

COMMUNITY FIRST BANCORP
Form 10-Q
August 16, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2010
File No. 000-29640

Commission

COMMUNITY FIRST BANCORPORATION

(Exact name of registrant as specified in its charter)

South Carolina
(State or other jurisdiction of
incorporation or organization)

58-2322486
(IRS Employer Identification No.)

449 HIGHWAY 123 BYPASS
SENECA, SOUTH CAROLINA 29678

(Address of principal executive offices, zip code)

(864) 886-0206

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No (Not yet applicable to Registrant)

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):

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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 classes of common stock, as of the latest practicable date: Common Stock, no par or stated value, 3,784,159 Shares Outstanding on August 2, 2010

COMMUNITY FIRST BANCORPORATION

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PART I – FINANCIAL INFORMATION

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PART I – FINANCIAL INFORMATION

Item 1. – Financial Statements

COMMUNITY FIRST BANCORPORATION
Consolidated Balance Sheets

	(Unaudited)	
	June 30, 2010	December 31, 2009
	(Dollars in thousands)	
Assets		
Cash and due from banks	\$2,134	\$1,463
Interest bearing balances due from banks	42,353	46,020
Cash and cash equivalents	44,487	47,483
Securities available-for-sale	180,170	141,710
Securities held-to-maturity (fair value \$8,373 for 2010 and \$9,476 for 2009)	7,770	9,024
Other investments	1,307	1,307
Loans	265,349	267,248
Allowance for loan losses	(6,427)	(6,052)
Loans - net	258,922	261,196
Premises and equipment - net	8,345	8,470
Accrued interest receivable	2,851	2,424
Foreclosed assets	7,139	6,078
Bank-owned life insurance	9,471	9,289
Other assets	4,243	5,916
Total assets	\$524,705	\$492,897
Liabilities		
Deposits		
Noninterest bearing	\$42,160	\$47,067
Interest bearing	424,443	389,581
Total deposits	466,603	436,648
Accrued interest payable	3,081	2,043
Long-term debt	6,500	8,000
Other liabilities	1,700	1,388
Total liabilities	477,884	448,079
Shareholders' equity		
Preferred stock - Series A - non-voting 5% cumulative - \$1,000 per share liquidation preference; 5,000 shares authorized; issued and outstanding - 3,150 shares	3,126	3,126
Preferred stock - no par value; 9,995,000 shares authorized; None issued and outstanding	-	-
Common stock - no par value; 10,000,000 shares authorized; issued and outstanding - 3,784,159 for 2010 and 3,782,415 for 2009	38,940	38,923
Additional paid-in capital	748	748
Retained earnings	1,961	1,434

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Accumulated other comprehensive income (loss)	2,046	587
Total shareholders' equity	46,821	44,818
Total liabilities and shareholders' equity	\$524,705	\$492,897

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY FIRST BANCORPORATION
Consolidated Statements of Income

	(Unaudited)			
	Period Ended June 30,			
	Three Months	Six Months		
	2010	2009	2010	2009
	(Dollars in thousands, except per share)			
Interest income				
Loans, including fees	\$4,053	\$4,197	\$8,057	\$8,246
Interest bearing balances due from banks	32	6	70	22
Securities				
Taxable	1,332	1,456	2,617	2,962
Tax-exempt	197	202	396	411
Other investments	2	-	2	-
Federal funds sold	-	-	-	3
Total interest income	5,616	5,861	11,142	11,644
Interest expense				
Time deposits \$100M and over	746	990	1,479	2,083
Other deposits	1,436	1,757	2,855	3,573
Long-term debt	73	91	149	182
Total interest expense	2,255	2,838	4,483	5,838
Net interest income	3,361	3,023	6,659	5,806
Provision for loan losses	1,125	700	2,250	1,450
Net interest income after provision	2,236	2,323	4,409	4,356
Other income				
Service charges on deposit accounts	309	348	610	671
Debit card transaction fees	214	156	350	296
Gains on sales of securities available-for-sale	-	90	-	90
Increase in value of bank-owned life insurance	90	91	182	183
Other income	79	67	86	83
Total other income	692	752	1,228	1,323
Other expenses				
Salaries and employee benefits	1,204	1,244	2,323	2,425
Net occupancy expense	138	134	283	269
Furniture and equipment expense	96	100	186	193
Amortization of computer software	97	112	209	207
Debit card transaction expenses	123	101	223	214
Directors' fees	43	34	78	57
FDIC insurance expense	235	300	633	370
Other expense	527	401	1,013	788
Total other expenses	2,463	2,426	4,948	4,523

