

FIRST COMMUNITY CORP /SC/  
Form 10QSB  
August 13, 2004

## U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

### FORM 10-QSB

(Mark One)

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

for the quarterly period ended **June 30, 2004**

Transition report under 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 Small Business Issuer as Specified in its Charter)

**South Carolina**  
(State of Incorporation)

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

**5455 Sunset Boulevard, Lexington, South Carolina 29072**  
(Address of Principal Executive Offices)

**(803) 951-2265**  
(Issuer's Telephone Number, Including Area Code)

N/A

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

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

1,613,817 shares of common stock, par value \$1.00 per share, were issued and outstanding as of July 30, 2004.

Transitional Small Business Disclosure Format (check one): Yes  No

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## FIRST COMMUNITY CORPORATION

## CONSOLIDATED BALANCE SHEETS

	June 30, 2004 (Unaudited)	December 31, 2003
<b>ASSETS</b>		
Cash and due from banks	\$ 7,827,334	\$ 6,926,341
Interest-bearing bank balances	3,686,794	2,221,397
Federal funds sold and securities purchased under agreements to resell	20,572,136	17,335,461
Investment securities - available for sale	57,791,836	53,958,799
Investment securities - held to maturity (market value of \$5,030,152 and \$5,169,282 at June 30, 2004 and December 31, 2003, respectively)	4,979,752	4,994,896
Loans	129,775,432	121,008,673
Less, allowance for loan losses	1,781,785	1,705,082
Net loans	127,993,647	119,303,591
Property, furniture and equipment - net	8,910,209	7,981,611
Intangible assets	674,529	763,585
Other assets	2,042,777	1,543,008
Total assets	\$ 234,479,014	\$ 215,028,689
<b>LIABILITIES</b>		
Deposits:		
Non-interest bearing demand	\$ 42,145,096	\$ 37,043,600
NOW and money market accounts	57,455,031	57,015,473
Savings	18,229,354	11,222,761
Time deposits less than \$100,000	44,958,835	45,125,843
Time deposits \$100,000 and over	38,389,679	34,850,195
Total deposits	201,177,995	185,257,872
Securities sold under agreements to repurchase	7,355,000	3,941,000
Federal Home Loan Bank Advances	5,000,000	5,000,000
Other borrowed money	56,733	160,076
Other liabilities	1,053,619	1,160,927
Total liabilities	214,643,347	195,519,875
<b>SHAREHOLDERS EQUITY</b>		
Preferred stock, par value \$1.00 per share; 10,000,000 shares authorized; none issued and outstanding		
Common stock, par value \$1.00 per share; 10,000,000 shares authorized; issued and outstanding 1,613,817 and 1,597,224 at June 30, 2004 and December 31, 2003, respectively		
	1,613,817	1,597,224
Additional paid in capital	13,024,979	12,862,715
Retained earnings	5,601,988	4,909,742
Accumulated other comprehensive income (loss)	(405,117)	139,133
Total shareholders equity	19,835,667	19,508,814
Total liabilities and shareholders equity	\$ 234,479,014	\$ 215,028,689

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

	Six Months Ended June 30, 2004 (Unaudited)	Six Months Ended June 30, 2003 (Unaudited)
<b>Interest income:</b>		
Loans, including fees	\$ 4,035,279	\$ 3,703,170
Investment securities	1,043,437	1,226,715
Federal funds sold and securities purchased under resale agreements	79,239	94,446
Other	846	4,739
<b>Total interest income</b>	<b>5,158,801</b>	<b>5,029,070</b>
<b>Interest expense:</b>		
Deposits	1,061,112	1,254,826
Federal funds sold and securities sold under agreement to repurchase	12,379	16,308
Other borrowed money	55,410	415
<b>Total interest expense</b>	<b>1,128,901</b>	<b>1,271,549</b>
<b>Net interest income</b>	<b>4,029,900</b>	<b>3,757,521</b>
Provision for loan losses	130,000	97,000
<b>Net interest income after provision for loan losses</b>	<b>3,899,900</b>	<b>3,660,521</b>
<b>Non-interest income:</b>		
Deposit service charges	396,275	327,616
Mortgage origination fees	132,427	193,328
Other	272,594	186,613
<b>Total non-interest income</b>	<b>801,296</b>	<b>707,557</b>
<b>Non-interest expense:</b>		
Salaries and employee benefits	1,799,410	1,610,326
Occupancy	207,867	184,468
Equipment	445,399	353,138
Marketing and public relations	180,774	155,064
Amortization of intangibles	89,057	89,654
Other	683,440	578,781
<b>Total non-interest expense</b>	<b>3,405,947</b>	<b>2,971,431</b>
<b>Net income before tax</b>	<b>1,295,249</b>	<b>1,396,647</b>
<b>Income taxes</b>	<b>442,800</b>	<b>487,250</b>
<b>Net income</b>	<b>\$ 852,449</b>	<b>\$ 909,397</b>
<b>Basic earnings per common share</b>	<b>\$ 0.53</b>	<b>\$ 0.57</b>
<b>Diluted earnings per common share</b>	<b>\$ 0.51</b>	<b>\$ 0.55</b>

