

FIRST COMMUNITY CORP /SC/  
Form 10-Q  
November 13, 2012  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the quarterly period ended September 30, 2012

**Transition report pursuant to Section 13 or 15(d) of the Exchange Act**

for the transition period from        to

Commission File No. 000-28344

**FIRST COMMUNITY CORPORATION**

(Exact name of registrant as specified in its charter)

Edgar Filing: FIRST COMMUNITY CORP /SC/ - Form 10-Q

**South Carolina**  
(State of Incorporation)

**57-1010751**  
(I.R.S. Employer Identification No.)

**5455 Sunset Boulevard, Lexington, South Carolina 29072**

(Address of Principal Executive Offices)

**(803) 951-2265**

(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 (§232.405 of this chapter) 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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is 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 equity, as of the latest practicable date: On November 13, 2012, 5,224,282 shares of the issuer's common stock, par value \$1.00 per share, were issued and outstanding.



Table of Contents

**TABLE OF CONTENTS**

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

Consolidated Balance Sheets

Consolidated Statements of Income

Consolidated Statements of Comprehensive Income

Consolidated Statements of Changes in Shareholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

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

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

**Item 4. Controls and Procedures**

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

**Item 1A. Risk Factors**

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

**Item 3. Defaults Upon Senior Securities**

**Item 4. Mine Safety Disclosures**

**Item 5. Other Information**

**Item 6. Exhibits**

**SIGNATURES**

**INDEX TO EXHIBITS**

**EX-31.1 RULE 13A-14(A) CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**

**EX-31.2 RULE 13A-14(A) CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

**EX-32 SECTION 1350 CERTIFICATIONS**

Table of Contents**PART I. FINANCIAL INFORMATION**

## Item 1. Financial Statements

**FIRST COMMUNITY CORPORATION****CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands, except par value)	September 30, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
Cash and due from banks	\$ 10,485	\$ 10,599
Interest-bearing bank balances	9,284	5,512
Federal funds sold and securities purchased under agreements to resell	610	381
Investment securities - available for sale	210,734	201,032
Other investments, at cost	4,540	5,637
Loans held for sale	8,685	3,725
Loans	323,534	324,311
Less, allowance for loan losses	4,695	4,699
Net loans	318,839	319,612
Property, furniture and equipment - net	17,297	17,483
Bank owned life insurance	10,779	10,974
Other real estate owned	5,570	7,351
Intangible assets	211	365
Goodwill	571	571
Other assets	8,734	10,645
Total assets	\$ 606,339	\$ 593,887
<b>LIABILITIES</b>		
Deposits:		
Non-interest bearing demand	\$ 92,738	\$ 83,572
NOW and money market accounts	147,655	136,483
Savings	41,358	34,048
Time deposits less than \$100,000	117,149	128,616
Time deposits \$100,000 and over	75,565	81,866
Total deposits	474,465	464,585
Securities sold under agreements to repurchase	15,651	13,616
Federal Home Loan Bank advances	38,491	43,862
Junior subordinated debt	17,917	17,913
Other liabilities	5,537	6,015
Total liabilities	552,061	545,991
<b>SHAREHOLDERS EQUITY</b>		
Preferred stock, par value \$1.00 per share, 10,000,000 shares authorized; issued and outstanding		
750 at September 30, 2012		
11,350 at December 31, 2011	750	11,137
Common stock, par value \$1.00 per share; 10,000,000 shares authorized; issued and outstanding		
5,224,282 at September 30, 2012		
3,307,531 at December 31, 2011	5,224	3,308
Common stock warrants issued	560	560

Edgar Filing: FIRST COMMUNITY CORP /SC/ - Form 10-Q

Additional paid in capital	61,381	49,165
Restricted stock	(197)	
Accumulated deficit	(15,729)	(17,603)
Accumulated other comprehensive income	2,289	1,329
Total shareholders' equity	54,278	47,896
Total liabilities and shareholders' equity	\$ 606,339	\$ 593,887