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Income before income taxes	465	649	689	1,156
Income tax expense	66	160	83	253
Net income	399	489	606	903
Deductions for amounts not available to common shareholders:				
Dividends declared or accumulated on				
preferred stock	(40) -	(99) -
Net income available to common shareholders	\$359	\$489	\$507	\$903

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY FIRST BANCORPORATION
 Consolidated Statements of Income - continued

	(Unaudited) Period Ended June 30,		Six Months	
	Three Months 2010	2009	2010	2009
Per common share*				
Net income	\$ 0.09	\$ 0.13	\$ 0.13	\$ 0.24
Net income, assuming dilution	0.09	0.13	0.13	0.24

* Per common share information has been retroactively adjusted to reflect a 5% stock dividend effective December 15, 2009.

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY FIRST
BANCORPORATION
Consolidated Statements of Changes in Shareholders'
Equity

	(Unaudited)						
	Shares of Common Stock	Preferred Stock	Common Stock (Dollars in thousands)	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2009	3,564,279	\$ -	\$ 37,084	\$ 748	\$ 1,769	\$ 327	\$ 39,928
Comprehensive income:							
Net income	-	-	-	-	903	-	903
Unrealized holding gains and losses on available-for-sale securities arising during the period, net of income taxes of \$410	.	-	-	-	-	(733)	(733)
Reclassification adjustment, net of income tax effects of \$33	-	-	-	-	-	(57)	(57)
Total other comprehensive income							(790)
Total comprehensive income							113
Exercise of employee stock options	45,532	-	486	-	-	-	486
Balance, June 30, 2009	3,609,811	\$ -	\$ 37,570	\$ 748	\$ 2,672	\$ (463)	\$ 40,527
Balance, January 1, 2010	3,782,415	\$ 3,126	\$ 38,923	\$ 748	\$ 1,434	\$ 587	\$ 44,818
Comprehensive income:							
Net income	-	-	-	-	606	-	606
Unrealized holding gains and losses on available-for-sale securities arising during the period, net of income taxes of \$817	.	-	-	-	-	1,459	1,459
Total other comprehensive income							1,459
							2,065

Total comprehensive income							
Dividends paid on preferred stock	-	-	-	-	(79)	-	(79)
Exercise of employee stock options	1,744	-	17	-	-	-	17
Balance, June 30, 2010	3,784,159	\$ 3,126	\$ 38,940	\$ 748	\$ 1,961	\$ 2,046	\$ 46,821

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY FIRST BANCORPORATION
Consolidated Statements of Cash Flows

	(Unaudited)	
	Six Months Ended	
	June 30,	
	2010	2009
	(Dollars in thousands)	
Operating activities		
Net income	\$606	\$903
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	2,250	1,450
Depreciation	192	195
Amortization of net loan fees and costs	(21)	(59)
Securities accretion and premium amortization	661	323
Gains on sales of securities available-for-sale	-	(90)
(Gain) on sale of foreclosed assets	(8)	-
Increase in value of bank-owned life insurance	(182)	(183)
(Increase) decrease in interest receivable	(427)	248
Increase in interest payable	1,038	1,132
Decrease in prepaid expenses and other assets	856	246
Increase in other accrued expenses	312	547
Net cash provided by operating activities	5,277	4,712
Investing activities		
Purchases of securities available-for-sale	(95,381)	(103,423)
Maturities, calls and paydowns of securities available-for-sale	58,537	82,930
Maturities, calls and paydowns of securities held-to-maturity	1,253	1,629
Proceeds from sales of securities available-for-sale	-	5,851
Proceeds from sales of other investments	-	38
Purchases of other investments	-	(125)
Net increase in loans made to customers	(1,440)	(5,770)
Purchases of premises and equipment	(67)	(138)
Additional investments in foreclosed assets	(29)	(239)
Proceeds of sale of foreclosed assets	461	300
Net cash used by investing activities	(36,666)	(18,947)
Financing activities		
Net (decrease) increase in demand deposits, interest bearing transaction accounts and savings accounts	(3,689)	(7,155)
Net increase in certificates of deposit and other time deposits	33,644	5,161
Repayments of long-term debt	(1,500)	-
Cash paid in lieu of issuing fractional shares	-	(3)
Cash dividends paid on preferred stock	(79)	-
Exercise of employee stock options	17	486
Net cash provided (used) by financing activities	28,393	(1,511)

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Decrease in cash and cash equivalents	(2,996)	(15,746)
Cash and cash equivalents, beginning	47,483	40,966
Cash and cash equivalents, ending	\$44,487	\$25,220

See accompanying notes to unaudited consolidated financial statements.

