

FIRST COMMUNITY CORP /SC/  
Form S-4/A  
July 12, 2017

As filed with the Securities and Exchange Commission on July 12, 2017

**Registration No. 333-218564**

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Amendment No. 1**

**to**

**FORM S-4**

**REGISTRATION STATEMENT**

**UNDER THE SECURITIES ACT OF 1933**

**FIRST COMMUNITY CORPORATION**

(Exact name of registrant as specified in its charter)

<b>South Carolina</b>	<b>6022</b>	<b>57-1010751</b>
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

**5455 Sunset Blvd.**

**Lexington, South Carolina 29072**

**(803) 951-2265**

(Address, including zip code, and telephone number,  
including area code, of registrant's principal executive offices)

**Michael C. Crapps**

**President and Chief Executive Officer**

**First Community Corporation**

**5455 Sunset Blvd.**

**Lexington, South Carolina 29072**

**(803) 951-2265**

(Name, address, including zip code, and telephone number,  
including area code of agent for service)

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Approximate date of commencement of the proposed sale of the securities to the public: As soon as practicable after the effectiveness of this registration statement and the satisfaction or waiver of all other conditions to the merger described in the proxy statement/prospectus.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the registrant is a large accelerated file, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "non-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   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer)   
Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.**

The information in this proxy statement/prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This proxy statement/prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Preliminary—Subject to Completion Dated July 12, 2017

PROXY STATEMENT/PROSPECTUS

**Prospectus of First Community Corporation Proxy Statement of Cornerstone Bancorp**

**PROPOSED MERGER OF**

**FIRST COMMUNITY CORPORATION**

**AND CORNERSTONE BANCORP – YOUR VOTE IS VERY IMPORTANT**

**To the Shareholders of Cornerstone Bancorp:**

On behalf of the boards of directors of First Community Corporation (“First Community”) and Cornerstone Bancorp (“Cornerstone”), we are pleased to deliver our proxy statement/prospectus for a merger involving First Community and Cornerstone, with First Community as the surviving corporation.

Cornerstone will hold a special meeting of Cornerstone shareholders on September 19, 2017 at 4:00 p.m., at the main office of Cornerstone at 1670 East Main Street, Easley, South Carolina 29640. At the special meeting, you will be asked to vote on (1) the merger of Cornerstone with and into First Community described in more detail herein, and (2) the approval of a proposal to adjourn the special meeting, if necessary or appropriate, to allow time to solicit additional proxies to approve the merger agreement.

If the merger is completed, each outstanding share of Cornerstone common stock will be exchanged for either \$11.00 in cash or 0.54 shares of First Community common stock or a combination of cash and shares. Each shareholder of Cornerstone will have the opportunity to elect to receive cash, First Community common stock or a combination of cash and First Community common stock in exchange for the shareholder’s Cornerstone shares. Elections by Cornerstone shareholders will, however, be prorated if necessary so that in the aggregate 70% of Cornerstone’s non-dissenting shares of common stock will be converted into the right to receive shares of First Community common

stock and 30% will be converted into the right to receive the cash consideration.

The value of the First Community shares to be issued in the merger will fluctuate between now and the closing date of the merger. First Community common stock is listed on The NASDAQ Capital Market under the symbol "FCCO". Based on the \$20.30 closing price per share of First Community common stock on The NASDAQ Capital Market on July 7, 2017, the latest practicable date before mailing out this proxy statement/prospectus, the equivalent value of the merger consideration per share of Cornerstone common stock (assuming a 70/30 stock-cash mixed election) was approximately \$10.97, and the aggregate merger consideration was approximately \$25,469,163. **We urge you to obtain current market quotations for First Community common stock because the value of the First Community shares to be issued in the merger will fluctuate.**

As of July 14, 2017, the record date for the Cornerstone special meeting of shareholders, there were 2,320,991 shares of Cornerstone common stock outstanding and entitled to vote at the special meeting. Based on such outstanding Cornerstone common stock, if the merger is approved, First Community will issue an aggregate of 877,334 shares of its common stock to holders of Cornerstone common stock upon completion of the merger.

We cannot complete the merger unless we obtain approval of shareholders of Cornerstone common stock at the special meeting and the necessary regulatory agency approvals. **Your vote is important.** Whether or not you plan to attend the special shareholders' meeting, please take the time to vote as soon as possible.

This document serves as the proxy statement for the special meeting of Cornerstone shareholders and a prospectus for the offering and issuance of approximately 877,334 shares of First Community common stock to be issued to holders of Cornerstone common stock in the merger, and it includes important information about the proposed merger, the companies participating in the merger, and the agreement and plan of merger. **We encourage you to read this entire document carefully, including the "Risk Factors" section beginning on page 18.**

**Cornerstone's board of directors has determined that the merger is in the best interests of Cornerstone and its shareholders, has approved the merger agreement and the transactions contemplated thereby, and recommends that Cornerstone common shareholders vote "FOR" the merger and "FOR" the motion to adjourn the special meeting if necessary or appropriate to do so.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued under this proxy statement/prospectus or determined if this proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense. The shares of First Community common stock to be issued in the merger are not savings or deposit accounts or other obligations of any bank or non-bank subsidiary of either of our companies, and they are not insured by the Federal Deposit Insurance Corporation, the Deposit Insurance Fund, or any other governmental agency.**

*This proxy statement/prospectus is dated \_\_\_\_\_, 2017, and is first being mailed to shareholders of Cornerstone on or about July 31, 2017.*

**CORNERSTONE BANCORP**

**1670 E. Main Street**

**Easley, South Carolina 29640**

**(864) 306-1444**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON SEPTEMBER 19, 2017**

To the shareholders of Cornerstone Bancorp:

A special meeting of shareholders of Cornerstone Bancorp (“Cornerstone”) will be held at the main office of Cornerstone, 1670 E. Main Street, Easley, South Carolina, 29640 on Tuesday, September 19, 2017 at 4:00 p.m., local time, for the following purposes:

To consider and vote upon a proposal to approve the Agreement and Plan of Merger dated as of April 11, 2017, by and between First Community Corporation and Cornerstone under which Cornerstone will be merged with and into First Community Corporation. A copy of the merger agreement is attached to the accompanying proxy statement/prospectus as Appendix A.

To consider and vote on a proposal to authorize the board of directors to adjourn the special meeting, if necessary or appropriate, to allow time for further solicitation of proxies in the event there are insufficient votes present at the special meeting, in person or by proxy, to approve the merger agreement.

3. To transact any other business as may properly come before the meeting or any adjournment or postponement.

Only shareholders of record of Cornerstone common stock at the close of business on July 14, 2017 will be entitled to notice of and to vote at the special meeting and at any adjournment or postponement at the special meeting. A complete list of these shareholders will be available at Cornerstone’s offices prior to the meeting. Although holders of Cornerstone Series A Preferred Stock are being given notice of the special meeting as required by the South Carolina Business Corporation Act, holders of the preferred stock are not entitled to vote at the meeting.

Holders of Cornerstone common stock who comply with the provisions of South Carolina law relating to dissenters' rights applicable to the merger are entitled to assert dissenters' rights under the South Carolina dissenters' rights law, a copy of which is attached as Appendix B to the attached proxy statement/prospectus.

**Your vote is very important.** Whether or not you plan to attend the special meeting, we encourage you to vote as soon as possible. If you hold your shares of record in your name, you can vote by telephone, through the Internet, or by signing, dating and mailing your proxy card in the envelope enclosed. Telephone and Internet voting permits you to vote at your convenience, 24 hours a day, seven days a week. Detailed voting instructions are included on your proxy card. If you hold your shares of record in your name, you may also attend the special meeting and vote in person. If your shares are held in "street name," please follow the instructions provided by your broker or other nominee to vote your shares. If your shares are held in street name and you wish to attend the special meeting and vote in person, you must present proof of ownership and appropriate voting documents from your broker or other nominee. If you hold your shares of record in your name, you may change or revoke your proxy at any time before it is voted by giving written notice of revocation to Cornerstone's Corporate Secretary, or by filing a properly executed proxy of a later date with Cornerstone's Corporate Secretary, at or before the meeting, or by attending and voting your shares in person at the meeting. If your shares are held in street name, you may change or revoke your voting instructions by submitting new voting instructions to your broker or other nominee as specified in your broker or other nominee's instructions.

Cornerstone's Board of Directors has approved and adopted the merger agreement and the transactions it contemplates, and has determined that the merger is in the best interests of Cornerstone and its shareholders. **CORNERSTONE'S BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT CORNERSTONE SHAREHOLDERS VOTE "FOR" THE PROPOSALS ABOVE.**

We do not know of any other matters to be presented at the special meeting but if other matters are properly presented, the persons named as proxies will vote on such matters at their discretion.

By Order of the Board of Directors

/s/ J. Rodger Anthony  
J. Rodger Anthony  
President and Chief Executive Officer

Easley, South Carolina  
, 2017



## WHERE YOU CAN FIND MORE INFORMATION

First Community is subject to the information requirements of the Securities Exchange Act of 1934 (the “Exchange Act”), which means that it is required to file certain reports, proxy statements, and other business and financial information with the Securities and Exchange Commission (“SEC”). You may read and copy any materials that First Community files with the SEC at the Public Reference Room of the SEC at 100 F. Street N.E., Washington, D.C. 20549. You may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website at <http://www.sec.gov> where you can access reports, proxy, information and registration statements, and other information regarding registrants that file electronically with the SEC. Such filings are also available free of charge at First Community’s website at <https://www.firstcommunitysc.com/> under the “Investors” heading. Except as specifically incorporated by reference into this document, information on First Community’s website or filed with the SEC is not part of this document.

First Community has filed a registration statement on Form S-4, of which this document forms a part. As permitted by SEC rules, this document does not contain all of the information included in the registration statement or in the exhibits or schedules to the registration statement. You may read and copy the registration statement, including any amendments, schedules and exhibits, at the addresses set forth below. Statements contained in this document as to the contents of any contract or other documents referred to in this document are not necessarily complete. In each case, you should refer to the copy of the applicable contract or other document filed as an exhibit to the registration statement. This document incorporates by reference documents that First Community has previously filed, and that it may file through the date of the special meeting of Cornerstone shareholders, with the SEC. They contain important information about the company and its financial condition. For further information, please see the section entitled “Incorporation of Certain Documents by Reference.” These documents are available without charge to you upon written or oral request to First Community’s principal executive offices. The address and telephone numbers of such principal executive office are listed below.

First Community Corporation

5455 Sunset Blvd.

Lexington, South Carolina 29072

Attention: Joseph G. Sawyer

Executive Vice President and Chief Financial Officer

To obtain timely delivery of these documents, you must request the information no later than September 11, 2017, in order to receive them before Cornerstone’s special meeting of shareholders.

First Community common stock is traded on The NASDAQ Capital Market under the symbol “FCCO.”



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APPENDIX A Agreement and Plan of Merger

APPENDIX B South Carolina Statutes for Dissenters' Rights

APPENDIX C Fairness Opinion of Raymond James & Associates, Inc.

APPENDIX D Unaudited Consolidated Financial Information of First Community Corporation

APPENDIX E Cornerstone Bancorp Consolidated Financial Statements

## **QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SPECIAL MEETING**

*The following are some questions that you may have regarding the merger and the special shareholders' meeting, and brief answers to those questions. We urge you to carefully read the remainder of this proxy statement/prospectus and the appendices and documents incorporated herein by reference because the information in this section does not provide all the information that might be important to you with respect to the merger and the special shareholders' meeting.*

### **Q: Why am I receiving this proxy statement/prospectus?**

First Community and Cornerstone have agreed to the merger of Cornerstone with and into First Community, pursuant to the terms of the merger agreement that is described in this proxy statement/prospectus. A copy of the merger agreement is included as Appendix A to these materials. Cornerstone Bank will be merged with and into **A:** First Community Bank as soon as practicable following the merger. The mergers cannot be completed unless, among other things, two-thirds of the outstanding shares of Cornerstone's common stock vote in favor of the proposal to approve the merger agreement. Accordingly, Cornerstone shareholders are being asked to vote at the special meeting on approval of the merger agreement.

Cornerstone shareholders will also be asked to vote on a proposal to adjourn the Cornerstone special meeting, if necessary or appropriate, to allow time to solicit additional proxies in favor of the proposal to approve the merger agreement, if there are insufficient votes at the time of such adjournment to approve such proposal.

We are sending you this proxy statement/prospectus because the Cornerstone board is soliciting your proxy to vote your shares at the special meeting. It also serves as First Community's prospectus with respect to the shares of First Community common stock First Community will issue to Cornerstone shareholders in connection with the merger. This document contains important information about the merger and the other proposal being voted on at the Cornerstone special meeting, and you should carefully read it, together with the appendices and the information incorporated by reference.

### **Q: When and where will the special meeting be held?**

**A:** The special meeting of shareholders of Cornerstone shareholders will be held on Tuesday, September 19, 2017, at 4:00 p.m., at the main office of Cornerstone, 1670 East Main Street, Easley, South Carolina 29640.

### **Q: Who is entitled to vote at the special meeting?**

**A:** Only Cornerstone common shareholders of record at the close of business on July 14, 2017, the record date, are entitled to notice of and to vote at the special meeting and any adjournment thereof.

**Q: What am I being asked to vote on, and how does the board recommend that I vote?**

Holders of Cornerstone common stock are being asked to vote “**FOR**” the approval of the merger agreement that provides for the merger of Cornerstone with and into First Community. The board of directors of Cornerstone unanimously adopted the merger agreement, determined that the merger is in the best interests of the Cornerstone shareholders, and recommends that Cornerstone shareholders vote “**FOR**” approval of the merger agreement. In

**A:** addition, Cornerstone shareholders are being asked to grant authority to Cornerstone’s board of directors to adjourn the special shareholders’ meeting to allow time for further solicitation of proxies in the event there are insufficient votes present at the special shareholders’ meeting, in person or by proxy, to approve the merger agreement. Cornerstone shareholders are being asked to vote “**FOR**” approval of the adjournment proposal.

**Q: What vote is required to approve each proposal?**

Approval of the merger agreement requires the affirmative vote of two-thirds of the outstanding shares of Cornerstone common stock entitled to vote at the special meeting. Approval of the adjournment proposal requires that the number of shares voted at the special meeting, in person or by proxy, in favor of the proposal exceed the number of shares voted against the proposal.

**Q: Why is my vote important?**

The merger agreement must be approved by the affirmative vote of the holders of two-thirds of the outstanding shares of Cornerstone common stock. Accordingly, if a Cornerstone shareholder fails to vote on the merger agreement, or does not instruct his or her broker how to vote any shares held for him or her in “street name,” it will have the same effect as a vote against the merger agreement.

**Q: Why is Cornerstone merging with First Community?**

Cornerstone is merging with First Community because the boards of directors of both companies believe that the merger will provide shareholders of both companies with substantial benefits and will enable the combined company to better serve its customers. The combined company would have an increased presence in the upstate region of South Carolina. A detailed discussion of the background of and reasons for the proposed merger is contained under the headings “Background of the Merger,” “Cornerstone’s Reasons for the Merger; Recommendation of the Cornerstone Board of Directors,” and “First Community’s Reasons for the Merger,” under “Proposal No. 1—The Merger.”

**Q: What will I receive in the merger?**

Each share of Cornerstone common stock can be exchanged for either: (i) \$11.00 in cash; (ii) 0.54 shares of First Community common stock; or (iii) a combination of cash and shares of First Community common stock.

However, a shareholder’s receipt of the exact form of consideration he or she elects is subject to the limitation that in total, 30% of Cornerstone’s non-dissenting shares of common stock outstanding will be exchanged for cash, and 70% of Cornerstone’s non-dissenting shares of common stock outstanding will be exchanged for shares of First Community common stock. If the cash or stock consideration elected by all shareholders exceeds either the 30% cash or 70% stock limitation, the exchange agent will prorate the cash and stock consideration shareholders receive.

First Community will not issue fractional shares in the merger. Instead, you will receive a cash payment, without interest, for the value of any fraction of a share of First Community common stock that you would otherwise be entitled to receive. The method for determining the value of a fractional share is described on page 44 of this proxy statement/prospectus.

Each outstanding share of First Community common stock will remain outstanding after the merger.

**Q: How do I elect to receive cash, stock, or a combination of both for my Cornerstone common stock?**

A: A joint election form/letter of transmittal will be sent to you shortly after the effective time of the merger, which will include instructions and the deadline date for making your election as to the form of consideration you prefer to receive in the merger. The election form will permit you to elect to receive cash, First Community common stock, or a combination of cash and First Community common stock for your shares of Cornerstone common stock, subject to the limitations on total stock and cash consideration explained in the answer, immediately above. Please pay special attention to these election and transmittal materials since failure to follow the instructions may mean

that you will not receive the consideration you desire. An election will be properly made only if the exchange agent receives a properly executed election form by the deadline date. The election deadline has not been determined. However, the deadline will be clearly stated in the transmittal materials that will be delivered to you. Please follow the instructions provided in the joint election form/letter of transmittal to properly elect to receive cash, stock or a combination of both for your Cornerstone common stock.



**Q: If I am a Cornerstone shareholder, am I assured of receiving the exact form of consideration I elect to receive?**

**No.** In total, 30% of Cornerstone's non-dissenting shares of common stock outstanding will be exchanged for cash and 70% of Cornerstone's non-dissenting shares of common stock outstanding will be exchanged for shares of First Community common stock. Therefore, the form of consideration you receive will depend in part on the elections of other Cornerstone shareholders so that 30% of Cornerstone's non-dissenting shares of common stock outstanding will be exchanged for cash and 70% of the total outstanding non-dissenting shares of Cornerstone common stock will be exchanged for shares of First Community common stock. Accordingly, there is no assurance that you will receive the form of consideration you elect with respect to all of your shares of Cornerstone common stock. If the elections of all Cornerstone shareholders result in an oversubscription of cash or First Community common stock, the exchange agent will allocate the consideration you will receive between cash and First Community common stock in accordance with the proration procedures described under the heading "Proposal No. 1—The Merger—Allocation of the Merger Consideration" beginning on page 46.

**Q: If my shares are held in an individual retirement account, or "IRA," how will my shares be voted and how will the election for cash or shares of First Community common stock be made?**

The custodian of your IRA will vote your shares on the proposal to approve the merger agreement and make the election to receive cash or shares of First Community common stock in accordance with the terms of your account agreement. You should contact your IRA custodian with any questions about the terms of your account agreement.

**Q: Will the value of the merger consideration change between the date of this proxy statement/ prospectus and the time the merger is completed?**

**YES.** The value of the merger consideration to be issued in First Community common stock will fluctuate between the date of this proxy statement/prospectus and the completion of the merger based upon the market value of First Community common stock. Any fluctuation in the market price of First Community common stock after the date of this document may change the value of the shares of First Community common stock that Cornerstone shareholders will receive. Cornerstone shareholders should obtain current market quotations for First Community common stock, which is traded under the symbol "FCCO" on The NASDAQ Capital Market.

The value of the merger consideration to be paid in cash will not fluctuate.

**Q: Will Cornerstone shareholders be taxed on the cash and First Community common stock that they receive in exchange for their Cornerstone shares?**

**A:** We expect that the exchange of shares of Cornerstone common stock for First Community common stock by Cornerstone shareholders generally will be tax-free to you for federal income tax purposes. However, you will have to pay taxes at either capital gains or ordinary income rates, depending upon individual circumstances and on the

cash received in exchange for your shares of Cornerstone common stock, including cash received in lieu of fractional shares of First Community common stock. To review the tax consequences to Cornerstone shareholders in greater detail, see “Proposal No. 1—The Merger—Material U.S. Federal Income Tax Consequences and Opinion of Tax Counsel” beginning on page 51.

**Q: If I am a Cornerstone shareholder, what happens if I don't make an election for cash or shares of First Community common stock?**

If you fail to make an election prior to the election deadline, the exchange agent will have the discretion to determine the type of consideration you will receive in exchange for your shares of Cornerstone common stock. The type of consideration you will receive will be determined by the type of consideration other Cornerstone shareholders elect to receive so that, in total, 30% of the outstanding non-dissenting shares of Cornerstone common stock will be exchanged for cash and 70% of the total outstanding non-dissenting shares of Cornerstone common stock will be exchanged for shares of First Community common stock. For more information concerning the merger consideration, election procedures, and allocation procedures, see "Proposal No. 1—The Merger—Merger Consideration," "—Election of the Form of Payment of the Merger Consideration," and "—Allocation of the Merger Consideration" beginning on page 45.

**Q: What should I do now?**

**A:** After you have carefully read this proxy statement/prospectus and decided how you wish to vote your shares, please vote your shares promptly so that your shares will be represented and voted at the special meeting.

If you are a record holder and hold your shares in your name: You do not have to attend the special meeting to vote. The Cornerstone board of directors is soliciting proxies so that you can vote before the special meeting. Even if you currently plan to attend the special meeting, we recommend that you vote by proxy before the special meeting so that your vote will be counted if you later decide not to attend. There are three ways a record holder can vote by proxy:

·By Internet: You may vote over the Internet by going to the website shown on your proxy card and following the instructions when prompted;

·By Telephone: You may vote by telephone by calling the toll free number shown on your proxy card; or

·By Mail: You may vote by completing, signing, dating and returning the enclosed proxy card.

If you vote over the Internet or by telephone, please do **NOT** return a proxy card through the mail unless you intend to revoke your Internet or telephone vote.

If you vote using one of the methods described above, you will be designating J. Rodger Anthony and Jennifer M. Champagne as your proxies to vote your shares as you instruct. If you vote over the Internet or by telephone or by signing and returning your proxy card without giving specific instructions, these individuals will vote your shares by following the recommendations of the Cornerstone board of directors. If any other business properly comes before the special meeting, these individuals will vote on those matters in a manner they consider appropriate.

If your shares are held in "street name" by a broker or other nominee: You may vote your shares before the special meeting by mail, by completing, signing and returning the voting instruction form you received from your broker or other nominee. You should check your voting instruction form to see if any alternative method, such as Internet or telephone voting, is available to you.