See Notes to Consolidated Financial Statements

Table of Contents

**FIRST COMMUNITY CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

(Dollars in thousands, except per share data)	Nine Months Ended September 30, 2012 (Unaudited)	Nine Months Ended September 30, 2011 (Unaudited)
<b>Interest income:</b>		
Loans, including fees	\$ 13,804	\$ 14,376
Taxable securities	3,194	4,803
Non taxable securities	475	51
Federal funds sold and securities purchased under resale agreements	30	28
Other	31	30
Total interest income	17,534	19,288
<b>Interest expense:</b>		
Deposits	2,473	3,557
Federal funds sold and securities sold under agreement to repurchase	26	29
Other borrowed money	1,746	2,001
Total interest expense	4,245	5,587
<b>Net interest income</b>	<b>13,289</b>	<b>13,701</b>
Provision for loan losses	416	1,110
Net interest income after provision for loan losses	12,873	12,591
<b>Non-interest income:</b>		
Deposit service charges	1,159	1,376
Mortgage origination fees	2,993	1,152
Investment advisory fees and non-deposit commissions	492	531
Gain (loss) on sale of securities	(62)	274
Loss on sale of other assets	(8)	(109)
Fair value loss adjustments	(57)	(185)
Other-than-temporary-impairment write-down on securities	(200)	(54)
Loss on early extinguishment of debt	(121)	(74)
Other	1,524	1,480
Total non-interest income	5,720	4,391
<b>Non-interest expense:</b>		
Salaries and employee benefits	8,179	7,002
Occupancy	1,032	953
Equipment	877	858
Marketing and public relations	367	361
FDIC assessments	497	681
Other real estate expense	559	638
Amortization of intangibles	153	466
Other	2,679	2,807
Total non-interest expense	14,343	13,766
Net income before tax	4,250	3,216
Income taxes	1,303	963
<b>Net income</b>	<b>\$ 2,947</b>	<b>\$ 2,253</b>
Preferred stock dividends and accretion	557	502
Preferred stock redemption costs	119	
<b>Net income available to common shareholders</b>	<b>\$ 2,271</b>	<b>\$ 1,751</b>
Basic earnings per common share	\$ 0.60	\$ 0.53
Diluted earnings per common share	\$ 0.60	\$ 0.53





Table of Contents

**FIRST COMMUNITY CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

	Three Months Ended September 30, 2012 (Unaudited)	Three Months Ended September 30, 2011 (Unaudited)
<b>(Dollars in thousands, except per share data)</b>		
<b>Interest income:</b>		
Loans, including fees	\$ 4,548	\$ 4,747
Taxable securities	853	1,600
Non taxable securities	226	18
Federal funds sold and securities purchased under resale agreements	13	7
Other	10	10
Total interest income	5,650	6,382
<b>Interest expense:</b>		
Deposits	738	1,114
Federal funds sold and securities sold under agreement to repurchase	8	11
Other borrowed money	575	629
Total interest expense	1,321	1,754
<b>Net interest income</b>	<b>4,329</b>	<b>4,628</b>
Provision for loan losses	115	360
Net interest income after provision for loan losses	4,214	4,268
<b>Non-interest income:</b>		
Deposit service charges	395	440
Mortgage origination fees	1,393	698
Investment advisory fees and non-deposit commissions	183	218
Gain (loss) on sale of securities	(35)	133
Loss on sale of other assets	(22)	(18)
Fair value loss adjustments	(20)	(60)
Other-than-temporary-impairment write-down on securities		(50)
Loss on early extinguishment of debt		(74)
Other	508	401
Total non-interest income	2,402	1,688
<b>Non-interest expense:</b>		
Salaries and employee benefits	2,874	2,493
Occupancy	352	336
Equipment	307	287
Marketing and public relations	73	64
FDIC assessment	117	176
Other real estate expense	173	134
Amortization of intangibles	51	156
Other	876	912
Total non-interest expense	4,823	4,558
Net income before tax	1,793	1,398
Income taxes	573	441
<b>Net income</b>	<b>\$ 1,220</b>	<b>\$ 957</b>
Preferred stock dividends and accretion	220	167
Preferred stock redemption costs	119	
<b>Net income available to shareholders</b>	<b>\$ 881</b>	<b>\$ 790</b>
Basic earnings per common share	\$ 0.19	\$ 0.24
Diluted earnings per common share	\$ 0.19	\$ 0.24

See Notes to Consolidated Financial Statements

Table of Contents

**FIRST COMMUNITY CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Unaudited)**

<b>(Dollars in thousands)</b>	<b>Nine months ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
Net income	\$ 2,947	\$ 2,253
Other comprehensive income:		
Unrealized gain during the period on available-for-sale securities, net of tax expense of \$418 and \$1,806, respectively	787	3,427
Less: Reclassification adjustment for (gain)loss included in net income, net of tax (expense)benefit of \$21 and \$96, respectively	41	(178)
Reclassification adjustment for other-than-temporary-impairment on securities net of tax benefit of \$68 and \$19, respectively	132	35
Other comprehensive income	960	3,284
Comprehensive income	\$ 3,907	\$ 5,537

<b>(Dollars in thousands)</b>	<b>Three months ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
Net income	\$ 1,220	\$ 957
Other comprehensive income:		
Unrealized gain during the period on available-for-sale securities, net of tax expense of \$420 and \$1,035, respectively.	791	2,007
Less: Reclassification adjustment for (gain)loss included in net income, net of tax (expense)benefit of \$12 and \$47, respectively.	23	(86)
Reclassification adjustment for other-than-temporary-impairment on securities net of tax benefit of \$0 and \$18, respectively.		32
Other comprehensive income	814	1,953
Comprehensive income	\$ 2,034	\$ 2,910

