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COMMUNITY FIRST BANCORP
Form 10QSB
November 10, 2005

U. S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

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

For Quarterly Period Ended September 30, 2005 Commission File No. 000-29640

COMMUNITY FIRST BANCORPORATION

(Exact name of small business issuer as specified in its charter)

South Carolina

58-2322486

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

3685 Blue Ridge Boulevard
WALHALLA, SOUTH CAROLINA 29691

(Address of principal executive offices)

(864) 638-2105

(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [] No [X]

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: Common Stock, no par or stated value, 2,653,105 Shares Outstanding on October 31, 2005.

Transitional Small Business Disclosure Format (Check one): Yes [] No [X]

COMMUNITY FIRST BANCORPORATION

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PART I - FINANCIAL INFORMATION

Item 1. - Financial Statements

COMMUNITY FIRST BANCORPORATION
Consolidated Balance Sheet

Assets

Cash and due from banks	
Interest bearing deposits due from banks	
Federal funds sold	
Cash and cash equivalents	
Securities available-for-sale	
Securities held-to-maturity (fair value \$8,197 for 2005 and \$9,560 for 2004)	
Other investments	
Loans	
Allowance for loan losses	
Loans - net	
Premises and equipment - net	

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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 - 2,653,105 for 2005 and 2,648,230 for 2004	
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 Statement of Income

	2005	2004
	-----	-----
	Three Months	

	(Dollars in	
Interest income		
Loans, including fees	\$ 2,930	\$ 2,

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Securities		
Taxable	843	
Tax-exempt	40	
Other investments	11	
Federal funds sold	185	
Interest bearing deposits due from banks	2	
	-----	-----
Total interest income	4,011	3,
	-----	-----
Interest expense		
Time deposits \$100M and over	589	
Other deposits	1,091	
Short-term borrowings	-	
Long-term debt	72	
	-----	-----
Total interest expense	1,752	1,
	-----	-----
Net interest income	2,259	2,
Provision for loan losses	-	
	-----	-----
Net interest income after provision	2,259	2,
	-----	-----
Other income		
Service charges on deposit accounts	402	
Credit life insurance commissions	9	
Net gains (losses) on sales of available-for-sale securities	-	
Other income	132	
	-----	-----
Total other income	543	
	-----	-----
Other expenses		
Salaries and employee benefits	791	
Net occupancy expense	65	
Furniture and equipment expense	89	
Other expense	438	
	-----	-----
Total other expenses	1,383	1,
	-----	-----
Income before income taxes	1,419	1,
Income tax expense	489	
	-----	-----
Net income	\$ 930	\$
	=====	=====
Per share*		
Net income	\$ 0.35	\$ 0
Net income, assuming dilution	0.32	0

* Per share information has been retroactively adjusted to reflect a 10% stock dividend effective November 30, 2004.

See accompanying notes to unaudited consolidated financial statements.

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COMMUNITY FIRST BANCORPORATION
Consolidated Statement of Changes in Shareholders' Equity

	(Unaudited)		
	Common Stock		
	Number of Shares	Amount	Ret Ear
	-----	-----	-----
		(Dollars in tho	
Balance, January 1, 2004	2,362,057	\$ 19,620	\$
Comprehensive income:			
Net income	-	-	
Unrealized holding gains and losses on available-for-sale securities arising during the period, net of income taxes of \$55	-	-	
Reclassification adjustment for losses (gains) realized in income, net of income taxes of \$3	-	-	
Total other comprehensive income (loss)	-	-	
Total comprehensive income	-	-	
Exercise of employee stock options	45,821	268	
Balance, September 30, 2004	2,407,878	\$ 19,888	\$
	=====	=====	=====
Balance, January 1, 2005	2,648,230	\$ 24,216	\$
Comprehensive income:			
Net income	-	-	
Unrealized holding gains and losses on available-for-sale securities arising during the period, net of income taxes of \$249	-	-	
Total other comprehensive income (loss)	-	-	
Total comprehensive income	-	-	
Exercise of employee stock options	4,875	30	
Balance, September 30, 2005	2,653,105	\$ 24,246	\$
	=====	=====	=====

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY FIRST BANCORPORATION
 Consolidated Statement of Cash Flows

