COMMUNITY FIRST BANCORP
Form 10-Q
August 11, 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 June 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, 2,798,409 Shares Outstanding on July 30, 2006

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 balances due from banks	
Federal funds sold	
Cash and cash equivalents	
Securities available-for-sale	

Securities held-to-maturity (fair value $7,181 for 2006 and $7,671 for 2005)	
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 - 2,798,409 for 2006 and 2,798,409 for 2005	
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.

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COMMUNITY FIRST BANCORPORATION
Consolidated Statements of Income

		Pe
	Three Months	
	2006	2005
	(Dollars in	
Interest income		
Loans, including fees	$3,343	$2,82
Interest bearing balances due from banks	2	
Securities		

Taxable	957	87
Tax-exempt	158	3
Other investments	13	1
Federal funds sold	330	15
Total interest income	4,803	3,90
Interest expense		
Time deposits $100M and over	733	45
Other deposits	1,757	98
Short-term borrowings	-	
Long-term debt	61	7
Total interest expense	2,551	1,51
Net interest income	2,252	2,39
Provision for loan losses	25	7
Net interest income after provision	2,227	2,32
Other income		
Service charges on deposit accounts	382	40
Credit related deposit fees	76	5
Credit life insurance commissions	12	
Other income	69	7
Total other income	539	55
Other expenses		
Salaries and employee benefits	919	63
Net occupancy expense	79	6
Furniture and equipment expense	100	8
Amortization of computer software	73	5
ATM interchange and related expenses	64	5
Directors' fees	65	2
Other expense	376	44
Total other expenses	1,676	1,35
Income before income taxes	1,090	1,51
Income tax expense	348	54
Net income	$ 742	$ 97
Per share*		
Net income	$ 0.27	$ 0.3
Net income, assuming dilution	0.25	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.

COMMUNITY FIRST BANCORPORATION

Consolidated Statements of Changes in Shareholders' Equity

(Unaudited)

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Re Ea
			(Dollars in thou	
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 $229	-	-	-	
Total other comprehensive income				
Total comprehensive income				
Exercise of employee stock options	375	2	-	
Balance, June 30, 2005	2,648,605	$ 24,218	$ -	$
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 $255	-	-	-	
Total other comprehensive income				
Total comprehensive income				
Share-based compensation, net of income taxes of $23	-	-	100	
Balance, June 30, 2006	2,798,409	$ 26,956	$ 100	$

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 ....
Increase in interest receivable ....
Increase in interest payable ....
(Increase) decrease in prepaid expenses and other assets ....
Increase in other accrued expenses ....
Writedowns of foreclosed assets ....
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 ....
Purchases 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 (decrease) in demand deposits, interest
bearing transaction accounts and savings accounts ....
Net increase (decrease) in certificates of deposit and other
time deposits ....
Decrease in short-term borrowings ....
Repayments of long-term debt ....
Exercise of employee stock options ....

Net cash provided (used) by financing activities ....

Decrease 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 $18 capitalized during construction during 2006 ....
Income taxes ....
Noncash investing and financing activities:
Other comprehensive income (loss) ....

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, 2005 filed with the Securities and Exchange Commission. Certain amounts in the 2005 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 June 30, 2006, there were $497,000 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:

	(Unau	
	Period En	
	Three Months	
	2006	2005
	(Dollars in thousands,	
Net income per share, basic		

Numerator - net income	$ 742	$ 977
Denominator		
Weighted average common shares issued and outstanding	2,798,409	2,780,824
Net income per share, basic	$ .27	$ .35
Net income per share, assuming dilution		
Numerator - net income	$ 742	$ 977
Denominator		
Weighted average common shares issued and outstanding	2,798,409	2,780,824
Effect of dilutive stock options	206,287	193,383
Total shares	3,004,696	2,974,207
Net income per share, assuming dilution	$ .25	$ .33

Stock-Based Compensation - As of June 30, 2006, the Company has 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. Total share-based compensation expenses included in salaries and employee benefits and directors fees were $40,000 and $38,000, respectively, for the three month period, and $60,000 and $63,000, respectively, for the six month period ended June 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 June 30, 2006, loans grew by $14,635,000, or 8.5%. This growth was funded primarily by reducing the amount of federal funds sold by $13,398,000 during the quarter. Interest-bearing deposits increased by $2,819,000 during the 2006 second quarter. Average interest bearing transaction accounts in the second quarter of 2006 were approximately $9,000,000 more than the 2006 first quarter average amount, primarily due to promotional interest rates offered in conjunction with the opening of the Company's new office in Seneca, SC. Average savings deposits were approximately $16,000,000 less in the second quarter of 2006 than in the first quarter.

