

COMMUNITY FIRST BANCORP

Form 10-Q

June 01, 2012

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**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 March 31, 2012

Commission File No. 000-29640

**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**

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(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

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   
(Do not check if a smaller reporting company)

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, 4,152,294 Shares Outstanding on May 18, 2012.**

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## COMMUNITY FIRST BANCORPORATION

## Consolidated Balance Sheets

	(Unaudited) March 31, 2012	December 31, 2011
	(Dollars in thousands)	
<b>Assets</b>		
Cash and due from banks	\$ 1,747	\$ 3,355
Interest bearing deposits due from banks	143,585	121,555
Cash and cash equivalents	145,332	124,910
Debt securities available-for-sale	103,388	124,094
Equity securities available-for-sale	3	317
Securities held-to-maturity (fair value \$4,340 for 2012 and \$4,752 for 2011)	4,004	4,396
Federal Home Loan Bank stock, at cost	1,143	1,143
Loans	216,278	224,656
Allowance for loan losses	(4,861)	(4,359)
Loans - net	211,417	220,297
Premises and equipment - net	8,938	8,929
Accrued interest receivable	1,513	1,879
Bank-owned life insurance	10,104	10,016
Foreclosed assets	18,548	18,306
Other assets	2,916	2,826
<b>Total assets</b>	<b>\$ 507,306</b>	<b>\$ 517,113</b>
<b>Liabilities</b>		
<b>Deposits</b>		
Noninterest bearing	\$ 65,662	\$ 68,465
Interest bearing	390,634	395,377
Total deposits	456,296	463,842
Accrued interest payable	1,056	1,154
Long-term debt	6,500	6,500
Other liabilities	2,598	2,552
<b>Total liabilities</b>	<b>466,450</b>	<b>474,048</b>
<b>Shareholders equity</b>		
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 - 4,152,294 for 2012 and 4,152,334 for 2011	40,669	40,669
Additional paid-in capital	748	748
Retained earnings (Accumulated deficit)	(3,733)	(3,014)

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Accumulated other comprehensive income	46	1,536
Total shareholders' equity	40,856	43,065
Total liabilities and shareholders' equity	\$ 507,306	\$ 517,113

See accompanying notes to unaudited consolidated financial statements.

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## COMMUNITY FIRST BANCORPORATION

## Consolidated Statements of Income (Loss)

	(Unaudited) Three Months Ended March 31,	
	2012	2011
	(Dollars in thousands, except per share)	
<b>Interest income</b>		
Loans, including fees	\$ 3,369	\$ 3,623
Interest bearing deposits due from banks	68	28
Securities		
Taxable	752	1,124
Tax-exempt	176	177
Other investments	4	2
Total interest income	4,369	4,954
<b>Interest expense</b>		
Time deposits \$100M and over	399	562
Other deposits	615	870
Long-term debt	64	64
Total interest expense	1,078	1,496
<b>Net interest income</b>	3,291	3,458
Provision for loan losses	935	1,250
<b>Net interest income after provision</b>	2,356	2,208
<b>Other income</b>		
Service charges on deposit accounts	253	260
Debit card transaction fees	181	183
Credit life insurance commissions		1
Net gains on sales of securities available-for-sale	1,528	
Net gains (losses) on sales of foreclosed assets	12	(29)
Increase in value of bank-owned life insurance	88	89
Other income	50	55
Total other income	2,112	559
<b>Other expenses</b>		
Salaries and employee benefits	1,192	1,220
Net occupancy expense	160	139
Furniture and equipment expense	91	79
Amortization of computer software	175	97
Expenses of foreclosed assets	1,812	201
FDIC insurance expense	249	232
Debit card transaction expenses	39	116
Other expense	596	474
Total other expenses	4,314	2,558
<b>Income before income taxes</b>	154	209
Income tax expense	834	34
<b>Net income (loss)</b>	(680)	175
Deductions for amounts not available to common shareholders:		
Dividends declared or accumulated on preferred stock	(39)	(39)
<b>Net income (loss) available to common shareholders</b>	\$ (719)	\$ 136
<b>Per common share*</b>		
Net income (loss)	\$ (0.17)	\$ 0.03

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Net income (loss), assuming dilution	(0.17)	0.03
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\* Per share information has been retroactively adjusted to reflect a 5% stock dividend effective December 16, 2011.

