

FIRST COMMUNITY CORP /SC/
Form 10-Q
November 15, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the quarterly period ended September 30, 2010

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

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(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 No

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). Yes 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: **On November 12, 2010, 3,265,809 shares of the issuer's common stock, par value \$1.00 per share, were issued and outstanding.**

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(Dollars in thousands, except par value)	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Cash and due from banks	\$ 9,831	\$ 6,752
Interest-bearing bank balances	21,599	13,635
Federal funds sold and securities purchased under agreements to resell	422	457
Investment securities - available for sale	153,843	131,836
Investment securities - held to maturity (market value of \$39,820 and \$49,092 at September, 2010 and December 31, 2009, respectively)	42,478	56,104
Other investments, at cost	6,984	7,904
Loans	329,713	344,187
Less, allowance for loan losses	4,841	4,854
Net loans	324,872	339,333
Property, furniture and equipment - net	18,126	18,666
Bank owned life insurance	10,747	10,551
Other real estate owned	7,373	3,167
Intangible assets	1,036	1,502
Other assets	14,138	15,920
Total assets	\$ 611,449	\$ 605,827
LIABILITIES		
Deposits:		
Non-interest bearing demand	\$ 76,252	\$ 72,656
NOW and money market accounts	119,371	104,659
Savings	31,022	25,757
Time deposits less than \$100,000	145,805	156,422
Time deposits \$100,000 and over	89,181	90,082
Total deposits	461,631	449,576
Securities sold under agreements to repurchase	15,883	20,676
Federal Home Loan Bank advances	68,826	73,326
Junior subordinated debt	15,464	15,464
Other borrowed money	120	164
Other liabilities	5,636	5,181
Total liabilities	567,560	564,387
SHAREHOLDERS EQUITY		
Preferred stock, par value \$1.00 per share, 10,000,000 shares authorized; 11,350 issued and outstanding	11,011	10,939
Common stock, par value \$1.00 per share; 10,000,000 shares authorized; issued and outstanding 3,265,809 at September 30, 2010 3,252,358 at December 31, 2009	3,266	3,252
Common stock warrants issued	509	509
Nonvested restricted stock		(79)
Additional paid in capital	48,939	48,873
Retained earnings (deficit)	(19,832)	(20,401)

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Accumulated other comprehensive income		(4)		(1,653)
Total shareholders' equity		43,889		41,440
Total liabilities and shareholders' equity	\$	611,449	\$	605,827

See Notes to Consolidated Financial Statements

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FIRST COMMUNITY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (LOSS)

	Nine Months Ended September 30, 2010 (Unaudited)	Nine Months Ended September 30, 2009 (Unaudited)
(Dollars in thousands, except per share data)		
Interest income:		
Loans, including fees	\$ 14,970	\$ 15,046
Taxable securities	5,632	7,926
Non taxable securities	168	255
Federal funds sold and securities purchased under resale agreements	44	42
Other	28	26
Total interest income	20,842	23,295
Interest expense:		
Deposits	4,860	6,842
Federal funds sold and securities sold under agreement to repurchase	50	77
Other borrowed money	2,277	3,263
Total interest expense	7,187	10,182
Net interest income	13,655	13,113
Provision for loan losses	1,365	2,057
Net interest income after provision for loan losses	12,290	11,056
Non-interest income:		
Deposit service charges	1,421	1,731
Mortgage origination fees	691	622
Investment advisory fees and non-deposit commissions	416	337
Gain on sale of securities	324	654
Fair value gain (loss) adjustments	(644)	66
Other-than-temporary-impairment write-down on securities	(799)	(921)
Other	1,265	1,221
Total non-interest income	2,674	3,710
Non-interest expense:		
Salaries and employee benefits	6,610	6,252
Occupancy	918	896
Equipment	873	944
Marketing and public relations	301	261
FDIC assessments	735	902
Other real estate expense	536	138
Amortization of intangibles	466	466
Impairment of goodwill		27,761
Other	2,597	2,753
Total non-interest expense	13,036	40,373
Net income (loss) before tax	1,928	(25,607)
Income taxes	471	492
Net income (loss)	\$ 1,457	\$ (26,099)
Preferred stock dividends, including discount accretion	497	493
Net income (loss) available to common shareholders	\$ 960	\$ (26,592)
Basic earnings (loss) per common share	\$ 0.29	\$ (8.17)
Diluted earnings (loss) per common share	\$ 0.29	\$ (8.17)

