

FIRST COMMUNITY CORP /SC/
Form S-1
July 30, 2012
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As filed with the Securities and Exchange Commission on July 30, 2012

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

FIRST COMMUNITY CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

South Carolina
(State or Other Jurisdiction of
Incorporation or Organization)

6021
(Primary Standard Industrial
Classification Code Number)

57-1010751
(IRS Employer
Identification Number)

5455 Sunset Boulevard

Lexington, South Carolina 29072

(803) 951-2265

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(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Michael C. Crapps

President and Chief Executive Officer

First Community Corporation

5455 Sunset Boulevard

Lexington, South Carolina 29072

(803) 951-2265

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies of Communications to:

Neil E. Grayson, Esq.

John M. Jennings, Esq.

Nelson Mullins Riley & Scarborough LLP
104 S. Main Street, Suite 900
Greenville, South Carolina 29601
(864) 250-2300

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: x

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

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

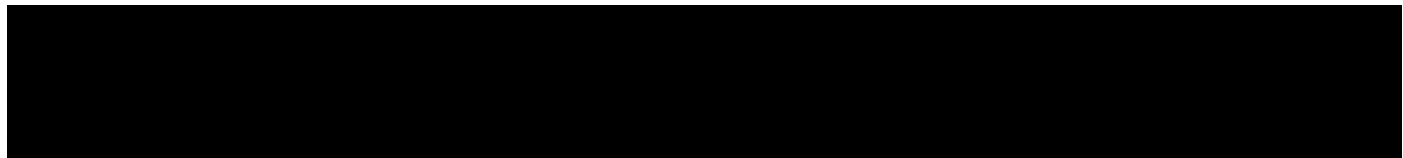
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If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

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

Large accelerated filer Accelerated filer Non-accelerated filer
(Do not check if a smaller reporting company) Smaller reporting company

CALCULATION OF REGISTRATION FEE



(1) Calculated in accordance with Rule 457(a).

We hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until we file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. Neither we nor the selling shareholder may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, Dated July 30, 2012

PRELIMINARY PROSPECTUS

FIRST COMMUNITY CORPORATION

11,350 Shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series T

Liquidation Preference Amount \$1,000 Per Share

This prospectus relates to the potential resale from time to time of some or all of 11,350 shares of our Fixed Rate Cumulative Perpetual Preferred Stock, Series T (the Preferred Shares), liquidation preference amount \$1,000 per share, by the United States Department of the Treasury (Treasury). We issued the Preferred Shares to Treasury on November 21, 2008 as part of Treasury's Troubled Asset Relief Program Capital Purchase Program (the CPP) in a private placement exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act). Treasury may offer the securities from time to time directly or through underwriters, broker-dealers or agents and in one or more public or private transactions and at fixed prices, at prevailing market prices, at prices related to prevailing market prices or at negotiated prices. If these securities are sold through underwriters, broker-dealers or agents, Treasury will be responsible for underwriting discounts or commissions or agents' commissions, if any.

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We will not receive any proceeds from the sale of any Preferred Shares sold by Treasury.

Dividends on the Preferred Shares are payable quarterly in arrears on each February 15, May 15, August 15 and November 15. The initial dividend rate is 5% per annum through February 14, 2014, and will increase to 9% per annum on and after February 15, 2014 if not otherwise redeemed earlier for cash by us. We may redeem the Preferred Shares, at any time, in whole or in part, at our option, subject to prior approval by the appropriate federal banking agency, for cash, for a redemption price equal to 100% of the liquidation preference amount per Preferred Share plus any accrued and unpaid dividends to but excluding the date of redemption.

The Preferred Shares are not listed for trading on any stock exchange or available for quotation on any national quotation system and we do not anticipate listing the Preferred Shares.

Investing in the Preferred Shares involves risks. See Risk Factors beginning on page 8 of this prospectus.

