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COMMUNITY FIRST BANCORP  
Form 10-Q  
May 14, 2008

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, 2008

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, 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  Smaller reporting company   
(Do not check if a 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

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classes of common stock, as of the latest practicable date: Common Stock, no par or stated value, 3,359,203 Shares Outstanding on April 30, 2008

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 .....

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|   |  |
|---|--|
| Interest bearing deposits due from banks .....  |  |
| Federal funds sold .....  |  |
| Cash and cash equivalents .....   |  |
| Securities available-for-sale .....   |  |
| Securities held-to-maturity (fair value \$5,508 for 2008 and \$5,625 for 2007) .....  |  |
| Other investments .....   |  |
| Loans .....   |  |
| Allowance for loan losses .....   |  |
| Loans - net .....   |  |
| Premises and equipment - net .....  |  |
| Accrued interest receivable .....   |  |
| Bank-owned life insurance .....   |  |
| Other assets .....  |  |
| <br>Total assets .....  |  |
| <br>Liabilities   |  |
| Deposits  |  |
| Noninterest bearing .....   |  |
| Interest bearing .....  |  |
| Total deposits .....  |  |
| Accrued interest payable .....  |  |
| Long-term debt .....  |  |
| Other liabilities .....   |  |
| Total liabilities .....   |  |
| <br>Shareholders' equity  |  |
| Common stock - no par value; 10,000,000 shares authorized; issued and<br>outstanding - 3,359,203 for 2008 and<br>3,324,105 for 2007 ..... |  |
| Additional paid-in capital .....  |  |
| Retained earnings .....   |  |
| Accumulated other comprehensive income .....  |  |
| Total shareholders' equity .....  |  |
| <br>Total liabilities and shareholders' equity .....  |  |

See accompanying notes to unaudited consolidated financial statements.

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(Dollars in thousands,  
except per share)

|  |         |         |
|--|---------|---------|
| Interest income                                      |         |         |
| Loans, including fees .....                          | \$4,732 | \$3,978 |
| Interest bearing deposits due from banks .....       | 2       | 1       |
| Securities   |         |         |
| Taxable .....  | 1,017   | 938     |
| Tax-exempt .....                                     | 206     | 187     |
| Other investments .....                              | 13      | 15      |
| Federal funds sold .....                             | 386     | 542     |
|  | -----   | -----   |
| Total interest income .....                          | 6,356   | 5,661   |
|  | -----   | -----   |
| Interest expense                                     |         |         |
| Time deposits \$100M and over .....                  | 1,153   | 918     |
| Other deposits .....                                 | 2,396   | 2,224   |
| Short-term borrowings .....                          | -       | 3       |
| Long-term debt .....                                 | 39      | 54      |
|  | -----   | -----   |
| Total interest expense .....                         | 3,588   | 3,199   |
|  | -----   | -----   |
| Net interest income .....                            | 2,768   | 2,462   |
| Provision for loan losses .....                      | 130     | -       |
|  | -----   | -----   |
| Net interest income after provision .....            | 2,638   | 2,462   |
|  | -----   | -----   |
| Other income   |         |         |
| Service charges on deposit accounts .....            | 360     | 334     |
| ATM interchange and other fees .....                 | 129     | 105     |
| Credit life insurance commissions .....              | 4       | 7       |
| Increase in value of bank-owned life insurance ..... | 93      | -       |
| Other income .....                                   | 23      | 40      |
|  | -----   | -----   |
| Total other income .....                             | 609     | 486     |
|  | -----   | -----   |
| Other expenses                                       |         |         |
| Salaries and employee benefits .....                 | 1,037   | 811     |
| Net occupancy expense .....                          | 119     | 88      |
| Furniture and equipment expense .....                | 110     | 102     |
| Amortization of computer software .....              | 75      | 59      |
| ATM interchange and related expenses .....           | 110     | 70      |
| Other expense .....                                  | 436     | 404     |
|  | -----   | -----   |
| Total other expenses .....                           | 1,887   | 1,534   |
|  | -----   | -----   |
| Income before income taxes .....                     | 1,360   | 1,414   |
| Income tax expense .....                             | 400     | 457     |
|  | -----   | -----   |
| Net income .....                                     | \$ 960  | \$ 957  |
|  | =====   | =====   |
| Per share*   |         |         |
| Net income .....                                     | \$ 0.29 | \$ 0.31 |
| Net income, assuming dilution .....                  | 0.27    | 0.29    |
|  | -----   | -----   |

\* Per share information has been retroactively adjusted to reflect a 5% stock dividend effective December 20, 2007.