See Notes to Consolidated Financial Statements

Table of Contents**FIRST COMMUNITY CORPORATION****CONSOLIDATED STATEMENTS OF INCOME (LOSS)**

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2010 (Unaudited)	Three Months Ended September 30, 2009 (Unaudited)
Interest income:		
Loans, including fees	\$ 4,946	\$ 5,119
Taxable securities	1,755	2,486
Non taxable securities	91	87
Federal funds sold and securities purchased under resale agreements	17	14
Other	9	8
Total interest income	6,818	7,714
Interest expense:		
Deposits	1,555	2,138
Federal funds sold and securities sold under agreement to repurchase	13	22
Other borrowed money	767	1,073
Total interest expense	2,335	3,233
Net interest income	4,483	4,481
Provision for loan losses	235	665
Net interest income after provision for loan losses	4,248	3,816
Non-interest income:		
Deposit service charges	459	599
Mortgage origination fees	342	159
Commission on sale of non deposit investment products	82	85
Gain on sale of securities	218	291
Fair value gain (loss) adjustments	(201)	(185)
Other-than-temporary-impairment write-down on securities	(440)	(179)
Other	462	390
Total non-interest income	922	1,160
Non-interest expense:		
Salaries and employee benefits	2,305	2,112
Occupancy	312	307
Equipment	290	321
Marketing and public relations	105	99
FDIC assessment	323	215
Other real estate expense	243	23
Amortization of intangibles	155	156
Impairment of goodwill		27,761
Other	911	926
Total non-interest expense	4,644	31,920
Net income (loss) before tax	526	(26,944)
Income taxes	132	141
Net income (loss)	\$ 394	\$ (27,085)
Preferred stock dividends, including discount accretion	166	165
Net income available to common shareholders	\$ 228	\$ (27,250)
Basic earnings (loss) per common share	\$ 0.07	\$ (8.35)
Diluted earnings (loss) per common share	\$ 0.07	\$ (8.35)

Table of Contents**FIRST COMMUNITY CORPORATION****Statement of Changes in Shareholders Equity and Comprehensive Income (Loss)****Nine Months ended September 30, 2010 and September 30, 2009**

(Dollars in thousands)	Preferred Stock	Shares Issued	Common Stock	Common Stock Warrants	Additional Paid-in Capital	Nonvested Restricted Stock	Retained Earnings (Deficit)	Other Comprehensive Income (Loss)	Total
Balance, December 31, 2008	\$ 10,850	3,227	\$ 3,227	\$ 509	\$ 48,732	\$ (186)	\$ 6,263	\$ (1,239)	\$ 68,156
Comprehensive income (loss):									
Net income (loss)							(26,099)		(26,099)
Other comprehensive income:									
Unrealized gain during period on available-for-sale securities net of tax of \$1,024								2,215	
Unrealized market loss on held-to-maturity securities net of tax benefit of \$580								(1,096)	
Less: reclassification adjustment for gain included in net loss, net of tax benefit \$107								(160)	
Other comprehensive income								959	959
Comprehensive loss:									(25,140)
Amortization of compensation on restricted stock						80			80
Dividends: Common (\$0.20 per share)							(647)		(647)
Preferred	68						(493)		(425)
Dividend reinvestment plan		21	21		120				141
Balance, September 30, 2009	\$ 10,918	3,248	\$ 3,248	\$ 509	\$ 48,852	\$ (106)	\$ (20,976)	\$ (280)	\$ 42,165
Balance, December 31, 2009	\$ 10,939	3,252	\$ 3,252	\$ 509	\$ 48,873	\$ (79)	\$ (20,401)	\$ (1,653)	\$ 41,440
Comprehensive income:									
Net income							1,457		1,457
Other comprehensive income:									
Unrealized gain during period on available-for-sale securities net of tax of \$732								1,341	
Less: reclassification adjustment for gain included in net income, net of tax \$113								(211)	
Reclassification adjustment for Other-than-temporary impairment included in income net of tax benefit of \$280								519	
Other comprehensive income								1,649	1,649
Comprehensive income:									3,106
Amortization of compensation on restricted stock						79			79
Dividends: Common (\$0.12 per share)							(391)		(391)
Preferred	72						(497)		(425)
Dividend reinvestment plan		14	14		66				80
Balance, September 30, 2010	\$ 11,011	3,266	\$ 3,266	\$ 509	\$ 48,939	\$	\$ (19,832)	\$ (4)	\$ 43,889