	<b>Three Months Ended June 30, 2004 (Unaudited)</b>	<b>Three Months Ended June 30, 2003 (Unaudited)</b>
<b>Interest income:</b>		
Loans, including fees	\$ 2,033,487	\$ 1,882,690
Investment securities	500,024	583,849
Federal funds sold and securities purchased under resale agreements	49,818	50,589
Other	413	2,091
<b>Total interest income</b>	<b>2,583,742</b>	<b>2,519,219</b>
<b>Interest expense:</b>		
Deposits	543,207	608,131
Federal funds sold and securities sold under agreement to repurchase	6,379	7,581
Other borrowed money	27,709	214
<b>Total interest expense</b>	<b>577,295</b>	<b>615,926</b>
<b>Net interest income</b>	<b>2,006,447</b>	<b>1,903,293</b>
Provision for loan losses	64,000	45,000
<b>Net interest income after provision for loan losses</b>	<b>1,942,447</b>	<b>1,858,293</b>
<b>Non-interest income:</b>		
Deposit service charges	207,222	173,025
Mortgage origination fees	74,710	99,994
Other	141,609	125,319
<b>Total non-interest income</b>	<b>423,541</b>	<b>398,338</b>
<b>Non-interest expense:</b>		
Salaries and employee benefits	897,969	853,658
Occupancy	106,892	88,487
Equipment	221,660	190,824
Marketing and public relations	82,448	78,236
Amortization of intangibles	44,529	44,528
Other	353,059	294,760
<b>Total non-interest expense</b>	<b>1,706,557</b>	<b>1,550,493</b>
<b>Net income before tax</b>	<b>659,431</b>	<b>706,138</b>
<b>Income taxes</b>	<b>228,850</b>	<b>246,850</b>
<b>Net income</b>	<b>\$ 430,581</b>	<b>\$ 459,288</b>
<b>Basic earnings per common share</b>	<b>\$ 0.27</b>	<b>\$ 0.29</b>
<b>Diluted earnings per common share</b>	<b>\$ 0.26</b>	<b>\$ 0.28</b>

## FIRST COMMUNITY CORPORATION

## Consolidated Statement of Changes in Shareholders' Equity and Comprehensive Income (loss)

Six Months ended June 30, 2004 and June 30, 2003

	Shares Issued	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2003	1,597,224	\$ 1,597,224	\$ 12,862,715	\$ 4,909,742	\$ 139,133	\$ 19,508,814
Comprehensive Income:						
Net Income				852,449		852,449
Accumulated other comprehensive loss net of income tax benefit of \$293,048					(544,250)	(544,250)
Total comprehensive income						308,199
Cash dividend (\$0.10 per share)				(160,203)		(160,203)
Options exercised	13,962	13,962	106,452			120,414
Dividend reinvestment plan	2,631	2,631	55,812			58,443
Balance, June 30, 2004	1,613,817	\$ 1,613,817	\$ 13,024,979	\$ 5,601,988	\$ (405,117)	\$ 19,835,667
Balance, December 31, 2002	1,587,970	\$ 1,587,970	\$ 12,771,383	\$ 3,414,234	\$ 665,136	\$ 18,438,723
Comprehensive Income:						
Net income				909,397		909,397
Accumulated other comprehensive loss income tax benefit of \$77,282					(131,365)	(131,365)
Total comprehensive income						778,032
Dividends paid (\$0.10 per share)				(142,994)		(142,994)
Options exercised	1,474	1,474	1,062			2,536
Balance, June 30, 2003	1,589,444	\$ 1,589,444	\$ 12,772,445	\$ 4,180,637	\$ 533,771	\$ 19,076,297

