FIRST COMMUNITY CORP /SC/
Form 10-Q
May 15, 2009
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

| | |
|---|---|
| x | **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2009** |
| o | **Transition report pursuant to Section 13 or 15(d) of the Exchange Act for the transition period from to** |

**Commission File No. 000-28344**

# FIRST COMMUNITY CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **South Carolina** | **57-1010751** |
| (State of Incorporation) | (I.R.S. Employer Identification) |

**5455 Sunset Boulevard, Lexington, South Carolina 29072**

(Address of Principal Executive Offices)

**(803) 951-2265**

(Registrant s Telephone Number, Including Area Code)

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

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 the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes o No

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

| | |
|---|---|
| Large accelerated filer o | Accelerated filer o |
| Non-accelerated filer o | Smaller reporting company x |

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

Indicate the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date: On May 11, 2009, 3,236,190 shares of the issuer s common stock, par value $1.00 per share, were issued and outstanding.

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**PART I**

**FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**FIRST COMMUNITY CORPORATION**

**CONSOLIDATED BALANCE SHEETS**

| **(Dollars in thousands, except par value)** | | **March 31,2009 (Unaudited)** | | **December 31, 2008** |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and due from banks | $ | 9,181 | $ | 8,722 |
| Interest-bearing bank balances | | 20,354 | | 667 |
| Federal funds sold and securities purchased under agreements to resell | | 2,531 | | 2,978 |
| Investment securities - available for sale | | 145,686 | | 155,378 |
| Investment securities - held to maturity (market value of $58,236 and $63,379 at March 31, 2009 and December 31, 2008, respectively | | 65,204 | | 69,482 |
| Trading securities | | 2,360 | | 2,505 |
| Other investments, at cost | | 7,634 | | 7,710 |
| Loans | | 330,208 | | 332,964 |
| Less, allowance for loan losses | | 4,024 | | 4,581 |
| Net loans | | 326,184 | | 328,383 |
| Property, furniture and equipment - net | | 19,304 | | 19,378 |
| Bank owned life insurance | | 10,308 | | 10,239 |
| Goodwill | | 27,761 | | 27,761 |
| Intangible assets | | 1,967 | | 2,123 |
| Other assets | | 15,404 | | 14,907 |
| Total assets | $ | 653,878 | $ | 650,233 |
| **LIABILITIES** | | | | |
| Deposits: | | | | |
| Non-interest bearing demand | $ | 67,987 | $ | 65,751 |
| NOW and money market accounts | | 95,403 | | 94,256 |
| Savings | | 24,356 | | 22,461 |
| Time deposits less than $100,000 | | 159,122 | | 155,319 |
| Time deposits $100,000 and over | | 86,448 | | 86,011 |
| Total deposits | | 433,316 | | 423,798 |
| Securities sold under agreements to repurchase | | 28,326 | | 28,151 |
| Federal Home Loan Bank advances | | 100,576 | | 105,954 |
| Federal Home Loan Bank advances, at fair value | | 2,572 | | 2,582 |
| Junior subordinated debt | | 15,464 | | 15,464 |
| Other borrowed money | | 122 | | 152 |
| Other liabilities | | 5,704 | | 5,976 |
| Total liabilities | | 586,080 | | 582,077 |
| **SHAREHOLDERS EQUITY** | | | | |

| | | | | |
|---|---|---|---|---|
| Preferred stock, par value $1.00 per share, 10,000,000 shares authorized; 11,350 issued and outstanding | | 10,872 | | 10,850 |
| Common stock, par value $1.00 per share; 10,000,000 shares authorized; issued and outstanding 3,236,190 at March 31, 2009 3,227,039 at December 31, 2008 | | 3,236 | | 3,227 |
| Common stock warrants issued | | 509 | | 509 |
| Nonvested restricted stock | | (160) | | (186) |
| Additional paid in capital | | 48,778 | | 48,732 |
| Retained earnings | | 6,413 | | 6,263 |
| Accumulated other comprehensive income (loss) | | (1,850) | | (1,239) |
| Total shareholders equity | | 67,798 | | 68,156 |
| Total liabilities and shareholders equity | $ | 653,878 | $ | 650,233 |

