COMMUNITY FIRST BANCORP
Form 10-Q
August 13, 2008

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

FORM 10-Q

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

For Quarterly Period Ended June 30, 2008   Commission File No. 000-29640

COMMUNITY FIRST BANCORPORATION

(Exact name of registrant as specified in its charter)

South Carolina	58-2322486
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

449 HIGHWAY 123 BYPASS
SENECA, SOUTH CAROLINA 29678

(Address of principal executive offices, zip code)

(864) 886-0206

(Registrant's telephone number, including area code)

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

Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]   Accelerated filer   [ ]

Non-accelerated filer   [ ]   Smaller reporting company [X]
(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 [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, 3,394,873 Shares Outstanding on August 1, 2008

COMMUNITY FIRST BANCORPORATION

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PART I - FINANCIAL INFORMATION

Item 1. - Financial Statements

COMMUNITY FIRST BANCORPORATION
Consolidated Balance Sheets

Assets

Cash and due from banks ....
Interest bearing balances due from banks ....

Federal funds sold ....

Cash and cash equivalents ....
Securities available-for-sale ....
Securities held-to-maturity (fair value $12,587 for 2008 and $5,625 for 2007) ....
Other investments ....
Loans ....
Allowance for loan losses ....

Loans - net ....
Premises and equipment - net ....
Accrued interest receivable ....
Bank-owned life insurance ....
Other assets ....

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 - 3,394,873 for 2008 and 3,324,105 for 2007 ....
Additional paid-in capital ....
Retained earnings ....
Accumulated other comprehensive income (loss) ....

Total shareholders' equity ....

Total liabilities and shareholders' equity ....

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY FIRST BANCORPORATION
Consolidated Statements of Income

Peri

Three Months

	2008	2007
	(Dollars in tho	
Interest income		
Loans, including fees	$ 4,523	$ 4,27
Interest bearing balances due from banks	5	
Securities		
Taxable	1,172	99
Tax-exempt	208	21
Other investments	12	1
Federal funds sold	117	32
Total interest income	6,037	5,82
Interest expense		
Time deposits $100M and over	1,057	94
Other deposits	2,042	2,21
Short-term borrowings	-	
Long-term debt	48	5
Total interest expense	3,147	3,21
Net interest income	2,890	2,60
Provision for loan losses	280	12
Net interest income after provision	2,610	2,48
Other income		
Service charges on deposit accounts	375	34
ATM interchange and other fees	141	11
Credit life insurance commissions	3	
Increase in value of bank-owned life insurance	93	
Other income	13	3
Total other income	625	50
Other expenses		
Salaries and employee benefits	1,108	90
Net occupancy expense	130	11
Furniture and equipment expense	106	10
Amortization of computer software	81	5
ATM interchange and related expenses	95	7
Directors' fees	34	2
Other expense	451	36
Total other expenses	2,005	1,64
Income before income taxes	1,230	1,34
Income tax expense	385	41
Net income	$ 845	$ 93
Per share*		
Net income	$ 0.25	$ 0.2

Net income, assuming dilution	0.24	0.2

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* Per share information has been retroactively adjusted to reflect a 10% stock dividend effective December 20, 2007.

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 thous	
Balance, January 1, 2007	2,958,558	$ 30,061	$ 593	$
Comprehensive income:				
Net income	-	-	-	
Unrealized holding gains and losses on available-for-sale securities arising during the period, net of income taxes of $374	-	-	-	
Total other comprehensive income				
Total comprehensive income				
Exercise of employee stock options	14,005	76	-	
Balance, June 30, 2007	2,972,563	$ 30,137	$ 593	$
Balance, January 1, 2008	3,324,105	$ 35,009	$ 681	$
Comprehensive income:				
Net income	-	-	-	
Unrealized holding gains and losses on available-for-sale securities arising during the period, net of income taxes of $439	-	-	-	
Total other comprehensive income				

Total comprehensive income				
Exercise of employee stock options	70,768	365	-	
Balance, June 30, 2008	3,394,873	$ 35,374	$ 681	$

See accompanying notes to unaudited consolidated financial statements.