During the first six months of 2006, interest bearing deposits increased by $19,488,000, or 8.1%. 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 $16,732,000 or 9.9% and securities available-for-sale increased by $4,248,000 or 4.2%.

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 June 30, 2006 and 2005

The Company recorded consolidated net income of $742,000 or $.27 per share for the second quarter of 2006. These results are less than earnings per share of $.35 for the second quarter of 2005. Net income per share, assuming dilution was $.25 for the 2006 quarter and $.33 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.

Early in the 2006 second quarter, the Company moved its corporate offices into, and opened a new retail banking office in, a newly constructed building in Seneca, SC. In conjunction with the opening of this new office, the Company offered promotional interest rates on certain deposit accounts, and incurred other promotional expenses. Loans outstanding increased during the 2006 second quarter 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 also increased. Salaries and employee benefits and directors' fees for the 2006 three month period also include approximately $78,000 which represents the effect of the adoption of SFAS 123(R) using the modified prospective method.

Summary Inc
(Dollars i

For the Three Months Ended June 30,	2006	2005
Interest income	$ 4,803	$ 3,907
Interest expense	2,551	1,512
Net interest income	2,252	2,395
Provision for loan losses	25	75
Noninterest income	539	551
Noninterest expenses	1,676	1,352
Income tax expense	348	542
Net income	$ 742	$ 977

Six Months Ended June 30, 2006 and 2005

The Company recorded consolidated net income of $1,653,000 or $.59 per share for the first half of 2006. These results are less than earnings per share of $.68 for the same period of 2005. Net income per share, assuming dilution was $.55 for the 2006 six months and $.63 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 six-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 six month period include approximately $123,000 representing the effect of the adoption of SFAS 123(R) using the modified prospective method.

Summary Inc
(Dollars i

For the Six Months Ended June 30,	2006	2005
Interest income	$ 9,450	$ 7,758
Interest expense	4,881	2,971
Net interest income	4,569	4,787
Provision for loan losses	50	215
Noninterest income	1,078	1,038
Noninterest expenses	3,112	2,675
Income tax expense	832	1,049
Net income	$ 1,653	$ 1,886

Net Interest Income

Net interest income is the principal source of the Company's earnings. During the second quarter 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. Management expects that the Company's net interest income and the related metrics, such as the rates paid on interest bearing transaction accounts and savings deposits, rates paid on interest bearing liabilities, and interest rate spread and net yield on earning assets, will return to more normal levels throughout the remainder of 2006.

Three Months Ended June 30, 2006 and 2005

For the second quarter of 2006, net interest income totaled $2,252,000, a decrease of $143,000 or 6.0% from the amount for the same period of 2005. The average yield on interest earning assets increased to 6.01% for the 2006 period, compared with 5.39% for the 2005 period, due to higher rates earned on all categories of earning assets. However, largely in response to special promotional rates, the average rate paid for interest-bearing liabilities increased to 3.89% for the 2006 quarter, compared with 2.56%, for the 2005 quarter. Accordingly, the average interest rate spread for the 2006 period was 71 basis points lower than for the 2005 period.

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Average Balance
Three Months

	2006		
	Average Balances	Interest Income/ Expense	Yields Rates(1
			(Dollar
Assets			
Interest-bearing balances due from banks	$ 92	$ 2	8.82%
Securities			
Taxable	99,894	957	3.89%
Tax exempt (2)	16,283	158	3.94%
Total investment securities	116,177	1,115	3.89%
Other investments	980	13	5.38%
Federal funds sold	27,163	330	4.93%
Loans (2) (3) (4)	179,896	3,343	7.54%
Total interest earning assets	324,308	4,803	6.01%
Cash and due from banks	6,615		
Allowance for loan losses	(2,266)		
Valuation allowance - Available-for-sale securities	(2,891)		
Premises and equipment	7,507		
Other assets	3,988		
Total assets	$ 337,261		

Liabilities and shareholders' equity

Interest bearing deposits			
Interest bearing transaction accounts	$ 44,578	$ 356	3.24%
Savings	28,053	185	2.67%
Time deposits $100M and over	73,060	733	4.07%
Other time deposits	114,273	1,216	4.32%
Total interest bearing deposits	259,964	2,490	3.88%
Short-term borrowings	-	-	0.00%
Long-term debt	6,335	61	3.91%
Total interest bearing liabilities	266,299	2,551	3.89%
Noninterest bearing demand deposits	38,705		
Other liabilities	2,546		
Shareholders' equity	29,711		
Total liabilities and shareholders' equity	$ 337,261		
Interest rate spread			2.12
Net interest income and net yield on earning assets		$ 2,252	2.82
Interest free funds supporting earning assets	$ 58,009		

(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. 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 is expected to begin during the fourth quarter of 2006.