See Notes to Consolidated Financial Statements

Table of Contents**FIRST COMMUNITY CORPORATION****Consolidated Statements of Changes in Shareholders Equity****Nine Months ended September 30, 2012 and September 30, 2011****(Unaudited)**

(Dollars and shares in thousands)	Preferred Stock	Common Shares Issued	Common Stock	Common Stock Warrants	Additional Paid-in Capital	Nonvested Restricted Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2010	\$ 11,035	3,270	\$ 3,270	\$ 509	\$ 48,956	\$	\$ (19,732)	\$ (2,241)	\$ 41,797
Net income							2,253		2,253
Other comprehensive income net of tax expense of \$1,883								3,284	3,284
Issuance of restricted stock		23	23		133	(65)			91
Amortization of compensation on restricted stock						26			26
Dividends: Common (\$0.12 per share)							(393)		(393)
Preferred							(426)		(426)
Accretion	76						(76)		
Dividend reinvestment plan		11	11		57				68
<b>Balance, September 30, 2011</b>	<b>\$ 11,111</b>	<b>3,304</b>	<b>\$ 3,304</b>	<b>\$ 509</b>	<b>\$ 49,146</b>	<b>\$ (39)</b>	<b>\$ (18,374)</b>	<b>\$ 1,043</b>	<b>\$ 46,700</b>
Balance, December 31, 2011	\$ 11,137	3,308	\$ 3,308	\$ 560	\$ 49,165	\$	\$ (17,603)	\$ 1,329	\$ 47,896
Net income							2,947		2,947
Other comprehensive income net of tax expense of \$329								960	960
Issuance of restricted stock		33	33		239	(272)			
Amortization compensation restricted stock						75			75
Issuance of common stock		1,875	1,875		11,917				13,792
Dividends: Common (\$0.12 per share)							(397)		(397)
Preferred							(475)		(475)
Redemption of preferred stock	(10,535)								(10,535)
Accretion and redemption costs	148						(201)		(53)
Dividend reinvestment plan		8	8		60				68
<b>Balance, September 30, 2012</b>	<b>\$ 750</b>	<b>5,224</b>	<b>\$ 5,224</b>	<b>\$ 560</b>	<b>\$ 61,381</b>	<b>\$ (197)</b>	<b>\$ (15,729)</b>	<b>\$ 2,289</b>	<b>\$ 54,278</b>

See Notes to Consolidated Financial Statements

Table of Contents

**FIRST COMMUNITY CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

(Dollars in thousands)	Nine months ended September 30,	
	2012	2011
<b>Cash flows from operating activities:</b>		
Net income	\$ 2,947	\$ 2,253
Adjustments to reconcile net income to net cash provided in operating activities:		
Depreciation	639	634
Premium amortization	2,096	1,369
Provision for loan losses	416	1,110
Writedowns of other real estate owned	266	243
Loss on sale of other real estate owned	8	109
Amortization of intangibles	153	466
Gain (loss) on sale of securities	62	(274)
Loss on early extinguishment of debt	121	74
Other-than-temporary-impairment on securities	200	54
Net decrease in fair value option instruments and derivatives	57	185
Decrease in other assets	1,628	520
Increase (decrease) in other liabilities	(529)	292
Net cash provided in operating activities	8,064	7,035
<b>Cash flows from investing activities:</b>		
Purchase of investment securities available-for-sale and other investments	(89,195)	(91,464)
Maturity of investment securities available-for-sale	29,017	28,919
Proceeds from sale of securities available-for-sale and other investments	50,748	47,792
Increase in loans	(6,658)	(4,535)
Proceeds from sale of other real estate owned	3,487	2,141
Purchase of property and equipment	(452)	(211)
Proceeds from sale of land		9
Net cash used in investing activities	(13,053)	(17,349)
<b>Cash flows from financing activities:</b>		
Increase in deposit accounts	9,879	17,815
Increase in securities sold under agreements to repurchase	2,036	4,241
Decrease in other borrowings		(20)
Advances from the FHLB	1,500	1,500
Repayment of advances FHLB	(6,992)	(20,945)
Proceeds from sale Common Stock	13,792	
Redemption of Preferred Stock	(10,535)	
Dividends paid: Common Stock	(397)	(393)
Preferred Stock	(475)	(426)
Dividend reinvestment plan	68	68
Net cash provided from financing activities	8,876	1,840
Net increase (decrease) in cash and cash equivalents	3,887	(8,474)
Cash and cash equivalents at beginning of period	16,492	26,461
<b>Cash and cash equivalents at end of period</b>	<b>\$ 20,379</b>	<b>\$ 17,987</b>
<b>Supplemental disclosure:</b>		
Cash paid during the period for:		
Interest	\$ 4,645	\$ 5,967
Income taxes	\$	\$
Non-cash investing and financing activities:		
Unrealized gain on securities	\$ 960	\$ 3,284

