COMMUNITY FIRST BANCORP
Form 10-Q
November 13, 2006

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 September 30, 2006   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 [X] 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 [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, no par or stated value, 2,817,988 Shares Outstanding on November 1, 2006

COMMUNITY FIRST BANCORPORATION

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PART I - FINANCIAL INFORMATION

Item 1. - Financial Statements

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Common stock - no par value; 10,000,000 shares authorized; issued and
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2,798,409 for 2005 ....
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See accompanying notes to unaudited consolidated financial statements.

COMMUNITY FIRST BANCORPORATION
Consolidated Statements of Income

(
Period E

Three Months

	2006	2005
		(Dollars in
Interest income		
Loans, including fees	$ 3,567	$ 2,93
Interest bearing balances due from banks	-	
Securities		
Taxable	995	84
Tax-exempt	178	4
Other investments	14	1
Federal funds sold	188	18
Total interest income	4,942	4,01
Interest expense		
Time deposits $100M and over	808	58
Other deposits	1,809	1,09
Short-term borrowings	-	
Long-term debt	55	7
Total interest expense	2,672	1,75
Net interest income	2,270	2,25
Provision for loan losses	15	
Net interest income after provision	2,255	2,25
Other income		
Service charges on deposit accounts	404	40
ATM interchange and other fees	96	7
Credit life insurance commissions	15	
Other income	44	5
Total other income	559	54
Other expenses		
Salaries and employee benefits	804	79
Net occupancy expense	89	6
Furniture and equipment expense	113	8
Amortization of computer software	69	6
ATM interchange and related expenses	66	5
Directors' fees	38	2
Other expense	290	30
Total other expenses	1,469	1,38
Income before income taxes	1,345	1,41
Income tax expense	441	48
Net income	$ 904	$ 93
Per share*		
Net income	$ 0.32	$ 0.3
Net income, assuming dilution	0.30	0.3

* Per share information has been retroactively adjusted to reflect a 5% stock dividend effective November 30, 2005.

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 Number of Shares	Common Stock Amount	Additional Paid-in Capital	R E
			(Dollars in t	
Balance, January 1, 2005	2,648,230	$ 24,216	$ -	$
Comprehensive income:				
Net income	-	-	-	
Unrealized holding gains and losses on available-for-sale securities arising during the period, net of income taxes of $249	-	-	-	
Total other comprehensive income (loss)	-	-	-	
Total comprehensive income	-	-	-	
Exercise of employee stock options	4,875	30	-	
Balance, September 30, 2005	2,653,105	$ 24,246	$ -	$
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 $159	-	-	-	
Total other comprehensive income	-	-	-	
Total comprehensive income	-	-	-	

Share-based compensation	-	-	178	
Exercise of employee stock options	19,579	83	-	
Balance, September 30, 2006	2,817,988	$ 27,039	$ 178	$

See accompanying notes to unaudited consolidated financial statements.

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COMMUNITY FIRST BANCORPORATION
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(Decrease) increase in other accrued expenses	
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Interest, net of $18 capitalized during construction in 2006 ....
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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, 2005 filed with the Securities and Exchange Commission. Certain amounts in the 2005 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.

Nonperforming Loans - As of September 30, 2006, there were $481,000 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 2005 per share information has been retroactively adjusted to give effect to a 5% stock dividend effective November 30, 2005. Net income per share and net income per share, assuming dilution, were computed as follows:

	(Period E	
	Three Months	
	2006	2005
	(Dollars in thousan	
Net income per share, basic		
Numerator - net income	$ 904	$ 93
Denominator		
Weighted average common shares issued and outstanding	2,811,893	2,784,36
Net income per share, basic	$ .32	$ .3
Net income per share, assuming dilution		
Numerator - net income	$ 904	$ 93
Denominator		
Weighted average common shares issued and outstanding	2,811,893	2,784,36
Effect of dilutive stock options	189,896	202,31
Total shares	3,001,789	2,986,68
Net income per share, assuming dilution	$ .30	$ .3

Share-Based Compensation - As of September 30, 2006, the Company has two share-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. Total share-based compensation expenses included in salaries and employee benefits and directors fees were $38,000 and $17,000, respectively, for the three month period, and $98,000 and $80,000, respectively, for the nine month period ended September 30, 2006.