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COMMUNITY FIRST BANCORPORATION
Consolidated Statements of Cash Flows

Operating activities	
Net income	
Adjustments to reconcile net income to net cash provided by operating activities	
Provision for loan losses	
Depreciation	
Amortization of net loan fees and costs	
Securities accretion and premium amortization	
Loss on sale of foreclosed assets	
Increase in value of bank-owned life insurance	
Increase in interest receivable	
(Decrease) increase in interest payable	
Decrease (increase) in prepaid expenses and other assets	
Increase in other accrued expenses	
Net cash provided by operating activities	
Investing activities	
Purchases of available-for-sale securities	
Purchase of securities held-to-maturity	

Maturities, calls and paydowns of securities available-for-sale	
Maturities, calls and paydowns of securities held-to-maturity	
Proceeds from sales of other investments	
Purchases of other investments	
Net increase in loans made to customers	
Purchases of premises and equipment	
Proceeds of sale of foreclosed assets	
Investment in bank-owned life insurance	
Net cash used by investing activities	
Financing activities	
Net increase (decrease) in demand deposits, interest bearing transaction accounts and savings accounts	
Net increase in certificates of deposit and other time deposits	
Net increase (decrease) in short-term borrowings	
Proceeds of issuing long-term debt	
Repayments of long-term debt	
Exercise of employee stock options	
Net cash provided 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	
Income taxes	
Noncash investing and financing activities:	
Other comprehensive income (loss)	

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY FIRST BANCORPORATION

Notes to Unaudited Consolidated Financial Statements

Accounting Policies - A summary of significant accounting policies is included in Community First Bancorporation's (the "Company") Annual Report on Form 10-K for the year ended December 31, 2007 filed with the Securities and Exchange Commission. Certain amounts in the 2007 financial statements have been reclassified to conform to the current presentation.

Management Opinion - In the opinion of management, the accompanying unaudited consolidated financial statements of Community First Bancorporation reflect all adjustments necessary for a fair presentation of the results of the periods presented. Such adjustments were of a normal, recurring nature.

Nonperforming Loans - As of June 30, 2008, there were $1,880,000 in nonaccrual loans and no loans 90 days or more past due and still accruing interest.

Earnings Per Share - Basic earnings per common share is computed by dividing net income applicable to common shares by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing applicable net income by the weighted average number of common shares outstanding and any dilutive potential common shares and dilutive stock options. It is assumed that all dilutive stock options are exercised at the beginning of each period and that the proceeds are used to purchase shares of the Company's common stock at the average market price during the period. All 2007 per share information has been retroactively adjusted to give effect to a 10% stock dividend effective December 20, 2007. Net income per share and net income per share, assuming dilution, were computed as follows:

	(Una Period E	
	Three Months	
	2008	2007
	(Dollars in thousands,	
Net income per share, basic		
Numerator - net income	$ 845	$ 939
Denominator		
Weighted average common shares		
issued and outstanding	3,360,218	3,269,767
Net income per share, basic	$ .25	$ .29
Net income per share, assuming dilution		
Numerator - net income	$ 845	$ 939
Denominator		
Weighted average common shares		
issued and outstanding	3,360,218	3,269,767
Effect of dilutive stock options	134,315	224,881
Total shares	3,494,533	3,494,648
Net income per share, assuming dilution	$ .24	$ .27

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

to financial assets and liabilities that are measured at fair value on a recurring basis:

		Fair Value Measurem	
Description	June 30, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Si O (
			(Dollars
Securities available-for-sale		$ -	

Pricing for the Company's securities available-for-sale is obtained from an independent third-party that uses a process that may incorporate current market prices, benchmark yields, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, other reference data and industry and economic events that a market participant would be expected to use in valuing the securities. Not all of the inputs listed apply to each individual security at each measurement date. The independent third party assigns specific securities into an "asset class" for the purpose of assigning the applicable level of the fair value hierarchy used to value the securities. The techniques used after adoption of SFAS No. 157 are consistent with the methods used previously.