**Q: If my shares are held in "street name" by my broker or other nominee, will my broker or other nominee vote my shares for me?**

**NO.** Your broker or other nominee will NOT vote your shares on the proposal to approve the merger agreement unless you provide instructions on how to vote. You should instruct your broker or other nominee how to vote your shares following the directions your broker or other nominee provides. Please note that you may not vote shares **A:** held in street name by returning a proxy card directly to Cornerstone or by voting in person at the special meeting unless you provide a “legal proxy,” which you must obtain from your broker or other nominee, and provide it to Cornerstone, together with proof of your share ownership.

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**Q: What if I abstain from voting or fail to instruct my broker or other nominee?**

With respect to the merger agreement proposal, if you (1) fail to submit a proxy or vote in person at the special meeting, (2) mark “Abstain” on your proxy card, or (3) fail to instruct your broker or other nominee how to vote, it will have the same effect as a vote “Against” the merger proposal. If you fail to submit a proxy or vote in person at the special meeting or fail to instruct your broker or other nominee how to vote, or mark “Abstain” on your proxy card with respect to the adjournment proposal, it will have no effect on the adjournment proposal.

**Q: Can I change my vote after I have submitted my proxy?**

**A: YES.** If you hold your shares of record in your name, there are three ways you can change your vote after you have submitted your proxy:

First, you may send a written notice to Cornerstone’s Corporate Secretary stating that you would like to revoke your proxy.

Second, you may complete and submit a later dated proxy with new voting instructions. The latest vote actually received by Cornerstone prior to the special shareholders’ meeting will be your vote. Any earlier votes will be revoked.

Third, you may attend the special shareholders’ meeting and vote in person. Any earlier votes will be revoked. Simply attending the meeting without voting, however, will not revoke your proxy.

If your shares are held in street name by a broker or other nominee and you have instructed your broker or other nominee to vote your shares, you must follow the directions you receive from your broker to change or revoke your proxy.

**Q: Can I attend the special meeting and vote my shares in person?**

**A: YES.** All Cornerstone shareholders, including shareholders of record and shareholders who hold their shares through brokers or other nominees, are invited to attend the special meeting. Record holders of Cornerstone common stock can vote in person at the special meeting. If you are not a shareholder of record, you must obtain a proxy, executed in your favor, from the record holder of your shares, such as a broker or other nominee, and present proof of Cornerstone share ownership to be able to vote in person at the special meeting.

**Q: Will my ownership percentage and voting interest be reduced after the merger?**

**YES.** Cornerstone shareholders currently have the right to vote in the election of the Cornerstone board of directors and on other matters affecting Cornerstone. Upon the completion of the merger, each Cornerstone shareholder who receives First Community common stock in the merger will be a shareholder of First Community with a percentage ownership of First Community that is much smaller than such shareholder's current percentage ownership of Cornerstone. It is currently expected that the former shareholders of Cornerstone as a group will receive shares in the merger constituting approximately 11.6% of the outstanding shares of First Community's common stock immediately after the merger. Accordingly, former Cornerstone shareholders will have significantly less influence on the management and policies of First Community than they now have on the management and policies of Cornerstone.

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**Q: Do I have the right to dissent and obtain the “fair value” for my shares?**

**YES.** South Carolina law permits you to dissent from the merger and to obtain payment in cash of the “fair value” of your shares of Cornerstone common stock. To do this, you must follow specific procedures, including, among others, delivering written notice to Cornerstone before the shareholder vote on the merger agreement is taken of your intent to demand payment for your shares if the merger is completed and not voting your shares in favor of the merger agreement. If you follow the required procedures, your only right will be to receive the “fair value” of your common stock in cash. Copies of the applicable South Carolina statutes are attached to this proxy statement/prospectus as Appendix B. See “Proposal No. 1—The Merger—Dissenters’ Rights” beginning on page 49. **A:** Because of the complexity of the procedures for exercising dissenters’ rights, if you are considering exercising dissenters’ rights, you are encouraged to seek the advice of legal counsel. Failure to strictly comply with the applicable South Carolina law provisions will result in the loss of your right to dissent.

**Q: Should I send in my stock certificates now?**

**NO.** You should not send in your stock certificates at this time. Shortly after the effective time of the merger, the **A:** exchange agent will send all Cornerstone shareholders an election form and written instructions for exchanging Cornerstone stock certificates for the merger consideration.

**Q: When do you expect to complete the merger?**

We intend to complete the merger on October 20, 2017. However, we cannot assure you when or if the merger will **A:** occur. We must first obtain the approval of the Cornerstone shareholders at the special shareholders’ meeting and the necessary regulatory approvals.

**Q: Whom should I call with questions about the merger?**

Cornerstone shareholders should call J. Rodger Anthony, President and Chief Executive Officer, at (864) 306-1444. **A:** First Community shareholders should call Michael C. Crapps, President and Chief Executive Officer, at (803) 951-2265.

## SUMMARY

*This summary highlights material information about the merger and the special shareholders' meeting contained later in this proxy statement/prospectus. This summary does not contain all of the information that may be important to you, and we urge you to carefully read this entire document, including the exhibits and appendices, to better understand the merger and its potential impact on you before deciding how to vote. Each item in this summary includes a page reference directing you to a more complete discussion of the item.*

### **The Companies (page 76 for First Community and page 84 for Cornerstone)**

First Community Corporation

5455 Sunset Blvd.

Lexington, South Carolina 29072

(803) 951-2265

Attention: Michael C. Crapps, President and Chief Executive Officer

First Community, a bank holding company registered under the Bank Holding Company Act of 1956 (the "BHCA"), was incorporated under the laws of South Carolina in 1994 primarily to own and control all of the capital stock of First Community Bank ("First Community Bank"), which commenced operations in August 1995. First Community Bank's primary federal regulator is the Federal Deposit Insurance Corporation (the "FDIC"). First Community Bank is also regulated and examined by the South Carolina Board of Financial Institutions (the "SCBFI").

First Community Bank engages in a commercial banking business from its main office in Lexington, South Carolina and its 15 full-service offices located in the Midlands of South Carolina to include: Lexington County (6), Richland County (4), Newberry County (2) and Kershaw County (1); and the Central Savannah River area to include: Aiken County (1) and Augusta (1), which is located in Richmond County, Georgia. In addition, First Community Bank conducts business from a loan production office located in Greenville County, South Carolina and a mortgage loan production office in Richland County, South Carolina. First Community Bank offers a wide-range of traditional banking products and services for professionals and small-to medium-sized businesses, including consumer and commercial, mortgage, brokerage and investment, and insurance services. First Community Bank also offers online banking to its customers.

Cornerstone Bancorp



1670 E. Main Street

Easley, South Carolina 29640

(864) 306-1444

Attention: J. Rodger Anthony, President and Chief Executive Officer

Cornerstone is a South Carolina corporation incorporated in 1999. Cornerstone is a bank holding company registered under the BHCA with no operations other than those carried on by its wholly owned subsidiary, Cornerstone National Bank (“Cornerstone Bank”). Cornerstone Bank was organized in 1999 and conducts a general banking business under a national bank charter granted by the Office of the Comptroller of the Currency of the United States (the “OCC”) pursuant to the National Bank Act. Cornerstone Bank conducts its activities from its main office in the City of Easley in Pickens County, South Carolina, which opened in September, 1999, and from a branch office located in the Berea area of Greenville County, South Carolina, which opened in August, 2002, and from a branch office in the Powdersville/Piedmont area of Anderson County, South Carolina, which opened in July 2005. In 2004, Cornerstone established a wholly owned subsidiary, Crescent Financial Services, Inc. (“Crescent”), which is an insurance agency.

Cornerstone Bank’s primary market areas are the city of Easley, South Carolina and the immediately surrounding areas of Pickens County, the Berea area of Greenville County, and the Powdersville and Piedmont areas of Anderson County, and contiguous areas.

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### **The Merger (page 27)**

Under the terms of the merger agreement, Cornerstone will merge with and into First Community, with First Community as the surviving entity. Simultaneously with the merger or immediately thereafter, Cornerstone Bank will merge with and into First Community Bank, and First Community Bank will be the surviving bank (we refer to this merger as the “bank merger”). Both First Community and First Community Bank will continue their existence under South Carolina law, while Cornerstone and Cornerstone Bank will cease to exist. The merger agreement is attached as Appendix A and is incorporated into this proxy statement/prospectus by reference. We encourage you to read the merger agreement carefully as it is the legal document that governs the merger.

### **What Cornerstone Shareholders Will Receive in the Merger (page 44)**

If the merger is completed, each outstanding share of Cornerstone common stock will be exchanged for either: (i) \$11.00 in cash, (ii) 0.54 shares of First Community common stock, or (iii) a combination of cash and shares of First Community common stock. Each shareholder of Cornerstone will have the opportunity to elect the form of merger consideration that he or she prefers. If a shareholder does not choose a preference, the merger consideration to be received by him or her will be determined by the exchange agent depending on the amount of cash and shares elected by those Cornerstone shareholders who make an express election. Elections by Cornerstone shareholders are limited by the requirement that 30% of the total number of outstanding non-dissenting shares of Cornerstone common stock will be exchanged for cash and 70% of the outstanding non-dissenting shares of Cornerstone common stock will be exchanged for shares of First Community common stock. If the elections made by Cornerstone shareholders would result in an oversubscription for either cash or stock, then the exchange agent will prorate the amount of cash and stock to be issued to Cornerstone shareholders as necessary to satisfy this requirement. Therefore, the form of consideration that a Cornerstone shareholder receives will depend in part on the elections of other Cornerstone shareholders. Cornerstone shareholders will not receive any fractional shares of First Community common stock. Instead, you will receive a cash payment, without interest, for the value of any fraction of a share of First Community common stock that you would otherwise be entitled to receive in an amount equal to such fractional part of a share of First Community common stock multiplied by the volume weighted average price (rounded up to the nearest cent) of First Community common stock on The NASDAQ Capital Market during the 10 consecutive trading days ending on the fifth trading day immediately prior to the date on which the effective time of the merger occurs.

After the merger, First Community’s existing shareholders will own approximately 88.4% of First Community’s total outstanding shares, on a fully diluted basis, and Cornerstone’s shareholders will own approximately 11.6% of First Community’s outstanding shares, on a fully diluted basis.

### **Merger Consideration Election (page 44)**

Shortly after the effective time of the merger, First Community will cause the exchange agent to deliver or mail to Cornerstone shareholders an election form and instructions for making an election as to the form of consideration

preferred to be received in the merger. The available elections, election procedures, and deadline for making elections are described under the heading “Proposal No. 1—The Merger—Election of the Form of Payment of the Merger Consideration” on page 45. To be effective, an election form must be properly completed and received by First Community’s exchange agent no later than 4:00 p.m. local time on the date set forth on the election form sent to Cornerstone shareholders. If a Cornerstone shareholder does not make an election by the election deadline, the exchange agent has the discretion to choose the consideration such shareholder will receive.

After the election deadline, the elections made by Cornerstone shareholders may be adjusted as necessary to ensure that First Community pays cash in exchange for 30% of the outstanding non-dissenting shares of Cornerstone common stock and First Community common stock in exchange for 70% of the outstanding non-dissenting shares of Cornerstone common stock. The merger agreement provides the method, which is described under the heading “Proposal No. 1—The Merger—Allocation of the Merger Consideration” on page 46, for allocating shares of First Community common stock and cash to be received for the shares of Cornerstone common stock, based on the elections made. Accordingly, a Cornerstone shareholder may receive less cash and more shares of First Community common stock, or more shares of First Community common stock and less cash, than elected.

### **Effect of the Merger on Cornerstone Preferred Stock**

Unless redeemed before the effective time of the merger, each of the shares of Cornerstone's 8% cumulative perpetual preferred stock, series A, no par value (the "Cornerstone Series A Preferred Stock") outstanding at the effective time of the merger will automatically be converted into the right to receive one share of the First Community preferred stock to be designated, prior to the effective time, as 8% cumulative perpetual preferred stock, series A (the "First Community Series A Preferred Stock"), and the shares of First Community Series A Preferred Stock will otherwise have the same rights, preferences, privileges and voting powers, and limitations and restrictions thereof, as the Cornerstone Series A Preferred Stock immediately prior to the conversion.

### **Effect of the Merger on Cornerstone Stock Options**

As of the date of this proxy statement/prospectus, there were outstanding options to purchase 30,525 shares of Cornerstone common stock, with a weighted average exercise price of \$9.72 per share. All of these outstanding options were held by directors or executive officers. At the effective time of the merger, all rights with respect to the Cornerstone common stock pursuant to the stock options granted by Cornerstone, which are outstanding immediately prior to the effective time of the merger, whether or not exercisable, will convert into an obligation of First Community to pay and a right of the holder to receive a cash payment equal to the product obtained by multiplying (1) the number of shares of Cornerstone common stock underlying such holder's options by (2) the excess, if any, of the fair market value per share (as defined below) minus the exercise price per share under such option (provided, that if the fair market value per share does not exceed the exercise price per share of a particular option, then by \$0.01). The fair market value per share for purposes of this calculation is the sum of (x) \$11.00 multiplied by 0.30, plus (y) the product of the volume weighted average price (rounded up to the nearest cent) of First Community common stock on The NASDAQ Capital Market during the 10 consecutive trading days ending on the fifth trading day immediately prior to the date on which the effective time of the merger occurs, multiplied by the exchange ratio (0.54), multiplied by 0.70.

### **Regulatory Approvals (page 60)**

First Community believes that because the merger qualifies as a "waiver transaction" under the applicable rules and regulations of the Board of Governors of the Federal Reserve System (the "Federal Reserve"), and that we are not required to file a formal merger application with the Federal Reserve and must only make a notice filing with the Federal Reserve with respect to the merger. For the merger of Cornerstone Bank with and into First Community Bank, we must obtain approval from the FDIC and the SCBFI. As of the date of this proxy statement/prospectus, we have not received the required regulatory approvals from the FDIC or the SCBFI; however, the Federal Reserve has advised us of its non-objection to characterization of the merger as a "waiver transaction" and consummation of the merger without a formal application.

**Cornerstone's Special Shareholders' Meeting (page 24)**

Cornerstone will hold its special shareholders' meeting on Tuesday, September 19, 2017, at 4:00 p.m., local time at its main offices, 1670 E. Main Street, Easley, South Carolina 29640.

**Cornerstone's Record Date and Voting (page 24)**

If you owned shares of Cornerstone common stock at the close of business on July 14, 2017, the record date for the Cornerstone special shareholders' meeting, you are entitled to vote on the merger agreement and the adjournment proposal as well as any other matters considered at the special shareholders' meeting. On the record date, there were 2,320,911 shares of Cornerstone common stock outstanding. You will have one vote at the meeting for each share of common stock you owned on the record date. The affirmative vote of the holders of two-thirds of Cornerstone's outstanding shares of common stock is required to approve the merger agreement. Abstentions and broker non-votes will have the same effect as votes against the merger agreement. Approval of the proposal to adjourn the special meeting, if necessary or appropriate, to allow time for further solicitation of proxies to approve the merger agreement, requires that more shares vote in favor of the proposal than vote against the proposal. Abstentions and broker non-votes will have no effect on the results of the vote on the adjournment proposal. As of July 14, 2017, Cornerstone's directors and executive officers and their affiliates beneficially owned approximately 24.9% of the outstanding shares of Cornerstone common stock. Each of Cornerstone's directors and executive officers has agreed, subject to several conditions, to vote his or her shares of Cornerstone common stock in favor of the merger agreement.

**Cornerstone’s Board of Directors Recommends that Cornerstone Shareholders Vote “FOR” the Approval of the Merger Agreement (page 26) and “FOR” the Approval of the Adjournment Proposal**

Cornerstone’s board of directors has determined that the merger, the merger agreement, and the transactions contemplated by the merger agreement are advisable and in the best interests of Cornerstone and its shareholders and has adopted the merger agreement. Cornerstone’s board of directors recommends that Cornerstone shareholders vote “**FOR**” the approval of the merger agreement. For the factors considered by Cornerstone’s board of directors in reaching its decision to adopt the merger agreement, see “Proposal No. 1—The Merger—Cornerstone’s Reasons for the Merger; Recommendation of the Cornerstone Board of Directors.” Cornerstone’s board of directors also recommends that Cornerstone shareholders vote “**FOR**” approval of the proposal to adjourn the special meeting, if necessary or appropriate, to allow time for further solicitation of proxies to approve the merger agreement.

**Interests of Executive Officers, Employees and Directors of Cornerstone that Differ from Your Interests (page 54)**

When considering whether to approve the merger agreement, you should be aware that some directors and officers of Cornerstone have interests in the merger that differ from the interests of other Cornerstone shareholders, including the following:

Following the merger, First Community will generally indemnify and provide liability insurance to the present directors and officers of Cornerstone, subject to certain exceptions;

Each incumbent director of Cornerstone will be invited to join an upstate advisory board of First Community Bank and will receive certain advisory fees for their service;

J. Rodger Anthony, President and Chief Executive Officer, Jennifer M. Champagne, Chief Financial Officer, and Susan S. Jolly, Senior Lender, will receive lump-sum cash payments pursuant to their change in control agreements with Cornerstone following the effectuation of the merger;

After the closing of the merger, J. Rodger Anthony, President and Chief Executive Officer of Cornerstone, will serve as a consultant with First Community for six months pursuant to a Consulting Agreement.

After closing of the merger, Susan S. Jolly, Cornerstone’s Senior Vice President and Senior Lender and a director, will be employed by First Community Bank as a Senior Commercial Banker.

Each board member was aware of these and other interests and considered them before approving and adopting the merger agreement.

**Federal Income Tax Consequences (page 51)**

Cornerstone’s shareholders generally will not recognize gain or loss for U.S. federal income tax purposes on the receipt of shares of First Community common stock in the merger in exchange for the shares of Cornerstone common stock surrendered. Cornerstone shareholders will be taxed, however, on any cash consideration they receive in the merger, including any cash they receive in lieu of fractional shares of First Community common stock. First Community shareholders will have no direct tax consequences as a result of the merger. Tax matters are complicated, and the tax consequences of the merger may vary among Cornerstone shareholders. We urge each Cornerstone shareholder to contact his, her or its own tax advisor to fully understand the tax implications of the merger.

**Opinion of Cornerstone’s Financial Advisor (page 35)**

At the request of Cornerstone’s board of directors on April 11, 2017, Raymond James & Associates, Inc. (“Raymond James”) rendered its opinion (the “Opinion”), as to the fairness, as of such date, from a financial point of view, to the holders of Cornerstone’s outstanding common stock of the merger consideration to be received by such holders in the merger, based upon and subject to the qualifications, assumptions and other matters considered in connection with the preparation of its opinion.

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The full text of the written Opinion of Raymond James, dated April 11, 2017, which sets forth, among other things, the various qualifications, assumptions and limitations on the scope of the review undertaken, is attached as Appendix C to this document. Raymond James provided its Opinion for the information and assistance of the Cornerstone board of directors (solely in each director's capacity as such) in connection with, and for purposes of, its consideration of the merger and its Opinion only addresses whether the merger consideration to be received by the holders of the common stock in the transaction pursuant to the merger agreement is fair, from a financial point of view, to such holders. The Opinion of Raymond James does not address any other term or aspect of the merger agreement or the transaction contemplated thereby. The Opinion does not constitute a recommendation to the Cornerstone board or any holder of Cornerstone common stock as to how the Cornerstone board, such shareholder or any other person should vote or otherwise act with respect to the merger or any other matter.

### **Comparative Rights of Shareholders (page 66)**

The rights of Cornerstone's shareholders are currently governed by South Carolina corporate law and Cornerstone's articles of incorporation and bylaws. The rights of First Community's shareholders are currently governed by South Carolina corporate law and First Community's articles of incorporation and bylaws. Upon consummation of the merger, the shareholders of Cornerstone who receive stock consideration will become shareholders of First Community, and South Carolina corporate law, as well as the articles of incorporation and bylaws of First Community, will govern their rights. First Community's articles of incorporation and bylaws differ somewhat from those of Cornerstone.

### **Conditions to Consummation (page 58)**

The obligations of Cornerstone and First Community to consummate the merger are subject to the satisfaction or waiver (to the extent permitted) of several conditions, including, among others:

- Cornerstone shareholders must have approved the merger agreement;
- The required regulatory approvals and any other required consents must have been received;

The registration statement registering the shares of First Community common stock to be received by Cornerstone shareholders, of which this proxy statement/prospectus is a part, must have been declared effective by the SEC; and

First Community must have filed with The NASDAQ Capital Market a notification form for the listing of the shares of First Community common stock to be received by Cornerstone shareholders, and the NASDAQ must not have objected to such listing.



No assurances can be provided as to when or if all of the conditions precedent to the merger can or will be satisfied or waived by the appropriate party. As of the date of this proxy statement/prospectus, the parties know of no reason to believe that any of the conditions set forth above will not be satisfied. The conditions to consummation of the merger may be waived, in whole or in part, to the extent permissible under applicable law, by the party for whose benefit the condition has been imposed, without the approval of such party's shareholders.

**Termination of the Merger Agreement and Termination Fee (page 60)**

Notwithstanding the approval of the merger agreement by Cornerstone shareholders, the parties can mutually agree at any time to terminate the merger agreement before completing the merger.

Either First Community or Cornerstone can also terminate the merger agreement:

If the other party materially breaches any representation, warranty or covenant in the merger agreement which cannot be or is not cured within 30 days of notice of such breach; provided, that such breach is reasonably likely to have a material adverse effect on such breaching party or to prevent such breaching party from complying in all material respects with its covenants;

If any regulatory authority whose approval is required for consummation of the merger makes a final decision not to approve the merger, or if any final law or order permanently restrains, enjoins, or otherwise prohibits consummation of the merger; or

If the merger is not completed by February 28, 2018.

First Community can terminate the merger agreement if Cornerstone's board of directors (i) withdraws or modifies its recommendation that the Cornerstone shareholders approve the merger agreement or approves or recommends an acquisition proposal by a third party, (ii) fails to reaffirm the merger agreement after being requested to do so following the announcement of an acquisition proposal by a third party, or (iii) otherwise fails to comply with the terms of the merger agreement regarding obtaining shareholder approval of the merger agreement and soliciting other offers for an acquisition of Cornerstone. In this event, Cornerstone must pay a \$950,000 termination fee to First Community.

