

FIRST COMMUNITY CORP /SC/
Form S-4
March 24, 2006

As filed with the Securities and Exchange Commission on March 24, 2006

Registration No. 333-

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

**FORM S-4
REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933**

FIRST COMMUNITY CORPORATION
(Exact name of registrant as specified in its charter)

South Carolina
(State or other jurisdiction
of
incorporation or
organization)

6021
(Primary Standard
Industrial
Classification Code
Number)

57-1010751
(I.R.S. Employer
Identification No.)

5455 Sunset Blvd.
Lexington, South Carolina 29072
(803) 951-2265

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Michael C. Crapps
President and Chief Executive Officer
First Community Corporation
5455 Sunset Blvd
Lexington, South Carolina 29072
(803) 951-2265

(Name, address, including zip code, and telephone number, including area code of agent for service)

Copies to:

Neil E. Grayson, Esq.
Jason R. Wolfersberger, Esq.
Nelson Mullins Riley & Scarborough LLP
Poinsett Plaza, Suite 900
104 South Main Street
Greenville, South Carolina 29601
(864) 250-2235

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1201 Main Street, 22nd Floor
Columbia, South Carolina 29201
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Approximate date of commencement of the proposed sale to the public: As soon as practicable after the effectiveness of this registration statement and the satisfaction or waiver of all other conditions to the merger described in the proxy statement/prospectus.

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If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 464(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered ⁽¹⁾	Proposed maximum offering price	Proposed maximum aggregate offering price ⁽³⁾	Amount of registration fee
Common Stock	441,612	⁽²⁾	\$5,672,379	\$607

(1) Based upon the maximum number of shares of common stock of First Community Corporation that may be issued in exchange for shares of common stock of DeKalb Bankshares, Inc. pursuant to the merger described in proxy statement/prospectus which is a part of this registration statement. Pursuant to Rule 416, this registration statement also covers an indeterminate number of shares of common stock as may become issuable as a result of stock splits, stock dividends, or similar transactions.

(2) Not Applicable.

(3) In accordance with Rule 457(f)(1) and Rule 457(f)(3), the registration fee is based on (a) the maximum number of shares to be received by First Community Corporation pursuant to the merger (698,139), multiplied by \$12.00 (the fair market value of DeKalb Bankshares, Inc. common stock), less (b) \$2,705,289 (the maximum amount of cash to be paid by First Community Corporation in the merger). For purposes of this calculation, the registrant has assumed that all outstanding DeKalb options are exercised prior to the consummation of the merger.

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

[DeKalb Bankshares Letterhead]

, 2006

Dear DeKalb Bankshares, Inc. shareholder:

You are cordially invited to attend a special meeting of shareholders of DeKalb to be held on , 2006, at .m., local time, at . At this special meeting, you will be asked to approve the acquisition of DeKalb by First Community Corporation and to approve the proposal to authorize the board of directors to adjourn the special meeting to allow time for further solicitation of proxies in the event there are insufficient votes at the special meeting to approve the acquisition.

As a result of the acquisition, each share of DeKalb common stock will be converted into the right to receive \$3.875 in cash and 0.60705 shares of First Community common stock. The acquisition will be effected through the merger of DeKalb with and into First Community. The aggregate amount of cash and shares of First Community common stock received by DeKalb's shareholders will be a function of the number of shares of DeKalb common stock issued and outstanding at the effective time of the merger. DeKalb had shares of common stock issued and outstanding as of , 2006. Assuming no DeKalb shareholders exercise dissenters' rights, and assuming the total number of outstanding shares of DeKalb common stock immediately prior to the effective time is 610,139, First Community will issue an aggregate of 370,384 shares of stock and \$2,364,289 in cash. First Community common stock is listed under the symbol "FCCO" on the NASDAQ Capital Market. The common stock of DeKalb is not publicly traded.

In addition, each outstanding DeKalb stock option will be converted into an option to purchase 0.8094 shares of First Community common stock. The per share exercise price under each option will be adjusted by dividing the per share exercise price by 0.8094. All outstanding options will be exercisable for the same period and will otherwise have the same terms and conditions applicable to the DeKalb options that they replace.

YOUR VOTE IS VERY IMPORTANT. We cannot complete the merger unless, among other things, holders of at least two-thirds of the outstanding shares of DeKalb approve the merger agreement. **Your board of directors has approved the merger agreement, including the transactions contemplated in that agreement, and recommends that you vote "FOR" the merger and "FOR" the proposal to authorize adjournment.**

Please carefully review and consider this proxy statement/prospectus which explains the merger proposal in detail, including the discussion under the heading "Risk Factors" beginning on page . It is important that your shares are represented at the meeting, whether or not you plan to attend. An abstention or a failure to vote will have the same effect as a vote against the merger. Accordingly, please complete, date, sign, and return promptly your proxy card in the enclosed envelope. You may attend the meeting and vote your shares in person if you wish, even if you have previously returned your proxy.

Sincerely,

William C. Bochette, III
President and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the securities to be issued under this proxy statement/prospectus or determined if this proxy statement/prospectus is truthful or complete. Any representation to the contrary is a criminal offense. The shares of First Community Corporation common stock are not savings or deposit accounts or other obligations

of any bank, savings association, or non-bank subsidiary of either of our companies, and they are not insured by the Federal Deposit Insurance Corporation, the Savings Association Insurance Fund, the Bank Insurance Fund, or any other governmental agency.

*This document is dated , 2006 and is first
being mailed to DeKalb shareholders on or about , 2006.*

ADDITIONAL INFORMATION

This proxy statement/prospectus incorporates important business and financial information about First Community from documents that are not delivered with this proxy statement/prospectus. This information is available to you without charge upon your written or oral request. You can obtain documents incorporated by reference in this proxy statement/prospectus by requesting them in writing or by telephone from First Community at the following addresses:

First Community Corporation
5455 Sunset Blvd.
Lexington, South Carolina 29072
Attention: Michael C. Crapps, President and Chief Executive Officer
Telephone: (803) 951-2265

If you would like to request documents, please do so by [insert date within 5 days of the special meeting], 2006 in order to receive them before the special meeting.

See “Where You Can Find More Information” on page for further information.

DEKALB BANKSHARES, INC.

**631 West DeKalb Street
Camden, South Carolina 29020
(803) 432-7575**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
To Be Held On , 2006**

To the Shareholders of DeKalb Bankshares, Inc.:

We will hold an special meeting of shareholders of DeKalb on , 2006, at .m., local time, at for the following purposes:

1. To consider and vote upon a proposal to approve the Agreement and Plan of Merger dated as of January 19, 2006, by and between First Community Corporation and DeKalb, and the transactions contemplated by that Agreement and Plan of Merger, pursuant to which DeKalb will merge with and into First Community, as more particularly described in the enclosed proxy statement/prospectus;
2. To consider and vote on a proposal to authorize the board of directors to adjourn the special meeting to allow time for further solicitation of proxies in the event there are insufficient votes present at the meeting, in person or by proxy, to approve the merger; and
3. To transact any other business as may properly be brought before the DeKalb special meeting or any adjournments or postponements of the DeKalb special meeting.

Only shareholders of record at the close of business on , 2006 will be entitled to vote to notice of, and to vote at, the meeting and any adjournments or postponements of the meeting.

Whether or not you plan to attend the special meeting in person, please complete, date, sign, and return the enclosed proxy card in the accompanying pre-addressed postage-page envelope as promptly as possible. Any DeKalb shareholder may revoke his or her proxy by following the instructions in the proxy statement/prospectus at any time before the proxy has been voted at the special meeting. Even if you have given your proxy, you may still vote in person if you attend the special meeting. Please do not send any stock certificates to us at this time.

We encourage you to vote on this very important matter. **The Board of Directors of DeKalb unanimously recommends that DeKalb shareholders vote "FOR" the proposals above.**

DeKalb shareholders are or may be entitled to assert dissenters' rights under Chapter 13 of the South Carolina Business Corporation Act of 1988. Your right to dissent is conditioned upon your compliance with the South Carolina statutes regarding dissenters' rights. The full text of these statutes is attached as Appendix B to the accompanying proxy statement/prospectus and a summary of the provisions can be found under the caption "The Merger—Rights of Dissenting DeKalb Shareholders."

By Order of the Board of Directors,

William C. Bochette, III
President and Chief Executive Officer

Camden, South Carolina

, 2006

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QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: Why is DeKalb merging with and into First Community?

A: DeKalb is merging with and into First Community because the boards of directors of both companies believe that the merger will provide shareholders of both companies with substantial benefits and will enable the combined company to better serve its customers. The products and markets of First Community and DeKalb are generally complementary, and the merger should place the combined company in a better position to take advantage of those markets.

Q: What am I being asked to vote on and how does the board recommend that I vote?

A: You are being asked to vote FOR the approval of the Agreement and Plan of Merger dated as of January 19, 2006, providing for the merger of DeKalb with and into First Community. The board of directors of DeKalb determined that the proposed merger is in the best interests of DeKalb's shareholders, approved the merger agreement, and recommends that you vote "FOR" the approval of the merger. In addition, you are being asked to grant authority to the board of directors to adjourn the special meeting to allow time for further solicitation of proxies in the event there are insufficient votes present at the special meeting, in person or by proxy, to approve the merger.

Q: What will I receive in the merger?

A: In the merger, each share of DeKalb common stock will be converted into the right to receive \$3.875 in cash and 0.60705 shares of First Community common stock. In addition, each outstanding DeKalb stock option will be converted into an option to purchase 0.8094 shares of First Community common stock. The per share exercise price under each option will be adjusted by dividing the per share exercise price by 0.8094. All outstanding options will be exercisable for the same period and will otherwise have the same terms and conditions applicable to the DeKalb options that they replace.

Q: Can I elect the type of consideration that I will receive in the merger?

A: No. Each DeKalb shareholder will receive cash and shares of First Community common stock as described above.

Q: Will DeKalb shareholders be taxed on the cash and First Community common stock that they receive in exchange for their DeKalb shares?

A: We expect the merger to qualify as a reorganization for United States Federal income tax purposes. If the merger qualifies as a reorganization for United States Federal income tax purposes, DeKalb shareholders will not recognize any gain or loss to the extent DeKalb shareholders receive First Community common stock in exchange for their DeKalb shares. However, DeKalb shareholders will recognize capital gain, but not loss, to the extent of the amount of cash received. We recommend that DeKalb shareholders carefully read the complete explanation of the material United States federal income tax consequences of the merger beginning on page , and that DeKalb shareholders consult their own tax advisors for a full understanding of the tax consequences of their participation in the merger.

Q: What should I do now?

A: After you have carefully read this document, please indicate on your proxy card how you want to vote, and then date, sign, and mail your proxy card in the enclosed envelope as soon as possible so that your shares will be represented at the meeting. If you date, sign, and send in a proxy card but do not indicate how you want to vote, your proxy will be voted in favor of the merger proposal.

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Q: Why is my vote important?

A: The merger proposal must be approved by holders of at least two-thirds of the outstanding shares of DeKalb entitled to vote at the special meeting. Accordingly, if a DeKalb shareholder fails to vote on the merger, it will have the same effect as a vote against the merger proposal.

Q: If my shares are held in “street name” by my broker, will my broker vote my shares for me?

A: Your broker will vote your shares on the merger proposal only if you provide instructions on how to vote. You should instruct your broker how to vote your shares following the directions your broker provides. Failure to instruct your broker how to vote your shares will be the equivalent of voting against the merger proposal.

Q: Can I change my vote after I have submitted my proxy?