**FIRST COMMUNITY CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six months ended June 30,	
	2004	2003
<b>Cash flows from operating activities:</b>		
Net income	\$ 852,449	\$ 909,397
<b>Adjustments to reconcile net income to net cash used in operating activities:</b>		
Depreciation	354,064	283,034
Premium amortization (discount accretion)	45,067	137,567
Provision for loan losses	130,000	97,000
Amortization of intangibles	89,057	89,653
Gain on sale of equipment	(19,937)	
(Increase) decrease in other assets	(206,722)	98,771
Increase (decrease) in other liabilities	(107,308)	239,827
Net cash provided from operating activities	1,136,670	1,855,249
<b>Cash flows form investing activities:</b>		
Purchase of investment securities available-for-sale	(23,792,590)	(20,900,224)
Maturity of investment securities available-for-sale	19,092,332	32,545,651
Purchase of investment securities held-to-maturity		(500,000)
Maturity of investment securities held-to-maturity		760,000
Increase in loans	(8,820,056)	(11,661,472)
Purchase of property and equipment	(1,284,725)	(797,610)
Proceeds from sale of equipment	22,000	
Net cash used in investing activities	(14,783,039)	(553,655)
<b>Cash flows from financing activities:</b>		
Increase in deposit accounts	15,920,123	13,812,557
Increase (decrease) in securities sold under agreements to repurchase	3,414,000	(1,496,864)
Increase (decrease) in other borrowings	(103,343)	10,102
Proceeds from exercise of stock options	120,414	2,536
Dividends paid	(160,203)	(142,994)
Dividend reinvestment plan	58,443	
Net cash provided from financing activities	19,249,434	12,185,337
Net increase (decrease) in cash and cash equivalents	5,603,065	13,486,931
Cash and cash equivalents at beginning of period	26,483,199	17,843,276
Cash and cash equivalents at end of period	\$ 32,086,264	\$ 31,330,207
<b>Supplemental disclosure:</b>		
<b>Cash paid during the period for:</b>		
Interest	\$ 1,078,177	\$ 1,247,867
Income taxes	\$ 437,268	\$ 525,000
<b>Non-cash investing and financing activities:</b>		
Unrealized loss on securities available-for-sale	\$ (837,298)	\$ (218,013)

**FIRST COMMUNITY CORPORATION**  
**Notes to Consolidated Financial Statements**  
**June 30, 2004**

Note 1 - Basis of Presentation

The consolidated financial statements include the accounts of First Community Corporation and its wholly owned subsidiary First Community Bank, N.A. All material inter-company transactions are eliminated in consolidation. In the opinion of management, the unaudited financial statements reflect all adjustments necessary for a fair presentation of the balance sheet and results of operations for the periods presented. Operating results for the six months ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ended December 31, 2004.

Note 2 - EARNINGS PER SHARE

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

	Six months ended June 30,		Three months ended March 31,	
	2004	2003	2004	2003
Numerator (Included in basic and diluted earnings per share)	\$ 852,449	\$ 909,397	\$ 430,581	\$ 459,288
<b>Denominator</b>				
Weighted average common shares outstanding for:				
Basic earnings per share	1,602,057	1,588,719	1,606,309	1,589,444
Dilutive securities:				
Stock options - Treasury stock method	76,101	72,140	75,128	75,323
Diluted earnings per share	1,678,158	1,660,859	1,681,437	1,664,767
The average market price used in calculating assumed number of shares	\$ 22.61	\$ 17.77	\$ 22.26	\$ 18.45

Note 3 - Stock Based Compensation

The company has a stock based compensation plan as of June 30, 2004. The accounting for the plan is based on Accounting Principles Board Opinion No. #25 (APB 25). Accordingly, no compensation cost has been recognized in the financial statements. In accordance with Statement of Financial Accounting Standard No. 123 Accounting for Stock Based Compensation (SFAS 123) the company has elected to provide the disclosure-only option provided for by SFAS 123.

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	Six months ended June 30,		Three months ended March 31,	
	2004	2003	2004	2003
Net income as reported	\$ 852,449	\$ 909,397	\$ 430,581	\$ 459,288
Less: Stock based compensation using fair value method (net of tax)	1,700	10,300	850	5,000
Pro forma net income	\$ 850,749	\$ 899,097	\$ 429,731	\$ 454,288
<b>Basic earnings per share</b>				
As reported	\$ 0.53	\$ 0.57	\$ 0.27	\$ 0.29
Pro forma	\$ 0.53	\$ 0.57	\$ 0.27	\$ 0.29
<b>Diluted earnings per share</b>				
As reported	\$ 0.51	\$ 0.55	\$ 0.26	\$ 0.28
Pro forma	\$ 0.51	\$ 0.54	\$ 0.26	\$ 0.27

Note 4 Agreement and Plan of Merger

On April 12, 2004, the Company entered into an Agreement and Plan of Merger with DutchFork Bancshares (DFBS), the holding company for Newberry Federal Savings Bank (NFSB). The Agreement provides, among other things, that DFBS will merge with and into First Community with First Community as the surviving entity. Immediately following the merger, NFSB will merge with and into First Community Bank, N.A., with First Community Bank, N.A. being the surviving entity.