In February 2008, the Financial Accounting Standards Board Staff issued FASB Staff Position No. FAS 157-2 ("FSP 157-2") which delays for one year the effective date of the application of Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("SFAS No. 157") to nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). In accordance with FSP 157-2, the Company has only partially applied SFAS No. 157. There are currently no major categories of assets or liabilities disclosed at fair value in the financial statements for which the Company has not applied the provisions of SFAS No. 157.

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

New Accounting Pronouncements - In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" ("SFAS No. 160"). SFAS No. 160 is effective for years beginning after December 31, 2008, and is to be applied prospectively with retrospective presentation and disclosure requirements for comparative financial statements. Early adoption is prohibited. SFAS No. 160 seeks to improve the relevance, comparability and transparency of financial information that a reporting entity provides in its consolidated financial statements by separately identifying and reporting several financial statement components into amounts that are attributable to the reporting entity or that are attributable to noncontrolling interests. SFAS No. 160 also specifies the conditions under which an entity is required to deconsolidate its interest in a subsidiary. The Company currently has no consolidated subsidiaries that are not wholly owned nor are any transactions contemplated that would result in such a condition. Therefore, it is expected that the adoption of SFAS No. 160 in January 2009 will have no effect on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities, thereby improving the transparency of financial reporting. It is intended to enhance the current disclosure framework in SFAS 133 by requiring that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. This disclosure better conveys the purpose of derivative use in terms of the risks that the entity is intending to manage. SFAS 161 is effective for the Company on January 1, 2009. This pronouncement does not impact accounting measurements but will result in additional disclosures if the Company is involved in material derivative and hedging activities at that time.

In February 2008, the FASB issued FASB Staff Position No. 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions" ("FSP 140-3"). This FSP provides guidance on accounting for a transfer of a financial asset and the transferor's repurchase financing of the asset. This FSP presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (linked transaction) under SFAS No. 140. However, if certain criteria are met, the initial transfer and repurchase financing are not evaluated as a linked transaction and are evaluated separately under Statement 140. FSP 140-3 will be effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Earlier application is not permitted. Accordingly, this FSP

is effective for the Company on January 1, 2009. The Company is currently evaluating the impact, if any, the adoption of FSP 140-3 will have on its financial position, results of operations and cash flows.

In April 2008, the FASB issued FASB Staff Position No. 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3"). This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R), "Business Combinations," and other U.S. generally accepted accounting principles. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and early adoption is prohibited. Accordingly, this FSP is effective for the Company on January 1, 2009. The Company does not believe the adoption of FSP 142-3 will have a material impact on its financial position, results of operations or cash flows.

In May, 2008, the FASB issued Statement of Financial Accounting Standards No. 162, "The Hierarchy of Generally Accepted Accounting Principals" ("SFAS No. 162"). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles ("GAAP") in the United States (the GAAP hierarchy). SFAS No. 162 will be effective 60 days following the Securities and

Exchange Commission's approval of the Public Company Accounting Oversight Board's amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The application of the statement will have no effect on the Company's financial position, results of operations or cash flows.

FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)" ("FSP No. APB 14-1"), specifies that issuers of convertible debt instruments that may be settled in cash upon conversion should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP No. APB 14-1 provides guidance for initial and subsequent measurement as well as derecognition provisions and is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Early adoption is not permitted, but the provisions of FSP APB No. 14-1 will be applied retrospectively for all periods even if the instrument has matured, has been converted, or otherwise has been extinguished. The adoption of FSP No. APB 14-1 will have no effect on the Company's financial position, results of operations or cash flows.

In June, 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities" ("FSP EITF No. 03-6-1"). This Staff Position provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and must be included in the computation of earnings per share. FSP EITF 03-6-1 is effective for financial statements issued for years beginning after December 15, 2008, and interim periods within those years. All prior-periods earnings per share data presented must be adjusted retrospectively. Early application is not permitted. The adoption of the Staff Position will have no effect on the Company's financial position, results of operation or cash flows.

