

FIRST COMMUNITY CORP /SC/  
Form 10QSB  
May 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 March 31, 2004**

**Transition report under Section 13 or 15(d) of the Exchange Act for the transition period from        to**

Commission File No. 33-86258

## 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)

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

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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:

1,606,851 shares of common stock, par value \$1.00 per share, were issued and outstanding as of April 30, 2004

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

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## PART I

## FINANCIAL INFORMATION

## Item 1. Financial Statements.

## FIRST COMMUNITY CORPORATION

## CONSOLIDATED BALANCE SHEETS

	March 31, 2004 (Unaudited)	December 31, 2003
<b>ASSETS</b>		
Cash and due from banks	\$ 6,605,673	\$ 6,926,341
Interest-bearing bank balances	2,897,407	2,221,397
Federal funds sold and securities purchased under agreements to resell	20,982,559	17,335,461
Investment securities - available for sale	48,901,674	53,958,799
Investment securities - held to maturity (market value of \$5,249,900 and \$5,160,669 at March 31, 2004 and December 31, 2003, respectively)	4,987,410	4,994,896
Loans	127,008,866	121,008,673
Less, allowance for loan losses	1,789,617	1,705,082
Net loans	125,219,249	119,303,591
Property, furniture and equipment - net	8,411,971	7,981,611
Intangible assets	719,057	763,585
Other assets	1,488,446	1,543,008
<b>Total assets</b>	<b>\$ 220,213,446</b>	<b>\$ 215,028,689</b>
<b>LIABILITIES</b>		
Deposits:		
Non-interest bearing demand	\$ 39,671,287	\$ 37,043,600
NOW and money market accounts	52,909,485	57,015,473
Savings	13,210,250	11,222,761
Time deposits less than \$100,000	45,561,870	45,125,843
Time deposits \$100,000 and over	36,051,872	34,850,195
Total deposits	187,404,764	185,257,872
Federal Home Loan Bank Advances	5,000,000	5,000,000
Securities sold under agreements to repurchase	6,396,800	3,941,000
Other borrowed money	149,631	160,076
Other liabilities	1,208,322	1,160,927
<b>Total liabilities</b>	<b>200,159,517</b>	<b>195,519,875</b>
<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 1,598,401 at March 31, 2003 and 1,597,224 at December 31, 2003.	1,598,401	1,597,224
Additional paid in capital	12,889,167	12,862,715

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Retained earnings	5,251,741	4,909,742
Accumulated other comprehensive income	314,620	139,133
Total shareholders' equity	20,053,929	19,508,814
Total liabilities and shareholders' equity	\$ 220,213,446	\$ 215,028,689

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

	<b>Three Months ended March 31,</b>	
	<b>2004</b>	<b>2003</b>
<b>Interest income:</b>		
Loans, including fees	\$ 2,001,792	\$ 1,820,480
Investment securities	543,413	642,866
Federal funds sold and securities purchased under resale agreements	29,421	43,857
Other	433	2,648
<b>Total interest income</b>	<b>2,575,059</b>	<b>2,509,851</b>
<b>Interest expense:</b>		
Deposits	517,905	646,695
Federal funds sold and securities sold under agreement to repurchase	6,000	8,727
Other borrowed money	27,701	201
<b>Total interest expense</b>	<b>551,606</b>	<b>655,623</b>
<b>Net interest income</b>	<b>2,023,453</b>	<b>1,854,228</b>
<b>Provision for loan losses</b>	<b>66,000</b>	<b>52,000</b>
<b>Net interest income after provision for loan losses</b>	<b>1,957,453</b>	<b>1,802,228</b>
<b>Non-interest income:</b>		
Deposit service charges	189,053	154,591
Mortgage origination fees	57,717	93,334
Other	130,985	61,294
<b>Total non-interest income</b>	<b>377,755</b>	<b>309,219</b>
<b>Non-interest expense:</b>		
Salaries and employee benefits	901,441	756,668
Occupancy	100,975	95,981
Equipment	223,739	162,314
Marketing and public relations	98,326	76,828
Amortization of intangibles	44,528	45,126
Other	330,382	284,021
<b>Total non-interest expense</b>	<b>1,699,391</b>	<b>1,420,938</b>
<b>Net income before tax</b>	<b>635,817</b>	<b>690,509</b>
<b>Income taxes</b>	<b>213,950</b>	<b>240,400</b>
<b>Net income</b>	<b>\$ 421,867</b>	<b>\$ 450,109</b>
<b>Basic earnings per common share</b>	<b>\$ 0.26</b>	<b>\$ 0.28</b>
<b>Diluted earnings per common share</b>	<b>\$ 0.25</b>	<b>\$ 0.27</b>