Pursuant to the Agreement, each share of DutchFork common stock issued and outstanding immediately before the Effective Date (as defined in the Agreement) will be converted into the right to receive at the election of the holder either (i) \$42.75 in cash, without interest, or (ii) 1.78125 shares of First Community common stock, subject to the allocation and election procedures set forth in the Agreement.

Consummation of the merger is subject to the satisfaction of certain conditions, including approval of the Agreement by the respective shareholders of DFBS and First Community and approval by the appropriate regulatory agencies.

## Item 2. Management's Discussion and Analysis

This Report contains statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and the Securities Exchange Act of 1934. These statements are based on many assumptions and estimates and are not guarantees of future performance. Our actual results may differ materially from those projected in the forward-looking statements, as they will depend on many factors, which are beyond our control. The words may, would, could, will, expect, anticipate, believe, intend, plan, and estimate, and similar expressions, are meant to identify such forward-looking statements. Potential risk and uncertainties include but are not limited to:

deposit attrition, customer loss, or revenue loss following the merger that is greater than expected;

expected cost savings from the merger may not be fully realized or realized within the expected time frame;

revenues following the merger may be lower than expected;

competitive pressures among financial services companies may increase significantly;

costs or difficulties related to the integration of the business of First Community and DutchFork related to or following the merger may be greater than expected;

changes in the interest rate environment may reduce interest margins;

general economic conditions, either nationally or in South Carolina, may be less favorable than expected resulting in, among other things, a deterioration in credit quality and an increase in credit risk-related losses and expenses;

the level of allowance for loan losses of the combined company;

the rate of delinquencies and amount of charge-offs;

the rates of loan growth;

loss of consumer confidence and economic disruptions resulting from terrorist activities;

legislative or regulatory changes may adversely affect the business in which First Community is engaged; and

changes may occur in the securities markets.

## Overview

The following discussion describes our results of operations for the quarter ended June 30, 2004 as compared to the quarter ended June 30, 2003 as well as results for the six months ended June 30, 2004 and 2003, and also analyzes our financial condition as of June 30, 2004 as compared to December 31, 2003. Like most community banks, we derive most of our income from interest we receive on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on which we pay interest. Consequently, one of the key measures of our success is our amount of net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities.

We have included a number of tables to assist in our description of various measures of our financial performance. For example, the Average Balances tables show the average balance of each category of our assets and liabilities as well as the yield we earned or the rate we paid with respect to each category during the first six months of 2004 and 2003 and the quarter ended June 30, 2004 and 2003. A review of these tables shows that our loans typically provide higher interest yields than do other types of interest-earning assets, which is why we direct a substantial percentage of our earning assets into our loan portfolio.

Of course, there are risks inherent in all loans, so we maintain an allowance for loan losses to absorb probable losses on existing loans that may become uncollectible. We establish and maintain this allowance by charging a provision for loan losses against our operating earnings. In the following section we have included a detailed discussion of this process.

In addition to earning interest on our loans and investments, we earn income through fees and other expenses we charge to our customers. We describe the various components of this non-interest income, as well as our non-interest expense, in the following discussion.

The following discussion and analysis also identifies significant factors that have affected our financial position and operating results during the periods included in the accompanying financial statements. We encourage you to read this discussion and analysis in conjunction with the financial statements and the related notes and the other statistical information also included in this report.

Comparison of Results of Operations for Six Months Ended June 30, 2004 to the Six Months Ended June 30, 2003:

### Net Income

The company's net income was \$852,000 or \$.51 diluted earnings per share for the six months ended June 30, 2004 as compared to net income of \$909,000 or \$.55 per share for the six months ended June 30, 2003. This decrease in net income reflects an increase in non-interest expenses



