FIRST COMMUNITY CORP /SC/
Form 10-K
March 26, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K
(Mark One)

o Annual Report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2006

Or

o Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission file number: 000-28344

First Community Corporation
(Exact name of registrant as specified in its charter)

South Carolina	**57-1010751**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5455 Sunset Blvd., **Lexington, South Carolina**	**29072**
(Address of principal executive offices)	(Zip Code)

803-951-2265
Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, $1.00 par value per share	The NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x

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 past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
Yes o No x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. Se definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer o Accelerated filer o Non-accelerated filer x

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

As of June 30, 2006, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $52,493,000 based on the closing sale price of $18.18 on June 30, 2006, as reported on The NASDAQ Capital Market.

3,220,908 shares of the issuer's common stock were issued and outstanding as of March 15, 2007.

Documents Incorporated by Reference

Proxy Statement for the Annual Meeting of Shareholders to be held on May 16, 2007.	Part III (Portions of Items 10-14)

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Report contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of 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 any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control. The words "may," "would," "could," "will," "expec "anticipate," "believe," "intend," "plan," and "estimate," as well as similar expressions, are meant to identify su forward-looking statements. Potential risks and uncertainties include, but are not limited to those described below under Item 1A- Risk Factors and the following:

- the businesses of First Community and DeKalb Bankshares may not be integrated successfully or such integration may take longer to accomplish than expected;
- the expected cost savings and any revenue synergies from the merger may not be fully realized within the expected timeframes;
- success and timing of other business strategies;
- significant increases in competitive pressure in the banking and financial services industries;
- changes in the interest rate environment which could reduce anticipated or actual margins;
- changes in political conditions or the legislative or regulatory environment;
- general economic conditions, either nationally or regionally and especially in our primary service area, becoming less favorable than expected, resulting in, among other things, a deterioration in credit quality;
- changes occurring in business conditions and inflation;
- changes in technology;
- changes in monetary and tax policies;
- the level of allowance for loan loss;
- the rate of delinquencies and amounts of charge-offs;
- the rates of loan growth;
- adverse changes in asset quality and resulting credit risk-related losses and expenses;
- loss of consumer confidence and economic disruptions resulting from terrorist activities;
- changes in the securities markets; and
- other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission.

We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

PART I
Item 1. Business

General

First Community Corporation, a bank holding company registered under the Bank Holding Company Act of 1956, 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., which commenced operations in August 1995. On October 1, 2004, we consummated our acquisition of DutchFork Bancshares, Inc. and its wholly-owned subsidiary, Newberry Federal Savings Bank. During the second quarter of 2006, we completed our acquisition of DeKalb Bankshares, Inc., the holding company for The Bank of Camden. We engage in a commercial banking business from our main office in Lexington, South Carolina and our 12 full-service offices are located in Lexington (two), Forest Acres, Irmo, Cayce-West Columbia, Gilbert, Chapin, Northeast Columbia, Prosperity, Newberry (two) and Camden. We offer 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. We also offer online banking to our customers. Our stock trades on The NASDAQ Capital Market under the symbol FCCO.

As of December 31, 2004, the company no longer met the requirements to qualify as a small business issuer as defined in Rule 12b-2 of the Securities Exchange Act of 1934 (the "Exchange Act"). All reports of the company, beginning with the Form 10-Q for the quarter ended March 31, 2005, are presented in accordance with Regulation S-K. The company, however, is not an accelerated filer as defined in Rule 12b-2 of the Exchange Act. As a result,

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the company qualifies for the extended compliance period with respect the accountants report on management's assessment of internal control over financial reporting and management's annual report on internal control over financial reporting required by PCAOB Auditing Standards No. 2.

Location and Service Area

The bank is engaged in a general commercial and retail banking business, emphasizing the needs of small-to-medium sized businesses, professional concerns and individuals, primarily in Richland, Lexington, Kershaw and Newberry counties of South Carolina and the surrounding areas.

Richland County, Lexington County, Kershaw County and Newberry County are located in the geographic center of the state of South Carolina. Columbia, the capital of South Carolina, is located within and divided between Richland and Lexington counties. Columbia can be reached via three interstate highways: I-20, I-26, and I-77. Columbia is served by several airlines as well as by passenger and freight rail service. According to the U. S. Census Bureau, Richland, Lexington, Kershaw and Newberry Counties, which include the primary service areas for the existing twelve sites of the bank, had estimated populations in 2005 of 340,078, 235,272, 56,486 and 37,250, respectively.

The principal components of the economy within our market area are service industries, government, and wholesale and retail trade. The largest employers in the area, each of which employs in excess of 3,000 people, include Fort Jackson Army Base, the University of South Carolina, Palmetto Health Alliance, Blue Cross Blue Shield and SCANA Corporation. The area has experienced steady growth over the past 10 years and we expect that the area, as well as the service industry needed to support it, will to continue to grow. For 2003, Richland, Lexington, Kershaw and Newberry Counties had estimated median household incomes of $39,737, $45,677, $40,288 and $33,137, respectively, compared to $38,003 for South Carolina as a whole.

Banking Services

We offer a full range of deposit services that are typically available in most banks and thrift institutions, including checking accounts, NOW accounts, savings accounts and other time deposits of various types, ranging from daily money market accounts to longer-term certificates of deposit. The transaction accounts and time certificates are tailored to our principal market area at rates competitive to those offered in the area. In addition, we offer certain retirement account services, such as Individual Retirement Accounts (IRAs). All deposit accounts are insured by the FDIC up to the maximum amount allowed by law (generally, $100,000 or $250,000 in the case of IRA accounts per depositor subject to aggregation rules). We solicit these accounts from individuals, businesses, associations and organizations, and governmental authorities.

We also offer a full range of commercial and personal loans. Commercial loans include both secured and unsecured loans for working capital (including inventory and receivables), business expansion (including acquisition of real estate and improvements), and purchase of equipment and machinery. Consumer loans include secured and unsecured loans for financing automobiles, home improvements, education, and personal investments. We also make real estate construction and acquisition loans. We originate fixed and variable rate mortgage loans substantially all of which are closed in the name of a third party which, are sold into the secondary market. Our lending activities are subject to a variety of lending limits imposed by federal law. While differing limits apply in certain circumstances based on the type of loan or the nature of the borrower (including the borrower's relationship to the bank), in general we are subject to a loans-to-one-borrower limit of an amount equal to 15% of the bank's unimpaired capital and surplus, or 25% of the unimpaired capital and surplus if the excess over 15% is approved by the board of directors of the bank and is fully secured by readily marketable collateral. We may not make any loans to any director, officer, employee, or 10% shareholder of the company or the bank unless the loan is approved by our board of directors and is made on terms not more favorable to such person than would be available to a person not affiliated with the bank.

Other bank services include internet banking, cash management services, safe deposit boxes, travelers checks, direct deposit of payroll and social security checks, and automatic drafts for various accounts. We offer non-deposit investment products and other investment brokerage services through a registered representative with an affiliation through GAA Securities, Inc. We are associated with Jeannie, Star, and Plus networks of automated teller machines and Mastermoney debit cards that may be used by our customers throughout South Carolina and other regions. We also offer VISA and MasterCard credit card services through a correspondent bank as our agent.

We currently do not exercise trust powers, but can begin to do so with the prior approval of the OCC.

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Competition

The banking business is highly competitive. We compete as a financial intermediary with other commercial banks, savings and loan associations, credit unions and money market mutual funds operating in Richland, Lexington, Kershaw and Newberry Counties and elsewhere. As of June 30, 2006, there were 24 financial institutions operating approximately 198 offices in Lexington, Richland, Kershaw and Newberry Counties. The competition among the various financial institutions is based upon a variety of factors, including interest rates offered on deposit accounts, interest rates charged on loans, credit and service charges, the quality of services rendered, the convenience of banking facilities and, in the case of loans to large commercial borrowers, relative lending limits. Size gives larger banks certain advantages in competing for business from large corporations. These advantages include higher lending limits and the ability to offers services in other areas of South Carolina. As a result, we do not generally attempt to compete for the banking relationships of large corporations, but concentrate our efforts on small-to-medium sized businesses and individuals. We believe we have competed effectively in this market by offering quality and personal service.

Employees

As of December 31, 2006, we had 137 full-time employees. We believe that our relations with our employees are good.

SUPERVISION AND REGULATION

Both the company and the bank are subject to extensive state and federal banking laws and regulations that impose specific requirements or restrictions on and provide for general regulatory oversight of virtually all aspects of our operations. These laws and regulations are generally intended to protect depositors, not shareholders. The following summary is qualified by reference to the statutory and regulatory provisions discussed. Changes in applicable laws or regulations may have a material effect on our business and prospects. Our operations may be affected by legislative changes and the policies of various regulatory authorities. We cannot predict the effect that fiscal or monetary policies, economic control, or new federal or state legislation may have on our business and earnings in the future.

The following discussion is not intended to be a complete list of all the activities regulated by the banking laws or of the impact of such laws and regulations on our operations. It is intended only to briefly summarize some material provisions.

First Community Corporation

We own 100% of the outstanding capital stock of the bank, and therefore we are considered to be a bank holding company under the federal Bank Holding Company Act of 1956, as amended (the “Bank Holding Company Act”). As a result, we are primarily subject to the supervision, examination and reporting requirements of the Board of Governors of the Federal Reserve (the "Federal Reserve") under the Bank Holding Company Act and its regulations promulgated thereunder. Moreover, as a bank holding company of a bank located in South Carolina, we also are subject to the South Carolina Banking and Branching Efficiency Act.

Permitted Activities. Under the Bank Holding Company Act, a bank holding company is generally permitted to engage in, or acquire direct or indirect control of more than 5% of the voting shares of any company engaged in, the following activities:

- banking or managing or controlling banks;

- furnishing services to or performing services for our subsidiaries; and
- any activity that the Federal Reserve determines to be so closely related to banking as to be a proper incident to the business of banking.

Activities that the Federal Reserve has found to be so closely related to banking as to be a proper incident to the business of banking include:

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- factoring accounts receivable;
- making, acquiring, brokering or servicing loans and usual related activities;
- leasing personal or real property;
- operating a non-bank depository institution, such as a savings association;
- trust company functions;
- financial and investment advisory activities;
- conducting discount securities brokerage activities;
- underwriting and dealing in government obligations and money market instruments;
- providing specified management consulting and counseling activities;
- performing selected data processing services and support services;
- acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and
- performing selected insurance underwriting activities.

As a bank holding company we also can elect to be treated as a “financial holding company,” which would allow us engage in a broader array of activities. In sum, a financial holding company can engage in activities that are financial in nature or incidental or complimentary to financial activities, including insurance underwriting, sales and brokerage activities, providing financial and investment advisory services, underwriting services and limited merchant banking activities. We have not sought financial holding company status, but may elect such status in the future as our business matures. If we were to elect in writing for financial holding company status, each insured depository institution we control would have to be well capitalized, well managed and have at least a satisfactory rating under the CRA (discussed below).

The Federal Reserve has the authority to order a bank holding company or its subsidiaries to terminate any of these activities or to terminate its ownership or control of any subsidiary when it has reasonable cause to believe that the bank holding company’s continued ownership, activity or control constitutes a serious risk to the financial safety, soundness or stability of it or any of its bank subsidiaries.

Change in Control. In addition, and subject to certain exceptions, the Bank Holding Company Act and the Change in Bank Control Act, together with regulations promulgated there under, require Federal Reserve approval prior to any person or company acquiring “control” of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of a bank holding company. Control is rebuttably presumed to exist if a person acquires 10% or more, but less than 25%, of any class of voting securities and either the company has registered securities under Section 12 of the Securities Exchange Act of 1934 or no other person owns a greater percentage of that class of voting securities immediately after the transaction. Our common stock is registered under Section 12 of the Securities Exchange Act. The regulations provide a procedure for rebutting control when ownership of any class of voting securities is below 25%.

Source of Strength. In accordance with Federal Reserve Board policy, we are expected to act as a source of financial strength to the bank and to commit resources to support the bank in circumstances in which we might not otherwise do so. Under the Bank Holding Company Act, the Federal Reserve Board may require a bank holding company to terminate any activity or relinquish control of a non-bank subsidiary, other than a non-bank subsidiary of a bank, upon the Federal Reserve's determination that such activity or control constitutes a serious risk to the financial soundness or stability of any depository institution subsidiary of a bank holding company. Further, federal bank regulatory authorities have additional discretion to require a bank holding company to divest itself of any bank or non-bank subsidiaries if the agency determines that divestiture may aid the depository institution’s financial condition.

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Capital Requirements. The Federal Reserve Board imposes certain capital requirements on the bank holding company under the Bank Holding Company Act, including a minimum leverage ratio and a minimum ratio of "qualifying" capital to risk-weighted assets. These requirements are described below under "First Community Bank, N.A. - Capital Regulations." Subject to our capital requirements and certain other restrictions, we are able to borrow money to make a capital contribution to the bank, and these loans may be repaid from dividends paid from the bank to the company. Our ability to pay dividends is subject to regulatory restrictions as described below in "First Community Bank, N.A. - Dividends." We are also able to raise capital for contribution to the bank by issuing securities without having to receive regulatory approval, subject to compliance with federal and state securities laws.

South Carolina State Regulation. As a South Carolina bank holding company under the South Carolina Banking and Branching Efficiency Act, we are subject to limitations on sale or merger and to regulation by the South Carolina Board of Financial Institutions (the "S.C. Board"). We are not required to obtain the approval of the S.C. Board prior to acquiring the capital stock of a national bank, but we must notify them at least 15 days prior to doing so. We must receive the Board's approval prior to engaging in the acquisition of a South Carolina state chartered bank or another South Carolina bank holding company.

First Community Bank, N.A.

The bank operates as a national banking association incorporated under the laws of the United States and subject to examination by the Office of the Comptroller of the Currency (the "Comptroller") . Deposits in the bank are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a maximum amount, which is currently $100,000 for each non-retirement depositor and $250,000 for certain retirement-account depositors. The Comptroller and the FDIC regulate or monitor virtually all areas of the bank's operations, including

- security devices and procedures;
- adequacy of capitalization and loss reserves;
- loans;
- investments;
- borrowings;
- deposits;
- mergers;
- issuances of securities;
- payment of dividends;
- interest rates payable on deposits;
- interest rates or fees chargeable on loans;
- establishment of branches;
- corporate reorganizations;

- maintenance of books and records; and
- adequacy of staff training to carry on safe lending and deposit gathering practices.

The Comptroller requires the bank to maintain specified capital ratios and imposes limitations on the bank's aggregate investment in real estate, bank premises, and furniture and fixtures. The Comptroller of the Currency also requires the bank to prepare annual reports on the bank's financial condition and to conduct an annual audit of its financial affairs in compliance with its minimum standards and procedures.

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All insured institutions must undergo regular on-site examinations by their appropriate banking agency. The cost of examinations of insured depository institutions and any affiliates may be assessed by the appropriate federal banking agency against each institution or affiliate as it deems necessary or appropriate. Insured institutions are required to submit annual reports to the FDIC, their federal regulatory agency, and state supervisor when applicable. The FDIC has developed a method for insured depository institutions to provide supplemental disclosure of the estimated fair market value of assets and liabilities, to the extent feasible and practicable, in any balance sheet, financial statement, report of condition or any other report of any insured depository institution. The federal banking regulatory agencies to prescribe, by regulation, standards for all insured depository institutions and depository institution holding companies relating, among other things, to the following:

- internal controls;
- information systems and audit systems;
- loan documentation;
- credit underwriting;
- interest rate risk exposure; and
- asset quality.

Prompt Corrective Action. As an insured depository institution, the bank is required to comply with the capital requirements promulgated under the Federal Deposit Insurance Act and the Comptroller's prompt corrective action regulations thereunder, which set forth five capital categories, each with specific regulatory consequences. Under these regulations, the categories are:

Ÿ Well Capitalized — The institution exceeds the required minimum level for each relevant capital measure. A well capitalized institution is one (i) having a total capital ratio of 10% or greater, (ii) having a tier 1 capital ratio of 6% or greater, (iii) having a leverage capital ratio of 5% or greater and (iv) that is not subject to any order or written directive to meet and maintain a specific capital level for any capital measure.

Ÿ Adequately Capitalized — The institution meets the required minimum level for each relevant capital measure. No capital distribution may be made that would result in the institution becoming undercapitalized. An adequately capitalized institution is one (i) having a total capital ratio of 8% or greater, (ii) having a tier 1 capital ratio of 4% or greater and (iii) having a leverage capital ratio of 4% or greater or a leverage capital ratio of 3% or greater if the institution is rated composite 1 under the CAMELS (Capital, Assets, Management, Earnings, Liquidity and Sensitivity to market risk) rating system.

Ÿ Undercapitalized — The institution fails to meet the required minimum level for any relevant capital measure. An undercapitalized institution is one (i) having a total capital ratio of less than 8% or (ii) having a tier 1 capital ratio of less than 4% or (iii) having a leverage capital ratio of less than 4%, or if the institution is rated a composite 1 under the CAMEL rating system, a leverage capital ratio of less than 3%.

Ÿ Significantly Undercapitalized — The institution is significantly below the required minimum level for any relevant capital measure. A significantly undercapitalized institution is one (i) having a total capital ratio of less than 6% or (ii) having a tier 1 capital ratio of less than 3% or (iii) having a leverage capital ratio of less than 3%.

