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;

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- 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:

	December 31,				
(In thousands)	2006	2005	2004	2003	2002