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

Forward Looking Statements

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 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 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 three months ended September 30, 2006, loans grew by $7,885,000, or 4.2%, and securities available-for-sale increased by $4,373,000, or 4.1%. Total deposits decreased by $4,137,000, or 1.4%, during the third quarter, primarily as a result of normal seasonal withdrawals of public deposits. These uses of cash were funded primarily by reducing the amount of federal funds sold by $14,904,000 during the quarter. During the 2006 third quarter, the Company discontinued paying special promotional rates on interest bearing transaction accounts which were offered earlier in the year in conjunction with the opening of a new office in Seneca, SC.

During the first nine months of 2006, interest bearing deposits increased by $16,418,000, or 6.8%, due in part to the promotional rates mentioned above. These funds were used to repay short-term borrowings of $3,500,000 and long-term debt of $1,000,000, to fund growth in loans, and to purchase securities. Loans increased by $24,617,000 or 14.5% and securities available-for-sale increased by $8,621,000 or 8.4%.

The Company believes that it continues to have sufficient 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 any further increases in interest rates at an acceptable level.

Results of Operations

Three Months Ended September 30, 2006 and 2005

The Company recorded consolidated net income of $904,000 or $.32 per share for the third quarter of 2006. These results are slightly less than net income of $930,000 and earnings per share of $.33 for the third quarter of 2005. Net income per share, assuming dilution was $.30 for the 2006 quarter and $.31 for the 2005 period. Net income per share amounts for 2005 have been retroactively adjusted to reflect a five percent stock dividend effective November 30, 2005.

In the 2006 third quarter, the Company continued to incur higher expenses associated with moving its corporate offices into, and opening a new retail banking office in, a newly constructed building in Seneca, SC during the 2006 second quarter. In conjunction with the opening of this new office, the Company offered promotional interest rates on certain deposit accounts, and incurred other promotional expenses during the 2006 second and third quarters. Loans outstanding increased significantly during the 2006 second and third quarters, largely as a result of the opening of the new banking office. Additional personnel were hired to staff the new retail office and occupancy and other fixed assets expenses have also increased. Salaries and employee benefits and directors' fees for the 2006 three month period also include approximately $55,000 which represents the effect of adoption of SFAS 123(R) using the modified prospective method.

Summary Inco

(Dollars i

For the Three Months Ended September 30,	2006	2005
Interest income	$4,942	$4,011
Interest expense	2,672	1,752
Net interest income	2,270	2,259
Provision for loan losses	15	-
Noninterest income	559	543
Noninterest expenses	1,469	1,383
Income tax expense	441	489
Net income	$ 904	$ 930

Nine Months Ended September 30, 2006 and 2005

The Company recorded consolidated net income of $2,557,000 or $.91 per share for the first nine months of 2006. These results are less than net income of $2,816,000 and earnings per share of $1.01 for the same period of 2005. Net income per share, assuming dilution was $.86 for the 2006 nine months and $.95 for the same period of 2005. Net income per share amounts for 2005 have been retroactively adjusted to reflect a five percent stock dividend effective November 30, 2005.

The results for the 2006 nine-month period reflect the promotional and other expenses of the new Seneca office building referred to above and the effects of adopting SFAS 123(R). Salaries and employee benefits and directors' fees for the 2006 nine month period include approximately $178,000 representing the effect of the adoption of SFAS 123(R) using the modified prospective method.

Summary Inco

(Dollars i

For the Nine Months Ended September 30,	2006	2005
Interest income	$14,392	$11,769
Interest expense	7,553	4,723
Net interest income	6,839	7,046
Provision for loan losses	65	215
Noninterest income	1,637	1,581
Noninterest expenses	4,581	4,058
Income tax expense	1,273	1,538
Net income	$ 2,557	$ 2,816

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Net Interest Income

Net interest income is the principal source of the Company's earnings. During the second and third quarters of 2006, the Company offered above-market promotional interest rates on certain deposit products in conjunction with the opening of a new retail banking office in Seneca, SC. These promotional rates significantly increased the Company's interest expense. The Company discontinued paying the promotional rates approximately mid-way through the third quarter of 2006. Management expects that the Company's net interest income and the related metrics will return to more normal levels throughout the remainder of 2006.