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Critically Undercapitalized — The institution fails to meet a critical capital level set by the appropriate federal banking agency. A critically undercapitalized institution is one having a ratio of tangible equity to total assets that is equal to or less than 2%.

If the Comptroller determines, after notice and an opportunity for hearing, that the bank is in an unsafe or unsound condition, the regulator is authorized to reclassify the bank to the next lower capital category (other than critically undercapitalized) and require the submission of a plan to correct the unsafe or unsound condition.

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If the bank is not well capitalized, it cannot accept brokered deposits without prior FDIC approval and, if approval is granted, cannot offer an effective yield in excess of 75 basis points on interests paid on deposits of comparable size and maturity in such institution’s normal market area for deposits accepted from within its normal market area, or national rate paid on deposits of comparable size and maturity for deposits accepted outside the bank’s normal market area. Moreover, if the bank becomes less than adequately capitalized, it must adopt a capital restoration plan acceptable to the Comptroller that is subject to a limited performance guarantee by the corporation. The bank also would become subject to increased regulatory oversight, and is increasingly restricted in the scope of its permissible activities. Each company having control over an undercapitalized institution also must provide a limited guarantee that the institution will comply with its capital restoration plan. Except under limited circumstances consistent with an accepted capital restoration plan, an undercapitalized institution may not grow. An undercapitalized institution may not acquire another institution, establish additional branch offices or engage in any new line of business unless determined by the appropriate Federal banking agency to be consistent with an accepted capital restoration plan, or unless the FDIC determines that the proposed action will further the purpose of prompt corrective action. The appropriate federal banking agency may take any action authorized for a significantly undercapitalized institution if an undercapitalized institution fails to submit an acceptable capital restoration plan or fails in any material respect to implement a plan accepted by the agency. A critically undercapitalized institution is subject to having a receiver or conservator appointed to manage its affairs and for loss of its charter to conduct banking activities.

An insured depository institution may not pay a management fee to a bank holding company controlling that institution or any other person having control of the institution if, after making the payment, the institution, would be undercapitalized. In addition, an institution cannot make a capital distribution, such as a dividend or other distribution that is in substance a distribution of capital to the owners of the institution if following such a distribution the institution would be undercapitalized. Thus, if payment of such a management fee or the making of such would cause the bank to become undercapitalized, it could not pay a management fee or dividend to us. As of December 31, 2006, the bank was deemed to be “well capitalized.”

Deposit Insurance and Assessments. Deposits at the bank are insured by the Deposit Insurance Fund (the "DIF") as administered by the FDIC, up to the applicable limits established by law - generally $100,000 per accountholder and $250,000 for certain retirement accountholders. In accordance with regulations adopted to implement the Federal Deposit Insurance Reform Act of 2005 (“FDIRA”), deposit insurance premium assessments are based upon perceived risks to the DIF, by evaluating an institution's supervisory ratios and other financial ratios and then determining insurance premiums based upon the likelihood an institution could be downgraded to a CAMELS 3 or worse in the succeeding year. As a result, institutions deemed to pose less risk, pay lower premiums than those institutions deemed to pose more risk, which pay more.

FDIRA caps the amount of the DIF at 1.50% of domestic deposits. The FDIC must issue cash dividends, awarded on a historical basis, for the amount of the DIF over the 1.50% ratio. Additionally, if the DIF exceeds 1.35% of domestic deposits at year-end, the FDIC is required issue cash dividends, awarded on a historical basis, for half of the amount of the excess. Pursuant to the FDIRA, the FDIC will begin to indexing deposit insurance coverage levels for inflation beginning in 2012. Moreover, if we become undercapitalized we cannot accept employee benefit plan deposits.

Transactions with Affiliates and Insiders. The bank is subject to the provisions of Section 23A of the Federal Reserve Act, which places limits on the amount of loans or extensions of credit to, or investments in, or certain other transactions with, affiliates and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. The aggregate of all covered transactions is limited in amount, as to any one affiliate, to 10% of the bank’s capital and surplus and, as to all affiliates combined, to 20% of the bank’s capital and surplus. Furthermore, within the foregoing limitations as to amount, each covered transaction must meet specified collateral requirements. Compliance is also required with certain provisions designed to avoid the taking of low quality assets.

The bank also is subject to the provisions of Section 23B of the Federal Reserve Act which, among other things, prohibits an institution from engaging in certain transactions with certain affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies. The bank is subject to certain restrictions on extensions of credit to executive officers, directors, certain principal shareholders, and their related interests. Such extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and (ii) must not involve more than the normal risk of repayment or present other unfavorable features.

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The Federal Reserve Board has issued Regulation W, which codifies prior regulations under Sections 23A and 23B of the Federal Reserve Act and interpretative guidance with respect to affiliate transactions. Regulation W incorporates the exemption from the affiliate transaction rules but expands the exemption to cover the purchase of any type of loan or extension of credit from an affiliate. In addition, under Regulation W:

- a bank and its subsidiaries may not purchase a low-quality asset from an affiliate;
- covered transactions and other specified transactions between a bank or its subsidiaries and an affiliate must be on terms and conditions that are consistent with safe and sound banking practices; and
- with some exceptions, each loan or extension of credit by a bank to an affiliate must be secured by collateral with a market value ranging from 100% to 130%, depending on the type of collateral, of the amount of the loan or extension of credit.

Regulation W generally excludes all non-bank and non-savings association subsidiaries of banks from treatment as affiliates, except to the extent that the Federal Reserve Board decides to treat these subsidiaries as affiliates. The regulation also limits the amount of loans that can be purchased by a bank from an affiliate to not more than 100% of the bank's capital and surplus.

Dividends. A national bank may not pay dividends from its permanent capital. All dividends must be paid out of undivided profits then on hand, after deducting expenses, including reserves for losses and bad debts. In addition, a national bank is prohibited from declaring a dividend on its shares of common stock until its surplus equals its stated capital, unless there has been transferred to surplus no less than one-tenth of the bank’s net profits of the preceding two consecutive half-year periods (in the case of an annual dividend). The approval of the Comptroller is required if the total of all dividends declared by a national bank in any calendar year exceeds the total of its net profits for that year combined with its retained net profits for the preceding two years, less any required transfers to surplus.

Branching. National banks are required by the National Bank Act to adhere to branch office banking laws applicable to state banks in the states in which they are located. Under current South Carolina law, the bank may open branch offices throughout South Carolina with the prior approval of the Comptroller. In addition, with prior regulatory approval, the bank is able to acquire existing banking operations in South Carolina. Furthermore, federal legislation permits interstate branching, including out-of-state acquisitions by bank holding companies, interstate branching by banks if allowed by state law, and interstate merging by banks. South Carolina law, with limited exceptions, currently permits branching across state lines through interstate mergers.

Community Reinvestment Act. The Community Reinvestment Act requires that the Comptroller evaluate the record of the bank in meeting the credit needs of its local community, including low and moderate income neighborhoods. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on our bank.

Finance Subsidiaries. Under the Gramm-Leach-Bliley Act (the "GLBA"), subject to certain conditions imposed by their respective banking regulators, national and state-chartered banks are permitted to form “financial subsidiaries” that may conduct financial or incidental activities, thereby permitting bank subsidiaries to engage in certain activities that previously were impermissible. The GLBA imposes several safeguards and restrictions on financial subsidiaries, including that the parent bank’s equity investment in the financial subsidiary be deducted from the bank’s assets and tangible equity for purposes of calculating the bank’s capital adequacy. In addition, the GLBA imposes new restrictions on transactions between a bank and its financial subsidiaries similar to restrictions applicable to transactions between banks and non-bank affiliates.

Other Regulations. Interest and other charges collected or contracted for by the bank are subject to state usury laws and federal laws concerning interest rates. The bank’s loan operations are also subject to federal laws applicable to credit transactions, such as:

- the federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;

- the Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;

- the Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;

- the Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;

- the Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and

- the rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The deposit operations of the bank also are subject to:

- the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and

- the Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve Board to implement that Act, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Enforcement Powers. The bank and its "institution-affiliated parties," including its management, employees agents independent contractors and consultants such as attorneys and accountants and others who participate in the conduct of the financial institution's affairs, are subject to potential civil and criminal penalties for violations of law, regulations or written orders of a government agency. These practices can include the failure of an institution to timely file required reports or the filing of false or misleading information or the submission of inaccurate reports. Civil penalties may be as high as $1,000,000 a day for such violations. Criminal penalties for some financial institution crimes have been increased to twenty years. In addition, regulators are provided with greater flexibility to commence enforcement actions against institutions and institution-affiliated parties. Possible enforcement actions include the termination of deposit insurance. Furthermore, banking agencies' power to issue cease-and-desist orders were expanded. Such orders may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, or take other actions as determined by the ordering agency to be appropriate.

USA PATRIOT Act. The USA PATRIOT Act became effective on October 26, 2001, amended, in part, the Bank Secrecy Act and provides, in part, for the facilitation of information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering by enhancing anti-money laundering and financial transparency laws, as well as enhanced information collection tools and enforcement mechanics for the U.S. government, including: (i) requiring standards for verifying customer identification at account opening; (ii) rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering; (iii) reports by nonfinancial trades and businesses filed with the Treasury Department's Financial Crimes Enforcement Network for transactions exceeding $10,000; and (iv) filing suspicious activities reports by brokers and dealers if they believe a customer may be violating U.S. laws and regulations and requires enhanced due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-U.S. persons.

Under the USA PATRIOT Act, the Federal Bureau of Investigation ("FBI") can send our banking regulatory agencies lists of the names of persons suspected of involvement in terrorist activities. The bank can be requested, to search its records for any relationships or transactions with persons on those lists. If the bank finds any relationships or transactions, it must file a suspicious activity report and contact the FBI.

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The Office of Foreign Assets Control ("OFAC"), which is a division of the U.S. Department of the Treasury, is responsible for helping to insure that United States entities do not engage in transactions with "enemies" of the United States, as defined by various Executive Orders and Acts of Congress. OFAC has sent, and will send, our banking regulatory agencies lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts. If the bank finds a name on any transaction, account or wire transfer that is on an OFAC list, it must freeze such account, file a suspicious activity report and notify the FBI. The bank has appointed an OFAC compliance officer to oversee the inspection of its accounts and the filing of any notifications. The bank actively checks high-risk OFAC areas such as new accounts, wire transfers and customer files. The bank performs these checks utilizing software, which is updated each time a modification is made to the lists provided by OFAC and other agencies of Specially Designated Nationals and Blocked Persons.

Privacy and Credit Reporting. Financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers. It is the bank's policy not to disclose any personal information unless required by law.

Like other lending institutions, the bank utilizes credit bureau data in its underwriting activities. Use of such data is regulated under the Federal Credit Reporting Act on a uniform, nationwide basis, including credit reporting, prescreening, sharing of information between affiliates, and the use of credit data. The Fair and Accurate Credit Transactions Act of 2003 (the "FACT Act") authorizes states to enact identity theft laws that are not inconsistent with the conduct required by the provisions of the FACT Act.

Check 21. The Check Clearing for the 21st Century Act gives "substitute checks," such as a digital image of a check and copies made from that image, the same legal standing as the original paper check. Some of the major provisions include:

- allowing check truncation without making it mandatory;
- demanding that every financial institution communicate to accountholders in writing a description of its substitute check processing program and their rights under the law;
- legalizing substitutions for and replacements of paper checks without agreement from consumers;
- retaining in place the previously mandated electronic collection and return of checks between financial institutions only when individual agreements are in place;
- requiring that when accountholders request verification, financial institutions produce the original check (or a copy that accurately represents the original) and demonstrate that the account debit was accurate and valid; and
- requiring the re-crediting of funds to an individual's account on the next business day after a consumer proves that the financial institution has erred.

Effect of Governmental Monetary Policies. Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve Bank's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve Board have major effects upon the levels of bank loans, investments and deposits through its open market operations in United States government securities and through its regulation of the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature or impact of future changes in monetary and fiscal policies.

Proposed Legislation and Regulatory Action. New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations, and competitive relationships of the nation’s financial institutions. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

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Item 1A. Risk Factors

Our recent operating results may not be indicative of our future operating results.

We may not be able to sustain our historical rate of growth. Because of our relatively short operating history, it will be difficult for us to generate similar earnings growth as we continue to expand, and consequently our historical results of operations will not necessarily be indicative of our future operations. Various factors, such as economic conditions, regulatory and legislative considerations, and competition, may also impede our ability to expand our market presence. If we experience a significant decrease in our historical rate of growth, our results of operations and financial condition may be adversely affected because a high percentage of our operating costs are fixed expenses.

Our decisions regarding credit risk and reserves for loan losses may materially and adversely affect our business.

Making loans and other extensions of credit is an essential element of our business. Although we seek to mitigate risks inherent in lending by adhering to specific underwriting practices, our loans and other extensions of credit may not be repaid. The risk of nonpayment is affected by a number of factors, including:

- the duration of the credit;
- credit risks of a particular customer;
- changes in economic and industry conditions; and
- in the case of a collateralized loan, risks resulting from uncertainties about the future value of the collateral.

We attempt to maintain an appropriate allowance for loan losses to provide for potential losses in our loan portfolio. We periodically determine the amount of the allowance based on consideration of several factors, including:

- an ongoing review of the quality, mix, and size of our overall loan portfolio;
- our historical loan loss experience;
- evaluation of economic conditions;
- regular reviews of loan delinquencies and loan portfolio quality; and
- the amount and quality of collateral, including guarantees, securing the loans.

There is no precise method of predicting credit losses; therefore, we face the risk that charge-offs in future periods will exceed our allowance for loan losses and that additional increases in the allowance for loan losses will be required. Additions to the allowance for loan losses would result in a decrease of our net income, and possibly our capital.

Lack of seasoning of our loan portfolio may increase the risk of credit defaults in the future.

Due to the rapid growth of our bank over the past several years, a material portion of the loans in our loan portfolio and of our lending relationships are of relatively recent origin. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process we refer to as "seasoning." As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. In addition, we acquired a substantial portion of the loans in our loan portfolio and of our lending relationships through our acquisitions of DutchFork Bancshares, Inc. and DeKalb Bankshares, Inc. Because these loans and lending relationships are new to us, we may have more difficulty in assessing the risk of credit defaults from these relationships. Because of both our internal loan growth and our acquisitions, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned, which may be higher than current levels. If delinquencies and defaults increase, we may be required to increase our provision for loan losses, which would adversely affect our results of operations and financial condition.

An economic downturn, especially one affecting the Lexington, Richland, Newberry, and Kershaw Counties and the surrounding areas, could reduce our customer base, our level of deposits, and demand for financial products such as loans.

Our success significantly depends upon the growth in population, income levels, deposits, and housing starts in our market of Lexington, Richland, Newberry, and Kershaw Counties and the surrounding area. If the communities in which we operate do not grow or if prevailing economic conditions locally or nationally are unfavorable, our business may not succeed. An economic downturn would likely contribute to the deterioration of the quality of our loan portfolio and reduce our level of deposits, which in turn would hurt our business. If an economic downturn occurs in the economy as a whole, or in Lexington, Richland, Newberry, and Kershaw Counties and the surrounding area, borrowers may be less likely to repay their loans as scheduled. Moreover, the value of real estate or other collateral that may secure our loans could be adversely affected. Unlike many larger institutions, we are not able to spread the risks of unfavorable local economic conditions across a large number of diversified economies. An economic downturn could, therefore, result in losses that materially and adversely affect our business.

Changes in prevailing interest rates may reduce our profitability.

Our results of operations depend in large part upon the level of our net interest income, which is the difference between interest income from interest-earning assets, such as loans and mortgage-backed securities, and interest expense on interest-bearing liabilities, such as deposits and other borrowings. Depending on the terms and maturities of our assets and liabilities, a significant change in interest rates could have a material adverse effect on our profitability. Many factors cause changes in interest rates, including governmental monetary policies and domestic and international economic and political conditions. While we intend to manage the effects of changes in interest rates by adjusting the terms, maturities, and pricing of our assets and liabilities, our efforts may not be effective and our financial condition and results of operations could suffer. After operating in a historically low interest rate environment, the Federal Reserve began raising short-term interest rates in the second quarter of 2004. At December 31, 2006, we anticipate that our balance sheet is currently structured so that net income is not materially impacted in a rising interest rate environment. However, no assurance can be given that the Federal Reserve will actually continue to raise interest rates or that the results we anticipate will actually occur.

We are dependent on key individuals, and the loss of one or more of these key individuals could curtail our growth and adversely affect our prospects.

Michael C. Crapps, our president and chief executive officer, has extensive and long-standing ties within our primary market area and substantial experience with our operations, and he has contributed significantly to our growth. If we lose the services of Mr. Crapps, he would be difficult to replace and our business and development could be materially and adversely affected.

Our success also depends, in part, on our continued ability to attract and retain experienced loan originators, as well as other management personnel. Competition for personnel is intense, and we may not be successful in attracting or retaining qualified personnel. Our failure to compete for these personnel, or the loss of the services of several of such key personnel, could adversely affect our growth strategy and seriously harm our business, results of operations, and financial condition.

We are subject to extensive regulation that could limit or restrict our activities.

We operate in a highly regulated industry and are subject to examination, supervision, and comprehensive regulation by various regulatory agencies. Our compliance with these regulations is costly and restricts certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits, and locations of offices. We are also subject to capitalization guidelines established by our regulators, which require us to maintain adequate capital to support our growth.