Transfer of loans to foreclosed property	\$	1,980	\$	3,694
--	----	-------	----	-------

See Notes to Consolidated Financial Statements

Table of Contents**Notes to Consolidated Financial Statements (unaudited)*****Note 1 - Basis of Presentation***

In the opinion of management, the accompanying unaudited consolidated balance sheets, and the consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows of First Community Corporation (the Company), present fairly in all material respects the Company's financial position at September 30, 2012 and December 31, 2011, the Company's results of operations for the nine months and three months ended September 30, 2012, and the Company's cash flows for the nine months ended September 30, 2012 and 2011. The results of operations for the nine months and three months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

In the opinion of management, all adjustments necessary to fairly present the consolidated financial position and consolidated results of operations have been made. All such adjustments are of a normal, recurring nature. All significant intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements and notes thereto are presented in accordance with the instructions for Form 10-Q. The information included in the Company's 2011 Annual Report on Form 10-K should be referred to in connection with these unaudited interim financial statements.

***Note 2 Earnings Per Common Share***

The following reconciles the numerator and denominator of the basic and diluted earnings per common share computation:

(In thousands, except price per share)	Nine months Ended September 30,		Three months Ended September 30,	
	2012	2011	2012	2011
Numerator (Net income available to common shareholders)	\$ 2,271	\$ 1,751	\$ 881	\$ 790
Denominator				
Weighted average common shares outstanding for:				
Basic earnings per share	3,780	3,280	4,693	3,294
Dilutive securities:				
Deferred compensation			2	
Warrants - Treasury stock method	27		31	
Diluted earnings per share	3,807	3,280	4,726	3,294
The average market price used in calculating assumed number of shares	\$ 7.84	\$ 6.45	\$ 8.27	\$ 6.19

At September 30, 2012, there were 75,022 outstanding options at an average exercise price of \$19.69 and warrants for 196,000 shares at \$8.69. None of these options or warrants has an exercise price below the average market price for the three-month and nine-month periods ended September 30, 2012, therefore they are not deemed to be dilutive. In the fourth quarter of 2011, we issued \$2.5 million in 8.75% subordinated notes maturing December 16, 2019. Interest is payable quarterly and the notes may be prepaid at anytime without penalty. Warrants for 107,500 shares of common stock at \$5.90 per share were issued in connection with the issuance of the subordinated debt. These warrants expire

Edgar Filing: FIRST COMMUNITY CORP /SC/ - Form 10-Q

December 16, 2019 and are included in dilutive securities in the table above.

On July 27, 2012, the Company closed its public offering of common stock. This offering resulted in the issuance of a total of 1,875,000 shares of common stock at \$8.00 per share, including 244,565 shares granted to the underwriters to cover overallocments.



Table of Contents**Note 3 Investment Securities**

The amortized cost and estimated fair values of investment securities are summarized below:

## AVAILABLE-FOR-SALE:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>September 30, 2012:</b>				
Government sponsored enterprises	\$ 1,525	\$ 19	\$	\$ 1,544
Mortgage-backed securities	121,162	1,813	509	122,466
Small Business Administration pools	50,170	850	89	50,931
State and local government	32,531	1,303	7	33,827
Corporate and other securities	1,932	35	1	1,966
	\$ 207,320	\$ 4,020	\$ 606	\$ 210,734
<b>December 31, 2011:</b>				
Government sponsored enterprises	\$ 31	\$ 3	\$	\$ 34
Mortgage-backed securities	141,103	2,876	2,348	141,631
Small Business Administration pools	35,889	634	44	36,479
State and local government	19,617	871		20,488
Corporate and other securities	2,432	54	86	2,400
	\$ 199,072	\$ 4,438	\$ 2,478	\$ 201,032

During the nine months ended September 30, 2012 and September 30, 2011, the Company received proceeds of \$49.5 million and \$47.8 million, respectively, from the sale of investment securities available-for-sale. Gross realized gains amounted to \$2.0 million and gross realized losses amounted to \$2.1 million for the nine months ended September 30, 2012. For the nine months ended September 30, 2011, gross realized gains amounted to \$2.3 million and gross realized losses amounted to \$2.0 million. During the three months ended September 30, 2012 and September 30, 2011, the Company received proceeds of \$470 thousand and \$10.7 million, respectively, from the sale of investment securities available-for-sale. Gross realized losses amounted to \$35 thousand for the three months ended September 30, 2012. There were no realized gains for the three months ended September 30, 2012. For the three months ended September 30, 2011, gross realized gains amounted to \$588 thousand and gross realized losses amounted to \$455 thousand.

At September 30, 2012, corporate and other securities available-for-sale included the following at fair value: corporate bonds at \$1.0 million, mutual funds at \$897.2 thousand, foreign debt of \$59.6 thousand and Federal Home Loan Mortgage Corporation (the FHLMC or Freddie Mac ) preferred stock of \$9.2 thousand. At December 31 2011, corporate and other securities available-for-sale included the following at fair value: corporate bonds at \$1.4 million, mutual funds at \$904.9 thousand foreign debt of \$59.0 thousand and FHLMC preferred stock of \$20.9 thousand.