A: Yes. There are three ways you can change your vote. First, you may send a written notice to the person to whom you submitted your proxy stating that you would like to revoke your proxy. Second, you may complete and submit a later-dated proxy with new voting instructions. The latest vote actually received by DeKalb prior to the special meeting will be your vote. Any earlier votes will be revoked. Third, you may attend the special meeting and vote in person. Any earlier votes will be revoked. Simply attending the special meeting without voting, however, will not revoke your proxy. If you have instructed a broker to vote your shares, you must follow the directions you will receive from your broker to change or revoke your proxy.

Q: Do I have the right to dissent and obtain the fair value for my shares?

A: Yes. If the merger is completed, you will have the right to dissent and receive the “fair value” of your shares in cash, but you must follow carefully the requirements of the South Carolina statutes which are attached as Appendix B to this proxy statement/prospectus, and should consult with your own legal counsel. For a description of these requirements, see “The Merger—Rights of Dissenting DeKalb Shareholders.”

Q: Should I send in my stock certificates now?

A: No. You should not send in your stock certificates at this time. Promptly after the effective time of the merger, you will receive transmittal materials with instructions for surrendering your DeKalb shares. *You should follow the instructions in the post-closing letter of transmittal regarding how and when to surrender your stock certificates.*

Q: When do you expect to complete the merger?

A: We presently expect to complete the merger in the late second or early third quarter of 2006. However, we cannot assure you when or if the merger will occur. We must first obtain the approval of DeKalb shareholders at the special meeting and the necessary regulatory approvals.

Q: Whom should I call with questions about the merger?

A: DeKalb shareholders may contact William C. Bochette, III, president and chief executive officer of DeKalb, at (803) 432-7575. You can also find more information about DeKalb and First Community from various sources described under “Additional Information” and “Where You Can Find More Information” of this proxy statement/prospectus.

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SUMMARY

This summary highlights selected information from this proxy statement/prospectus. It may not contain all of the information that is important to you. To better understand the merger and its potential impact on you, we urge you to read this entire document carefully, including the exhibits and enclosures. Each item in this summary includes a page reference directing you to a more complete discussion of the item.

The Companies (page)

First Community Corporation
5455 Sunset Blvd.
Lexington, South Carolina 29072
Attention: Michael C. Crapps, President and Chief Executive Officer
Telephone: (803) 951-2265

First Community is a South Carolina corporation and is registered as a bank holding company with the Federal Reserve Board. First Community engages in a general banking business through its subsidiary, First Community Bank, N.A., a national banking association which commenced operations in August 1995. First Community's executive office is in Lexington, South Carolina. First Community Bank operates 11 full-service offices located in Lexington (two), Forest Acres, Irmo, Cayce-West Columbia, Gilbert, Chapin, Northeast Columbia, Prosperity, and Newberry (two).

DeKalb Bankshares, Inc.
631 West DeKalb Street
Camden, South Carolina 29020
Telephone: (803) 432-7575

DeKalb is a South Carolina corporation and is registered as a bank holding company with the Federal Reserve Board. DeKalb engages in a general banking business through its subsidiary, Bank of Camden, a South Carolina chartered commercial bank which commenced operations in February 2001. DeKalb's executive office is in Camden, South Carolina. Bank of Camden operates one banking office located in Camden, South Carolina.

The Merger (page)

The merger agreement is attached as Appendix A to this document. You should read the merger agreement because it is the legal document that governs the merger. The merger agreement provides for the merger of DeKalb with and into First Community. In addition, DeKalb's wholly owned subsidiary, the Bank of Camden, will be merged with and into First Community's wholly owned subsidiary, First Community Bank, N.A. Upon the closing of the merger, each share of DeKalb common stock will be converted into the right to receive \$3.875 in cash and 0.60705 shares of First Community common stock. In addition, each outstanding DeKalb stock option will be converted into an option to purchase 0.8094 shares of First Community common stock. The per share exercise price under each option will be adjusted by dividing the per share exercise price by 0.8094. All outstanding options will be exercisable for the same period and will otherwise have the same terms and conditions applicable to the DeKalb options that they replace.

Reasons for the Merger (page)

In reaching its decision to adopt and approve the merger agreement and recommend the merger to its shareholders, the DeKalb board of directors consulted with DeKalb management, as well as its legal and financial advisors, and considered a number of factors, including:

- A review of DeKalb's current business, operations, earnings, and financial condition and reasonable expectations of future performance and operations;
- The terms of the First Community's offer, including both the amount and nature of the consideration proposed to be paid in comparison to other similar transactions occurring in the recent past within South Carolina;

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- The recent market performance of First Community common stock, as well as the recent earnings performance and dividend payment history of First Community;
- The belief of the DeKalb board of directors that the terms of the agreement and plan of merger are attractive in that the agreement and plan of merger allow DeKalb's shareholders to become shareholders in First Community and receive a substantial cash payment;
- The difficulty of remaining independent in close proximity to the Columbia market and risks of de novo branching into the Columbia market versus the benefits of combining with an institution with a significant Columbia market presence;
 - The alternatives to the merger, including remaining an independent institution;
 - The competitive and regulatory environment for financial institutions generally;
 - The wide range of banking products and services First Community offers to its customers;
 - The impact of the proposed merger on DeKalb's employees and the Camden community;
- The belief of DeKalb's board of directors, based upon analysis of the anticipated financial effects of the merger, that upon consummation of the merger, First Community and its banking subsidiaries would remain well-capitalized institutions, the financial positions of which would be in excess of all applicable regulatory capital requirements;
- The Orr Group, LLC's opinion that the consideration DeKalb shareholders will receive as a result of the merger is fair from a financial point of view;
- The belief of DeKalb's board of directors that, in light of the reasons discussed above, First Community was an attractive choice as a long-term affiliation partner of DeKalb; and
- The expectation that the merger will generally be a tax-free transaction to DeKalb shareholders with respect to the First Community common stock received by virtue of the merger. See "Federal Income Tax Consequences."

In addition, DeKalb's board knew and considered the financial interests of certain DeKalb directors and executives when it approved the merger agreement. These financial interests are addressed in greater detail under the heading "The Merger - Interests of Directors and Officers of DeKalb that Differ from Your Interests."

Regulatory Approvals (page)

We cannot complete our merger unless we obtain the approval of the Board of Governors of the Federal Reserve System and the South Carolina State Board of Financial Institutions. As of the date of this document, we have not yet received the required regulatory approvals. Although we expect to obtain the necessary approvals in a timely manner, we cannot be certain when, or if, they will be received.

DeKalb Shareholders' Meeting (page)

DeKalb will hold its shareholders' special meeting on , 2006, at .m., local time, at . At the special meeting, DeKalb shareholders will be asked to vote to approve the merger proposal and the proposal to authorize the board of directors to adjourn the special meeting to allow time for further solicitation of proxies in the event there are insufficient votes at the special meeting, in person or by proxy, to approve the merger proposal.

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DeKalb Shareholders' Meeting Record Date and Voting (page)

If you owned shares of DeKalb at the close of business on , 2006, the record date, you are entitled to vote on the merger proposal, as well as any other matters considered at the meeting. On the record date, there were [] shares of DeKalb stock outstanding. You will have one vote at the meeting for each share of DeKalb stock you owned on the record date. The affirmative vote of the holders of at least two-thirds of DeKalb outstanding shares of common stock is required to approve the merger proposal. As of , 2006, DeKalb's current directors, executive officers, and their affiliates beneficially owned approximately % of the outstanding shares of DeKalb common stock. Each of DeKalb's directors and executive officers has agreed, subject to several conditions, to vote his or her shares of DeKalb common stock in favor of the merger proposal.

The Board of Directors of DeKalb Recommends Shareholder Approval (page)

The board of directors of DeKalb has approved the merger proposal, believes that the merger proposal is in the best interest of DeKalb and its shareholders, and recommends that the shareholders vote **"FOR"** approval of the merger proposal.

The Financial Advisor for DeKalb Believes the Merger Proposal Consideration is Fair to DeKalb Shareholders (page)

The Orr Group, LLC has served as financial advisor to DeKalb in connection with the merger proposal and has given an opinion to the DeKalb board of directors that, as of January 17, 2006, the date the DeKalb board of directors voted on the merger proposal, the consideration First Community will pay for the DeKalb common stock is fair to DeKalb shareholders from a financial point of view. A copy of the opinion delivered by The Orr Group, LLC is attached to this proxy statement/prospectus as Appendix C. DeKalb shareholders should read the opinion completely to understand the assumptions made, matters considered, and limitations of the review undertaken by The Orr Group, LLC in providing its opinion.

Interests of Directors and Officers of DeKalb that Differ from Your Interests (page)

When considering the recommendations of the DeKalb board of directors, you should be aware that some directors and officers have interests in the merger proposal that differ from the interests of other shareholders, including the following:

- Following the merger, one current DeKalb director, who has not yet been selected, will be appointed to the board of directors of First Community;
- Following the merger, seven current DeKalb directors will be appointed to an advisory board of First Community Bank and will be paid advisory fees to these individuals for these services;
- Following the merger, William C. Bochette, III will serve as a senior vice president of First Community Bank. In addition to an annual salary of \$150,000 and benefits, he will also receive a lump sum payment of \$400,000 in connection with the termination of his existing employment agreement with DeKalb;
- Following the merger, First Community will generally indemnify and provide liability insurance for up to three years following the merger to the present directors and officers of DeKalb, subject to certain exceptions.

Each board member was aware of these and other interests and considered them before approving and adopting the merger proposal.

Federal Income Tax Consequences (page)

We have structured the merger so that it will be considered a reorganization for United States federal income tax purposes. If the merger is a reorganization for United States federal income tax purposes, DeKalb

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shareholders generally will not recognize any gain or loss on the exchange of shares of DeKalb common stock for shares of First Community common stock. However, DeKalb shareholders will recognize gain, but not loss, for federal income tax purposes, to the extent of the cash they receive in the exchange. Such gain will be a capital gain, provided that such shares were held as capital assets of the DeKalb shareholder at the effective time of the merger. Determining the actual tax consequences of the merger to a DeKalb shareholder may be complex. These tax consequences will depend on each shareholder's specific situation and on factors not within our control. DeKalb shareholders should consult their own tax advisors for a full understanding of the tax consequences of their participation in the merger.

Comparative Rights of Shareholders (page)

The rights of DeKalb shareholders are currently governed by South Carolina corporate law and DeKalb's articles of incorporation and bylaws. The rights of First Community shareholders are currently governed by South Carolina corporate law and First Community's articles of incorporation and bylaws. Upon consummation of the merger, the shareholders of DeKalb will become shareholders of First Community and the articles of incorporation and bylaws of First Community will govern their rights. First Community's articles of incorporation and bylaws differ somewhat from those of DeKalb.

Termination of the Merger Agreement (page)

Notwithstanding the approval of the merger proposal by DeKalb shareholders, DeKalb and First Community can mutually agree at any time to terminate the merger agreement before completing the merger.

Either DeKalb or First Community can also terminate the merger agreement:

- If the other party materially violates any of its representations or warranties under the merger agreement and fails to cure the violation;
- If required regulatory approval is denied by final nonappealable action of such regulatory authority or if any action taken by such authority is not appealed within the time limit for appeal;
- If any law or order permanently restraining, enjoining, or otherwise prohibiting the consummation of the merger shall have become final and nonappealable;

· If DeKalb shareholder approval is not obtained at the special meeting; or

· If we do not complete the merger by October 31, 2006.