CAUTIONARY NOTICE WITH RESPECT TO FORWARD-LOOKING STATEMENTS

This report contains "forward-looking statements" within the meaning of the securities laws. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company's forwarding-looking statements.

All statements that are not historical facts are statements that could be "forward-looking statements." You can identify these forward-looking statements through the use of words such as "may," "will," "should," "could," "would," "expect," "anticipate," "assume," "indicate," "contemplate," "seek," "plan," "predict," "target," "potential," "believe," "intend," "estimate," "project," "continue," or other similar words. Forward-looking statements include, but are not limited to, statements regarding the Company's future business prospects, revenues, working capital, liquidity, capital needs, interest costs, income, business operations and proposed services.

These forward-looking statements are based on current expectations, estimates and projections about the banking industry, management's beliefs, and assumptions made by management. Such information includes, without limitation, discussions as to estimates, expectations, beliefs, plans, strategies, and objectives concerning future financial and operating performance. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially from those expressed or forecasted in such forward-looking statements. The risks and uncertainties include, but are not limited to:

- future economic and business conditions;
- lack of sustained growth in the economies of the Company's market areas;
- government monetary and fiscal policies;
- the effects of changes in interest rates on the levels, composition and costs of deposits, loan demand, and the values of loan collateral, securities, and interest sensitive assets and liabilities;
- the effects of competition from a wide variety of local, regional, national and other providers of financial, investment, and insurance services, as well as competitors that offer banking products and services by mail, telephone, computer and/or the Internet;
- credit risks;
- higher than anticipated levels of defaults on loans;
- misperceptions by depositors about the safety of their deposits;
- capital adequacy;
- the failure of assumptions underlying the establishment of the allowance for loan losses and other estimates, including the value of collateral securing loans;
- availability of liquidity sources;
- the risks of opening new offices, including, without limitation, the related costs and time of building customer relationships and integrating operations as part of these endeavors and the failure to achieve expected gains, revenue growth and/or expense savings from such endeavors;
- changes in laws and regulations, including tax, banking and securities laws and regulations;
- changes in accounting policies, rules and practices;
- changes in technology or products may be more difficult or costly, or less effective, than anticipated;
- the effects of war or other conflicts, acts of terrorism or other catastrophic events that may affect general economic conditions and economic confidence; and
- other factors and information described in this report and in any of the other reports that we file with the Securities and Exchange Commission under the Securities Exchange Act of 1934.

All forward-looking statements are expressly qualified in their entirety by this cautionary notice. The Company has no obligation, and does not undertake, to update, revise or correct any of the forward-looking statements after the date of this report. The Company has expressed its expectations, beliefs and projections in good faith and believes they have a reasonable basis. However, there is no assurance that these expectations, beliefs or projections will result or be achieved or accomplished.

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

Changes in Financial Condition

During the first six months of 2008, loans increased by $12,687,000, or 5.2%, securities available-for-sale increased by $11,703,000, or 11.8%, securities held-to-maturity increased by $7,027,000, or 124.1%, and interest bearing balances due from banks increased by $9,286,000. Federal funds sold decreased by $18,362,000, or 75.8%. Interest bearing deposits increased by $14,173,000, or 4.5%. Approximately $10,637,000 of that increase was in the form of certificates of deposits of $100,000 or more. Also during the period, short-term borrowings increased by $1,500,000 and long-term debt increased by $5,000,000.

The Company believes that its liquidity position continues to provide it with 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. Management also believes that the current balance sheet positions maintain the Company's exposures to changes in interest rates at acceptable levels.

Results of Operations

Three Months Ended June 30, 2008 and 2007

The Company recorded consolidated net income of $845,000 or $.25 per share for the second quarter of 2008. These results are lower than net income of $939,000 and earnings per share of $.29 for the second quarter of 2007. Net income per share, assuming dilution was $.24 for the 2008 quarter and $.27 for the 2007 period. Net income per share amounts for 2007 have been retroactively adjusted to reflect a ten percent stock dividend effective December 20, 2007.