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FIRST COMMUNITY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Nine months ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ 1,457	\$ (26,099)
Adjustments to reconcile net income (loss) to net cash provided in operating activities:		
Depreciation	667	745
Premium amortization (discount accretion)	943	(34)
Provision for loan losses	1,365	2,057
Amortization of intangibles	466	466
Gain on sale of securities	(324)	(654)
Other-than-temporary-impairment on securities	799	921
Goodwill Impairment		27,761
Net (increase) decrease in fair value option instruments and derivatives	644	(66)
Decrease in other assets	2,198	1,617
Increase (decrease) in other liabilities	574	(180)
Net cash provided in operating activities	8,789	6,534
Cash flows from investing activities:		
Purchase of investment securities available-for-sale	(100,532)	(52,972)
Maturity of investment securities available-for-sale	30,933	40,997
Proceeds from sale of securities available-for-sale	56,504	17,489
Purchase of investment securities held-to-maturity	(10)	(2,123)
Maturity of investment securities held-to-maturity	6,962	11,108
Maturity of securities held-for-trading		614
Decrease (increase) in loans	6,760	(16,348)
Purchase of property and equipment	(127)	(418)
Net cash provided (used) in investing activities	490	(1,653)
Cash flows from financing activities:		
Increase in deposit accounts	11,995	23,320
Decrease in securities sold under agreements to repurchase	(4,793)	(8,882)
Decrease in other borrowings	(44)	(28)
Advances from the FHLB		4,000
Repayment of advances FHLB	(4,620)	(10,120)
Dividends paid: Common Stock	(391)	(647)
Preferred Stock	(497)	(426)
Dividend reinvestment plan	79	141
Net cash provided from financing activities	1,729	7,358
Net increase in cash and cash equivalents	11,008	12,239
Cash and cash equivalents at beginning of period	20,844	12,367
Cash and cash equivalents at end of period	\$ 31,852	\$ 24,606
Supplemental disclosure:		
Cash paid during the period for:		
Interest	\$ 6,939	\$ 10,666
Income taxes	\$	\$ 350
Non-cash investing and financing activities:		
Unrealized gain (loss) on securities	\$ 1,651	\$ 1,528
Transfer of loans to foreclosed property	\$ 6,339	\$ 1,878
Transfer of HTM securities with OTTI to AFS securities	\$ 5,800	\$

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First Community Corporation, a bank holding company registered under the Bank Holding Company Act of 1956, as amended (the Company), 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. (the Bank), which commenced operations in August 1995. On October 1, 2004, the Company completed its acquisition of DutchFork Bancshares, Inc. and its wholly-owned subsidiary, Newberry Federal Savings Bank. During the second quarter of 2006, the Company completed its acquisition of DeKalb Bankshares, Inc., the holding company for The Bank of Camden. On September 15, 2008, the Company completed the acquisition of two financial planning and investment advisory firms, EAH Financial Group and Pooled Resources, LLC. The Company engage in a commercial banking business from our main office in Lexington, South Carolina and our 11 full-service offices located in Lexington (two), Forest Acres, Irmo, Cayce-West Columbia, Gilbert, Chapin, Northeast Columbia, Prosperity, Newberry and Camden. The Company offers 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. The Company also offers online banking to our customers. The Company's stock trades on The NASDAQ Capital Market under the symbol FCCO.

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 the Company, present fairly in all material respects the Company's financial position at September 30, 2010 and December 31, 2009, the Company's results of operations for the nine and three months ended September 30, 2010 and 2009, and the Company's cash flows for the nine months ended September 30, 2010 and 2009. The results of operations for the nine and three months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

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 2009 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 price per share)	Nine months ended September 30,		Three months ended September 30,	
	2010	2009	2010	2009
Numerator (Net income (loss) available to common shareholders)	\$ 960	\$ (26,592)	\$ 228	\$ (27,250)
Denominator				
Weighted average common shares outstanding for:				
Basic earnings per share	3,259	3,253	3,264	3,262