Table of Contents*Note 3 Investment Securities continued*

During the nine and three months ended September 30, 2012 and 2011, the Company recorded other-than-temporary-impairment (OTTI) losses on available-for-sale securities as follows:

	Nine months ended September 30, 2012 Available-for- sale securities	Three months ended September 30, 2012 Available-for- sale securities
<b>(Dollars in thousands)</b>		
Total OTTI charge realized and unrealized	\$ 415	\$
OTTI recognized in other comprehensive income (non-credit component)	215	
Net impairment losses recognized in earnings (credit component)	\$ 200	\$

	Nine months ended September 30, 2011 Available-for- sale securities	Three months ended September 30, 2011 Available-for- sale securities
<b>(Dollars in thousands)</b>		
Total OTTI charge realized and unrealized	\$ 262	\$ 191
OTTI recognized in other comprehensive income (non-credit component)	208	141
Net impairment losses recognized in earnings (credit component)	\$ 54	\$ 50

During 2012 and 2011, OTTI occurred for which only a portion was attributed to credit loss and recognized in earnings. The remainder was reported in other comprehensive income. The following is an analysis of amounts relating to credit losses on debt securities recognized in earnings during the nine months ended September 30, 2012 and 2011.

	2012 Available for Sale	2011 Available for Sale
<b>(Dollars in thousands)</b>		
Balance at beginning of period	\$ 930	\$ 2,143
Other-than-temporary-impairment not previously recognized	173	50
Additional increase for which an other-than-temporary impairment was previously recognized related to credit losses	27	4
Other-than-temporary-impairment previously recognized on securities sold	(679)	
Realized losses during the period	(159)	(1,284)
Balance related to credit losses on debt securities at end of period	\$ 292	\$ 736



Table of Contents

*Note 3 Investment Securities continued*

For the nine months ended September 30, 2012, there were two non-agency mortgage backed securities with OTTI in which \$200 thousand of OTTI representing credit losses was recognized in earnings. For the nine months ended September 30, 2011, there was one trust preferred security and one non-agency mortgage backed security in which \$54 thousand of OTTI representing credit losses was recognized in earnings. There was no OTTI recognized in earnings for the three months ended September 30, 2012. For the three months ended September 30, 2011, there was \$50 thousand of OTTI recognized in earnings for one non-agency mortgage backed security. During the third quarter of 2011, the trust preferred security was sold and an additional \$455 thousand loss was recorded in earnings. In evaluating the non-agency mortgage backed securities, relevant assumptions such as prepayment rate, default rate and loss severity on a loan level basis are used in determining the expected recovery of the contractual cash flows. The assumptions are that all loans greater than 60 days delinquent will be resolved across a two-year period at loss severities based on location and category. The balance of the underlying portfolio cash flows are evaluated using ongoing assumptions for loss severities, prepayment rates and default rates. The ongoing assumptions for average prepayment rate, default rate and severity used in the valuations were approximately 5.4%, 3.3%, and 52.4%, respectively. The underlying collateral on substantially all of these securities is fixed rate residential first mortgages located throughout the United States. The underlying collateral includes various percentages of owner-occupied, as well as, investment related single-family, 1-4 family and condominium residential properties. The securities were purchased at various discounts to par value. Based on the assumptions used in valuing the securities, the Company believes the existing discount and remaining subordinated collateral provide coverage against future credit losses on the downgraded securities for which no OTTI has been recognized.

Table of Contents*Note 3 Investment Securities continued*

The following table shows gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous loss position at September 30, 2012 and December 31, 2011.

**September 30, 2012**

(Dollars in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<i>Available-for-sale securities:</i>						
Small Business Administration Pools	\$ 7,297	\$ 80	\$ 2,692	\$ 9	\$ 9,989	\$ 89
Government Sponsored Enterprise mortgage-backed securities	15,470	148	6,157	55	21,627	203
Non-agency mortgage-backed securities	805	131	1,939	175	2,744	306
Corporate bonds and other			49	1	49	1
State and local government	1,335	7			1,335	7
<b>Total</b>	<b>\$ 24,907</b>	<b>\$ 366</b>	<b>\$ 10,837</b>	<b>\$ 240</b>	<b>\$ 35,744</b>	<b>\$ 606</b>

**December 31, 2011**

(Dollars in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<i>Available-for-sale securities:</i>						
Government Sponsored Enterprise mortgage-backed securities	\$ 25,113	\$ 163	\$ 3,269	\$ 24	\$ 28,382	\$ 187
Small Business Administration pools	6,108	38	2,203	6	8,311	44
Non-agency mortgage-backed securities	574	3	13,275	2,158	13,849	2,161
Corporate bonds and other	940	60	524	26	1,464	86
<b>Total</b>	<b>\$ 32,735</b>	<b>\$ 264</b>	<b>\$ 19,271</b>	<b>\$ 2,214</b>	<b>\$ 52,006</b>	<b>\$ 2,478</b>