## FIRST COMMUNITY CORPORATION

**Consolidated Statement of Changes in Shareholders' Equity and Comprehensive Income**  
**Three Months ended March 31, 2003 and March 31, 2004**

	Shares Issued		Common Stock		Additional Paid-in Capital		Retained Earnings		Accumulated Other Comprehensive Income		Total
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							450,109				450,109
Accumulated other comprehensive income net of income tax benefit of \$129,805									(206,326)		(206,326)
Total comprehensive income											243,783
Dividends paid							(63,518)				(63,518)
Exercise of stock options	1,474		1,474		1,062						2,536
Balance, March 31, 2003	1,589,444	\$	1,589,444	\$	12,772,445	\$	3,800,825	\$	458,810	\$	18,621,524
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							421,867				421,867
Accumulated other comprehensive income net of income tax benefit of \$94,493									175,487		175,487
Total comprehensive income											597,354
Dividends paid							(79,868)				(79,868)
Dividend reinvestment plan	1,177		1,177		26,452						27,629
Balance, March 31, 2004	1,598,401	\$	1,598,401	\$	12,889,167	\$	5,251,741	\$	314,620	\$	20,053,929



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

	Three months ended March 31,	
	2004	2003
<b>Cash flows from operating activities:</b>		
Net income	\$ 421,867	\$ 450,109
<b>Adjustments to reconcile net income to net cash used in operating activities:</b>		
Depreciation	172,395	132,128
Premium amortization (Discount accretion)	19,913	70,744
Provision for loan losses	66,000	52,000
Amortization of intangibles	44,528	45,126
Gain on sale of equipment	(19,937)	
(Increase) decrease in other assets	(39,931)	30,942
Increase in accounts payable	47,395	142,030
Net cash provided in operating activities	712,230	923,079
<b>Cash flows from investing activities:</b>		
Purchase of investment securities available-for-sale	(3,376,050)	(11,155,134)
Maturity of investment securities available-for-sale	8,690,728	14,915,997
Increase in loans	(5,981,658)	(7,691,469)
Purchase of property and equipment	(604,818)	(529,049)
Proceeds from sale of equipment	22,000	
Net cash used in investing activities	(1,249,798)	(4,459,655)
<b>Cash flows from financing activities:</b>		
Increase in deposit accounts	2,146,892	19,243,551
Increase (decrease) in securities sold under agreements to repurchase	2,455,800	(1,098,264)
Decrease in other borrowings	(10,445)	(20,961)
Exercise of stock options		2,536
Dividend reinvestment plan	27,629	
Dividends paid	(79,868)	(63,518)
Net cash provided from financing activities	4,540,008	18,063,344
Net increase in cash and cash equivalents	4,002,440	14,526,768
Cash and cash equivalents at beginning of period	26,483,199	17,843,276
Cash and cash equivalents at end of period	\$ 30,485,639	\$ 32,370,044
<b>Supplemental disclosure:</b>		
<b>Cash paid during the period for:</b>		
Interest	\$ 515,848	\$ 528,332
Taxes	\$ 17,268	\$ 6,694
<b>Non-cash investing and financing activities:</b>		
Unrealized gain (loss) on securities available-for-sale	\$ 269,980	\$ (333,336)



**FIRST COMMUNITY CORPORATION****Notes to Consolidated Financial Statements****March 31, 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 intercompany 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.

**Note 2 - EARNINGS PER SHARE**

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

	<b>Three months ended March 31,</b>	
	<b>2004</b>	<b>2003</b>
Numerator (Included in basic and diluted earnings per share)	\$ 421,867	\$ 450,109
Denominator		
Weighted average common shares outstanding for:		
Basic earnings per share	1,597,806	1,587,970
Dilutive securities:		
Stock options - Treasury stock method	86,708	60,693
Diluted earnings per share	1,684,514	1,648,663
The average market price used in calculating assumed number of shares	\$ 22.32	\$ 16.39

**Note 3 - Stock Based Compensation**

The company has a stock based compensation plan as of March 31, 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.