Three Months Ended September 30, 2006 and 2005

For the third quarter of 2006, net interest income totaled $2,270,000, an increase of $11,000 over the amount for the same period of 2005. The average yield on interest earning assets increased to 6.08% for the 2006 period, compared with 5.41% for the 2005 period, due to higher rates earned on all significant categories of earning assets. However, largely as a result of special promotional rates, the average rate paid for interest-bearing liabilities increased to 4.01% for the 2006 quarter, compared with 2.90%, for the 2005 quarter. Accordingly, the average interest rate spread for the 2006 period was 45 basis points lower than for the 2005 period.

	Average Balances Three Months End		
		2006	
	Average Balances	Interest Income/ Expense	Yields/ Rates (1)
			(Dollars in
Assets			
Interest-bearing balances due from banks	$ 46	$ -	0.00%
Securities			
Taxable	101,222	995	3.90%
Tax exempt (2)	18,346	178	3.85%
Total investment securities	119,568	1,173	3.89%
Other investments	980	14	5.67%
Federal funds sold	14,246	188	5.24%
Loans (2) (3) (4)	187,669	3,567	7.54%
Total interest earning assets	322,509	4,942	6.08%
Cash and due from banks	6,331		
Allowance for loan losses	(2,268)		
Valuation allowance - Available-for-sale securities	(2,701)		
Premises and equipment	7,815		
Other assets	4,051		
Total assets	$ 335,737		
Liabilities and shareholders' equity			
Interest bearing deposits			
Interest bearing transaction accounts	$ 51,698	$ 406	3.12%
Savings	20,826	118	2.25%
Time deposits $100M and over	72,426	808	4.43%
Other time deposits	114,100	1,285	4.47%
Total interest bearing deposits	259,050	2,617	4.01%
Long-term debt	5,500	55	3.97%
Total interest bearing liabilities	264,550	2,672	4.01%
Noninterest bearing demand deposits	38,053		
Other liabilities	2,398		
Shareholders' equity	30,736		
Total liabilities and shareholders' equity ...	$ 335,737		
Interest rate spread			2.07%
Net interest income and net yield on earning assets		$ 2,270	2.79%

Interest free funds supporting earning assets .... $ 57,959

(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.

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The Company continues to pursue a strategy to increase its market share in its local market areas in Anderson and Oconee Counties of South Carolina. Oconee County is served from four offices which are located in Seneca, Walhalla and Westminster. The Company currently is using its temporary facility at the Westminster location and there presently are no firm plans, timetables or budgets for constructing a permanent facility for this office. The Anderson County market is served from offices in Anderson and Williamston. The Company is planning to open an additional office on Highway 81 in Anderson County. Construction on this office, which is estimated to cost approximately $900,000, is expected to begin during the fourth quarter of 2006.

Nine Months Ended June 30, 2006 and 2005

For the first nine months of 2006, net interest income totaled $6,839,000, a decrease of $207,000 or 2.9% from the amount for the same period of 2005. The yield on interest earning assets increased to 5.90% for the 2006 period, compared with 5.28% for the 2005 period, due to higher rates earned on all categories of earning assets, but especially as related to loans. A significant portion of the Company's loans are variable rate instruments that are repriced in response to changes in the "prime rate." Also, for all loans with original anticipated maturities of more than five years, the Company generally includes a provision that allows it to adjust the interest rate on each loan at least every five years.

Largely as a result of special promotional rates offered beginning in the second quarter and continuing until approximately mid-way though the third quarter of 2006, the average rate paid for interest-bearing liabilities increased to 3.76% for the 2006 nine-month period, compared with 2.59%, for the same period of 2005. Accordingly, the average interest rate spread for the 2006 period was 55 basis points lower than for the 2005 period.

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	Average Balances, Nine Months Ende		
	2006		
	Average Balances	Interest Income/ Expense	Yields/ Rates (1)
	(Dollars in		