None of the Securities and Exchange Commission (the SEC), the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation (the FDIC), the Board of Governors of the Federal Reserve System (the Federal Reserve), any state or other securities commission or any other federal or state bank regulatory agency has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The Preferred Shares are not savings accounts, deposits or other obligations of any bank, thrift or other depository institution and are not insured or guaranteed by the FDIC or any other governmental agency or instrumentality.

The date of this prospectus is _____, 2012.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement we filed with the Securities and Exchange Commission (the SEC), using a shelf registration process. Under this shelf registration process, Treasury may, from time to time, offer and sell, in one or more offerings, the securities in this prospectus.

We will provide a prospectus supplement containing specific information about the terms of each particular offering by Treasury. The prospectus supplement may also add, update or change information in this prospectus. If the information in this prospectus is inconsistent with a prospectus supplement, you should rely on the information in that prospectus supplement. You should read both this prospectus and the applicable prospectus supplement, together with the additional information described under **Where You Can Find More Information** for more information.

Unless the context indicates otherwise, all references in this prospectus to we, us, our, and the Company refer to First Community Corporation and its wholly owned subsidiaries, except that in the discussion of our capital stock and related matters, these terms refer solely to First Community Corporation and not to its subsidiaries. All references to the Bank refer to First Community Bank, N.A. only.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements included in this prospectus or in the documents incorporated by reference in this prospectus, other than statements of historical fact, are forward-looking statements (as such term is defined in Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and the regulations promulgated thereunder), which are intended to be covered by the safe harbors created thereby. These forward-looking statements involve risks and uncertainties and are based on the beliefs and assumptions of our management and on information available at the time these statements and disclosures were prepared. Forward-looking statements include, but are not limited to:

- certain statements contained in **Risk Factors** in this prospectus and our Annual Report on Form 10-K for the year ended December 31, 2011;
- certain statements contained in **Business** in our Annual Report on Form 10-K for the year ended December 31, 2011;
- certain statements contained in **Management's Discussion and Analysis of Financial Condition and Results of Operations** and notes to our financial statements in our Annual Report on Form 10-K for the year ended December 31, 2011 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 concerning the allowance for loan losses, liquidity, capital adequacy requirements, unrealized losses and impact of accounting pronouncements; and

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- certain statements as to trends or events, or First Community Corporation's or our management's beliefs, expectations, objectives, plans, goals, intentions, estimates, projections and opinions.

These statements are included throughout this prospectus, and in the documents incorporated by reference in this prospectus, and relate to, among other things, projections of revenues, earnings, earnings per share, cash flows, capital expenditures, or other financial items, expectations regarding acquisitions, discussions of estimated future revenue enhancements, potential dispositions, and changes in interest rates. These statements also relate to our business strategy, goals and expectations concerning our market position, future operations, margins, profitability, liquidity, and capital resources. The words "believe", "anticipate", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", and phrases identify forward-looking statements in this prospectus and in the documents incorporated by reference in this prospectus.

Although we believe the assumptions upon which these forward-looking statements are based are reasonable, any of these assumptions could prove to be inaccurate and the forward-looking statements based on these assumptions could be incorrect. Our operations involve risks and uncertainties, many of which are outside our control, and any one of which, or a combination of which, could materially affect our results of operations and whether the forward-looking statements ultimately prove to be correct. Actual results and trends in the future may differ materially from those suggested or implied by the forward-looking statements depending on a number of factors. Some of the risks, uncertainties and other factors that may cause actual results, developments and business decisions to differ materially from those anticipated by such forward-looking statements include the risk factors in our Annual Report on Form 10-K for the year ended December 31, 2011 and the following:

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- reduced earnings due to higher credit losses generally and specifically because losses in the sectors of our loan portfolio secured by real estate are greater than expected due to economic factors, including, but not limited to, declining real estate values, increasing interest rates, increasing unemployment, or changes in payment behavior or other factors;

- the amount of our loan portfolio collateralized by real estate and weaknesses in the real estate market;

- restrictions or conditions imposed by our regulators on our operations may make it more difficult for us to achieve our goals;

- the adequacy of the level of our allowance for loan losses and the amount of loan loss provisions required in future periods;