Cornerstone can also terminate the merger agreement if it receives an acquisition proposal from a third party that is superior to First Community's proposal and concludes after receiving legal and financial advice that the board of directors would be in breach of its fiduciary duties if the board did not accept the superior proposal; provided, however, First Community would then have the opportunity to match the superior proposal in order to proceed with the merger. Cornerstone would pay a \$950,000 termination fee to First Community if it were to terminate the merger agreement for this reason.

### **Termination Fee (page 61)**

In addition to the circumstances set forth above under which Cornerstone must pay the termination fee to First Community, if the merger agreement is terminated under certain circumstances following the communication of an acquisition proposal to Cornerstone, and if within one year after the termination of the merger agreement, Cornerstone consummates an acquisition transaction or enters into an acquisition agreement that is ultimately consummated, then Cornerstone must also pay the \$950,000 termination fee to First Community.

### **Accounting Treatment (page 65)**

First Community will account for the merger using the acquisition method of accounting. Under this accounting method, First Community would record the acquired identifiable assets and liabilities assumed at their fair market value at the time the merger is complete. Any excess of the cost of Cornerstone over the sum of the fair values of tangible and identifiable intangible assets less liabilities assumed would be recorded as goodwill. Based on an assumed purchase price of \$27.0 million and utilizing information as of March 31, 2017, estimated goodwill and other intangibles would total approximately \$10.6 million. First Community's reported income would include the operations of Cornerstone after the merger. Financial statements of First Community after completion of the merger would reflect the impact of the acquisition of Cornerstone. Financial statements of First Community issued before completion of the

merger would not be restated retroactively to reflect Cornerstone's historical financial position or results of operations.

### Market Price and Dividend Information

First Community's common stock is currently listed on The NASDAQ Capital Market under the symbol "FCCO". Cornerstone's common stock is not listed on an exchange but is quoted on the OTC Bulletin Board under the symbol "CTOT".

As of July 7, 2017, there were approximately 1,412 holders of record of common stock of First Community. As of July 7, 2017, there were 515 holders of record of Cornerstone common stock. The following table presents the closing sale prices per share of First Community common stock and Cornerstone common stock on April 11, 2017, the last trading day before we publicly announced the merger agreement, and the closing sale prices per share for First Community common stock and Cornerstone common stock on July 7, 2017, the last practicable trading day prior to mailing this proxy statement/prospectus. The table also presents the equivalent value of the merger consideration per share of Cornerstone common stock on those dates, calculated by multiplying the closing price of First Community common stock on those dates by the exchange ratio.

Date	First Community Closing Price	Cornerstone Closing Price	Equivalent Cornerstone Per Share Value
April 11, 2017	\$ 20.70	\$ 9.00	\$ 11.18
July 7, 2017	\$ 20.30	\$ 10.46	\$ 10.96

The following table sets forth, for the periods indicated, the high and low sales prices per share of First Community's and Cornerstone's common stock as quoted on NASDAQ and the OTC Markets, respectively. First Community paid quarterly dividends as shown below. There is no established trading market for shares of Cornerstone common stock. Cornerstone has paid a cash dividend on its common stock only once, on May 9, 2008. In January 2016, Cornerstone declared a 5% stock dividend on its common stock.

	First Community Common Stock			Cornerstone Common Stock <sup>(1)</sup>		
	High	Low	Dividend	High	Low	Dividend
2017						
Third Quarter (through July 7, 2017)	\$ 21.00	20.30	—	\$ 10.83	10.46	—
Second Quarter	22.45	18.50	0.09	11.20	6.74	—
First Quarter	23.55	16.10	0.09	6.60	5.98	—
2016						
Fourth Quarter	18.95	14.80	0.08	6.00	5.75	—
Third Quarter	15.75	13.74	0.08	5.80	5.51	—
Second Quarter	14.94	13.56	0.08	5.46	5.06	—
First Quarter	14.98	12.66	0.08	5.67	4.85	—
2015						
Fourth Quarter	15.59	12.03	0.07	4.81	4.81	—
Third Quarter	12.75	11.53	0.07	4.76	3.95	—
Second Quarter	12.97	11.15	0.07	4.19	3.67	—
First Quarter	12.03	10.72	0.07	4.05	3.57	—

(1) Adjusted for 5% stock dividend paid in second quarter of 2016.

The closing sales price of First Community common stock as of April 11, 2017, the last trading day before the merger agreement was announced, was \$20.70. The closing sales price of First Community's common stock as of July 7, 2017, the most recent date feasible for inclusion in these materials, was \$20.30. The closing sales price of Cornerstone's common stock as of April 11, 2017, the last trading day before the merger agreement was announced, was \$9.00. The closing sales price of Cornerstone's common stock as of July 7, 2017, the most recent date feasible for inclusion in these materials, was \$10.46.

**Because the exchange ratio is fixed and because the market price of First Community common stock is subject to fluctuation, the market value of the shares of First Community common stock that Cornerstone shareholders may receive in the merger may increase or decrease prior to and following the merger. Cornerstone shareholders are urged to obtain current market quotations for First Community common stock, which are available at [www.nasdaq.com](http://www.nasdaq.com).**

Notwithstanding the foregoing, the future dividend policy of First Community is subject to the discretion of the board of directors and will depend upon a number of factors, including future earnings, financial condition, cash requirements, and general business conditions. First Community's ability to pay dividends is generally limited by the ability of First Community Bank to pay dividends to it. As a South Carolina chartered bank, First Community Bank is subject to limitations on the amount of dividends that it is permitted to pay. Unless otherwise instructed by the SCBFI,

First Community Bank is generally permitted under South Carolina state banking regulations to pay cash dividends of up to 100% of net income in any calendar year without obtaining the prior approval of the SCBFI.

### **NASDAQ Listing**

First Community will list the shares of First Community common stock to be issued to the shareholders of Cornerstone in connection with the merger on The NASDAQ Capital Market under the symbol "FCCO".

### **Resale of First Community Common Stock (page 49)**

The shares of First Community common stock to be issued to the shareholders of Cornerstone in connection with the merger will be freely tradable by such shareholders, except that if any Cornerstone shareholders are deemed to be affiliates of First Community, they must abide by certain transfer restrictions under the Securities Act.

### **Dissenters' Rights (page 49 and Appendix B)**

Under South Carolina law, a holder of Cornerstone common stock will be entitled to dissent from the merger and obtain payment in cash of the fair value of his or her shares of Cornerstone common stock. If you wish to assert dissenters' rights, (i) you must deliver to Cornerstone before the vote is taken on the merger written notice of your intent to demand payment for your shares if the merger is effectuated, and (ii) you must not vote your shares in favor of the merger agreement. If you do not satisfy these requirements and the other detailed requirements of the South Carolina dissenters' rights statutes, you will not be entitled to payment for your shares under those statutes. The text of the South Carolina dissenters' rights statutes is attached to this proxy statement/prospectus as Appendix B, and this summary is qualified in its entirety by the text of the South Carolina statutes. As long as you do not vote in favor of the merger, your failure to vote against the merger will not constitute a waiver of your appraisal rights. A vote against the merger will not satisfy the notice requirement under the South Carolina dissenters' rights statutes.

Because of the complexity of the procedures for exercising dissenters' rights, if you are considering exercising dissenters' rights, you are encouraged to seek the advice of legal counsel. Failure strictly to comply with the applicable South Carolina law provisions will result in the loss of your right to dissent.

**SELECTED CONSOLIDATED FINANCIAL INFORMATION OF FIRST COMMUNITY**

First Community's summary consolidated financial data is presented below as of and for the three months ended March 31, 2017 and 2016 and as of and for the years ended December 31, 2012 through December 31, 2016. The summary consolidated financial data presented below as of or for the years ended December 31, 2012 through 2016 is derived from First Community's audited consolidated financial statements, which were audited by Elliott Davis Decosimo, LLC. First Community's audited consolidated balance sheets as of December 31, 2016 and 2015 and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three year period ended December 31, 2016 are incorporated by reference into this proxy statement/prospectus from First Community's Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the SEC. First Community's selected consolidated financial data as of and for the three months ended March 31, 2017 and 2016 has not been audited but, in the opinion of management, contains all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position and the results of operations and cash flows for such periods. First Community's results for the three months ended March 31, 2017, are not necessarily indicative of First Community's results of operations that may be expected for the year ending December 31, 2017. The following summary consolidated financial data should be read in conjunction with First Community's consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which is incorporated by reference into this proxy/prospectus from First Community's Annual Report on Form 10-K for the year ended December 31, 2016.

(Dollars in thousands except per share amounts)	As of or For the Three Months Ended March 31,		As of or For the Years Ended December 31,			
	2017	2016	2016	2015	2014	2013
<b>Balance Sheet Data:</b>						
Total assets	\$914,913	\$870,409	\$914,793	\$862,734	\$812,363	\$633,300
Loans held for sale	4,191	2,545	5,707	2,962	4,124	3,790
Loans, net	555,298	494,021	546,709	489,191	443,844	347,590
Deposits	775,611	722,236	766,622	716,151	669,583	497,070
Total common shareholders' equity	83,131	81,611	81,861	79,038	74,528	52,671
Total shareholders' equity	83,131	81,611	81,861	79,038	74,528	52,671
Average shares outstanding, basic	6,688	6,573	6,617	6,558	6,538	5,285
Average shares outstanding, diluted	6,813	6,751	6,787	6,719	6,607	5,334
<b>Results of Operations:</b>						
Interest income	\$7,773	\$7,137	\$29,506	\$28,649	\$27,298	\$21,783
Interest expense	712	800	3,047	3,396	3,567	3,734
Net interest income	7,061	6,337	26,459	25,253	23,731	18,049
Provision for loan losses	116	140	774	1,138	881	528
Net interest income after provision for loan losses	6,945	6,197	25,685	24,115	22,850	17,521
Non-interest income (1)	1,978	2,089	8,339	8,611	8,031	8,118
Securities gains (1)	54	59	601	355	182	73
Non-interest expenses	6,720	6,342	25,776	24,678	23,960	20,422
Income before taxes	2,203	1,944	8,849	8,403	7,103	5,290
Income tax expense	447	476	2,167	2,276	1,982	1,153
Net income	1,756	1,468	6,682	6,127	5,121	4,137
Amortization of warrants	—	—	—	—	—	—

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Preferred stock dividends, including discount accretion and redemption costs	—	—	—	—	—	—	—	—	—
Net income available to common shareholders	1,756	1,468	6,682	6,127	5,121	4,137			
Per Share Data:									
Basic earnings per common share	\$0.27	\$0.22	\$1.01	\$0.93	\$0.78	\$0.78			
Diluted earnings per common share	0.26	0.22	0.98	0.91	0.78	0.78			
Book value at period end	12.41	12.19	12.24	11.81	11.18	9.93			
Tangible book value at period end	11.50	11.24	11.31	10.84	10.25	9.83			
Dividends per common share	\$0.09	\$0.08	0.32	0.28	0.24	0.22			
Asset Quality Ratios:									
Non-performing assets to total assets (3)	0.52	% 0.86	% 0.57	% 0.85	% 1.17	% 1.39			
Non-performing loans to period end loans	0.64	% 1.22	% 0.75	% 0.99	% 1.48	% 1.56			
Net charge-offs to average loans	—	0.01	% 0.03	% 0.14	% 0.22	% 0.27			
Allowance for loan losses to period-end total loans	0.97	% 0.95	% 0.94	% 0.94	% 0.93	% 1.21			
Allowance for loan losses to non-performing assets	113.51	% 62.25	% 99.35	% 62.98	% 43.37	% 48.07			
Selected Ratios:									
Return on average assets:									
GAAP earnings	0.78	% 0.68	% 0.75	% 0.73	% 0.73	% 0.66			
Return on average common equity:									
GAAP earnings	8.63	% 7.35	% 8.08	% 7.94	% 8.13	% 7.68			
Return on average tangible common equity:									
GAAP earnings	9.32	% 7.99	% 8.76	% 8.68	% 8.88	% 7.78			
Efficiency Ratio (1)	74.31	% 73.86	% 72.27	% 71.25	% 74.14	% 76.69			
Noninterest income to operating revenue (2)	21.88	% 24.79	% 25.26	% 26.20	% 25.71	% 31.22			
Net interest margin (tax equivalent)	3.52	% 3.33	% 3.35	% 3.38	% 3.40	% 3.18			
Equity to assets	9.09	% 9.38	% 8.95	% 9.16	% 9.17	% 8.32			
Tangible common shareholders' equity to tangible assets	8.48	% 8.70	% 8.33	% 8.47	% 8.48	% 8.23			
Tier 1 risk-based capital	14.66	% 15.41	% 14.46	% 15.40	% 16.12	% 17.60			
Total risk-based capital	15.51	% 16.24	% 15.28	% 16.21	% 16.94	% 18.68			
Leverage	10.21	% 10.23	% 10.23	% 10.19	% 10.02	% 10.77			
Average loans to average deposits (4)	73.61	% 68.68	% 69.62	% 68.75	% 69.14	% 69.17			

(1) The efficiency ratio is a key performance indicator in our industry. The ratio is computed by dividing non-interest expense by the sum of net interest income on a tax equivalent basis and non-interest income, net of any securities gains or losses. Non-interest income for the calculation of efficiency ratio excludes OTTI on securities of \$200 thousand in 2012. The efficiency ratio is a measure of the relationship between operating expenses and earnings.

(2) Operating revenue is defined as net interest income plus noninterest income.

(3) Includes non-accrual loans, loans > 90 days delinquent and still accruing interest and OREO.

(4) Includes loans held for sale.

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**Reconciliations**

Certain financial information presented above is determined by methods other than in accordance with GAAP. These non-GAAP financial measures include “efficiency ratio,” “tangible book value at period end,” “return on average tangible common equity” and “tangible common shareholders’ equity to tangible assets.” The “efficiency ratio” is defined as non-interest expense, divided by the sum of net interest income on a tax equivalent basis and non-interest income, net of any securities gains or losses and OTTI on securities. Non-interest income for the calculation of efficiency ratio excludes OTTI on securities of \$200 thousand in 2012. The efficiency ratio is a measure of the relationship between operating expenses and earnings. “Tangible book value at period end” is defined as total equity reduced by recorded intangible assets divided by total common shares outstanding. “Tangible common shareholders’ equity to tangible assets” is defined as total common equity reduced by recorded intangible assets divided by total assets reduced by recorded intangible assets. Our management believes that these non-GAAP measures are useful because they enhance the ability of investors and management to evaluate and compare our operating results from period-to-period in a meaningful manner. Non-GAAP measures have limitations as analytical tools, and investors should not consider them in isolation or as a substitute for analysis of the Company’s results as reported under GAAP.

The table below provides a reconciliation of non-GAAP measures to GAAP:

	March, 31		December 31,				
	2017	2016	2016	2015	2014	2013	2012
Tangible book value per common share							
Tangible common equity per common share (non-GAAP)	\$11.50	11.24	\$11.28	10.84	10.25	9.83	10.23
Effect to adjust for intangible assets	0.91	0.95	0.92	0.97	0.93	0.10	0.14
Book value per common share (GAAP)	\$12.41	12.19	\$12.20	11.81	11.18	9.93	10.37
Return on average tangible common equity							
Return on average tangible common equity (non-GAAP)	9.32 %	7.99 %	8.79 %	8.68 %	8.88 %	7.78 %	7.55 %
Effect to adjust for intangible assets	(0.69 )%	(0.64 )%	(0.73 )%	(0.74 )%	(0.75 )%	(0.10)%	(0.15 )%
Return on average common equity (GAAP)	8.63 %	7.35 %	8.06 %	7.94 %	8.13 %	7.68 %	7.40 %
Tangible common shareholders’ equity to tangible assets							
Tangible common equity to tangible assets (non-GAAP)	8.48 %	8.70 %	8.33 %	8.47 %	8.48 %	8.23 %	8.88 %
Effect to adjust for intangible assets	0.61 %	0.68 %	0.62 %	0.69 %	0.69 %	0.09 %	0.11 %
Common equity to assets (GAAP)	9.09 %	9.38 %	8.95 %	9.16 %	9.17 %	8.32 %	8.99 %

**SELECTED CONSOLIDATED FINANCIAL INFORMATION OF CORNERSTONE**

Cornerstone's summary consolidated financial data is presented below as of and for the three months ended March 31, 2017 and as of and for the years ended December 31, 2012 through December 31, 2016. The summary consolidated financial data presented below as of or for the years ended December 31, 2012 through 2016 is derived from Cornerstone's audited consolidated financial statements, which were audited by Elliott Davis Decosimo, LLC. Cornerstone's audited consolidated balance sheets as of December 31, 2016 and 2015 and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three year period ended December 31, 2016 are included as Appendix E to this proxy statement/prospectus. Cornerstone's selected consolidated financial data as of and for the three months ended March 31, 2017 has not been audited but, in the opinion of management, contains all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position and the results of operations and cash flows for such periods. Cornerstone's results for the three months ended March 31, 2017, are not necessarily indicative of Cornerstone's results of operations that may be expected for the year ending December 31, 2017. The following summary consolidated financial data should be read in conjunction with Cornerstone's consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Appendix E to in this proxy/prospectus and under "Information about Cornerstone."

Dollars in thousands, except per share amounts

	<b>3/31/2017<sup>(3)</sup></b>	12/31/2016	12/31/2015	12/31/2014	12/31/2013	12/31/2012
<b>Balance Sheet Data</b>						
Total Assets	\$ 152,864	\$ 145,954	\$ 143,690	\$ 142,978	\$ 146,331	\$ 151,353
Loans held for sale	—	—	—	—	—	—
Loans, net	66,857	71,478	75,369	76,904	75,496	84,870
Deposits	131,751	125,881	121,723	118,929	124,189	126,012
Total common shareholders' equity (1)	18,781	18,502	18,189	17,386	15,420	16,445
Total shareholders' equity	19,819	19,540	19,227	18,424	16,458	17,483
Average shares outstanding- basic	2,321	2,321	2,321	2,321	2,321	2,321
Average shares outstanding- diluted	2,321	2,321	2,321	2,321	2,321	2,321
<b>Results of Operations</b>						
Interest income	\$ 1,149	\$ 4,932	\$ 5,154	\$ 5,377	\$ 5,606	\$ 6,024
Interest expense	98	408	460	636	876	1,192
Net interest income	1,051	4,524	4,694	4,741	4,730	4,832
Provision (negative provision) for loan losses	—	(200 )	(300 )	—	(250 )	470
Net interest income after provision for loan losses	1,051	4,724	4,994	4,741	4,980	4,362
Noninterest income	204	774	718	854	900	847
Securities gains	—	113	181	178	—	308
Noninterest expenses	1,018	4,518	5,224	4,742	5,723	5,496
Income before taxes	237	1,093	669	1,031	157	21
Income tax expense (benefit)	81	362	(756 )	—	—	—

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Net income	156		731		1,425		1,031		157		21	
Preferred stock dividends	(21	)	(83	)	(83	)	(112	)	(103	)	(95	)
Net income (loss) available to common shareholders	135		648		1,342		919		54		(74	)
Per Share Data:												
Basic earnings per common share	\$ .06		\$ 0.28		\$ 0.58		\$ 0.40		\$ 0.02		\$ (0.03	)
Diluted earnings per common share	.06		0.28		0.58		0.40		0.02		(0.03	)
Book value (per common share) at period end	8.09		7.97		7.84		7.49		6.64		7.09	
Tangible book value (per common share) at period end	8.09		7.97		7.84		7.49		6.64		7.09	
Dividends per common share	—		—		—		—		—		—	
Asset quality ratios:												
Non-performing assets to total assets (2)	1.7	%	1.8	%	2.7	%	5.1	%	7.0	%	11.3	%
Non-performing loans to total loans	.04	%	0.1	%	0.0	%	1.0	%	0.0	%	1.3	%
Net charge-offs (recoveries) to average loans	—	%	(.002	)%	(.009	)%	.033	%	.131	%	.664	%
Allowance for loan losses to period-end total loans	1.52	%	1.42	%	1.60	%	1.94	%	2.01	%	2.19	%
Allowance for loan losses to non-performing assets	40	%	39	%	32	%	21	%	15	%	11	%
Selected ratios:												
Return on Average assets (3)	.42	%	.49	%	1.00	%	.71	%	.11	%	.01	%
Return on average common equity (3)	2.9	%	3.4	%	7.7	%	5.6	%	.34	%	(.45	)%
Return on average tangible common equity (3)	2.9	%	3.4	%	7.7	%	5.6	%	.34	%	(.45	)%
Efficiency ratio (4)	81.1	%	85.2	%	96.0	%	83.6	%	100.1	%	95.1	%
Noninterest income to operating revenue (5)	19.4	%	19.6	%	19.2	%	21.8	%	19.0	%	23.9	%
Net interest margin (tax equivalent)	3.08	%	3.33	%	3.63	%	3.69	%	3.72	%	3.61	%
Equity to assets	13.0	%	13.4	%	13.4	%	12.9	%	11.2	%	11.6	%
Tangible common shareholders equity to tangible assets	12.3	%	12.7	%	12.7	%	12.2	%	10.5	%	10.9	%
Tier 1 risk-based capital	23.2	%	21.7	%	19.4	%	18.4	%	16.80		14.9	%
Total risk-based capital	24.4	%	22.8	%	20.7	%	19.7	%	18.1	%	16.2	%
Leverage (Tier 1 capital to average assets)	13.1	%	13.3	%	12.9	%	12.5	%	11.4	%	10.8	%
Average loans to average deposits	53.1	%	59.3	%	64.2	%	62.6	%	64.3	%	68.9	%

(1) Excludes \$1,038 of preferred stock outstanding.

(2) Non-performing assets includes non-accrual loans and OREO. There were no loans over 90 days delinquent and still accruing interest

(3) Annualized, where applicable.

The Efficiency ratio is a key performance indicator in our industry. The ratio is computed by dividing noninterest expense by the sum of interest income (tax equivalent basis) and noninterest income, net of any securities gains or losses.

(5) Operating revenue is defined as net interest income plus noninterest income.

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**UNAUDITED COMPARATIVE PER COMMON SHARE DATA**

The following summary presents per share information for First Community and Cornerstone on a historical, pro forma combined and pro forma diluted equivalent basis for the periods and as of the dates indicated below. The pro forma information gives effect to the merger accounted for using the acquisition method of accounting. This information should be read in conjunction with the historical financial statements and related notes and pro forma condensed consolidated financial data included elsewhere in this proxy statement/prospectus or incorporated by reference into this proxy statement/prospectus. The pro forma information should not be relied upon as being indicative of the historical results First Community and Cornerstone would have had if the merger had occurred before such periods or the future results that the First Community will experience after the merger.