The laws and regulations applicable to the banking industry could change at any time, and we cannot predict the effects of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies, our cost of compliance could adversely affect our ability to operate profitably.

The Sarbanes-Oxley Act of 2002, and the related rules and regulations promulgated by the Securities and Exchange Commission that are now applicable to us, have increased the scope, complexity, and cost of corporate governance, reporting, and disclosure practices. To comply with the Sarbanes-Oxley Act, we have previously hired outside consultant to assist with our internal audit and internal control functions. We have experienced, and we expect to continue to experience, greater compliance costs, including costs related to internal controls, as a result of the Sarbanes-Oxley Act.

We are in the process of evaluating our internal controls to allow management to report on our internal control for our fiscal year 2007, and for our independent registered public accounting firm to attest to our internal controls for fiscal year 2008. We are performing the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification and auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. While we currently anticipate that we will be able to fully implement the requirements relating to internal controls and all other aspects of Section 404 in a timely manner, as required by Section 404 and the SEC's related regulations, we could identify deficiencies that we may not be able to remediate in time to meet this deadline. If we are not able to implement or maintain the requirements of Section 404 in a timely manner or with adequate compliance, we could be subject to scrutiny by regulatory authorities and the trading price of our stock could decline. Moreover, effective internal controls are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors and regulators could lose confidence in our reported financial information, and the trading price of our stock could drop significantly. We currently anticipate that we will fully implement the requirements relating to internal controls and all other aspects of Section 404 within the required time frames.

Our continued pace of growth may require us to raise additional capital in the future, but that capital may not be available when it is needed.

We are required by regulatory authorities to maintain adequate levels of capital to support our operations. To support our continued growth, we may need to raise additional capital. Our ability to raise additional capital, if needed, will depend in part on conditions in the capital markets at that time, which are outside our control. Accordingly, we cannot assure you of our ability to raise additional capital, if needed, on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired. In addition, if we decide to raise additional equity capital, your interest could be diluted.

We face strong competition for customers, which could prevent us from obtaining customers and may cause us to pay higher interest rates to attract customers.

The banking business is highly competitive, and we experience competition in our market from many other financial institutions. We compete with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, and other mutual funds, as well as other super-regional, national, and international financial institutions that operate offices in our primary market areas and elsewhere. We compete with these institutions both in attracting deposits and in making loans. In addition, we have to attract our customer base from other existing financial institutions and from new residents. Many of our competitors are well-established, larger financial institutions. These institutions offer some services, such as extensive and established branch networks, that we do not provide. There is a risk that we will not be able to compete successfully with other financial institutions in our market, and that we may have to pay higher interest rates to attract deposits, resulting in reduced profitability. In addition, competitors that are not depository institutions are generally not subject to the extensive regulations that apply to us.

We will face risks with respect to expansion through acquisitions or mergers.

We completed our acquisition of DeKalb Bankshares and The Bank of Camden in June 2006. We face a risk that the expected cost savings and any revenue synergies from this merger may not be fully realized within the expected timeframes, or that disruption from the merger may make it more difficult to maintain relationships with our or DeKalb’s customers, employees, or suppliers.

In addition, from time to time we may seek to acquire other financial institutions or parts of those institutions. We may also expand into new markets or lines of business or offer new products or services. These activities would involve a number of risks, including:

- the potential inaccuracy of the estimates and judgments used to evaluate credit, operations, management, and market risks with respect to a target institution;
- the time and costs of evaluating new markets, hiring or retaining experienced local management, and opening new offices and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
- the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse effects on our results of operations; and
- the risk of loss of key employees and customers.

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Our decisions regarding credit risk and reserves for loan losses may materially and adversely affect our business.

While we generally underwrite the loans in our portfolio in accordance with our own internal underwriting guidelines and regulatory supervisory guidelines, in certain circumstances we have made loans which exceed either our internal underwriting guidelines, supervisory guidelines, or both. As of December 31, 2006, approximately $10.3 million of our loans, or 22.4% of our bank's capital, had loan-to-value ratios that exceeded regulatory supervisory guidelines, of which 10 loans totaling approximately $3.3 million had loan-to-value ratios of 100% or more. In addition, supervisory limits on commercial loan to value exceptions are set at 30% of our bank's capital. At December 31, 2006, $9.3 million of our commercial loans, or 20.5% of our bank's capital, exceeded the supervisory loan to value ratio. The number of loans in our portfolio with loan-to-value ratios in excess of supervisory guidelines, our internal guidelines, or both could increase the risk of delinquencies and defaults in our portfolio.

A significant portion of our loan portfolio is secured by real estate, and events that negatively impact the real estate market could hurt our business.

A significant portion of our loan portfolio is secured by real estate. As of December 31, 2006, approximately 88.1% of our loans had real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. A weakening of the real estate market in our primary market area could result in an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing their loans, which in turn could have an adverse effect on our profitability and asset quality. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected. Acts of nature, including hurricanes, tornados, earthquakes, fires and floods, which may cause uninsured damage and other loss of value to real estate that secures these loans, may also negatively impact our financial condition.

Item 1B. Unresolved Staff Comments

We have no unresolved staff comments with the SEC regarding our periodic or currect reports under the Exchange Act.

Item 2. Description of Property.

Lexington Property. The principal place of business of both the company and our main office is located at 5455 Sunset Boulevard, Lexington, South Carolina 29072. The site of the bank's main office branch is a 2.29 acre plot of land. This site was purchased for $576,000 and the building cost were approximately $1.0 million. The branch operates in an 8,500 square foot facility located on this site.

In October 2000, the bank acquired an additional 2.0 acres adjacent to the existing facility for approximately $300,000. This site was designed to allow for 24,000 to 48,000 square foot facility at some future date. The bank completed construction and occupied the 28,000 square foot administrative center in July 2006. The total construction cost for the building is approximately $3.4 million. The Lexington property is owned by the bank.

Forest Acres Property. We operate a branch office facility at 4404 Forest Drive, Columbia, South Carolina 29206. The Forest Acres site is .71 acres. The banking facility is approximately 4,000 square feet with a total cost of land and facility approximately $920,000. This property is owned by the bank.

Irmo Property. We operate a branch office facility at 1030 Lake Murray Boulevard, Irmo, South Carolina 29063. The Irmo site is approximately 1.00 acre. The banking facility is approximately 3,200 square feet with a total cost of land and facility of approximately $1.1 million. This property is owned by the bank.

Cayce/West Columbia Property. We operate a branch office facility at 506 Meeting Street, West Columbia, South Carolina, 29169. The Cayce/West Columbia site is approximately 1.25 acres. The banking facility is approximately 3,800 square feet with a total cost of land and facility of approximately $935,000. This property is owned by the bank.

Gilbert Property. We operate a branch office at 4325 Augusta Highway Gilbert, South Carolina 29054. The facility is an approximate 3000 square foot facility located on an approximate one acre lot. The total cost of the land and facility was approximately $768,000. This property is owned by the bank.

Chapin Office. We operate a branch office facility at 137 Amicks Ferry Rd., Chapin, South Carolina 29036. The facility is approximately 3,000 square feet and is located on a three acre lot. The total cost of the facility and land was approximately $1.3 million. This property is owned by the bank.

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Northeast Columbia. We operate a branch office facility at 9822 Two Notch Rd, Columbia, South Carolina 29223. The facility is approximately 3,000 square feet and is located on a 1.0 acre lot. The total cost of the facility and land was approximately $1.2 million. This property is owned by the bank.

College Street. We operate a branch office at 1323 College Street, Newberry, South Carolina 29108. This banking office was acquired in connection with the DutchFork merger. The banking facility is approximately 3,500 square feet and is located on a .65 acre lot. The total cost of the facility and land was approximately $365,000. This property is owned by the bank.

Prosperity Property. We operate a branch office at 101 N. Wheeler Avenue, Prosperity, South Carolina 29127. This office was acquired in connection with the DutchFork merger. The banking facility is approximately 1,300 square feet and is located on a .31 acre lot. The total cost of the facility and land was approximately $175,000. This property is owned by the bank.

Wilson Road. We operate a branch office at 1735 Wilson Road, Newberry, South Carolina 29108. The banking office was acquired in connection with the DutchFork merger. This banking facility is approximately 12,000 square feet and is located on a 1.56 acre lot. Adjacent to the branch facility is a 13,000 square foot facility which was formerly utilized as the DutchFork operations center. The total cost of the facility and land was approximately $3.3 million. This property is owned by the bank.

Redbank Property. We operate a branch office facility at 1449 Two Notch Road, Lexington, South Carolina 29073. This branch opened for operation on February 3, 2005. The facility is approximately 3,000 square feet and is located on a 1.0 acre lot. The total cost of the facility and land was approximately $1.3 million. This property is owned by the bank.

Camden Property. We operate a branch office facility at 631 DeKalb Street, Camden, South Carolina 29020. This office was acquired in connection with the DeKalb merger. The facility is approximately 11,247 square feet and is located on a 2.2 acre lot. The total cost of the facility and land was approximately $2.4 million. This property is owned by the bank.

Highway 219 Property. A .61 acre lot located on highway 219 in Newberry County was acquired in connection with the DutchFork merger. This lot may be used for a future branch location but no definitive plans have been made. The cost of the lot was $430,000. This property is owned by the bank.

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Item 3. Legal Proceedings.

Neither the company nor the bank is a party to, nor is any of their property the subject of, any material pending legal proceedings related to the business of the company or the bank.

Item 4. Submission of Matters to a Vote of Security Holders.

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.

As of March 1, 2007, there were approximately 1,545 shareholders of record of our common stock. On January 15, 2003, our stock began trading on The NASDAQ Capital Market under the trading symbol of "FCCO." Prior to January 15, 2003, our stock was quoted on the OTC Bulletin Board under the trading symbol "FCCO.OB." The following table sets forth the high and low sales price information as reported by NASDAQ in 2006 and 2005, and the dividends per share declared on our common stock in each such quarter. All information has been adjusted for any stock splits and stock dividends effected during the periods presented.

	High	Low	Dividends
2006			
Quarter ended March 31, 2006	$ 19.63	$ 17.75	$ 0.05
Quarter ended June 30, 2006	$ 18.79	$ 17.11	$ 0.06
Quarter ended September 30, 2006	$ 18.32	$ 16.62	$ 0.06
Quarter ended December 31, 2006	$ 18.75	$ 16.50	$ 0.06
2005			
Quarter ended March 31, 2005	$ 22.42	$ 18.80	$ 0.05
Quarter ended June 30, 2005	$ 20.49	$ 16.73	$ 0.05
Quarter ended September 30, 2005	$ 20.45	$ 18.50	$ 0.05
Quarter ended December 31, 2005	$ 20.50	$ 18.35	$ 0.05

We expect comparable dividends to be paid to the shareholders for the foreseeable future. Notwithstanding the foregoing, the future dividend policy of the company 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. Our ability to pay dividends is generally limited by the ability of our subsidiary bank to pay dividends to us. As a national bank, our bank may only pay dividends out of its net profits then on hand, after deducting expenses, including losses and bad debts. In addition, the bank is prohibited from declaring a dividend on its shares of common stock until its surplus equals its stated capital, unless there has been transferred to surplus no less than one-tenth of the bank's net profits of the preceding two consecutive half-year periods (in the case of an annual dividend). The approval of the OCC will be required if the total of all dividends declared in any calendar year by the bank exceeds the bank's net profits to date, as defined, for that year combined with its retained net profits for the preceding two years less any required transfers to surplus. At December 31, 2006, the bank had $8.2 million free of these restrictions. The OCC also has the authority under federal law to enjoin a national bank from engaging in what in its opinion constitutes an unsafe or unsound practice in conducting its business, including the payment of a dividend under certain circumstances.

On June 21, 2006, our board of directors approved a new plan to repurchase up to 150,000 shares of our common stock on the open market. The following table reflects share repurchase activity during the fourth quarter ended December 31, 2006:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs

October 1, 2006 to October 31, 2006	4,800	$18.10	4,800	90,600
November 1, 2006 to November 30, 2006	7,100	$18.13	7,100	83,500
December 1, 2006 to December 31,2006	3,600	$17.74	3,600	79,900
Total	15,500	$18.04	15,500	79,900

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FIVE YEAR CUMULATIVE TOTAL RETURNS
COMPARISON OF FIRST COMMUNITY CORPORATION,
NASDAQ STOCK MARKET (U.S.) INDEX,
AND NASDAQ BANK INDEX

See Tabular Information Below

	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005	12/31/2006
First Community Corporation	100.00	122.45	201.28	186.86	175.27	161.13
NASDAQ Composite Index	100.00	68.76	103.67	113.16	115.57	127.58
SNL Southeast Bank Index	100.00	110.46	138.72	164.50	168.39	197.45

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Item 6. Selected Financial Data

First Community Corporation
Selected Financial Data

(Amounts in thousands, except per share data)

	2006	2005	2004	2003	2002
Operations Statement Data:					
Net interest income	$ 14,323	$ 12,994	$ 9,596	$ 7,648	$ 7,044
Provision for loan losses	528	329	245	167	677
Non-interest income	4,401	3,298	1,774	1,440	1,232
Non-interest expense	13,243	11,838	7,977	6,158	5,377
Income taxes	1,452	1,032	963	965	758
Net income	$ 3,501	$ 3,093	$ 2,185	$ 1,797	$ 1,464
Per Share Data:					
Net income diluted (1)	$ 1.10	$ 1.04	$ 1.09	$ 1.08	$ 0.90
Cash dividends	.23	.20	0.20	0.19	0.12
Book value at period end (1)	19.36	17.82	18.09	12.21	11.61
Tangible book value at period end (1)	10.05	8.34	8.19	11.74	11.02
Balance Sheet Data:					
Total assets	$ 548,056	$ 467,455	$ 455,706	$ 215,029	$ 195,201
Loans	275,189	221,668	186,771	121,008	99,991
Securities	176,523	176,372	196,026	58,954	69,785
Deposits	414,941	349,604	337,064	185,259	168,062
Shareholders' equity	63,208	50,767	50,463	19,509	18,439
Average shares outstanding (1)	3,097	2,847	1,903	1,590	1,588
Performance Ratios:					
Return on average assets	0.68%	0.67%	0.76%	0.88%	0.82%
Return on average equity	6.12%	6.12%	8.00%	9.49%	8.35%
Return on average tangible equity	12.69%	13.33%	10.39%	9.94%	8.87%
Net interest margin	3.27%	3.30%	3.72%	4.02%	4.26%
Dividend payout ratio	20.35%	18.35%	17.39%	16.81%	13.04%
Asset Quality Ratios:					
Allowance for loan losses to period End total loans	1.17%	1.22%	1.48%	1.41%	1.53%
Allowance for loan losses to Non-performing assets	716.04%	487.48%	2,291.34%	2,131.25%	1,059.03%
Non-performing assets to total assets	.09%	.12%	.03%	.04%	.07%
Net charge-offs (recoveries) to average loans	.13%	.19%	.13%	(.01%)	.16%
Capital and Liquidity Ratios:					
Tier 1 risk-based capital	13.48%	13.24%	12.91%	13.21%	14.03%

Total risk-based capital	14.40%	14.12%	13.86%	14.42%	15.28%
Leverage ratio	9.29%	9.29%	8.51%	8.87%	8.77%
Equity to assets ratio	11.53%	10.86%	9.60%	9.07%	9.45%
Average loans to average deposits	64.83%	59.81%	61.00%	63.33%	60.71%

(1) Adjusted for the February 28, 2002 5-for-4 stock split.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

First Community Corporation is a one bank holding company headquartered in Lexington, South Carolina. We operate from our main office in Lexington, South Carolina and our 12 full-service offices are located in Lexington (two), Forest Acres, Irmo, Cayce-West Columbia, Gilbert, Chapin, Northeast Columbia, Prosperity, Newberry (two) and Camden. During the second quarter of 2006, we completed our acquisition of DeKalb Bankshares, Inc., the holding company for The Bank of Camden. The merger added one office in Kershaw County located in the Midlands of South Carolina. During the fourth quarter of 2004, we completed our first acquisition of another financial institution when we merged with DutchFork Bancshares, Inc., the holding company for Newberry Federal Savings Bank. The merger added three offices in Newberry County. We engage in a general commercial and retail banking business characterized by personalized service and local decision making, emphasizing the banking needs of small to medium-sized businesses, professional concerns and individuals.

During 2006, we continued to implement our strategy to continue leveraging the DutchFork acquisition as well as integrate the operations of DeKalb into our systems. We experienced organic loan growth (growth excluding the DeKalb merger) of 9.7%, or $21.5 million. Organic deposit growth was 6.4% or $22.3 million. We added approximately $26.6 million in loans and $27.3 million in deposits through our acquisition of DeKalb. This continued growth in our loan portfolio is consistent with our strategy to leverage the deposit base in Newberry County that we acquired in the DutchFork acquisition. Our loan to deposit ratio at December 31, 2006 was 66.3% as compared to 63.4% at December 31, 2005. The continued growth in core deposits as well as cash flow provided from our investment portfolio provided the needed cash flow to fund loan growth. Total assets grew to $548.1 million, loans to $275.2 million and deposits to $414.9 million at December 31, 2006. Our net income increased $409,000 in 2006, or 13.2%, over the year ended December 31, 2005. The increase was primarily attributable to the continued growth in the level of earning assets. Net income was $3.5 million, or $1.10 diluted earnings per share in 2006, compared to $3.1 million, or $1.04 diluted earnings per share in 2005.

