

FIRST COMMUNITY CORP /SC/  
Form 10-Q  
November 10, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

for the quarterly period ended September 30, 2011

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

for the transition period from        to

Commission File No. 000-28344

**FIRST COMMUNITY CORPORATION**

(Exact name of registrant as specified in its charter)

**South Carolina**  
(State of Incorporation)

**57-1010751**  
(I.R.S. Employer Identification)

5455 Sunset Boulevard, Lexington, South Carolina 29072

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(Address of Principal Executive Offices)

**(803) 951-2265**

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: **On November 9, 2011, 3,303,519 shares of the issuer's common stock, par value \$1.00 per share, were issued and outstanding.**

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(Dollars in thousands, except par value)	September 30, 2011 (Unaudited)	December 31, 2010
<b>ASSETS</b>		
Cash and due from banks	\$ 9,465	\$ 7,114
Interest-bearing bank balances	8,217	19,102
Federal funds sold and securities purchased under agreements to resell	305	245
Investment securities - available for sale	208,900	189,309
Other investments, at cost	5,984	6,841
Loans held for sale	5,195	
Loans	324,233	329,954
Less, allowance for loan losses	4,708	4,911
Net loans	319,525	325,043
Property, furniture and equipment - net	17,593	18,026
Bank owned life insurance	10,877	10,773
Other real estate owned	8,269	6,904
Intangible assets	793	881
Other assets	11,761	14,785
Total assets	\$ 606,884	\$ 599,023
<b>LIABILITIES</b>		
Deposits:		
Non-interest bearing demand	\$ 84,857	\$ 72,625
NOW and money market accounts	139,462	123,604
Savings	32,670	29,886
Time deposits less than \$100,000	131,747	143,946
Time deposits \$100,000 and over	84,424	85,283
Total deposits	473,160	455,344
Securities sold under agreements to repurchase	16,927	12,686
Federal Home Loan Bank advances	48,724	68,094
Junior subordinated debt	15,464	15,464
Other borrowed money	100	120
Other liabilities	5,809	5,518
Total liabilities	560,184	557,226
<b>SHAREHOLDERS EQUITY</b>		
Preferred stock, par value \$1.00 per share, 10,000,000 shares authorized; 11,350 issued and outstanding	11,111	11,035
Common stock, par value \$1.00 per share; 10,000,000 shares authorized; issued and outstanding 3,303,519 at September 30, 2011, 3,270,135 at December 31, 2010	3,304	3,270
Common stock warrants issued	509	509
Nonvested restricted stock	(39)	
Additional paid in capital	49,146	48,956
Accumulated deficit (loss)	(18,374)	(19,732)
Accumulated other comprehensive income	1,043	(2,241)

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Total shareholders' equity		46,700		41,797
Total liabilities and shareholders' equity	\$	606,884	\$	599,023

See Notes to Consolidated Financial Statements

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

	Nine Months Ended September 30, 2011 (Unaudited)	Nine Months Ended September 30, 2010 (Unaudited)
<b>(Dollars in thousands, except per share data)</b>		
<b>Interest income:</b>		
Loans, including fees	\$ 14,376	\$ 14,970
Taxable securities	4,803	5,632
Non taxable securities	51	168
Federal funds sold and securities purchased under resale agreements	28	44
Other	30	28
Total interest income	19,288	20,842
<b>Interest expense:</b>		
Deposits	3,557	4,860
Federal funds sold and securities sold under agreement to repurchase	29	50
Other borrowed money	2,001	2,277
Total interest expense	5,587	7,187
<b>Net interest income</b>	<b>13,701</b>	<b>13,655</b>
Provision for loan losses	1,110	1,365
Net interest income after provision for loan losses	12,591	12,290
<b>Non-interest income:</b>		
Deposit service charges	1,376	1,421
Mortgage origination fees	1,152	691
Investment advisory fees and non-deposit commissions	531	416
Gain on sale of securities	274	324
Gain (loss) on sale of other assets	(109)	18
Fair value (loss) adjustments	(185)	(644)
Other-than-temporary-impairment write-down on securities	(54)	(799)
Loss on early extinguishment of debt	(74)	
Other	1,480	1,247
Total non-interest income	4,391	2,674
<b>Non-interest expense:</b>		
Salaries and employee benefits	7,002	6,610
Occupancy	953	918
Equipment	858	873
Marketing and public relations	361	301
FDIC assessments	681	735
Other real estate expense	638	536
Amortization of intangibles	466	466
Other	2,807	2,597
Total non-interest expense	13,766	13,036
Net income before tax	3,216	1,928
Income taxes	963	471
<b>Net income</b>	<b>\$ 2,253</b>	<b>\$ 1,457</b>
Preferred stock dividends	502	497
<b>Net income available to common shareholders</b>	<b>\$ 1,751</b>	<b>\$ 960</b>
Basic earnings per common share	\$ 0.53	\$ 0.29
Diluted earnings per common share	\$ 0.53	\$ 0.29