- results of examinations by our regulatory authorities, including the possibility that the regulatory authorities may, among other things, require us to increase our allowance for loan losses or write-down assets;

- reduced earnings due to higher other-than-temporary impairment charges resulting from additional decline in the value of our securities portfolio, specifically as a result of increasing default rates, and loss severities on the underlying real estate collateral;

- 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, including, but not limited to, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) and regulations adopted thereunder, changes in federal and/or state tax laws or interpretations thereof by taxing authorities, changes in laws, rules or regulations applicable to companies that have participated in Treasury's CPP, and other governmental initiatives affecting the financial services industry;

- general economic conditions, either nationally or regionally and especially in our primary service area, being less favorable than expected resulting in, among other things, a deterioration in credit quality;

- changes occurring in business conditions and inflation;

- increased funding costs due to market illiquidity, increased competition for funding, and/or increased regulatory requirements with regard to funding;
- changes in deposit flows;
- changes in technology;
- changes in monetary and tax policies, including confirmation of the income tax refund claims received by the Internal Revenue Service (IRS);
- changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board and the Financial Accounting Standards Board;
- the rate of delinquencies and amounts of loans charged-off;
- the rate of loan growth in recent years and the lack of seasoning of a portion of our loan portfolio;
- our ability to maintain appropriate levels of capital and to comply with our higher individual minimum capital ratios;
- our ability to attract and retain key personnel;

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- our ability to retain our existing clients, including our deposit relationships;
- adverse changes in asset quality and resulting credit risk-related losses and expenses;
- loss of consumer confidence and economic disruptions resulting from terrorist activities; and
- other risks and uncertainties described under **Risk Factors** below.

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

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC's public reference room at 100 F Street, NE, Washington, DC 20549. Please call the SEC at 1-888-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public from the SEC's website at www.sec.gov or on our website at www.firstcommunitysc.com. After accessing our website, the filings are available upon selecting the Investors menu items. However, the information on, or that can be accessible through, our website does not constitute a part of, and is not incorporated by reference in, this prospectus. Written requests for copies of the documents we file with the SEC should be directed to First Community Corporation, Attn: Joseph G. Sawyer, 5455 Sunset Boulevard, Lexington, South Carolina 29072, telephone: (803) 951-2265 or email: InvestorRelations@firstcommunitysc.com.

This prospectus is part of a registration statement on Form S-1 filed by us with the SEC under the Securities Act. As permitted by the SEC, this prospectus does not contain all the information in the registration statement filed with the SEC. For a more complete understanding of this offering, you should refer to the complete registration statement, including exhibits, on Form S-1 that may be obtained as described above. Statements contained in this prospectus about the contents of any contract or other documents are not necessarily complete. If we have filed any contract or other document as an exhibit to the registration statement or any other document incorporated by reference in the registration statement, you should read the exhibit for a more complete understanding of the contract or other document or matter involved. Each statement regarding a contract or other document is qualified in its entirety by reference to the actual contract or other document.

INCORPORATION BY REFERENCE

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The SEC allows us to incorporate by reference the information we file with it, which means that we can disclose important information to you by referring you to those documents filed separately with the SEC. The information we incorporate by reference is an important part of this prospectus. We incorporate by reference the documents listed below, except to the extent that any information contained in those documents is deemed furnished in accordance with SEC rules. The documents we incorporate by reference, all of which we have previously filed with the SEC, include:

- the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011;
- the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012;
- the Company's Current Reports on Form 8-K filed with the SEC on January 3, 2012, January 19, 2012, April 18, 2012, May 18, 2012, May 21, 2012, and July 2, 2012 (excluding information furnished under Item 7.01); and
- the Company's Definitive Proxy Statement related to its 2012 annual meeting of shareholders, as filed with the SEC on April 3, 2012.

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Any statement contained in a document that is incorporated by reference will be modified or superseded for all purposes to the extent that a statement contained in this prospectus modifies or is contrary to that previous statement. Any statement so modified or superseded will not be deemed a part of this prospectus except as so modified or superseded.