The pro forma combined income per diluted share has been computed based on the diluted average number of shares of common stock of First Community adjusted for the additional shares to be issued in connection with the acquisition of Cornerstone. The merger equivalent income per diluted share of Cornerstone is based on the number of shares of First Community common stock into which each share of Cornerstone common stock will be converted in the merger.

The pro forma combined book value per share is based upon the pro forma combined equity of First Community divided by the pro forma number of outstanding shares of the combined companies as of March 31, 2017. The merger equivalent book value per share of Cornerstone is based on the 877,334 shares of First Community common stock into which the 1,624,693 shares of Cornerstone common stock outstanding as of March 31, 2017 will be converted in the merger. The foregoing assumes that the shares of First Community common stock to be issued will have a value of \$20.30 per share, the closing price per share of First Community common stock as of July 7, 2017 and that 30% of the outstanding non-dissenting shares of Cornerstone common stock will be exchanged for cash. The actual price of First Community stock on the date of merger may be different than the price used for the pro forma.

	As of and for the three months ended March 31, 2017	As of and for the year ended December 31, 2016
Net Income Per Common Share:		
Earnings per diluted share:		
First Community	\$ 0.26	\$ 0.98
Cornerstone	0.06	0.28
Pro Forma Combined	0.25	0.98
First Community merger equivalent <sup>(1)</sup>	0.14	0.53
Net Book Value Per Common Share (at period end)		
First Community	\$ 12.41	\$ 12.20
Cornerstone	8.54	8.42
Pro Forma Combined	13.47	13.29
First Community merger equivalent <sup>(1)</sup>	7.27	7.18
<b>Cash Dividends Declared<sup>(2)</sup></b>		
First Community	\$ 0.09	\$ 0.32
Cornerstone	—	—
Pro Forma Combined	0.09	0.32
First Community merger equivalent <sup>(1)</sup>	0.0486	0.1728

- (1) Calculated by multiplying the pro forma combined amounts by 0.54.
- (2) First Community pro forma combined cash dividends and merger equivalent cash dividends are based only upon First Community's historical amounts.

## **RISK FACTORS**

*If the merger is consummated and you are a Cornerstone common stock shareholder, you may receive shares of First Community common stock in exchange for your shares of Cornerstone common stock. An investment in First Community common stock is subject to a number of risks and uncertainties, many of which also apply to your existing investment in Cornerstone common stock. Risks and uncertainties relating to general economic conditions are not summarized below. Those risks, among others, are highlighted on page 22 under the heading “Cautionary Statement Regarding Forward-Looking Statements.”*

*However, there are a number of other risks and uncertainties relating to First Community that you should consider in deciding how to vote on the merger agreement in addition to the risks and uncertainties associated with financial institutions generally. Many of these risks and uncertainties could affect First Community’s future financial results and may cause First Community’s future earnings and financial condition to be less favorable than First Community’s expectations. In addition to the other information, including risk factors, incorporated by reference herein from First Community’s Annual Reports on Form 10-K for the year ended December 31, 2016, you should carefully read and consider the following factors in evaluating the merger and in deciding whether to elect to receive cash, shares of First Community common stock or some combination thereof in the merger.*

### **Risks Related to the Merger**

*First Community and Cornerstone shareholders will experience a reduction in percentage ownership and voting power of their shares as a result of the merger.*

First Community shareholders and Cornerstone shareholders will experience a reduction in their respective percentage ownership interests and effective voting power relative to their respective percentage ownership interests in First Community and Cornerstone compared to their ownership interests and voting power prior to the merger. If the merger is consummated, current First Community shareholders will own approximately 88.4% of First Community’s outstanding common stock, on a fully diluted basis, and current Cornerstone shareholders will own approximately 11.6% of First Community’s outstanding common stock, on a fully diluted basis. Accordingly, former Cornerstone shareholders will own less than a majority of the outstanding voting stock of the combined company and could, as a result, be outvoted by current First Community shareholders if such current First Community shareholders voted together as a group. Shareholders of both companies will experience a reduction in percentage ownership and voting power of their shares as a result of the merger.

*Because the market price of First Community common stock will fluctuate, Cornerstone shareholders cannot be sure of the exact value of shares of First Community common stock they will receive.*

Upon completion of the merger, each outstanding share of Cornerstone common stock will be converted into the merger consideration consisting of cash, shares of First Community common stock, or a combination of cash and shares of First Community common stock, as provided in the merger agreement. If a Cornerstone shareholder receives only cash as merger consideration, the value of the merger consideration that such Cornerstone shareholder receives will be independent of any fluctuations in the market price of First Community common stock. If a Cornerstone shareholder receives First Community common stock as part or all of the merger consideration, the value of such shares of First Community common stock received for each share of Cornerstone common stock will depend on the price per share of First Community common stock at the time the shares are actually received by a Cornerstone shareholder. The closing price of First Community common stock on the date that the shareholder actually receives the shares of such stock after the merger is completed and the closing price of First Community stock on the date on which the effective time of the merger occurs may vary from each other, as well as from the closing price of First Community common stock on the date that the First Community and Cornerstone announced the merger, on the date that this proxy statement/prospectus is being mailed to First Community and Cornerstone shareholders, and on the date of the special shareholders' meeting. Stock price changes may result from a variety of factors, including general market and economic conditions, changes in First Community's business, operations and prospects, and regulatory considerations, among other things. Many of these factors are beyond the control of First Community. Accordingly, at the time of the Cornerstone special shareholders' meeting, because of the above timing differences, Cornerstone shareholders will not be able to calculate the number of shares of First Community common stock they may receive upon completion of the merger or the exact value of First Community common stock they may receive upon completion of the merger.



***The form of merger consideration Cornerstone shareholders ultimately receive could be different from the form elected based on the form of merger consideration elected by other Cornerstone shareholders.***

All Cornerstone shareholders will be permitted to make an election as to the form of consideration to receive. However, because the total amount of First Community common stock and cash to be issued in the merger is fixed, the exchange agent will be allowed, subject to limitations set forth in the merger agreement, to adjust the form of consideration that a Cornerstone shareholder will receive in order to ensure that 30% of the outstanding non-dissenting shares of Cornerstone common stock are converted into cash and 70% of the outstanding non-dissenting shares of Cornerstone common stock are converted into shares of First Community common stock. Consequently, if either the stock consideration or the cash consideration is oversubscribed, Cornerstone shareholders could receive a different form of consideration from the form they elect.

***Combining the two companies may be more difficult, costly, or time consuming than First Community or Cornerstone expects.***

The success of the merger will depend, in part, on First Community's ability to realize the anticipated benefits and cost savings from combining the businesses of First Community and Cornerstone. However, to realize these anticipated benefits and cost savings, we must successfully combine the businesses of First Community and Cornerstone. If we are not able to achieve these objectives, the anticipated benefits and cost savings of the merger may not be realized fully or at all or may take longer to realize than expected.

First Community and Cornerstone have operated, and, until completion of the merger, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees or disruption of each company's ongoing business or inconsistencies in standards, controls, procedures, and policies that would adversely affect First Community's ability to maintain relationships with clients, depositors, and employees or to achieve the anticipated benefits of the merger. Integration efforts between the two companies will also divert management attention and resources. These integration matters could have an adverse effect on each of First Community and Cornerstone during that transition period.

***First Community and Cornerstone will incur significant transaction and merger-related integration costs in connection with the merger.***

First Community and Cornerstone expect to incur significant costs associated with completing the merger and integrating the operations of the two companies. First Community and Cornerstone are continuing to assess the impact of these costs. Although First Community and Cornerstone believe that the elimination of duplicate costs, as well as the realization of other efficiencies related to the integration of the businesses, will offset incremental transaction and merger-related costs over time, this net benefit may not be achieved in the near term, or at all.

*First Community has not previously operated in Easley, Berea and Piedmont, South Carolina.*

Cornerstone's service areas include Easley, Berea and Piedmont, South Carolina. The banking business in these areas is competitive, and the level of competition may increase further. First Community has not previously participated in these markets, and there may be unexpected challenges and difficulties that could adversely affect First Community following the merger.

***The fairness opinion obtained by Cornerstone from its financial advisors will not reflect changes in circumstances between the date of the signing of the merger agreement and the completion of the merger.***

Cornerstone has obtained a fairness opinion dated April 11, 2017 from Raymond James, and such opinion has not been updated as of the date of this proxy statement/prospectus and will not be updated at the time of the completion of the merger. Changes in the operations and prospects of Cornerstone or First Community, general market and economic conditions and other factors that may be beyond the control of Cornerstone and First Community, and on which the fairness opinion was based, may alter the value of Cornerstone or First Community or the prices of shares of Cornerstone common stock or First Community common stock by the time the merger is completed. The fairness opinion does not address the fairness of the merger consideration, from a financial point of view, at the time the merger is completed or as of any other date than the date of the opinion. The fairness opinion that Cornerstone received from its financial advisor is attached as Appendix C to this proxy statement/prospectus. For a description of the opinion, see “Proposal No. 1 – The Merger—Opinion of Cornerstone’s Financial Advisor.” For a description of the other factors considered by Cornerstone’s board of directors in determining to approve the merger, see “Proposal No. 1—The Merger—Cornerstone’s Reasons for the Merger; Recommendation of the Cornerstone Board of Directors.”

***First Community and Cornerstone may not receive regulatory approvals or such approvals may take longer than expected or impose conditions First Community and Cornerstone do not presently anticipate.***

The merger of the two banks must be approved by the FDIC and the SCBFI. These regulatory agencies will consider, among other things, the competitive impact of the bank merger, each of First Community and Cornerstone’s financial and managerial resources, and the convenience and needs of the communities to be served. As part of that consideration, First Community and Cornerstone expect that the FDIC will review the capital position, safety and soundness, and legal and regulatory compliance matters and Community Reinvestment Act matters. There can be no assurance as to whether the necessary regulatory approvals will be received, the timing of such approvals, or whether any conditions will be imposed that might limit the combined company’s ability to do business after the bank merger as presently anticipated.

***The merger agreement limits Cornerstone’s ability to pursue alternatives to the merger.***

The merger agreement contains provisions that limit Cornerstone’s ability to discuss competing third party proposals to acquire all or a significant part of Cornerstone. In addition, Cornerstone has agreed to pay First Community a termination fee of \$950,000 if the transaction is terminated because Cornerstone decides to pursue another acquisition transaction, among other things. These provisions might discourage a potential competing acquirer that might have an interest in acquiring all or a significant part of Cornerstone from considering or proposing that acquisition, even if it were prepared to pay consideration with a higher per share price than that proposed in the merger with First Community, or might result in a potential competing acquirer proposing to pay a lower per share price to acquire Cornerstone than it might otherwise have proposed to pay.

***Cornerstone directors and executive officers have financial interests in the merger that are different from, or in addition to, the interests of Cornerstone shareholders.***

Executive officers of Cornerstone negotiated certain terms of the merger agreement with their counterparts at First Community, and Cornerstone's board of directors adopted the merger agreement and by a unanimous vote of the directors recommended that Cornerstone shareholders vote to approve the merger agreement and the merger on the terms set forth in the merger agreement. In considering these facts and the other information contained in this proxy statement/prospectus, Cornerstone shareholders should be aware that Cornerstone's directors and executive officers have financial interests in the merger that are different from, or in addition to, the interests of Cornerstone shareholders. For example, each of the Cornerstone directors will be provided with indemnification and liability insurance, and will be invited to participate on an upstate advisory board of First Community Bank following the merger and will receive certain advisory fees for their service. J. Rodger Anthony, Cornerstone's President and Chief Executive Officer, Jennifer M. Champagne, Cornerstone's Chief Financial Officer, and Susan S. Jolly, Cornerstone's Senior Lender, will receive lump-sum cash payments pursuant to their change in control agreements with Cornerstone following the effectuation of the merger. In addition, at the closing of the merger, J. Rodger Anthony, President and Chief Executive Officer of Cornerstone, will continue as a consultant with First Community pursuant to a Consulting Agreement, and Susan S. Jolly, Cornerstone's Senior Vice President and Senior Lender and a director, will be employed by First Community Bank as a Senior Commercial Banker. These and some other additional interests of Cornerstone directors and executive officers may create potential conflicts of interest and cause some of these persons to view the proposed transaction differently than Cornerstone shareholders may view it. See "Proposal No.1 — The Merger—Interests of Executive Officers, Employees and Directors of Cornerstone in the Merger" for information about these financial interests.

***If the merger is not completed, First Community common stock and Cornerstone common stock could be materially adversely affected.***

The merger is subject to customary conditions to closing, including the approval of the holders of Cornerstone common stock. In addition, First Community and Cornerstone may terminate the merger agreement under certain circumstances. If First Community and Cornerstone do not complete the merger, the market price of First Community common stock or Cornerstone common stock may fluctuate to the extent that the current market prices of those shares reflect a market assumption that the merger will be completed. Further, whether or not the merger is completed, First Community and Cornerstone will also be obligated to pay certain investment banking, legal and accounting fees, and related expenses in connection with the merger, which could negatively impact results of operations when incurred. In addition, neither company would realize any of the expected benefits of having completed the merger. If the merger is not completed, First Community and Cornerstone cannot assure their respective shareholders that additional risks will not materialize or not materially adversely affect the business, results of operations and stock prices of First Community and Cornerstone.

***The merger may fail to qualify as a reorganization for federal income tax purposes, resulting in a Cornerstone shareholder's recognition of taxable gain or loss in respect of all of his or her shares of Cornerstone common stock.***

First Community and Cornerstone intend for the merger to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"). We will not ask the Internal Revenue Service ("IRS") to provide a ruling on the matter. First Community and Cornerstone will, as a condition to closing, each obtain an opinion from their respective counsel that the merger will constitute a reorganization for federal income tax purposes. However, these opinions do not bind the IRS or prevent the IRS from adopting a contrary position. If the merger fails to qualify as a reorganization, Cornerstone shareholders generally would recognize gain or loss on all shares of Cornerstone common stock surrendered in the merger, regardless of whether surrendered for cash consideration or stock consideration. For each share, the gain or loss recognized would be an amount equal to the difference between the shareholder's adjusted tax basis in that share and the amount of cash or the fair market value of the First Community common stock received in exchange for that share upon completion of the merger. If the merger qualifies as a reorganization, Cornerstone shareholders may still recognize taxable gain with respect to the amount of cash received upon completion of the merger in exchange for their shares of Cornerstone common stock.

***There are certain risks relating to First Community's business.***

You should read and consider risk factors specific to First Community's business that will also affect the combined company after the merger. These risks are described in the section entitled "Risk Factors" in First Community's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and in other documents incorporated by reference into this document. See "Where You Can Find More Information" for the location of information incorporated by reference into this document.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement/prospectus, including information included or incorporated by reference in this document, contains statements which constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act. Forward-looking statements may relate to, among other matters, the financial condition, results of operations, plans, objectives, future performance, and business of each of First Community and Cornerstone, as well as certain information relating to the merger. Forward-looking statements are based on many assumptions and estimates and are not guarantees of future performance. The actual results may differ materially from those anticipated in any forward-looking statements, as they will depend on many factors about which First Community and Cornerstone are unsure, including many factors that are beyond their control. The words “may,” “would,” “could,” “should,” “will,” “expect,” “anticipate,” “predict,” “project,” “potential,” “continue,” “contemplate,” “seek,” “intend,” “plan,” “forecast,” “goal,” “indicate,” “point to,” “target,” and “estimate,” as well as similar expressions, are meant to describe such forward-looking statements. Potential risks and uncertainties that could cause actual results to differ materially from those anticipated in our forward-looking statements include, but are not limited to, those described under “Risk Factors” section beginning on page 18 and the following:

- expected revenue synergies and cost savings from the merger may not be fully realized;
- revenues following the merger may be lower than expected;
  - ability to obtain governmental approvals of the merger on the proposed terms and schedule;
- failure of Cornerstone’s shareholders to approve the merger agreement;
- First Community’s ability to maintain appropriate levels of capital and to comply with its capital ratio requirements; examinations by First Community’s regulatory authorities, including the possibility that the regulatory authorities may, among other things, require First Community to increase its allowance for loan losses or write down assets or otherwise impose restrictions or conditions on its operations, including, but not limited to, its ability to acquire or be acquired;
- changes in economic conditions, either nationally or regionally and especially in First Community’s primary market areas, resulting in, among other things, a deterioration in credit quality;
- changes in interest rates, including an impact on First Community’s margin or a decline in its mortgage production and a decrease in the profitability of its mortgage banking operations;
- greater than expected losses due to higher credit losses generally and specifically because losses in the sectors of First Community’s loan portfolio secured by real estate are greater than expected due to economic factors, including, but not limited to, declining real estate values, increasing interest rates, increasing unemployment, or changes in payment behavior or other factors;
- changes in the amount of First Community’s loan portfolio collateralized by real estate and weaknesses in the South Carolina and national real estate markets;
- the adequacy of the level of First Community’s allowance for loan losses and the amount of loan loss provisions required in future periods;
- the rate of loan growth in recent or future years;
- First Community’s ability to retain its existing customers, including its deposit relationships;
  - significant increases in competitive pressure in the banking and financial services industries;
- changes in political conditions or the legislative or regulatory environment, including, but not limited to, the interpretation and enforcement of consumer laws and regulations, changes in federal or state tax laws or interpretations thereof by taxing authorities and other governmental initiatives affecting the banking and financial service industries;

- changes occurring in business conditions and inflation;
- increased funding costs due to market illiquidity, increased competition for funding, or increased regulatory requirements with regard to funding;
- First Community's business continuity plans or data security systems could prove to be inadequate, resulting in a material interruption in, or disruption to, business and a negative impact on results of operations;
- changes in deposit flows;
- changes in technology;
- changes in monetary and tax policies;

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- changes in accounting policies, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board and the Financial Accounting Standards Board;
- loss of consumer confidence and economic disruptions resulting from terrorist activities or other military actions;
- First Community's expectations regarding its operating revenues, expenses, effective tax rates and other results of operations;
- First Community's anticipated capital expenditures and estimates regarding its capital requirements;
- First Community's liquidity and working capital requirements;
- competitive pressures among depository and other financial institutions;
- the growth rates of the markets in which First Community competes;
- First Community's anticipated strategies for growth and sources of new operating revenues;
- First Community's current and future products, services, applications and functionality and plans to promote them;
- anticipated trends and challenges in First Community's business and in the markets in which it operates;
- the evolution of technology affecting our products, services and markets;
- acquisition integration risks, including potential deposit attrition, higher than expected costs, customer loss and business disruption, including, without limitation, potential difficulties in maintaining relationships with key personnel and other integration related- matters, and the inability to identify and successfully negotiate and complete additional combinations with potential merger or acquisition partners or to successfully integrate such businesses, including the ability to realize the benefits and cost savings from, and limit any unexpected liabilities associated with, any such business combinations;
- First Community's ability to stay abreast of new or modified laws and regulations that currently apply or become applicable to it business;
- estimates and estimate methodologies used in preparing First Community's consolidated financial statements and determining option exercise prices; and
- other risks and uncertainties detailed from time to time in First Community's filings with the SEC.

Because of these and other risks and uncertainties, First Community's or Cornerstone's actual future results may be materially different from the results indicated by any forward-looking statements. In addition, First Community's and Cornerstone's past results of operations do not necessarily indicate their future results. Therefore, both companies caution you not to place undue reliance on their forward-looking information and statements. Both companies undertake no obligation to update or otherwise revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

All forward-looking statements in this proxy statement/prospectus are based on information available to First Community and Cornerstone as of the date of this proxy statement/prospectus. Although both companies believe that the expectations reflected in our forward-looking statements are reasonable, neither company can guarantee you that these expectations will be achieved. Both companies undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events, or otherwise.



## **SPECIAL SHAREHOLDERS' MEETING**

### **General**

This document constitutes a proxy statement of Cornerstone in connection with its solicitation of proxies from its shareholders for the vote on the merger agreement and on the authorization to adjourn the special shareholders' meeting, as well as a prospectus of First Community in connection with its issuance of shares of First Community common stock as part of the merger consideration. The proxy statement/prospectus is being mailed by Cornerstone and First Community to Cornerstone shareholders of record on or about July 31, 2017, together with the notice of the special shareholders' meeting and a proxy solicited by Cornerstone's board of directors for use at the special shareholders' meeting and at any adjournments or postponements of the special shareholders' meeting.

### **Meeting Date, Time, and Place and Record Date**

The Cornerstone special shareholders' meeting will be held at the main office of Cornerstone, 1670 East Main Street, Easley, South Carolina, 29640, at 4:00 p.m., local time, on Tuesday, September 19, 2017. Only holders of Cornerstone common stock of record at the close of business on July 14, 2017 will be entitled to receive notice of and to vote at the special shareholders' meeting. As of the record date, there were 2,320,991 shares of Cornerstone common stock outstanding and entitled to vote, with each such share entitled to one vote.

### **Matters to be Considered**

At the Cornerstone special shareholders' meeting, Cornerstone shareholders will be asked to approve the merger agreement. Under the merger agreement, Cornerstone will merge with and into First Community. Shares of Cornerstone common stock will be converted into the right to receive cash, shares of common stock of First Community, or a combination of both cash and shares of common stock of First Community, at the shareholder's election. If a shareholder elects cash, the shareholder will receive \$11.00 for each share of Cornerstone common stock. If a shareholder elects stock, the shareholder will receive a 0.54 shares of First Community common stock. If a shareholder elects a combination, the shareholder will receive a combination of cash and First Community common stock for each share of Cornerstone common stock. Elections by shareholders are limited by a requirement that 30% of the total number of outstanding non-dissenting shares of Cornerstone common stock will be exchanged for cash and that 70% of the total number of outstanding non-dissenting shares of Cornerstone common stock will be exchanged for First Community common stock. If the elections made by Cornerstone shareholders would result in elections for either cash or stock that exceed these limitations, then the exchange agent will prorate the amount of cash and stock to be issued to Cornerstone shareholders as necessary to satisfy this requirement. Therefore, the form of consideration you receive will depend in part on the elections of other Cornerstone shareholders. First Community will not issue fractional shares in the merger. Instead, you will receive a cash payment, without interest, for the value of any fraction of a share of First Community common stock that you would otherwise be entitled to receive in an amount equal to

such fractional part of a share of First Community common stock multiplied by the volume weighted average price (rounded up to the nearest cent) of First Community common stock on The NASDAQ Capital Market during the 10 consecutive trading days ending on the fifth trading day immediately prior to the date on which the effective time of the merger occurs (referred to in the merger agreement as the “Average Parent Stock Price.”)