	<b>Three Months March 31,</b>	
	<b>2004</b>	<b>2003</b>
Net income as reported	\$ 421,867	\$ 450,109
	850	6,100

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Less: Stock based compensation using  
fair value method (net of tax)

Pro forma net income	\$	421,017	\$	444,009
Basic earnings per share				
As reported	\$	0.26	\$	0.28
Pro forma	\$	0.26	\$	0.28
Diluted earnings per share				
As reported	\$	0.25	\$	0.27
Pro forma	\$	0.25	\$	0.27

Note 4      Subsequent Event - 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 forward-looking statements relating to, without limitation, future economic performance, plans and objectives of management for future operations, and projections of revenues and other financial items that are based on the beliefs of management, as well as assumptions made by and information currently available to management. The words may, will, anticipate, should, would, believe, expect, estimate, continue, may, and intend, as well as other similar words and expressions of the future, are intended to identify forward-looking statements. Our actual results may differ materially from the results discussed in the forward-looking statements, and our operating performance is subject to various risks and uncertainties that are discussed in detail in our filings with the Securities and Exchange Commission, including, without limitation:

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.

**Comparison of Results of Operations for Three Months Ended March 31, 2004 to the Three Months Ended March 31, 2003:**

Net Income

The company's net income for the three months ended March 31, 2004 was \$422,000, or \$.25 diluted earnings per share, as compared to \$450,000, or \$.27 diluted earnings per share, for the three months ended March 31, 2003. The decrease in net income is primarily due to an increase in non-interest expenses during the three months ended March 31, 2004 of \$278,000 as compared to the same period in 2003. These increases were primarily a result of the company continuing to enhance its infrastructure to support its expansion strategy, including cost associated with opening its seventh banking office in Northeast Columbia. The increases in non-interest expense were partially offset by an increase in the level of earning assets along with improvement in the net interest margin. Average

earning assets were \$193.6 million during the first quarter of 2004 as compared to \$188.6 million during the first quarter of 2003. The increase in average earning assets resulted in an increase in net interest income of \$169,000 in the first quarter of 2004 as compared to the first quarter of 2003. In addition, non-interest income increased \$69,000 in the first quarter of 2004 as compared to the first quarter of 2003. This increase results primarily from increased deposit account service fees of \$34,000 and an increase in other income of \$70,000. During the first three months of 2004 the company had income tax expense of \$214,000 as compared to \$240,000 for the comparable period in 2003.

The table on page 15 shows yield and rate data for interest-bearing balance sheet components during the three month periods ended March 31, 2004 and 2003, along with average balances and the related interest income and interest expense amounts.

Net interest income was \$2.0 million for the three months ended March 31, 2004 as compared to \$1.9 million for the three months ended March 31, 2003. The yield on earning assets for the three months ended March 31, 2004 and 2003 was 5.4%. The cost of interest bearing liabilities came down in the first quarter of 2004 to 1.5% as compared to 1.7% in the first quarter of 2003. The net interest margin was 4.2% for the three months ended March 31, 2004 as compared to 4.0% during the three months ended March 31, 2003. Average loans comprised 64.3% of average earning assets during the first quarter of 2004 and 56.0% during the first quarter of 2003.

#### Provision and Allowance for Loan Losses

At March 31, 2004 the allowance for loan losses amounted to \$1.8 million, 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 \$66,000 for the three months ended March 31, 2004 as compared to \$52,000 for the three months ended March 31, 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. At March 31, 2004 the company had no loans delinquent more than 90 days, and loans totaling \$740,000 that were delinquent more than 30 days. The company had four loans in a nonaccrual status in the amount of \$113,000 at March 31, 2004.



Allowance for Loan Losses (Dollars in thousands)	Three months ended March 31,	
	2004	2003
Average loans outstanding	\$ 124,383	\$ 103,995
Loans outstanding at period end	\$ 127,009	\$ 107,767
Total non-performing loans	\$ 113	\$ 157
Beginning balance of allowance	\$ 1,705	\$ 1,525
Loans charged-off:		
1-4 family residential mortgage		
Home equity		
Commercial		
Installment & credit card		2
Total loans charged-off		2
Recoveries:		
1-4 family residential mortgage		
Home equity		
Commercial	16	87
Installment & credit card	3	
Total recoveries	19	87
Net loan charge offs (recoveries)	(19)	85
Provision for loan losses	66	52
Balance at period end	\$ 1,790	\$ 1,662
Net charge -offs to average loans	(0.02)%	(0.08)%
Allowance as percent of total loans	1.41%	1.54%
Non-performing loans as % of total loans	0.09%	1.14%
Allowance as % of non-performing loans	1,584.1%	1,058.6%

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**

	March 31, 2004		December 31, 2003	
	Amount	% of loans in Category	Amount	% of loans in Category
Commercial, Financial and Agricultural	\$ 299	9.6%	\$ 285	9.5%
Real Estate - Construction	225	9.0%	214	6.4%
Real Estate:				
Commercial	832	58.4%	792	60.1%
Residential	308	9.6%	293	9.8%
Consumer				