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**FIRST COMMUNITY CORPORATION**

**CONSOLIDATED STATEMENTS OF INCOME**

| **(Dollars in thousands, except per share amounts)** | | **Three Months ended March 31, 2009** | | **2008** |
|---|---|---|---|---|
| **Interest and dividend income:** | | | | |
| Loans, including fees | $ | 4,963 | $ | 5,522 |
| Taxable securities | | 2,851 | | 2,130 |
| Non-taxable securities | | 90 | | 107 |
| Federal funds sold and securities purchased under resale agreements | | 5 | | 85 |
| Other | | 10 | | 10 |
| Total interest and dividend income | | 7,919 | | 7,854 |
| **Interest expense:** | | | | |
| Deposits | | 2,476 | | 2,883 |
| Federal funds sold and securities sold under agreement to repurchase | | 29 | | 148 |
| Other borrowed money | | 1,104 | | 836 |
| Total interest expense | | 3,609 | | 3,867 |
| Net interest income | | 4,310 | | 3,987 |
| Provision for loan losses | | 451 | | 155 |
| Net interest income after provision for loan losses | | 3,859 | | 3,832 |
| **Non-interest income:** | | | | |
| Deposit service charges | | 556 | | 664 |
| Mortgage origination fees | | 217 | | 186 |
| Commissions on sale of non-deposit investment products | | 149 | | 88 |
| Gain (loss) on sale of securities | | 354 | | (29) |
| Other-than-temporary impairment on securities | | (657) | | |
| Fair value adjustment gains | | 21 | | 149 |
| Other | | 408 | | 364 |
| Total non-interest income | | 1,048 | | 1,422 |
| **Non-interest expense:** | | | | |
| Salaries and employee benefits | | 2,013 | | 1,901 |
| Occupancy | | 300 | | 278 |
| Equipment | | 319 | | 325 |
| Marketing and public relations | | 107 | | 203 |
| Amortization of intangibles | | 155 | | 138 |
| Other | | 1,130 | | 802 |
| Total non-interest expense | | 4,024 | | 3,647 |
| Net income before tax | | 883 | | 1,607 |
| Income taxes | | 311 | | 484 |
| **Net income** | $ | 572 | $ | 1,123 |
| Preferred dividends and accretion | | 164 | | |
| **Net income available to common shareholders** | $ | 408 | $ | 1,123 |
| | | | | |
| Basic earnings per common share | $ | 0.13 | $ | 0.35 |
| Diluted earnings per common share | $ | 0.13 | $ | 0.35 |

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**FIRST COMMUNITY CORPORATION**