First Community can also terminate the merger agreement, provided that it is not in material breach of any representation, warranty, or covenant, or other agreement in the merger agreement, and the DeKalb shareholders have not approved the merger:

- If the DeKalb board of directors fails to reaffirm its approval upon First Community's request for such reaffirmation of the merger or if the DeKalb board of directors resolves not to reaffirm the merger;
- If the DeKalb board of directors withdraws, qualifies, modifies, or proposes publicly to withdraw, qualify, or modify, in a manner adverse to First Community, its recommendation that the shareholders approve the merger;
- If the DeKalb board of directors affirms, recommends, or authorizes entering into any acquisition transaction other than the merger or, within five business days after commencement of any tender or exchange offer for any shares of

its common stock, the DeKalb board of directors makes any recommendation other than against such tender or exchange offer; or

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- If the DeKalb board of directors negotiates or authorizes the conduct of negotiations (and five business days have elapsed without such negotiations being discontinued) with a third party regarding an acquisition proposal other than the merger.

First Community may also terminate the merger agreement if at any time during the three business day period commencing on the Determination Date (as defined in the merger agreement) the final FCCO Stock Price (as defined in the merger agreement) is greater than \$22.98. Within three business days of receiving First Community's notice of termination, DeKalb will have the option of decreasing the per share purchase price to be received by DeKalb shareholders so that it would equal \$22.98.

DeKalb can terminate the merger agreement, provided that it is not in material breach of any representation, warranty, or covenant, or other agreement in the merger agreement, if, prior to the adoption of the merger agreement by the shareholders at the special meeting, the DeKalb board of directors has (x) withdrawn or modified or changed its recommendation or approval of the merger agreement in a manner adverse to First Community in order to approve and permit DeKalb to accept a superior proposal and (y) determined, after consultation with and the receipt of advice from outside legal counsel to DeKalb, that the failure to take such action would be likely to result in a breach of the board of directors' fiduciary duties under applicable law.

DeKalb may also terminate the Agreement if at any time during the three business day period commencing on the Determination Date (as defined in the merger agreement) the final FCCO Stock Price (as defined in the merger agreement) is greater than \$15.32. Within three business days of receiving DeKalb's notice of termination, First Community will have the option of increasing the per share purchase price to be received by DeKalb shareholders so that it would equal \$15.32.

DeKalb Must Pay First Community a Termination Fee Under Certain Circumstances (page)

The merger agreement provides for the reimbursement of First Community's out-of-pocket expenses, not to exceed \$150,000, if First Community terminates the merger agreement because:

- the DeKalb board of directors fails to reaffirm its approval upon First Community's request for such reaffirmation of the merger or the DeKalb board of directors resolves not to reaffirm the merger;
- the DeKalb board of directors fails to include in the proxy statement its recommendation, without modification or qualification, that the shareholders approve the merger or the DeKalb board of directors withdraws, qualifies, modifies, or proposes publicly to withdraw, qualify, or modify, in a manner adverse to First Community, the recommendation that the shareholders approve the merger;
- the DeKalb board of directors affirms, recommends, or authorizes entering into any acquisition transaction other than the merger or, within five business days after commencement of any tender or exchange offer for any shares of its common stock, the DeKalb board of directors makes any recommendation other than against acceptance of such tender or exchange offer; or
- the DeKalb board of directors negotiates or authorizes the conduct of negotiations (and five business days have elapsed without such negotiations being discontinued) with a third party regarding an acquisition proposal other than the merger.

If within 12 months after such termination DeKalb consummates another acquisition transaction (as defined in the merger agreement), DeKalb must pay an additional \$500,000 termination fee (less the amount paid for First

Community's out-of- pocket expenses).

If the board of directors of DeKalb determines, after consultation with legal counsel, that in light of a superior proposal (as defined in the merger agreement), it is necessary to terminate the agreement to comply with its fiduciary duties, and within 12 months of such termination an acquisition transaction has been announced or an acquisition agreement has been entered into by DeKalb, DeKalb must pay First Community's out-of- pocket expenses as described above. If within 12 months after such termination, DeKalb consummates the acquisition transaction, DeKalb must pay the additional termination fee as described above.

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Finally, if the merger agreement is terminated following the commencement of any tender or exchange offer for more than 50% of the shares of DeKalb and within 12 months of such termination an acquisition transaction has occurred involving the tender offeror or its affiliates and DeKalb, then DeKalb must reimburse First Community's out-of-pocket expenses and pay the additional termination as described above.

Dissenters' Rights (page)

South Carolina law permits DeKalb shareholders to dissent from the approval of the merger proposal and to have the fair value of their DeKalb shares paid to them in cash. To do this, DeKalb shareholders must follow specific procedures, including filing a written notice with DeKalb **prior to the shareholder vote on the merger proposal**. If you follow the required procedures, your only right will be to receive the fair value of your common stock in cash. Copies of the applicable South Carolina statutes are attached to this document as Appendix B.

The Merger is Expected to Occur in the Late Second or Early Third Quarter of 2006 (page)

The merger will occur shortly after all of the conditions to its completion have been satisfied or waived. Currently, we anticipate that the merger will occur in the late second or early third quarter of 2006. However, we cannot assure you when or if the merger will occur. We must first obtain the approval of the DeKalb shareholders at the special meeting and all the necessary regulatory approvals.

Accounting Treatment (page)

The merger will be accounted for using the purchase method of accounting, with First Community being treated as the acquiring entity for accounting purposes. Under the purchase method of accounting, the assets and liabilities of DeKalb as of the effective time of the merger will be recorded at their respective fair values and added to those of First Community.

Completion of the Merger is Subject to Certain Conditions (page)

Completion of the merger is subject to a number of conditions, including the approval of the merger proposal by DeKalb shareholders and the receipt of all the regulatory consents and approvals that are necessary to permit the completion of the merger. Certain conditions to the merger may be waived by First Community or DeKalb, as applicable.

Comparative Market Value of Securities (page)

The following table sets forth the closing price per share of First Community common stock and the closing price per share of DeKalb on December 8, 2005 (the last business day preceding the public announcement of the proposed merger) and , 2006 (the most recent practicable trading date prior to the mailing the proxy statement/prospectus). The table also presents the equivalent market value per share of DeKalb common stock assuming that the consideration for the transaction is 0.60705 of a share of First Community common stock and \$3.875 in cash for each share outstanding of DeKalb common stock.

	First Community <u>Common Stock</u>	DeKalb <u>Common Stock</u>	Equivalent Price Per Share of <u>DeKalb Common Stock</u> ⁽²⁾
December 8, 2005 , 2006	\$19.25	\$12.00 ⁽¹⁾	\$15.56

- (1) The price of the last known sale preceding December 8, 2005.
- (2) The equivalent prices per share of DeKalb common stock have been calculated by multiplying the closing price per share of First Community common stock on each of the two dates by the exchange ratio of 0.60705 and adding \$3.875.

Because the exchange ratio is fixed and because the market price of First Community common stock is subject to fluctuation, the market value of the shares of First Community common stock that you may

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receive in the merger may increase or decrease prior to and following the merger. You are urged to obtain current market quotations for First Community common stock.

Comparative Per Share Data

The following table shows income per common share, dividends per share, book value per share, and similar information as if the merger had occurred on the dates indicated (which are referred to as "pro forma" information). In presenting the comparative pro forma information for certain time periods, it was assumed that First Community and DeKalb had been merged throughout those periods and made certain other assumptions. The ability of First Community to pay dividends will be completely dependent upon the amount of dividends its subsidiary, First Community Bank, is permitted to pay to First Community. The ability of the bank to pay dividends is restricted under applicable law and regulations. For a description of those restrictions, see the section entitled "Description of First Community's Capital Stock - Dividends Rights."

The information listed as "DeKalb Pro Forma Equivalent" was obtained by multiplying the pro forma amounts by an exchange ratio of 0.60705. First Community and DeKalb also anticipate that the combined company will derive financial benefits from the merger that include reduced operating expenses and the opportunity to earn more revenue. The pro forma information, while helpful in illustrating the financial characteristics of the new company under one set of assumptions, does not reflect these benefits and, accordingly, does not attempt to predict or suggest future results. The pro forma information also does not necessarily reflect what the historical results of the combined company would have been had the companies been combined during these periods.

For the Twelve Months Ended December 31, 2005

	DeKalb Historical	First Community Historical	Pro Forma Combined	DeKalb Pro Forma Equivalent
Net Income per share, basic	\$ 0.17	\$ 1.09	\$ 1.00	\$ 0.61
Net Income per share, diluted	\$ 0.17	\$ 1.04	\$ 0.95	\$ 0.58
Dividends declared per share	\$ 0.00	\$ 0.20	\$ 0.20	\$ 0.12
Book value per share	\$ 8.45	\$ 17.82	\$ 17.98	\$ 10.91

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SELECTED FINANCIAL DATA OF FIRST COMMUNITY

The following selected financial data for the years ended December 31, 2001 through 2005 is derived from the financial statements and other data of First Community. The selected financial data should be read in conjunction with the financial statements of First Community, including the accompanying notes, included elsewhere herein.

Selected Financial Data

(Amounts in thousands, except per share data)

	Year ended December 31,				
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Operations Statement Data:					
Net interest income	\$ 12,994	\$ 9,596	\$ 7,648	\$ 7,044	\$ 5,523
Provision for loan losses	329	245	167	677	407
Non-interest income	3,298	1,774	1,440	1,232	938
Non-interest expense	11,838	7,977	6,158	5,377	4,381
Income taxes	1,032	963	965	758	569
Net income	\$ 3,093	\$ 2,185	\$ 1,797	\$ 1,464	\$ 1,104
Per Share Data:					
Net income diluted (1)	\$ 1.04	\$ 1.09	\$ 1.08	\$ 0.90	\$ \$ 0.68
Cash dividends	.20	0.20	0.19	0.12	-
Book value at period end (1)	17.82	18.09	12.21	11.61	10.56
Tangible book value at period end (1)	8.34	8.19	11.74	11.02	9.85
Balance Sheet Data:					
Total assets	\$ 467,455	\$ 455,706	\$ 215,029	\$ 195,201	\$ 156,555
Loans, net	221,668	184,007	119,304	98,466	86,518
Securities	176,372	196,026	58,954	69,785	46,366
Deposits	349,604	337,064	185,259	168,062	134,402
Shareholders' equity	50,767	50,463	19,509	18,439	16,776
Average shares outstanding (1)	2,847	1,903	1,590	1,588	1,585
Performance Ratios:					
Return on average assets	0.67%	0.76%	0.88%	0.82%	0.77%
Return on average equity	6.12%	8.00%	9.49%	8.35%	8.00%
Return on average tangible equity	13.33%	10.39%	9.94%	8.87%	7.40%
Net interest margin	3.30%	3.72%	4.02%	4.26%	4.19%
Dividend payout ratio	18.35%	17.39%	16.81%	13.04%	N/A
Asset Quality Ratios:					
Allowance for loan losses to period end total loans	1.22%	1.48%	1.41%	1.53%	1.14%
Allowance for loan losses to non-performing assets	487.48%	2,291.34%	2,123.60%	1,059.24%	247.00%
Non-performing assets to total assets	.12%	.03%	.04%	.07%	0.26%
Net charge-offs (recoveries) to average loans	.19%	.13%	(.01%)	.16%	0.35%
Capital and Liquidity Ratios:					
Tier 1 risk-based capital	13.24%	12.91%	13.21%	14.03%	14.90%
Total risk-based capital	14.12%	13.86%	14.42%	15.28%	15.90%
Leverage ratio	9.29%	8.51%	8.87%	8.77%	10.00%
Equity to assets ratio	10.86%	9.60%	9.07%	9.45%	10.72%

Average loans to average deposits	59.81%	61.00%	63.33%	60.71%	68.66%
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(1) Adjusted for the June 30, 2001 5% stock dividend and the February 28, 2002 5-for-4 stock split.