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See accompanying notes to unaudited consolidated financial statements.

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COMMUNITY FIRST BANCORPORATION  
Consolidated Statements of Changes in Shareholders' Equity

|   | (Unaudited)      |                  |                        |           |
|---|------------------|------------------|------------------------|-----------|
|   | Common Stock     |                  | Additional             | Re        |
|   | Number of        | Amount           | Paid-in                | E         |
|   | Shares           | -----            | Capital                | -----     |
|   | -----            | -----            | -----                  | -----     |
|   |                  |                  | (Dollars in thousands) |           |
| Balance, January 1, 2007 .....  | 2,958,558        | \$ 30,061        | \$ 593                 | \$        |
| Comprehensive income:   |                  |                  |                        |           |
| Net income .....  | -                | -                | -                      |           |
| Unrealized holding gains and losses<br>on available-for-sale securities<br>arising during the period, net of<br>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> |
| Balance, January 1, 2008 .....  | 3,324,105        | \$ 35,009        | \$ 681                 | \$        |
| Comprehensive income:   |                  |                  |                        |           |
| Net income .....  | -                | -                | -                      |           |
| Unrealized holding gains and losses<br>on available-for-sale securities<br>arising during the period, net of<br>income taxes of \$340 ..... | -                | -                | -                      |           |
| Total other comprehensive income .....  |                  |                  |                        |           |
| Total comprehensive income .....  |                  |                  |                        |           |
| Exercise of employee stock options .....  | 35,098           | 180              | -                      |           |
| Balance, March 31, 2008 .....   | <u>3,359,203</u> | <u>\$ 35,189</u> | <u>\$ 681</u>          | <u>\$</u> |

See accompanying notes to unaudited consolidated financial statements.

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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 .....                              | ..... |
| Loss on sale of foreclosed assets .....  | ..... |
| Increase in cash surrender value of bank-owned life insurance .....              | ..... |
| (Increase) decrease in interest receivable .....                                 | ..... |
| Increase in interest payable .....   | ..... |
| (Increase) decrease in prepaid expenses and other assets .....                   | ..... |
| Increase in other accrued expenses .....   | ..... |
| 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 .....   | ..... |
| Purchases of other investments .....                                  | ..... |
| Disposals of other investments .....                                  | ..... |
| Net increase in loans made to customers .....                         | ..... |
| Purchases of premises and equipment .....                             | ..... |
| Proceeds of sale of foreclosed assets .....                           | ..... |
| Investment in bank-owned life insurance .....                         | ..... |

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|  |  |
|--|--|
| Net cash used by investing activities .....  |  |
| Financing activities   |  |
| Net increase in demand deposits, interest<br>bearing transaction accounts and savings accounts ..... |  |
| Net increase in certificates of deposit and other<br>time deposits .....                             |  |
| 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 in 2007 .....                                  |  |
| Income taxes .....   |  |
| Noncash investing and financing activities:  |  |
| Other comprehensive income .....   |  |

See accompanying notes to unaudited consolidated financial statements.

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### 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, 2007 filed with the Securities and Exchange Commission. Certain amounts in the 2007 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, 2008, there were \$444,000 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 2007 per share information has been retroactively adjusted to give effect to a 5% stock dividend effective December 20, 2007. Net income per share and net income per

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share, assuming dilution, were computed as follows:

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, 2008, 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-employee directors under the recognition and measurement principles of

Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" using the modified prospective application method.