Assets			
Interest-bearing balances due from banks	$ 103	$ 4	5.19%
Securities			
Taxable	100,842	2,883	3.82%
Tax exempt (2)	15,646	456	3.90%
Total investment securities	116,488	3,339	3.83%
Other investments	969	38	5.24%
Federal funds sold	28,776	1,011	4.70%
Loans (2) (3) (4)	179,560	10,000	7.45%
Total interest earning assets	325,896	14,392	5.90%
Cash and due from banks	6,586		
Allowance for loan losses	(2,266)		
Valuation allowance - Available-for-sale securities	(2,607)		
Premises and equipment	7,451		
Other assets	3,973		
Total assets	$ 339,033		
Liabilities and shareholders' equity			
Interest bearing deposits			
Interest bearing transaction accounts	$ 44,065	$ 903	2.74%
Savings	30,946	617	2.67%
Time deposits $100M and over	73,978	2,273	4.11%
Other time deposits	113,776	3,580	4.21%
Total interest bearing deposits	262,765	7,373	3.75%
Short-term borrowings	26	2	10.28%
Long-term debt	6,108	178	3.90%
Total interest bearing liabilities	268,899	7,553	3.76%
Noninterest bearing demand deposits	37,727		
Other liabilities	2,482		
Shareholders' equity	29,925		
Total liabilities and shareholders' equity	$ 339,033		
Interest rate spread			2.14%
Net interest income and net yield on earning assets		$ 6,839	2.81%
Interest free funds supporting earning assets	$ 56,997		

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(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.

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Provision and Allowance for Loan Losses

The provision for loan losses was $15,000 for the third quarter of 2006. No provision for loan losses was recognized for the 2005 third quarter. For the first nine months of 2006, the provision for loan losses was $65,000, a decrease of $150,000 from the $215,000 recorded for the first nine months of

2005. At September 30, 2006, the allowance for loan losses was 1.16% of loans, compared with 1.34% at December 31, 2005. The decreases in the provision and allowance were made as a result of significant decreases in net-charge-offs and lower levels of nonaccrual loans.

For the first nine months of 2006, net charge-offs totaled $72,000, compared with $156,000 in net charge offs during the same period of 2005. As of September 30, 2006, there were $481,000 in nonaccrual loans and no loans 90 days or more past due and still accruing interest. As of September 30, 2005, there were $969,000 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:

	Nine Months Ended September 30, 2006
Allowance at beginning of period	$ 2,266
Provision for loan losses	65
Net charge-offs	(72)
Allowance at end of period	$ 2,259
Allowance as a percentage of loans outstanding at period end	1.16%
Loans at end of period	$ 193,935

Non-Performing and Potential Problem Loans

	Nonaccrual Loans	90 Days or More Past Due and Still Accruing	Total Nonperforming Loans	Percentage of Total Loans
			(Dollars in thousands)	
January 1, 2005	$ 1,465	$ 9	$ 1,474	0.93%
Net change	(288)	(9)	(297)	
March 31, 2005	1,177	-	1,177	0.73%
Net change	(19)	-	(19)	
June 30, 2005	1,158	-	1,158	0.70%
Net change	(189)	-	(189)	
September 30, 2005	969	-	969	0.58%
Net change	(69)	5	(64)	

December 31, 2005	900	5	905	0.53%
Net change	(321)	(5)	(326)	
March 31, 2006	579	-	579	0.34%
Net change	(82)	-	(82)	
June 30, 2006	497	-	497	0.27%
Net change	(16)	-	(16)	
September 30, 2006	$ 481	$ -	$ 481	0.25%

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. Since June 30, 2006, loans totaling $282,000 moved into potential problem loans, of which $135,000 are collateralized by real estate mortgages. Potential problem loans that totaled $426,000 as of June 30, 2006 were no longer included in potential problem loans as of September 30, 2006, including loans totaling $14,000 as of June 30, 2006 that were charged off during the third quarter of 2006. Management believes that the increase in potential problem loans in the first nine months of 2006 reflects circumstances unique to each individual borrower.

Noninterest Income

Noninterest income totaled $559,000 for the third quarter of 2006, compared with $543,000 for the 2005 quarter. Service charges on deposit accounts in the 2006 quarter were $404,000 representing an increase of $2,000 from the prior year period and fees from an overdraft privilege product were $16,000 more in the 2006 period than in the 2005 period. Mortgage brokerage income in 2006 was approximately $13,000 less than in the 2005 period. There were no sales of any securities in either the 2006 or 2005 period.

For the nine months ended September 30, 2006, noninterest income totaled $1,637,000, compared with $1,581,000 for the same period of 2005. Service charges on deposit accounts in the 2006 period were $1,150,000 representing a decrease of $10,000 from the prior year period. Fees from an overdraft privilege product were $52,000 more in the 2006 period than in the 2005 period. Mortgage brokerage income in 2006 was approximately $32,000 less than in the 2005 period. There were no sales of any securities in either the 2006 or 2005 period. A gain of $31,000 from the sale of foreclosed assets was recognized in the 2006 period compared with a loss of $9,000 on such sales in the 2005 period.