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

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2011 (Unaudited)	Three Months Ended September 30, 2010 (Unaudited)
<b>Interest income:</b>		
Loans, including fees	\$ 4,747	\$ 4,946
Taxable securities	1,600	1,755
Non taxable securities	18	91
Federal funds sold and securities purchased under resale agreements	7	17
Other	10	9
Total interest income	6,382	6,818
<b>Interest expense:</b>		
Deposits	1,114	1,555
Federal funds sold and securities sold under agreement to repurchase	11	13
Other borrowed money	629	767
Total interest expense	1,754	2,335
<b>Net interest income</b>	<b>4,628</b>	<b>4,483</b>
Provision for loan losses	360	235
Net interest income after provision for loan losses	4,268	4,248
<b>Non-interest income:</b>		
Deposit service charges	440	459
Mortgage origination fees	698	342
Investment advisory fees and non-deposit commissions	218	82
Gain on sale of securities	133	218
(Loss) on sale of other assets	(18)	(10)
Fair value (loss) adjustments	(60)	(201)
Other-than-temporary-impairment write-down on securities	(50)	(440)
Loss on early extinguishment of debt	(74)	
Other	401	472
Total non-interest income	1,688	922
<b>Non-interest expense:</b>		
Salaries and employee benefits	2,493	2,305
Occupancy	336	312
Equipment	287	290
Marketing and public relations	64	105
FDIC assessment	176	323
Other real estate expense	134	243
Amortization of intangibles	156	155
Other	912	911
Total non-interest expense	4,558	4,644
Net income before tax	1,398	526
Income taxes	441	132
<b>Net income</b>	<b>\$ 957</b>	<b>\$ 394</b>
<b>Preferred stock dividends</b>	<b>167</b>	<b>166</b>
<b>Net income available to common shareholders</b>	<b>\$ 790</b>	<b>\$ 228</b>
Basic earnings per common share	\$ 0.24	\$ 0.07
Diluted earnings per common share	\$ 0.24	\$ 0.07



See Notes to Consolidated Financial Statements

Table of Contents**FIRST COMMUNITY CORPORATION****Consolidated Statement of Changes in Shareholders Equity and Comprehensive Income (Loss)****Nine Months ended September 30, 2011 and September 30, 2010****(Unaudited)**