See accompanying notes to unaudited consolidated financial statements.

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## COMMUNITY FIRST BANCORPORATION

## Consolidated Statements of Comprehensive Income (Loss)

	(Unaudited) Three Months Ended March 31,	
	2012	2011
	(Dollars in thousands)	
<b>Net income (loss)</b>	\$ (680)	\$ 175
Other comprehensive income (loss)		
Unrealized losses on available-for-sale securities arising during the period	(796)	(242)
Related income tax benefit	286	87
Less: Reclassification adjustments for net gains included in net income	(1,528)	
Related income tax benefit	548	
Other comprehensive loss	(1,490)	(155)
<b>Comprehensive income (loss)</b>	\$ (2,170)	\$ 20

See accompanying notes to unaudited consolidated financial statements.



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## COMMUNITY FIRST BANCORPORATION

## Consolidated Statements of Changes in Shareholders' Equity

(Unaudited)

	Shares of Common Stock	Preferred Stock	Common Stock	Additional Paid-in Capital (Dollars in thousands)	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance, January 1, 2011</b>	3,972,976	\$ 3,126	\$ 39,931	\$ 748	\$ 1,396	\$ 111	\$ 45,312
Net income					175		175
Other comprehensive income (loss)						(155)	(155)
Dividends declared on preferred stock					(39)		(39)
<b>Balance, March 31, 2011</b>	3,972,976	\$ 3,126	\$ 39,931	\$ 748	\$ 1,532	\$ (44)	\$ 45,293
<b>Balance, January 1, 2012</b>	4,152,334	\$ 3,126	\$ 40,669	\$ 748	\$ (3,014)	\$ 1,536	\$ 43,065
Net income (loss)					(680)		(680)
Other comprehensive income (loss)						(1,490)	(1,490)
Adjustment of fractional shares issued in conjunction with 2011 stock dividend	(40)						
Dividends declared on preferred stock					(39)		(39)
<b>Balance, March 31, 2012</b>	4,152,294	\$ 3,126	\$ 40,669	\$ 748	\$ (3,733)	\$ 46	\$ 40,856

See accompanying notes to unaudited consolidated financial statements.

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## COMMUNITY FIRST BANCORPORATION

## Consolidated Statements of Cash Flows

	(Unaudited) Three Months Ended March 31,	
	2012	2011
	(Dollars in thousands)	
<b>Operating activities</b>		
Net income (loss)	\$ (680)	\$ 175
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Provision for loan losses	935	1,250
Depreciation	88	93
Deferred income taxes	314	(201)
Amortization of net loan fees and costs	(7)	17
Securities accretion and premium amortization	259	268
Net gains realized on sales of securities available-for-sale	(1,528)	
Writedowns of foreclosed assets	1,531	45
Loss (gain) on sale of foreclosed assets	(12)	29
Increase in cash surrender value of bank-owned life insurance	(88)	(89)
Decrease in interest receivable	366	98
Decrease in interest payable	(98)	(526)
Decrease in prepaid expenses and other assets	419	459
Increase in other accrued expenses	46	243
Net cash provided by operating activities	1,545	1,861
<b>Investing activities</b>		
Purchases of available-for-sale securities	(46,529)	(23,965)
Maturities, calls and paydowns of securities available-for-sale	24,159	21,871
Maturities, calls and paydowns of securities held-to-maturity	392	643
Proceeds of sales of securities available-for-sale	42,335	
Net decrease in loans made to customers	5,278	7,502
Purchases of premises and equipment	(97)	(5)
Additional investment in foreclosed assets, net	(20)	
Proceeds of sale of foreclosed assets	944	324
Net cash provided by investing activities	26,462	6,370
<b>Financing activities</b>		
Net (decrease) increase in demand deposits, interest bearing transaction accounts and savings accounts	(7,180)	6,516
Net decrease in certificates of deposit and other time deposits	(366)	(17,802)
Decrease in short-term borrowings		(5,000)
Cash dividends paid on preferred stock	(39)	(39)
Net cash used by financing activities	(7,585)	(16,325)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>20,422</b>	<b>(8,094)</b>
<b>Cash and cash equivalents, beginning</b>	<b>124,910</b>	<b>40,882</b>
<b>Cash and cash equivalents, ending</b>	<b>\$ 145,332</b>	<b>\$ 32,788</b>