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SELECTED FINANCIAL DATA OF DEKALB

The following selected financial data for the years ended December 31, 2005, 2004 and 2003 is derived from the financial statements and other data of DeKalb. The selected financial data should be read in conjunction with the financial statements of DeKalb, including the accompanying notes, included elsewhere herein.

(Dollars in thousands)

	2005	2004	2003
Income Statement Data:			
Interest income	\$ 2,436	\$ 1,977	\$ 1,523
Interest expense	936	576	429
Net interest income	1,500	1,401	1,094
Provision for loan losses	58	109	95
Net interest income after provision for loan losses	1,442	1,292	999
Noninterest income	393	224	347
Noninterest expense	1,649	1,376	1,265
Income before income taxes	186	140	81
Income tax expense	80	52	31
Net income	\$ 106	\$ 88	\$ 50
Balance Sheet Data:			
Assets	\$ 46,326	\$ 42,560	\$ 33,035
Earning assets	44,025	40,262	31,058
Securities ⁽¹⁾	11,032	9,594	7,159
Loans ⁽²⁾	30,532	26,643	21,504
Allowance for loan losses	305	266	305
Deposits	30,301	28,310	23,847
Interest-bearing liabilities	37,921	34,421	25,532
Shareholders' equity	5,158	5,192	5,112
Per-Share Data:			
Earnings per-share	\$ 0.17	\$ 0.14	\$ 0.08
Book value (period end)	8.45	8.51	8.39
Tangible book value (period end)	8.45	8.51	8.39
Selected Ratios:			
Return on average assets	0.24%	0.23%	0.17%
Return on average equity	2.42%	1.70%	0.98%
Net interest margin ⁽³⁾	3.60%	3.72%	4.22%
Efficiency ⁽⁴⁾	87.11%	84.68%	90.38%
Average equity to average assets	11.85%	13.41%	17.88

(1) All securities are available for sale and are stated at fair value.

(2) Loans are stated at gross amounts before allowance for loan losses.

(3) Net interest income divided by average earning assets.

(4) Noninterest expense divided by the sum of net interest income and noninterest income, net of gains and losses on sales of assets.

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RISK FACTORS

If the merger is consummated, you will receive shares of First Community common stock in exchange for your shares of DeKalb common stock. An investment in First Community common stock is subject to a number of risks and uncertainties, many of which also apply to your existing investment in DeKalb common stock. Risks and uncertainties relating to general economic conditions are not summarized below. Those risks, among others, are highlighted on page under the heading “A Warning About Forward-Looking Statements.”

However, there are a number of other risks and uncertainties relating to First Community and your decision on the merger proposal that you should consider in addition to the risks and uncertainties associated with financial institutions generally. Many of these risks and uncertainties could affect First Community’s future financial results and may cause First Community’s future earnings and financial condition to be less favorable than First Community’s expectations. This section summarizes those risks.

You will experience a substantial reduction in percentage ownership and voting power with respect to your shares as a result of the merger.

DeKalb shareholders will experience a substantial reduction in their respective percentage ownership interests and effective voting power through their stock ownership in First Community relative to their percentage ownership interest in DeKalb prior to the merger. If the merger is consummated, current DeKalb shareholders will own approximately % of First Community outstanding common stock, on a fully diluted basis, based on First Community outstanding common stock as of , 2006. Accordingly, even if they were to vote as a group, current DeKalb shareholders could be outvoted by other First Community shareholders.

Because the market price of First Community common stock may fluctuate, DeKalb shareholders cannot be sure of the market value of the First Community common stock that they may receive in the merger.

Upon the closing of the merger, each share of DeKalb common stock will automatically be converted into the right to receive \$3.875 in cash and 0.60705 shares of First Community common stock. Changes in the price of First Community common stock from the date of the merger agreement and from the date of this proxy statement/prospectus may affect the market value of First Community common stock that DeKalb shareholders will receive in the merger. Stock price changes may result from a variety of factors, including general market and economic conditions, changes in First Community's businesses, operations and prospects, and regulatory considerations. Many of these factors are beyond First Community's control. In addition, there will be a time period between the completion of the merger and the time when DeKalb shareholders actually receive certificates evidencing First Community common stock. Until stock certificates are received, DeKalb shareholders will not be able to sell their First Community shares in the open market and, thus, will not be able to avoid losses resulting from any decline in the trading price of First Community common stock during this period.

The price of First Community common stock might decrease after the merger.

Following the merger, holders of DeKalb common stock will become shareholders of First Community. First Community common stock could decline in value after the merger. For example, during the 12 month period ending on , 2006 (the most recent practicable date prior to the printing of this proxy statement/prospectus), the closing price of First Community common stock varied from a low of \$ to a high of \$ and ended that period at \$. The market value of First Community common stock fluctuates based upon general market economic conditions, First Community's business and prospects, and other factors.

First Community’s stock trading volume has been low compared with larger bank holding companies.

The trading volume in First Community's common stock on the NASDAQ Capital Market has been comparable to other similarly sized bank holding companies since trading on the NASDAQ Capital Market began in January 2003. Nevertheless, this trading volume does not compare with more seasoned companies listed on the NASDAQ Capital Market or other stock exchanges. Thus, the market in First Community's common stock is somewhat limited in scope relative to some other companies. In addition, First Community can provide no assurance that a more active and liquid trading market for its stock will develop after the merger is consummated.

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There can be no assurance that First Community will continue to pay dividends.

Although First Community is currently paying a dividend of \$0.05 per share per quarter and expects to pay comparable dividends for the foreseeable future, there can be no assurance that First Community will continue to pay a dividend. The future dividend policy of First Community is subject to the discretion of the board of directors and will depend upon a number of factors, including future earnings, financial condition, capital and cash requirements, and general business conditions. In addition, the ability of First Community to pay dividends will be completely dependent upon the amount of dividends its subsidiary, First Community Bank, is permitted to pay to First Community. The ability of a bank to pay dividends is restricted under applicable law and regulations. For a description of those restrictions, see the section entitled “Description of First Community Common Stock - Dividends Rights.”

We cannot guarantee the consummation of the contemplated merger.

First Community and DeKalb will not be able to consummate the merger without the approval of certain state and federal regulatory agencies and the shareholders of DeKalb. Accordingly, we can give no assurances that those approvals will be obtained or that the acquisition will be completed.

We cannot predict the effect the acquisition will have on our operations if First Community does not successfully integrate the operations of DeKalb.

First Community’s ability to achieve fully the expected benefits of the merger depends on its successful integration of DeKalb. There is a risk that integrating DeKalb into First Community’s existing operations may take a greater amount of resources and time than we expect. Accordingly, there is a risk that the anticipated benefits may not be realized or that they may be less than we expect if we are unable to integrate in a timely manner, fail to realize cost savings from the merger, or disrupt customer relationships.

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A WARNING ABOUT FORWARD-LOOKING STATEMENTS

This proxy statement/prospectus, including information included or incorporated by reference in this document, contains forward-looking statements with respect to the financial condition, results of operations, plans, objectives, future performance, and business of each of First Community and DeKalb, as well as information relating to the merger. These statements are preceded by, followed by, or include the words "believes," "expects," "anticipates," or "estimates," or similar expressions. **Many possible events or factors could affect our future financial results and performance. This could cause our results or performance to differ materially from those expressed in our forward-looking statements. You should consider these important factors when you vote on the merger.** Factors that may cause actual results to differ materially from those contemplated by our forward-looking statements include the following:

- our operating costs after the merger may be greater than expected, and our cost savings from the merger may be less than expected, or we may be unable to obtain those cost savings as soon as expected;
- we may be unable to successfully integrate DeKalb or we may have more trouble integrating acquired businesses than we expected;
- we could lose our key personnel, including the DeKalb personnel we will employ as a result of the merger, or spend a greater amount of resources attracting, retaining, and motivating them than we have in the past;
- competition among depository and other financial institutions may increase significantly;
- changes in the interest rate environment may reduce operating margins;
- general economic conditions, either nationally or in South Carolina, may be less favorable than expected resulting in, among other things, a deterioration in credit quality and an increase in credit risk-related losses and expenses;
- loan losses may exceed the level of allowance for loan losses of the combined company;
- the rate of delinquencies and amount of charge-offs may be greater than expected;
- the rates of loan growth may not increase as expected; and
- legislative or regulatory changes may adversely affect our businesses.

We have based our forward-looking statements on our current expectations about future events. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee you that these expectations actually will be achieved. We are under no duty to update any of the forward-looking statements after the date of this proxy statement/prospectus to conform those statements to actual results. In evaluating these statements, you should consider various factors, including the risks outlined in the section entitled "Risk Factors," beginning on page . You should also consider the cautionary statements contained in First Community's filings with the Securities and Exchange Commission.

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THE SPECIAL MEETING

General

The DeKalb board of directors is providing this proxy statement/prospectus to you in connection with its solicitation of proxies for use at the special meeting of DeKalb shareholders and at any adjournments or postponements of the special meeting.

First Community is also providing this proxy statement/prospectus to you as a prospectus in connection with the offer and sale by First Community of shares of its common stock to shareholders of DeKalb in the merger.

Your vote is important. Please complete, date, and sign the enclosed proxy card and return it in the postage prepaid envelope provided. If your shares are held in "street name," you should instruct your broker how to vote by following the directions provided by your broker.

Meeting Date, Time, and Place and Record Date

DeKalb will hold the special meeting on , 2006, at .m, local time, at . At the special meeting (and any adjournment or postponement of the meeting), holders of DeKalb common stock will be asked to consider and vote upon a proposal to approve the merger agreement and a proposal to authorize the board of directors to adjourn the special meeting to allow for time for further solicitation of proxies in the event there are insufficient votes present at the special meeting, in person or by proxy, to approve the merger agreement. Only holders of DeKalb common stock of record at the close of business on , 2006, the record date, will be entitled to receive notice of and to vote at the special meeting. As of the record date, there were shares of DeKalb common stock outstanding and entitled to vote, with each such share entitled to one vote.

Matters to be Considered

At the special meeting, DeKalb shareholders will be asked to approve the Agreement and Plan of Merger, dated as of January 19, 2006, by and between DeKalb and First Community and to authorize the board of directors to adjourn the special meeting to allow time for further solicitation of proxies in the event there are insufficient votes present at the special meeting, in person or by proxy, to approve the Agreement and Plan of Merger. Under the merger agreement, DeKalb will merge with and into First Community and shares of DeKalb common stock will be converted into the right to receive \$3.875 in cash and 0.60705 shares of First Community common stock. DeKalb shareholders will also consider and vote on a proposal to authorize the board of directors to adjourn the special meeting to allow time for further solicitation of proxies in the event there are insufficient votes present at the meeting, in person or by proxy, to approve the merger. Finally, DeKalb shareholders may also be asked to consider any other business that properly comes before the special meeting. Each copy of this proxy statement/prospectus mailed to DeKalb shareholders is accompanied by a proxy card for use at the special meeting.

Vote Required

Approval of the merger proposal requires the affirmative vote of the holders of at least two-thirds of the issued and outstanding shares entitled to vote at the DeKalb special meeting. Approval of the proposal to authorize adjournment requires that the number of votes cast in favor of the proposal exceed the number of votes cast against the proposal. On the record date, there were approximately outstanding shares of DeKalb common stock, each of which is entitled to one vote at the special meeting. On that date, the directors and executive officers of DeKalb and their affiliates beneficially owned a total of approximately % of the outstanding shares of DeKalb common stock. Each of DeKalb's directors and executive officers has agreed, subject to several conditions, to vote his or her shares of DeKalb common stock in favor of the merger agreement. The presence, in person or by proxy, of shares of DeKalb common stock

representing a majority of DeKalb outstanding shares entitled to vote at the special meeting is necessary in order for there to be a quorum at the special meeting. A quorum must be present in order for the vote on the merger agreement and vote on the authorization to adjourn to occur. If there is no quorum present at the opening of the meeting, the special meeting may be adjourned by the vote of a majority of shares voting on the motion to adjourn.