**Consolidated Statement of Changes in Shareholders Equity and Comprehensive Income**

**Three Months ended March 31, 2009 and March 31, 2008**

| (Dollars in thousands) | Preferred Stock | Common Shares Issued | Common Stock | Common Stock Warrants | Additional Paid-in Capital | Nonvested Restricted Stock | Retained Earnings | Accumulated Other Comprehensive Income (loss) | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2007** | $ | 3,211 | $ 3,211 | $ | $ 48,617 | $ | $ 14,564 | $ (2,396) | $ 63,996 |
| Comprehensive Income: | | | | | | | | | |
| Net income | | | | | | | 1,123 | | 1,123 |
| Other comprehensive loss: | | | | | | | | | |
| Unrealized loss arising during period net of income tax benefit of ($79) | | | | | | | | (362) | |
| Less: reclassification adjustment for gain included in net income, net of tax expense of $10 | | | | | | | | 19 | |
| Other comprehensive loss | | | | | | | | (343) | (343) |
| Comprehensive income | | | | | | | | | 780 |
| Cumulative adjustment to initially apply EITF 06-4 | | | | | | | (411) | | (411) |
| Dividends paid ($0.08 per share) | | | | | | | (257) | | (257) |
| Common stock repurchased | | (17) | (17) | | (249) | | | | (266) |
| Exercise of stock options | | | | | 1 | | | | 1 |
| Dividend reinvestment plan | | 3 | 3 | | 47 | | | | 50 |
| **Balance, March 31, 2008** | $ | 3,197 | $ 3,197 | $ | $ 48,416 | $ | $ 15,019 | $ (2,739) | $ 63,893 |
| **Balance, December 31, 2008** | $ 10,850 | 3,227 | $ 3,227 | $ 509 | $ 48,732 | $ (186) | $ 6,263 | $ (1,239) | $ 68,156 |
| Comprehensive Income: | | | | | | | | | |
| Net income | | | | | | | 572 | | 572 |
| Other comprehensive loss: | | | | | | | | | |
| Unrealized gain arising during period on available-for-sale securities net of tax expense of $198 | | | | | | | | 369 | |
| Unrealized market loss on held-to-maturity securities (net of $404 tax benefit) | | | | | | | | (750) | |
| Less: reclassification adjustment for gain included in net income, net of tax expense of $124 | | | | | | | | (230) | |
| Other comprehensive loss | | | | | | | | (611) | (611) |
| Comprehensive income | | | | | | | | | 297 |
| Amortization of compensation on restricted stock | | | | | | 26 | | | 26 |
| Dividends: Common ($0.08 per share) | | | | | | | (258) | | (258) |
| Preferred | 22 | | | | | | (164) | | (142) |
| Exercise of stock options | | | | | | | | | |
| Dividend reinvestment plan | | 9 | 9 | | 46 | | | | 55 |
| **Balance, March 31, 2009** | $ 10,872 | 3,236 | $ 3,236 | $ 509 | $ 48,778 | $ (160) | $ 6,413 | $ (1,850) | 67,798 |

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**FIRST COMMUNITY CORPORATION**

**Consolidated Statements of Cash Flows**

| (Amounts in thousands) | Three months ended March 31, 2009 | | 2008 | |
|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | |
| Net income | $ | 572 | $ | 1,123 |
| Adjustments to reconcile net income to net cash provided in operating activities: | | | | |
| Depreciation | | 249 | | 267 |
| Premium amortization (Discount accretion) | | (43) | | (180) |
| Provision for loan losses | | 451 | | 155 |
| Amortization of intangibles | | 155 | | 138 |
| (Gain) loss on sale of securities | | (354) | | 29 |
| Other-than-temporary-impairment charge on securities | | 657 | | |
| Net (increase) decrease in fair value option instruments and derivatives | | (21) | | (149) |
| Decrease in other assets | | 428 | | 765 |
| Increase (decrease) in accounts payable | | (304) | | (951) |
| Net cash provided in operating activities | | 1,790 | | 1,197 |
| **Cash flows from investing activities:** | | | | |
| Proceeds from sale of securities available-for-sale | | 11,187 | | 7,002 |
| Purchase of investment securities available-for-sale | | (17,424) | | (40,950) |
| Maturity/call of investment securities available-for-sale | | 16,115 | | 34,155 |
| Purchase of investment securities held-to-maturity | | | | (6,063) |
| Maturity/call of investment securities held-to-maturity | | 2,972 | | 603 |
| Maturity of investment securities held-for-trading | | 166 | | 112 |
| Proceeds from sale of interest rate cap agreement | | | | 600 |
| Decrease (increase) in loans | | 1,097 | | (4,703) |
| Purchase of property and equipment | | (175) | | (230) |
| Net cash provided (used) in investing activities | | 13,938 | | (9,474) |
| **Cash flows from financing activities:** | | | | |
| Increase (decrease) in deposit accounts | | 9,426 | | 9,004 |
| Advances from the Federal Home Loan Bank | | 4,000 | | 17,500 |
| Repayment of advances from the Federal Home Loan Bank | | (9,254) | | (7,504) |
| Advances from the Federal Home Loan Bank fair value option | | | | 1,500 |
| Increase (decrease) in securities sold under agreements to repurchase | | 175 | | 5,573 |
| Increase (decrease) in other borrowings | | (31) | | (71) |
| Proceeds from exercise of stock options | | | | 1 |
| Dividend reinvestment plan | | 55 | | 50 |
| Purchase of common stock | | | | (266) |
| Dividends paid: Common stock | | (258) | | (257) |
| Preferred stock | | (142) | | |
| Net cash provided from financing activities | | 3,971 | | 25,530 |
| Net increase in cash and cash equivalents | | 19,699 | | 17,253 |
| Cash and cash equivalents at beginning of period | | 12,367 | | 13,682 |
| **Cash and cash equivalents at end of period** | $ | 32,066 | $ | 30,935 |
| **Supplemental disclosure:** | | | | |
| Cash paid during the period for: | | | | |
| Interest | $ | 3,695 | $ | 4,080 |
| Taxes | $ | 350 | $ | 3 |
| Non-cash investing and financing activities: | | | | |
| Unrealized loss on securities | $ | (925) | $ | (537) |
| Transfer of loans to foreclosed property | $ | 681 | $ | |