Net interest income for the 2008 second quarter was $281,000, or 10.8%, more than for the 2007 second quarter. Interest income for the 2008 second quarter increased primarily because of higher average amounts of loans and securities held. Interest expense for the 2008 quarter was slightly lower than for the same period of 2007 due to lower interest rates paid for deposits.

The provision for loan losses for the second quarter of 2008 increased by $160,000 over the amount for the same period of 2007 due to higher levels of nonaccrual and potential problem loans. Some borrowers recently have exhibited increased difficulty in servicing their loans due to a general slowing in economic conditions, especially with respect to residential real estate. If those conditions continue or deteriorate further, it is possible that increased provisions for loan losses may be needed in the future.

Noninterest income for the second quarter of 2008 increased by $123,000, or 24.5%, primarily due to a $93,000 increase in the value of life insurance and higher amounts of service charges on deposit accounts and ATM interchange and other fees. Noninterest expense for the 2008 second quarter increased from the amount recorded for the same 2007 period, primarily as a result of higher salaries and employee benefits and higher expenses for deposit insurance.

	Summary Income Sta	
	(Dollars in thousa	
For the Three Months Ended June 30,	2008	2007
Interest income	$6,037	$5,820
Interest expense	3,147	3,211

Net interest income	2,890	2,609
Provision for loan losses	280	120
Noninterest income	625	502
Noninterest expenses	2,005	1,642
Income tax expense	385	410
Net income	$ 845	$ 939

Six Months Ended June 30, 2008 and 2007

The Company recorded consolidated net income of $1,805,000 or $.54 per share, for the first half of 2008, compared with $1,896,000, or earnings per share of $.58, for the same period of 2007. Net income per share, assuming dilution was $.51 for the 2008 six months and $.54 for the same period of 2007. Net income per share amounts for 2007 have been retroactively adjusted to reflect a ten percent stock dividend effective December 20, 2007.

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Net interest income for the first six months of 2008 increased by $587,000, or 11.6%, over the amount recorded for the same period of 2007. Increases in the amounts of loans outstanding more than offset lower yields realized on most categories of earning assets and resulted in interest income increasing more than interest expenses. Increases in interest expense primarily were caused by higher average amounts of interest bearing time deposits.

Noninterest income for the first six months of 2008 increased by $246,000 as a result of higher amounts of service charges on deposit accounts and a $186,000 increase in the value of life insurance.

Noninterest expenses for the 2008 six-month period increased by $716,000, or 22.5%, over the 2007 amounts. Salaries and employee benefits increased by $431,000, or 25.1%, primarily reflecting the effects of certain deferred compensation arrangements that originated in the third quarter of 2007 and normal periodic increases in employees' compensation.

	Summary Income St		
	(Dollars in thou		
For the Six Months Ended June 30,	2008	2007	D
Interest income	$12,393	$11,481	
Interest expense	6,735	6,410	
Net interest income	5,658	5,071	
Provision for loan losses	410	120	
Noninterest income	1,234	988	
Noninterest expenses	3,892	3,176	
Income tax expense	785	867	
Net income	$ 1,805	$ 1,896	

Net Interest Income

Three Months Ended June 30, 2008 and 2007

The average yield on interest earning assets decreased to 6.12% for the 2008 three-month period, compared with 6.59% for the 2007 period. Yields on most significant categories of earning assets were lower in the 2008 period. The exception was that the yield on taxable investment securities increased to 4.84% for the 2008 period from 4.34% for the 2007 period. This resulted primarily from higher amounts of mortgage-backed securities issued by government-sponsored entities held in the 2008 period. Similarly, interest rates paid for deposits and borrowings were lower in the 2008 period. The average rate paid for interest-bearing liabilities during the 2008 three-month period was 3.74%, compared with 4.39% in the same period of 2007. Accordingly, the average interest rate spread for the 2008 period was 18 basis points higher than for the 2007 period.