The following discussion describes our results of operations for 2006 as compared to 2005 (and 2005 compared to 2004 and also analyzes our financial condition as of December 31, 2006 as compared to December 31, 2005. Like most community banks, we derive most of our income from interest we receive on our loans and investments. A 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 these measures. For example, the "Average Balances" table shows the average balance during 2006, 2005 and 2004 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. A review of this table shows that our loans typically provide higher interest yields than do other types of interest earning assets, which is why we intend to channel a substantial percentage of our earning assets into our loan portfolio. Similarly, the "Rate/Volume Analysis" table helps demonstrate the impact of changing interest rates and changing volume of assets and liabilities during the years shown. We also track the sensitivity of our various categories of assets and liabilities to changes in interest rates, and we have included a "Sensitivity Analysis Table" to help explain this. Finally, we have included a number of tables that provide detail about our investment securities, our loans, and our deposits and other borrowings.

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, as well as several tables describing our allowance for loan losses and the allocation of this allowance among our various categories of loans.

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 noninterest income, as well as our noninterest expense, in the following discussion. The 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.

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Mergers

On June 9, 2006 we consummated our merger with DeKalb Bankshares, Inc. Pursuant to the merger, we issued 364,034 shares of common stock valued at $7.6 million and paid $2.4 million in cash to shareholders of DeKalb. Other costs related to the merger included stock options valued at $585,000 and direct acquisition costs of $277,000. The fair value of assets acquired at the date of acquisition was $46.4 million, including $4.9 million in goodwill and $522,000 in core deposit intangible. The fair value of liabilities assumed amounted to $36.2 million. Periods prior to June 9, 2006 do not include the effect of the merger with DeKalb.

On October 1, 2004, we completed our merger with DutchFork Bancshares, Inc. Pursuant to the merger, we issued 1,169,898 shares of common stock valued at $27.3 million and paid $18.3 million to shareholders of DutchFork. Other costs related to the merger included stock options valued at $2.6 million and direct acquisition costs of $1.1 million. The fair value of assets acquired at the date of acquisition was $224.2 million, including $24.2 million in goodwill and $2.9 million in core deposit intangible. The fair value of liabilities assumed amounted to $174.9 million. The results of operations for the years ended December 31, 2006 and 2005 include a full year of the results of the merger with DutchFork as compared to three months for the year ended December 31, 2004. Due to the relative asset size of DutchFork as compared to First Community Corporation, the comparison of the results of operations between the various periods is significantly affected by the merger.

Results of Operations

Our net income was $3.5 million, or $1.10 diluted earnings per share, for the year ended December 31, 2006, as compared to net income of $3.1 million, or $1.04 diluted earnings per share, for the year ended December 31, 2005, and $2.2 million, or $1.09 diluted earnings per share, for the year ended December 31, 2004. The increase in net income for 2006 as compared to 2005 resulted primarily from an increase in the level of average earning assets of $44.0 million. The effect of the increase in earning assets was offset by a 3 basis point decrease in the net interest margin from 3.30% during 2005 to 3.27% during 2006. On a tax equivalent basis, the net interest margin was 3.36% and 3.44% for the years ended December 31, 2006 and 2005, respectively. Net interest spread, the difference between the yield on earning assets and the rate paid on interest-bearing liabilities, was 2.88% in 2006 as compared to 3.05% in 2005 and 3.72% in 2004. See below under "Net Interest Income" and “Market Risk and Interest Rate Sensitivity” for a further discussion about the effect of this decrease in the net interest spread and in our net interest margin. Net interest income increased to $14.3 million for the year ended December 31, 2006 from $13.0 million in 2005. The provision for loan losses was $528,000 in 2006 as compared to $329,000 in 2005. Non-interest income increased to $4.4 million in 2006 from $3.3 million in 2005 due primarily to increased deposit service charges resulting from higher average deposit account balances as well as the introduction of an overdraft protection program in the fourth quarter of 2005. Non-interest expense increased to $13.2 million in 2006 as compared to $11.8 million in 2005. This increase is attributable to increases in all expense categories required to support the continued growth of the bank.

The increase in net income from 2004 to 2005 resulted primarily from an increase in the level of average earning assets of $136.0 million, which was partially offset by a decrease in the net interest margin from 3.72% in 2004 compared to 3.30% in 2005. Earning assets averaged $393.9 million in 2005 as compared to $257.9 million in 2004. Non-interest income increased from $1.8 million in 2004 to $3.3 million in 2005 due to increased deposit service charges and increases in ATM/debit card fees and ATM surcharge fees. In addition, in 2005 we had gains on the sale of securities of $188,000 and gains on the early extinguishment of debt of $124,000. This compares to gains on sale of securities of $11,000 in 2004. Non-interest expense increased to $11.8 million in 2005 as compared to $8.0 million in 2004. This increase is attributable to increases in all expense categories required to support the continued growth of the bank. In addition, expenses related to the operations of the branches acquired in the DutchFork acquisition on October 1, 2004 are included in the 2005 results for the entire year whereas in 2004 they were only included for the three months subsequent to the consummation of the merger.

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Net Interest Income

Net interest income is our primary source of revenue. Net interest income is the difference between income earned on assets and interest paid on deposits and borrowings used to support such assets. Net interest income is determined by the rates earned on our interest-earning assets and the rates paid on our interest-bearing liabilities, the relative amounts of interest-earning assets and interest-bearing liabilities, and the degree of mismatch and the maturity and repricing characteristics of its interest-earning assets and interest-bearing liabilities.

Net interest income totaled $14.3 million in 2006, $13.0 million in 2005 and $9.6 million in 2004. The yield on earning assets, which was 5.06% in 2004, increased to 5.42% and 6.22% in 2005 and 2006, respectively. The rate paid on interest-bearing liabilities was 1.60% in 2004, 2.37% in 2005 and 3.34% in 2006. The net interest margin was 3.72% in 2004, 3.44% in 2005 and 3.27% in 2006. The continued decrease in net interest margin in 2006 as compared to 2005 was a result of a smaller rise in average yields on interest earning assets relative to the rise in the average cost of interest-bearing liabilities. Our loan to deposit ratio on average during 2006 was 64.8%, as compared to 59.8% in 2005 and 61.0% during 2004. Loans typically provide a higher yield than other types of earning assets and thus one of our goals continues to be to grow the loan portfolio as a percentage of earning assets which should improve the overall yield on earning assets and the net interest margin. At December 31, 2006, the loan to deposit ratio had increased to 66.3%.

The inverted yield curve throughout much of 2006 as well as a very competitive deposit and lending environment were significant contributors to the decline in the net interest margin. The yield on earning assets increased by 80 basis points in 2006 as compared to 2005, whereas the cost of interest-bearing funds increased by 97 basis points during the same period. The higher increase in the cost of funds as compared to yield on interest earning assets was primarily due to a significant increase in our funding cost on time deposits. Approximately, 84.2% of our time deposits reprice within 12 months and as a result of increases in short term interest rates during 2006 the cost of these deposits increased 127 basis points in 2006. The average cost of time deposits was 4.18% in 2006 as compared to 2.89% and 2.13% in 2005 and 2004, respectively. The average borrowed funds to total interest bearing-liabilities in 2006 was 17.0%, as compared to 19.2% and 11.4% in 2005 and 2004, respectively. During 2004, we borrowed $15.0 million in long-term debt to facilitate the merger with DutchFork and acquired $35.0 million in Federal Home Loan Bank advances as a result of the merger. Longer term borrowed funds typically have a higher interest rate than our mix of deposit products. Our average cost of borrowed funds for 2006 was 3.70% as compared to 3.84% and 2.92% in 2005 and 2004, respectively.

A*verage Balances, Income Expenses and Rates*. The following tables depict, for the periods indicated, certain information related to our average balance sheet and our average yields on assets and average costs of liabilities. Such yields are derived by dividing income or expense by the average balance of the corresponding assets or liabilities. Average balances have been derived from daily averages.

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(In thousands)	Year ended December 31,								
	2006			2005			2004		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets									
Earning assets									
Loans	$ 249,209	$ 18,613	7.47%	$ 202,143	$ 13,608	6.73%	$ 141,793	$ 9,063	6.39%
Securities	175,145	7,891	4.51%	184,057	7,465	4.06%	92,933	3,647	3.92%
Other short-term investments (2)	13,543	741	5.47%	7,670	271	3.53%	23,167	334	1 .44%
Total earning assets	437,897	27,245	6.22%	393,870	21,344	5.42%	257,893	13,044	5.06%
Cash and due from banks	10,170			10,456			8,425		
Premises and equipment	19,211			14,710			9,740		
Intangible assets	29,603			27,320			6,434		
Other assets	17,945			15,404			5,739		
Allowance for loan losses	(3,002)			(2,774)			(2,063)		
Total assets	$ 511,824			$ 458,986			$ 286,168		
Liabilities									
Interest-bearing liabilities									
Interest-bearing transaction accounts	$ 58,099	305	0.52%	$ 55,289	187	0.34%	$ 36,906	110	0.30%
Money market accounts	48,399	1,547	3.20%	41,615	829	1.99%	29,568	284	0.96%
Savings deposits	29,108	209	0.72%	31,988	214	0.67%	22,070	155	0.70%
Time deposits	185,653	7,768	4.18%	156,131	4,513	2.89%	102,322	2,180	2.13%
Other borrowings	65,815	3,093	4.70%	67,941	2,606	3.84%	24,596	719	2.92%
Total interest-bearing liabilities	387,074	12,922	3.34%	352,964	8,349	2.37%	215,462	3,448	1.60%
Demand deposits	63,167			52,964			41,663		
Other liabilities	.4,378			2,536			1,573		
Shareholders' equity	57,205			50,522			27,470		
Total liabilities and shareholders' equity	$ 511,824			$ 458,986			$ 286,168		
Net interest spread			2.88%			3.05%			3.46%
Net interest income/margin		$ 14,323	3.27%		$ 12,995	3.30%		$ 9,596	3.72%
Net interest margin (tax equivalent)			3.36%			3.44%			3.82%

(1) All loans and deposits are domestic. Average loan balances include non-accrual loans

(2) The computation includes federal funds sold, securities purchased under agreement to resell and interest bearing deposits.

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The following table presents the dollar amount of changes in interest income and interest expense attributable to changes in volume and the amount attributable to changes in rate. The combined effect in both volume and rate, which cannot be separately identified, has been allocated proportionately to the change due to volume and due to rate.

(In thousands)

	2006 versus 2005 Increase (decrease) due to			2005 versus 2004 Increase (decrease) due to		
	Volume	Rate	Net	Volume	Rate	Net
Assets						
Earning assets						
Loans	$ 3,404	$ 1,600	$ 5,004	$ 4,092	$ 453	$ 4,545
Investment securities	(330)	757	427	3,700	118	3,818
Other short-term investments	274	196	470	(326)	262	(64)
Total earning assets	2,538	3.363	5,901	7,445	854	8,299
Interest-bearing liabilities						
Interest-bearing transaction accounts	10	108	118	65	12	77
Money market accounts	152	566	718	150	394	544
Savings deposits	(26)	21	(5)	67	(7)	59
Time deposits	967	2,288	3,255	2,418	(85)	2,333
Other short-term Borrowings	(79)	565	487	1,603	284	1,887
Total interest-bearing liabilities	870	3,702	4,573	6,394	(1,493)	4,901
Net interest income			$ 1,328			$ 3,398

Market Risk and Interest Rate Sensitivity

Market risk reflects the risk of economic loss resulting from adverse changes in market prices and interest rates. The risk of loss can be measured in either diminished current market values or reduced current and potential net income. Our primary market risk is interest rate risk. We have established an Asset/Liability Management Committee (“ALCO”) to monitor and manage interest rate risk. The ALCO monitors and manages the pricing and maturity of its assets and liabilities in order to diminish the potential adverse impact that changes in interest rates could have on its net interest income. The ALCO has established policies guidelines and strategies with respect to interest rate risk exposure and liquidity.

A monitoring technique employed by us is the measurement of our interest sensitivity “gap,” which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given period of time. Also, asset/liability modeling is performed to assess the impact varying interest rates and balance sheet mix assumptions will have on net interest income. Interest rate sensitivity can be managed by repricing assets or liabilities, selling securities available-for-sale, replacing an asset or liability at maturity or by adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities repricing in the same time interval helps to hedge the risk and minimize the impact on net interest income of rising or falling interest rates. Neither the “gap” analysis or asset/liability modeling are precise indicators of our interest sensitivity position due to the many factors that affect net interest income including, the timing, magnitude and frequency of interest rate changes as well as changes in the volume and mix of earning assets and interest-bearing liabilities.

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The following table illustrates our interest rate sensitivity at December 31, 2006.

Interest Sensitivity Analysis
(In thousands)

	Within One Year	One to Three Years	Three to Five Years	Over Five Years	Total
Assets					
Earning assets					
Loans (1)	$ 140,072	$ 67,537	$ 58,162	$ 8,971	$ 274,742
Securities (2)	48,891	73,267	17,396	39,703	179,257
Federal funds sold, securities purchased under agreements to resell and other earning assets	17,793	-	-	-	17,793
Total earning assets	206,756	140,804	75,558	48,674	471,792
Liabilities					
Interest bearing liabilities					
Interest bearing deposits					
NOW accounts	16,011	28,820	9,606	9,606	64,043
Money market accounts	40,393	10,406	-	-	50,799
Savings deposits	7,997	10,976	3,658	3,504	26,135
Time deposits	168,874	19,566	11,847	1	200,288
Total interest-bearing deposits	233,275	69,768	25,111	13,111	341,265
Other borrowings	35,617	2,020	26,919	288	64,844
Total interest-bearing liabilities	268,892	71,788	52,030	13,399	406,109
Period gap	$ (62,136)	$ 69,016	$ 23,528	$ 35,275	$ 65,683
Cumulative gap	$ (62,136)	$ 6,880	$ 30,408	$ 65,683	$ 65,683
Ratio of cumulative gap to total earning assets	(13.17%)	1.46%	6.45%	13.92%	13.92%

(1) Loans classified as non-accrual as of December 31, 2006 are not included in the balances.
(2) Securities based on amortized cost.

At December 31, 2006, we had entered into interest rate cap and floor agreements with a notional amount of $10,000,000 each. The cap rate of interest is 4.50% three month LIBOR and the floor rate of interest is 5.00% three month LIBOR. The fair value of the agreements at December 31, 2006 were $373,000. These agreements were entered into to protect assets and liabilities from the negative effects of volatility in interest rates. The agreements provide for a payment to the bank of the difference between the cap/floor rate of interest and the market rate of interest. The bank’s exposure to credit risk is limited to the ability of the counterparty to make potential future payments required pursuant to the agreement. The bank’s exposure to market risk of loss is limited to the market value of the cap and floor. The market rate of the cap was $180,000 and the floor market value was $191,000 at December 31, 2006. Any gain or loss on the value of this contract is recognized in earnings on a current basis. The bank received payments under the terms of the cap contract in the amount $49,000 during the year ended December 31, 2006. No payments were received under the terms of the cap contract in 2005 and no payments have been received under the terms of the floor contract in 2006. The bank recognized $18,409 and $37,897 in other income to reflect the increase in the value of the contracts for the years ended December 31, 2006 and 2005, respectively. The cap agreement and floor agreement expire on August 1, 2009 and August 31, 2011, respectively.

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Through simulation modeling, we monitor the effect that an immediate and sustained change in interest rates of 100 basis points and 200 basis points up and down will have on net-interest income over the next 12 months. Based on the many factors and assumptions used in simulating the effect of changes in interest rates, the following table estimates the hypothetical percentage change in net interest income at December 31, 2006 and 2005 over the subsequent 12 months. Even though we are liability sensitive the model at December 31, 2006 reflects a decrease in net interest income in a declining rate environment. This primarily results from the current level of interest rates being paid on our interest bearing transaction accounts as well as money market accounts. The interest rates on these accounts are at a level where they can not be repriced in proportion to the change in interest rates. The increase and decrease of 100 and 200 basis points assume a simultaneous and parallel change in interest rates along the entire yield curve..

Net Interest Income Sensitivity

Change in short-term interest rates	Hypothetical percentage change in net interest income December 31, 2006	2005
+200bp	- 2.73%	+ 0.74%
+100bp	- 1.19%	+ 0.75%
Flat	-	-
-100bp	- 0.79%	- 2.79%
-200bp	- 4.16%	- 8.30%

We also perform a valuation analysis projecting future cash flows from assets and liabilities to determine the Present Value of Equity (PVE) over a range of changes in market interest rates. The sensitivity of PVE to changes in interest rates is a measure of the sensitivity of earnings over a longer time horizon. At December 31, 2006 and 2005 the PVE, exposure in a plus 200 basis point increase in market interest rates was estimated to be 9.92% and 8.03%, respectively.