during the six months ended June 30, 2004 of \$435,000 as compared to the same period in 2003. Contributing to the increase was the company's continued focus on enhancing its infrastructure to support its expansion strategy. These expenses included cost associated with opening its seventh banking office in Northeast Columbia and starting construction on its eighth office in the Redbank community of Lexington County. The increase in non-interest expense was partially offset by an increase in the level of earning assets along with an increase in non-interest income. The level of average earning assets was \$200.5 million for the six months ended June 30, 2004 as compared to \$189.8 million for the six months ended June 30, 2003. This reflects a 5.6% increase in the level average earning assets for the two periods. The increase in average earning assets, partially offset by a decrease in the yield on earning assets, resulted in an increase in net interest income of \$272,000 in the first half of 2004 as compared to the first half of 2003. In addition, non-interest income increased \$94,000 in first six months of 2004 as compared to the first six months of 2003. This increase resulted primarily from an increase in deposit account service fees of \$69,000, an increase in debit card interchange fees, and an increase in ATM surcharge fees of approximately \$30,000. These fees have increased as a result of the installation of ATMs at all of our branch locations as well as increased volume in debit card transactions. The increases in net interest income and non-interest income were offset by an increase of \$435,000 in non-interest expense in the first six months of 2004 as compared to the first six months of 2003. During the first six months of 2004 the company had income tax expense of \$443,000 as compared to \$487,000 for the comparable period in 2003.

#### Net Interest Income

The table on page 12 shows yield and rate data for interest-bearing balance sheet components during the six month periods ended June 30, 2004 and 2003, along with average balances and the related interest income and interest expense amounts.

Net interest income was \$4.0 million during the six months ended June 30, 2004 as compared to \$3.8 million for the six months ended June 30, 2003. The yield on earning assets for the six months ended June 30, 2004 was 5.2% as compared to 5.3% for the six months ended June 30, 2003. The cost of interest bearing liabilities also decreased in the first six months of 2004 to 1.4% compared to 1.7% for the six months ended June 30, 2003. The largest component of interest income for the six months ended June 30, 2004 was interest on loans and amounted to \$4.0 million as compared to \$3.7 million for the comparable prior year period. The overall yield on loans was 6.4% for the six months ended June 30, 2004 as compared to 7.0% for the six months ended June 30, 2003. The investment portfolio income decreased by \$183,000 during the first six months of 2004 as compared to the same period in 2003. The decrease of \$8.4 million in average investment balances from \$64.4 million during 2003 to \$56.0 million during 2004 as well as a decline in the average yield of 9 basis points during the two periods contributed to the decline in investment portfolio income. Interest income on short-term overnight investments was \$80,000 for the six months ended June 30, 2004 as compared to \$94,000 for the six month period ended June 30, 2003. The yield on these overnight investments dropped from 1.1% for the six months ended June 30 2003 to .92% for the first six months of 2004. The average balances were \$17.6 million for the six months ended June 30, 2004 as compared to \$18.2 million for the same period in 2003.

Interest expense during the six months ended June 30, 2004 was \$1.1 million with an average rate paid on interest-bearing liabilities of 1.4% as compared to \$1.3 million and 1.7% during the six months ended June 30, 2003. Average interest-bearing liabilities increased to \$157.6 million for the six months ended June 30, 2004 as compared to \$153.4 million for the six months ended June 30, 2003.

The company would generally benefit from increasing market rates of interest when it has an asset-sensitive gap and generally benefit from decreasing market rates of interest when it is liability sensitive. The company currently is liability sensitive within one year. The company has established guidelines for monitoring interest sensitivity and uses both a gap analysis and asset/liability modeling to assess and monitor the impact of changing interest rates. Neither of these methods are precise indicators of the interest sensitivity position of the company due to the many factors that affect net interest income including changes in the volume and mix of earning assets and interest-bearing liabilities. Due to the fact that market interest rates continue to remain at their lowest levels in many years, further declines in interest rates may not result in the same magnitude of change in asset and liability repricing and would result in adverse pressure on the company's net interest margin. Certain core deposits may have already priced to floor levels, making it unlikely that the company could adjust these liability rates by the same magnitude of any further rate declines.

Provision and Allowance for Loan Losses

At June 30, 2004 the allowance for loan losses amounted to \$1.8, or 1.4% of total loans, as compared to \$1.7 million, or 1.4% of total loans, at December 31, 2003. The company's provision for loan loss was \$130,000 for the six months ended June 30, 2004 as compared to \$97,000 for the six months ended June 30, 2003. The provision was made based on management's assessment of general loan loss risk and asset quality. The objective of management is to maintain the allowance for loan losses at approximately 1.1% to 1.5% of total loans. The allowance for loan losses represents an amount which we believe will be adequate to absorb probable losses on existing loans that may become uncollectible. Our judgment as to the adequacy of the allowance for loan losses is based on a number of assumptions about future events, which we believe to be reasonable, but which may or may not prove to be accurate. Our determination of the allowance for loan losses is based on evaluations of the collectibility of loans, including consideration of factors such as the balance of impaired loans, the quality, mix, and size of our overall loan portfolio, economic conditions that may affect the borrower's ability to repay, the amount and quality of collateral securing the loans, our historical loan loss experience, and a review of specific problem loans. We also consider subjective issues such as changes in the lending policies and procedures, changes in the local/national economy, changes in volume or type of credits, changes in volume/severity of problem loans, quality of loan review and board of director oversight, concentrations of credit, and peer group comparisons. Periodically, we adjust the amount of the allowance based on changing circumstances. We charge recognized losses to the allowance and add subsequent recoveries back to the allowance for loan losses. There can be no assurance that charge-offs of loans in future periods will not exceed the allowance for loan losses as estimated at any point in time or that provisions for loan losses will not be significant to a particular accounting period.