These filings are available on our website at www.firstcommunitysc.com. After accessing our website, the filings are available upon selecting the Investors menu items. You may request a copy of any of these filings at no cost, by writing, telephoning us, or emailing us at First Community Corporation, Attn: Joseph G. Sawyer, 5455 Sunset Boulevard, Lexington, South Carolina 29072, telephone: (803) 951-2265 or email: InvestorRelations@firstcommunitysc.com.

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SUMMARY

The following summary contains material information about us and this offering. Because it is a summary, it may not contain all of the information that is important to you. Before making a decision to invest in the Preferred Shares, you should read this prospectus carefully, including the section entitled Risk Factors, and the information incorporated by reference into this prospectus, including our audited consolidated financial statements and the accompanying notes in our Annual Report on Form 10-K for the year ended December 31, 2011.

The Company

First Community Corporation is a bank holding company headquartered in Lexington, South Carolina. Our wholly-owned subsidiary, First Community Bank, N.A., operates 11 branches in the Midlands area of South Carolina, with six branches in Lexington County, two branches in Newberry County, two branches in Richland County and one branch in Kershaw County. We are a community-oriented financial institution that offers a wide-range of traditional banking products and services for small to medium sized businesses, professionals and other individuals in our markets, including commercial and consumer loan and deposit services, as well as mortgage, financial planning and investment services. We seek to be the provider of choice for financial solutions to customers in our markets who value exceptional personalized service and local decision making.

At March 31, 2012, we had total assets of \$601.5 million, total gross loans of \$331.1 million, total deposits of \$476.9 million, and shareholders equity of \$49.3 million.

Our principal executive offices are located at 5455 Sunset Boulevard, Lexington, South Carolina 29072, and our telephone number is (803) 951-2265. Our primary internet address is www.firstcommunitysc.com. The information contained on our web site is not part of this prospectus. Our common stock trades on the NASDAQ Capital Market under the symbol FCCO.

The Offering

The following summary contains material information about us and this offering. Because it is a summary, it may not contain all of the information that is important to you. Before making a decision to invest in the Preferred Shares, you should read this prospectus carefully, including our audited consolidated financial statements and the accompanying notes in our Annual Report of Form 10-K for the year ended December 31, 2011.

Issuer First Community Corporation

Preferred Shares; Offering Process 11,350 shares of our Fixed Rate Cumulative Perpetual Preferred Stock, Series T, \$1.00 par value per share. Treasury may offer to sell some or all of the Preferred Shares from time to time directly or through underwriters, broker-dealers or agents and in one or more public or private transactions and at fixed prices, at prevailing market prices, at prices related to prevailing market prices or at

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negotiated prices. If these securities are sold through underwriters, broker-dealers or agents, Treasury will be responsible for underwriting discounts or commissions or agents' commissions, if any.

Liquidation Preference

If we liquidate, dissolve or wind up (collectively, a liquidation), holders of the Preferred Shares will have the right to receive \$1,000 per share, plus any accrued and unpaid dividends (including dividends accrued on any unpaid dividends) to, but not including, the date of payment, before any payments are made to holders of our common stock or any other capital stock that ranks, by its terms, junior as to rights upon liquidation to the Preferred Shares.

Dividends

Dividends on the Preferred Shares are payable quarterly in arrears on each February 15, May 15, August 15 and November 15. The initial dividend rate is 5% per annum through February 14, 2014, and will

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increase to 9% per annum on and after February 15, 2014 if not otherwise redeemed earlier for cash by us.

Maturity

The Preferred Shares have no maturity date.

Rank

The Preferred Shares rank (i) senior to common stock or any other capital stock that ranks, by its terms, junior as to dividend rights and/or rights upon liquidation to the Preferred Shares (collectively, the Junior Stock), (ii) equally with any shares of our capital stock whose terms do not expressly provide that such class or series will rank senior or junior to the Preferred Shares as to dividend rights and/or rights upon liquidation (collectively, the Parity Stock) and (iii) junior to all of our existing and future indebtedness and any future senior securities, in each case as to dividend rights and/or rights upon liquidation.