Operating activities

Net income	
Adjustments to reconcile net income to net cash provided by operating activities	
Provision for loan losses	
Writedowns of other real estate owned	
Depreciation	
Amortization of net loan (fees) and costs	
Securities accretion and premium amortization	
Net losses on available-for-sale securities	
Loss on sale of other real estate	
Increase in interest receivable	
Increase (decrease) in interest payable	
Decrease in prepaid expenses and other assets	
Increase in other accrued expenses	
Net cash provided by operating activities	

Investing activities

Purchases of available-for-sale securities	
Purchases of held-to-maturity securities	
Maturities, calls and paydowns of securities available-for-sale	
Maturities, calls and paydowns of securities held-to-maturity	
Proceeds of sales of available-for-sale securities	
Purchases of other investments	
Proceeds of sales of other investments	
Net increase in loans made to customers	
Purchases of premises and equipment	
Proceeds of sale of real estate held for sale	
Proceeds of sale of other real estate	
Net cash used by investing activities	

Financing activities

Net decrease in demand deposits, interest bearing transaction accounts and savings accounts	
Net increase in certificates of deposit and other time deposits	
Net (decrease) increase in short-term borrowings	
Proceeds of issuing long-term debt	
Exercise of employee stock options	

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Net cash (used) 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 year for:	
Interest	
Income taxes	
Noncash investing and financing activities:	
Transfer of loans to other real estate	
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 for the year ended December 31, 2004 on Form 10-KSB filed with the Securities and Exchange Commission.

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

Nonperforming Loans - As of September 30, 2005, there were \$969,000 of 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. Per share information for 2004 has been retroactively adjusted to give effect to a 10% stock dividend effective November 30, 2004. Net income per share and net income per share, assuming dilution, were computed as follows:

(Unau
Period Ended

Three Months

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	2005 -----	2004 -----
	(Dollars in thousands, ex	
Net income per share, basic		
Numerator - net income	\$ 930	\$ 904
	=====	=====
Denominator		
Weighted average common shares		
issued and outstanding	2,651,779	2,648,168
	=====	=====
Net income per share, basic	\$.35	\$.34
	=====	=====
Net income per share, assuming dilution		
Numerator - net income	\$ 930	\$ 904
	=====	=====
Denominator		
Weighted average common shares		
issued and outstanding	2,651,779	2,648,168
Effect of dilutive stock options	192,685	149,186
	-----	-----
Total shares	2,844,464	2,797,354
	=====	=====
Net income per share, assuming dilution	\$.32	\$.32
	=====	=====

Stock-Based Compensation - As of September 30, 2005, the Company has two stock-based compensation plans that are accounted for under the recognition and measurement principles of Accounting Standards Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. No stock-based compensation is recognized in net income, as all options granted under those plans had exercise prices equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and net income per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") 123 to stock-based employee compensation. Per share amounts have been adjusted to reflect the effect of a 10% stock dividend effective November 30, 2004.

	(U Period En -----
	Three Months

	2005 2004
	----- -----
	(Dollars in thousands)

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Net income, as reported	\$ 930	\$ 904
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of any related tax effects	65	60
	-----	-----
Pro forma net income	\$ 865	\$ 844
	=====	=====
Net income per share, basic		
As reported	\$ 0.35	\$ 0.34
Pro forma	0.33	0.32
Net income per share, assuming dilution		
As reported	\$ 0.32	\$ 0.32
Pro forma	0.31	0.30

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123 (R), which requires that the costs resulting from all share based payments be recognized in the financial statements. SFAS 123 (R) replaces SFAS 123 and supersedes APB No. 25, as well as several other related pronouncements. SFAS 123 (R) is effective for the Company beginning January 1, 2006. Various transition methods are available for the restatement of prior period information, but the Company has not yet determined which method will be used. Accordingly, the effect of the implementation of this statement on the Company's financial position and results of operations has not been determined for any period.

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Item 2. - Management's Discussion and Analysis

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

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time to time in the Company's reports filed with the Securities and Exchange Commission.