Cornerstone shareholders will also be asked to consider a proposal to authorize the board of directors to adjourn the special shareholders’ meeting to allow time for further solicitation of proxies in the event there are insufficient votes present at the special shareholders’ meeting, in person or by proxy, to approve the merger agreement. Finally, Cornerstone shareholders may also be asked to consider any other business that properly comes before the special shareholders’ meeting.

Each copy of this proxy statement/prospectus mailed to Cornerstone shareholders is accompanied by a proxy form for use at the special shareholders’ meeting.

## Vote Required

Approval of the merger agreement requires the affirmative vote of the holders of two-thirds of all shares of Cornerstone common stock entitled to vote at the Cornerstone special shareholders' meeting. Approval of the proposal to authorize adjournment will require that more shares of common stock present in person or by proxy and entitled to vote on the matter vote in favor of the matter than vote against.

On the record date, there were 2,320,991 outstanding shares of Cornerstone common stock, each of which is entitled to one vote at the special shareholders' meeting. On that date, the directors and executive officers of Cornerstone and their affiliates beneficially owned a total of approximately 24.9% of the outstanding shares of Cornerstone common stock. Each of Cornerstone's directors and executive officers has agreed, subject to several conditions, to vote his or her shares of Cornerstone common stock in favor of the merger agreement. The presence, in person or by proxy, of shares of Cornerstone common stock representing a majority of Cornerstone's outstanding shares entitled to vote at the special meeting is necessary in order for there to be a quorum at the special shareholders' meeting. A quorum must be present in order for the vote on the merger agreement to occur.

## Voting of Proxies

Shares of common stock represented by properly executed proxies received at or prior to the Cornerstone special shareholders' meeting will be voted at the special shareholders' meeting in the manner specified by the holders of such shares. Properly executed proxies that do not contain voting instructions will be voted **"FOR"** approval of the merger agreement and **"FOR"** the proposal to authorize adjournment.

Any record shareholder present in person or by proxy at the special shareholders' meeting who abstains from voting will be counted for purposes of determining whether a quorum exists.

**Because approval of the merger agreement requires the affirmative vote of the holders of two-thirds of all shares of Cornerstone common stock entitled to vote at the Cornerstone special shareholders' meeting, abstentions and broker non-votes will have the same effect as votes against the proposal. Accordingly, Cornerstone's board of directors urges its shareholders to complete, date, and sign the accompanying proxy form and return it promptly in the enclosed, postage-paid envelope. Abstentions and broker non-votes will have no effect on the results of the vote on the proposal to authorize adjournment.**

## Revocability of Proxies

If you are a record shareholder, the grant of a proxy on the enclosed proxy card does not preclude you from voting in person or otherwise revoking your proxy. If you are a record shareholder, you may change or revoke your proxy at any time prior to its exercise by delivering to the Corporate Secretary of Cornerstone either a duly executed revocation or a proxy bearing a later date. In addition, if you are a record shareholder, you may revoke a proxy prior to its exercise by voting in person at the special shareholders' meeting. All written notices of revocation and other communications with respect to the revocation of Cornerstone proxies should be addressed to Cornerstone Bancorp, 1670 E. Main Street, Easley, South Carolina 29640, Attention: Corporate Secretary. Attendance at the special shareholders' meeting will not in and of itself constitute revocation of a proxy.

If your shares are held in street name by a broker or other nominee, you may change or revoke your voting instructions by submitting new voting instructions to your broker or other nominee as specified in your broker or other nominee's instructions.

## **Solicitation of Proxies**

Cornerstone will pay all of the costs of soliciting proxies in connection with its special shareholders' meeting, except that First Community will pay the costs of filing the registration statement with the SEC, of which this proxy statement/prospectus is a part, and one-half of the costs of printing this proxy statement/prospectus. Solicitation of proxies may be made in person or by mail, telephone, or facsimile, or other form of communication by directors, officers, and employees of Cornerstone who will not be specially compensated for such solicitation. Nominees, fiduciaries, and other custodians will be requested to forward solicitation materials to beneficial owners and to secure their voting instructions, if necessary, and will be reimbursed for the expenses incurred in sending proxy materials to beneficial owners.

No person is authorized to give any information or to make any representation not contained in this proxy statement/prospectus and, if given or made, such information or representation should not be relied upon as having been authorized by Cornerstone, First Community, or any other person. The delivery of this proxy statement/prospectus does not, under any circumstances, create any implication that there has been no change in the business or affairs of Cornerstone or First Community since the date of the proxy statement/prospectus.

## **Recommendation of the Cornerstone Board of Directors**

**Cornerstone's board of directors has determined that the merger agreement and the transactions contemplated by it are in the best interests of Cornerstone and its shareholders. The board of directors of Cornerstone recommends that the Cornerstone shareholders vote "FOR" the merger proposal and "FOR" the proposal to adjourn the special meeting to solicit additional proxies, if necessary or appropriate.**

In the course of reaching its decision to adopt the merger agreement and the transactions contemplated in the merger agreement, Cornerstone's board of directors, among other things, consulted with its legal advisors, Haynsworth Sinkler Boyd, P.A., regarding the legal terms of the merger agreement, and with its financial advisor, Raymond James & Associates, Inc., as to the fairness, from a financial point of view, of the consideration to be received by the holders of Cornerstone common stock in the merger. For a discussion of the factors considered by Cornerstone's board of directors in reaching its conclusion, see "Proposal No. 1—The Merger—Background of the Merger" and "—Cornerstone's Reasons for the Merger; Recommendation of the Cornerstone Board of Directors."

Cornerstone shareholders should note that Cornerstone's directors have certain interests in, and may derive benefits as a result of, the merger that are in addition to their interests as shareholders of Cornerstone. See "Proposal No. 1—The Merger—Interests of Executive Officers, Employees and Directors of Cornerstone in the Merger."

## **PROPOSAL NO. 1 - THE MERGER**

*The descriptions of the terms and conditions of the merger, the merger agreement, and any related documents in this proxy statement/prospectus are qualified in their entirety by reference to the copy of the merger agreement attached as Appendix A to this proxy statement/prospectus and incorporated herein by reference, to the registration statement, of which this proxy statement/prospectus is a part, and to the exhibits to the registration statement.*

### **General**

The Cornerstone board of directors is using this proxy statement/prospectus to solicit proxies from the holders of Cornerstone common stock for use at the Cornerstone special shareholders' meeting.

### **Cornerstone Proposal**

At the Cornerstone special shareholders' meeting, holders of Cornerstone common stock will be asked to vote upon the adoption of the merger agreement. The merger will not be completed unless Cornerstone's shareholders adopt the merger agreement and, by doing so, approve the proposed merger.

### **Background of the Merger**

The financial crisis that began in 2008, the related recession and the slow recovery brought with them a significant increase in the regulatory burdens on community banks without corresponding benefits. The costs of maintaining competitive information technology and cyber-services increased even as reduced interest rates reduced the opportunities to profit from lending activities. Cornerstone Bank also found it difficult to obtain qualified, experienced commercial lenders and compliance managers at reasonable costs. Although Cornerstone has the benefit of being in a desirable, growing market, it became increasingly apparent to Cornerstone's management and board of directors that, if Cornerstone were to remain independent, it would need to grow substantially in order to achieve economies of scale and results of operations comparable to those of larger financial institutions in the southeastern United States. Substantial growth in a short period of time typically involves heightened risks, and Cornerstone's management noted that the benefits of such growth for shareholders might be better achieved through a merger with a larger financial institution on favorable terms.

At the end of April, 2015, the OCC terminated its Formal Agreement with Cornerstone Bank, marking the Bank's completion of a nearly five-year effort to improve the quality of its loan portfolio and its policies and procedures to

reduce the risk of experiencing significant losses during any future economic downturns. During 2015 and 2016, Cornerstone received unsolicited, informal indications of interest from several other financial institutions that were interested in exploring a business combination transaction. In each case, Cornerstone management met with representatives of the interested parties and explored the possibilities. Using publicly available information about bank merger transactions in the Southeastern United States, management concluded it would not feel comfortable recommending a transaction to the Cornerstone board of directors that had a value of less than approximately \$10.00 per share of Cornerstone common stock. Management also identified as important considerations for a merger transaction that the merger partner's policies and approach to business be compatible with Cornerstone's in order to limit any disruption to customers and provide a reasonable continuing employment opportunity for many Cornerstone employees, and that the transaction enhance the liquidity of the Cornerstone shareholders' investment. Management communicated its price target and other considerations to the interested parties and provided requested information about Cornerstone. Ultimately, only the contact by First Community, which is discussed below, resulted in a formal proposal for a transaction.

During some of the informal discussions, management sought the advice of a representative of Raymond James & Associates, Inc., ("Raymond James") regarding the current state of the Southeastern bank merger market and the identity of potential merger partners that might have an interest in Cornerstone. On October 6, 2016, management met with Raymond James and reviewed a list of eighteen potential business combination partners, including all of the institutions referred to above. The discussion included the profile of each company and the liquidity and pricing ratios for each company.

Shortly after, but unrelated to, the October 6 meeting, the Cornerstone CEO was contacted by Hovde Group, LLC, First Community's financial advisor, seeking to set up a meeting between the CEOs of First Community and Cornerstone.

On October 11, 2016 the Cornerstone board of directors met informally and received a briefing by the Cornerstone CEO regarding the challenges facing Cornerstone and informal contacts by investment bankers and other banks inquiring as to Cornerstone's appetite for a business combination transaction. The Cornerstone CEO solicited the board's views regarding remaining independent versus consideration of a business combination transaction. The Cornerstone directors agreed that the Cornerstone CEO should continue to talk to interested parties.

A meeting with the First Community CEO was held on October 20, 2016. The First Community CEO explained that he had reviewed Cornerstone's publicly available data and believed that the two companies were compatible in their business models and customer profiles. He explained that First Community had recently opened a loan production office in Greenville and was looking to expand its presence in the Upstate region of South Carolina. The Cornerstone CEO indicated that Cornerstone was willing to explore a possible transaction, and the meeting concluded with an agreement that the First Community CEO would contact the Cornerstone CEO the following week.

The First Community CEO telephoned the Cornerstone CEO during the week of October 24, 2016, and said that he was interested in having further discussions, but that he needed to consult with the First Community board of directors before doing so.

In late October 2016, the Cornerstone CEO requested that Raymond James submit a proposal to provide financial advisory services to Cornerstone with respect to a potential merger transaction. Raymond James submitted the proposal on November 1, 2016.

The Cornerstone board of directors met on November 8, 2016, and received a report from management outlining its prior informal discussions with potential business combination parties, its criteria for evaluating a proposal and its recommendation to engage Raymond James as a financial adviser. Raymond James is a nationally recognized investment banking firm that is regularly engaged as a financial adviser to community banks in connection with mergers and other corporate transactions. The board of directors authorized management to engage Raymond James and to continue to explore the opportunity for a merger. Also present at the meeting was a representative of Haynsworth Sinkler Boyd, P.A. ("Haynsworth"), legal counsel to Cornerstone, who reviewed with Cornerstone's board of directors their legal obligations in connection with any transaction that would result in the sale of Cornerstone. Haynsworth has represented Cornerstone since its inception as corporate, securities, and bank regulatory counsel. Haynsworth has extensive experience with bank mergers and acquisitions, and it was, therefore, natural for Cornerstone to use Haynsworth in connection with a proposed transaction.

During December 2016 and January 2017, with the assistance of the management of Cornerstone, Raymond James reviewed due diligence materials provided by Cornerstone and placed relevant due diligence materials into a virtual data room for potential transaction partners to review.

On December 1, 2016, First Community and Cornerstone entered into a confidentiality agreement and First Community began conducting due diligence on Cornerstone shortly thereafter.

At its meeting on December 13, 2016, the Cornerstone board received an update on developments since the previous meeting of the board.



On January 10, 2017 a representative of Raymond James met with the Cornerstone board to discuss possible terms of a transaction with First Community and the board's interest in continuing discussion with First Community. Items discussed included consideration for a potential business combination transaction, stock/cash mix of consideration, the potential for employee retention, treatment of in-the-money options outstanding, time frames for a transaction and the potential for volatility in the value of any stock consideration received in a transaction. The board expressed a willingness to move forward with discussions with First Community.

On January 26, 2017, First Community submitted a non-binding expression of interest to Cornerstone containing the proposed terms of a merger transaction pursuant to which Cornerstone would merge into First Community for merger consideration of \$10.50 per share of Cornerstone common stock (based on a recent 30-day volume weighted average price of First Community common stock of \$18.50). The proposed merger consideration was 30% cash and 70% in First Community stock (at an exchange ratio of 0.5676 shares of First Community common stock per share of Cornerstone common stock that would be converted into First Community stock).

On January 30, 2017, the Cornerstone board held a telephonic meeting with Haynsworth and Raymond James to review the January 26, 2017 non-binding expression of interest. The Cornerstone board authorized the Cornerstone CEO to agree to the non-binding expression of interest subject to clarification of the period for exclusive negotiations and non-compete agreements for the employee directors.

Between January 31, 2017 and Friday, February 24, 2017 Cornerstone and First Community, acting through their financial advisers and CEOs, held a number of discussions regarding Cornerstone and the terms of a non-binding expression of interest, including with respect to the exclusivity period, non-competition and non-solicitation requirements for employee directors, Cornerstone's change in control payment obligations to employee directors, the effect of the increasing price of First Community stock on the consideration for a merger and the amount of the merger consideration. Members of the First Community management team also conducted an on-site due diligence visit to Cornerstone's offices on February 11 and 12, 2017 to review loan files and other data that had not been placed in the virtual data room.

Between January 26, 2017 and Friday, February 24, 2017, First Community's common stock traded at notably higher average prices than the 30-day volume weighted average price of First Community common stock of \$18.50 that had been used as the basis for the non-binding expression of interest submitted by First Community on January 26, 2017.

First Community revised its merger consideration proposal and on Monday, February 27, 2017, First Community presented a revised non-binding expression of interest to Cornerstone. The terms of the February 27 letter included cash merger consideration of \$11.00 per share of Cornerstone common stock that would be converted into cash in the merger and an exchange ratio of 0.54 shares of First Community common stock per share of Cornerstone common stock that would be converted into First Community stock (which, based on the 30-day volume weighted average price of First Community common stock of \$20.41 as of Friday, February 24, 2017, implied a value of \$11.02 per share of Cornerstone common stock that would be converted into First Community stock). The CEO of Cornerstone spoke to the CEO of First Community regarding the terms of the proposed non-compete terms for Cornerstone's senior lender and reached an understanding regarding the proposed terms.

The Cornerstone board held a telephonic meeting on February 27, 2017 and discussed the revised non-binding expression of interest. The Cornerstone board determined that Cornerstone should continue moving forward with merger discussions with First Community.

On February 28, 2017 Cornerstone's CEO notified First Community's CEO that the terms of the February 27, 2017 non-binding expression of interest were an acceptable basis for the negotiation of a binding definitive merger agreement for presentation to the Cornerstone board of directors.

On March 3, 2017, First Community submitted a proposed definitive merger agreement to Cornerstone. Over the next several weeks, Cornerstone, First Community and their respective legal counsel and financial advisers negotiated the terms and conditions of the merger agreement, including the termination provisions, and related agreements. During this time, representatives of Cornerstone and representatives of First Community engaged in a number of additional due diligence conversations.

On March 20, 2017, First Community and Cornerstone entered into a confidentiality agreement with respect to non-public due diligence information regarding First Community. Cornerstone thereafter conducted additional due diligence of First Community.

On April 4, 2017, the Cornerstone board of directors met with Raymond James and Haynsworth to consider the First Community proposal and draft merger agreement. Haynsworth reviewed with Cornerstone's board of directors their obligations to Cornerstone and its shareholders and reminded them that the acceptance of the non-binding expression of interest from First Community did not obligate Cornerstone to enter into the merger agreement. Haynsworth then reviewed in detail the terms of the most recent draft of the merger agreement. Raymond James made a presentation that summarized the financial matters associated with the proposed transaction and included comparisons to certain publicly traded companies similar to First Community and Cornerstone, an analysis of recently completed mergers and acquisitions similar to the proposed merger, an analysis of estimated future earnings and terminal value of Cornerstone and other analyses relevant to the financial terms of the merger. The presentation also described the estimated impact of the proposed transaction on First Community. Raymond James reviewed with the Cornerstone board of directors its preliminary analysis of the merger consideration. Raymond James advised the board that its analysis was as of such date and based upon and subject to various qualifications and assumptions described in the meeting, including and subject to further review of transaction terms and negotiation. At this meeting the board did not request and Raymond James did not provide a fairness opinion. Haynsworth then presented to Cornerstone's board of directors draft resolutions to approve and authorize the signing of the merger agreement and the submission of the merger agreement to Cornerstone's shareholders for approval with the recommendation of Cornerstone's board of directors that Cornerstone's shareholders vote for approval of the merger agreement. After discussion, Cornerstone's board of directors voted to adopt the resolutions and approve the signing of the merger agreement, subject to their decision being ratified at a telephonic meeting of the board of directors to be held two days later and to Raymond James' written fairness opinion being delivered on April 11, 2017.

On April 6, 2017, the Cornerstone board of directors held a telephonic meeting, also attended telephonically by Haynsworth and Raymond James, and ratified their previous decision to approve the merger agreement and authorize the Cornerstone CEO to sign the merger agreement on April 11, 2017 after receipt of Raymond James' written fairness opinion.

On April 11, 2017, Raymond James delivered its written fairness opinion to the Cornerstone board of directors. Thereafter, the merger agreement was executed by officers of First Community and Cornerstone, and, before the market opened on April 12, 2017, First Community and Cornerstone issued a joint press release announcing the execution of the merger agreement and the terms of the proposed acquisition of Cornerstone by First Community.

### **Cornerstone's Reasons for the Merger; Recommendation of the Cornerstone Board of Directors**

After careful consideration at its meetings on October 11, 2016, November 8, 2016, December 13, 2016, January 10, 2017, February 7, 2017, February 27, 2017, April 4, 2017 and April 6, 2017, Cornerstone's board of directors determined that the merger agreement is in the best interests of Cornerstone and its shareholders and that the consideration to be received in the merger is fair to the Cornerstone shareholders. Accordingly, Cornerstone's board of directors adopted and approved the merger agreement and unanimously recommends that Cornerstone shareholders vote "FOR" approval of the merger agreement.

In reaching its decision to adopt and approve the merger agreement and recommend the merger to its shareholders, Cornerstone's board of directors consulted with Cornerstone's management, as well as its legal and financial advisors, and considered as part of its process a number of positive factors, including the following material factors:

the board of directors' knowledge of and deliberation with respect to Cornerstone's business, operations, financial condition, earnings and prospects, and of First Community's business, operations, financial condition, earnings and prospects, taking into account the results of Cornerstone's due diligence review of First Community and information provided by Raymond James;

the board of directors' knowledge of and deliberation with respect to the current environment in the financial services industry, including national, regional and local economic conditions, continued consolidation, increased regulatory burdens, evolving trends in technology and increasing nationwide and global competition, current financial market conditions, and the likely effects of these factors on the companies' potential growth, development, productivity, profitability and strategic options, and the historical market prices of Cornerstone and First Community common stock;

the careful review undertaken by Cornerstone's board of directors and management, with the assistance of Cornerstone's financial advisor, with respect to the strategic challenges and alternatives available to Cornerstone if it remained an independent community bank;

the complementary aspects of the Cornerstone and First Community businesses, including customer focus, geographic coverage, business orientation and compatibility of the companies' management and operating styles;

the potential expense-saving and revenue-enhancing opportunities in connection with the merger, the related potential impact on the combined company's earnings and the fact that the nature of the merger consideration would allow former Cornerstone shareholders to participate as First Community shareholders in the benefits of such savings opportunities and the future performance of the combined company generally;



the terms of the merger agreement, and the presentation by Cornerstone's legal counsel regarding the merger and the merger agreement;

the prospect of Cornerstone's shareholders becoming shareholders of a company with a much larger shareholder base resulting in a much more liquid common stock;

the prospect of Cornerstone's shareholders becoming shareholders of a company with a history of paying cash dividends;

First Community's successful track record and Cornerstone's board of directors' belief that the combined enterprise would benefit from application of First Community's ability to take advantage of economies of scale and grow in the current economic environment while providing improved service to Cornerstone's customers, communities and markets, making First Community an attractive partner for Cornerstone;

the preliminary analysis presented to Cornerstone by Raymond James on April 4, 2017, regarding the financial matters associated with the proposed transaction that included comparisons to selected publicly traded companies, analysis of recently completed mergers and acquisitions similar to the proposed merger and other analyses relevant to the financial terms of the merger;

the written opinion delivered to Cornerstone's board of directors by Raymond James to the effect that, as of April 11, 2017, and based upon and subject to the assumptions, procedures, considerations, qualifications, and limitations set forth in the opinion, the merger consideration to be received pursuant to the merger agreement was fair, from a financial point of view, to the holders of shares of Cornerstone common stock;

the financial terms of the merger, including the fact that, based on the closing price of First Community common stock on the Nasdaq Global Market as of market close on April 3, 2017 (the trading day prior to Cornerstone's board of directors' preliminary decision), the implied value of the per share merger consideration represented a substantial premium over the recent trading price of Cornerstone common stock on the over-the-counter market;

the board of directors' belief that the proposed merger with First Community would generally be a tax-free transaction to Cornerstone's shareholders with respect to the First Community common stock to be received by Cornerstone's shareholders in the merger; and

the regulatory and other approvals required in connection with the merger and the board of directors' determination as to the likelihood that the approvals needed to complete the merger would be obtained without unacceptable conditions.