Priority of Dividends

So long as the Preferred Shares remain outstanding, we may not declare or pay a dividend or other distribution on our common stock or any other shares of Junior Stock (other than dividends payable solely in common stock) or Parity Stock (other than dividends paid on a pro rata basis with the Preferred Shares), and we generally may not directly or indirectly purchase, redeem or otherwise acquire any shares of common stock, Junior Stock or Parity Stock unless all accrued and unpaid dividends on the Preferred Shares for all past dividend periods are paid in full.

Redemption

We may redeem the Preferred Shares, at any time, in whole or in part, at our option, subject to prior approval by the appropriate federal banking agency, for a redemption price equal to 100% of the liquidation preference amount per Preferred Share plus any accrued and unpaid dividends (including dividends accrued on any unpaid dividends) to but excluding the date of redemption.

Voting Rights

Holders of the Preferred Shares generally have no voting rights. However, if we do not pay dividends on the Preferred Shares for six or more quarterly periods, whether or not consecutive, the holders of the Preferred Shares, voting as a single class with the holders of any other Parity Stock upon which like voting rights have been conferred and are exercisable, will be entitled to vote for the election of two additional directors to serve on our Board of Directors until all accrued and unpaid dividends (including dividends accrued on any unpaid dividends) on the Preferred Shares are paid in full.

In addition, the affirmative vote of the holders of at least 66²/₃% of the outstanding Preferred Shares is required for us to authorize, create or increase the authorized number of shares of our capital stock ranking, as to dividends or amounts payable upon liquidation, senior to the Preferred Shares, to amend, alter or repeal any provision of our charter or the Certificate of Determination for the Preferred Shares in a manner that adversely affects the rights of the holders of the Preferred Shares or to consummate a binding share exchange or reclassification of the Preferred Shares or a merger or consolidation of us with another entity unless (x) the Preferred Shares remain outstanding or are converted into or exchanged for preference shares of the surviving entity or its ultimate parent and (y) the Preferred Shares remain outstanding or such preference shares have such terms that are not materially less favorable, taken as a whole, than the rights of the Preferred Shares immediately prior to such transaction, taken as a whole.

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Use of Proceeds	We will not receive any proceeds from the sale of any Preferred Shares sold by Treasury. See Use of Proceeds in this prospectus.
Listing	The Preferred Shares will not be listed for trading on any stock exchange nor will they be available for quotation on any national quotation system.
Risk Factors	See Risk Factors and other information included or incorporated by reference in this prospectus for a discussion of factors you should consider carefully before making a decision to invest in the Preferred Shares.

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RISK FACTORS

An investment in our Preferred Shares is subject to risks inherent in our business, risks relating to the structure of the Preferred Shares and risks relating to the offering. The material risks and uncertainties that management believes affect your investment in the Preferred Shares are described below and in the section entitled Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011 incorporated by reference herein. Before making an investment decision, you should carefully consider the risks and uncertainties described below and information included or incorporated by reference in this prospectus and any prospectus supplement we file. If any of these risks or uncertainties are realized, our business, financial condition, capital levels, cash flows, liquidity, results of operations and prospects, as well as our ability to pay dividends on the Preferred Shares, could be materially and adversely affected and the market price of the Preferred Shares could decline significantly and you could lose some or all of your investment.

Risk Factors Related to Our Business

Changes in the financial markets could impair the value of our investment portfolio.

The investment securities portfolio is a significant component of our total earning assets. Total investment securities averaged \$205.7 million in 2011, as compared to \$194.4 million in 2010. This represents 37.4% and 35.0% of the average earning assets for the year ended December 31, 2011 and 2010, respectively. At March 31, 2012, the portfolio was 36.7% of earning assets. Turmoil in the financial markets could impair the market value of our investment portfolio, which could adversely affect our net income and possibly our capital.