At June 30, 2004 the company had no loans delinquent more than 90 days, and loans totaling \$549,000 that were delinquent more than 30 days. The company had three loans in a nonaccrual status in the amount of \$191,000 at June 30, 2004.

## Allowance for Loan Losses

(Dollars in thousands)	Six Month Ended June 30	
	2004	2003
Average loans outstanding	\$ 126,905	\$ 107,227
Loans outstanding at period end	\$ 129,775	\$ 111,881
Total non-performing loans	\$ 191	\$ 242
Beginning balance of allowance	\$ 1,705	\$ 1,525
Loans charged-off:		
1-4 family residential mortgage		
Home equity		
Commercial	93	
Installment & credit card	2	6
Total loans charged-off	95	6
Recoveries:		
1-4 family residential mortgage		
Home equity		
Commercial	36	234
Installment & credit card	6	1
Total recoveries	42	235
Net loan charge offs (recoveries)	53	(229)
Provision for loan losses	130	97
Balance at period end	\$ 1,782	\$ 1,851
Net charge -offs to average loans	0.04%	(0.21)%
Allowance as percent of total loans	1.37%	1.65%
Non-performing loans as % of total loans	0.14%	0.21%
Allowance as % of non-performing loans	933.0%	764.9%

Accrual of interest is discontinued on loans when management believes, after considering economic and business conditions and collection efforts that a borrower's financial condition is such that the collection of interest is doubtful. A delinquent loan is generally placed in nonaccrual status when it becomes 90 days or more past due. At the time a loan is placed in nonaccrual status, all interest which has been accrued on the loan but remains unpaid is reversed and deducted from earnings as a reduction of reported interest income. No additional interest is accrued on the loan balance until the collection of both principal and interest becomes reasonably certain.

At December 31, 2003 management implemented a system of allocating the allowance for loan losses to specific components of the loan portfolio. Prior to this time the allowance was allocated on an overall portfolio basis. Allocation of the allowance to specific components is not necessarily indicative of future losses or future allocations. The entire allowance is available to absorb losses in the portfolio.

Composition of the Allowance for Loan Losses (Dollars in thousands)

	June 30, 2004		December 31, 2003	
	Amount	% of loans in Category	Amount	% of loans in Category
Commercial, Financial and Agricultural	\$ 298	9.7%	\$ 285	9.5%
Real Estate - Construction	224	8.6%	214	6.4%
Real Estate:				
Commercial	828	57.5%	792	60.1%
Residential	307	10.3%	293	9.8%
Consumer	88	13.9%	85	14.2%
Unallocated	37	N/A	36	N/A
Total	\$ 1,782	100.0%	\$ 1,705	100.0%

Non-interest Income and Expense

Non-interest income during the six months ended June 30, 2004 was \$801,000 as compared to \$708,000 for the six months ended June 30, 2003. Increases in non-interest income included an increase in deposit service charges of \$69,000, an increase in debit card interchange fees and ATM surcharge fees of approximately \$30,000. The increase in deposit service charges is a result of the growth in deposits between the two periods. The increase in ATM surcharge and debit card fees resulted from our installation of ATMs at all branch locations as well as a change in our third party card processor in late 2003. Also contributing to the increase for the six months ended June 30 2004 was a gain on the sale of equipment in the amount of \$27,000. Offsetting these increases was a decrease in mortgage origination fees of \$60,000 in the six months ended June 30, 2004 as compared to the same period in 2003. Mortgage origination fees decreased as a result of lower refinancing volumes as compared to the same period in 2003. The company originates mortgages and simultaneously receives a commitment from a third party to purchase the loans at the time the loan is closed.