Provision and Allowance for Loan Losses

At December 31, 2006, the allowance for loan losses amounted to $3.2 million, or 1.17% of total loans, as compared to $2.7 million, or 1.22% of total loans, at December 31, 2005. Our provision for loan loss was $528,000 for the year ended December 31, 2006 as compared to $329,000 and $245,000 for the years ended December 31, 2005 and 2004, respectively. The provision is made based on our assessment of general loan loss risk and asset quality. 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 and concentrations of credit. While net charge-offs declined during 2006 the charge-offs for installment and other credit card loans increased 186.1% from $72,000 in 2005 to $206,000 in 2006. This primarily results from the introduction of the overdraft protection program in the fourth quarter of 2005. Overdrafts are included in loans on the balance sheet and charge-off of the overdraft amount, excluding fees, is charged to the allowance for loan losses. In evaluating this overdraft protection program it was anticipated that these consumer charge-offs would increase. 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.

We perform an analysis quarterly to assess the risk within the loan portfolio. The portfolio is segregated into similar risk components for which historical loss ratios are calculated and adjusted for identified changes in current portfolio characteristics. Historical loss ratios are calculated by product type and by regulatory credit risk classification. The allowance consist of an allocated and unallocated allowance. The allocated portion is determined by types and ratings of

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loans within the portfolio. The unallocated portion of the allowance is established for losses that exist in the remainder of the portfolio and compensates for uncertainty in estimating the 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. The allowance is also subject to examination and testing for adequacy by regulatory agencies, which may consider such factors as the methodology used to determine adequacy and the size of the allowance relative to that of peer institutions. Such regulatory agencies could require us to adjust our allowance based on information available to them at the time of their examination.

At December 31, 2006, 2005, and 2004, we had non-accrual loans in the amount of $449,000, $101,000 and $0, respectively. There were $1.6 million, $387,000 and $411,000 in loans delinquent greater than 30 days at December 31, 2006, 2005 and 2004, respectively. There were $22,000, $34,000 and $80,000 in loans greater than 90 days delinquent and still accruing interest at December 31, 2006, 2005 and 2004, respectively. As a result of the merger with DeKalb, we acquired an allowance for loan losses in the amount of $320,000. This allowance for loan losses had been recorded through the provision for loan losses for DeKalb prior to the merger, which was consummated on June 9, 2006.

Our management continuously monitors non-performing, classified and past due loans to identify deterioration regarding the condition of these loans. We identified six loans in the amount of $769,000 which are current as to principal and interest and not included in non-performing assets but that could be potential problem loans.

Allowance for Loan Losses

(Dollars in thousands)	2006	2005	2004	2003	2002
Average loans outstanding	$ 249,209	$ 202,143	$ 141,793	$ 111,928	$ 93,992
Loans outstanding at period end	$ 275,189	$ 221,668	$ 186,771	$ 121,009	$ 99,991
Total nonaccrual loans	$ 449	$ 101	-	$ 80	$ 144
Loans past due 90 days and still accruing	$ 22	$ 34	$ 80	$ 109	$ 24
Beginning balance of allowance	$ 2,701	$ 2,764	$ 1,705	$ 1,525	$ 1,000
Loans charged-off:					
1-4 family residential mortgage	97	119	5	27	-
Home equity	-	274	-	-	-
Commercial	142	56	196	157	156
Installment & credit card	206	72	93	51	16
Total loans charged-off	445	521	294	235	172
Recoveries:					
1-4 family residential mortgage	2	-	-	-	-
Home equity	-	-	-	-	19
Commercial	59	99	90	247	1
Installment & credit card	50	30	23	1	-
Total recoveries	111	129	113	248	20
Net loans charged off (recovered)	334	392	181	(13)	152
Provision for loan losses	528	329	245	167	677
Purchased in acquisition	320	-	995	-	-
Balance at period end	$ 3,215	$ 2,701	$ 2,764	$ 1,705	$ 1,525
Net charge -offs to average loans	0.13%	0.19%	0.13%	(0.01%)	0.16%
Allowance as percent of total loans	1.17%	1.22%	1.48%	1.41%	1.53%

Non-performing loans as % of total loans	.16%	.05%	-	0.07%	0.14%
Allowance as % of non-performing loans	716.04%	2674.26%	-	2131.25%	1059.03%

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The following table presents an allocation of the allowance for loan losses at the end of each of the past four years. The allocation is calculated on an approximate basis and is not necessarily indicative of future losses or allocations. The entire amount is available to absorb losses occurring in any category of loans. Prior to December 31, 2003, we did not allocate the allowance to loan losses to categories of loans but rather evaluated the allowance on an overall portfolio basis. The change as of December 31, 2003 to allocating the allowance to loan losses to loan categories had no financial statement effect on the allowance for loan losses.

Allocation of the Allowance for Loan Losses

Dollars in thousands	2006		2005		2004		2003	
	Amount	% of loans in category	Amount	% of loans in category	Amount	% of loans in category	Amount	% of loans in category
Commercial, Financial and Agricultural	$ 83	8.6%	$ 574	10.0%	$ 462	10.2%	$ 285	9.5%
Real Estate Construction	884	11.4%	611	9.0%	348	4.3%	214	6.4%
Real Estate Mortgage:								
Commercial	1,692	50.5%	953	50.9%	1,285	51.8%	792	60.1%
Residential	323	17.4%	275	16.8%	478	19.0%	293	9.8%
Consumer	133	12.1%	213	13.3%	135	14.7%	85	14.2%
Unallocated	100	N/A	75	N/A	56	N/A	36	N/A
Total	$ 3,215	100.0%	$ 2,701	100.0%	$ 2,764	100.0%	$ 1,705	100.0%

Accrual of interest is discontinued on loans when we believe, 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.

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Noninterest Income and Expense

Noninterest Income. Our primary source of noninterest income is service charges on deposit accounts. In addition, we originate mortgage loans that are pre-sold and funded by the third party acquirer, for which receive a fee. Other sources of noninterest income are derived from commissions on sale of non-deposit investment products, bankcard fees, ATM/debit card fees, commissions on check sales, safe deposit box rent, wire transfer and official check fees. Noninterest income for the year ended December 31, 2006 was $4.4 million as compared to $3.3 million for 2005, an increase of $1.1 million, or 33.4%. This increase is due primarily to increased deposit service charges resulting from higher average deposit account balances. In addition, during the fourth quarter of 2005 we introduced a formalized overdraft privilege program, which contributed to the increase in deposit service charges in 2006 as compared 2005. Deposit service charges amounted to $2.4 million in 2006 as compared to $1.5 million in 2005. Mortgage origination fees increased to $450,000 in 2006 as compared to $362,000 in 2005. This increase resulted from continued historically low mortgage interest rates as well as the addition of one full time and one part-time originator in the last half of 2005 and another full time originator was added as a result of the DeKalb acquisition in June 2006. In the first quarter of 2006 we sold securities that resulted in a loss of $69,000. The proceeds from the sale of the securities were used to pay down $5.0 million in FHLB advances resulting in a gain on the early extinguishment of debt of $159,000. This compares to gains on the sale of securities in the amount of $181,000 that were recognized in the first quarter of 2005 as we continued to restructure the investment portfolio acquired from DutchFork. A gain on the early extinguishment of debt in the amount of $124,000 was realized in the fourth quarter of 2005. This also resulted from the pay down of approximately $5.0 million of the FHLB advances. Commissions on the sale of non-deposit investment products increased to $321,000 in 2006 as compared to $230,000 in 2005. This increase results from emphasis on this source of income through branch referrals as well as additional calling efforts. Other noninterest income increased to $1.1 million in 2006 as compared to $931,000 in 2005. This is a result of all categories of other noninterest income increasing, including loan late charges increasing by $11,000, ATM/debit card fees and surcharges by $147,000 and income from increases in value of bank owned life insurance of approximately $47,000. The increases in loan late charges and ATM/debit card fees and surcharges are a result of the continued growth of the bank. In July 2006 we purchased an additional $3.5 million in bank owned life insurance which resulted in the increase in this source of income in 2006 as compared to 2005. In addition, we realized an increase in the cash value of bank owned life insurance of approximately $251,000 in 2005 as compared to $19,000 in 2004. These policies were acquired in the DutchFork acquisition and were owned for the entire year of 2005 as compared to only three months in 2004.

Noninterest income amounted to $3.3 million in 2005 as compared to $1.8 million in 2004, an increase of $1.5 million (85.9%). Non-interest income in 2005 included the impact of the DutchFork acquisition for a full year, whereas it only impacted 2004 during the fourth quarter of that year. Deposit service charges amounted to $1.5 million in 2005 as compared to $880,000 in 2004. During the fourth quarter of 2005, we introduced a formalized overdraft privilege program. The introduction of the overdraft privilege program as well as increased deposit balances contributed to the increase in deposit service charges. Mortgage origination fees increased to $362,000 in 2005 as compared to $268,000 in 2004. This increase resulted from an emphasis in this area and the addition of one full time and one part-time originator in the last half of 2005. We had gains on the sale of securities in the amount of $188,000 in 2005 as compared to $11,000 in 2004. Gains in the amount of $181,000 were recognized in the first quarter of 2005 as we continued to restructure the investment portfolio acquired from DutchFork. A gain on the early extinguishment of debt in the amount of $124,000 was realized in the fourth quarter of 2005. This resulted from the pay down of approximately $5.0 million of the FHLB advances that were acquired in the DutchFork merger. Other noninterest income increased to $931,000 million in 2005 as compared to $402,000 in 2004. This is a result of all categories of other noninterest income increasing, including loan late charges, ATM/debit card fees and surcharges due to the effect of the DutchFork merger. In addition, we realized an increase in the cash value of bank owned life insurance of approximately $251,000 in 2005 as compared to $19,000 in 2004. These policies were acquired in the DutchFork acquisition and were owned for the entire year of 2005 as compared to only three months in 2004.

Noninterest Expense. In the very competitive financial services industry, we recognize the need to place a great deal of emphasis on expense management and continually evaluate and monitor growth in discretionary expense categories in order to control future increases. We have expanded our branch network over the last five years and acquired our twelfth office located in Camden, South Carolina in June 2006 through the acquisition of DeKalb. In July 2006, construction was completed and we occupied our new 29,000 square foot administrative center. We believe that the administrative center along with other initiatives continue to improve the support infrastructure to enable our company to effectively manage the asset growth and expanded branch network experienced over the last five years. As a result of management's expansion strategy, all categories of non-interest expense have continued to increase over the last several years. We anticipate that we will continue to seek de novo branch expansion as well as possible acquisition opportunities in key markets within the midlands of South Carolina.

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Noninterest expense increased to $13.2 million for the year ended December 31, 2006 from $11.8 million for the year ended December 31, 2005. Salary and employee benefits increased $594,000 million in 2006 as compared to 2005. We added approximately 8 employees in connection with the merger with DeKalb. These employees were included in operations for approximately seven months during 2006. The number of full time equivalent employees at December 31, 2006 was 137 as compared to 123 at the same time in 2005. The new employees were hired to support the continued growth of the bank. Occupancy expense increased $139,000 from $807,000 in 2005 to $946,000 in 2006. The increase is primarily a result of the increased expense associated with the administrative center and the Camden branch for approximately five months and seven months, respectively. Data processing cost are primarily associated with third party processors supporting our network of ATM machines as well as processing ATM and Debit card activity. The expense related to these activities increased $66,000 as a result of the increased activity and numbers of outstanding cards. Telephone expense increased $90,000 as result of enhancements to our data network and the addition of the Camden branch. Professional fees increased from $415,000 in 2005 to $833,000 in 2006. This increase results primarily from the expense associated with the implementation of the overdraft privilege program. Expenses in 2006 related to implementing this program were approximately $290,000. Ongoing professional expenses related to this program after 2006 are not anticipated to be significant. Professional fees in 2006 also include approximately $180,000 for consulting services relative to the investment portfolio. In 2005, the expense related to investment portfolio consulting was approximately $45,000. In addition, the Sarbanes-Oxley Act of 2002, and the rules and regulations promulgated by the Securities and Exchange Commission that are now applicable to us, have increased the scope, complexity, and cost of corporate governance, reporting, and disclosure and as a result have increased legal and other professional fees. The Securities and Exchange Commission has granted an extension to non-accelerated filers to comply with the management reporting provisions of Section 404 to December 31, 2007. The requirement for an independent attestation report on internal controls has been extended to December 31, 2008 for non-accelerated filers. There will be continued cost incurred relative to complying with the requirements of Section 404 into 2007 and beyond. We continue to evaluate the best options for utilizing consulting/outside resources for implementation and compliance with the requirements of Section 404. Amortization of intangibles increased approximately $42,000, which is a result of amortization of the core deposit premium associated with the DeKalb merger. The core deposit premium acquired in this merger amounted to $522,000 and is being amortized on a straight-line basis over seven years.

As a result of the merger with DutchFork in October 2004, expenses associated with operating the three new offices were included in the results of operations for the last quarter of 2004 as compared to the full year in 2005. Noninterest expense increased to $11.8 million for the year ended December 31, 2005 from $8.0 million for the year ended December 31, 2004. Salary and employee benefits increased $2.0 million in 2005 as compared to 2004. We added approximately 30 employees in connection with the merger with DutchFork. The number of full time equivalent employees at December 31, 2005 was 123 as compared to 115 at the same time in 2004. The new employees were hired to support the continued growth of the bank. Occupancy expense increased $318,000 from $489,000 in 2004 to $807,000 in 2005. Equipment expense increased by $254,000, or 25.6%, in 2005 as compared to 2004. This is primarily a result of the expenses associated with the DutchFork acquisition being included for an entire year in 2005. In addition, increased depreciation and maintenance contract expense related to equipment purchased to upgrade and improve existing technology, including an upgrade to our main processor and item processing equipment needed to support increased volumes subsequent to the merger with DutchFork. These additions and upgrades were made in the second and third quarter of 2004 and therefore did not impact the full year of 2004. Noninterest expense in 2005 and 2004 included amortization of the deposit premium intangible of $595,000 and $280,000, respectively, related to the merger with DutchFork in October 2004 and the acquisition of the Chapin office in February 2001. The deposit premiums of $1.2 million relative to the Chapin branch acquisition and the $2.9 million related to the DutchFork merger are being amortized on a straight-line basis over a period of seven years. Professional fees increased by $225,000 in 2005 as compared to 2004 due to increased legal fees, audit fees and consulting fees, most of which is attributable to the significant growth we experienced between the two periods.

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The following table sets forth for the periods indicated the primary components of non-interest expense:
(In thousands)

	Year ended December 31, 2006	2005	2004
Salary and employee benefits	$ 6,887	$ 6,292	$ 4,263
Occupancy	946	807	489
Equipment	1,241	1,246	992
Marketing and public relations	329	337	325
Data processing	265	199	127
Supplies	271	262	191
Telephone	381	291	206
Correspondent services	169	167	140
Insurance	255	246	149
Professional fees	833	415	190
Postage	168	164	111
Amortization of intangibles	637	595	280
Other	861	817	514
	$ 13,243	$ 11,838	$ 7,977

Income Tax Expense

Income tax expenses for the year ended December 31, 2006 were $1.5 million, or 29.3% of income before taxes, as compared to $1.0 million, or 25.0% of income before taxes, for the year ended December 31, 2005. Income taxes for 2004 were $963,000, or 30.6% of income before taxes. We recognize deferred tax assets for future deductible amounts resulting from differences in the financial statement and tax bases of assets and liabilities and operating loss carry forwards. A valuation allowance is then established to reduce the deferred tax asset to the level that it is more likely than not that the tax benefit will be realized. There are no valuation allowances established for deferred taxes as of December 31, 2006 and 2005. The increase in the effective tax rate in 2006 over the prior year is primarily a result of the decrease in the amount of dividends received (eligible for a 70% dividend received deduction) in 2006 versus 2005 on preferred stock held in the available-for-sale portfolio ($614,000 in 2006 and $920,000 in 2005). These investments were owned by DutchFork at the date of the merger. Subsequent to the merger and as a result of restructuring certain holdings within the portfolio, a significant portion of the preferred stock holdings were sold in the fourth quarter of 2004 and first quarter of 2005. As of December 31, 2006, we hold preferred stock with a fair value of $14.0 million in the available for sale portfolio and bank owned life insurance with a book value of $9.6 million. These holdings will continue to reduce the company’s effective tax rate in future periods. The decrease in the effective tax rate in 2005 as compared to 2004 was also a primarily a result of these assets being held only during the fourth quarter of 2004.

Financial Position

Total assets at December 31, 2006 were $548.1 million as compared to $467.5 million at December 31, 2005. Average earning assets increased to $437.9 million during 2006 from $393.9 million during 2005. Asset growth included organic growth in loans of $26.9 million during 2006. Loans at December 31, 2006 were $275.2 as compared to $221.7 million at December 31, 2005. The increase includes $26.6 million in loans acquired in the merger with DeKalb. Investment securities were $176.5 at December 31, 2006 as compared to $176.4 million at December 31, 2005. The organic $34.6 million growth in assets was funded by an organic increase in deposit account balances of $38.0 million. Deposits and borrowings acquired in the merger with DeKalb amounted to $27.3 million and $7.9 million respectively. Securities sold under agreements to repurchase increased by $5.7 million at December 31, 2006 as compared to December 31, 2005. Federal Home Loan Bank Advances decreased by $4.7 million as of December

31, 2006 compared to December 31, 2005. Shareholders' equity totaled $63.2 million at December 31, 2006 as compared to $50.8 million at December 31, 2005. The increase was a result of retained earnings of $2.8 million, proceeds from issuance of stock under stock option plans and the dividend reinvestment plan of $1.1 million and stock issued in the DeKalb merger valued at $7.6 million. There was also a partial recovery of the net of tax unrealized loss on available-for-sale securities of $1.9 million during 2006.