Cornerstone's board of directors also considered as a part of its process potential risks and potentially negative factors concerning the merger in connection with its deliberations on the proposed transaction, including the following material factors:

the potential risk that a further downturn in the South Carolina housing and business markets could negatively impact First Community's loan portfolio, and thereby affect the value of the First Community common stock to be received by Cornerstone's shareholders in the merger;

the potential risk of diverting management focus and resources from other strategic opportunities and from operational matters while working to implement the merger;

the provisions of the merger agreement restricting Cornerstone's solicitation of third-party acquisition proposals and providing for the payment of a termination fee in certain circumstances, which Cornerstone's board of directors understood, while potentially limiting the willingness of a third party to propose a competing business combination transaction with Cornerstone, were a condition to First Community's willingness to enter into the merger agreement;

the fact that Cornerstone's board of directors and executive officers have other interests in the merger that are different from, or in addition to, their interests as Cornerstone shareholders. See "— Interests of Cornerstone Directors and Executive Officers in the Merger;"



the possibility that the merger could be announced but not consummated, and the possibility that Cornerstone could lose customers, business and employees as a result of announcing the transaction; and

the possibility that the required regulatory and other approvals might not be obtained.

The foregoing recitation of factors considered by Cornerstone's board of directors as part of its process is not intended to be exhaustive, but is believed to include substantially all material factors considered by Cornerstone's board of directors. In view of the wide variety of the factors considered in connection with its evaluation of the merger and the complexity of these matters, Cornerstone's board of directors did not find it useful, and did not attempt, to quantify, rank or otherwise assign relative weights to these factors. Furthermore, in considering the factors described above, the individual members of Cornerstone's board of directors may have given different weights to different factors. Cornerstone's board of directors conducted an overall analysis of the factors described above, engaged in thorough discussions among themselves, had discussions with, and questioned, Cornerstone's management and legal and financial advisors, and considered the factors overall to be favorable to, and to support, its determination.

The foregoing explanation of Cornerstone's board of directors' reasoning and all other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed in the section entitled "Warning About Forward-Looking Statements."

### **Cornerstone's Unaudited Prospective Financial Information**

Cornerstone does not as a matter of course publicly disclose forecasts or internal projections as to future performance, revenues, earnings, financial condition or other results due to, among other reasons, the uncertainty of the underlying assumptions and estimates. However, in connection with the evaluation of a potential merger, Cornerstone management prepared certain relevant projections of Cornerstone's future financial performance, which we refer to as the Cornerstone management projections, which contain unaudited prospective financial information with respect to Cornerstone on a standalone, pre-merger basis, and which were made available to Cornerstone's financial advisor, Raymond James. The Cornerstone management projections for 2017 through 2022 were also provided to First Community. The Cornerstone management projections were not prepared with a view toward public disclosure and the inclusion of the Cornerstone management projections in this document should not be regarded as an indication that Cornerstone or any other recipient of the Cornerstone management projections considered, or now considers, them to be necessarily predictive of actual future results. Neither Cornerstone nor any of its affiliates assumes any responsibility for the accuracy of the Cornerstone management projections. The Cornerstone management projections were not prepared with a view toward complying with the guidelines of the SEC, the guidelines established by the Public Company Accounting Oversight Board for preparation or presentation of financial information, or generally accepted accounting principles in the United States. Neither Cornerstone's current independent registered public accounting firm, Elliott Davis Decosimo, LLC, nor any other independent accountants, have compiled, examined or performed any procedures with respect to the Cornerstone management projections, or expressed any opinion or any other form of assurance on such information or its achievability. The report of Elliott Davis Decosimo, LLC that

appears in Appendix E to this document relates only to Cornerstone's historical financial information. It does not extend to any prospective financial information.

The Cornerstone prospective financial information reflects numerous estimates and assumptions made by Cornerstone management with respect to industry performance, general business, economic, regulatory, market and financial conditions and other future events, as well as matters specific to Cornerstone's business, all of which are difficult to predict and many of which are beyond Cornerstone's control. The Cornerstone management projections also reflect assumptions as to certain business decisions that are subject to change. The Cornerstone management projections reflect subjective judgment in many respects and thus are susceptible to multiple interpretations and periodic revisions based on actual experience and business developments. As such, the Cornerstone management projections constitute forward-looking information and are subject to risks and uncertainties that could cause actual results to differ materially from the results forecasted in such prospective information, including, but not limited to, Cornerstone's performance, industry performance, general business and economic conditions, customer requirements, competition, and adverse changes in applicable laws, regulations or rules, interest rates, and the regulatory environment. See "Information About Cornerstone—Cautionary Notice With Respect to Forward-Looking Statements" beginning on page 84. None of Cornerstone, First Community nor any of their financial advisors nor any of their affiliates assumes any responsibility for the validity, accuracy or completeness of the Cornerstone management projections described below. The Cornerstone management projections do not take into account any circumstances or events occurring after the date they were prepared, including the transactions contemplated by the merger agreement. Further, the Cornerstone management projections do not take into account the effect of any failure of the merger to occur. None of Cornerstone, First Community nor any of their financial advisors nor any of their affiliates intends to, and each of them disclaims any obligation to, update, revise or correct such Cornerstone management projections if they are or become inaccurate (even in the short term). The inclusion of the Cornerstone management projections herein should not be deemed an admission or representation by Cornerstone or First Community that they are viewed by Cornerstone or First Community as material information of Cornerstone, particularly in light of the inherent risks and uncertainties associated with such forecasts.

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(Dollars in thousands, except per share amounts)	<b>Estimated FYE December 31,</b>					
	2017	2018	2019	2020	2021	2022
<b>Balance Sheet Summary</b>						
<b>Assets</b>						
Cash & Securities	\$62,160	\$64,883	\$67,937	\$71,070	\$74,450	\$77,986
Loans Held for Investment	80,162	86,093	92,462	99,303	106,651	114,489
Loan Loss Reserves	1,036	1,121	1,210	1,298	1,386	1,488
Total Net Loans	79,126	84,972	91,253	98,005	105,264	113,001
Deferred Tax Asset	779	779	779	779	779	779
Other Assets	9,103	8,598	8,234	7,872	7,511	7,424
Total Assets	\$151,169	\$159,231	\$168,203	\$177,726	\$188,004	\$199,190
<b>Liabilities &amp; Shareholders' Equity</b>						
Total Deposits	\$129,832	\$137,215	\$145,448	\$154,175	\$163,425	\$172,945
Other Liabilities	1,255	1,294	1,362	1,431	1,503	2,114
Total Liabilities	131,087	138,509	146,809	155,606	164,928	175,058
Other Preferred Equity	999	999	999	999	999	999
Common Equity	19,083	19,724	20,395	21,121	22,077	23,133
Total Equity	20,082	20,723	21,394	22,120	23,076	24,131
Total Liabilities & Shareholders' Equity	\$151,169	\$159,231	\$168,203	\$177,726	\$188,004	\$199,190
<b>Income Statement Summary</b>						
Interest Income	\$4,843	\$5,182	\$5,554	\$5,890	\$6,394	\$6,836
Interest Expense	403	495	775	975	1,090	1,154
Net Interest Income	4,440	4,686	4,779	4,915	5,304	5,682
Provision for Loan Losses	9	85	88	88	88	102
Non-Interest Income	828	827	826	826	826	874
Non-Interest Expense	4,313	4,331	4,375	4,426	4,467	4,730
Net Income before Taxes	946	1,097	1,142	1,226	1,574	1,725
Provision for Income Taxes	322	373	388	417	535	586
Net Income	625	724	754	809	1,039	1,138
Preferred Dividends and Accretion	83	83	83	83	83	83
Net Income Available to Common	\$542	\$641	\$671	\$726	\$956	\$1,055
Common Shares Outstanding (000s)	2,321	2,321	2,321	2,321	2,321	2,321
Fully Diluted Shares (000s)	2,321	2,321	2,321	2,321	2,321	2,321
Diluted Earnings Per Share	\$0.23	\$0.28	\$0.29	\$0.31	\$0.41	\$0.45

## **Opinion of Cornerstone's Financial Advisor**

Cornerstone retained Raymond James as financial advisor on November 29, 2016. Pursuant to that engagement, the Cornerstone board of directors requested that Raymond James evaluate the fairness, from a financial point of view, to the holders of Cornerstone's outstanding common stock of the merger consideration to be received by such holders pursuant to the merger agreement. Raymond James is a nationally recognized investment banking firm that is regularly engaged as a financial adviser to community banks in connection with mergers and acquisitions and other corporate transactions.

At the request of Cornerstone's board of directors, on April 11, 2017, Raymond James delivered its written opinion (the "Opinion"), as to the fairness, as of April 11, 2017, from a financial point of view, to the holders of Cornerstone's outstanding common stock of the merger consideration to be received by such holders in the transaction pursuant to the merger agreement, based upon and subject to the qualifications, assumptions and other matters considered in connection with the preparation of its Opinion.

The full text of the written Opinion of Raymond James is attached as Appendix C to this document. The summary of the Opinion of Raymond James set forth in this document is qualified in its entirety by reference to the full text of such written opinion. Holders of Cornerstone common stock are urged to read this opinion in its entirety.

Raymond James provided its Opinion for the information of the Cornerstone board of directors (solely in each director's capacity as such) in connection with, and for purposes of, its consideration of the transaction and its opinion only addresses whether the merger consideration to be received by the holders of the Cornerstone common stock in the transaction pursuant to the merger agreement was fair, from a financial point of view, to such holders. The Opinion of Raymond James does not address any other term or aspect of the merger agreement or the transaction contemplated thereby. The Raymond James Opinion does not constitute a recommendation to the board or to any holder of Cornerstone common stock as to how the board, such shareholder or any other person should vote or otherwise act with respect to the transaction or any other matter. Raymond James does not express any opinion as to the likely trading range of First Community's common stock following the merger, which may vary depending on numerous factors that generally impact the price of securities or on the financial condition of First Community at that time.

In connection with its review of the proposed transaction and the preparation of its Opinion, Raymond James, among other things:

Reviewed the financial terms and conditions as stated in the draft of the Agreement and Plan of Merger by and between First Community Corporation and Cornerstone Bancorp dated as of April 11, 2017;

· reviewed certain information related to the historical, current and future operations, financial condition and prospects of Cornerstone made available to Raymond James by Cornerstone, including, but not limited to, financial projections prepared by the management of Cornerstone relating to Cornerstone for the periods ending through December 31, 2022, as approved for use by Cornerstone (the “Projections”);

· reviewed Cornerstone’s recent public filings and certain other publicly available information regarding Cornerstone;

· reviewed financial, operating and other information regarding Cornerstone and the industry in which it operates;

· reviewed the financial and operating performance of Cornerstone and those of selected public companies that Raymond James deemed to be relevant;

· considered the publicly available financial terms of certain transactions Raymond James deemed to be relevant;

reviewed the current and historical market prices and trading volume for the Cornerstone common stock, and the current market prices of the publicly traded securities of certain companies that Raymond James deemed to be relevant;

conducted such other financial studies, analyses and inquiries and considered such other information and factors as Raymond James deemed appropriate; and

discussed with members of the senior management of Cornerstone certain information relating to the aforementioned and any other matters which Raymond James deemed relevant.

With Cornerstone's consent, Raymond James assumed and relied upon the accuracy and completeness of all information supplied by or on behalf of Cornerstone or otherwise reviewed by or discussed with Raymond James, and Raymond James undertook no duty or responsibility to, nor did it, independently verify any of such information. Raymond James did not make or obtain an independent appraisal of the assets or liabilities (contingent or otherwise) of Cornerstone. Raymond James is not an expert in the evaluation of loan and lease portfolios for purposes of assessing the adequacy of the allowances for loan losses; accordingly, Raymond James assumed that such allowances for losses are in the aggregate adequate to cover such losses. With respect to the projections and any other information and data provided to or otherwise reviewed by or discussed with it, Raymond James, with the board's consent, assumed that the projections and such other information and data were reasonably prepared in good faith on bases reflecting the best currently available estimates and judgments of management of Cornerstone, and Raymond James relied upon Cornerstone to advise it promptly if any information previously provided became inaccurate or was required to be updated during the period of its review. Raymond James expressed no opinion with respect to the Projections or the assumptions on which they were based. Raymond James assumed that the final form of the merger agreement would be substantially similar to the draft reviewed by Raymond James, and that the transaction will be consummated in accordance with the terms of the merger agreement without waiver or amendment of any conditions thereto. Furthermore, Raymond James assumed, in all respects material to its analysis, that the representations and warranties of each party contained in the merger agreement were true and correct and that each such party will perform all of the covenants and agreements required to be performed by it under the merger agreement without being waived. Raymond James relied upon and assumed, without independent verification, that (i) the transaction will be consummated in a manner that complies in all respects with all applicable international, federal and state statutes, rules and regulations, and (ii) all governmental, regulatory, and other consents and approvals necessary for the consummation of the transaction will be obtained and that no delay, limitations, restrictions or conditions will be imposed or amendments, modifications or waivers made that would have an effect on the transaction or Cornerstone that would be material to the analyses or Opinion.

Raymond James relied upon, without independent verification, the assessment of Cornerstone's management and its legal, tax, accounting and regulatory advisors with respect to all legal, tax, accounting and regulatory matters, including without limitation that the transaction will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended.

The Opinion is based upon market, economic, financial and other circumstances and conditions existing and disclosed to Raymond James as of April 10, 2017 and any material change in such circumstances and conditions would require

a reevaluation of the Opinion, which Raymond James has no obligation to undertake. Raymond James relied upon and assumed, without independent verification, that there had been no change in the business, assets, liabilities, financial condition, results of operations, cash flows or prospects of Cornerstone since the respective dates of the most recent financial statements and other information, financial or otherwise, provided to Raymond James that would be material to its analyses or the Opinion, and that there was no information or any facts that would make any of the information reviewed by Raymond James incomplete or misleading in any material respect.

Raymond James expressed no opinion as to the underlying business decision to effect the transaction, the structure or tax consequences of the transaction or the availability or advisability of any alternatives to the transaction. Raymond James provided advice to the board with respect to the proposed transaction. Raymond James did not, however, recommend any specific amount of consideration or that any specific consideration constituted the only appropriate consideration for the transaction. The Opinion does not express any opinion as to the value of First Community's common stock or its likely trading range following the transaction, which may vary depending on numerous factors that generally impact the price of securities or on the financial condition of First Community at that time. The Opinion is limited to the fairness, from a financial point of view, of the merger consideration to be received by the holders of the common shares.

Raymond James expressed no opinion with respect to any other reasons, legal, business, or otherwise, that may support the decision of the Cornerstone board of directors to approve or consummate the transaction. Furthermore, no opinion, counsel or interpretation is intended by Raymond James on matters that require legal, accounting or tax advice. It is assumed that such opinions, counsel or interpretations have been or will be obtained from the appropriate professional sources. Furthermore, Raymond James relied, with the consent of the board, on the fact that Cornerstone has been assisted by legal, accounting and tax advisors and Raymond James, with the consent of the board, relied upon and assumed the accuracy and completeness of the assessments by Cornerstone and its advisors as to all legal, accounting and tax matters with respect to Cornerstone and the transaction.

In formulating the Opinion, Raymond James considered only what it understood to be the consideration to be received by the holders of Cornerstone common shares as is described above and Raymond James did not consider and Raymond James expressed no opinion on the fairness of the amount or nature of any compensation to be paid or payable to any of Cornerstone's officers, directors or employees, or class of such persons, whether relative to the compensation received by the holders of the common shares or otherwise. Raymond James was not requested to opine as to, and the Opinion did not express an opinion as to or otherwise address, among other things: (1) the fairness of the transaction to the holders of any class of securities, creditors, or other constituencies of Cornerstone, or to any other party, except and only to the extent expressly set forth in the last sentence of the Opinion or (2) the fairness of the transaction to any one class or group of Cornerstone's or any other party's security holders or other constituencies vis-à-vis any other class or group of Cornerstone's or such other party's security holders or other constituents (including, without limitation, the allocation of any consideration to be received in the transaction amongst or within such classes or groups of security holders or other constituents). Raymond James did not express any opinion as to the impact of the transaction on the solvency or viability of Cornerstone or First Community or the ability of Cornerstone or First Community to pay their respective obligations when they come due.

#### *Material Financial Analyses*

The following summarizes the material financial analyses provided by Raymond James to the Cornerstone board of directors on April 11, 2017, which material was considered by Raymond James in rendering its opinion. No company or transaction used in the analyses described below is identical or directly comparable to Cornerstone, First Community or the contemplated transaction.

#### *Selected Companies Analysis.*

Raymond James analyzed the relative valuation multiples of seven (7) publicly-traded banks and thrifts in the Southeast (Alabama, Arkansas, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee, Virginia and West Virginia) with the following financial characteristics: (i) total assets between \$100 million and \$250 million; (ii) tangible common equity to tangible assets ratio (TCE / TA) between 10.0% and 15.0%; (iii) return on average assets (ROAA) for the last twelve months (LTM) between 0.25% and 1.50%; and (iv) nonperforming assets to assets ratio (NPAs / Assets) less than 3.00%. The aforementioned financial characteristics were shown for the bank



subsidiary if consolidated data was unavailable, and the financial characteristics were based on the most recent LTM period reported as of April 10, 2017. Raymond James excluded targets of announced mergers, grey market-traded companies, mutual holding companies, and companies with an average daily trading volume of less than 100 shares per day over the three months ended April 10, 2017. The selected companies that Raymond James deemed relevant included the following:

- Exchange Bankshares, Inc. (EXCH)
- Farmers Bank of Appomattox (FBPA)
- Bank of McKenney (BOMK)
- Pinnacle Bancshares, Inc. (PCLB)

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- United Tennessee Bankshares (UNTN)
- Virginia Bank Bankshares, Inc. (VABB)
- BlueHarbor Bank (BLHK)

Raymond James calculated various financial multiples for each company, including: (i) price per share at close on April 10, 2017 compared to tangible book value (TBV) per share at December 31, 2016; and (ii) price per share at close on April 10, 2017 to LTM earnings per share (EPS) for the most recent LTM period reported. LTM EPS financial multiples greater than two standard deviations away from the unadjusted mean were considered not meaningful. Raymond James reviewed the mean, median, 25th percentile and 75th percentile relative valuation multiples of the selected public companies and compared them to corresponding valuation multiples for Cornerstone implied by the merger consideration. The results of the selected public companies analysis are summarized below:

	Price / TBV Per Share		Price / LTM EPS	
Mean	87	%	12.9	x
Median	88	%	11.5	x
25 <sup>th</sup> Percentile	81	%	10.8	x
75 <sup>th</sup> Percentile	93	%	14.5	x
Cornerstone Common Share Merger Consideration	144	%	41.0	x

Furthermore, Raymond James applied the mean, median, 25<sup>th</sup> percentile and 75<sup>th</sup> percentile relative valuation multiples for each of the metrics to Cornerstone's actual financial results and determined the implied equity price per share of Cornerstone common stock and then compared those implied equity values per share to the merger consideration of \$11.49 per share. The results of this are summarized below:

	Price / TBV Per Share	Price / LTM EPS
Mean	\$ 6.93	\$ 3.60
Median	\$ 6.99	\$ 3.22
25 <sup>th</sup> Percentile	\$ 6.50	\$ 3.02
75 <sup>th</sup> Percentile	\$ 7.42	\$ 4.06
Cornerstone Common Share Merger Consideration	\$ 11.49	\$ 11.49

#### *Selected Transaction Analysis.*

Raymond James analyzed publicly available information relating to selected regional transactions announced since January 1, 2015 involving targets headquartered in the Southeast with the following financial characteristics: (i) total assets between \$100 million and \$250 million; (ii) TCE / TA between 10.0% and 15.0%; (iii) LTM ROAA greater than 0.00%; and (iv) NPAs / Assets less than 3.00%. Raymond James also analyzed publicly available information relating to selected national transactions announced since November 8, 2016 involving targets headquartered in the

United States with the following financial characteristics: (i) total assets between \$100 million and \$250 million; and (ii) TCE / TA greater than 8.0%. The aforementioned financial characteristics were shown for the bank subsidiary if consolidated data was unavailable, and the financial characteristics were based on the most recent LTM period reported. LTM ROAA and LTM EPS metrics were 35% tax-effected for S Corporations. Both regional and national selected transaction analyses excluded transactions without publicly disclosed deal value or sufficient information, transactions with equity ownership acquired less than 100%, investor recapitalizations and mergers of equals. The regional and national selected transactions used in the analysis included:

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Regional

- Acquisition of American Trust Bank of East Tennessee by Citco Community Bancshares, Inc. (7/22/2016)
- Acquisition of Independence Bank of Georgia by Pinnacle Financial Corp. (07/01/2016)
- Acquisition of Highland County Bancshares, Inc. by Summit Financial Group, Inc. (02/29/2016)
- Acquisition of Congaree Bancshares, Inc. by Carolina Financial Corp. (01/06/2016)
- Acquisition of Civic Bank & Trust by Franklin Financial Network, Inc. (12/14/2015)
- Acquisition of Oldtown Bank by Entegra Financial (11/24/2015)
- Acquisition of Columbus Community Bank by Southern States Bancshares, Inc. (7/21/2015)
- Acquisition of Highland Financial Services, Inc. by Hamilton State Bancshares (05/15/2015)
- Acquisition of Calusa Financial Corp., Inc. by Achieva CU (05/05/2015)
- Acquisition of PBSC Financial Corp. by Carolina Alliance Bank (03/24/2015)
- Acquisition of Community Business Bank by Community & Southern Holdings, Inc. (01/30/2015)

National:

- Acquisition of Bucks County Bank by First Bank (03/29/2017)
- Acquisition of CenterPointe Community Bank by Northwest Bancorp. (03/23/2017)
- Acquisition of Benchmark Bancorp, Inc. by United Bancshares, Inc. (03/22/2017)
- Acquisition of Patriot Federal Bank by Kinderhook Bank Corp. (03/15/2017)
- Acquisition of Citizens Bancshares, Inc. by Investar Holding Corp. (03/08/2017)
- Acquisition of Sound Banking Co. by West Town Bancorp, Inc. (02/17/2017)
- Acquisition of Premier Bancshares, Inc. by First Guaranty Bancshares, Inc. (01/30/2017)
- Acquisition of Blanco National Holdings, Inc. by Texas State Bankshares, Inc. (11/29/2016)

Raymond James examined valuation multiples of transaction value compared to the target companies' (i) most recent quarter tangible book value per share, (ii) most recent LTM EPS and (iii) most recent quarter core deposits (total deposits less time deposits greater than \$100,000). Tangible book value per share and LTM EPS transaction valuation multiples were shown on a per share basis where possible, and if per share valuation metrics were unavailable, aggregate pricing multiples were used. Tangible book value per share and LTM EPS transaction valuation multiples greater than two standard deviations from the unadjusted mean were considered not meaningful. Valuation multiples based on core deposits were based on aggregate transaction values. Raymond James reviewed the mean, median, 25th percentile and 75th percentile relative valuation multiples of the selected transactions and compared them to corresponding valuation multiples for Cornerstone implied by the merger consideration. Furthermore, Raymond James applied the mean, median, 25th percentile and 75th percentile relative valuation multiples to Cornerstone's tangible book value per share, LTM EPS, and core deposits to determine the implied equity price per share and then compared those implied equity values per share to the merger consideration of \$11.49 per share. The results of the selected transactions analysis are summarized below:

Regional:

	Deal Value per Share/ TBV Per Share		Implied Equity Price Per Share
Mean	129	%	\$ 10.32
Median	130	%	\$ 10.35
25th Percentile	121	%	\$ 9.67
75th Percentile	137	%	\$ 10.96
Cornerstone Common Share Merger Consideration	144	%	\$ 11.49

	Deal Value per Share/ LTM EPS		Implied Equity Price Per Share
Mean	25.2	x	\$ 7.04
Median	24.6	x	\$ 6.87
25th Percentile	19.1	x	\$ 5.34
75th Percentile	26.4	x	\$ 7.40
Cornerstone Common Share Merger Consideration	41.0	x	\$ 11.49

	Premium/Core Deposits		Implied Equity Price Per Share
Mean	5.7	%	\$ 10.70
Median	5.6	%	\$ 10.62
25th Percentile	3.6	%	\$ 9.70
75th Percentile	7.4	%	\$ 11.50
Cornerstone Common Share Merger Consideration	7.4	%	\$ 11.49

National:

	Deal Value per Share/ TBV Per Share		Implied Equity Price Per Share
Mean	137	%	\$ 10.91
Median	129	%	\$ 10.32
25th Percentile	124	%	\$ 9.89
75th Percentile	145	%	\$ 11.58
Cornerstone Common Share Merger Consideration	144	%	\$ 11.49

	Deal Value per Share/ LTM EPS		Implied Equity Price Per Share
Mean	22.7	x	\$ 6.34
Median	21.8	x	\$ 6.10
25th Percentile	20.5	x	\$ 5.75
75th Percentile	26.1	x	\$ 7.32
Cornerstone Common Share Merger Consideration	41.0	x	\$ 11.49

	Premium/Core Deposits		Implied Equity Price Per Share
Mean	5.0	%	\$ 10.38

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Median	5.1	%	\$ 10.41
25th Percentile	3.8	%	\$ 9.82
75th Percentile	6.5	%	\$ 11.08
Cornerstone Common Share Merger Consideration	7.4	%	\$ 11.49

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*Discounted Cash Flow Analysis.*

Raymond James analyzed the discounted present value of Cornerstone’s projected free cash flows for the years ending December 31, 2017 through December 31, 2022 on a standalone basis. Raymond James used tangible common equity in excess of a target ratio of 8.0% at the end of each projection period for free cash flow.