Total non-interest expense increased by \$435,000 during the first six months of 2004 as compared to the same period of 2003. Salaries and employee benefits increased \$189,000 in the first six months of 2004 as compared to the same period in 2003. The bank had 13 more full time equivalent employees at June 30, 2004 as compared to the same date in 2003. The increase in staffing is a result of increasing staff throughout the company as a result of continued growth. Equipment expense increased to \$445,000 in the first six months of 2004 as compared to \$353,000 in the same period of 2003. The increase in equipment expense is a result of additional maintenance contracts for system upgrades. A \$26,000 increase in marketing expense is a result of planned adjustments to marketing efforts in 2004 as compared to 2003. There was a \$104,000 increase in other expenses in the first six months of 2004 as compared to the same period on 2003. The increase is primarily a result of increases in supplies of \$27,000, correspondent and ATM charges of \$34,000, and director fees of \$22,000. In addition, legal and professional fees increased by approximately \$20,000 during the first six months of 2004 due to additional financial reporting and corporate governance requirements.

Comparison of Results of Operations for Three Months Ended June 30, 2004 to the Three Months Ended June 30, 2003:

Net income for the second quarter of 2004 was \$431,000 or \$0.26 per diluted share as compared to \$459,000 or \$0.28 per diluted share during the comparable period in 2003. Net interest income increased by \$103,000 for the three months ended June 30, 2004 from \$1.9 million in 2003 to \$2.0 million in 2004. In addition, non-interest income increased by \$25,000 from \$398,000 for the three months ended June 30, 2003 to \$424,000 in the same period of 2004.

Average earning assets were \$207.3 million during the second quarter of 2004 as compared to \$190.9 million during the second quarter of 2003. The table on page 13 shows yield and rate data for interest-bearing balance sheet components during the three month periods ended June 30, 2004 and 2003, along with average balances and the related interest income and interest expense amounts. The yield on average earning assets decreased to 5.0% in the second quarter of 2004 as compared to 5.3% in the second quarter of 2003. The cost of interest bearing liabilities was 1.4% in second quarter of 2004 as compared to 1.6% in the second quarter of 2003.

Total non-interest income increased by \$25,000 during the second quarter of 2004 as compared to the same period in 2003. Deposit service charges increased by \$34,000 and mortgage loan fees decreased by \$25,000 in the three months ended June 30, 2004 as compared to the same period in 2003. As explained in the six month results, increased deposit balances resulted in the increase in deposit related service charges. A slow down in the mortgage refinance market resulted in the decrease in mortgage origination fees in the second quarter of 2004 as compared to the same period in 2003.

Total non-interest expense increased by \$156,000 in the second quarter of 2004 as compared to the same quarter of 2003. This increase is resulted from a \$44,000 increase in salary and benefits

expense, an \$18,000 increase in occupancy expense, a \$31,000 increase in equipment expense, and a \$58,000 increase in other expenses. All of these increases are a result of the company's continued growth and expansion strategy. During the second quarter of 2004, the bank opened its seventh banking office in Northeast Columbia and began construction on its eighth office in the Redbank community of Lexington County.

Financial Position

Assets totaled \$234.5 million at June 30, 2004 as compared to \$215.0 million at December 31, 2003, an increase of \$19.5 million. At June 30, 2004, loans accounted for 59.9% of earning assets, as compared to 55.8% at December 31, 2003. Loans grew by \$8.8 million during the six months ended June 30, 2004 from \$121.0 million at December 31, 2003 to \$129.8 million at June 30, 2004. The loan to deposit ratio at June 30, 2004 was 64.5% as compared to 65.3% at December 31, 2003. Taking into account only our internal growth, we anticipate that this ratio will increase as management attempts to invest more of its assets in the higher earning loan portfolio as compared to the investment portfolio, but taking into account the completion of our contemplated merger with Dutchfork Bancshares, we anticipate that this ratio will decrease because of the size of Dutchfork's investment portfolio. Earning asset growth was funded by growth in deposits of \$15.9 million from \$185.3 million at December 31, 2003 to \$201.2 million at June 30, 2004.

*Loans.* Loans typically provide higher yields than the other types of earning assets, and thus one of the bank's goals is to have loans be the largest category of the bank's earning assets. Associated with the higher loan yields are the inherent credit and liquidity risks which management attempts to control and counterbalance. Management is committed to achieving its asset mix goals management without sacrificing asset quality. Loans averaged \$126.9 million during for the six months ended June 30, 2004.

The following table shows the composition of the loan portfolio by category:

(In thousands)	June 30 2004		December 31, 2003	
	Amount	Percent	Amount	Percent
Commercial, financial & agricultural	\$ 12,549	9.7%	\$ 11,518	9.5%
Real estate:				
Construction	11,187	8.6%	7,782	6.4%
Mortgage - residential	13,401	10.3%	11,804	9.8%
Mortgage - commercial	74,638	57.5%	72,668	60.1%
Consumer	18,000	13.9%	17,237	14.2%
Total gross loans	129,775	100.0%	121,009	100.0%
Allowance for loan losses	(1,782)		(1,705)	
Total net loans	\$ 127,993		\$ 119,303	

In the context of this discussion, a real estate mortgage loan is defined as any loan, other than loans for construction purposes, secured by real estate, regardless of the purpose of the loan. The company follows the common practice of financial institutions in the company's market area of obtaining a security interest in real estate whenever possible, in addition to any other available collateral. This collateral is taken to reinforce the likelihood of the ultimate repayment of the loan and tends to increase the magnitude of the real estate loan components. Generally the company limits the loan-to-value ratio to 80%.