New Accounting Pronouncements - The Financial Accounting Standards Board ("the FASB") issued Statement of Financial Accounting Standards No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"), which was effective for the Company as of January 1, 2008. 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. The Company has not elected to value any financial assets or liabilities under SFAS No. 159. Therefore, the adoption of SFAS No. 159 had no effect on the Company's financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" ("SFAS No. 160"). SFAS No. 160 is effective for years beginning after December 31, 2008, and is to be applied prospectively with retrospective presentation and disclosure requirements for comparative financial

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statements. Early adoption is prohibited. SFAS No. 160 seeks to improve the relevance, comparability and transparency of financial information that a reporting entity provides in its consolidated financial statements by separately identifying and reporting several financial statement components into amounts that are attributable to the reporting entity or that are attributable to noncontrolling interests. SFAS No. 160 also specifies the conditions under which an entity is required to deconsolidate its interest in a subsidiary. The Company currently has no consolidated subsidiaries that are not wholly owned nor are any transactions contemplated that would result in such a condition. Therefore, it is expected that the adoption of SFAS No. 160 in January 2009 will have no effect on the Company's consolidated financial statements.

**Fair Value Measurements** - The Company implemented Statement of Financial Accounting Standards No. 157, "Fair Value Measurements," ("SFAS No. 157") as required on January 1, 2008. SFAS No. 157 defines fair value 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, and establishes a framework for measuring fair value. It also establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date, eliminates the consideration of large position discounts for financial instruments quoted in active markets, requires consideration of the Company's creditworthiness when valuing its liabilities, and expands disclosures about instruments measured at fair value. The following is a summary of the measurement attributes applicable to financial assets and liabilities that are measured at fair value on a recurring basis:

| Description                   | March 31, 2008 | Fair Value Measurement at Reporting Date Using                                |   |  |
|-------------------------------|----------------|---|---|--|
| -----                         | -----          | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Signifi<br>Unobserv<br>Input<br>(Level |
| -----                         | -----          | -----   | -----   | -----                                  |
|                               |                | (Dollars in thousands)  |   |  |
| Securities available-for-sale |                | \$ -  | \$ 107,635  | \$                                     |

Pricing for the Company's securities available-for-sale is 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. The techniques used after adoption of SFAS No. 157 are consistent with the methods used previously.

In February 2008, the Financial Accounting Standards Board Staff issued FASB Staff Position No. FAS 157-2 ("FSP 157-2") which delays for one year the effective date of the application of Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("SFAS No. 157") to nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). In accordance with FSP 157-2, the Company has only partially applied SFAS No. 157. There are currently no major categories of assets or liabilities disclosed at fair value

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in the financial statements for which the Company has not applied the provisions of SFAS No. 157.

No cumulative effect adjustments were required upon initial application of SFAS No. 157. Available-for-sale securities continue to be measured at fair value with unrealized gains and losses recorded in other comprehensive income.

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### 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 forwarding-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," "seek," "plan," "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:

- o future economic and business conditions;
- o lack of sustained growth in the economies of the Company's market areas;
- o government monetary and fiscal policies;
- o 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;
- o 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;
- o credit risks;
- o the failure of assumptions underlying the establishment of the allowance for loan losses and other estimates, including the value of collateral securing loans;
- o 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

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- from such endeavors;
- o changes in laws and regulations, including tax, banking and securities laws and regulations;
  - o changes in accounting policies, rules and practices;
  - o changes in technology or products may be more difficult or costly, or less effective, than anticipated;
  - o the effects of war or other conflicts, acts of terrorism or other catastrophic events that may affect general economic conditions and economic confidence; and
  - o 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.