The discounted cash flow analysis was based on the projections. Consistent with the periods included in the Projections, Raymond James used calendar year 2022 as the final year for the analysis and applied multiples, ranging from 13.0x to 17.0x to calendar year 2022 adjusted net income in order to derive a range of terminal values for Cornerstone in 2022.

The projected free cash flows and terminal values were discounted using rates ranging from 13.5% to 15.5%. The resulting range of present equity values was divided by the number of diluted shares outstanding in order to arrive at a range of present values per Cornerstone share. Raymond James reviewed the range of per share prices derived in the discounted cash flow analysis and compared them to the price per share for Cornerstone implied by the merger consideration. The results of the discounted cash flow analysis are summarized below:

	Implied Equity Price Per Share
Minimum	\$ 5.72
Maximum	\$ 6.88
Common Share Merger Consideration	\$ 11.49

*Additional Considerations.*

The preparation of a fairness opinion is a complex process and is not susceptible to a partial analysis or summary description. Raymond James believes that its analyses must be considered as a whole and that selecting portions of its analyses, without considering the analyses taken as a whole, would create an incomplete view of the process underlying its opinion. In addition, Raymond James considered the results of all such analyses and did not assign relative weights to any of the analyses, but rather made qualitative judgments as to significance and relevance of each analysis and factor, so the ranges of valuations resulting from any particular analysis described above should not be taken to be the view of Raymond James as to the actual value of Cornerstone.

In performing its analyses, Raymond James made numerous assumptions with respect to industry performance, general business, economic and regulatory conditions and other matters, many of which are beyond the control of Cornerstone. The analyses performed by Raymond James are not necessarily indicative of actual values, trading

values or actual future results which might be achieved, all of which may be significantly more or less favorable than suggested by such analyses. Such analyses were provided to the Cornerstone board of directors (solely in each director's capacity as such) and were prepared solely as part of the analysis of Raymond James of the fairness, from a financial point of view, to the holders of Cornerstone common stock of the merger consideration to be received by such holders in connection with the proposed transaction pursuant to the merger agreement. The analyses do not purport to be appraisals or to reflect the prices at which companies may actually be sold, and such estimates are inherently subject to uncertainty. The Opinion of Raymond James was one of many factors taken into account by the Cornerstone board in making its determination to approve the transaction. Neither Raymond James's Opinion nor the analyses described above should be viewed as determinative of the Cornerstone board of directors' or Cornerstone management's views with respect to Cornerstone, First Community or the transaction. Raymond James provided advice to Cornerstone with respect to the proposed transaction. Raymond James did not, however, recommend any specific amount of consideration to the board or that any specific merger consideration constituted the only appropriate consideration for the transaction nor did Raymond James advise Cornerstone with respect to its strategic alternatives. Cornerstone placed no limits on the scope of the analysis performed, or opinion expressed, by Raymond James.



The Raymond James Opinion was necessarily based upon market, economic, financial and other circumstances and conditions existing and disclosed to it on April 10, 2017, and any material change in such circumstances and conditions may affect the Opinion of Raymond James, but Raymond James does not have any obligation to update, revise or reaffirm that Opinion. Raymond James relied upon and assumed, without independent verification, that there had been no change in the business, assets, liabilities, financial condition, results of operations, cash flows or prospects of Cornerstone since the respective dates of the most recent financial statements and other information, financial or otherwise, provided to Raymond James that would be material to its analyses or its Opinion, and that there was no information or any facts that would make any of the information reviewed by Raymond James incomplete or misleading in any material respect.

During the two years preceding the date of Raymond James's written Opinion, Raymond James has not been engaged by, performed investment banking services for or received any compensation from Cornerstone or First Community (other than any amounts that were paid by Cornerstone to Raymond James under the engagement letter described in this proxy statement pursuant to which Raymond James was retained as a financial advisor to Cornerstone to assist in reviewing strategic alternatives).

For services rendered in connection with the delivery of its Opinion, Cornerstone paid Raymond James a customary investment banking fee in the amount of \$150,000 upon delivery of its Opinion. Cornerstone also paid Raymond James a \$25,000 non-refundable cash retainer upon Cornerstone's signing of the engagement letter described in this proxy statement. Cornerstone will also pay Raymond James a customary transaction fee equal to the greater of (i) \$300,000 or (ii) 1.75% of any transaction value paid for advisory services in connection with the transaction, upon the closing of the transaction. The fairness opinion fee and cash retainer shall be credited against the transaction fee. Cornerstone also agreed to reimburse Raymond James for its expenses incurred in connection with its services, including the fees and expenses of its counsel, and will indemnify Raymond James against certain liabilities arising out of its engagement.

Raymond James is actively involved in the investment banking business and regularly undertakes the valuation of investment securities in connection with public offerings, private placements, business combinations and similar transactions. In the ordinary course of business, Raymond James may trade in the securities of Cornerstone and First Community for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities. Raymond James may provide investment banking, financial advisory and other financial services to Cornerstone and/or First Community or other participants in the transaction in the future, for which Raymond James may receive compensation.

### **First Community's Reasons for the Merger**

In the course of reaching its decision to merge with Cornerstone, the First Community board of directors considered many factors, including the positive and negative factors described elsewhere in this proxy statement/prospectus, and concluded that the adoption of the merger agreement, and the consummation of the merger described therein, is

advisable and in the best interests of First Community and First Community's shareholders.

In reaching their conclusion, the members of the First Community board of directors relied on, among other things, their personal knowledge of First Community, Cornerstone, and the banking industry, on information provided by executive officers of First Community, and on advice and information provided by First Community's legal and financial advisors.

The First Community board of directors considered numerous factors, including, among other things, the following, which are not intended to be exhaustive and are not presented in any relative order of importance:

the business, earnings, operations, financial condition, management, prospects, capital levels, and asset quality of both First Community and Cornerstone;

the board's understanding of the current and prospective environment in which First Community and Cornerstone operate, including national, regional and local economic conditions, the competitive and regulatory environment for financial institutions generally, and the likely effect of these factors on First Community in the context of the proposed merger;

the board's review and discussions with First Community's management concerning the due diligence examination of Cornerstone, including First Community's due diligence review of the composition and quality of Cornerstone's loan portfolio and First Community's use of a third party loan review firm;

the markets served by Cornerstone are in many respects similar to the existing markets of First Community, without any overlap in their existing branch facilities;

the directors' beliefs with respect to the compatibility of the business cultures of First Community and Cornerstone, including the strategic focus of each company on local businesses and professionals;

the belief of the board of directors that combining the two companies presented opportunities to realize economies of scale, including cost savings, operational, marketing and other synergies, and the board's consideration of the risks that anticipated cost savings and synergies would not be achieved;

the views of the First Community board of directors as to the anticipated pro forma impact of the merger on the profitability, earnings per share, tangible book value per share, capital ratios, and loan to deposit ratio of First Community;

the costs associated with the merger and integrating the operations of First Community and Cornerstone;

the board's belief that the greater scale that will be achieved by the merger will better position the combined company for further growth and profitability;

the potential increase in the pro forma market capitalization of First Community, which could result in higher visibility and exposure in the capital markets, which in turn could have positive valuation implications;

the structure of the merger and the terms of the merger agreement, including the exchange ratio and the cash merger consideration; and

the views of the board of directors as to the likelihood that the regulatory approvals necessary to complete the transaction would be obtained.

The foregoing information and factors considered by First Community's board of directors is not exhaustive, but includes material factors that First Community's board of directors considered and discussed in approving and recommending the merger. In view of the wide variety of factors considered and discussed by First Community's board of directors in connection with its evaluation of the merger and the complexity of these factors, the board of directors did not consider it practical to, nor did it attempt to, quantify, rank, or otherwise assign any specific or relative weights to the specific factors that it considered in reaching its decision; rather it considered all of the factors as a whole. The board of directors discussed the foregoing factors internally and with First Community's management and legal and financial advisors and reached the general consensus that the merger was in the best interests of First Community and its shareholders. First Community's board of directors also relied on the experience and expertise of First Community's financial advisor for quantitative analysis of the financial terms of the merger. In considering the foregoing factors, individual directors may have assigned different weights to different factors. It should be noted that this explanation of the reasoning of First Community's board of directors and other information presented in this section are forward-looking in nature and, therefore, should be read in light of the factors discussed under "Cautionary Statement Regarding Forward-Looking Statements" on page 22.

## Merger Consideration

Under the merger agreement, Cornerstone shareholders may elect to receive one of the following forms of payment of merger consideration in exchange for their shares of Cornerstone common stock (subject to the limitations and adjustments discussed below):

·\$11.00 in cash for each share of Cornerstone common stock held—the cash consideration;

·0.54 shares of First Community common stock for each share of Cornerstone common stock held—the stock consideration; or

·A combination of cash consideration and stock consideration for all shares of Cornerstone common stock held in such proportions as requested by the shareholder—the mixed consideration.

The merger agreement provides that First Community will issue shares of First Community common stock for 70% of the non-dissenting shares of Cornerstone common stock outstanding on the effective date of the merger and pay cash for the remaining 30% of the non-dissenting shares of Cornerstone common stock outstanding. Cornerstone shareholders are entitled to elect to receive the cash consideration, the stock consideration, or the mixed consideration, in whole share increments, with respect to the holders' shares of Cornerstone common stock. In other words, by promptly completing and timely delivering the election form, you can elect to receive cash for your shares of Cornerstone common stock, shares of First Community common stock for your shares of Cornerstone common stock, or cash and shares of First Community common stock in such proportions as you choose for your shares of Cornerstone common stock. As discussed below, however, you may not receive the type of merger consideration you elect.

If shareholders of Cornerstone in the aggregate elect the form of consideration so that either cash would be paid as merger consideration for more than 30% of the outstanding non-dissenting shares of Cornerstone common stock or shares of First Community common stock would be issued as merger consideration for more than 70% of the outstanding non-dissenting shares of Cornerstone common stock, the merger agreement provides a method to reallocate cash or stock so that the merger consideration will not exceed either threshold. For a description of the reallocation method, see "Proposal No. 1—The Merger—Allocation of the Merger Consideration." Accordingly, you may receive less cash and more shares, or more shares and less cash than you elect. Either of these events is likely to result in different tax consequences from those that would have resulted had you received the exact form of merger consideration you elected.

No fractional shares of First Community common stock will be issued in connection with the merger. Instead, you will receive a cash payment, without interest, for the value of any fraction of a share of First Community common stock that you would otherwise be entitled to receive in an amount equal to such fractional part of a share of First Community common stock multiplied by the volume weighted average price (rounded up to the nearest cent) of First Community common stock on The NASDAQ Capital Market during the 10 consecutive trading days ending on the

fifth trading day immediately prior to the date on which the effective time of the merger occurs.

Neither Cornerstone nor First Community (or their respective boards of directors) nor Cornerstone's financial advisor make any recommendation as to whether you should choose the cash consideration, stock consideration, or mixed consideration for your shares of Cornerstone common stock. You should consult with your own financial and tax advisors about this decision.

Shares of First Community common stock are listed for trading on The NASDAQ Capital Market under the symbol "FCCO." On April 11, 2017, which was the last trading day before the announcement of the merger, the price of a share of First Community common stock closed at \$20.70 per share, and on July 7, 2017, the latest practicable date before mailing out this proxy statement/prospectus, the price of a share of First Community common stock closed at \$20.30 per share. You should be aware that the market value of shares of First Community common stock will fluctuate, and neither First Community nor Cornerstone can give you any assurance as to what the price of shares of First Community common stock will be when the merger becomes effective. We urge you to obtain information on the market value of shares of First Community common stock that is more recent than that provided in the proxy statement/prospectus. See "Summary—Market Price and Dividend Information" on page 12.

## Illustration of Allocation of the Merger Consideration

The following table illustrates calculations of consideration at different prices for First Community common stock that would be received by a holder of 100 shares of Cornerstone common stock depending on whether the shareholder elected the cash consideration, the stock consideration, or a mixed consideration. These calculations do not take into consideration the effects of taxation. See “Proposal No. 1—The Merger—Material U.S. Federal Income Tax Consequences and Opinion of Tax Counsel” on page 51.

The assumed closing values of the shares of First Community common stock set forth in the table have been included for representative purposes only and are based on the high and low closing values for the shares of First Community common stock for the first quarter of 2017, the closing values for the shares of First Community common stock on April 11, 2017, the last trading day prior to the announcement of the merger, and the closing value on July 7, 2017, the latest practicable date before mailing out this proxy statement/prospectus. The closing value at the time the merger becomes effective may be less than \$16.10 or more than \$23.55. We cannot predict what the closing value for shares of First Community common stock will be or what the value of the shares of First Community common stock to be issued in the merger will be at or following the merger becoming effective.

### Estimating the Value of 100 Shares of Cornerstone Common Stock

(Assuming various cash/share elections and First Community common stock closing values)

	Mixed Election (30/70 Cash-Stock)	All Stock Election	All Cash Election
<b>Assuming a \$20.70 closing value</b> (April 11, 2017, last trading day prior to announcement of merger)			
Value of Cash Consideration Received	\$ 330.00	\$—	\$ 1,100.00
Value of Stock Consideration Received	\$ 782.46	\$ 1,117.80	\$—
Value of Total Consideration Received	\$ 1,112.46	1,117.80	1,100.00
<b>Assuming a \$23.55 closing value</b> (high closing value during first quarter of 2017)			
Value of Cash Consideration Received	\$ 330.00	\$—	\$ 1,100.00
Value of Stock Consideration Received	\$ 890.19	\$ 1,271.70	\$—
Value of Total Consideration Received	\$ 1,220.19	\$ 1,271.70	\$ 1,100.00
<b>Assuming a \$16.10 closing value</b> (low closing value during first quarter of 2017)			
Value of Cash Consideration Received	\$ 330.00	\$—	\$ 1,100.00
Value of Stock Consideration Received	\$ 608.58	\$ 869.40	\$—
Value of Total Consideration Received	\$ 938.58	\$ 869.40	1,100.00

**Assuming a \$20.30 closing value** (July 7, 2017)

Value of Cash Consideration Received	\$ 330.00	\$—	\$1,100.00
Value of Stock Consideration Received	\$ 767.34	\$1,096.20	\$—
Value of Total Consideration Received	\$ 1,097.34	\$1,096.20	\$1,100.00

**Election of the Form of Payment of the Merger Consideration**

Shortly after the effective time of the merger, First Community's exchange agent will deliver or mail to Cornerstone shareholders an election form and instructions for making an election as to the form of merger consideration preferred to be received in the merger, subject to the allocation procedures described below. Upon receipt of the election form, each Cornerstone shareholder should complete, date, and sign the election form and return it promptly in the prepaid, pre-addressed envelope provided with the election form. If any Cornerstone shareholders do not make an election by 4:00 pm local time on the date set forth in the instructions on the election form, such shareholders will be deemed not to have made an election and the exchange agent will choose the type of merger consideration constituting the per share purchase price to distribute to such non-electing shareholders according to the allocation procedures.

Elections will be properly made if the election form is accompanied by one or more certificates representing the shares of Cornerstone common stock covered by the election form, or the guaranteed delivery of such certificates. Elections may be revoked or changed upon written notice to the exchange agent before the election deadline. If a Cornerstone shareholder revokes the election form and does not properly make a new election by the election deadline, the Cornerstone shareholder will be deemed to have not made an election with respect to the shares covered by the revoked election form, and the exchange agent will determine the type of consideration to be received.

The exchange agent will have reasonable discretion to determine whether any election, revocation, or change has been properly or timely made and to disregard immaterial defects in the election form, and any good faith decision of the exchange agent regarding such matters will be conclusive and binding. ***Neither First Community nor the exchange agent is obligated to notify any person of any defect in an election form.***

### **Allocation of the Merger Consideration**

The merger agreement limits the aggregate number of shares of Cornerstone common stock which First Community will exchange for cash to 30% of the total outstanding non-dissenting shares of Cornerstone common stock. The merger agreement also limits the aggregate number of shares of Cornerstone common stock which First Community will exchange for shares of First Community common stock to 70% of the total outstanding non-dissenting shares of Cornerstone common stock.

If the stock consideration elected by Cornerstone shareholders in the aggregate exceeds 70% of the total outstanding non-dissenting shares of Cornerstone common stock, then shareholders choosing cash consideration and shareholders who did not make an election will receive cash consideration, and each shareholder who chose the stock consideration will receive (i) a number of shares of First Community common stock equal to the exchange ratio times the product obtained by multiplying the number of shares of Cornerstone common stock as to which the shareholder chose the stock election by a fraction, the numerator of which is 70% of the total outstanding non-dissenting shares of Cornerstone common stock and the denominator of which is the aggregate number of shares of Cornerstone common stock elected by all Cornerstone shareholders to be converted into shares of First Community common stock, and (ii) cash for the remaining amount of shares of Cornerstone common stock held by the shareholder.

If the cash consideration elected by Cornerstone shareholders in the aggregate exceeds 30% of the total outstanding non-dissenting shares of Cornerstone common stock, then shareholders choosing stock consideration and shareholders who did not make an election will receive the stock consideration, and each shareholder who chose the cash consideration will receive (i) \$11.00 times the product obtained by multiplying the number of shares of Cornerstone common stock as to which the shareholder chose the cash election by a fraction, the numerator of which is 30% of the total outstanding non-dissenting shares of Cornerstone common stock and the denominator of which is the aggregate number of shares of Cornerstone common stock elected by all Cornerstone shareholders to be converted into cash, and (ii) shares of First Community common stock for the remaining amount of shares of Cornerstone common stock held by the shareholder.

If the stock consideration elected by the Cornerstone shareholders in the aggregate does not exceed 70% of the total outstanding non-dissenting shares of Cornerstone common stock and the cash consideration elected by the Cornerstone shareholders in the aggregate does not exceed 30% of the total outstanding non-dissenting shares of Cornerstone common stock, then shareholders electing the cash consideration will receive all cash in exchange for their shares of Cornerstone common stock, shareholders electing the stock consideration will receive all stock in exchange for their shares of Cornerstone common stock, shareholders electing the mixed consideration will receive a combination of cash consideration and stock consideration in exchange for their shares of Cornerstone common stock, and the shareholders making no election will receive either the cash consideration, stock consideration, or mixed consideration such that the aggregate number of shares of Cornerstone common stock to be exchanged for cash is 30%



of the total outstanding non-dissenting shares of Cornerstone common stock and the aggregate number of shares of Cornerstone common stock to be exchanged for stock is 70% of the total outstanding non-dissenting shares of Cornerstone common stock.

## **Conversion of Stock; Treatment of Stock Options**

**Conversion of Cornerstone Common Stock.** At the effective time of the merger, each share of Cornerstone common stock outstanding generally will be converted into and exchanged for the right to receive either (i) \$11.00 in cash; (ii) 0.54 shares of First Community common stock; or (iii) a combination of both cash and stock.