**Government Sponsored Enterprise, Mortgage-Backed Securities:** Beginning in 2008 and continuing through 2012, the bond markets and many institutional holders of bonds have come under a great deal of stress partially as a result of increasing delinquencies in the sub-prime mortgage lending market. At September 30, 2012, the Company's wholly-owned subsidiary, First Community Bank (the Bank), owns mortgage-backed securities (MBSs) including collateralized mortgage obligations (CMOs) with a book value of \$117.8 million and approximate fair value of \$119.6 million issued by government sponsored entities (GSEs). Current economic conditions have impacted MBSs issued by GSEs such as the FHLMC and the Federal National Mortgage Association (the FNMA or Fannie Mae). These entities have experienced increasing delinquencies in the underlying loans that make up the MBSs and CMOs. As of September 30, 2012 and December 31, 2011, all of the MBSs issued by GSEs are classified as Available for Sale. Unrealized losses on these investments are not considered to be other than temporary and we have the intent and ability to hold these until they mature or recover the current book value. The contractual cash flows of the

investments are guaranteed by the GSE. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company's investment. Because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Company does not consider the investments to be OTTI at September 30, 2012.

Table of Contents*Note 3 Investment Securities continued*

**Non-agency mortgage backed securities:** The Company also holds private label mortgage-backed securities ( PLMBSs ), including CMOs, at September 30, 2012 with an amortized cost of \$3.4 million and approximate fair value of \$2.9 million. Management monitors each of these securities on a quarterly basis to identify any deterioration in the credit quality, collateral values and credit support underlying the investments.

During the nine months ended September 30, 2012, the Company identified two PLMBS with a fair value of \$2.5 million that it considered other-than-temporarily-impaired. As prescribed by the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 320-10-65, the Company has recognized an impairment charge in earnings of \$199.8 thousand (credit component) during the nine months ended September 30, 2012. The \$199.8 thousand represents the estimated credit losses on these securities for the nine months ended September 30, 2012. One of the securities identified as other-than-temporarily-impaired during the nine months ended September 30, 2012 was subsequently sold after the impairment was recognized. During the three months ended September 30, 2012, no OTTI charges were recorded in earnings for the PLMBS portfolio. For the three and nine months ended September 30, 2011, \$50 thousand and \$54 thousand in OTTI charges were recorded in earnings for the PLMBS portfolio, respectively.

The following table summarizes as of September 30, 2012 the number of CUSIPs, par value, carrying value and fair value of the non-agency MBSs/CMOs by credit rating. The credit rating reflects the lowest credit rating by any major rating agency.

(Dollars in thousands)

Credit Rating	Number of CUSIPs	Par Value	Amortized Cost	Fair Value
AAA	3	\$ 189	\$ 189	\$ 188
AA	2	309	309	314
A1	1	384	384	376
A3	1	329	329	320
BBB	1	255	255	254
Baa1	1	77	76	76
Baa2	1	130	130	129
Below Investment Grade	4	2,070	1,698	1,281
Total	14	\$ 3,743	\$ 3,370	\$ 2,938

During the nine months ended September 30, 2012, the Company sold eight below investment grade non-agency MBSs with a total book value of approximately \$11.2 million. The loss on the sale of these securities was approximately \$2.1 million and has been offset by gains of the approximate same amount from the sale of certain agency MBSs and municipal securities. These sales served to significantly reduce the level of below investment grade securities held in the portfolio.

Table of Contents*Note 3 Investment Securities continued*

**Corporate Bonds:** All of the corporate bonds held by the Company are reviewed on a quarterly basis to identify downgrades by rating agencies as well as deterioration of the underlying collateral or the issuer's ability to service the debt obligation. The Company owns one corporate bond as of September 30, 2012 which is rated above investment grade. The Company does not consider this investment to be OTTI at September 30, 2012.

**Small Business Administration Pools:** These pools are guaranteed pass-thru with the full faith and credit of the United States government. Because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Company does not consider the investments to be OTTI at September 30, 2012.

**State and Local Governments and Other:** The unrealized losses on these investments are attributable to increases in interest rates, rather than credit quality. Because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Company does not consider the investments to be OTTI at September 30, 2012.

The amortized cost and fair value of investment securities at September 30, 2012 by contractual maturity are as follows. Expected maturities differ from contractual maturities because borrowers may have the right to call or prepay the obligations with or without prepayment penalties. MBSs are based on average life at estimated prepayment speeds.