Average Balances
Three Months

	2008		
	Average Balances	Interest Income/ Expense	Yield Rates
			(Dollars in
Assets			
Interest-bearing balances due from banks	$ 1,802	$ 5	1.12
Securities			
Taxable	97,408	1,172	4.84
Tax exempt (2)	20,434	208	4.09
Total investment securities	117,842	1,380	4.71
Other investments	927	12	5.21
Federal funds sold	22,117	117	2.13
Loans (2) (3) (4)	254,287	4,523	7.15
Total interest earning assets	396,975	6,037	6.12
Cash and due from banks	7,373		
Allowance for loan losses	(2,636)		
Valuation allowance - available-for-sale securities	869		
Premises and equipment	8,828		
Other assets	12,296		
Total assets	$ 423,705		
Liabilities and shareholders' equity			
Interest bearing deposits			
Interest bearing transaction accounts	$ 57,967	$ 258	1.79

Savings	24,752	68	1.10
Time deposits $100M and over	108,182	1,057	3.93
Other time deposits	142,437	1,716	4.85
Total interest bearing deposits	333,338	3,099	3.74
Long-term debt	4,929	48	3.92
Total interest bearing liabilities	338,267	3,147	3.74
Noninterest bearing demand deposits	41,307		
Other liabilities	4,138		
Shareholders' equity	39,993		
Total liabilities and shareholders' equity	$ 423,705		
Interest rate spread			2.38
Net interest income and net yield on earning assets		$ 2,890	2.93
Interest free funds supporting earning assets	$ 58,708		

(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.

Six Months Ended June 30, 2008 and 2007

For the first half of 2008, the average yield on interest earning assets was 6.19%, compared with 6.49% for the 2007 period. Yields were lower on substantially all types of earning assets in the 2008 period. Loan yields decreased because a significant portion of the Company's loan portfolio consists of variable rate instruments. Such loans, as offered by the Company, do not normally subject the borrower to the risk of negative amortization, nor do the loans involve the use of "teaser" rates or impose onerous fees or other terms that would discourage borrowers from refinancing to a lower cost product or one with a fixed rate. Yields earned on securities increased due to changes in the composition of the securities portfolio brought about by reinvesting the proceeds obtained from maturities, calls and paydowns of securities and the investment of other funds, principally deposits, obtained currently.

Average rates paid on interest-bearing liabilities were lower in the 2008 period as well, at 3.92% compared with 4.36% in the 2007 six-month period. Decreases in interest rates paid resulted from the Company's responses to actions taken early in 2008 by the Federal Reserve to lower certain interest rates within its purview

Average Balances
Six Months En

	2008 Average Balances	2008 Interest Income/ Expense	2008 Yields/ Rates (1)
			(Dollars in
Assets			
Interest-bearing balances due from banks	$ 1,108	$ 7	1.27%
Securities			
Taxable	92,739	2,189	4.75%
Tax exempt (2)	20,524	414	4.06%
Total investment securities	113,263	2,603	4.62%
Other investments	886	25	5.67%
Federal funds sold	35,084	503	2.88%
Loans (2) (3) (4)	252,271	9,255	7.38%
Total interest earning assets	402,612	12,393	6.19%
Cash and due from banks	7,811		
Allowance for loan losses	(2,609)		
Valuation allowance - available-for-sale securities	823		
Premises and equipment	8,835		
Other assets	12,247		
Total assets	$ 429,719		
Liabilities and shareholders' equity			
Interest bearing deposits			
Interest bearing transaction accounts	$ 58,856	$ 593	2.03%
Savings	33,489	277	1.66%
Time deposits $100M and over	105,614	2,210	4.21%
Other time deposits	142,867	3,568	5.02%
Total interest bearing deposits	340,826	6,648	3.92%
Short-term borrowings	-	-	0.00%
Long-term debt	4,714	87	3.71%
Total interest bearing liabilities	345,540	6,735	3.92%
Noninterest bearing demand deposits	40,542		
Other liabilities	4,233		
Shareholders' equity	39,404		
Total liabilities and shareholders' equity	$ 429,719		
Interest rate spread			2.27%
Net interest income and net yield on earning assets		$ 5,658	2.83%
Interest free funds supporting earning assets	$ 57,072		

(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 $280,000 for the second quarter of 2008, compared with $120,000 for the comparable period of 2007. For the first half of 2008, the provision for loan losses was $410,000, compared with $120,000 recorded for the first half of 2007. At June 30, 2008, the allowance for loan losses was 1.07% of loans, a slight increase over 1.05% at December 31, 2007.