Six Months Ended June 30, 2006 and 2005

For the first half of 2006, net interest income totaled $4,569,000, a decrease of $218,000 or 4.6% from the amount for the same period of 2005. The yield on interest earning assets increased to 5.82% for the 2006 period, compared with 5.22% 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 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 in response to special promotional rates offered beginning in the second quarter of 2006, the average rate paid for interest-bearing liabilities increased to 3.63% for the 2006 six-month period, compared with 2.43%, for the same period of 2005. Accordingly, the average interest rate spread for the 2006 period was 60 basis points lower than for the 2005 period.

	Average Balance Six Months		
	2006		
	Average Balances	Interest Income/ Expense	Yields Rates(1
			(Dollar
Assets			
Interest-bearing balances due from banks	$ 132	$ 4	6.11%
Securities			
Taxable	100,649	1,888	3.78%
Tax exempt (2)	14,274	278	3.93%
Total investment securities	114,923	2,166	3.80%
Other investments	964	24	5.02%
Federal funds sold	36,162	823	4.59%
Loans (2) (3) (4)	175,438	6,433	7.39%
Total interest earning assets	327,619	9,450	5.82%
Cash and due from banks	6,715		
Allowance for loan losses	(2,265)		
Valuation allowance - Available-for-sale securities	(2,560)		
Premises and equipment	7,266		
Other assets	3,933		
Total assets	$ 340,708		
Liabilities and shareholders' equity			
Interest bearing deposits			
Interest bearing transaction accounts	$ 40,185	$ 497	2.49%
Savings	36,089	499	2.79%
Time deposits $100M and over	74,767	1,465	3.95%
Other time deposits	113,612	2,295	4.07%
Total interest bearing deposits	264,653	4,756	3.62%
Short-term borrowings	38	2	10.61%
Long-term debt	6,417	123	3.87%
Total interest bearing liabilities	271,108	4,881	3.63%
Noninterest bearing demand deposits	37,562		
Other liabilities	2,525		
Shareholders' equity	29,513		
Total liabilities and shareholders' equity	$ 340,708		
Interest rate spread			2.19%
Net interest income and net yield on earning assets		$ 4,569	2.81%
Interest free funds supporting earning assets	$ 56,511		

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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.

Provision and Allowance for Loan Losses

The provision for loan losses was $25,000 for the second quarter of 2006, compared with $75,000 for the comparable period of 2005. For the first half of 2006, the provision for loan losses was $50,000, a decrease of $165,000 from the $215,000 recorded for the first half of 2005. At June 30, 2006, the allowance for loan losses was 1.22% of loans, down slightly from 1.34% at December 31, 2005.

For the first six months of 2006, net charge-offs totaled $47,000, compared with $118,000 in net charge offs during the same period of 2005. As of June 30, 2006, there were $497,000 in nonaccrual loans and no loans 90 days or more past due and still accruing interest. As of June 30, 2005, there were $1,158,000 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:

	Six Months Ended June 30, 2006
	(Dolla
Allowance at beginning of period	$ 2,266
Provision for loan losses	50
Net charge-offs	(47)
Allowance at end of period	$ 2,269
Allowance as a percentage of loans outstanding at period end	1.22%
Loans at end of period	$ 186,050

Non-Performing and Potential Problem Loans

	Nonaccrual Loans	90 Days or More Past Due and Still Accruing	Total Nonperforming Loans	Perc of L
			(Dollars in thousands)	
January 1, 2005	$ 1,465	$ 9	$ 1,474	0.
Net change	(288)	(9)	(297)	
March 31, 2005	1,177	-	1,177	0.
Net change	(19)	-	(19)	
June 30, 2005	1,158	-	1,158	0.
Net change	(189)	-	(189)	
September 30, 2005	969	-	969	0.
Net change	(69)	5	(64)	
December 31, 2005	900	5	905	0.
Net change	(321)	(5)	(326)	
March 31, 2006	579	-	579	0.
Net change	(82)	-	(82)	
June 30, 2006	$ 497	$ -	$ 497	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. Since March 31, 2006, loans totaling $1,390,000 moved into potential problem loans, of which $1,328,000 are collateralized by real estate mortgages. Potential problem loans that totaled $454,000 as of March 31, 2006 were no longer included in potential problem loans as of June 30, 2006, including loans totaling $68,000 as of March 31, 2006 that were charged off during the second quarter of 2006. Other changes, including payments received and increases to, also occurred during the. Management believes that the increase in potential problem loans in the first half of 2006 reflects circumstances unique to each individual borrower.