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Voting of Proxies

Shares of common stock represented by properly executed proxies received at or prior to the DeKalb special meeting will be voted at the special meeting in the manner specified by the holders of such shares. Properly executed proxies which do not contain voting instructions will be voted **“FOR”** approval of the merger agreement and the proposal to authorize adjournment.

Any shareholder present in person or by proxy (including broker non-votes, which generally occur when a broker who holds shares in street name for a customer does not have the authority to vote on certain non-routine matters because its customer has not provided any voting instructions with respect to the matter) at the special meeting who abstains from voting will be counted for purposes of determining whether a quorum exists.

Because approval of the merger proposal requires the affirmative vote of the holders of at least two-thirds of all shares entitled to vote at the DeKalb special meeting, abstentions and broker non-votes will have the same effect as negative votes. Accordingly, the DeKalb board of directors urges its shareholders to complete, date, and sign the accompanying proxy card and return it promptly in the enclosed, postage-paid envelope.

Revocability of Proxies

The grant of a proxy on the enclosed proxy card does not preclude you from voting in person or otherwise revoking a proxy. There are three ways you can change your vote. First, you may send a written notice to the person to whom you submitted your proxy or to the secretary of DeKalb stating that you would like to revoke your proxy. Second, you may complete and submit a later dated proxy with new voting instructions. The latest vote actually received by DeKalb prior to the special meeting will be your vote. Any earlier votes will be revoked. Third, you may attend the special meeting and vote in person. Any earlier votes will be revoked. Simply attending the special meeting without voting, however, will not revoke your proxy. If you have instructed a broker to vote your shares, you must follow the directions you will receive from your broker to change or revoke your proxy.

Solicitation of Proxies

First Community and DeKalb will pay all of the costs of printing this proxy statement/prospectus and of soliciting proxies in connection with the special meeting. Solicitation of proxies may be made in person or by mail, telephone, or facsimile, or other form of communication by directors, officers, and employees of DeKalb who will not be specially compensated for such solicitation. Nominees, fiduciaries, and other custodians will be requested to forward solicitation materials to beneficial owners and to secure their voting instructions, if necessary, and will be reimbursed for the expenses incurred in sending proxy materials to beneficial owners.

No person is authorized to give any information or to make any representation not contained in this proxy statement/prospectus and, if given or made, such information or representation should not be relied upon as having been authorized by DeKalb, First Community, or any other person. The delivery of this proxy statement/prospectus does not, under any circumstances, create any implication that there has been no change in the business or affairs of DeKalb or First Community since the date of the proxy statement/prospectus.

Recommendation of the Board of Directors

The DeKalb board of directors has determined that the merger proposal and the transactions contemplated thereby and the authorization to adjourn are in the best interests of DeKalb and its shareholders. The members of the DeKalb board of directors unanimously recommend that the DeKalb shareholders vote at the special meeting to approve these proposals.

In the course of reaching its decision to approve the merger proposal and the transactions contemplated thereby, the DeKalb board of directors, among other things, consulted with its legal advisors, Haynsworth Sinkler Boyd, P.A., regarding the legal terms of the merger agreement and with its financial advisor, The Orr Group, LLC, as to the fairness, from a financial point of view, of the consideration to be received by the holders of DeKalb common stock in the merger. For a discussion of the factors considered by the DeKalb board of directors in

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reaching its conclusion, see “The Merger—DeKalb’s Reasons for the Merger” and “The Merger—Opinion of DeKalb’s Financial Advisor.”

DeKalb shareholders should note that DeKalb directors and officers have certain interests in, and may derive benefits as a result of, the merger that are in addition to their interests as shareholders of DeKalb. See “The Merger—Interests of Directors and Officers of DeKalb that Differ from Your Interests.”

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PROPOSAL NO. 1 -- THE MERGER

The descriptions of the terms and conditions of the merger proposal, the merger agreement, and any related documents in this proxy statement/prospectus are qualified in their entirety by reference to the copy of the merger agreement attached as Appendix A to this proxy statement/prospectus, to the registration statement, of which this proxy statement/prospectus is a part, and to the exhibits to the registration statement.

Structure of the Merger

The merger agreement provides for the merger of DeKalb with and into First Community. First Community will be the surviving corporation in the merger. Bank of Camden, a wholly owned subsidiary of DeKalb, will merge with and into First Community Bank, a wholly owned subsidiary of First Community. Each share of DeKalb common stock issued and outstanding at the effective time of the merger will be converted into the right to receive \$3.875 in cash and 0.60705 shares of First Community common stock. Upon completion of the merger, William C. Bochette, III, president and chief executive officer of DeKalb, will serve as a senior vice president of First Community Bank. In addition, First Community will appoint one current DeKalb director that is mutually acceptable to both parties to the board of directors of First Community. First Community will also appoint seven current DeKalb directors to an advisory board of First Community Bank.

Background of the Merger

From time to time DeKalb's chief executive officer has received casual expressions of possible interest in combining forces or working together at some indeterminate further time from senior officials of a number of financial institutions. In October 2003, First Community's chief executive officer, Mr. Crapps, contacted Mr. Bochette, DeKalb's new chief executive officer for a meeting at which they discussed how First Community could provide assistance to DeKalb. In 2004, management of DeKalb realized that the additional requirements being imposed on public companies pursuant to the Sarbanes-Oxley Act would significantly increase the costs, both in management time and money, of operating a public company and that those costs would be difficult to bear for a company the size of DeKalb. Management began to consider the options that could be available including supporting efforts to secure regulatory relief for smaller companies, "going private," seeking a merger transaction or continuing to operate as an independent community bank in the higher cost environment. Management concluded that going private was not an attractive option and that it should explore the possibility of a merger transaction while supporting relief efforts and planning to continue independent operations. In late 2004, DeKalb was contacted by an out-of-area financial institution interested in exploring ways to enter the greater Columbia area market and some very general discussions were held.

In early 2005, Mr. Bochette contacted Mr. Crapps and arranged a meeting with Mr. Crapps on February 4, 2005. At that meeting Mr. Bochette and Mr. Crapps discussed ways in which First Community might provide assistance to DeKalb by buying loan participations, extending credit, and otherwise. They also discussed, in general terms, that First Community might have an interest in acquiring DeKalb in the future.

In March 2005, the SEC delayed the implementation of some of the more burdensome Sarbanes-Oxley provisions but did not reduce the requirements. Mr. Bochette realized that the costs would rise in the future and began to analyze what DeKalb would need to do in order to produce the level of growth and earnings to be able to produce returns at the levels that were anticipated prior to the enactment of Sarbanes-Oxley.

In August 2005, Mr. Bochette met with representatives of a correspondent bank to discuss DeKalb's strategic planning issues, including peer group analysis, various growth strategies, and projected earnings over a five-year period as well as potential merger price premiums. Mr. Bochette considered that discussion in conjunction with the difficulties of achieving rapid growth in a market that was growing slowly compared to the nearby Columbia market and of

managing personnel costs in the face of the availability of numerous well paid similar positions in the Columbia market. He reached the conclusion that a merger with another institution already in the Columbia market would be more likely to produce favorable results for DeKalb shareholders than would be likely if DeKalb remained independent. Mr. Bochette then contacted another financial institution that he believed might have an interest in acquiring DeKalb. Based on that contact, Mr. Bochette concluded that the institution had some interest but would not be interested in a transaction with DeKalb in the near term.

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In September 2005, Mr. Bochette and the executive committee of DeKalb's board of directors met and reviewed the situation. The committee agreed that a merger transaction with an appropriate merger partner might be in the best interest of DeKalb's shareholders. Mr. Bochette advised the committee that he believed that First Community would be a desirable merger partner due to its size, office locations in the greater Columbia area, and the structure of its business if it would provide DeKalb shareholders with a reasonable merger premium. The committee authorized Mr. Bochette to pursue discussions with First Community and to engage an investment adviser, The Orr Group LLC, to assist with negotiations and the evaluation of alternatives.

Mr. Bochette arranged a meeting with Mr. Crapps on October 4, 2005 to discuss DeKalb's interest in pursuing a transaction and, at that meeting, Mr. Bochette and Mr. Crapps reviewed various elements of a possible transaction. On October 18, 2005, Mr. Crapps gave Mr. Bochette a preliminary outline of the terms of a possible transaction and expressed a desire to proceed with discussions.

On November 3, 2005, the DeKalb board of directors met with the financial adviser and discussed First Community's preliminary outline. The board voted to pursue negotiations with First Community to determine whether an acceptable agreement could be reached. Thereafter, Mr. Bochette and the investment adviser had numerous contacts with Mr. Crapps regarding various elements of the proposed transaction, especially the consideration to be received by DeKalb shareholders.

On November 29, 2005, First Community delivered a non-binding letter of intent to DeKalb describing the terms of a proposed transaction. The DeKalb board met on November 30, 2005 with its financial adviser and counsel to consider the letter of intent. The financial adviser presented an analysis of the proposed transaction and an analysis of the consideration that DeKalb shareholders might receive in a similar transaction with a number of other companies that had recently been active as acquirors or had publicly announced their interest in acquisitions and that the adviser believed might have an interest in DeKalb. After considering the interests of DeKalb's employees, the Camden community, and DeKalb's shareholders, the DeKalb board authorized Mr. Bochette to negotiate changes to the letter of intent to provide for its immediate public disclosure and to sign it on behalf of DeKalb.

After further discussions with Mr. Crapps and revisions to the letter of intent, it was signed by both parties and disclosed to the public on December 8, 2005. Shortly thereafter, the parties, with the assistance of counsel and, in the case of DeKalb, its financial adviser, negotiated the terms of a definitive agreement and plan of merger for presentation to and approval of the parties' respective boards of directors. The negotiations revealed numerous areas of disagreement and resulted in compromises by both sides to reach an agreement acceptable to both parties. During the course of the negotiations with First Community, DeKalb was not contacted by any other institution to propose DeKalb's being acquired by the other institution.

The DeKalb board of directors met on January 17, 2006 with counsel and its investment adviser to review the obligations of directors when considering a merger of the company, the proposed terms of the agreement and plan of merger, and an analysis of the fairness of the proposed transaction from a financial point of view to the shareholders of DeKalb. The board of directors then voted to approve the agreement and plan of merger and to recommend it to the shareholders of DeKalb for their approval and authorized Mr. Bochette to execute the agreement on behalf of DeKalb.