See accompanying notes to unaudited consolidated financial statements.



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COMMUNITY FIRST BANCORPORATION

Consolidated Statements of Cash Flows - continued

	(Unaudited) Three Months Ended March 31,	
	2012	2011
	(Dollars in thousands)	
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid during the period for		
Interest	\$ 1,176	\$ 2,022
Income taxes		
Net transfers from loans and other assets to foreclosed assets	2,796	508
Noncash investing and financing activities:		
Other comprehensive loss	(1,490)	(155)

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## Notes to Unaudited Consolidated Financial Statements

(Dollar amounts in thousands, except per share)

**Accounting Policies** A summary of significant accounting policies is included in Community First Bancorporation's (the Company, our, we, and similar references) Annual Report on Form 10-K for the year ended December 31, 2011 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.

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

	March 31, 2012			December 31, 2011				
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
	(Dollars in thousands)							
<b>Available-for-sale</b>								
Debt securities								
Mortgage-backed securities issued by US Government agencies	\$ 653	\$ 9	\$	\$ 662	\$ 1,555	\$ 65	\$	\$ 1,620
Government sponsored enterprises (GSEs)	66,895	84	423	66,556	75,004	436	55	75,385
Mortgage-backed securities issued by GSEs	30,165	378	61	30,482	26,951	1,118	4	28,065
State, county and municipal	5,603	97	12	5,688	18,180	853	9	19,024
Total debt securities	103,316	568	496	103,388	121,690	2,472	68	124,094
Equity securities	2	1		3	324		7	317
Total	\$ 103,318	\$ 569	\$ 496	\$ 103,391	\$ 122,014	\$ 2,472	\$ 75	\$ 124,411
<b>Held-to-maturity</b>								
Mortgage-backed securities issued by US Government agencies								
Government sponsored enterprises	\$	\$	\$	\$	\$	\$	\$	\$
Mortgage-backed securities issued by GSEs	4,004	336		4,340	4,396	356		4,752
State, county and municipal								
Total	\$ 4,004	\$ 336	\$	\$ 4,340	\$ 4,396	\$ 356	\$	\$ 4,752



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

	March 31, 2012	
	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)	
Non-mortgage backed securities issued by GSEs and by state, county and municipal issuers		
Due within one year	\$ 150	\$ 150
Due after one through five years	433	435
Due after five through ten years	48,585	48,433
Due after ten years	23,330	23,226
	72,498	72,244
Mortgage-backed securities issued by:		
US Government agencies	34,169	34,822
GSEs	653	662
Total	\$ 107,320	\$ 107,728

The estimated fair values and gross unrealized losses of all of the Company's investment securities whose fair values were less than amortized cost as of March 31, 2012 and December 31, 2011 and which had not been determined to be other-than-temporarily impaired are presented below. The Company evaluates 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.