Results of Operations

Community First Bancorporation recorded consolidated net income of \$930,000, or \$.35 per share, for the third quarter, and \$2,816,000, or \$1.06 per share, for the first nine months of 2005. During 2004, the Company recorded net income of \$904,000, or \$.34 per share, for the third quarter, and \$2,566,000, or \$.97 per share, for the first nine months. Net income per share, assuming dilution, for the three and nine month periods ended September 30, 2005 was \$.32 and \$.99, respectively. For the comparable 2004 periods, net income per share, assuming dilution, was \$.32 and \$.92, respectively. Net income per share amounts for 2004 have been retroactively adjusted to reflect a 10% stock dividend effective November 30, 2004.

Net Interest Income

Net interest income is the amount of interest income earned on interest earning assets (loans, securities, interest bearing deposits in other banks, federal funds sold and other investments), less the interest expense incurred on interest bearing liabilities (interest bearing deposits and other borrowings), and is the principal source of the Company's earnings. Net interest income is affected by the level of interest rates and by the volume and mix of interest earning assets and interest bearing liabilities.

For the first nine months of 2005, net interest income was \$7,046,000, an increase of \$425,000 or 6.4% from the first nine months of 2004. The increase in net interest income for the 2005 period resulted primarily from the effects of larger volumes of average interest earning assets.

Average interest earning assets in the 2005 nine month period were \$297,911,000 compared with \$282,288,000 in the same period of 2004, representing an increase of \$15,623,000 or 5.5%. Average loans outstanding were \$162,555,000 in the 2005 nine month period compared with \$151,287,000 in the 2004 nine month period, representing an increase of \$11,268,000 or 7.4%. Average loans were 54.6% and 53.6% of average interest earning assets for the 2005 and 2004 nine-month periods, respectively. Average investment securities for the 2005 nine month period were \$110,841,000, an increase of \$4,615,000 or 4.3% over the 2004 amount. Average federal funds sold for the 2005 nine-month period were \$23,352,000, a decrease of \$544,000 or 2.3% from the same period of 2004. Average interest bearing liabilities during the 2005 nine-month period were \$244,054,000, representing an increase of \$7,576,000 or 3.2% over the amount for the same period of 2004. Average time deposits of \$100,000 and over increased to \$63,854,000 for the 2005 nine-month period from \$60,066,000 in the same prior year period, an increase of \$3,788,000 or 6.3%. Average time deposits less than \$100,000 increased to \$104,588,000 for the 2005 nine-month period from \$103,806,000 in the same period of 2004, representing an increase of \$782,000 or .8%. Average interest bearing transaction and savings accounts decreased to \$67,154,000 for the 2005 nine-month period, a decrease of \$1,584,000 or 2.3% from the same period of 2004.

The yields and rates associated with the subsidiary bank's financial assets and liabilities are affected primarily by short-term interest rates. During the twelve-month period ended September 30, 2005, the Federal Reserve Bank's Open Market Committee gradually increased certain key short-term rates by a total of 200 basis points. Consequently, the prime rate, a key determinant of

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rates charged to the Company's most creditworthy customers and a factor considered in the Company's loan-pricing decisions rose steadily throughout the period. Likewise, rates paid by the Company for interest bearing deposits and other funding sources also increased.

The average rate earned on interest earning assets increased by 38 basis points to 5.28% for the first nine months of 2005 as compared with the same period of 2004. The average rate paid for interest bearing liabilities during the 2005 nine month period was 2.59%, an increase of 48 basis points from the same 2004 period. The average interest rate spread (average yield on interest earning assets less the average rate paid on interest bearing liabilities) for the first nine months of 2005 was 2.69%. The comparable figure for the first nine months of 2004 was 2.79%. Net yield on earning assets (net interest income divided by average interest earning assets) was 3.16% for the first nine months of 2005, an increase of 3 basis points from the 3.13% net yield for the first nine months of 2004.

As of September 30, 2005, approximately \$57,025,000, or 34.0%, of the Company's loan portfolio was composed of variable rate loans directly indexed to movements in the prime rate. The average rate earned on loans during the first nine months of 2005 was 6.98%, compared with 6.74% for the same period of 2004. Interest bearing deposit liabilities typically mature within thirty six months from the date of issuance and generally provide for penalties in the Company's favor in the event of early withdrawal.