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COMMUNITY FIRST BANCORPORATION
 Consolidated Statements of Cash Flows - continued

	(Unaudited)	
	Six Months Ended	
	June 30,	2009
	2010	2009
	(Dollars in thousands)	
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for		
Interest	\$3,445	\$4,706
Income taxes	4	8
Net transfers from loans to foreclosed assets	1,485	1,537
Noncash investing and financing activities:		
Other comprehensive income (loss)	1,459	(790)

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,” “our,” “we,” “us,” and similar references) Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission. Certain amounts in the 2009 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.

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

	June 30, 2010			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
	(Dollars in thousands)			
Available-for-sale				
Mortgage-backed securities				
issued by US Government agencies	\$1,271	\$74	\$-	\$1,345
Government sponsored enterprises (GSEs)	130,261	1,488	3	131,746
Mortgage-backed securities issued by GSEs	26,716	1,492	-	28,208
State, county and municipal	18,729	253	111	18,871
Total	\$176,977	\$3,307	\$114	\$180,170
Held-to-maturity				
Mortgage-backed securities				
issued by US Government agencies	\$-	\$-	\$-	\$-
Government sponsored enterprises (GSEs)	-	-	-	-
Mortgage-backed securities issued by GSEs	7,770	603	-	8,373
State, county and municipal	-	-	-	-
Total	\$7,770	\$603	\$-	\$8,373
December 31, 2009				
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
	(Dollars in thousands)			
Available-for-sale				
Mortgage-backed securities				
issued by US Government agencies	\$1,426	\$49	\$-	\$1,475
Government sponsored enterprises (GSEs)	87,143	643	823	86,963
Mortgage-backed securities issued by GSEs	32,707	1,005	10	33,702
State, county and municipal	19,517	241	188	19,570
Total	\$140,793	\$1,938	\$1,021	\$141,710
Held-to-maturity				
Mortgage-backed securities				
issued by US Government agencies	\$-	\$-	\$-	\$-
Government sponsored enterprises (GSEs)	-	-	-	-
Mortgage-backed securities issued by GSEs	9,024	452	-	9,476
State, county and municipal	-	-	-	-
Total	\$9,024	\$452	\$-	\$9,476

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

Available-for-sale at fair value	June 30, 2010				Total
	Due within one year (Dollars in thousands)	Due after one through five years	Due after five through ten years	Due after ten years	
Non-mortgage-backed securities issued by GSEs	\$-	\$30,340	\$58,033	\$43,373	\$131,746
State, county and municipal issuers	301	1,225	2,188	15,157	18,871
	301	31,565	60,221	58,530	150,617
Mortgage-backed securities issued by: US Government agencies					1,345
GSEs					28,208
Total available-for-sale					\$180,170
Held-to-maturity at amortized cost Mortgage-backed securities issued by: GSEs					\$7,770
Total held-to-maturity					\$7,770

Available-for-sale at fair value	December 31, 2009				Total
	Due within one year (Dollars in thousands)	Due after one through five years	Due after five through ten years	Due after ten years	
Non-mortgage-backed securities issued by GSEs	\$1,520	\$10,032	\$32,832	\$42,579	\$86,963
State, county and municipal issuers	301	1,000	2,656	15,613	19,570
	1,821	11,032	35,488	58,192	106,533
Mortgage-backed securities issued by: US Government agencies					1,475
GSEs					33,702
Total available-for-sale					\$141,710
Held-to-maturity at amortized cost Mortgage-backed securities issued by: GSEs					\$9,024
Total held-to-maturity					\$9,024