DeKalb's Reasons for the Merger

In reaching its determination that the merger and the merger agreement and plan of merger are fair to, and in the best interest of, DeKalb and its shareholders, DeKalb's board of directors consulted with its advisers and counsel, as well as with DeKalb's management, and considered a number of factors, including, without limitation, the following:

A review of DeKalb's current business, operations, earnings, and financial condition and reasonable expectations of future performance and operations;

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- The terms of the First Community's offer, including both the amount and nature of the consideration proposed to be paid in comparison to other similar transactions occurring in the recent past within South Carolina;
- The recent market performance of First Community common stock, as well as the recent earnings performance and dividend payment history of First Community;
- The belief of the DeKalb board of directors that the terms of the agreement and plan of merger are attractive in that the agreement and plan of merger allow DeKalb's shareholders to become shareholders in First Community and receive a substantial cash payment;
- The difficulty of remaining independent in close proximity to the Columbia market and risks of de novo branching into the Columbia market versus the benefits of combining with an institution with a significant Columbia market presence;
 - The alternatives to the merger, including remaining an independent institution;
 - The competitive and regulatory environment for financial institutions generally;
 - The wide range of banking products and services First Community offers to its customers;
 - The impact of the proposed merger on DeKalb's employees and the Camden community;
- The belief of DeKalb's board of directors, based upon analysis of the anticipated financial effects of the merger, that upon consummation of the merger, First Community and its banking subsidiaries would remain well-capitalized institutions, the financial positions of which would be in excess of all applicable regulatory capital requirements;
- The Orr Group, LLC's opinion that the consideration DeKalb shareholders will receive as a result of the merger is fair from a financial point of view;
- The belief of DeKalb's board of directors that, in light of the reasons discussed above, First Community was an attractive choice as a long-term affiliation partner of DeKalb; and
- The expectation that the merger will generally be a tax-free transaction to DeKalb shareholders with respect to the First Community common stock received by virtue of the merger. See "Federal Income Tax Consequences."

DeKalb's board of directors did not assign any specific or relative weight to the foregoing factors in their considerations

Opinion of DeKalb's Financial Advisor

DeKalb retained The Orr Group, LLC to render a written opinion to the board of directors of DeKalb as to the fairness, from a financial point of view, of the consideration (the "Merger Consideration") to be paid by First Community to the shareholders of DeKalb as set forth in the Agreement and Plan of Merger (the "Merger Agreement") dated January 19, 2006 with DeKalb.

The Orr Group, LLC is an investment banking firm that specializes in providing investment banking advisory services to financial institutions. The Orr Group, LLC has been involved in numerous bank related mergers and acquisitions. No limitations were imposed by DeKalb upon The Orr Group, LLC with respect to rendering its opinion.

On January 17, 2006, The Orr Group, LLC rendered its oral opinion to the board of directors of DeKalb, subsequently confirmed in writing, as to the fairness, from a financial point of view, of the Merger Consideration to

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be paid by First Community to the shareholders of DeKalb. The Orr Group, LLC's written opinion is attached as Appendix C hereto and should be read in its entirety with respect to the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by The Orr Group, LLC in connection with its opinion. DeKalb's shareholders are urged to read the opinion in its entirety.

The Orr Group, LLC's opinion to DeKalb's board of directors is directed only to the Merger Consideration as defined in the Merger Agreement dated January 19, 2006 as of this date and does not address the fairness, from a financial point of view, of any change in the Merger Consideration that may be agreed upon by DeKalb and First Community in the future. The Orr Group, LLC's opinion does not constitute a recommendation to any shareholder of DeKalb as to how such shareholder should vote at the DeKalb special meeting.

In arriving at its opinion, The Orr Group, LLC, among other things:

- (i) reviewed the Merger Agreement and certain related documents;
- (ii) reviewed the historical and current financial position and results of the operations of DeKalb and First Community;
- (iii) reviewed certain publicly available information concerning First Community including Annual Reports on Form 10-K for each of the years in the three year period ended December 31, 2004 and Quarterly Reports on Form 10-Q for the periods ending March 31, 2005, June 30, 2005, and September 30, 2005;
- (iv) reviewed certain publicly available information concerning DeKalb including Annual Reports on Form 10-K for each of the years in the three year period ended December 31, 2004 and Quarterly Reports on Form 10-Q for the periods ending March 31, 2005, June 30, 2005, and September 30, 2005;
- (v) reviewed certain available financial forecasts concerning the business and operations of DeKalb that were prepared by management of DeKalb;
- (vi) participated in discussions with certain officers and employees of DeKalb and First Community to discuss the past and current business operations, financial condition and prospects of DeKalb and First Community, as well as matters we believed relevant to our inquiry;
- (vii) reviewed certain publicly available operating and financial information with respect to other companies that we believe to be comparable in certain respects to DeKalb and First Community;
- (viii) reviewed the current and historical relationships between the trading levels of First Community's common stock and the historical and current market for the common stock of First Community and other companies that we believe to be comparable in certain respects to First Community;
- (ix) reviewed the nature and terms of certain other acquisition transactions that we believe to be relevant; and
- (x) performed such other reviews and analyses we have deemed appropriate

Within its review and analysis, The Orr Group, LLC assumed and relied upon the accuracy and completeness of all of the financial and other information provided to The Orr Group, LLC, or that was publicly available, and did not attempt independently to verify nor assumed responsibility for verifying any such information. With respect to the financial projections, The Orr Group, LLC assumed that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of DeKalb or First Community, as the case may be, and The Orr Group, LLC expresses no opinion with respect to such forecasts or the assumptions on which they are based. The Orr Group, LLC has not made or obtained, or assumed any responsibility for making or obtaining, any independent evaluations or appraisals of any of the assets, including properties and facilities, or liabilities of DeKalb or First Community.

The Orr Group, LLC employed a variety of analyses, of which some are briefly summarized below. The analyses outlined below do not represent a complete description of the analyses performed by The Orr Group, LLC. The Orr Group, LLC believes that it is necessary to consider all analyses as a whole and that relying on a select number of the analyses, without considering the whole, could create a misunderstanding of the opinion derived from them. In addition, The Orr Group, LLC may have deemed various assumptions more or less probable than other assumptions,

so that the ranges of valuations resulting from any particular analysis should not be taken to be The Orr Group, LLC's view of the entire analysis as a whole.

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Selected Companies Analysis - First Community

The Orr Group, LLC compared the financial performance data of First Community with a peer group of 25 publicly traded North Carolina and South Carolina banks that had total assets of greater than \$300 million and less than \$600 million. The peer group included the following:

Peer Group List			
American Community Bancshares, Inc.	ACBA	First Reliance Bancshares, Inc.	FSRL
Bank of the Carolinas	BCAR	First South Bancorp, Inc.	FSBS
Bank of Wilmington Corporation	BKWW	Four Oaks Fincorp, Inc.	FOFN
Beach First National Bancshares, Inc.	BFNB	Greenville First Bancshares, Inc.	GVBK
BNC Bancorp	BNCN	HCSB Financial Corporation	HCFB
Carolina Bank Holdings, Inc.	CLBH	MidCarolina Financial Corporation	MCFI
Community Bankshares, Inc.	SCB	New Century Bancorp, Inc.	NCBC
Community Capital Corp.	CYL	North State Bancorp	NSBC
Community First Bancorporation	CFOK	Peoples Bancorporation, Inc.	PBCE
Crescent Financial Corporation	CRFN	Southcoast Financial Corporation	SOCB
ECB Bancorp, Inc.	ECBE	Union Financial Bancshares, Incorporated	UFBS

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First National FNSC
Bancshares, Inc.

Uwharrie UWHR
Capital Corp

Waccamaw WBNK
Bankshares, Inc.

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The results of the analysis involve complex considerations of the selected companies and First Community. The Orr Group, LLC compared performance indicators of First Community with the median, upper and lower quartile performance indicators of the selected peer group. The performance indicators utilized by The Orr Group, LLC based on financial information reported as of September 30, 2005. An overview comparison of the indicators included the following:

	FCCO	Peer Data		
	Data	Upper Quart	Median	Lower Quart
Balance Sheet Data				
Assets (\$000s)	\$ 463,534	\$ 466,729	\$ 372,778	\$ 328,338
Deposits (\$000s)	\$ 335,836	\$ 360,221	\$ 296,126	\$ 263,982
Tangible Equity (\$000s)	\$ 23,705	\$ 35,347	\$ 28,934	\$ 24,110
Loans/Deposits	62.8	99.8	95.9	91.6
Loans/Assets	45.5	80.3	78.2	74.3
Deposits/Assets	72.5	83.0	81.0	77.9
Core Deposits	83.3	78.4	72.9	64.9
Asset & Capital Adequacy				
TCI Ratio	5.4	8.7	7.7	6.3
Tier 1 Ratio	13.9	3.4	11.4	10.5
Reserves/Loans	1.3	1.4	1.3	1.2
NPA's/Assets	0.2	0.6	0.4	0.2
Operating Results				
NIM ^(MRQ)	3.4	4.2	3.9	3.5
Effic Ratio ^(MRQ)	67.0	63.1	59.0	52.6
NIM	3.4	4.1	3.9	3.5
Effic Ratio	67.3	64.3	60.7	56.0
Profitability				
ROAA ^(MRQ)	0.7	1.1	0.9	0.7
ROAE ^(MRQ)	5.9	14.0	11.7	9.3
ROAA	0.7	1.0	0.8	0.7
ROAE	6.1	12.9	10.3	8.5
Trading Data				
P/E ^(MRQ)	19.1	23.8	18.9	16.6
P/E	18.6	24.9	21.4	18.5
P/TB	2.29	2.42	1.96	1.77
P/E (Core) ^(MRQ)	19.1	23.7	18.9	16.2
P/E (Core)	19.4	24.9	21.0	17.6

Comparable Transaction Analysis

The Orr Group, LLC reviewed data of selected transactions involving pending and completed bank acquisitions that it deemed pertinent to an analysis of the Merger. The transactions selected were mergers that were announced after June 30, 2003 and where the selling bank had assets between \$40 million and \$100 million, ROAA's less than 0.75%, and

TCE ratios greater than 7.50% and less than 12.50%. From these transactions, The Orr Group formulated a list of nationwide mergers, 18 total transactions, and a list of regional (South Carolina, North Carolina, Georgia, Kentucky, Tennessee and Virginia) mergers, 14 total transactions.

The Orr Group, LLC compared the median, upper quartile and lower quartile pricing ratios of the comparable transactions to the pricing ratios of the Merger. The pricing ratios included price to tangible book, price to earnings per share for the latest twelve months, price to assets, price to deposits and the franchise premium to core deposit ratio.

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A summary of the nationwide merger analysis is included in the following table:

Nationwide Transactions	Price to TBVPS	Price to LTM EPS	Price to Assets	Price to Deposits	Price to to Core Dep
Dekalb Transaction Statistics	1.8	73.7	21.3	32.5	29.9
Comparable Transactions					
Median Multiple	1.7	27.5	17.1	18.9	10.7
Upper Quartile	2.2	37.4	20.1	22.7	14.2
Lower Quartile	1.6	21.9	14.6	16.7	8.6

A summary of the regional merger analysis is included in the following table:

Regional Transactions	Price to TBVPS	Price to LTM EPS	Price to Assets	Price to Deposits	Fran Prem to Core Dep
Dekalb Transaction Statistics	1.8	73.7	21.3	32.5	29.9
Comparable Transactions					
Median Multiple	2.0	18.5	18.7	21.5	13.7
Upper Quartile	2.1	23.3	21.7	26.2	17.0
Lower Quartile	1.8	16.5	14.3	15.5	12.7

Discount Dividend Analysis

The Orr Group, LLC performed a discount dividend analysis to estimate a range of present values per share of DeKalb's common stock as a stand-alone entity. The Orr Group, LLC discounted five years of estimated cash flows for DeKalb based on projected growth rates and capital requirements. The Orr Group, LLC derived a range of terminal values by applying multiples ranging from 21 times to 33 times estimated trailing net income for the terminal year 2010. The present value of the estimated excess cash flows and terminal value was calculated using discount rates ranging from 10% to 14%, which The Orr Group, LLC viewed as the appropriate range of discount rates for a company with DeKalb's risk characteristics. The analysis yielded a range of stand-alone, fully diluted values for DeKalb's stock of approximately \$10.00 to \$18.75. The Orr Group, LLC included the discount dividend analysis because it is a widely used valuation methodology; however the results of such methodology are highly dependent upon numerous assumptions.