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Dilutive securities:

Stock options Treasury stock method

Diluted earnings per share	3,259	3,253	3,264	3,262
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The average market price used in calculating assumed number of shares	\$ 6.02	\$ 6.76	\$ 5.55	\$ 6.59
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At September 30, 2010 there were 190,256 outstanding options at an average exercise price of \$13.28 and warrants for 196,000 shares at \$8.69. None of the options or warrants has an exercise price below the average market price of \$6.02 and \$5.55 for the nine and three-month periods ended September 30, 2010, respectively, and therefore are not deemed to be dilutive. At September 30, 2009 there were 191,000 outstanding options at an average exercise price of

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\$13.33 and warrants for 196,000 shares at \$8.69. None of the options or warrants has an exercise price below the average market price of \$6.76 and \$6.59 for the nine and three-month period ended September 30, 2009 and therefore are not deemed to be dilutive.

Note 3 Assets and Liabilities Measured at Fair Value

In connection with the adoption of the Fair Value Option, the Company adopted the requirements of the FASB ASC Fair Value Measurement Topic which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Fair Value Measurement Topic also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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Note 3 Assets and Liabilities Measured at Fair Value - continued

- Level 1** 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 the FASB ASC Topic on Investments- Debt and Equity Securities on a non recurring basis. If the Company does not expect to recover the entire amortized cost basis of the security, 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 FASB ASC 310-10-35 Loan Impairment . 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 September 30, 2010, 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 is 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 2 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.

Table of Contents*Note 3 Assets and Liabilities Measured at Fair Value continued*

Goodwill and Other Intangible Assets: Goodwill and other intangible assets are measured for impairment on an annual basis, as of September 30, 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. The goodwill impairment test as of September 30, 2009 reflected impairment in the amount of \$27.8 million, and, as a result, the balance of goodwill was written off as of that date.

Federal Home Loan Bank Advances: 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 is considered Level 3 measurement.

The following tables reflect the changes in fair values for the nine and three-month periods ended September 30, 2010 and 2009 and where these changes are included in the income statement:

(Dollars in thousands)

Description	Nine months ended September 30,		Three months ended September 30,	
	2010 Non-interest income: Fair value adjustment gain (loss)	2009 Non-interest income: Fair value adjustment gain (loss)	2010 Non-interest income: Fair value adjustment gain (loss)	2009 Non-interest income: Fair value adjustment gain (loss)
Trading securities	\$	\$ 41	\$	\$ 16
Interest rate cap/swap	(644)	10	(201)	(210)
Federal Home Loan Bank Advance		15		9
Total	\$ (644)	\$ 66	\$ (201)	\$ (185)

The following table summarizes quantitative disclosures about the fair value for each category of assets carried at fair value as of September 30, 2010 and December 31, 2009 that are measured on a recurring basis.

(Dollars in thousands)

Description	September 30, 2010	Quoted Prices in Active	Significant Other Observable	Significant Unobservable Inputs
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		Markets for Identical Assets (Level 1)		Inputs (Level 2)		(Level 3)
<i>Available for sale securities</i>						
Government sponsored enterprises	13,901			13,901		
Mortgage backed securities	79,657			79,657		
Small Business Administration securities	42,336			42,336		
State and local government	13,037			13,037		
Corporate and other securities	4,912	1,056		2,302		1,554
	153,843	1,056		151,233		1,554
Interest rate cap/swap	(923)					(923)
Total	\$ 152,920	\$ 1,056	\$	151,233	\$	631

Table of Contents*Note 3 Assets and Liabilities Measured at Fair Value continued*

(Dollars in thousands)

Description	December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>Available for sale securities</i>				
Government sponsored enterprises	7,718		7,718	
Mortgage backed securities	94,124		94,124	
Small Business Administration securities	9,408		9,408	
State and local government	8,179		8,179	
Corporate and other securities	12,407	1,215	5,412	5,780
	131,836	1,215	124,841	5,780
Interest rate cap/floor	(535)			(535)
Total	\$ 131,301	\$ 1,215	\$ 124,841	\$ 5,245

The following tables reconcile the changes in Level 3 financial instruments for the nine and three months ended September 30, 2010, that are measured on a recurring basis.

	Available for Sale securities	Interest rate Cap/Floor
Beginning Balance, December 31, 2009	\$	