Noninterest Expenses

Noninterest expenses totaled $1,469,000 for the third quarter of 2006 compared with $1,383,000 for the same period of 2005, representing an increase of $86,000 or 6.2%. Salaries and employee benefits increased by $13,000, or 1.6%, to $804,000. This increase resulted primarily from the recognition of share-based compensation of $38,000 in the 2006 period due to the adoption of SFAS 123(R). During the 2006 three-month period, employee bonuses were $13,000 less than in the same period of 2005.

Occupancy and furniture and equipment expenses for the third quarter of 2006 increased by $48,000 compared with 2005 primarily due to the Company's occupancy of new corporate offices and the opening of a new full-service banking office as well as higher maintenance expenses associated with the Company's equipment. Directors' fees for the 2006 three month period include $17,000 of share-based compensation expenses that resulted from the adoption of SFAS 123(R). In addition, higher expenses were noted in 2006 for stationery, supplies and promotional expenses resulting from the opening of the new corporate offices and an additional banking office. Some expense decreases were experienced in the 2006 three month period for expenses related to foreclosed assets.

For the nine months ended September 30, 2006, salaries and employee benefits increased by $320,000, or 15.0%, over the amount for 2005. Salaries and employee benefits for 2006 include share-based compensation expense of $98,000 resulting from the implementation of SFAS 123(R). The remainder of the increase in salaries and benefits is attributable primarily to an increase in the number of employees for the new Seneca office, higher costs of providing health insurance benefits, and normal salary increases. Net occupancy and furniture and equipment expenses increased by an aggregate of $98,000, or 21.5%. Early in the second quarter of 2006, the Company moved its corporate offices into a newly constructed office building in Seneca, SC that also houses a new full-service banking office. The increases in salaries and benefits and occupancy and furniture and fixtures expenses resulted primarily from those events. Directors' fees for the 2006 nine-month period included $80,000 of share-based expenses resulting from adoption of SFAS 123(R).

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 are 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 has significant amounts of credit availability under its FHLB lines of credit and federal funds purchased facilities.

As of September 30, 2006, the ratio of loans to total deposits was 65.5%, compared with 60.5% as of December 31, 2005. Deposits as of September 30, 2006 were $296,269,000, an increase of $16,276,000 or 5.8% over the amount as of December 31, 2005. Management believes that the Company's liquidity sources are adequate to meet its operating needs.

Capital Resources

The Company's capital base increased by $3,101,000 since December 31, 2005 as the result of net income of $2,557,000 for the first nine months of 2006, $178,000 of additional paid-in capital offsetting the charge made to earnings as a result of share-based compensation expenses recognized during the period pursuant to SFAS 123(R), $83,000 added from the exercise of employee stock options, plus a $283,000 change in unrealized gains and losses on available-for-sale securities, net of deferred income tax effects.

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 September 30, 2006 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:

	Tier 1	Total Capital	Leverage
Community First Bancorporation	15.3%	16.3%	9.8%
Community First Bank	14.7%	15.8%	9.4%
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 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:

	September 30, 2006
	(Dollars in thousands)
Loan commitments	$32,054
Standby letters of credit	1,384

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 either the nine months or three months ended

September 30, 2006.

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 are 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

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 September 30 2006, the model indicates that net interest income would increase $101,000 and net income would increase $68,000 in the next twelve months if interest rates rose by 100 basis points. Conversely, net interest income would decrease $82,000 and net income would decrease $55,000 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 September 30, 2006, there was no significant change from the interest rate sensitivity analysis for the various changes in interest rates calculated as of December 31, 2005. 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 2005 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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 Company's disclosure controls and procedures (as defined in 17 C.F.R. Sections 240.13a-15(e) and 240.15d-15(e)), the Company'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

Exhibits 31. Rule 13a-14(a)/15d-14(a) Certifications

32. Certifications Pursuant to 18 U.S.C. Section 1350

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

November 9, 2006	/s/ Frederick D. Shepherd, Jr.
Date	Frederick D. Shepherd, Jr., Chief Executive Officer and Chief Financial Officer

EXHIBIT INDEX

31. Rule 13a-14(a)/15d-14(a) Certifications

32. Certifications Pursuant to 18 U.S.C. Section 1350