Cash will also be exchanged for any fractional shares. Any Cornerstone shareholder who would otherwise have been entitled to receive a fraction of a share of First Community common stock in the merger will receive, in lieu thereof, cash (without interest) for the value of any fraction of a share of First Community common stock that you would otherwise be entitled to receive in an amount equal to such fractional part of a share of First Community common stock multiplied by the volume weighted average price (rounded up to the nearest cent) of First Community common stock on The NASDAQ Capital Market during the 10 consecutive trading days ending on the fifth trading day immediately prior to the date on which the effective time of the merger occurs.

Some shares of Cornerstone common stock may not be converted in the merger. Each outstanding share of Cornerstone common stock owned by First Community, Cornerstone, or their respective subsidiaries (in each case other than shares of Cornerstone common stock held on behalf of third parties or as a result of debts previously contracted) will be canceled at the effective time of the merger and will cease to be outstanding. In addition, shares of Cornerstone common stock held by Cornerstone shareholders properly exercising their dissenters' rights will not be converted in the merger.

**Stock Options.** At the effective time of the merger, all rights with respect to the Cornerstone common stock pursuant to the stock options granted by Cornerstone, which are outstanding immediately prior to the effective time of the merger, whether or not exercisable, will convert into an obligation of First Community to pay and a right of the holder to receive a cash payment equal to the product obtained by multiplying (1) the number of shares of Cornerstone common stock underlying such holder's options by (2) the excess, if any, of the fair market value per share (as defined below) minus the exercise price per share under such option (provided, that if the fair market value per share does not exceed the exercise price per share of a particular option, then by \$0.01). The fair market value per share for purposes of this calculation is the sum of (x) \$11.00 multiplied by 0.30, plus (y) the product of the volume weighted average price (rounded up to the nearest cent) of First Community common stock on The NASDAQ Capital Market during the 10 consecutive trading days ending on the fifth trading day immediately prior to the date on which the effective time of the merger occurs, multiplied by the exchange ratio (0.54), multiplied by 0.70.

## **Effective Time of the Merger**

If the merger agreement is approved by the requisite vote of the holders of common stock of Cornerstone and all other required governmental and other consents and approvals are received, and if the other conditions to the obligations of

the parties to consummate the merger are satisfied or waived (as permitted), the merger will be consummated and effected on the date and at the time the articles of merger reflecting the merger are filed with the Secretary of State of South Carolina. Unless otherwise mutually agreed upon in writing by First Community's and Cornerstone's chief executive officers, both parties will use their reasonable efforts to cause the effective time of the merger to occur within 10 business days of the last of the following dates to occur:

- the effective date (including expiration of any applicable waiting period) of the last required consent of any regulatory authority having authority over and approving or exempting the merger; or

- the date on which Cornerstone shareholders approve the merger agreement.

Assuming satisfaction of all of the conditions to consummation of the merger, the merger is intended to be made effective October 20, 2017. However, there can be no assurance when or if the merger will occur.

Either party may terminate the merger agreement prior to the effective time, under several circumstances. See “Proposal No. 1—The Merger—Conditions to Consummation” and “— Amendment, Waiver, and Termination.”

### Exchange of Certificates

Shortly after the effective time of the merger, First Community will mail the election form and instructions to each record holder of Cornerstone common stock for use in effecting the surrender and cancellation of those certificates in exchange for cash and/or First Community common stock, which will be issued in uncertificated “book entry” form. Risk of loss and title to the certificates will remain with the holder until proper delivery of such certificates to First Community or its exchange agent by former Cornerstone shareholders. **Cornerstone shareholders should not surrender their certificates for exchange until they receive the election form and instructions from First Community.** Shortly after the effective time of the merger, following the receipt of transmittal materials and instructions from First Community’s exchange agent, each holder of shares of Cornerstone common stock issued and outstanding at the effective time must surrender to the exchange agent the certificate or certificates representing their shares to First Community together with duly executed transmittal materials. As soon as reasonably practicable after the effective time of the merger, Cornerstone shareholders will receive the consideration to which they are entitled under the merger agreement, together with any undelivered dividends or distributions in respect of such shares (without interest). First Community will not be obligated to deliver the consideration to which any former holder of Cornerstone common stock is entitled until the holder surrenders the certificate or certificates representing his or her shares for exchange (or an indemnity satisfactory to Cornerstone, First Community, and the exchange agent, if any certificates are lost, stolen, or destroyed) and until the effective time of the merger. The certificate or certificates so surrendered must be duly endorsed as First Community may require. Former holders of Cornerstone common stock will be responsible for all charges and expenses associated with replacing any lost, mutilated, stolen, or destroyed certificates, including any indemnity bond expenses. First Community will not be liable to a holder of Cornerstone common stock for any property delivered in good faith to a public official pursuant to any applicable abandoned property law.

If you do not timely submit the election form along with your certificates of Cornerstone common stock, First Community’s exchange agent will mail to you a letter of transmittal with instructions for submitting your Cornerstone common stock certificate in exchange for First Community common stock or the cash consideration of \$11.00 per share. At that time, you will need to carefully review the instructions, complete the materials enclosed with the instructions and return the materials along with your Cornerstone stock certificate(s). Whether you will receive First Community common stock and/or cash will depend on the election of other Cornerstone shareholders. (See “The Merger—Terms of the Merger—Allocation of First Community Common Stock and Cash,” below.) As soon as reasonably practicable after receipt of the properly completed letter of transmittal and your Cornerstone stock certificate(s), First Community’s exchange agent will mail a statement of a book entry of First Community common stock or a check (or a book entry statement and a check) for the merger consideration. No interest will be paid on any cash payment.

First Community or its exchange agent will maintain a book entry list of First Community common stock to which each former Cornerstone shareholder is entitled. Certificates evidencing First Community common stock into which the shareholder’s Cornerstone common stock has been converted will not be issued. First Community’s exchange agent will deliver a statement of such book entry and other information as required by law within a reasonable time following the surrender of a Cornerstone certificate.

After the effective time of the merger, record holders of certificates that represented outstanding Cornerstone common stock immediately prior to the effective time of the merger will have no rights with respect to the certificates other than the right to surrender the certificates and receive in exchange the aggregate number of whole shares of First

Community common stock (issued in book entry form) and/or the cash consideration to which the holder is entitled pursuant to the merger agreement.

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Book entry shares representing shares of First Community common stock will be dated the effective date of the merger and will entitle the holders to dividends, distributions, and all other rights and privileges of a First Community shareholder from the effective date. Until the certificates representing Cornerstone common stock are surrendered for exchange, holders of such certificates will not receive the cash and/or stock consideration or dividends or distributions on First Community common stock into which such shares have been converted. When the certificates are surrendered to the exchange agent, any unpaid dividends or other distributions will be paid without interest. First Community has the right to withhold dividends or any other distributions on its shares until the Cornerstone stock certificates are surrendered for exchange.

In addition, holders of certificates that represented outstanding Cornerstone common stock immediately prior to the effective time of the merger will be entitled to vote after the effective time of the merger and after allocation of the cash and stock consideration at any meeting of First Community shareholders the number of whole shares of First Community common stock into which such shares have been converted, even if such holder has not surrendered such certificates for exchange as set forth above.

First Community shareholders will not be required to exchange certificates representing their shares of First Community common stock or otherwise take any action after the merger is completed.

### **Resale of First Community Common Stock**

The shares of First Community common stock to be issued to shareholders of Cornerstone under the merger agreement will be freely tradable by such shareholders without restriction, except that if any Cornerstone shareholders are deemed to be affiliates of First Community, they must abide by certain transfer restrictions under the Securities Act.

### **Dissenters' Rights**

Under South Carolina law, holders of Cornerstone common stock will be entitled to dissent from the merger and to obtain payment in cash of the fair value of his or her shares of Cornerstone common stock. Any Cornerstone shareholder who wishes to exercise dissenters' rights is urged to consult legal counsel before attempting to exercise dissenters' rights. Failure to comply strictly with all of the procedures set forth in Chapter 13 of the South Carolina Business Corporation Act (the "SCBCA"), which consists of Sections 33-13-101 through 33-13-310, may result in the loss of a shareholder's statutory dissenters' rights. In such case, such shareholder will be entitled to receive only the merger consideration under the merger agreement.

*The following discussion is a summary of Sections 33-13-101 through 33-13-310 of the SCBCA, which set forth the procedures for Cornerstone shareholders to dissent from the proposed merger and to demand statutory dissenters' rights under the SCBCA. The following discussion is not a complete statement of the provisions of the SCBCA relating to the rights of Cornerstone shareholders to receive payment of the fair value of their shares and does not create any rights for shareholders. The only rights of shareholders are those provided by Sections 33-13-101 through 33-13-310 of the SCBCA, the full text of which is provided in its entirety as Appendix B to this proxy statement/prospectus. The following summary does not constitute any legal or other advice, nor does it constitute a recommendation that shareholders exercise their dissenters' rights under Section 33-13-101 through 33-13-310 of the SCBCA. Unless otherwise required by context, all references in Sections 33-13-101 to 33-13-310 of the SCBA and in this section to a "shareholder" are to the holder of record or the beneficial owner of the shares of Cornerstone common stock as to which dissenters' rights are asserted.*

A record holder of Cornerstone common stock who wishes to assert dissenters' rights (i) must deliver to Cornerstone before the vote is taken on the merger agreement written notice of his intent to demand payment for his shares if the

merger is effectuated, and (ii) must not vote his shares in favor of the merger agreement. A vote in favor of the merger agreement cast by the holder of a proxy solicited by Cornerstone shall not disqualify a shareholder from demanding payment for his shares. A shareholder who does not satisfy these requirements is not entitled to payment for his shares under the applicable South Carolina statutes. As long as a Cornerstone shareholder does not vote in favor of the merger, his or her failure to vote against the merger will not constitute a waiver of the holder's appraisal rights. A vote against the merger will not satisfy the notice requirement under the South Carolina dissenters' rights statutes.

If the merger is authorized at the Cornerstone special shareholders' meeting, Cornerstone will deliver, no later than 10 days after the special shareholders' meeting, a written dissenters' notice to all Cornerstone shareholders who satisfied the two requirements set forth above. The written dissenters' notice will state where the payment demand must be sent and where stock certificates must be deposited, will inform holders of uncertificated shares to what extent transfer of the shares is to be restricted after the payment demand is received, will supply a form for demanding payment that includes the date of the first announcement to news media or to shareholders of the terms of the proposed merger and requires that the person asserting dissenters' rights certify whether or not he or, if he is a nominee asserting dissenters' rights on behalf of a beneficial shareholder, the beneficial shareholder acquired beneficial ownership of the shares before that date, will set a date by which Cornerstone must receive the payment demand, which date will not be less than 30 or more than 60 days after the written dissenters' notice is delivered, will set a date by which certificates for certificated shares must be deposited, which date will not be earlier than 20 days after the demand date, and will be accompanied by a copy of the applicable South Carolina statutes. A shareholder sent a dissenters' notice must demand payment, certify whether he (or the beneficial shareholder on whose behalf he is asserting dissenters' rights) acquired the beneficial ownership of the shares before the date set forth in the dissenters' notice, and deposit his certificates in accordance with the terms of the notice. A dissenting shareholder who does not comply with the requirements that he demand payment and deposit his or her share certificates where required, each by the date set in the dissenters' notice, is not entitled to payment for his or her shares under the applicable South Carolina statutes.

As soon as the merger is consummated, or upon receipt of a payment demand, Cornerstone will pay to each dissenting shareholder who complied with the requirements set forth above the amount Cornerstone estimates to be the fair value of his or her shares, plus accrued interest. The payment will be accompanied by Cornerstone's balance sheet as of the end of a fiscal year ending not more than 16 months before the date of payment, an income statement for that year, a statement of changes in shareholders' equity for that year, and the latest available interim financial statements, if any; a statement of Cornerstone's estimate of the fair value of the shares and an explanation of how the fair value was calculated; an explanation of how the interest was calculated; a statement of the dissenter's right to demand additional payment; and a copy of the applicable South Carolina statutes. If Cornerstone does not consummate the proposed merger within 60 days after the date set for demanding payment and depositing share certificates, Cornerstone, within the same 60 day period, shall return the deposited certificates and release the transfer restrictions imposed on the uncertificated shares. If the shareholder believes the amount paid or offered is less than fair value of his shares or that the interest due is calculated incorrectly, or Cornerstone fails to make payment or offer payment within 60 days after the date set for demanding payment, or if the merger is not consummated, Cornerstone fails to return the deposited certificates or release transfer restrictions imposed on uncertificated shares within 60 days after the date set for demanding payment, he or she may notify Cornerstone in writing of his or her own estimate of fair value of his shares and amount of interest due and demand payment of his estimate (less the payment already received) or reject Cornerstone's offer and demand payment of the fair value of his or her shares and interest due. However, a dissenting shareholder waives his or her right to demand additional payment if he or she fails to notify Cornerstone of his or her demand in writing within 30 days after Cornerstone made or offered payment for his or her shares. If a demand for additional payment remains unsettled, Cornerstone will commence a court proceeding within 60 days after receiving the demand for additional payment and petition the court to determine the fair value of the shares and the accrued interest. If Cornerstone does not commence the proceeding within the 60 day period, Cornerstone shall pay each dissenter whose demand remains unsettled the amount demanded.

Exercise of dissenters' rights by holders of Cornerstone common stock will result in the recognition of gain or loss, as the case may be, for federal income tax purposes. The court in such an appraisal proceeding will determine all costs of the proceeding and assess the costs against Cornerstone, except the court may assess costs against some or all of the dissenting shareholders, in amounts the court finds equitable, to the extent the dissenting shareholders acted arbitrarily, vexatiously, or not in good faith in demanding payment. The court may also assess the fees and expenses of counsel and experts for the respective parties, in the amounts the court finds equitable (a) against First Community or Cornerstone if the court finds that they did not comply substantially with Chapter 13 of the SCBCA or (b) against



First Community, Cornerstone or the dissenting shareholders if the court finds that the party against whom the fees and expenses are assessed acted arbitrarily, vexatiously, or not in good faith. If the court finds that the services of counsel for any dissenting shareholder were of substantial benefit to other dissenting shareholders similarly situated, and that the fees for those services should not be assessed against First Community or Cornerstone, the court may award to these counsel reasonable fees to be paid out of the amounts awarded to the dissenting shareholders who were benefited.

## **Material U.S. Federal Income Tax Consequences and Opinion of Tax Counsel**

Subject to the limitations, assumptions and qualifications described herein, in the opinion of Nelson Mullins Riley & Scarborough, LLP, the following discussion summarizes the anticipated material U.S. federal income tax consequences of the merger generally applicable to U.S. holders (as defined below) of Cornerstone common stock that exchange their shares in the merger. This summary is based upon the Internal Revenue Code of 1986, as amended (the “Code”), Treasury regulations promulgated thereunder, judicial authorities, published positions of the Internal Revenue Service (“IRS”) and other applicable authorities, all as in effect on the date of this discussion and all of which are subject to change (possibly with retroactive effect) and differing interpretations. The opinion of tax counsel for First Community is filed as Exhibit 8.1 to the registration statement on Form S-4 of which this document is a part. The opinion is based on representations, covenants and undertakings provided by First Community and Cornerstone and on customary factual assumptions. If any of the representations or assumptions upon which the opinion is based are inconsistent with the actual facts, the U.S. federal income tax consequences of the merger could be adversely affected. The opinion described above will not be binding on the IRS or any court. First Community and Cornerstone have not sought and will not seek any ruling from the IRS regarding any matters relating to the merger, and as a result, there can be no assurance that the IRS will not assert, or that a court would not sustain, a position contrary to any of the conclusions set forth below.

This summary is limited to U.S. holders (as defined below) that hold their shares of Cornerstone common stock as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment). Furthermore, this discussion does not address all of the tax consequences that may be relevant to a particular Cornerstone shareholder or to Cornerstone shareholders that are subject to special rules under U.S. federal income tax laws, such as: shareholders that are not U.S. holders; financial institutions; insurance companies; mutual funds; tax-exempt organizations; S corporations or other pass-through entities (or investors in such entities); regulated investment companies; real estate investment trusts; dealers in securities or currencies; persons subject to the alternative minimum tax provisions of the Code; former citizens or residents of the United States; persons whose functional currency is not the U.S. dollar; traders in securities that elect to use a mark-to-market method of accounting; persons who own more than 5% of the outstanding common stock of Cornerstone; persons who hold Cornerstone common stock as part of a straddle, hedge, constructive sale or conversion transaction; and U.S. holders who acquired their shares of Cornerstone common stock through the exercise of an employee stock option or otherwise as compensation.

In addition, this discussion does not address any alternative minimum tax or any state, local or foreign tax consequences of the merger, nor does it address any other U.S. federal tax consequences (such as gift or estate taxes) including any tax consequences arising under the unearned income Medicare contribution tax pursuant to Section 1411 of the Code. Determining the actual tax consequences of the merger to each Cornerstone shareholder may be complex. They will depend on each Cornerstone shareholder’s specific situation and on factors that are not within the control of First Community or Cornerstone. Accordingly, each Cornerstone shareholder should consult his or her tax advisor with respect to the particular tax consequences of the merger to such holder.

For purposes of this section, the term “U.S. holder” means a beneficial owner of Cornerstone common stock that for United States federal income tax purposes is: a citizen or resident of the United States; a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or the District of Columbia; an estate that is subject to U.S. federal income tax on its income regardless of its source; or a trust, the substantial decisions of which are controlled by one or more U.S. persons and which is subject to the primary supervision of a U.S. court, or a trust that validly has elected under applicable Treasury regulations to be treated as a U.S. person for U.S. federal income tax purposes.

If a partnership (including any entity or arrangement that is treated as a partnership for U.S. federal income tax purposes) holds Cornerstone common stock, the tax treatment of a partner generally will depend on the status of the

partners and the activities of the partnership. Partnerships and partners in such a partnership should consult their tax advisers about the tax consequences of the merger to them.

**Holders of Cornerstone common stock are urged to consult with their own tax advisors as to the tax consequences of the merger in their particular circumstances, including the applicability and effect of the alternative minimum tax and any state, local or foreign and other tax laws and of any changes in those laws.**

### **Tax Consequences of the Merger**

The merger will constitute a “reorganization” within the meaning of Section 368(a) of the Code. Consummation of the merger is conditioned upon First Community and Cornerstone each receiving a written tax opinion, dated the closing date of the merger, from their respective outside legal counsel to the effect that, based upon facts, representations and assumptions set forth in such opinions, (i) the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code, and (ii) First Community and Cornerstone will each be a party to that reorganization within the meaning of Section 368(b) of the Code. An opinion of counsel represents the counsel’s best legal judgment and is not binding on the IRS or any court, and as a result, there can be no assurance that the IRS will not assert, or that a court would not sustain, a position contrary to any such opinion. In addition, if any of the representations or assumptions upon which these opinions are based are inconsistent with the actual facts, the U.S. federal income tax consequences of the merger could be adversely affected. Accordingly, each Cornerstone shareholder should consult its tax advisor with respect to the particular tax consequences of the merger to such holder.

### **Tax Consequences to First Community and Cornerstone**

Each of First Community and Cornerstone will be a party to the merger within the meaning of Section 368(b) of the Code, and neither First Community nor Cornerstone will recognize any gain or loss as a result of the merger.

### **Tax Consequences to Shareholders**

The federal income tax consequences of the merger to a U.S. holder who exchanges Cornerstone stock in the merger generally will depend on whether the shareholder exchanges its Cornerstone common stock for cash, First Community common stock or a combination of cash and First Community common stock.

*Exchange Solely for Cash.* In general, if pursuant to the merger a U.S. holder exchanges all of its shares of Cornerstone common stock solely for cash, that shareholder will recognize gain or loss equal to the difference between the amount of cash received and its adjusted tax basis in the shares of Cornerstone common stock surrendered. Such gain or loss must be calculated separately for each identifiable block of shares surrendered in the exchange and any gain or loss generally will be long-term capital gain or loss if the U.S. holder has held such stock for more than one year as of the merger date. If, however, the U.S. holder constructively owns shares of Cornerstone common stock that are exchanged for shares of First Community common stock in the merger or owns shares of First Community common stock actually or constructively after the merger, the consequences to that shareholder may be similar to the consequences described below under the heading “Exchange for First Community Common Stock and Cash,” except that the amount of consideration, if any, treated as a dividend may not be limited to the amount of that shareholder’s gain.

*Exchange Solely for First Community Common Stock.* If pursuant to the merger a U.S. holder exchanges all of its shares of Cornerstone common stock solely for shares of First Community common stock, that shareholder will not recognize any gain or loss except in respect of cash received in lieu of any fractional share of First Community common stock (as discussed below).

*Exchange for First Community Common Stock and Cash.* If pursuant to the merger a U.S. holder exchanges all of its shares of Cornerstone common stock for a combination of First Community common stock and cash, the U.S. holder generally will recognize gain (but not loss) in an amount equal to the lesser of: (1) the amount of cash received in exchange for the Cornerstone common stock in the merger (excluding any cash received in lieu of fractional shares of First Community common stock) and (2) the excess, if any, of (a) the sum of the amount of cash treated as received in exchange for Cornerstone common stock in the merger (excluding any cash received in lieu of fractional shares of First Community common stock) plus the fair market value of First Community common stock (including the fair market value of any fractional share) received in the merger (determined when the merger occurs), over (b) the U.S. holder's tax basis in the Cornerstone common stock exchanged. For this purpose, gain or loss must be calculated separately for each identifiable block of shares surrendered in the exchange, and a loss realized on one block of shares may not be used to offset a gain realized on another block of shares. Any recognized gain generally will be long-term capital gain if the U.S. holder has held its Cornerstone common stock for more than one year as of the merger date. If, however, the cash received has the effect of the distribution of a dividend, the gain would be treated as a dividend to the extent of the Cornerstone shareholder's ratable share of accumulated earnings and profits as calculated for United States federal income tax purposes. See "Possible Treatment of Cash as a Dividend."

*Possible Treatment of Cash as a Dividend.* There are certain circumstances in which all or part of the gain recognized by a U.S. holder will be treated as a dividend rather than as capital gain. In general, such determination depends on whether, and to what extent, the merger reduces a U.S. holder's percentage share ownership interest in First Community that the U.S. holder actually and constructively owns in comparison to the percentage interest the U.S. holder actually and constructively would have owned in First Community had such U.S. holder received only First Community common stock (and no cash) in the merger. Because the possibility of dividend treatment depends primarily upon a U.S. holder's particular circumstances, including the appl