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

	June 30, 2010					
	Continuously in Unrealized Loss Position for a Period of					
	Less than 12 Months		12 Months or more		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
	(Dollars in thousands)					
Available-for-sale						
US Government agencies	\$-	\$-	\$-	\$-	\$-	\$-
Government-sponsored enterprises (GSEs)	6,076	3	-	-	6,076	3
Mortgage-backed securities issued by GSEs	-	-	-	-	-	-
State, county and municipal securities	3,587	53	870	58	4,457	111
Total	\$9,663	\$56	\$870	\$58	\$10,533	\$114
Held-to-maturity						
GSEs	\$-	\$-	\$-	\$-	\$-	\$-
Total	\$-	\$-	\$-	\$-	\$-	\$-
	December 31, 2009					
	Continuously in Unrealized Loss Position for a Period of					
	Less than 12 Months		12 Months or more		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
	(Dollars in thousands)					
Available-for-sale						
GSEs	\$40,430	\$823	\$-	\$-	\$40,430	\$823
Mortgage-backed securities issued by						
GSEs	2,811	10	-	-	2,811	10
State, county and						
municipal securities	6,220	188	-	-	6,220	188
Total	\$49,461	\$1,021	\$-	\$-	\$49,461	\$1,021
Held-to-maturity						
GSEs	\$-	\$-	\$-	\$-	\$-	\$-
	\$-	\$-	\$-	\$-	\$-	\$-

As of June 30, 2010, 13 securities had been continuously in an unrealized loss position for less than 12 months and 3 securities had been continuously in an unrealized loss position for 12 months or more. We do not consider these investments to be other-than-temporarily impaired because the unrealized losses involve primarily issuances of state, county and municipal government issuers and mortgage-backed securities issued by GSEs. We also believe that the impairments resulted from current credit market disruptions, and note that there have been no failures by the issuers to remit periodic interest payments as required, nor are we aware that any such issuer has given notice that it expects that it will be unable to make any such future payment according to the terms of the bond indenture. Although we classify a majority of our investment securities as available-for-sale, management has not determined that any specific securities will be disposed of prior to maturity and believes that we have both the ability and the intent to hold those investments until a recovery of fair value, including until maturity. Substantially all of the issuers of state, county and municipal securities were rated at least "investment grade" as of June 30, 2010.

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

During the first six months of 2010, we had no sales of available-for-sale securities. There were no transfers of available-for-sale securities to other categories in the 2010 six-month period.

Nonperforming Loans – As of June 30, 2010, there were \$15,842 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 common share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding and any dilutive potential common shares and dilutive stock options. It is assumed that all dilutive stock options are exercised at the beginning of each period and that the proceeds are used to purchase shares of our common stock at the average market price during the period. All 2009 per share information has been retroactively adjusted to give effect to a 5% stock dividend effective December 15, 2009. Net income per common share and net income per share, assuming dilution, were computed as follows:

	Period Ended June 30,			
	Three Months		Six Months	
	2010	2009	2010	2009
	(Dollars in thousands, except per share amounts)			
Net income per common share, basic				
Numerator - net income available to common shareholders	\$359	\$489	\$507	\$903
Denominator				
Weighted average common shares issued and outstanding	3,784,159	3,790,302	3,783,287	3,777,163
Net income per common share, basic	\$.09	\$.13	\$.13	\$.24
Net income per common share, assuming dilution				
Numerator - net income available to common shareholders	\$359	\$489	\$507	\$903
Denominator				
Weighted average common shares issued and outstanding	3,784,159	3,790,302	3,783,287	3,777,163
Effect of dilutive stock options	-	-	-	-
Total common shares	3,784,159	3,790,302	3,783,287	3,777,163
Net income per common share, assuming dilution	\$.09	\$.13	\$.13	\$.24

Stock-Based Compensation – Our 1998 stock option plan terminated on March 19, 2008 and no further options may be issued under the plan. As of June 30, 2010, a total of 326,946 unexpired and non-forfeited options outstanding under the plan remain exercisable until their expiration dates.

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

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

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

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

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

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

Description	June 30, 2010	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1) (Dollars in thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale				
Mortgage-backed securities issued by US Government agencies	\$ 1,345	\$ -	\$ 1,345	\$ -
Government sponsored enterprises (GSEs)	131,746	-	131,746	-
Mortgage-backed securities issued by GSEs	28,208	-	28,208	-
State, county and municipal	18,871	-	18,871	-
Total securities available-for-sale	\$ 180,170	\$ -	\$ 180,170	\$ -

Description	December 31, 2009	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1) (Dollars in thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

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Securities available-for-sale	\$ 141,710	\$ -	\$ 141,710	\$ -
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