Contribution Analysis

In its contribution analysis, The Orr Group, LLC compared the pro forma financial contribution of DeKalb to the combined company to the pro forma ownership (as if completed through a 100% stock transaction) of DeKalb shareholders in the combined company's shareholder base. The contribution analysis also took into account cost savings and core deposit intangible amortization expenses as a result of the merger. The contribution analysis revealed that DeKalb would contribute 10.4% of the assets, 7.6% of income statement items, 7.2% projected income items and

15.4% projected income items adjusted for synergies and core deposit intangible amortization expenses. The average of all of the financial items considered was 7.9%. This was compared to the pro forma fully diluted ownership for DeKalb shareholders of 14.6% (as if 100% of First Community's stock were used in consideration of the transaction) in the combined company. The pro forma fully diluted ownership for DeKalb shareholders based on the actual transaction structure was 11.5%, based a 25% cash level.

Pro Forma Merger Analysis

The Orr Group, LLC analyzed the financial impact of the merger on the estimated earnings per share for First Community. Based on the various assumptions made to determine the pro forma numbers and the

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consideration paid by First Community, the merger would be dilutive to GAAP earnings and accretive to cash earnings in 2006 and accretive to GAAP and cash earnings per share in 2007.

No company or transaction used in the above analyses as a comparison is identical to DeKalb, First Community or the Merger. Accordingly, an analysis of the results of the foregoing involves complex considerations and judgments concerning differences in financial growth and operating characteristics of the companies and other factors that could affect the public trading value of the companies to which they are being compared. Mathematical analysis in and of itself does not necessarily provide meaningful comparisons.

The Orr Group, LLC has been paid a fee of \$24,470 to date and will be paid an additional fee of \$73,411 at the time the merger is consummated. The payment to The Orr Group, LLC includes payment for services rendered in preparation and delivery of the fairness opinion. DeKalb has agreed to reimburse legal and other reasonable expenses and to indemnify The Orr Group, LLC and its affiliates, directors, agents, employees and controlling persons in connection with certain matters related to rendering its opinion, including liabilities under securities laws.

THE WRITTEN OPINION OF THE ORR GROUP, LLC TO DEKALB IS ATTACHED AS APPENDIX C TO THIS PROXY STATEMENT/PROSPECTUS AND IS INCORPORATED HEREIN BY REFERENCE. THE DESCRIPTION OF THE DEKALB FAIRNESS OPINION IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO APPENDIX C. DEKALB SHAREHOLDERS ARE URGED TO READ THE OPINION IN ITS ENTIRETY FOR A DESCRIPTION OF THE PROCEDURES FOLLOWED, ASSUMPTIONS MADE, MATTERS CONSIDERED, AND QUALIFICATIONS AND LIMITATIONS ON THE REVIEW UNDERTAKEN BY THE ORR GROUP, LLC IN CONNECTION WITH RENDERING ITS OPINION.

Merger Consideration

Each share of DeKalb common stock issued and outstanding at the effective time of the merger will be converted into the right to receive \$3.875 in cash and 0.60705 shares of First Community common stock. The aggregate amount of cash and First Community shares of common stock received by DeKalb shareholders will be a function of the number of shares of DeKalb common stock issued and outstanding at the effective time of the merger. DeKalb had shares of common stock issued and outstanding as of , 2006. Assuming no DeKalb shareholders exercise dissenters' rights, and assuming the total number of outstanding shares of DeKalb common stock immediately prior to the effective time is , First Community will issue an aggregate of shares of stock and \$ in cash.

No assurance can be given that the current fair market value of First Community common stock will be equivalent to the fair market value of First Community common stock on the date that stock is received by a DeKalb shareholder or at any other time. The fair market value of First Community common stock received by a DeKalb shareholder may be greater or less than the current fair market value of First Community due to numerous market factors.

Fractional Shares

No fractional shares of First Community common stock will be issued to any holder of DeKalb common stock in the merger. For each fractional share that would otherwise be issued, First Community will pay cash in an amount equal to the fraction multiplied by a value that was derived from the average closing sales price for First Community common stock for a 20-day trading period ending on the fifth calendar day immediately prior to the effective time. No interest will be paid or accrued on cash payable in lieu of fractional shares.

Treatment of Options

Each outstanding DeKalb stock option will be converted into an option to purchase 0.8094 shares of First Community common stock. The per share exercise price under each option will be adjusted by dividing the per share exercise price by 0.8094. All outstanding options will be exercisable for the same period and will otherwise have the same terms and conditions applicable to the DeKalb options that they replace.

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Exchange of Certificates

As soon as reasonably practicable after the effective time of the merger, First Community will mail appropriate transmittal materials to each record holder of DeKalb common stock for use in effecting the surrender and cancellation of those certificates in exchange for First Community common stock. Risk of loss and title to the certificates will remain with the holder until proper delivery of such certificates to First Community by former DeKalb shareholders. **DeKalb shareholders should not surrender their certificates for exchange until they receive a letter of transmittal and instructions from First Community.** After the effective time of the merger, each holder of shares of DeKalb common stock, except holders exercising dissenters' rights of appraisal, issued and outstanding at the effective time must surrender the certificate or certificates representing their shares to First Community and will, as soon as reasonably practicable after surrender, receive the consideration they are entitled to under the merger agreement, together with all undelivered dividends or distributions in respect of such shares (without interest). First Community will not be obligated to deliver the consideration to which any former holder of DeKalb common stock is entitled until the holder surrenders the certificate or certificates representing his or her shares for exchange. The certificate or certificates so surrendered must be duly endorsed as First Community may require. First Community will not be liable to a holder of DeKalb common stock for any property delivered in good faith to a public official pursuant to any applicable abandoned property law.

After the effective time of the merger (and prior to the surrender of certificates of DeKalb common stock to First Community), record holders of certificates that represented outstanding DeKalb common stock immediately prior to the effective time of the merger will have no rights with respect to the certificates other than the right to surrender the certificates and receive in exchange for the certificates a certificate or certificates representing the aggregate number of whole shares of First Community common stock to which the holder is entitled pursuant to the merger agreement.

In the event that any dividend or distribution, the record date for which is on or after the effective time of the merger, is declared by First Community on First Community common stock, no such dividend or other distributions will be delivered to the holder of a certificate representing shares of DeKalb common stock immediately prior to the effective time of the merger until such holder surrenders such certificate as set forth above.

In addition, holders of certificates that represented outstanding DeKalb common stock immediately prior to the effective time of the merger will be entitled to vote after the effective time of the merger at any meeting of First Community shareholders the number of whole shares of First Community common stock into which such shares have been converted, even if such holder has not surrendered such certificates for exchange as set forth above.

First Community shareholders will not be required to exchange certificates representing their shares of First Community common stock or otherwise take any action after the merger is completed.

Federal Income Tax Consequences

The following summarizes certain material federal income tax consequences of the merger to DeKalb shareholders. This summary is based on current laws, regulations, rulings, and decisions now in effect, all of which are subject to change at any time, possibly with retroactive effect. This summary is not a complete description of all of the tax consequences of the merger and, in particular, may not address federal income tax consequences applicable to you if you are subject to special treatment under federal income tax law, such as rules relating to shareholders who are not citizens or residents of the United States, who are financial institutions, foreign corporations, tax-exempt organizations, insurance companies, or dealers in securities, shareholders who acquired their shares pursuant to the exercise of options or similar derivative securities or otherwise as compensation, and shareholders who hold their shares as part of a straddle or conversion transaction. In addition, this summary does not address the tax consequences of the merger under applicable state, local, foreign, or estate tax laws. This discussion assumes you hold your shares of DeKalb common stock as a capital asset within the meaning of Section 1221 of the Internal Revenue Code of 1986.

Each DeKalb shareholder should consult with his or her own tax advisor about the tax consequences of the merger in light of his or her individual circumstances, including the application of any federal, state, local, foreign, or estate tax law.

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The merger is intended to constitute a "reorganization" under Section 368(a) of the Internal Revenue Code. On the closing date, First Community and DeKalb will receive an opinion from Nelson Mullins Riley & Scarborough LLP, counsel to First Community, that the merger will qualify as a reorganization. The closing date opinion will be based on customary assumptions and customary representations made by DeKalb and First Community. An opinion of counsel represents the counsel's best legal judgment and is not binding on the Internal Revenue Service or any court. If, notwithstanding the opinion of counsel, the merger does not qualify as a reorganization, the exchange of DeKalb common stock for First Community common stock in the merger will be a taxable transaction.

Provided the merger qualifies as a reorganization, neither DeKalb nor First Community will recognize any gain or loss for federal income tax purposes, and the federal income tax consequences to you as a DeKalb shareholder will be as follows:

Exchange for First Community Common Stock and Cash. You will generally recognize gain (but not loss) in an amount equal to the lesser of (1) the amount of gain realized (i.e., the excess of the sum of the amount of cash and the fair market value of the First Community common stock received pursuant to the merger over your adjusted tax basis in your shares of DeKalb common stock surrendered) and (2) the amount of cash received pursuant to the merger. For this purpose, gain or loss must be calculated separately for each identifiable block of shares surrendered in the exchange, and a loss realized on one block of shares may not be used to offset a gain realized on another block of shares. Any recognized gain will generally be long-term capital gain if your holding period with respect to the DeKalb common stock surrendered is more than one year. If, however, the cash received has the effect of the distribution of a dividend, the gain would be treated as a dividend to the extent of your ratable share of accumulated earnings and profits as calculated for United States federal income tax purposes. See " -- Possible Treatment of Cash as a Dividend."

Your aggregate tax basis of the First Community common stock you receive in exchange for your shares of DeKalb common stock will be equal to the aggregate adjusted tax basis of the shares of DeKalb common stock surrendered for First Community common stock and cash, reduced by the amount of cash you receive pursuant to the merger, and increased by the amount of gain (including any portion of the gain that is treated as a dividend as described below), if any, you must recognize on the exchange. Your holding period of the First Community common stock will include the holding period of the shares of DeKalb common stock you surrendered. If you have differing bases or holding periods in respect of your shares of DeKalb common stock, you should consult your own tax advisor prior to the exchange with regard to identifying the bases or holding periods of the particular shares of First Community common stock received in the exchange.

Possible Treatment of Cash as a Dividend. In general, the determination of whether the gain recognized in the exchange will be treated as capital gain or has the effect of a distribution of a dividend depends upon whether and to what extent the exchange reduces your deemed percentage stock ownership of First Community. For purposes of this determination, you are treated as if you first exchanged all of your shares of DeKalb common stock solely for First Community common stock and then First Community immediately redeemed (the "deemed redemption") a portion of the First Community common stock in exchange for the cash you actually received. The gain recognized in the exchange followed by a deemed redemption will be treated as capital gain if the deemed redemption is (1) "substantially disproportionate" with respect to the holder or (2) "not essentially equivalent to a dividend."