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Earning Assets

Loans. Loans typically provide higher yields than the other types of earning assets, and thus one of our goals is to have loans be the largest category of our earning assets. During 2006, loans accounted for 56.9% of average earning assets as compared to 51.3% of average earning assets in 2005. The 5.6% increase in the ratio during 2006 demonstrates progress towards our asset mix goals. The growth of the loan portfolio both in total dollars and as a percentage of total earning assets will continue to be a major focus throughout 2007 and thereafter. Associated with the higher loan yields are the inherent credit and liquidity risks, which we attempt to control and counterbalance. We are committed to achieving our asset mix goals without sacrificing asset quality. Loans averaged $249.2 million during 2006, as compared to $202.1 million in 2005.

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

(In thousands)	December 31, 2006	2005	2004	2003	2002
Commercial, financial & agricultural	$ 23,595	$ 22,091	$ 19,001	$ 11,518	$ 10,688
Real estate:					
Construction	31,474	19,955	8,066	7,782	7,533
Mortgage - residential	47,950	37,251	35,438	11,804	11,055
Mortgage - commercial	138,886	112,915	96,811	72,668	55,290
Consumer	33,284	29,456	27,455	17,237	15,425
Total gross loans	275,189	221,668	186,771	121,009	99,991
Allowance for loan losses	(3,215)	(2,701)	(2,764)	(1,705)	(1,525)
Total net loans	$ 271,974	$ 218,967	$ 184,007	$ 119,304	$ 98,466

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. We follow 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 we limit the loan-to-value ratio to 80%. The principal components of our loan portfolio, at year-end 2006 and 2005, were commercial mortgage loans in the amount of $138.9 million and $112.9 million, representing 50.5% and 50.9% of the portfolio, respectively. Significant portions of these commercial mortgage loans are made to finance owner-occupied real estate. We continue to maintain a conservative philosophy regarding our underwriting guidelines, and believe it will reduce the risk elements of the loan portfolio through strategies that diversify the lending mix.

The repayment of loans in the loan portfolio as they mature is a source of liquidity. The following table sets forth the loans maturing within specified intervals at December 31, 2006.

Loan Maturity Schedule and Sensitivity to Changes in Interest Rates

(In thousands)	December 31, 2006			
	One Year or Less	Over One Year Through Five Years	Over Five Years	Total
Commercial, financial & agricultural	$ 8,383	$ 14,449	$ 763	$ 23,595
Real estate - construction	27,919	3,500	55	31,474

All other loan		37,988		121,643		60,489		220,120
	$	74,290	$	139,592	$	61,307	$	275,189
Loans maturing after one year with:								
Fixed interest rates							$	143,700
Floating interest rates								57,199
							$	200,899

The information presented in the above table is based on the contractual maturities of the individual loans, including loans, which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms upon their maturity.

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Investment Securities

The investment securities portfolio is a significant component of our total earning assets. Total securities averaged $175.1 million in 2006, as compared to $184.1 million in 2005. This represents 40.0% and 46.7% of the average earning assets for the year ended December 31, 2006 and 2005, respectively. At December 31, 2006, the portfolio was 37.6% of earning assets.

At December 31, 2006 we had mortgage backed securities including collateralized mortgage obligations with a fair value of $79.4 million. Of these $45.5 million were issued by government sponsored enterprises and $33.9 million are by other issuers. We believe that none of the CMOs held at December 31, 2006 are deemed to be invested in "high risk" tranches. Prior to acquiring a CMO, we perform a detailed analysis of the changes in value and the impact on cash flows in a changing interest rate environment to ensure that it meets our investment objectives as outlined in our investment policies. At December 31, 2006, we also had investments in variable rate preferred stock issued by the Federal Home Loan Mortgage Corporation (FHLMC) with a fair value of $14.0 million, which were acquired in the DutchFork transaction. In addition, we acquired other fixed and variable rate preferred stocks issued by FHLMC and FNMA in the DutchFork transaction. During the fourth quarter of 2004, we sold approximately $33.0 million primarily fixed rate, preferred stock securities. As a result of marking the securities to market at the date of acquisition, substantially no gain or loss on those transactions was recognized in 2004. In the first quarter of 2005, we sold preferred stock securities with an approximate carrying value of $12.0 million. A gain of approximately $136,000 was realized in the first quarter of 2005 on these sales. During 2006 we sold approximately preferred stock with a carrying value of approximately $17.1 million for a net gain of approximately $9,000. At December 31, 2006, the remaining preferred stock securities owned have an average book value of 85% of their par value. The remaining FHLMC preferred stock securities have adjustable rates. There have been no significant downgrades in the credit rating of the issuer. Given the adjustable rate nature of these securities, the dividend rate will adjust to a level more in line with current or future interest rates at a preset time in the future. Our objective in the management of the investment portfolio is to maintain a portfolio of high quality, liquid investments. This policy is particularly important as we continue to emphasize increasing the percentage of the loan portfolio to total earning assets. At December 31, 2006, the estimated weighted average life of the portfolio was 7.1 years, duration of approximately 3.3 and a weighted average tax equivalent yield of approximately 4.88%. Based on our evaluation of securities that currently have unrealized losses, and our ability and intent to hold these investments until a recovery of fair value, we do not consider any of it investments to be other-than-temporarily impaired at December 31, 2006.

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The following table shows the investment portfolio composition.
(In thousands)

	December 31, 2006	2005	2004
Securities available-for-sale at fair value:			
U.S. Treasury	$ 1,004	$ 992	$ 997
U.S. Government sponsored enterprises	56,660	57,479	63,755
Mortgage-backed securities	79,426	69,794	71,056
State and local government	4,481	253	-
FHLMC preferred stock	14,005	28,214	42,128
Corporate bonds	8,792	8,607	7,754
Other	5,666	5,319	4,320
	170,034	170,658	190,010
Securities held-to-maturity (amortized cost):			
State and local government	6,429	5,654	6,006
Other	60	60	10
	6,489	5,714	6,016
Total	$ 176,523	$ 176,372	$ 196,026

Investment Securities Maturity Distribution and Yields

The following table shows, at carrying value, the scheduled maturities and average yields of securities held at December 31, 2006.

(In thousands)

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
Held-to-maturity:	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
State and local government	$ 430	4.60%	$ 4,236	3.91%	$ 1,763	3.83%	$ -	
Other	-		10	5.85%	50	4.05%		
Total investment securities held-to-Maturity	430	4.60%	4,246	3.92%	1,813	3.84%	-	
Available-for-sale:								
U.S. treasury	1,004	5.11%	-		-		-	
Government sponsored enterprises	25,889	4.30%	25,343	4.20%	5,354	4.85%	74	3.64%
Mortgage-backed securities	2,087	3.50%	45,698	4.85%	16,443	5.78%	15,199	5.92%
State and local government	-		-		1,969	4.04%	2,513	4.20%
FHLMC preferred stock	-		-				14,005	4.41%

Corporate	551	5.09%	1,718	0.30%	4,062	3.93%	2,460	4.59%
Other	-		-		-		5,665	4.49%
Total investment securities available-for-sale	29,531	4.29%	72,759	4.51%	27,828	5.30%	39,916	4.99%
Total investment securities	$ 29,961	4.29%	$ 77,005	4.48%	$ 29,641	5.21%	$ 39,916	4.99%

Short-Term Investments

Short-term investments, which consist of federal funds sold, securities purchased under agreements to resell and interest bearing deposits, averaged $13.5 million in 2006, as compared to $7.7 million in 2005. At December 31, 2006, short- term investments totaled $17.8 million. These funds are a primary source of liquidity and are generally invested in an earning capacity on an overnight basis.

Deposits and Other Interest-Bearing Liabilities

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Deposits. Average deposits were $384.4 million during 2006, compared to $338.0 million during 2005. Average interest-bearing deposits were $321.3 million in 2006, as compared to $285.0 million in 2005.

The following table sets forth the deposits by category:

(In thousands)	December 31,					
	2006		2005		2004	
	Amount	% of Deposits	Amount	% of Deposits	Amount	% of Deposits
Demand deposit accounts	$ 73,676	17.8%	$ 57,327	16.4%	$ 49,520	14.7%
NOW accounts	64,043	15.4%	60,756	17.4%	59,723	17.7%
Money market accounts	50,799	12.2%	45,582	13.0%	39,124	11.6%
Savings accounts	26,135	6.3%	29,819	8.5%	35,370	10.5%
Time deposits less than $100,000	119,083	28.7%	100,612	28.8%	100,629	29.9%
Time deposits more than $100,000	81,205	19.6%	55,508	15.9%	52,698	15.6%
	$ 414,941	100.0%	$ 349,604	100.0%	$ 337,064	100.0%

Core deposits, which exclude certificates of deposit of $100,000 or more, provide a relatively stable funding source for the loan portfolio and other earning assets. Core deposits were $334.7 million and $294.1 million at December 31, 2006 and 2005, respectively. A stable base of deposits is expected to continue be the primary source of funding to meet both our short-term and long-term liquidity needs in the future. The maturity distribution of time deposits is shown in the following table.

Maturities of Certificates of Deposit and Other Time Deposit of $100,000 or more

(In thousands)	December 31, 2006				
	Within Three Months	After Three Through Six Months	After Six Through Twelve Months	After Twelve Months	Total
Certificates of deposit of $100,000 or more	$ 23,599	$ 20,932	$ 24,864	$ 11,810	$ 81,205

There were no other time deposits of $100,000 or more at December 31, 2006.

Large certificate of deposit customers tend to be extremely sensitive to interest rate levels, making these deposits less reliable sources of funding for liquidity planning purposes than core deposits. Some financial institutions partially fund their balance sheets using large certificates of deposits obtained through brokers. These brokered deposits can be unreliable as long-term funding sources. Accordingly, we do not currently accept brokered deposits.

Borrowed funds. Borrowed funds consist of securities sold under agreements to repurchase, Federal Home Loan Bank advances and long-term debt as a result of issuing $15.0 million in trust preferred securities. Short-term borrowings in the form of securities sold under agreements to repurchase averaged $19.1 million, $11.0 and $5.9 million during 2006, 2005 and 2004, respectively. The maximum month-end balance during 2005, 2004 and 2003 was $27.7 million,

$14.9 million and $7.6 million, respectively. The average rate paid during these periods was 3.90%, 3.38% and 0.71%, respectively. The balance of securities sold under agreements to repurchase were $19.5 million and $13.8 million at December 31, 2006 and 2005, respectively. The repurchase agreements all mature within one to four days and are generally originated with customers that have other relationships with the company and tend to provide a stable and predictable source of funding. As a member of the Federal Home Loan Bank of Atlanta (FHLB Atlanta), the bank has access to advances from the FHLB Atlanta for various terms and amounts. During 2006 and 2005, the average outstanding advances amounted to $31.1 million and $41.3 million, respectively.

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The following is a schedule of the maturities for Federal Home Loan Bank Advances as of December 31, 2006 and 2005:

	December 31,			
(In thousands)	2006		2005	
Maturing	Amount	Rate	Amount	Rate
2006	$ -	-	$ 1,500	2.83%
2008	1,954	3.79%	5,251	3.42%
2010	26,853	3.64%	27,306	3.64%
2011	500	5.35%	467	1.00%
After five years	450	1.00%		
	29,758	3.64%	34,524	3.54%

Purchase premiums included in advances acquired in the merger with DutchFork reflected in the advances maturing in 2010 amount to $1.9 million and $2.3 million at December 31, 2006 and 2005, respectively. The coupon rate on these advances is 5.76%. In addition to the above borrowings, we issued $15.0 million in trust preferred securities on September 16, 2004. The securities accrue and pay distributions quarterly at a rate of LIBOR plus 257 basis points. The debt may be redeemed in full anytime after September 16, 2009 with notice and matures on September 16, 2034.

Capital

Total shareholders' equity as of December 31, 2006 was $63.2 million as compared to $50.8 million as of December 31, 2005. This increase was attributable to retained net income for the year ended December 31, 2006 of $2.8 million, a recovery in the net unrealized loss of $1.9 million net of tax effect in the market value of investment securities available-for sale, the issuance of shares in the dividend reinvestment plan and upon the exercise of stock options valued at $1.1 million, and the issuance of 364,034 shares of common stock valued at $7.6 million in conjunction with the acquisition of DeKalb. Offsetting these increases was the repurchase of 70,100 shares at a total price of $1.3 million pursuant to a stock repurchase program we instituted during the third quarter of 2006 authorizing the repurchase of up to 150,000 shares of our common stock. During the first quarter of 2006 we paid a quarterly dividend of $0.05 per share. For the last three quarters of 2006 our dividend was $0.06 per share. In 2005 and 2004, we paid quarterly cash dividends of $.05 per share. A dividend reinvestment plan was implemented in the third quarter of 2003. The plan allows existing shareholders the option of reinvesting cash dividends as well as making optional purchases of up to $5,000 in the purchase of common stock per quarter.

Under the capital guidelines of the Federal Reserve and the OCC, the company and the bank are currently required to maintain a minimum risk-based total capital ratio of 8%, with at least 4% being Tier 1 capital. Tier 1 capital consists of common shareholders' equity, qualifying perpetual preferred stock, and minority interests in equity accounts of consolidated subsidiaries, less goodwill. In addition, the bank must maintain a minimum Tier 1 leverage ratio (Tier 1 capital to total assets) of at least 4%, but this minimum ratio is increased by 100 to 200 basis points for other than the highest-rated institutions. The trust preferred securities in the amount of $15.0 million that were issued on September 16, 2004 qualify as tier 1 capital under the regulatory guidelines and are included in the amounts reflected below.

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The company and the bank exceeded their regulatory capital ratios at December 31, 2006 and 2005, as set forth in the following table.

Analysis of Capital (In thousands)	Required Amount	%	Actual Amount	%	Excess Amount	%
The Bank:						
December 31, 2006						
Risk Based Capital						
Tier 1	$ 14,009	4.0%	$ 43,039	12.3%	29,031	8.3%
Total Capital	28,018	8.0%	46,254	13.2%	18,236	5.2%
Tier 1 Leverage	20,266	4.0%	43,039	8.5%	22,773	4.5%
December 31, 2005						
Risk Based Capital						
Tier 1	$ 12,320	4.0%	$ 36,179	11.8%	$ 23,859	7.8%
Total Capital	24,640	8.0%	38,880	12.6%	14,240	4.6%
Tier 1 Leverage	17,740	4.0%	36,179	8.2%	18,439	4.2%
The Company:						
December 31, 2006						
Risk Based Capital						
Tier 1	$ 14,030	4.0%	$ 47,238	13.5%	$ 33,208	9.5%
Total Capital	28,060	8.0%	50,453	14.4%	22,393	6.4%
Tier 1 Leverage	20,343	4.0%	47,238	9.3%	26,895	5.3%
December 31, 2005						
Risk Based Capital						
Tier 1	$ 12,354	4.0%	$ 40,898	13.2%	$ 28,544	8.2%
Total Capital	24,709	8.0%	43,599	14.1%	18,890	6.1%
Tier 1 Leverage	17,616	4.0%	40,898	9.3%	23,282	5.3%

Liquidity Management

Liquidity management involves monitoring sources and uses of funds in order to meet its day-to-day cash flow requirements while maximizing profits. Liquidity represents our ability to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of the investment portfolio is very predictable and subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to nearly the same degree of control. Asset liquidity is provided by cash and assets which are readily marketable, or which can be pledged, or which will mature in the near future. Liability liquidity is provided by access to core funding sources, principally the ability to generate customer deposits in our market area. In addition, liability liquidity is provided through the ability to borrow against approved lines of credit (federal funds purchased) from correspondent banks and to borrow on a secured basis through securities sold under agreements to repurchase. The bank is a member of the FHLB Atlanta and has the ability to obtain advances for various periods of time. These advances are secured by securities pledged by the bank or assignment of loans within the bank's portfolio.

With the successful completion of the common stock offering in 1995, the secondary offering completed in 1998, the trust preferred offering completed in September 2004, the acquisition of DutchFork in October 2004 and the acquisition of DeKalb in June 2006, the company has maintained a high level of liquidity and adequate capital, along with continued retained earnings, sufficient to fund the operations of the bank for at least the next 12 months. The company's management anticipates that the bank will remain a well capitalized institution for at least the next 12 months. Shareholders' equity was 11.5% of total assets at December 31, 2006 and 10.9% at December 31, 2005. Funds sold and short-term interest bearing deposits are our primary source of liquidity and averaged $13.5 million and $7.7 million during the year ended December 31, 2006 and 2005, respectively. The bank maintains federal funds purchased lines, in the amount of $10.0 million with several financial institutions, although these were not utilized in 2006. The FHLB Atlanta has approved a line of credit of up to 15% of the bank assets, which would be collateralized

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by a pledge against specific investment securities and or eligible loans. We regularly review the liquidity position of the company and have implemented internal policies establishing guidelines for sources of asset based liquidity and limit the total amount of purchased funds used to support the balance sheet and funding from non core sources. We believe that our existing stable base of core deposits along with continued growth in this deposit base will enable us to meet our long term liquidity needs successfully.