(Dollars in thousands)	Preferred Stock	Shares Issued	Common Stock	Common Stock Warrants	Additional Paid-in Capital	Nonvested Restricted Stock	Retained Earnings (Deficit)	Other Comprehensive Income (Loss)	Total
Balance, December 31, 2009	\$ 10,939	3,252	\$ 3,252	\$ 509	\$ 48,873	\$ (79)	\$ (20,401)	\$ (1,653)	\$ 41,440
Comprehensive income:									
Net income							1,457		1,457
Other comprehensive income:									
Unrealized gain during period on available-for-sale securities net of tax of \$732								1,341	
Less: reclassification adjustment for gain included in net income, net of tax benefit \$113								(211)	
Reclassification adjustment for Other- than-temporary impairment included in income net of tax of \$280								519	
Other comprehensive income								1,649	1,649
Comprehensive income:									3,106
Amortization of compensation on restricted stock						79			79
Dividends: Common (\$0.12 per share)							(391)		(391)
Preferred	72						(497)		(425)
Dividend reinvestment plan		14	14		66				80
<b>Balance, September 30, 2010</b>	<b>\$ 11,011</b>	<b>3,266</b>	<b>\$ 3,266</b>	<b>\$ 509</b>	<b>\$ 48,939</b>	<b>\$</b>	<b>\$ (19,832)</b>	<b>\$ (4)</b>	<b>\$ 43,889</b>
Balance, December 31, 2010	\$ 11,035	3,270	\$ 3,270	\$ 509	\$ 48,956	\$	\$ (19,732)	\$ (2,241)	\$ 41,797
Comprehensive income:									
Net income							2,253		2,253
Other comprehensive income:									
Unrealized gain during period on available-for-sale securities net of tax of \$1,806								3,427	
Less: reclassification adjustment for gain included in net income, net of tax benefit of \$96								(178)	
Reclassification adjustment for Other- than-temporary impairment included in income net of tax of \$19								35	
Other comprehensive income								3,284	3,284
Comprehensive income:									5,537
Issuance of restricted stock		23	23		133	(65)			91
Amortization of compensation on restricted stock						26			26
Dividends: Common (\$0.12 per share)							(393)		(393)
Preferred	76						(502)		(426)
Dividend reinvestment plan		11	11		57				68
<b>Balance, September 30, 2011</b>	<b>\$ 11,111</b>	<b>3,304</b>	<b>\$ 3,304</b>	<b>\$ 509</b>	<b>\$ 49,146</b>	<b>\$ (39)</b>	<b>\$ (18,374)</b>	<b>\$ 1,043</b>	<b>\$ 46,700</b>

See Notes to Consolidated Financial Statements

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

(Dollars in thousands)	Nine months ended September 30,	
	2011	2010
<b>Cash flows from operating activities:</b>		
Net income	\$ 2,253	\$ 1,457
Adjustments to reconcile net income to net cash provided in operating activities:		
Depreciation	634	667
Premium amortization	1,355	943
Provision for loan losses	1,110	1,365
Writedowns of other real estate owned	243	274
(Gain)loss on sale of other real estate owned	109	(19)
Amortization of intangibles	466	466
Gain on sale of securities	(274)	(324)
Loss on early extinguishment of debt	74	
Other-than-temporary-impairment on securities	54	799
Net decrease in fair value option instruments and derivatives	185	644
(Increase) decrease in other assets	520	(591)
Increase in other liabilities	292	574
Net cash provided in operating activities	7,021	6,255
<b>Cash flows from investing activities:</b>		
Purchase of investment securities available-for-sale	(91,464)	(100,532)
Maturity of investment securities available-for-sale	28,919	30,933
Proceeds from sale of securities available-for-sale	47,792	56,504
Purchase of investment securities held-to-maturity		(10)
Maturity of investment securities held-to-maturity		6,962
Decrease (increase) in loans	(4,535)	7,428
Proceeds from sale of other real estate owned	2,141	1,866
Purchase of property and equipment	(211)	(127)
Proceeds from sale of land	9	
Net cash provided (used) in investing activities	(17,349)	3,024
<b>Cash flows from financing activities:</b>		
Increase in deposit accounts	17,815	11,995
Increase (decrease) in securities sold under agreements to repurchase	4,241	(4,793)
Decrease in other borrowings	(20)	(44)
Advances from the FHLB	1,500	
Repayment of advances FHLB	(20,945)	(4,620)
Dividends paid: Common Stock	(393)	(391)
Preferred Stock	(502)	(497)
Dividend reinvestment plan	158	79
Net cash provided from financing activities	1,854	1,729
Net increase (decrease) in cash and cash equivalents	(8,474)	11,008
Cash and cash equivalents at beginning of period	26,461	20,844
<b>Cash and cash equivalents at end of period</b>	<b>\$ 17,987</b>	<b>\$ 31,852</b>
<b>Supplemental disclosure:</b>		
Cash paid during the period for:		
Interest	\$ 5,967	\$ 6,939
Income taxes	\$	\$
Non-cash investing and financing activities:		
Unrealized gain on securities	\$ 3,284	\$ 1,651

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Transfer of loans to foreclosed property	\$	3,694	\$	6,339
Transfer of HTM securities with OTTI to AFS securities	\$		\$	5,800

See Notes to Consolidated Financial Statements

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**First Community Corporation**