All forward-looking statements are expressly qualified in their entirety by this cautionary notice. The Company has no obligation, and does not undertake, to update, revise or correct any of the forward-looking statements after the date of this report. The Company has expressed its expectations, beliefs and projections in good faith and believes 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

#### Changes in Financial Condition

During the first three months of 2008, interest bearing deposits increased by \$21,024,000, or 6.7%. Certificates of deposit issued in denominations of \$100,000 or more grew by \$10,855,000, or 11.2% during the period, primarily due to activity generated by local government bodies. These funds were used primarily to fund growth in securities available-for-sale. Loan

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growth was funded primarily by increases in non-governmental deposits. 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

The Company recorded consolidated net income of \$960,000 or \$.29 per share for the first quarter of 2008 compared with \$957,000, or \$.31 per share for the first quarter of 2007. Net income per share, assuming dilution was \$.27 for the 2008 period and \$.29 for the 2007 period. Net income per share amounts for 2007 have been retroactively adjusted to reflect a five percent stock dividend effective December 20, 2007.

|                                      |         | Summary Income S |                        |
|--------------------------------------|---------|------------------|------------------------|
| For the Three Months Ended March 31, | 2008    | 2007             | (Dollars in tho<br>Dol |
|                                      | ----    | ----             | ----                   |
| Interest income .....                | \$6,356 | \$5,661          |                        |
| Interest expense .....               | 3,588   | 3,199            |                        |

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|                                 |        |        |
|---------------------------------|--------|--------|
|                                 | -----  | -----  |
| Net interest income .....       | 2,768  | 2,462  |
| Provision for loan losses ..... | 130    | -      |
| Noninterest income .....        | 609    | 486    |
| Noninterest expenses .....      | 1,887  | 1,534  |
| Income tax expense .....        | 400    | 457    |
|                                 | -----  | -----  |
| Net income .....                | \$ 960 | \$ 957 |
|                                 | =====  | =====  |

Net Interest Income

Net interest income is the principal source of the Company's earnings. For the first quarter of 2008, net interest income totaled \$2,768,000, an increase of \$306,000 or 12.4% over the amount for the same period of 2007. The yield on interest earning assets decreased to 6.26% for the 2008 period, compared with 6.39% for the 2007 period and the average rates paid for interest bearing liabilities were 4.09% and 4.34%, respectively. Accordingly, the average interest rate spread for the 2008 period was 12 basis points higher than for the 2007 period. Net yield on earning assets decreased, however, in the 2008 period to 2.73% from 2.78% for the 2007 period because interest bearing liabilities grew at a higher rate than earning assets.

Average loans in the 2008 period were \$250,255,000, an increase of \$42,257,000, or 20.3%, over the amount for the same period of 2007. The higher loan volume was primarily responsible for the increase in interest income. Likewise, higher average amounts of time deposits were responsible for the higher interest expense in 2008.

During the three months ended March 31, 2008, the Federal Reserve Board reduced its federal funds target and discount window borrowing rates precipitously. In addition to lowering those interest rates, the Federal Reserve Board also prevented the collapse of a major brokerage firm by facilitating its acquisition by a multinational bank, opened its discount window to non-bank financial institutions, and initiated a program whereby it lends US Treasury securities and accepts other lesser-quality securities as collateral. All of these measures were undertaken in an effort to overcome the illiquidity of certain securities and to ensure that credit is available for new investments.

In response to the actions of the Federal Reserve Board, overall market interest rates declined during the first quarter of 2008. The Company lowered the rates offered for deposits and lower rates were accepted on investment securities purchased during the period and on loans originated during the period. In addition, many of the Company's pre-existing loans are variable rate loans with interest rates indexed to the prime rate. Changes in the prime rate occur almost simultaneously with changes made by the Federal Reserve Board.

|  |                                  |          |         |         |
|--|----------------------------------|----------|---------|---------|
|  | Average Balances, Yields and Rat |          |         |         |
|  | Three Months Ended March 31,     |          |         |         |
|  | -----                            |          |         |         |
|  | 2008                             |          |         |         |
|  | ----                             |          |         |         |
|  | Average                          | Interest | Yields/ | Average |
|  |                                  | Income/  |         |         |

