. As of March 31, 2007, approximately 84.7% of the dollar amount of potential problem loans was secured by real estate, 7.4% was secured by vehicles, and approximately 3.7% represented unsecured loans.

Noninterest Income

Noninterest income totaled \$486,000 for the first quarter of 2007, compared with \$539,000 for the 2006 quarter. Service charges on deposit accounts in the 2007 period were \$334,000 representing a decrease of \$30,000 from the prior year period. Fewer fees were assessed in the 2007 period as customer usage of an overdraft protection product declined. Mortgage brokerage income for the first quarter of 2007 was approximately \$9,000 less than in the 2006 period. A gain of \$31,000 from the sale of foreclosed assets was recognized in the 2006 period, but there was no comparable activity in the 2007 period.

Noninterest Expenses

Noninterest expenses totaled \$1,534,000 for the first quarter of 2007 compared with \$1,436,000 for the first quarter of 2006, representing an increase

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of \$98,000 or 6.8%. Salaries and employee benefits increased by \$82,000, or 11.2%, to \$811,000. This increase resulted primarily from normal salary increases, which are granted from time to time, an increase in the number of employees associated with the Company's growth, and an increase in anticipated employee incentive bonuses. For the first quarter of 2006, this category included \$20,000 of share-based compensation expenses that resulted from the adoption of SFAS 123(R).

Occupancy and furniture and equipment expenses for the first quarter of 2007 increased by \$17,000 compared with the 2006 period, primarily due to the opening of the Company's new Seneca banking and administrative offices in the second quarter of 2006.

Although income before income taxes was slightly higher than for the same period of 2006, income tax expense for the first quarter of 2007 was lower because of the 2007 increase in interest income from tax-exempt securities.

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. The Company manages both assets and liabilities to achieve appropriate levels of liquidity. Cash and short-term investments are the Company's 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 is the Company's principal source of secondary

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asset liquidity. However, the availability of this source is influenced by market conditions. Individual and commercial deposits are the Company's primary source of funds for credit activities. The Company also has significant amounts of credit availability under its FHLB lines of credit and federal funds purchased facilities.

As of March 31, 2007, the ratio of loans to total deposits was 63.9%, compared with 65.9% as of December 31, 2006. Total deposits as of March 31, 2007 were \$332,029,000, an increase of \$24,072,000 or 7.8% over the amount as of December 31, 2006. Management believes that the Company's liquidity sources are adequate to meet its operating needs.

Capital Resources

The Company's capital base increased by \$1,236,000 since December 31, 2006 as the result of net income of \$957,000 for the first three months of 2007, plus a \$203,000 change in unrealized gains and losses on available-for-sale securities, net of deferred income tax effects, and \$76,000 from the exercise of employee stock options.

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 March 31, 2007 risk based capital ratios for the Company and the

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Bank are presented in the following table, compared with the "well capitalized" (Bank only) and minimum ratios under the regulatory definitions and guidelines:

	Tier 1	Total Capital	Leverage
	-----	-----	-----
Community First Bancorporation	15.0%	16.0%	9.3%
Community First Bank	14.5%	15.4%	9.0%
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 a 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 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.

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

	March 31, 2007

	(Dollars in thousands)
Loan commitments	\$ 36,487
Standby letters of credit	1,114

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 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 ended March 31, 2007.

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

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contractual relationships or transactions that could result in liquidity needs or other commitments or significantly impact earnings.

Item 3. - Quantitative and Qualitative Disclosures About Market Risk

The Company's exposure to market risk is primarily related to the risk of loss from adverse changes in market prices and rates. This risk arises principally from interest rate risk inherent in the Company's lending, deposit gathering and borrowing activities. Management actively monitors and manages its interest rate risk exposure. Although the Company manages other risks, such as credit quality and liquidity risk in the normal course of business, management considers interest rate risk to be its most significant market risk and this risk could potentially have the largest material effect on the Company's financial condition and results of operations. Other types of market risk, such as commodity price risk and foreign currency exchange risk, do not arise in the normal course of the Company's community banking operations.

The Company uses a simulation model to assist in achieving consistent growth in net interest income while managing interest rate risk. As of March 31, 2007, the model indicates that net interest income would increase \$74,000 and net income would increase \$45,000 in the next twelve months if interest rates rose by 100 basis points. Conversely, net interest income would decrease \$148,000 and net income would decrease \$91,000 in the next twelve months if interest rates declined by 100 basis points. In the current interest rate environment, it appears unlikely that there will be any large changes in interest rates in the immediate future. The prospective effects of hypothetical interest rate changes are based on a number of assumptions, including the relative levels of market interest rates and prepayment assumptions affecting loans, and should not be relied on as indicative of actual future results. The prospective effects also do not contemplate potential actions that the Company, its customers and the issuers of its investment securities could undertake in response to changes in interest rates.

As of March 31, 2007, there was no significant change from the interest rate sensitivity analysis for the various changes in interest rates calculated as of December 31, 2006. The foregoing disclosures related to the Company's market risk should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 2006 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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Item 4T. - 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.

PART II - OTHER INFORMATION

Item 6. - Exhibits

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- Exhibits 31. Rule 13a-14(a)/15d-14(a) Certifications
32. Certifications Pursuant to 18 U.S.C. Section 1350

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SIGNATURE

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

COMMUNITY FIRST BANCORPORATION

May 11, 2007

/s/ Frederick D. Shepherd, Jr.

Date

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

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EXHIBIT INDEX

31. Rule 13a-14(a)/15d-14(a) Certifications
32. Certifications Pursuant to 18 U.S.C. Section 1350

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