**Notes to Consolidated Financial Statements**

***Note 1 - Nature of Business and Basis of Presentation***

First Community Corporation, a bank holding company registered under the Bank Holding Company Act of 1956, as amended (the Company), was incorporated under the laws of South Carolina in 1994 primarily to own and control all of the capital stock of First Community Bank, N.A. (the Bank), which commenced operations in August 1995. On October 1, 2004, the Company completed its acquisition of DutchFork Bancshares, Inc. and its wholly-owned subsidiary, Newberry Federal Savings Bank. During the second quarter of 2006, the Company completed its acquisition of DeKalb Bankshares, Inc., the holding company for The Bank of Camden. On September 15, 2008, the Company completed the acquisition of two financial planning and investment advisory firms, EAH Financial Group and Pooled Resources, LLC. The Company engages in a commercial banking business from our main office in Lexington, South Carolina and our 11 full-service offices located in Lexington (two), Forest Acres, Irmo, Cayce-West Columbia, Gilbert, Chapin, Northeast Columbia, Prosperity, Newberry and Camden. The Company 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. The Company also offers online banking to our customers. The Company's stock trades on The NASDAQ Capital Market under the symbol FCCO.

The Bank expanded its residential mortgage business unit with the acquisition of the assets of Palmetto South Mortgage Corporation (Palmetto South), effective July 31, 2011. Palmetto South, which operates as a division of the Bank, offers mortgage loan products for home purchase or refinance in the South Carolina market area. The acquisition price will be paid during a three year earn out period with the actual amount calculated based on the achievement of certain profitability metrics. The earn out terms over the three year period provide for contingent consideration which ranges from \$0 to \$1.2 million based upon annual net income. Management anticipates the amount will be approximately \$600 thousand based upon recent past operating results. The purchase price of operating assets was \$22 thousand.

In the opinion of management, the accompanying unaudited consolidated balance sheets, the consolidated statements of income, the consolidated statements of changes in shareholders' equity and comprehensive income (loss), and the consolidated statements of cash flows of the Company, present fairly in all material respects the Company's financial position at September 30, 2011 and December 31, 2010, the Company's results of operations for the nine and three months ended September 30, 2011 and 2010, and the Company's cash flows for the nine months ended September 30, 2011 and 2010. The results of operations for the nine and three months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

In the opinion of management, all adjustments necessary to fairly present the consolidated financial position and consolidated results of operations have been made. All such adjustments are of a normal, recurring nature. All significant intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements and notes thereto are presented in accordance with the instructions for Form 10-Q. The information included in the Company's 2010 Annual Report on Form 10-K should be referred to in connection with these unaudited interim financial statements.

Table of Contents**Note 2 Earnings Per Share**

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

(In thousands, except price per share)	Nine months ended September 30,		Three months ended September 30,	
	2011	2010	2011	2010
Numerator (Net income available to common shareholders)	\$ 1,751	\$ 960	\$ 790	\$ 228
Denominator				
Weighted average common shares outstanding for:				
Basic earnings per share	3,280	3,259	3,294	3,264
Dilutive securities:				
Stock options Treasury stock method				
Diluted earnings per share	3,280	3,259	3,294	3,264
The average market price used in calculating assumed number of shares	\$ 6.45	\$ 6.02	\$ 6.19	\$ 5.55

At September 30, 2011, there were 77,450 outstanding options at an average exercise price of \$19.07 and warrants for 196,000 shares at \$8.69. None of the options or warrants has an exercise price below the average market price of \$6.45 and \$6.19 for the nine and three-month periods ended September 30, 2011, respectively, and therefore are not

deemed to be dilutive. At September 30, 2010 there were 190,256 outstanding options at an average exercise price of \$13.28 and warrants for 196,000 shares at \$8.69. None of the options or warrants has an exercise price below the average market price of \$6.02 and \$5.55 for the nine and three-month periods ended September 30, 2010, respectively, and therefore are not deemed to be dilutive.

**Note 3 Assets and Liabilities Measured at Fair Value**

In connection with the adoption of the Fair Value Option, the Company adopted the requirements of the FASB ASC Fair Value Measurement Topic which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Fair Value Measurement Topic also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities.