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|  | Balances<br>----- | Expense<br>----- | Rates (1)<br>----- | Balances<br>-----     |
|--|-------------------|------------------|--------------------|-----------------------|
|  |                   |                  |                    | (Dollars in thousand) |
| <b>Assets</b>  |                   |                  |                    |                       |
| Interest-bearing deposits due from banks ....                | \$ 415            | \$ 2             | 1.94%              | \$ 65                 |
| Securities   |                   |                  |                    |                       |
| Taxable .....  | 88,070            | 1,017            | 4.64%              | 88,406                |
| Tax exempt (2) .....   | 20,613            | 206              | 4.02%              | 19,692                |
|  | -----             | -----            |                    | -----                 |
| Total investment securities .....                            | 108,683           | 1,223            | 4.53%              | 108,098               |
| Other investments .....                                      | 846               | 13               | 6.18%              | 980                   |
| Federal funds sold .....                                     | 48,050            | 386              | 3.23%              | 42,231                |
| Loans (2) (3) .....  | 250,255           | 4,732            | 7.61%              | 207,998               |
|  | -----             | -----            |                    | -----                 |
| Total interest earning assets .....                          | 408,249           | 6,356            | 6.26%              | 359,372               |
| Cash and due from banks .....                                | 8,250             |                  |                    | 7,684                 |
| Allowance for loan losses .....                              | (2,581)           |                  |                    | (2,228)               |
| Unrealized securities gains (losses) .....                   | 778               |                  |                    | (1,216)               |
| Premises and equipment .....                                 | 8,842             |                  |                    | 7,907                 |
| Other assets .....   | 12,196            |                  |                    | 3,788                 |
|  | -----             |                  |                    | -----                 |
| Total assets .....   | \$ 435,734        |                  |                    | \$ 375,307            |
|  | =====             |                  |                    | =====                 |
| <b>Liabilities and shareholders' equity</b>                  |                   |                  |                    |                       |
| Interest bearing deposits                                    |                   |                  |                    |                       |
| Interest bearing transaction accounts ..                     | \$ 59,745         | \$ 335           | 2.26%              | \$ 55,233             |
| Savings .....  | 42,225            | 209              | 1.99%              | 40,297                |
| Time deposits \$100M and over .....                          | 103,047           | 1,153            | 4.50%              | 80,238                |
| Other time deposits .....                                    | 143,297           | 1,852            | 5.20%              | 117,466               |
|  | -----             | -----            |                    | -----                 |
| Total interest bearing<br>deposits .....                     | 348,314           | 3,549            | 4.10%              | 293,234               |
| Short-term borrowings .....                                  | -                 | -                | 0.00%              | 50                    |
| Long-term debt .....   | 4,500             | 39               | 3.49%              | 5,500                 |
|  | -----             | -----            |                    | -----                 |
| Total interest bearing<br>liabilities .....                  | 352,814           | 3,588            | 4.09%              | 298,784               |
| Noninterest bearing demand deposits .....                    | 39,777            |                  |                    | 39,691                |
| Other liabilities .....                                      | 4,327             |                  |                    | 3,178                 |
| Shareholders' equity .....                                   | 38,816            |                  |                    | 33,654                |
|  | -----             |                  |                    | -----                 |
| Total liabilities and shareholders'<br>equity .....          | \$ 435,734        |                  |                    | \$ 375,307            |
|  | =====             |                  |                    | =====                 |
| Interest rate spread .....                                   |                   |                  | 2.17%              |                       |
| Net interest income and net yield<br>on earning assets ..... |                   | \$ 2,768         | 2.73%              |                       |
| Interest free funds supporting earning<br>assets .....       | \$ 55,435         |                  |                    | \$ 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 loans is recognized on a cash basis. The amounts of such loans and income are not material.