**See Notes to Consolidated Financial Statements**

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**Notes to Consolidated Financial Statements**

***Note 1 Basis of Presentation***

In the opinion of management, the accompanying unaudited consolidated balance sheets, the consolidated statements of income, the consolidated statements of changes in shareholders equity, and the consolidated statements of cash flows of First Community Corporation ( the Company ), present fairly in all material respects the Company s financial position at March 31, 2009 and December 31, 2008, the Company s results of operations for the three months ended March 31, 2009 and 2008, and the Company s cash flows for the three months ended March 31, 2009 and 2008. The results of operations for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

In the opinion of management, all adjustments necessary to fairly present the consolidated financial position and consolidated results of operations have been made. All such adjustments are of a normal, recurring nature. All significant intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements and notes thereto are presented in accordance with the instructions for Form 10-Q. The information included in the Company s 2008 Annual Report on Form 10-K should be referred to in connection with these unaudited interim financial statements.

***Note 2 Earnings Per Share***

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

(In thousands except average market price)

| | Three months ended March 31, 2009 | | 2008 | |
|---|---|---|---|---|
| Numerator (Net income available to common shareholders) | $ | 408 | $ | 1,123 |
| Denominator | | | | |
| Weighted average common shares outstanding for: | | | | |
| Basic earnings per share | | 3,231 | | 3,206 |
| Dilutive securities: | | | | |
| Stock options Treasury stock method | | | | 35 |
| Diluted earnings per share | | 3,231 | | 3,241 |
| The average market price used in calculating assumed number of shares | $ | 6.56 | $ | 14.44 |

At March 31, 2009 there were 191,000 outstanding options at an average exercise price of $13.33 and warrants for 196,000 shares at $8.69. None of the options or warrants have an exercise price below the average market price of $6.56 for the three-month period ended March 31, 2009 and therefore are not deemed to be dilutive.

***Note 3 Assets and Liabilities Measured at Fair Value***

On January 1, 2007, the Company adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurement (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances.

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SFAS 157 establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The fair value hierarchy is as follows:

**Level l** Quoted prices in active markets for identical assets or liabilities.

**Level 2** Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

**Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value on a recurring basis:

Investment Securities Available for Sale: Measurement is on a recurring basis based upon quoted market prices, if available. If quoted market prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for prepayment assumptions, projected credit losses, and liquidity. Level 1 securities include those traded on an active exchange or by dealers or brokers in active over-the-counter markets. Level 2 securities include mortgage-backed securities issued both issued by government sponsored enterprises and private label mortgage-backed securities. Generally these fair values are priced from established pricing models. Level 3 securities include corporate debt obligations and asset backed securities that are less liquid or for which there is an inactive market.

Investment Securities Held-to-Maturity: Investment securities that are held-to-maturity and considered other-than-temporarily-impaired are recorded at fair value in accordance with FASB Staff Position FAS 115-2 and FAS 124-2 on a non recurring basis. If the Company does not expect to recover the entire amortized cost basis of the security, an other-than-temporary-impairment (OTTI) is considered to have occurred. See Note 4 for determining allocation between current earnings and comprehensive income. Measurement is based upon quoted market prices, if available. If quoted market prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for prepayment assumptions, projected credit losses, and liquidity. Level 2 securities include private label mortgage-backed securities. Generally these fair values are priced from established pricing models.