Noninterest Income

Noninterest income totaled $539,000 for the second quarter of 2006, compared with $551,000 for the 2005 quarter. Service charges on deposit accounts in the 2006 second quarter were $382,000 representing a decrease of $25,000 from the prior year quarter and fees from an overdraft privilege product were $18,000 more in the 2006 second quarter than in the 2005 quarter. Mortgage brokerage income in the second quarter of 2006 was approximately $14,000 less than in the 2005 quarter. There were no sales of any securities in either the 2006 or 2005 second quarter.

For the six months ended June 30, 2006, noninterest income totaled $1,078,000, compared with $1,038,000 for the same period of 2005. Service charges on deposit accounts in the 2006 six months period were $746,000 representing a decrease of $12,000 from the prior year period. Fees from an overdraft privilege product were $36,000 more in the 2006 six months period than in the 2005 period. Mortgage brokerage income in the 2006 six months period was approximately $14,000 less than in the 2005 period. There were no sales of any securities in either the 2006 or 2005 six months 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 2005 period.

Noninterest Expenses

Noninterest expenses totaled $1,676,000 for the second quarter of 2006 compared with $1,352,000 for the same quarter of 2005, representing an increase of $324,000 or 24.0%. Salaries and employee benefits increased by $289,000, or 45.9%, to $919,000. This increase resulted primarily from normal salary increases, which are granted from time to time, increases in the number of employees associated with staffing for Company's new Seneca office and higher costs of providing health insurance benefits. Also, for the 2006 six months period, this category includes $40,000 of share-based compensation expenses that resulted from the adoption of SFAS 123(R). Partially offsetting these increases was an $85,000 decrease in estimated employee incentive bonuses in the 2006 six months period compared with the 2005 period.

Occupancy and furniture and equipment expenses for the second quarter of 2006 increased by $29,000 compared with the same quarter of 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 $38,000 of share-based compensation expenses that resulted from the adoption of SFAS 123(R). In addition, higher expenses were noted in the 2006 second quarter 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 six months ended June 30, 2006, salaries and employee benefits increased by $307,000, or 22.9%, over the amount for the 2005 period. Salaries and employee benefits for the 2006 six months period includes share-based compensation expense of $60,000 resulting from the implementation of SFAS 123(R). Net occupancy and furniture and equipment expenses increased by an aggregate of $50,000, or 16.6%. During the first six months 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 six-month period included $63,000 of share-based compensation expenses that resulted from the 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 June 30, 2006, the ratio of loans to total deposits was 61.9%, compared with 60.5% as of December 31, 2005. Deposits as of June 30, 2006 were $300,406,000, an increase of $20,413,000 or 7.3% 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 $1,298,000 since December 31, 2005 as the result of net income of $1,653,000 for the first six months of 2006, $100,000 added pursuant to share-based compensation expenses recognized during the period, net of income tax effects, less a $455,000 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 June 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	15.0%	16.0%	9.4%
Community First Bank	14.4%	15.5%	9.1%
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:

	June 30, 2006 (Dollars in thousands)

Loan commitments	$ 28,828
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 the three months or six months ended June 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 June 30 2006, the model indicates that net interest income would increase $78,000 and net income would increase $50,000 in the next twelve months if interest rates rose by 100 basis points. Conversely, net interest income would decrease $195,000 and net income would decrease $125,000 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 June 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.

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Item 4. - Controls and Procedures

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

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

PART II - OTHER INFORMATION

Item 4. - Submission of Matters to a Vote of Security Holders.

On Tuesday, April 25, 2006, the shareholders of Community First Bancorporation held their regular annual meeting. At the meeting, one matter was submitted to a vote with results as follows:

1. Election of three directors to hold office for three-year terms:

	SHARES VOTED		
DIRECTORS	FOR	AUTHORITY WITHHELD	BROKER NON-VOTES
Larry S. Bowman, MD	1,748,850	0	87,375
William M. Brown	1,748,850	0	87,375
John R. Hamrick	1,748,850	0	87,375
Frederick D Shepherd, Jr.	1,748,428	422	87,375

The following directors continue to serve until the expiration of their terms at the annual meetings to be held in the years indicated and were not voted on at the 2006 annual meeting: Robert H Edwards - 2007, Blake L. Griffith - 2007, Gary V. Thrift - 2007, James E. McCoy - 2008, James E. Turner - 2008 and Charles L. Winchester - 2008.

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

August 11, 2006	/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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