(Dollars in thousands)	Amortized Cost	Available-for-sale Fair Value
Due in one year or less	\$ 22,623	\$ 22,675
Due after one year through five years	97,789	99,385
Due after five years through ten years	59,240	60,872
Due after ten years	27,668	27,802
	\$ 207,320	\$ 210,734



Table of Contents**Note 4 Loans**

Loans summarized by category as of September 30, 2012 and December 31, 2011 are as follows:

<b>(Dollars in thousands)</b>	<b>September 30, 2012</b>	<b>December 31, 2011</b>
Commercial, financial and agricultural	\$ 19,469	\$ 20,608
Real estate:		
Construction	11,739	11,767
Mortgage-residential	36,861	38,337
Mortgage-commercial	223,595	220,288
Consumer:		
Home equity	26,778	27,976
Other	5,092	5,335
<b>Total</b>	<b>\$ 323,534</b>	<b>\$ 324,311</b>

At September 30, 2012 and December 31, 2011, there were \$8.7 million and \$3.7 million, respectively, of residential mortgage loans held for sale at fair value. These loans are originated with firm purchase commitments from various investors at the time the loans are closed. Generally, funds are received and the loans transferred to the investors within three to fourteen business days.

Activity in the allowance for loan losses for the nine months and three months ended September 30, 2012 and 2011 was as follows:

<b>(Dollars in thousands)</b>	<b>Nine months ended</b>	
	<b>September 30, 2012</b>	<b>September 30, 2011</b>
Balance at the beginning of period	\$ 4,699	\$ 4,911
Provision for loan losses	416	1,110
Charged off loans	(496)	(1,368)
Recoveries	76	55
<b>Balance at end of period</b>	<b>\$ 4,695</b>	<b>\$ 4,708</b>

<b>(Dollars in thousands)</b>	<b>Three months ended</b>	
	<b>September 30, 2012</b>	<b>September 30, 2011</b>
Balance at the beginning of period	\$ 4,742	\$ 4,716
Provision for loan losses	115	360
Charged off loans	(189)	(388)
Recoveries	27	20
<b>Balance at end of period</b>	<b>\$ 4,695</b>	<b>\$ 4,708</b>

Table of Contents**Note 4 Loans-continued**

The detailed activity in the allowance for loan losses and the recorded investment in loans receivable as of and for the nine months ended September 30, 2012 and the year ended December 31, 2011 is as follows:

(Dollars in thousands)	Commercial	Real estate Construction	Real estate Mortgage Residential	Real estate Mortgage Commercial	Consumer Home equity	Consumer Other	Unallocated	Total
<b>2012</b>								
<b>Allowance for loan losses:</b>								
Beginning balance								
December 31, 2011	\$ 331	\$	\$ 514	\$ 1,475	\$ 521	\$ 57	\$ 1,801	\$ 4,699
Charge-offs	88		112	245		51		496
Recoveries	32		10		3	31		76
Provisions	67		80	(146)	(147)	16	546	416
Ending balance September 30, 2012	\$ 342	\$	\$ 492	\$ 1,084	\$ 377	\$ 53	\$ 2,347	\$ 4,695
<b>Ending balances:</b>								
Individually evaluated for impairment	\$	\$	\$	\$	\$	\$	\$	\$
Collectively evaluated for impairment	342		492	1,084	377	53	2,347	4,695
<b>Loans receivable:</b>								
Ending balance-total	\$ 19,469	\$ 11,739	\$ 36,861	\$ 223,595	\$ 26,778	\$ 5,092	\$	\$ 323,534
<b>Ending balances:</b>								
Individually evaluated for impairment	\$ 15	\$	\$ 477	\$ 9,041	\$	\$ 11	\$	\$ 9,544
Collectively evaluated for impairment	\$ 19,454	\$ 11,739	\$ 38,384	\$ 214,554	\$ 26,778	\$ 5,081	\$	\$ 313,990

Table of Contents*Note 4 Loans-continued*

(Dollars in thousands)	Commercial	Real estate Construction	Real estate Mortgage Residential	Real estate Mortgage Commercial	Consumer Home equity	Consumer Other	Unallocated	Total
<b>2011</b>								
<b>Allowance for loan losses:</b>								
Beginning balance	\$ 681	\$ 905	\$ 465	\$ 1,404	\$ 325	\$ 88	\$ 1,043	\$ 4,911
Charge-offs	265		186	861	285	99		1,696
Recoveries	31		5		5	23		64
Provisions	(116)	(905)	230	932	476	45	758	1,420
Ending balance								
December 31, 2011	\$ 331	\$	\$ 514	\$ 1,475	\$ 521	\$ 57	\$ 1,801	\$ 4,699
<b>Ending balances:</b>								
Individually evaluated for impairment	\$ 1	\$	\$	\$ 1	\$	\$	\$	\$ 2
Collectively evaluated for impairment	330		514	1,474	521	57	1,801	4,697
<b>Loans receivable:</b>								
Ending balance-total	\$ 20,608	\$ 11,767	\$ 38,337	\$ 220,288	\$ 27,976	\$ 5,335	\$	\$ 324,311
<b>Ending balances:</b>								
Individually evaluated for impairment	\$ 45	\$	\$ 622	\$ 8,667	\$	\$ 19	\$	\$ 9,353
Collectively evaluated for impairment	\$ 20,563	\$ 11,767	\$ 37,715	\$ 211,621	\$ 27,976	\$ 5,316	\$	\$ 314,958