Since the last half of 2007, the bond markets and many institutional holders of bonds have been under a great deal of stress partially as a result of the ongoing recessionary economic conditions. At March 31, 2012, we had MBSs including collateralized mortgage obligations (CMOs) with a fair value of \$138.4 million. Of these, approximately \$125.1 million were issued by government sponsored enterprises (GSEs) and \$13.3 million by private label issuers. The market for CMOs of private label MBSs has become less liquid and the spread as compared to alternative investments has widened dramatically. To a lesser extent, MBSs issued by GSEs such as Freddie Mac and the Federal National Mortgage Association (FNMA or Fannie Mae) have been impacted and spreads have increased on these investments. These entities have also experienced increasing delinquencies in the underlying loans that make up the MBSs and CMOs. In 2008 and 2009, the private label MBSs and CMOs we own incurred rating agency downgrades, many to below investment grade.

During the first quarter of 2012, we sold two below investment grade non-agency MBSs with a total book value of approximately \$1.4 million. Subsequent to March 31, 2012 through May 10, 2012, we sold an additional six below investment grade non-agency MBSs with a total book value of approximately \$9.8 million. The loss on the sale of these securities was approximately \$1.9 million and has been offset by gains of the approximate same amount from the sale of certain agency MBSs and municipal securities. These sales have served to significantly reduce the level of below investment grade securities on our balance sheet. As of June 30, 2012, we had total CMOs by private label issuers with an amortized cost of \$4.0 million. Of these CMOs, there were three investments with an amortized cost of \$1.7 million downgraded to below investment grade.

Delinquencies on the underlying mortgages on all mortgage securities increased dramatically throughout 2008, 2009, 2010 and 2011 and continued to remain at high levels at March 31, 2012. We monitor these investments on a monthly basis. Increasing delinquencies and defaults

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in the underlying mortgages have resulted in recognizing other-than-temporary-impairment (OTTI) during 2009, 2010, 2011 and the first quarter of 2012. In evaluating these securities for OTTI, we use assumptions relative to continued defaults rates, loss severities on the underlying collateral and prepayment speeds. Differences in actual experience and the assumptions used could result in a loss of earnings as a result of further OTTI charges.

On September 7, 2008, Treasury, the Federal Reserve and the Federal Housing Finance Agency (FHFA) announced that FHFA was placing the Federal Home Loan Mortgage Corporation under conservatorship. Due to these actions, we took an OTTI charge of \$8.1 million in the third quarter of 2008 relating to the Freddie Mac preferred stock that we held. This charge, along with our second quarter of 2008 charge of \$6.1 million related to our investment in preferred stock issued by Freddie Mac, eliminated any further direct material exposure in our investment portfolio to Freddie Mac equity securities.

As of March 31, 2012 and December 31, 2011, our securities, all of which are classified as Available for Sale, that have unrealized losses were not considered to be other than temporary and we believe it is more likely than not we will be able to hold these until they mature or recover our current book value. We currently maintain substantial liquidity which

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supports our intent and ability to hold these investments until they mature, or until there is a market price recovery. However, if we were to cease to have the ability and intent to hold these investments until maturity or the market prices do not recover and we were to sell these securities at a loss, it could adversely affect our net income and possibly our capital.

Recent negative developments in the financial industry and the domestic and international credit markets may adversely affect our operations and results.

Negative developments in the global credit and securitization markets have resulted in uncertainty in the financial markets in general with the expectation of continuing uncertainty in 2012. As a result, commercial as well as consumer loan portfolio performances have deteriorated at many institutions and the competition for deposits and quality loans has increased significantly. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue to decline. Global securities markets and bank holding company stock prices in particular, have been negatively affected, as has the ability of banks and bank holding companies in general to raise capital or borrow in the debt markets. As a result, bank regulatory agencies have been active in responding to concerns and trends identified in examinations, including by issuing a historically high number of formal enforcement orders over the past three years. In addition, significant new federal laws and regulations have been adopted relating to financial institutions, including, without limitation, the Em