**Level 2** Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

**Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.



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*Note 3 Assets and Liabilities Measured at Fair Value-continued*

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value on a recurring basis:

**Investment Securities Available for Sale:** Measurement is on a recurring basis based upon quoted market prices, if available. If quoted market prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for prepayment assumptions, projected credit losses, and liquidity. Level 1 securities include those traded on an active exchange or by dealers or brokers in active over-the-counter markets. Level 2 securities include mortgage-backed securities ( MBSs ) issued by government sponsored enterprises and private label MBSs. Generally these fair values are priced from established pricing models. Level 3 securities include corporate debt obligations and asset backed securities that are less liquid or for which there is an inactive market.

**Loans:** Loans that are considered impaired are recorded at fair value on a non-recurring basis. Once a loan is considered impaired, measurement is based upon FASB ASC 310-10-35 Loan Impairment . The fair value is estimated using one of several methods, including collateral liquidation value, market value of similar debt and discounted cash flows. Those impaired loans not requiring a specific charge against the allowance represent loans for which the fair value of the expected repayments or collateral meet or exceed the recorded investment in the loan. At September 30, 2011, substantially all of the total impaired loans were evaluated based on the fair value of the underlying collateral. When the Company records the fair value based upon a current appraisal, the fair value measurement is considered a Level 2 measurement. When a current appraisal is not available or there is estimated further impairment, the measurement is considered a Level 3 measurement.

**Other Real Estate Owned ( OREO ):** OREO is carried at the lower of carrying value or fair value on a non-recurring basis. Fair value is based upon independent appraisals or management s estimation of the collateral and is considered a Level 2 measurement. When a current appraisal is not available or there is estimated further impairment, the measurement is considered a Level 3 measurement.

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**Derivative Financial Instruments:** Interest rate swaps and interest rate caps are carried at fair value and measured on a recurring basis. The measurement is based on valuation techniques including discounted cash flows analysis for each derivative. The analysis reflects the contractual remaining term of derivative, interest rates, volatility and expected cash payments. The measurement of the interest rate swap and cap are considered to be a Level 3 measurement.

The following tables reflect the changes in fair values for the nine and three-month periods ended September 30, 2011 and 2010 and where these changes are included in the income statement:

(Dollars in thousands)

Description	Nine months ended September 30,		Three months ended September 30,	
	2011 Non-interest income: Fair value adjustment gain (loss)	2010 Non-interest income: Fair value adjustment gain (loss)	2011 Non-interest income: Fair value adjustment gain (loss)	2010 Non-interest income: Fair value adjustment gain (loss)
Interest rate cap/swap	\$ (185)	\$ (644)	\$ (60)	\$ (201)
Total	\$ (185)	\$ (644)	\$ (60)	\$ (201)

The following table summarizes quantitative disclosures about the fair value for each category of assets carried at fair value as of September 30, 2011 and December 31, 2010 that are measured on a recurring basis. There were no liabilities carried at fair value as of September 30, 2011 or December 31, 2010 that are measured on a recurring basis.

(Dollars in thousands)

Description	September 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>Available for sale securities</i>				
Government sponsored enterprises	\$ 2,289	\$	\$ 2,289	\$
Mortgage backed securities	144,601		144,601	
Small Business Administration securities	38,059		38,059	
State and local government	20,585		20,006	579

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Corporate and other securities	3,366	925	2,441	
	208,900	925	207,396	579
Interest rate cap/swap	(708)			(708)
Total	\$ 208,192	\$ 925	\$ 207,396	\$ (129)

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(Dollars in thousands)

Description	December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>Available for sale securities</i>				
Government sponsored enterprises	\$ 13,738	\$	\$ 13,738	\$
Mortgage-backed securities	121,257		121,257	
Small Business Administration securities	31,496		31,496	
State and local government	19,055		18,430	625
Corporate and other securities	3,763	1,118	2,463	182
	189,309	1,118	187,384	807
Interest rate cap/swap	(778)			(778)
Total	\$ 188,531	\$ 1,118	\$ 187,384	\$ 29

The following tables reconcile the changes in Level 3 financial instruments for the nine and three months ended September 30, 2011, that are measured on a recurring basis.

(Dollars in thousands)	State and local government securities	Corporate and other securities	Interest rate Cap/Floor/Swap
Beginning Balance December 31, 2010	\$ 625	\$ 182	\$ (778)
Total gains or losses (realized/unrealized)			
Included in earnings			