Loans outstanding to bank directors, executive officers and their related business interests amounted to \$10.5 million and \$10.4 million at September 30, 2012 and September 30, 2011, respectively. Repayments on these loans during the nine months ended September 30, 2012 were \$438 thousand and loans made amounted to \$112 thousand. Repayments on these loans during the nine months ended September 30, 2011 were \$1.3 million and loans made amounted to \$808 thousand during the same period. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and generally do not involve more than the normal risk of collectability.

Table of Contents**Note 4 Loans-continued**

The detailed activity in the allowance for loan losses as of and for the three months ended September 30, 2012 and the three months ended September 30, 2011 is as follows:

(Dollars in thousands)	Commercial	Real estate Construction	Real estate Mortgage Residential	Real estate Mortgage Commercial	Consumer Home equity	Consumer Other	Unallocated	Total
<b>2012</b>								
<b>Allowance for loan losses:</b>								
Beginning balance June 30, 2012	\$ 249	\$	599	\$ 1,313	\$ 445	\$ 45	\$ 2,091	\$ 4,742
Charge-offs	26		82	67		14		189
Recoveries	7		1		1	18		27
Provisions	112		(26)	(162)	(69)	4	256	115
Ending balance September 30, 2012	\$ 342	\$	\$ 492	\$ 1,084	\$ 377	\$ 53	\$ 2,347	\$ 4,695

(Dollars in thousands)	Commercial	Real estate Construction	Real estate Mortgage Residential	Real estate Mortgage Commercial	Consumer Home equity	Consumer Other	Unallocated	Total
<b>2011</b>								
<b>Allowance for loan losses:</b>								
Beginning balance June 30, 2011	\$ 362	\$ 379	\$ 514	\$ 1,697	\$ 425	\$ 51	\$ 1,288	\$ 4,716
Charge-offs	85			164	115	24		388
Recoveries	13		2		1	4		20
Provisions	26	5	(62)	50	180	17	144	360
Ending balance September 30, 2011	\$ 316	\$ 384	\$ 454	\$ 1,583	\$ 491	\$ 48	\$ 1,432	\$ 4,708

Table of Contents

*Note 4 Loans-continued*

The following table presents at September 30, 2012 and December 31, 2011 loans individually evaluated and considered impaired under FAS ASC 310 Accounting by Creditors for Impairment of a Loan. Impairment includes performing troubled debt restructurings.

(Dollars in thousands)	September 30, 2012	December 31, 2011
Total loans considered impaired	\$ 9,544	\$ 9,353
Loans considered impaired for which there is a related allowance for loan loss:		
Outstanding loan balance		148
Related allowance		2
Loans considered impaired and previously written down to fair value	9,544	9,205
Average impaired loans	10,530	9,926

The following tables are by loan category and present at September 30, 2012 and December 31, 2011 loans individually evaluated and considered impaired under FAS ASC 310 Accounting by Creditors for Impairment of a Loan. Impairment includes performing troubled debt restructurings.

(Dollars in thousands) September 30, 2012	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Commercial	\$ 15	\$ 46	\$	\$ 92	\$ 1
Real estate:					
Construction					
Mortgage-residential	477	505		563	2
Mortgage-commercial	9,041	9,536		9,853	266
Consumer:					
Home Equity					
Other	11	11		22	
With an allowance recorded:					
Commercial					
Real estate:					
Construction					
Mortgage-residential					
Mortgage-commercial					
Consumer:					
Home Equity					
Other					
Total:					
Commercial	\$ 15	\$ 46	\$	\$ 92	\$ 1
Real estate:					
Construction					
Mortgage-residential	477	505		563	2

Edgar Filing: FIRST COMMUNITY CORP /SC/ - Form 10-Q

Mortgage-commercial	9,041	9,536	9,853	266
Consumer:				
Home Equity				
Other	11	11	22	
	\$ 9,544	\$ 10,098	\$ 10,530	\$ 269

The Company determined that all specific reserves for impaired loans were confirmed losses and were charged-off against outstanding loan balances during the nine months ended September 30, 2012.

Table of Contents

*Note 4 Loans-continued*

<b>(Dollars in thousands) December 31, 2011</b>	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
With no allowance recorded:					
Commercial	\$ 12	\$ 19	\$	\$ 21	\$
Real estate:					
Construction					
Mortgage-residential	622	650		656	4
Mortgage-commercial	8,552	8,975		9,066	382
Consumer:					