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	March 31, 2012					
	Continuously in Unrealized Loss Position for a Period of				Total	
	Less than 12 Months	Unrealized	12 Months or more	Unrealized	Estimated	Unrealized
	Estimated	Loss	Estimated	Loss	Fair Value	Loss
	Fair Value		Fair Value			
	(Dollars in thousands)					
<b>Available-for-sale</b>						
Government-sponsored enterprises (GSEs)	\$ 40,208	\$ 423	\$	\$	\$ 40,208	\$ 423
Mortgage-backed securities issued by GSEs	14,357	61			14,357	61
State, county and municipal securities	1,055	12			1,055	12
Equity securities						
<b>Total</b>	<b>\$ 55,620</b>	<b>\$ 496</b>	<b>\$</b>	<b>\$</b>	<b>\$ 55,620</b>	<b>\$ 496</b>
<b>Held-to-maturity</b>						
GSEs	\$	\$	\$	\$	\$	\$
<b>Total</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
	December 31, 2011					
	Continuously in Unrealized Loss Position for a Period of				Total	
	Less than 12 Months	Unrealized	12 Months or more	Unrealized	Estimated	Unrealized
	Estimated	Loss	Estimated	Loss	Fair Value	Loss
	Fair Value		Fair Value			
	(Dollars in thousands)					
<b>Available-for-sale</b>						
Government-sponsored enterprises (GSEs)	\$ 12,623	\$ 55	\$	\$	\$ 12,623	\$ 55
Mortgage-backed securities issued by GSEs	1,946	4			1,946	4
State, county and municipal securities			501	9	501	9
Equity securities	315	7			315	7
<b>Total</b>	<b>\$ 14,884</b>	<b>\$ 66</b>	<b>\$ 501</b>	<b>\$ 9</b>	<b>\$ 15,385</b>	<b>\$ 75</b>
<b>Held-to-maturity</b>						
GSEs	\$	\$	\$	\$	\$	\$
<b>Total</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

As of March 31, 2012, 39 securities had been continuously in an unrealized loss position for less than 12 months and no 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 government-sponsored enterprises and state, county and municipal government issuers. We also believe that the impairments resulted from current credit market conditions. There have been no defaults or failures by any of the issuers to remit periodic interest payments as required, nor are we aware that any such issuer has given notice that it expects it will be unable to make any such future payment according to the terms of its bond agreement. 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. Furthermore, we do not believe that we will be required to sell any such securities prior to recovery of the unrealized losses. Substantially all of the state, county and municipal securities were rated at least investment grade by either S&P or Moody's, or both, as of March 31, 2012.

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. These securities are identified in a separate category in the Consolidated Balance Sheets. 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 Company's





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subsidiary. We evaluate this security for impairment based on the probability of ultimate recovery of the acquisition cost. No impairment has been recognized based on this evaluation.

During the first three months of 2012, we sold sixty-seven available-for-sale debt securities and two available-for-sale equity securities for proceeds of \$42,335 and realized gains of \$1,528. In addition, seventeen securities were called for proceeds of \$20,100 and paydowns of mortgage-backed securities totaled \$4,451. We purchased twenty-seven debt securities for cash expenditures of \$46,529. There were there no transfers of available-for-sale securities to other categories.

**Loans** Loans consisted of the following:

	March 31, 2012	December 31, 2011
(Dollars in thousands)		
Commercial, financial and industrial	\$ 18,362	\$ 18,123
Real estate- construction	10,097	11,706
Real estate - mortgage	169,201	174,351
Consumer installment	18,618	20,476
Total	216,278	224,656
Allowance for loan losses	(4,861)	(4,359)
Loans - net	\$ 211,417	\$ 220,297

The following table provides information about the payment status of loans:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans
(Dollars in thousands)						
<u>As of March 31, 2012</u>						
Commercial, financial and industrial	\$ 135	\$ 386	\$ 220	\$ 741	\$ 17,621	\$ 18,362
Real estate- construction			1,709	1,709	8,388	10,097
Real estate - mortgage	3,005	1,008	5,888	9,901	159,300	169,201
Consumer installment	435	108	176	719	17,899	18,618
Total	\$ 3,575	\$ 1,502	\$ 7,993	\$ 13,070	\$ 203,208	\$ 216,278

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans
(Dollars in thousands)						
<u>As of December 31, 2011</u>						
Commercial, financial and industrial	\$ 223	\$ 117	\$ 265	\$ 605	\$ 17,518	\$ 18,123
Real estate- construction		230	2,594	2,824	8,882	11,706
Real estate - mortgage	1,490	1,175	7,387	10,052	164,299	174,351
Consumer installment	458	119	109	686	19,790	20,476
Total	\$ 2,171	\$ 1,641	\$ 10,355	\$ 14,167	\$ 210,489	\$ 224,656