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|                          |        |       |        |      |
|--------------------------|--------|-------|--------|------|
| March 31, 2007 .....     | 193    | -     | 193    | 0.09 |
| Net change .....         | 219    | -     | 219    |      |
|                          | -----  | ----  | -----  |      |
| June 30, 2007 .....      | 412    | -     | 412    | 0.18 |
| Net change .....         | 14     | -     | 14     |      |
|                          | -----  | ----  | -----  |      |
| September 30, 2007 ..... | 426    | -     | 426    | 0.18 |
| Net change .....         | 199    | -     | 199    |      |
|                          | -----  | ----  | -----  |      |
| December 31, 2007 .....  | 625    | -     | 625    | 0.26 |
| Net change .....         | (181)  | -     | (181)  |      |
|                          | -----  | ----  | -----  |      |
| March 31, 2008 .....     | \$ 444 | \$ -  | \$ 444 | 0.18 |
|                          | =====  | ===== | =====  |      |

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, 2008, approximately 81.7% of the dollar amount of potential problem loans was secured by real estate, 13.7% was secured by vehicles and other collateral, and approximately 4.6% represented unsecured loans.

Management believes that the economies of its market areas are strong. However, continuing increases in prices for fuel and food, declining values of homes and other real properties, declining demand for products manufactured locally, and other events could have an adverse effect on those areas and potentially lead to a deterioration of the abilities of the Company's loan customers to repay their debts, resulting in higher loan losses.

#### Noninterest Income

Noninterest income totaled \$609,000 for the first quarter of 2008, compared with \$486,000 for the first quarter of 2007. Service charges on deposit accounts in the 2008 period were \$360,000 representing an increase of \$26,000 over the prior year period. ATM interchange and other fees for the 2008 period increased by \$24,000 over the 2007 amount. Increases in the cash surrender value of bank-owned life insurance assets totaled \$93,000 in the 2008 period. There was no such activity in the same 2007 period.

#### Noninterest Expenses

Noninterest expenses totaled \$1,887,000 for the first quarter of 2008, compared with \$1,534,000 for the first quarter of 2007, representing an increase of \$353,000 or 23.0%. Salaries and employee benefits increased by \$226,000, or 27.9%, to \$1,037,000. Amounts accrued in recognition of certain deferred compensation and other benefits totaled \$139,000 in the 2008 period; no such expenses were recorded in the same 2007 period. Normal increases in employees' salaries and the opening of the new Highway 81 office in the fourth quarter of 2007 also contributed to the higher amounts of salaries and benefits.

Occupancy and furniture and equipment expenses for the first quarter of 2008 increased by \$39,000 compared with the 2007 period, primarily due to the opening of the Company's new Highway 81, Anderson, office in the fourth quarter of 2007.

Income tax expense for the first quarter of 2008 decreased by \$57,000 from the amount of the same period of 2007 due to lower net income before income taxes and higher amounts of tax-exempt investment income.

### 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 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, 2008, the ratio of loans to total deposits was 67.2%, compared with 68.6% as of December 31, 2007. Total deposits as of March 31, 2008 were \$375,069,000, an increase of \$19,202,000 or 5.4% over the amount as of December 31, 2007. Management believes that the Company's liquidity sources are adequate to meet its operating needs.

### Capital Resources

The Company's capital base increased by \$1,748,000 since December 31, 2007 as the result of net income of \$960,000 for the first three months of 2008, plus a \$608,000 change in unrealized gains and losses on available-for-sale securities, net of deferred income tax effects, and \$180,000 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, 2008 risk based capital ratios for the Company and the 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<br>Capital | Leverage |
|--|--------|------------------|----------|
|  | -----  | -----            | -----    |
| Community First Bancorporation         | 13.8%  | 14.7%            | 9.0%     |
| Community First Bank                   | 13.1%  | 14.0%            | 8.6%     |
| 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

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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, 2008            |
|---------------------------------|---------------------------|
|                                 | -----                     |
|                                 | (Dollars in<br>thousands) |
| Loan commitments .....          | \$ 32,867                 |
| Standby letters of credit ..... | 1,064                     |

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, 2008.

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.

### Item 3. - Quantitative and Qualitative Disclosures About Market Risk

Not required for smaller reporting companies.

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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

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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

- |          |   |
|----------|---|
| 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

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

May 13, 2008

/s/ Frederick D. Shepherd, Jr.

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Date

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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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