Loans: Loans that are considered impaired are recorded at fair value on a non-recurring basis. Once a loan is considered impaired measurement is based upon Statement of Financial Accounting Standard No. 114 Accounting by Creditors for Impairment of a Loan (SFAS 114). The fair value is estimated using one of several methods, including collateral liquidation value, market value of similar debt and discounted cash flows. Those impaired loans not requiring a specific charge against the allowance represent loans for which the fair value of the expected repayments or collateral meet or exceed the recorded investment in the loan. At March 31, 2009 substantially all of the total impaired loans were evaluated based on the fair value of the underlying collateral. When the Company records the fair value based upon a current appraisal the fair value measurement is considered when a current appraisal is not available or there is estimated further impairment the measurement is considered a Level 3 measurement.

Other Real Estate Owned (OREO): OREO carried at the lower of carrying value or fair value on a non-recurring basis. Fair value is based upon independent appraisals or management s estimation of the collateral. When the OREO value is based upon a current appraisal or when a current appraisal is not available or there is estimated further impairment the measurement is considered a Level 3 measurement.

Derivative Financial Instruments: Interest rate swaps and interest rate caps are carried at fair value and measured on a recurring basis. The measurement is based on valuation techniques including discounted cash flows analysis for each derivative. The analysis reflects the contractual remaining term of derivative, interest rates, volatility and expected cash payments. The measurement of the interest rate swap and cap are considered to be a Level 3 measurement.

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Goodwill and Other Intangible Assets: Goodwill and other intangible assets are measured for impairment on an annual basis, as of September 30th, or more frequently if there is a change in circumstances. If the goodwill or other intangibles exceed the fair value, an impairment charge is recorded in an amount equal to the excess. Impairment is tested utilizing accepted valuation techniques utilizing discounted cash flows of the business unit, and implied fair value based on a multiple of earnings and tangible book value for merger transactions. The measurement of these fair values is considered a Level 3 measurement.

Federal Home Loan Bank Advances: Certain Federal Home Loan Bank advances are accounted for under Statement of Financial Accounting Standard No. 159 Fair Value Option (SFAS 159). The fair value is calculated on a recurring basis using a discounted cash flow model based on current rate for advances with similar remaining terms. The measurement of these advances are considered Level 3 measurements.

The following tables reflect the changes in fair values for the three-month periods ended March 31, 2009 and 2008 and where these changes are included in the income statement:

**(Dollars in thousands)**

**March 31, 2009**

| **Description** | | **Non-interest income: Fair value adjustment gain (loss)** | | **Total** |
|---|---|---|---|---|
| Trading securities | $ | 21 | $ | 21 |
| Interest rate cap/swap | | (10) | | (10) |
| Federal Home Loan Bank Advance | | 10 | | 10 |
| Total | $ | 21 | $ | 21 |

**(Dollars in thousands)**

**March 31, 2008**

| **Description** | | **Non-interest income: Fair value adjustment gain (loss)** | | **Total** |
|---|---|---|---|---|
| Trading securities | $ | 24 | $ | 24 |
| Interest rate cap/floor | | 166 | | 166 |
| Federal Home Loan Bank Advance | | (41) | | (41) |
| Total | $ | 149 | $ | 149 |

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The following table summarizes quantitative disclosures about the fair value for each category of assets carried at fair value as of March 31, 2009 and December 31, 2008 that are measured on a recurring basis.

**(Dollars in thousands)**

| Description | | March 31, 2009 | | Quoted Prices in Active Markets for Identical Assets (Level 1) | | Significant Other Observable Inputs (Level 2) | | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|---|---|---|---|
| Trading securities | $ | 2,360 | $ | | $ | 2,360 | $ | |
| Available for sale securities | | 145,686 | | 1,869 | | 137,114 | | 6,703 |
| Interest rate cap/swap | | (752) | | | | | | (752) |
| Federal Home Loan Bank advances | | (2,572) | | | | | | (2,572) |
| Total | $ | 144,722 | $ | 1,869 | $ | 139,474 | $ | 3,379 |