CONTRACTUAL OBLIGATIONS

The following table provides payments due by period for various contractual obligations as of December 31, 2006

			Payments Due by Period			
(in thousands)	Within One Year	Over One to Two Years	Over Two to Three Years	Over Three to Five Years	After Five Years	Total
Certificate accounts	$ 168,714	$ 5,521	$ 14,048	$ 12,005	$ -	$ 200,288
Short-term borrowings	19,621	-	-	-	-	19,621
Long-term debt	-	1,954	-	27,353	15,915	45,222
Purchases	-	-	-	-	-	-
Total contractual obligations	$ 188,335	$ 7,475	$ 14,048	$ 39,358	15,915	$ 265,131

Off-Balance Sheet Arrangements

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in the financial statements, or are recorded in amounts that differ from the notional amounts. These transactions involve, to varying degrees, elements of credit, interest rate, and liquidity risk. Such transactions are used by the company for general corporate purposes or for customer needs. Corporate purpose transactions are used to help manage credit, interest rate, and liquidity risk or to optimize capital. Customer transactions are used to manage customers' requests for funding. Please refer to Note 13 of the company's financial statements for a discussion of our off-balance sheet arrangements.

Impact of Inflation

Unlike most industrial companies, the assets and liabilities of financial institutions such as the company and the bank are primarily monetary in nature. Therefore, interest rates have a more significant effect on our performance than do the effects of changes in the general rate of inflation and change in prices. In addition, interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. As discussed previously, we continually seek to manage the relationships between interest sensitive assets and liabilities in order to protect against wide interest rate fluctuations, including those resulting from inflation.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Please refer to "Market Risk and Interest Rate Sensitivity," "Loan Maturity Schedule and Sensitivity to Changes n Interest Rates," "Investment Securities Majority Distribution and Yields" in Item 6 for quantitative and qualitative disclosures about market risk, which information is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data.

Additional information required under this Item 8 may be found under the Notes to Financial Statements under Note 21.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
First Community Corporation
Lexington, South Carolina

We have audited the accompanying consolidated balance sheet of First Community Corporation (the Company) as of December 31, 2006 and the related consolidated statement of income, shareholders' equity and comprehensive income, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Community Corporation at December 31, 2006, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Elliott Davis, LLC

Elliott Davis, LLC
Columbia, South Carolina
March 19, 2007

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
First Community Corporation
Lexington, South Carolina

I have audited the accompanying consolidated balance sheet of First Community Corporation (the Company) as of December 31, 2005 and 2004 and the related consolidated statement of income, shareholders' equity and comprehensive income, and cash flows for the years ended December 31, 2005 and 2004. These consolidated financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these consolidated financial statements based on my audits.

I conducted the audits in accordance with the standards of the Public Company Accounting oversight Board (United States). Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Community Corporation at December 31, 2005, and the results of their operations and their cash flows for the years ended December 31, 2005 and 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ Clifton D. Bodiford

Clifton D. Bodiford
Certified Public Accountant
Columbia, South Carolina
January 13, 2006

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FIRST COMMUNITY CORPORATION
Consolidated Balance Sheets

	December 31, 2006	December 31, 2005
ASSETS		
Cash and due from banks	$ 10,021,781	$ 11,701,764
Interest-bearing bank balances	47,786	83,178
Federal funds sold and securities purchased under agreements to resell	17,745,404	1,079,204
Investment securities - available for sale	170,034,478	170,657,770
Investment securities - held to maturity (market value of $6,509,148 and $5,746,448 at December 31, 2006 and 2005, respectively)	6,488,796	5,713,830
Loans	275,188,567	221,667,632
Less, allowance for loan losses	3,214,624	2,700,647
Net loans	271,973,943	218,966,985
Property, furniture and equipment - net	20,960,332	15,982,029
Bank owned life insurance	9,606,657	5,811,302
Goodwill	27,761,219	24,256,020
Core deposit intangible	2,652,917	2,767,074
Other assets	10,762,430	10,435,937
Total assets	$ 548,055,743	$ 467,455,093
LIABILITIES		
Deposits:		
Non-interest bearing demand	$ 73,676,415	$ 57,326,637
NOW and money market accounts	114,842,382	106,337,887
Savings	26,134,834	29,818,705
Time deposits less than $100,000	119,082,462	100,612,256
Time deposits $100,000 and over	81,205,314	55,508,666
Total deposits	414,941,407	349,604,151
Securities sold under agreements to repurchase	19,472,580	13,806,400
Federal Home Loan Bank Advances	29,757,545	34,524,409
Junior subordinated debt	15,464,000	15,464,000
Other borrowed money	148,886	169,233
Other liabilities	5,063,674	3,120,115
Total liabilities	484,848,092	416,688,308
Commitments and contingencies (Note 14)		
SHAREHOLDERS' EQUITY		
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 3,264,608 in 2006 and 2,848,627 in 2005	3,264,608	2,848,627
Additional paid in capital	49,695,346	42,352,205
Retained earnings	12,033,065	9,240,088
Accumulated other comprehensive income (loss)	(1,785,368)	(3,674,135)
Total shareholders' equity	63,207,651	50,766,785
Total liabilities and shareholders' equity	$ 548,055,743	$ 467,455,093

See Notes to Consolidated Financial Statements

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FIRST COMMUNITY CORPORATION
Consolidated Statements of Income

	Year Ended December 31, 2006	2005	2004
Interest income:			
Loans, including fees	$ 18,612,615	$ 13,607,962	$ 9,063,092
Investment securities - available-for-sale	7,662,919	7,241,453	3,440,033
Investment securities - held-to-maturity	228,008	223,059	206,681
Other short term investments	741,406	271,276	334,518
Total interest income	27,244,948	21,343,750	13,044,324
Interest expense:			
Deposits	9,828,817	5,743,340	2,729,459
Securities sold under agreement to repurchase	804,532	275,738	40,934
Other borrowed money	2,288,344	2,330,252	677,830
Total interest expense	12,921,693	8,349,330	3,448,223
Net interest income	14,323,255	12,994,420	9,596,101
Provision for loan losses	528,124	328,679	245,000
Net interest income after provision for loan losses	13,795,131	12,665,741	9,351,101
Non-interest income:			
Deposit service charges	2,390,053	1,462,111	879,585
Mortgage origination fees	450,437	361,856	267,972
Commission on sale of non-deposit products	321,308	229,888	212,748
Gain (loss) on sale of securities	(68,962)	188,419	11,381
Gain on early extinguishment of debt	159,416	124,436	-
Other	1,148,655	931,207	402,035
Total non-interest income	4,400,907	3,297,917	1,773,721
Non-interest expense:			
Salaries and employee benefits	6,886,509	6,292,239	4,263,383
Occupancy	945,561	807,258	489,261
Equipment	1,240,943	1,245,577	991,793
Marketing and public relations	329,173	337,481	325,395
Amortization of intangibles	636,529	594,741	279,685
Other	3,203,899	2,561,091	1,627,470
Total non-interest expense	13,242,614	11,838,387	7,976,987
Net income before tax	4,953,424	4,125,271	3,147,835
Income taxes	1,452,225	1,032,600	962,850
Net income	$ 3,501,199	$ 3,092,671	$ 2,184,985
Basic earnings per common share	$ 1.13	$ 1.09	$ 1.15
Diluted earnings per common share	$ 1.10	$ 1.04	$ 1.09

See Notes to Consolidated Financial Statements

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FIRST COMMUNITY CORPORATION
Consolidated Statement of Changes in Shareholder's Equity and Comprehensive Income (loss)

	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				2,184,985		2,184,985
Accumulated other comprehensive loss, net of income tax benefit of $540,016					(1,002,887)	
Less: reclassification adjustment for gains included in net income, net of tax of $3,983					(7,398)	
Other comprehensive loss					(1,010,285)	(1,010,285)
Comprehensive income:						1,174,700
Cash dividend ($0.20 per share)				(381,878)		(381,878)
Stock issued in acquisition	1,169,898	1,169,898	28,675,725			29,845,623
Exercise of stock options	15,409	15,409	205,365			220,774
Dividend reinvestment plan	6,371	6,371	88,285			94,656
Balance December 31, 2004	2,788,902	2,788,902	41,832,090	6,712,849	(871,152)	50,462,689
Comprehensive income:						
Net income				3,092,671		3,092,671
Accumulated other comprehensive loss, net of income tax benefit of $1,443,352					(2,680,511)	
Less: reclassification adjustment for gains included in net income, net of tax of $65,946					(122,472)	
Other comprehensive loss					(2,802,983)	(2,802,983)
Comprehensive income:						289,688
Cash dividend ($0.20 per share)				(565,432)		(565,432)
	52,845	52,845	399,814			452,659

Exercise of stock options						
Dividend reinvestment plan	6,880	6,880	120,301			127,181
Balance December 31, 2005	2,848,627	2,848,627	42,352,205	9,240,088	(3,674,135)	50,766,785
Comprehensive income:						
Net income				3,501,199		3,501,199
Accumulated other comprehensive Income, net of income tax of $1,006,146					1,843,666	
Less: reclassification adjustment for loss included in net income, net of tax of $23,864					45,101	
Other comprehensive income					1,888,767	1,888,767
Comprehensive income:						5,389,966
Cash dividend ($0.23 per share)				(708,222)		(708,222)
Stock issued in acquisition	364,034	364,034	7,212,859			7,576,893
Repurchase of common stock	(70,100)	(70,100)	(1,183,990)			(1,254,090)
Exercise of stock options	112,932	112,932	1,164,478			1,277,410
Dividend reinvestment plan	9,115	9,115	149,794			158,909
Balance December 31, 2006	3,264,608	$ 3,264,608	$ 49,695,346	$ 12,033,065	$ (1,785,368)	$ 63,207,651

See Notes to Consolidated Financial Statements

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FIRST COMMUNITY CORPORATION
Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2006	2005	2004
Cash flows from operating activities:			
Net income	$ 3,501,199	$ 3,092,671	$ 2,184,985
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	1,000,804	926,776	761,277
Premium amortization (Discount accretion)	(457,553)	(345,763)	(93,782)
Provision for loan losses	528,124	328,679	245,000
Amortization of intangibles	636,529	594,741	279,685
Gain on sale of property and equipment	-	(29,983)	(21,707)
(Gain) loss on sale of securities	68,962	(188,418)	(11,381)
Gain on early extinguishment of debt	(159,416)	(124,436)	-
(Increase) decrease in other assets	270,084	(693,657)	(425,079)
Tax benefit from exercise of stock options	299,715	-	51,621
Increase in accounts payable	938,634	591,691	14,681
Net cash provided in operating activities	6,627,082	4,152,301	2,985,300
Cash flows form investing activities:			
Proceeds from sale of securities available-for-sale	21,241,484	39,071,729	56,586,668
Purchase of investment securities available-for-sale	(34,671,451)	(51,368,761)	(108,265,814)
Maturity/call of investment securities available-for-sale	27,050,486	27,267,768	36,424,205
Purchase of investment securities held-to-maturity	(800,000)	(50,000)	(1,052,057)
Maturity/call of investment securities held-to-maturity	-	325,000	-
Increase in loans	(27,179,342)	(35,288,308)	(14,813,202)
Net cash disbursed in business combination	(1,229,598)	-	(11,131,142)
Proceeds from sale of property and equipment	-	401,733	23,800
Purchase of bank owned life insurance	(3,500,000)	-	-
Purchase of property and equipment	(3,366,410)	(2,595,715)	(2,427,322)
Net cash used in investing activities	(22,454,831)	(22,236,554)	(44,654,864)
Cash flows from financing activities:			
Increase in deposit accounts	38,035,208	12,539,867	16,996,662
Proceeds from issuance of long term debt	-	-	15,000,000
Advances from the Federal Home Loan Bank	9,000,000	19,580,000	-
Repayment of advances from the Federal Home Loan Bank	(18,078,829)	(26,752,661)	(1,000,000)
Increase (decrease) in securities sold under agreements to repurchase	2,668,250	6,256,500	3,608,900
Increase (decrease) in other borrowings	(20,347)	(15,360)	24,517
Proceeds from exercise of stock options	977,695	452,659	169,153
Dividend reinvestment plan	158,909	127,181	94,656
Purchase of common stock	(1,254,090)	-	-
Cash dividends paid	(708,222)	(565,432)	(381,878)
Net cash provided from financing activities	30,778,574	11,622,754	34,512,010
Net increase (decrease) in cash and cash equivalents	14,950,825	(6,461,499)	(7,157,554)

Cash and cash equivalents at beginning of period		12,864,146		19,325,645		26,483,199
Cash and cash equivalents at end of period	$	27,814,971	$	12,864,146	$	19,325,645
Supplemental disclosure:						
Cash paid during the period for:						
Interest	$	11,702,671	$	7,941,548	$	3,139,817
Taxes	$	472,647	$	445,000	$	907,268
Non-cash investing and financing activities:						
Unrealized (loss) gain on securities available-for-sale	$	2,918,777	$	(4,312,281)	$	(1,554,287)
Transfer of loans to foreclosed property	$	50,000	$	721,052	$	119,916
Common stock issued in acquisition	$	7,576,893	$	-	$	29,845,623

See Notes to Consolidated Financial Statements

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FIRST COMMUNITY CORPORATION
Notes to Consolidated Financial Statements

Note 1 - ORGANIZATION AND BASIS OF PRESENTATION

The consolidated financial statements include the accounts of First Community Corporation (the company) and its wholly owned subsidiary First Community Bank, N.A (the bank). The Company owns all of the common stock of FCC Capital Trust I. All material intercompany transactions are eliminated in consolidation. The Company was organized on November 2, 1994, as a South Carolina corporation, and was formed to become a bank holding company. The bank opened for business on August 17, 1995. FCC Capital Trust I is a special purpose subsidiary organized for the sole purpose of issuing trust preferred securities.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates
The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. These principles require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the reserve for loan losses. The estimation process includes management's judgment as to future losses on existing loans based on an internal review of the loan portfolio, including an analysis of the borrower's current financial position, the consideration of current and anticipated economic conditions and the effect on specific borrowers. In determining the collectibility of loans management also considers the fair value of underlying collateral. Various regulatory agencies, as an integral part of their examination process, review the Company's allowance for loan losses. Such agencies may require the company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination. Because of these factors it is possible that the allowance for loan losses could change materially.

Cash and Cash Equivalents
Cash and cash equivalents consist of cash on hand, due from banks, federal funds sold and securities purchased under agreements to resell. Generally federal funds are sold for a one-day period and securities purchased under agreements to resell mature in less than 90 days.

Investment Securities
Investment securities are classified as either held-to-maturity or available-for-sale. In determining such classification, securities that the company has the positive intent and ability to hold to maturity are classified as held-to maturity and are carried at amortized cost. All other securities are classified as available-for-sale and carried at estimated fair values with unrealized gains and losses included in shareholders' equity on an after tax basis.

Gains and losses on the sale of available-for-sale securities are determined using the specific identification method. Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are judged to be other than temporary are written down to fair value and charged to income in the Consolidated Statement of Income.

Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

Loans and Allowance for Loan Losses

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balance adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest is recognized over the term of the loan based on the loan balance outstanding. Fees charged for originating loans, if any, are deferred and offset by the deferral of certain direct expenses associated with loans originated. The net deferred fees are recognized as yield adjustments by applying the interest method.

The allowance for loan losses is maintained at a level believed to be adequate by management to absorb potential losses in the loan portfolio. Management’s determination of the adequacy of the allowance is based on an evaluation of the portfolio, past loss experience, economic conditions and volume, growth and composition of the portfolio.

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Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

The company considers a loan to be impaired when, based upon current information and events, it is believed that the company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans that are considered impaired are accounted for at fair value. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, generally when a loan becomes 90 days past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received first to principal and then to interest income.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the asset's estimated useful life. Estimated lives range up to 39 years for buildings and up to 10 years for furniture, fixtures and equipment.

Goodwill and Other Intangible Assets

Goodwill represents the cost in excess of fair value of net assets acquired (including identifiable intangibles) in purchase transactions. Other intangible assets represent premiums paid for acquisitions of core deposits (core deposit intangibles). Core deposit intangibles are being amortized on a straight-line basis over seven years. Goodwill and identifiable intangible assets are reviewed for impairment annually or whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of identifiable intangible assets is measured by a comparison of the carrying amount of the asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered impaired , the amount of impairment is measured by the amount by which the carrying value of the asset exceeds the fair value of the asset based on the discounted expected future cash flows. The test for goodwill impairment is based on an identified reporting unit and the determination of the carrying value of the assets and liabilities, including the existing goodwill and intangible assets. The carrying value is compared to the fair value to determine whether impairment exists. No impairment losses have been recorded as a result of the company's analyses during the years ended December 31, 2006, 2005 and 2004.

Other Real Estate Owned

Other real estate owned includes real estate acquired through foreclosure. Other real estate owned is carried at the lower of cost (principal balance at date of foreclosure) or fair value minus estimated cost to sell. Any write-downs at the date of foreclosure are charged to the allowance for loan losses. Expenses to maintain such assets, subsequent changes in the valuation allowance, and gains or losses on disposal are included in other expenses. Other real estate owned is included in Other assets on the consolidated balance sheet.

Comprehensive Income

The Company reports comprehensive income in accordance with SFAS 130, "Reporting Comprehensive Income." SFAS 130 requires that all items that are required to be reported under accounting standards as comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The disclosures requirements have been included in the Company's consolidated statements of shareholders' equity and comprehensive income (loss).