#### Liquidity and Capital Resources

The company's liquidity remains adequate to meet operating and loan funding requirements. Federal funds sold and investment securities available-for-sale represented 33.4% of total assets at June 30, 2004. Management believes that its existing stable base of core deposits along with continued growth in this deposit base will enable the company to meet its long-term and short-term liquidity needs successfully. These needs include the ability to respond to short-term demand for funds caused by the withdrawal of deposits, maturity of repurchase agreements, extensions of credit and for the payment of operating expenses. Sources of liquidity in addition to deposit gathering activities include maturing loans and investments, purchase of federal funds from other financial institutions and selling securities under agreements to repurchase. The company monitors closely the level of large certificates of deposits in amounts of \$100,000 or more as they tend to be more sensitive to interest rate levels, and thus less reliable sources of funding for liquidity purposes. At June 30, 2004 the amount of certificates of deposits of \$100,000 or more represented 19.1% of total deposits. These deposits are issued to local customers many of which have other product relationships with the bank and none are brokered deposits. Through the operations of our bank, we have made contractual commitments to extend credit in the ordinary course of our business activities. These commitments are legally binding agreements to lend money to our customers at predetermined interest rates for a specified period of time. At June 30, 2004, we had issued commitments to extend credit of \$22.7 million, including \$12.3 million in unused home equity lines of credit, through various types of lending arrangements. We evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on our credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, property, plant and equipment, commercial and residential real estate. We manage the credit risk on these commitments by subjecting them to normal underwriting and risk management processes.

Management is not aware of any trends, events or uncertainties that may result in a significant adverse effect on the company's liquidity position. However, no assurances can be given in this regard, as rapid growth, deterioration in loan quality, and poor earnings, or a combination of these factors, could change the company's liquidity position in a relatively short period of time.

The capital needs of the company have been primarily met to date through the initial common stock offering which raised approximately \$6.8 million, and in July 1998, a secondary offering in which the company raised an additional \$6.6 million in net proceeds. This capital, along with continued retained earnings and the proceeds we anticipate receiving from the issuance of up to \$15 million in trust preferred securities which we expect to issue before the effective date of our merger with Dutchfork Bancshares, is expected to be sufficient to fund the operations of the bank. The company's management anticipates that the bank will remain a well capitalized institution. Shareholders' equity was 8.5% and 9.1% of total assets at June 30, 2004 and December 31, 2003, respectively. The bank's risked-based capital ratios of Tier 1, total capital and leverage ratio were 10.6%, 11.6% and 7.3%, respectively at June 30, 2004. The company's risked-based capital ratios of Tier 1, total capital and leverage ratio were 12.8%, 14.0% and 8.7%, respectively at June 30, 2004. This compares to required OCC and Federal Reserve regulatory capital guidelines for Tier 1 capital, total capital and leverage capital ratios of 4.0%, 8.0% and 4.0%, respectively.

**FIRST COMMUNITY CORPORATION****Yields on Average Earning Assets and Rates****on Average Interest-Bearing Liabilities**

	Six months ended June 30, 2004			Six months ended June 30, 2003		
	Average Balance	Interest Earned/Paid	Yield Rate	Average Balance	Interest Earned/Paid	Yield/ Rate
<b>Assets</b>						
Earning assets						
Loans	\$ 126,904,949	\$ 4,035,279	6.39%	\$ 107,227,473	\$ 3,703,170	6.96%
Securities:	55,982,841	1,043,437	3.75%	64,377,167	1,226,715	3.84%
Federal funds sold and securities purchased under agreements to resell	17,565,043	80,085	0.92%	18,157,439	99,185	1.10%
Total earning assets	200,452,833	5,158,801	5.18%	189,762,079	5,029,070	5.34%
Cash and due from banks	7,222,335			6,286,097		
Premises and equipment	8,443,928			7,159,032		
Other assets	2,289,519			2,170,242		
Allowance for loan losses	(1,777,994)			(1,655,390)		
Total assets	\$ 216,630,621			\$ 203,722,060		
<b>Liabilities</b>						