**(Dollars in thousands)**

| Description | | December 31, 2008 | | Quoted Prices in Active Markets for Identical Assets (Level 1) | | Significant Other Observable Inputs (Level 2) | | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|---|---|---|---|
| Trading securities | $ | 2,505 | $ | | $ | 2,505 | $ | |
| Available for sale securities | | 155,378 | | 1,895 | | 146,270 | | 7,213 |
| Interest rate cap/floor | | (725) | | | | | | (725) |
| Federal Home Loan Bank advances | | (2,582) | | | | | | (2,582) |
| Total | $ | 154,576 | $ | 1,895 | $ | 148,775 | $ | 3,906 |

The following tables reconcile the changes in Level 3 financial instruments for the three months ended March 31, 2009, that are measured on a recurring basis.

| | | Available for Sale securities | | Interest rate Cap/Floor | | Federal Home Loan Bank Advances |
|---|---|---|---|---|---|---|
| Beginning Balance, December 31, 2008 | $ | 7,213 | $ | (725) | $ | (2,582) |
| Gain (loss) recognized | | (510) | | (10) | | 10 |
| Payment | | | | (17) | | |
| Issuances | | | | | | |
| Ending Balance, March 31, 2009 | $ | 6,703 | $ | (752) | $ | (2,572) |

The following table summarizes quantitative disclosures about the fair value for each category of assets carried at fair value as of March 31, 2009 that are measured on a non-recurring basis. Goodwill and other intangible assets are measured on a non-recurring basis at least annually.

The valuation is performed at September 30th.

**(Dollars in thousands)**

| Description | March 31, 2009 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Impaired loans | $ 14,977 | $ | $ | $ 14,977 |
| Held-to-Maturity securities (OTTI) | 1,663 | | 1,663 | |
| Other real estate owned | 1,297 | | | 1,297 |
| Total | $ 17,937 | $ | $ 1,663 | $ 16,274 |

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***Note 4 INVESTMENT SECURITIES***

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

HELD-TO-MATURITY:

| (Dollars in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| March 31, 2009: | | | | |
| State and local government | $ 4,189 | $ 85 | $ | $ 4,274 |
| Mortgage-backed securities | 60,955 | | 7,053 | 53,902 |
| Other | 60 | | | 60 |
| | $ 65,204 | $ 85 | $ 7,053 | $ 58,236 |
| December 31, 2008: | | | | |
| State and local government | $ 4,477 | $ 53 | $ | $ 4,530 |
| Mortgage-backed securities | 64,945 | 198 | 6,354 | 58,789 |
| Other | 60 | | | 60 |
| | $ 69,482 | $ 252 | $ 6,354 | $ 63,379 |

AVAILABLE-FOR-SALE:

| (Dollars in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| March 31, 2009: | | | | |
| US Treasury securities | $ 999 | $ 7 | $ | $ 1,006 |
| Government sponsored enterprises | 17,926 | 591 | | 18,517 |
| Mortgage-backed securities | 109, 622 | 2,254 | 1,872 | 110,004 |
| State and local government | 4,432 | 80 | 14 | 4,498 |
| Corporate and other securities | 14,498 | 130 | 2,967 | 11,661 |
| | $ 147,477 | $ 3,062 | $ 4,853 | $ 145,686 |
| December 31, 2008: | | | | |
| US Treasury securities | $ 999 | $ 18 | $ | $ 1,017 |
| Government sponsored enterprises | 27,965 | 699 | | 28,664 |
| Mortgage-backed securities | 108,028 | 1,805 | 2,016 | 107,817 |
| State and local government | 5,437 | 134 | 28 | 5,543 |
| Corporate and other securities | 15,031 | 107 | 2,801 | 12,337 |
| | $ 157,460 | $ 2,763 | $ 4,845 | $ 155,378 |

The Company adfopted the provisions of FSP SFAS 115-2 as of January 1, 2009. As prescribed by FSP SFAS 115-2 for the three months ended March 31, 2009, the Company recognized the credit component of an other-than-temporary impairment (OTTI) of its debt securities in earnings and the non-credit component in other comprehensive income (OCI) for those securities in which the Company does not intend to sell the security and it is more likely than not the the Company will not be required to sell the securities prior to recovery. Had the Company not adopted FSP SFAS 115-2, the Company would have recognized an additional $1.2 million, pre-tax, in other-than-temporary impairment charges through earnings during the three months ended March 31, 2009.