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Nonaccrual loans totaled \$7,993 and \$10,342 as of March 31, 2012 and December 31, 2011, respectively. Troubled debt restructurings, not including such loans that are included in nonaccrual loans, totaled \$8,075 as of March 31, 2012 and

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\$6,205 as of December 31, 2011. As of March 31, 2012 and December 31, 2011, we had loans past due 90 days or more and still accruing interest totaling \$0 and \$13, respectively.

Loans that we grade Management Attention and Special Mention are not believed to represent more than a minimal likelihood of loss. Those grades indicate that a change in the borrowers' circumstances, or some other event, has occurred such that an elevated level of monitoring is warranted. Such loans are generally evaluated collectively for purposes of estimating the allowance for loan losses. Loans graded Substandard are believed to present a moderate likelihood of loss due to the presence of well-defined weakness in the borrowers' financial condition such as a change in their demonstrated repayment history, the effects of lower collateral values combined with other financial difficulties the borrowers may be experiencing, or deterioration of other indicators of the borrowers' ability to service the loan as agreed. Loans graded Doubtful are believed to present a high likelihood of loss due to severe deterioration of a borrowers' financial condition, severe past due status and/or substantial deterioration of collateral value, or other factors. Loans graded Substandard and Doubtful are evaluated individually for impairment. Management updates the loans in its internal risk grading system no less often than monthly. The following table provides information about how we grade loans internally.

	Internally Assigned Risk Grade				Total
	Management Attention	Special Mention	Substandard	Doubtful	
<u>As of March 31, 2012</u>					
Commercial, financial and industrial	\$ 1,381	\$ 2,423	\$ 988	\$	\$ 4,792
Real estate- construction	1,553	1,542	4,271		7,366
Real estate - mortgage	12,421	16,673	18,779		47,873
Consumer installment	1,034	662	839		2,535
	\$ 16,389	\$ 21,300	\$ 24,877	\$	\$ 62,566

	Internally Assigned Risk Grade				Total
	Management Attention	Special Mention	Substandard	Doubtful	
<u>As of December 31, 2011</u>					
Commercial, financial and industrial	\$ 1,182	\$ 2,023	\$ 981	\$	\$ 4,186
Real estate- construction	1,541	1,457	5,822		8,820
Real estate - mortgage	10,699	12,586	21,425		44,710
Consumer installment	1,335	860	697		2,892
	\$ 14,757	\$ 16,926	\$ 28,925	\$	\$ 60,608

Impaired loans generally are nonaccrual loans, loans that are 90 days or more delinquent as to principal or interest payments, and other loans where, based on current information and events, it is probable that we will be unable to collect principal and interest payments according to the contractual terms of the loan agreements, including loans whose terms have been modified in a troubled debt restructuring. A loan is not considered to be impaired, however, if any periods of delay or shortfalls of amounts expected to be collected are insignificant or if we expect that we will be able to collect all amounts due including interest accrued at the contractual interest rate during the period of delay.

Following is a summary of our impaired loans, by class:



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	Recorded Investment	Unpaid Principal Balance	Related Allowance (Dollars in thousands)	Year-to-Date Average Recorded Investment	Year-to-Date Interest Income Recognized
<u>As of March 31, 2012</u>					
With no related allowance recorded:					
Commercial, financial and industrial	\$ 927	\$ 1,100	\$	\$ 927	\$
Real estate- construction	1,725	2,070		1,725	
Real estate - mortgage	11,400	11,591		11,400	1
Consumer installment	65	86		65	
With an allowance recorded:					
Commercial, financial and industrial	\$ 335	\$ 335	\$ 210	\$ 335	\$
Real estate- construction	633	797	64	633	
Real estate - mortgage	3,987	5,752	490	3,987	
Consumer installment	242	242	127	242	
Total:					
Commercial, financial and industrial	\$ 1,262				