During the first nine months of 2004, the Company increased investment securities by \$21,268,000, or 24.7%. This increase was funded by both decreasing the Company's investment in federal funds sold and incurring other liabilities. Late in the second quarter of 2004, the Company borrowed approximately \$10,000,000 from the FHLB and invested the proceeds in several mortgage-backed securities issues with a combined yield-to-maturity of 5.10%. These securities were designated and are accounted for as held-to-maturity securities. The average expected life of these securities was approximately 6.0 years as of the purchase date. The borrowed funds consisted of a combination of short- and long-term debt with an average life of approximately 4.6 years and an average cost of 3.27% at the date incurred. Also contributing to the Company's investment activities in the first nine months of 2004 were the responses of securities issuers to the Federal Reserve's interest rate actions. Many securities issuers have for the past several quarters redeemed callable securities that were issued at rates higher than current rates. The Company generally replaced the called securities with new securities that generally were issued at lower rates.

Provision and Allowance for Loan Losses, Non-performing and Potential Problem Loans

No provision for loan losses was charged to expense during the third quarter of 2005 compared with \$180,000 for the third quarter of 2004, primarily due to lower amounts of net charge-offs in the 2005 three month period and reductions in nonaccrual and potential problem loans during the 2005 third quarter. For the first nine months of 2005, the provision for loan losses totaled \$215,000 compared with \$315,000 for the comparable period of 2004. At September 30, 2005 and December 30, 2004, the allowance for loan losses was 1.37% and 1.42% of loans, respectively.

During the 2005 nine-month period, net charge-offs totaled \$156,000, compared with \$194,000 during the same period of 2004. Net charge-offs during the 2005 third quarter were \$38,000, a decrease of \$64,000, or 62.7% from the \$102,000 in net charge-offs during the third quarter of 2004. As of September 30, 2005, there were \$969,000 in nonaccrual loans and no loans over 90 days past due and still accruing interest. The amount of nonaccrual loans at September 30, 2005 is \$189,000 less than the comparable amount as of June 30, 2005 and

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\$496,000 less than the amount of nonaccrual loans as of December 31, 2004. As of September 30, 2005, the majority of nonaccrual loans are secured by vehicles or real estate. When the estimated net realizable value of collateral associated with nonperforming loans is believed to be insufficient to satisfy the debt, management generally charges-off the excess amount of the debt.

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 September 30, 2005, the Company's potential problem loans totaled \$2,873,000, an increase of \$1,470,000 from the amount of such loans as of December 31, 2004. However, this amount is \$578,000 less than the amount reported as of June 30, 2005. The increase in potential problem loans since December 31, 2004 is attributable primarily to cash flow difficulties experienced by unrelated borrowers on four real estate secured loans totaling \$1,343,000, and one commercial loan of \$421,000. Management believes that the value of the real estate loans' collateral and a governmental agency guarantee covering a portion of the commercial loan are sufficient to protect the Company from loss. Management does not believe that the problems associated with these loans indicate the beginning of a trend or reflect any large-scale changes in the Company's trade area. Rather, the problems are believed to reflect conditions peculiar to the borrowers themselves. The majority of other potential problem loans are secured by real estate mortgages or liens on equipment, inventories, receivables, automobiles and other forms of collateral.

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Noninterest Income

Noninterest income totaled \$543,000 for the third quarter of 2005, compared with \$524,000 for the 2004 quarter. Noninterest income was \$1,581,000 for the first nine months of 2005 and \$1,539,000 for the same 2004 period. Income from mortgage brokerage activities for the 2005 nine month period was \$22,000 less than for the same period of 2004. No securities gains or losses were realized in the 2005 year-to-date period. There were \$9,000 in net realized losses on sales of available-for-sale securities in the comparable period of 2004.

Noninterest Expenses

Noninterest expenses totaled \$1,383,000 for the third quarter of 2005, compared with \$1,303,000 for the 2004 period, representing an increase of \$80,000 or 6.1%. Noninterest expenses were \$4,058,000 for the first nine months of 2005 compared with \$3,839,000 for the same period of 2004. Salaries and employee benefits for the 2005 quarter totaled \$791,000, an increase of \$83,000 over the 2004 three month period. For the first nine months of 2005, salaries and employee benefits totaled \$2,132,000 representing an increase of \$43,000 or 2.1% over the same period of 2004. This increase resulted primarily from normal increases in salaries and wages granted from time to time.