The amortized cost and fair value of investment securities at March 31, 2009, by maturity based on average life at the prepayment speeds for mortgage backed and CMO securities and expected call date or maturity date for all other securities follow. Expected maturities differ from contractual maturities because borrowers may have the right to call or prepay the obligations with or without prepayment penalties.

| | Held-to-maturity | | | | Available-for-sale | | | |
|---|---|---|---|---|---|---|---|---|
| **(Dollars in thousands)** | **Amortized Cost** | | **Fair Value** | | **Amortized Cost** | | **Fair Value** | |
| Due in one year or less | $ | 1,550 | $ | 1,554 | $ | 14,055 | $ | 14,014 |
| Due after one year through five years | | 20,374 | | 17,974 | | 65,447 | | 66,002 |
| Due after five years through ten years | | 26,995 | | 22,393 | | 39,263 | | 37,885 |
| Due after ten years | | 16,285 | | 16,315 | | 28,712 | | 27,785 |
| | $ | 65,204 | $ | 58,236 | $ | 147,477 | $ | 145,686 |

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During the three months ended March 31, 2009, the Company recorded other-than-temporary impairment losses on held-to-maturity and available-for-sale securities as follows:

| **(Dollars in thousands)** | **Held-to-maturity Non-agency mortgage-backed securities** | **Available-for-sale equity security** | **Total** |
|---|---|---|---|
| Total OTTI charge realized and unrealized | $ 1,301 | $ 510 | $ 1,811 |
| OTTI recognized in other comprehensive income (non-credit component) | 1,154 | | 1,154 |
| Net impairment losses recognized in earnings (credit component) | $ 147 | $ 510 | $ 657 |

As of March 31, 2009, those debt securities with OTTI in which only the amount of loss related to credit was recognized in earningsconsisted of two non-agency mortgage backed securities. The Company uses a third party to obtain information about the structure in order to determine how the underlying cash flows will be distributed to each security. Relevant assumptions such as prepayment rate, default rate and loss severity on a loan level basis are used in determining the expected recovery of the remaining unrealized losses. The average prepayment rate, default rate and severity used in the valuations were approximately 8%, 13%, and 41%, respectively.

At March 31, 2009 corporate and other securities available-for-sale included the following at fair value: corporate bonds at $5.9 million, corporate debt obligations ( CDOs ) of $4.9 million, and mutual funds at $878,000. At December 31 2008 corporate and other securities available-for-sale included the following at fair value: corporate bonds at $6.0 million, corporate debt obligations ( CDOs ) of $4.9 million, mutual funds at $878,000 and community bank stock of $509,300.

The following table shows gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous loss position at March 31, 2009 and December 31, 2008.

**March 31, 2009**

| | **Less than 12 months** | | **12 months or more** | | **Total** | |
|---|---|---|---|---|---|---|
| **(Dollars in thousands)** | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** |
| *Available-for-sale securities:* | | | | | | |
| US Treasury and Government sponsored enterprises | $ | $ | $ | $ | $ | $ |
| Government Sponsored Enterprise mortgage-backed securities | 6,029 | 188 | 4,429 | 19 | 10,458 | 207 |
| Non-agency mortgage-backed securities | 1,267 | 321 | 13,577 | 1,344 | 14,844 | 1,665 |
| Corporate bonds | 7,460 | 2,398 | 3,195 | 569 | 10,655 | 2,967 |
| State and local government | 1,144 | 14 | | | 1,144 | 14 |
| | 15,900 | 2,921 | 21,201 | 1,932 | 37,101 | 4,853 |
| Held-to-maturity securities: | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Non-agency mortgage-backed securities | 42,262 | 5,664 | 11,640 | 1,389 | 53,902 | 7,053 |
| | 42,262 | 5,664 | 11,640 | 1,389 | | |