For the first six months of 2008, net charge-offs totaled $236,000, compared with $83,000 in net charge offs during the same period of 2007. The higher levels of charge-offs in 2008 reflect a general deterioration of local economic conditions. No particular industries or groups of borrowers are disproportionately represented among the loans charged off. If local economic conditions do not improve, it is likely that the Company will continue to experience elevated levels of both net charge-offs and provisions for loan losses. The activity in the allowance for loan losses is summarized in the table below:

	Six Months Ended June 30, 2008	Dec
		(Doll
Allowance at beginning of period	$ 2,574	
Provision for loan losses	410	
Net charge-offs	(236)	
Allowance at end of period	$ 2,748	
Allowance as a percentage of loans outstanding at period end	1.07%	
Loans at end of period	$ 256,818	

Non-Performing and Potential Problem Loans

	Nonaccrual Loans	90 Days or More Past Due and Still Accruing	Total Nonperforming Loans	Percenta of Tota Loans
			(Dollars in thousands	
January 1, 2007	$ 50	$ -	$ 50	0.02

Net change	143	-	143	
March 31, 2007	193	-	193	0.09
Net change	219	-	219	
June 30, 2007	412	-	412	0.18
Net change	14	-	14	
September 30, 2007	426	-	426	0.18
Net change	199	-	199	
December 31, 2007	625	-	625	0.26
Net change	(181)	-	(181)	
March 31, 2008	444	-	444	0.18
Net change	1,436	-	1,436	
June 30, 2008	$ 1,880	$ -	$ 1,880	0.73

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. As of June 30, 2008, approximately 92% of the Company's potential problem loans were included in the Company's least severe category of potential problem loans. Approximately 86% of potential problem loans were secured by real estate. Management expects that further deterioration of economic conditions within the Company's market areas is likely in the short-term, especially with respect to real estate activities and real property values. Consequently, management believes that the amounts of potential problem and nonaccrual loans are likely to increase for at least the next six months. If current conditions in the Company's local real estate markets continue or if those conditions deteriorate further, it is possible that increased provisions for loan losses may be needed in the future.

Noninterest Income

Noninterest income totaled $625,000 for the second quarter of 2008, compared with $502,000 for the 2007 quarter. Increases in the value of life insurance were $93,000 in the 2008 quarter, with no such activity in the same 2007 period. Service charges on deposit accounts in the 2008 second quarter increased by $32,000 over the prior year quarter. There were no sales of any securities in either the 2008 or 2007 second quarter.

For the six months ended June 30, 2008, noninterest income totaled $1,234,000, compared with $988,000 for the same period of 2007. Increases in the value of life insurance were $186,000 in the 2008 period with no such activity in the first six months of 2007. Service charges on deposit accounts in the 2008 six months period were $735,000 representing an increase of $58,000 over the prior year period. No gains or losses on sales of securities were recognized in either the 2008 or 2007 six months period.

Noninterest Expenses

Noninterest expenses totaled $2,005,000 for the second quarter of 2008 compared with $1,642,000 for the same quarter of 2007, representing an increase of $363,000. Compared with the 2007 period, salaries and employee benefits for the 2008 three-month period increased by $205,000 primarily as a result of deferred compensation benefits and the opening of the new Highway 81 office. Occupancy expenses increased for the 2008 three-month period and included higher utility expenses and increases in depreciation and other expenses related to the new office. Deposit insurance assessments increased by $46,000 over the amount for the second quarter of 2007.

For the six months ended June 30, 2008, salaries and employee benefits increased by $431,000 over the amount for the 2007 period primarily as a result

of recognition of deferred compensation expenses. Net occupancy and furniture and equipment expenses increased by an aggregate of $53,000. Deposit insurance assessments for the 2008 six months period were $52,000 more than for the same period of 2007.