Mortgage Origination Fees

Mortgage origination fees relate to activities comprised of accepting residential mortgage applications, qualifying borrowers to standards established by investors and selling the mortgage loans to the investors under pre-existing commitments. The loans are funded by the investor at closing and the related fees received by the Company for these services are recognized at the time the loan is closed.

Advertising Expense

Advertising and public relations costs are generally expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent.

Income Taxes

A deferred income tax liability or asset is recognized for the estimated future effects attributable to differences in the tax bases of assets or liabilities and their reported amounts in the financial statements as well as operating loss and tax credit carry forwards. The deferred tax asset or liability is measured using the enacted tax rate expected to apply to taxable income in the period in which the deferred tax asset or liability is expected to be realized.

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Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Stock Based Compensation Cost

In December 2004, the FASB issued SFAS No. 123 (revised), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) replaces SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). SFAS 123(R) requires compensation costs related to share-based payment transactions to be recognized in the financial statements over the period that an employee provides service in exchange for the award. Public companies are required to adopt, and the Company has adopted effective January 1, 2006, the new standard using a modified prospective method. Under the modified prospective method, companies are allowed to record compensation cost for new and modified awards over the related vesting period of such awards prospectively and record compensation cost prospectively on the nonvested portion, at the date of adoption, of previously issued and outstanding awards over the remaining vesting period of such awards. No change to prior periods presented is permitted under the modified prospective method.

At December 31, 2006, the Company had a stock-based payment plan for directors, officers and other key employees, which is described below. Prior to January 1, 2006, the Company, as permitted under SFAS 123, applied the intrinsic value method under APB 25, and related interpretations in accounting for its stock-based compensation plan.

On January 1, 2006, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board (“FASB”) SFAS No. 123(R), “Accounting for Stock-Based Compensation”, to account for compensation costs under its stock option plan. The Company previously utilized the intrinsic value method under Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees (as amended)” (“APB 25”). Under the intrinsic value method prescribed by APB 25, no compensation costs were recognized for the Company’s stock options and warrants because the option and warrant exercise price in its plan equaled the market price on the date of grant. Prior to January 1, 2006, the Company only disclosed the pro forma effects on net income and earnings per share as if the fair value recognition provisions of SFAS 123(R) had been utilized.

In adopting SFAS No. 123(R), the Company elected to use the modified prospective method to account for the transition from the intrinsic value method to the fair value recognition method. Under the modified prospective method, compensation cost is recognized from the adoption date forward for all new stock options granted and for any outstanding unvested awards as if the fair value method had been applied to those awards as of the date of grant. The following table illustrates the effect on net income and earnings per share as if the fair value based method had been applied to all outstanding and unvested awards in each period.

The following summarizes required pro-forma data in accordance with SFAS 123 prior to the company’s adoption of SFAS 123R effective January 1, 2006. The pro-forma data includes the effects of the acceleration for the year ended December 31, 2005:

	December 31,	
	2005	2004
Net income, pro-forma	$ 2,792,578	$ 2,179,236
Basic earnings/loss per common share, pro-forma	$ 0.99	$ 1.15
Diluted earnings loss per common share, pro-forma	$ 0.94	$ 1.09

The fair value of each grant is estimated on the date of grant using the Black-Sholes option pricing model. The weighted average fair value of options granted, excluding those issued in the Dutch Fork and DeKalb acquisitions, during 2005 and 2004 was $6.87, and $7.15. Those granted in conjunction with the acquisition in the 2004 acquisition of DutchFork had an average fair value of $14.32. The options granted in conjunction with the 2006 acquisition of DeKalb had an average fair value of $8.21. In calculating the pro-forma disclosures, the fair value of options granted is estimated as of the date of grant using the Black-Sholes option pricing model with the following weighted-average assumptions:

	2005	2004
Dividend yield	1.0%	1.0%
Expected volatility	24.3%	24.8%
Risk-free interest rate	4.3%	4.3%
Expected life	8 Years	7 Years

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Effective December 31, 2005, upon recommendation of the Human Resource Committee of the Board of Directors of First Community Corporation, the Company's Board of Directors accelerated the vesting of, and vested, all outstanding options to acquire the Company's common stock granted in 2003, 2004 and 2005, totaling approximately 67,000 options, that would otherwise vest at various times through the end of fiscal 2011 (“Acceleration”). All other terms and conditions of such options remained unchanged as a result of the Acceleration. See note 16 for additional information relative to stock based compensation.

Earnings Per Share

Basic earnings per share (“EPS”) excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income by the weighted number of average shares of common stock and common stock equivalents. Common stock equivalents consist of stock options and are computed using the treasury stock method.

Segment Information

Statement of Financial Accounting Standards (SFAS) No. 131 “Disclosures about Segments of an Enterprise and Related Information” requires selected segment information of operating segments based on a management approach. The company operates as one business segment.

Recently Issued Accounting Standards

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and / or disclosure of financial information by the Company. In February 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting (“SFAS”) No. 155, “Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140.” This Statement amends SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” and SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” This Statement resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, “Application of Statement 133 to Beneficial Interests in Securitized Financial Assets.” FAS 155 permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest only-strips and principal-only strips are not subject to the requirements of Statement 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends Statement 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity’s first fiscal year that begins after September 15, 2006. The Company does not believe that the adoption of SFAS No. 155 will have a material impact on its financial position, results of operations and cash flows.

In March 2006, the FASB issued SFAS No. 156, “Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140.” This Statement amends FASB No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract; requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; permits an entity to choose its subsequent measurement methods for each class of separately recognized servicing assets and servicing liabilities; at its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under Statement 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value; and requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. An entity should adopt SFAS No. 156 as of the beginning of its first fiscal year that begins after September 15, 2006. The Company does not believe the adoption of SFAS No. 156 will have a material impact on its financial position, results of operations and cash flows.

In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes". FIN 48 clarifies the accounting for uncertainty in income taxes recognized in enterprises' financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attributable for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the effects of FIN 48 and does not believe that it will have a material impact on its financial position, results of operations and cash flows.

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Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This standard does not require any new fair value measurements, but rather eliminates inconsistencies found in various prior pronouncements. SFAS 157 is effective for the Company on January 1, 2008 and is not expected to have a significant impact on the Company's financial statements.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS 158"), which amends SFAS 87 and SFAS 106 to require recognition of the over funded or under funded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS 87 and SFAS 106 that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost. The measurement date — the date at which the benefit obligation and plan assets are measured — is required to be the company's fiscal year end. SFAS 158 is effective for publicly held companies for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. The Company does not have a defined benefit pension plan. Therefore, SFAS 158 will not have an effect on the Company's financial conditions or results of operations.

In September, 2006, The FASB ratified the consensuses reached by the FASB's Emerging Issues Task Force ("EITF") relating to EITF 06-4 "Accounting for the Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements". EITF 06-4 addresses employer accounting for endorsement split-dollar life insurance arrangements that provide a benefit to an employee that extends to postretirement periods should recognize a liability for future benefits in accordance with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", or Accounting Principles Board ("APB") Opinion No. 12, "Omnibus Opinion—1967". EITF 06-4 is effective for fiscal years beginning after December 15, 2006. Entities should recognize the effects of applying this Issue through either (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods. The Company does not believe the adoption of EITF 06-4 will have a material impact on its financial position, results of operations and cash flows.

In September 2006, the FASB ratified the consensus reached related to EITF 06-5, "Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance." EITF 06-5 states that a policyholder should consider any additional amounts included in the contractual terms of the insurance policy other than the cash surrender value in determining the amount that could be realized under the insurance contract. EITF 06-5 also states that a policyholder should determine the amount that could be realized under the life insurance contract assuming the surrender of an individual-life by individual-life policy (or certificate by certificate in a group policy). EITF 06-5 is effective for fiscal years beginning after December 15, 2006. The Company does not believe the adoption of EITF 06-5 will have a material impact on its financial position, results of operations and cash flows.

In September 2006, the SEC issued Staff Accounting Bulleting No. 108 ("SAB 108"). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a potential current year misstatement. Prior to SAB 108, Companies might evaluate the materiality of financial statement misstatements using either the income statement or balance sheet approach, with the income statement approach focusing on new misstatements added in the current year, and the balance sheet approach focusing on the cumulative amount of misstatement present in a company's balance sheet. Misstatements that would be material under one approach could be viewed as immaterial under another approach, and not be corrected. SAB 108 now requires that companies view financial statement misstatements as material if they are material according to either the income statement or balance sheet approach. The Company has analyzed SAB 108 and determined that upon adoption it will have no impact on the reported results of operations or financial conditions.

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Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115." This statement permits, but does not require, entities to measure many financial instruments at fair value. The objective is to provide entities with an opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Entities electing this option will apply it when the entity first recognizes an eligible instrument and will report unrealized gains and losses on such instruments in current earnings. This statement (1) applies to all entities, (2) specifies certain election dates, (3) can be applied on an instrument-by-instrument basis with some exceptions, (4) is irrevocable, and (5) applies only to entire instruments. One exception is demand deposit liabilities which are explicitly excluded as qualifying for fair value. With respect to SFAS 115, available-for-sale and held-to-maturity securities at the effective date are eligible for the fair value option at that date. If the fair value option is elected for those securities at the effective date, cumulative unrealized gains and losses at that date shall be included in the cumulative-effect adjustment and thereafter, such securities will be accounted for as trading securities. SFAS 159 is effective for the Company on January 1, 2008. Earlier adoption is permitted in 2007 if the Company also elects to apply the provisions of SFAS 157, "Fair Value Measurement." The Company is currently analyzing the fair value option provided under SFAS 159.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations and cash flows.

Risk and Uncertainties

In the normal course of business, the company encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on a different basis, than its interest-earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from borrower's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of real estate held by the Company.

The Company is subject to regulations of various governmental agencies. These regulations can and do change significantly from period to period. The Company also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loan loss allowances and operating restrictions from regulators' judgments based on information available to them at the time of their examination.

Reclassifications

Certain captions and amounts in the 2005 and 2004 consolidated financial statements were reclassified to conform with the 2006 presentation.

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Note 3 - BUSINESS COMBINATION

On June 9, 2006, the Company acquired 100% of the outstanding shares of DeKalb Bancshares, Inc (DeKalb), the parent company of The Bank of Camden. In addition, The Bank of Camden was merged with and into the Company's wholly owned banking subsidiary, First Community Bank, NA, and the Camden office is now operated as a branch of First Community Bank. The merger enabled First Community to increase its market share in the Midlands of South Carolina in a community contiguous to its existing markets. The aggregate acquisition cost was $10,223,000, including $2,369,000 of cash, 364,034 shares of the Company’s common stock valued at $7,577,000, stock options valued at $585,000 and direct acquisition costs of $277,000. The value of the 364,034 shares of common stock issued at $19.22 per share was determined based on the average closing price of the Company’s common shares over the two-day period before and after December 8, 2005, the date the terms were agreed to and announced.

The primary intangible assets acquired in conjunction with the purchase of DeKalb are core deposit intangible assets with an estimated useful life of approximately seven years and goodwill. The transaction was a tax-free reorganization for federal income tax purposes and intangible assets are not deductible in determining taxable income.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed June 9, 2006. We obtained third party evaluations of certain intangible assets.

(Dollars in thousands)

Cash and cash equivalents	$	1,015
Federal funds sold		402
Investment securities		10,152
Loans, net of allowance		26,315
Premises and equipment		2,613
Core deposit intangible asset		522
Goodwill		4,903
Other assets		524
Total assets acquired		46,446
Deposits		27,302
Advances from the Federal Home Loan Bank		4,939
Other borrowed money		2,977
Other liabilities		1,005
Total liabilities assumed		36,223
Net assets acquired	$	10,223

The Company acquired a $320,000 allowance for loan losses as a result of the acquisition of DeKalb. Statement of Position No. 03-3 (SOP No. 03-3), “Accounting for Certain Loans or Debt Securities Acquired in a Transfer addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor’s initial investment in loans or debt securities (loans) acquired in a transfer or business combination if those differences are attributable, at least in part, to credit quality. SOP No. 03-3 prohibits the carry over or creation of valuation allowances in the initial accounting of all loans acquired that are within the scope of the SOP. There were no loans acquired in the acquisition of DeKalb that were within the scope of SOP No. 03-3.

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Note 3 - BUSINESS COMBINATION - *Continued*

The following unaudited presentation reflects selected information from the "Consolidated Income Statements" on a Pro Forma basis as if the purchase transaction had been completed as of the beginning of the years presented:

	For Year Ending December 31,	
	2006	2005
Total revenues	$ 31,645,855	$ 27,470,457
Income before cumulative effect of change in accounting principle	$ 3,584,026	$ 3,198,382
Net Income	$ 3,584,026	$ 3,198,382
Basic EPS	$ 1.10	$ 1.00
Diluted EPS	$ 1.08	$ 0.96

Prior to the consummation of the merger DeKalb Bankshares had significant direct merger related expenses. These expenses of approximately $880,000 have been excluded in the pro-forma results for the fiscal year ended in 2006.

On October 1, 2004, First Community acquired DutchFork Bancshares, the holding company for Newberry Federal Savings Bank located in Newberry, South Carolina. The merger enabled First Community to increase its market share in the Midlands of South Carolina. The total purchase price was $49,273,493, including $18,342,357 in cash, 1,169,898 shares of our common stock valued at $27,258,623, stock options valued at $2,587,000 and direct acquisition cost of $1,085,513. The value of the common stock issued was determined based on the average closing price over the six day period beginning two days before and ending three days after the terms of the acquisition were agreed to and announced. The intangible assets acquired in conjunction with the purchase are core deposit intangible and goodwill. The core deposit intangible is being written off over a period of seven years using the straight-line method. The transaction was a tax-free reorganization for federal income tax purposes and intangible assets are not deductible for tax purposes.

Note 4 - INVESTMENT SECURITIES

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

HELD-TO-MATURITY:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2006:				
State and local government	$ 6,428,796	$ 39,449	$ 19,097	$ 6,449,148
Other	60,000	—	—	60,000
	$ 6,488,796	$ 39,449	$ 19,097	$ 6,509,148
December 31, 2005:				
State and local government	$ 5,653,830	$ 58,316	$ 25,698	$ 5,686,448
Other	60,000	—	—	60,000
	$ 5,713,830	$ 58,316	$ 25,698	$ 5,746,448

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Note 4 - INVESTMENT SECURITIES - *Continued*

AVAILABLE-FOR-SALE:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2006:				
US Treasury securities	$ 994,534	$ 10,306	$ —	$ 1,004,840
Government sponsored enterprises	57,420,136	50,285	810,126	56,660,295
Mortgage-backed securities	80,234,695	247,650	1,056,242	79,426,103
State and local government	4,438,933	44,820	2,644	4,481,109
Equity and other securities	29,679,914	12,046	1,229,829	28,462,131
	$ 172,768,212	$ 365,107	$ 3,098,841	$ 170,034,478
December 31, 2005:				
US Treasury securities	$ 999,848	$ —	$ 7,973	$ 991,875
Government sponsored enterprises	58,674,004	671	1,195,657	57,479,018
Mortgage-backed securities	70,967,405	61,117	1,234,803	69,793,719
State and local government	249,359	3,881	---	253,240
Equity and other securities	45,419,667	19,519	3,299,268	42,139,918
	$ 176,310,283	$ 85,188	$ 5,737,701	$ 170,657,770

At December 31, 2006, equity and other investment securities available for sale included the following recorded at fair value: Federal Home Loan Mortgage Corporation preferred stock of $14,005,100, corporate bonds of $8,791,583, Federal Home Loan Bank Stock of $2,349,600, Federal Reserve Bank Stock of $1,858,194, mutual funds of $838,846, community bank stocks of $509,288 and other common stock at $109,520. At December 31, 2005, equity and other investments in securities available for sale included the following recorded at fair value: Federal Home Loan Mortgage Corporation preferred stock of $16,125,200, Federal National Mortgage Association preferred stock of $12,088,560, corporate bonds of $8,607,057, Federal Home Loan Bank Stock of $2,351,200, Federal Reserve Bank Stock of $1,624,500, mutual funds of $1,233,452 and community bank stocks of $110,000. Federal Home Loan Bank and Federal Reserve Bank Stock are carried at cost since there is no ready market.

For the year ended December 31, 2006, proceeds from the sales of securities available-for-sale amounted to $21,241,484. Gross realized gains amounted to $58,505 and gross realized losses amounted to $127,467 in 2006. For the year ended December 31, 2005, proceeds from the sale of securities available-for-sale amounted to $39,071,729. Gross realized gain amounted to $294,661 and gross realized losses amounted to $106,243 in 2005 For the year ended December 31, 2004, proceeds from the sale of securities available-for-sale amounted to $56,586,668. Gross realized gain amounted to $16,119 and gross realized losses amounted to $4,738 in 2004. The tax provision (benefit) applicable to the net realized gain (loss) was approximately ($20,200), $65,000 and $3,400 for 2006, 2005 and 2004, respectively.

The amortized cost and fair value of investment securities at December 31, 2006, by contractual maturity, follow. Expected maturities differ from contractual maturities because borrowers may have the right to call or prepay the obligations with or without prepayment penalties.

	Held-to-maturity		Available-for-sale	
	Amortized	Fair	Amortized	Fair

	Cost	Value	Cost	Value
Due in one year or less	$ 430,395	$ 430,779	$ 28,770,603	$ 28,526,327
Due after one year through five years	4,246,252	4,259,417	75,163,715	73,761,597