Occupancy and furniture and equipment expenses for the third quarter of 2005 totaled \$154,000, an increase of \$10,000, or 6.9% from the amount for the same period of 2004. Such expenses increased \$17,000 during the first nine months of 2005 and totaled \$456,000 for the 2005 nine-month period. Other expenses for the third quarter of 2005 were \$438,000, a decrease of \$13,000 or 2.9% from the comparable period of 2004. Such expenses for the nine-month period of 2005 were \$1,470,000, an increase of \$159,000 or 12.1% over the amount for the same period of 2004. These expenses increased primarily because of expenses associated with preparing the Company to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, increased amortization expenses of core

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data processing costs, and expenses incurred in 2005 for the Company's biennial strategic planning process.

Management anticipates that higher amounts of noninterest expenses will continue during the remainder of 2005.

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 legal requirements that the Bank pledge investment securities as collateral for any local governmental deposits not covered by FDIC insurance and by market conditions. Individual and commercial deposits are the Company's primary source of funds for credit activities.

As of September 30, 2005, the ratio of loans to total deposits was 63.4%, compared with 58.8% as of December 31, 2004 and 61.4% as of September 30, 2004. The increase in the loan-to-deposit ratio for 2005 is generally the result of diversification of funding sources to include non-deposit borrowings and increased loan volumes.

Deposits as of September 30, 2005 decreased by \$3,366,000 or 1.3% from the amount at December 31, 2004 and were \$11,425,000 or 4.5% greater than their levels of September 30, 2004. Typically, the Company's deposit totals as of December 31 are temporarily increased because of year-end property tax receipts deposited into accounts of Oconee County, South Carolina held with the Bank. Subsequently, those accounts are redistributed to other entities, including many that maintain deposit accounts with other financial institutions.

In addition, the composition of accounts maintained with the Bank by its deposit customers changed during the 2005 nine month period. Certificates of deposit issued in denominations of less than \$100,000 increased by approximately \$10,703,000, or 11.0%, above the amount as of December 31, 2005. Other, more liquid types of interest bearing deposit accounts, such as interest bearing checking accounts and savings accounts, decreased by \$10,095,000 as depositors responded to increased rates the Bank offered for time deposit accounts.

Management believes that the Company's liquidity sources are adequate to meet its operating needs.

Capital Resources

The Company's equity capital increased by \$2,400,000 since December 31, 2004 as the result of net income of \$2,816,000 for the first nine months of

2005, \$30,000 added from the exercise of employee stock options, less \$446,000 from changes in items of comprehensive income, primarily unrealized losses on available-for-sale investment securities, net of deferred taxes.

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

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capital to risk-weighted assets and average total assets. Under the provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), federal bank regulatory authorities are required to implement prescribed "prompt corrective actions" upon the deterioration of the capital position of a bank. If the capital position of an affected institution were to fall below certain levels, increasingly stringent regulatory corrective actions are mandated.

The September 30, 2005 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	15.9%	17.2%	9.6%
Community First Bank	15.3%	16.6%	9.2%
Minimum "well-capitalized" requirement	6.0%	10.0%	6.0%
Minimum requirement	4.0%	8.0%	4.0%

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 or notional amount of those instruments. Generally, the same credit policies used for on-balance-sheet instruments, such as loans, are used in extending loan commitments and standby letters of credit.

Following are the off-balance-sheet financial instruments whose contract amounts represent credit risk:

	September 30, 2005 -----
(Dollars in thousands)	
Loan commitments	\$ 23,684
Standby letters of credit	889

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.

As described under "Liquidity," management believes that its various sources of

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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. The Bank contracted for the construction of a new headquarters building which is currently under construction in Seneca, South Carolina. The contract price for this building is approximately \$1,700,000. Upon completion, which is currently expected to occur in the second quarter of 2006, the building will house an additional banking office, the mortgage lending staff, and the Company's executive officers. Through September 30, 2005, the Company has made expenditures totaling approximately \$307,000 under this arrangement. 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.

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Item 3. - Controls and Procedures

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

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

PART II - OTHER INFORMATION

Item 6. - Exhibits

- (a) 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

In accordance with the requirements of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMMUNITY FIRST BANCORPORATION

November 10, 2005

/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