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 Anderson County market is served from three offices in Anderson and Williamston, including an office on Highway 81 in Anderson County that opened for business during the fourth quarter of 2007.

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

As of June 30, 2008, the ratio of loans to total deposits was 69.2%, compared with 68.6% as of December 31, 2007. Deposits as of June 30, 2008 totaled $370,857,000, an increase of $14,990,000 or 4.2% over the amount as of December 31, 2007. Management believes that the Company's liquidity sources are adequate to meet its operating needs.

Capital Resources

The Company's capital base increased by $1,386,000 since December 31, 2007 as the result of net income of $1,805,000 for the first six months of 2008, less a $784,000 change in unrealized gains and losses on available-for-sale securities, net of deferred income tax effects and $365,000 received from the exercise of employee stock options. Unrealized losses on available-for-sale securities are not considered to be other than temporary. The Company's available-for-sale securities primarily consist of debt issuances of government-sponsored enterprises. While not directly guaranteed by the U. S. Government, these issues are generally considered to be of high quality and default risk is believed to be remote. Therefore, the changes in market values are believed to be the result only of changes in market interest rates. In addition, the Company currently has both the intent and the ability to hold such securities until the market value recovers, including until maturity.

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, 2008 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	13.9%	14.8%	9.5%
Community First Bank	13.2%	14.2%	9.0%
Minimum "well-capitalized" requirement	6.0%	10.0%	6.0%
Minimum requirement	4.0%	8.0%	5.0%

Off-Balance-Sheet Arrangements

In the normal course of business, the Bank is 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, 2008 (Dollars in thousands)
Loan commitments	$ 47,893
Standby letters of credit ...	1,114

Loan commitments involve agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and some involve payment of a fee. Many of the commitments are expected to expire without being fully drawn; therefore, the total amount of loan commitments does not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if any, upon extension of credit is based on management's credit evaluation of the borrower. Collateral held varies but may include commercial and residential real properties, accounts receivable, inventory and equipment.

Standby letters of credit are conditional commitments to guarantee the performance of a customer to a third party. The credit risk involved in issuing standby letters of credit is the same as that involved in making loan commitments to customers. Many letters of credit will expire without being drawn upon and do not necessarily represent future cash requirements. The Bank receives fees for loan commitments and standby letters of credit. The amount of such fees was not material for the three months or six months ended June 30, 2008.

As described under "Liquidity," management believes that its various sources of liquidity provide the resources necessary for the Bank to fund the loan commitments and to perform under standby letters of credit, if the need arises. Neither the Company nor the Bank 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 2008, the model indicates that net interest income would increase $125,000 and net income would increase $77,000 in the next twelve months if interest rates rose by 100 basis points. Conversely, net interest income would decrease $81,000 and net income would decrease $53,000 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, 2008, there was no significant change from the interest rate sensitivity analysis for the various changes in interest rates calculated as of December 31, 2007. 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 2007 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Item 4T. - Controls and Procedures

Based on the evaluation required by 17 C.F.R. Section 240.13a-15(b) or 240.15d-15(b) of the issuer's disclosure controls and procedures (as defined in

17 C.F.R. Sections 240.13a-15(e) and 240.15d-15(e)), the issuer's chief executive officer and chief financial officer concluded such controls and

procedures, as of the end of the period covered by this report, were effective.

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

PART II - OTHER INFORMATION

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

On Tuesday, April 29, 2008, 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
James E. McCoy	2,070,818	0	221,828
James E. Turner	2,070,818	0	221,828
Charles L. Winchester	2,070,818	0	221,828

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 2008 annual meeting: Larry S. Bowman, MD - 2009, William M. Brown - 2009, John R. Hamrick - 2009, Frederick D. Shepherd, Jr. - 2009, Robert H. Edwards - 2010; Blake L. Griffith - 2010 and Gary W. Thrift - 2010.

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

August 12, 2008	/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