The deemed redemption, generally, will be "substantially disproportionate" with respect to you if the percentage described in (2) below is less than 80 percent of the percentage described in (1) below. Whether the deemed redemption is "not essentially equivalent to a dividend" with respect to you will depend upon your particular circumstances. At a minimum, however, in order for the deemed redemption to be "not essentially equivalent to a dividend," the deemed redemption must result in a "meaningful reduction" in your deemed percentage stock ownership of First Community. In general, that determination requires a comparison of (1) the percentage of the outstanding stock of First Community that you are deemed actually and constructively to have owned immediately

before the deemed redemption and (2) the percentage of the outstanding stock of First Community that is actually and constructively owned by you immediately after the deemed redemption. In applying the above tests, you may, under the constructive ownership rules, be deemed to own stock that is owned by other persons or otherwise in addition to the stock actually owned by you. As these rules are complex, each DeKalb shareholder that may be

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subject to these rules should consult its own tax advisor. The IRS has ruled that a minority shareholder in a publicly held corporation whose relative stock interest is minimal and who exercises no control with respect to corporate affairs is considered to have a "meaningful reduction" if that shareholder has a relatively minor reduction in its percentage stock ownership under the above analysis.

Cash Received in Lieu of a Fractional Share. Cash you receive in lieu of a fractional share of First Community common stock generally will be treated as received in redemption of the fractional share, and gain or loss generally will be recognized based on the difference between the amount of cash received in lieu of the fractional share and the portion of your aggregate adjusted tax basis of the shares of DeKalb common stock surrendered allocable to the fractional share. Such gain or loss generally will be long-term capital gain or loss if the holding period for such shares of DeKalb common stock is more than one year.

Each DeKalb shareholder is urged to consult his or her personal tax and financial advisor as to his or her specific federal income tax consequences, based on his or her own particular status and circumstances, and also as to any state, local, foreign, estate, or other tax consequences arising out of the merger.

Interests of Directors and Officers of DeKalb that Differ from Your Interests

General. Some of the employees and directors of DeKalb may be deemed to have interests in the merger in addition to their interests as shareholders of DeKalb generally. These interests include, among others, proposed employee benefits for those who become employees of First Community or First Community Bank after the merger, an employment agreement between First Community, DeKalb, Bank of Camden, and William C. Bochette, III, the appointment of one current DeKalb director to the board of directors of First Community, and the appointment of seven current DeKalb directors to an advisory board of First Community Bank and the commitment to pay advisory fees to these individuals for these services, and insurance coverage for DeKalb's directors and officers, as described below.

Employee Benefits. The merger agreement generally provides that First Community will furnish to those employees of DeKalb who become employees of First Community or First Community Bank after the effective time of the merger benefits under employee benefit plans which, when taken as a whole, are substantially similar to those currently provided by First Community and its subsidiaries to their similarly situated employees. For purposes of participation, vesting, and benefit accrual under First Community's employee benefit plans, service with DeKalb prior to the effective time of the merger will be treated as service with First Community or its subsidiary.

Bochette Employment Agreement. DeKalb and its president and chief executive officer, William C. Bochette, III, are currently bound by an employment agreement. In exchange for a lump sum payment in an amount equal to (i) the lesser of \$400,000, or (ii) 2.99 times his "base amount," as such term is defined for purposes of Section 280G of the Internal Revenue Code of 1986, Mr. Bochette has agreed to terminate this agreement and to enter into a new employment agreement with First Community Bank.

Pursuant to the new employment agreement, Mr. Bochette will serve as a senior vice president of First Community Bank. The new agreement commences upon the consummation of the merger and will be for a term of three years. At the end of this initial term, the agreement will automatically extend for additional one year terms unless First Community Bank gives written notice to Mr. Bochette at least 12 months prior to the end of the then current term. During his employment and for a period of 12 months following termination, Mr. Bochette will be prohibited from serving as an organizer, director or officer of, or consultant to, or acquiring or maintaining more than a 1% passive investment in, another depository financial institution or holding company if such institution has an office located within a radius of 10 miles from (i) the main office of First Community Bank or (ii) any branch office of First Community Bank. He will also be prohibited from soliciting employees and customer for a period of 12 months following termination (24 months if his employment terminates after the third anniversary of the employment agreement). Mr. Bochette will receive an annual base salary of \$150,000, an automobile, country and dinner club

dues, and other employee benefits currently in effect for similarly situated employees.

Directors. As soon as practicable following the effective time of the merger, First Community will appoint one present director of DeKalb, other than Mr. Bochette, mutually acceptable to the both parties to the First

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Community board of directors. In addition, First Community will appoint seven current DeKalb directors to an advisory board of First Community Bank and pay advisory fees to these individuals for these services.

Support Agreements. In connection with the execution of the merger agreement, the officers and directors of DeKalb entered into support agreements in their capacity as shareholders in which they agreed not to sell or otherwise dispose of or encumber (other than in connection with an ordinary bank loan) their shares of DeKalb common stock without the prior approval of First Community. They also agreed to vote all of the shares of DeKalb common stock for which they have sole voting authority, and to use their best efforts to cause to be voted all of the shares of DeKalb common stock for which they have shared voting authority, for the approval of the merger and against any acquisition proposal (as defined in the merger agreement).

Insurance. First Community has agreed to indemnify and hold harmless each director and officer of DeKalb for a period of three years from liability and expenses arising out of matters existing or occurring at or before the consummation of the merger. First Community has also agreed that it will maintain a policy of directors' and officers' liability insurance coverage for the benefit of DeKalb's directors and officers who are currently covered by insurance for three years following consummation of the merger, or such lesser period of time as can be purchased for an aggregate amount equal to three times the current annual premium.

Conditions to Consummation

The obligations of DeKalb and First Community to consummate the merger are subject to the satisfaction or waiver (to the extent permitted) of several conditions, including:

- Holders of two-thirds of the outstanding shares of DeKalb must have approved the merger proposal;
- The required regulatory approvals described under “The Merger—Regulatory Approvals” must have been received, generally without any conditions or requirements which would, in the reasonable judgment of the board of directors of First Community, materially adversely affect the economic or business benefits of the transactions contemplated by the merger agreement so as to render inadvisable the consummation of the merger;
- Each party must have received all consents (other than those described in the preceding paragraph) required for consummation of the merger and for the prevention of a default under any contract of such party which, if not obtained or made, would reasonably likely have, individually or in the aggregate, a material adverse effect on such party, generally without any conditions or requirements which would, in the reasonable judgment of the board of directors of First Community, materially adversely affect the economic or business benefits of the transactions contemplated by the merger agreement so as to render inadvisable the consummation of the merger;
- No court or regulatory authority may have taken any action which prohibits, restricts, or makes illegal the consummation of the transactions contemplated by the merger agreement;
- The registration statement registering the shares of First Community common stock to be received by DeKalb shareholders, of which this proxy statement/prospectus is a part, must have been declared effective by the SEC, no stop order suspending the effectiveness of the registration statement may have been issued, no action, suit, proceeding, or investigation by the SEC to suspend the effectiveness of the registration statement may have been initiated and be continuing, and all necessary approvals under federal and state securities laws relating to the issuance or trading of the shares of First Community common stock issuable pursuant to the merger must have been received;
- William C. Bochette, III must have entered into an employment agreement with First Community and must have terminated his existing employment agreement, and each director of DeKalb must have executed a shareholder

support agreement;

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- The other party's representations and warranties must remain accurate, and the other party must have performed all of the agreements and covenants to be performed by it pursuant to the merger agreement, and must have delivered certificates confirming satisfaction of the foregoing requirements and certain other matters;
- First Community must have received from each "affiliate" of DeKalb an agreement stating, among other things, that he or she will comply with federal securities laws when transferring any shares of First Community common stock received in the merger (see "The Merger—Resales of First Community Common Stock");
- DeKalb shall have not received notice from its shareholders of their intent to exercise their statutory right to dissent with respect to more than 10% of the outstanding shares of DeKalb common stock;
- DeKalb's net shareholders' equity at the effective time of the merger shall not be more than \$100,000 less than the amount reported in DeKalb's November 2005 month-end financial report, but excluding (i) the effects of reasonable fees and expenses incurred by DeKalb in connection with the merger or (ii) accumulated other comprehensive income;
- DeKalb and First Community must maintain Bank of Camden's allowance for loan losses at 1.00% of the bank's total outstanding loans;
- No material adverse effect shall have occurred with respect to DeKalb or First Community from their September 30, 2005 balance sheets to the effective time of the merger; and
- Each party must have received an opinion from Nelson Mullins Riley & Scarborough, LLP to the effect that the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

No assurances can be provided as to when or if all of the conditions precedent to the merger can or will be satisfied or waived by the appropriate party. As of the date of this proxy statement/prospectus, the parties know of no reason to believe that any of the conditions set forth above will not be satisfied.

The conditions to consummation of the merger may be waived, in whole or in part, to the extent permissible under applicable law, by the party for whose benefit the condition has been imposed, without the approval of such party's shareholders.

Regulatory Approvals

DeKalb and First Community have agreed to use their reasonable best efforts to obtain all regulatory approvals required to consummate the transactions contemplated by the merger agreement, which include approval from the South Carolina State Board of Financial Institutions and the Office of the Comptroller of the Currency. In addition, First Community is required to deliver a notice filing to the Federal Reserve Bank of Richmond. First Community filed these applications in March 2006. The merger cannot proceed in the absence of these regulatory approvals. Although DeKalb and First Community expect to obtain these required regulatory approvals, there can be no assurance as to if and when these regulatory approvals will be obtained.

Other than as summarized above, we are not aware of any governmental approvals or actions that may be required for consummation of the merger. Should any other approval or action be required, we currently contemplate that we would seek such approval or action. To the extent that the above summary describes statutes and regulations, it is qualified in its entirety by reference to those particular statutes and regulations.

Representations and Warranties Made by First Community and DeKalb in the Merger Agreement

First Community and DeKalb have made certain customary representations and warranties to each other in the merger agreement. For information on these representations and warranties, please refer to the merger

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agreement attached as Appendix A. If either party materially violates any of its representations or warranties and fails to cure such violation, the other party may terminate the merger agreement.

Termination of the Merger Agreement

Notwithstanding the approval of the merger proposal by DeKalb shareholders, DeKalb and First Community can mutually agree at any time to terminate the merger agreement before completing the merger.

Either DeKalb or First Community can also terminate the merger agreement:

- If the other party materially violates any of its representations or warranties under the merger agreement and fails to cure the violation;
- If required regulatory approval is denied by final nonappealable action of such regulatory authority or if any action taken by such authority is not appealed within the time limit for appeal;
- If any law or order permanently restraining, enjoining, or otherwise prohibiting the consummation of the merger shall have become final and nonappealable;

· If DeKalb shareholder approval is not obtained at the special meeting; or

· If we do not complete the merger by October 31, 2006.

First Community can also terminate the merger agreement, provided that it is not in material breach of any representation, warranty, or covenant, or other agreement in the merger agreement, and the DeKalb shareholders have not approved the merger:

- If the DeKalb board of directors fails to reaffirm its approval upon First Community's request for such reaffirmation of the merger or if the DeKalb board of directors resolves not to reaffirm the merger;
- If the DeKalb board of directors withdraws, qualifies, modifies, or proposes publicly to withdraw, qualify, or modify, in a manner adverse to First Community, its recommendation that the shareholders approve the merger;
- If the DeKalb board of directors affirms, recommends, or authorizes entering into any acquisition transaction other than the merger or, within five business days after commencement of any tender or exchange offer for any shares of its common stock, the DeKalb board of directors makes any recommendation other than against such tender or exchange offer; or
- If the DeKalb board of directors negotiates or authorizes the conduct of negotiations (and five business days have elapsed without such negotiations being discontinued) with a third party regarding an acquisition proposal other than the merger.

First Community may also terminate the merger agreement if at any time during the three business day period commencing on the Determination Date (as defined in the merger agreement) the final FCCO Stock Price (as defined in the merger agreement) is greater than \$22.98. Within three business days of receiving First Community's notice of termination, DeKalb will have the option of decreasing the per share purchase price to be received by DeKalb shareholders so that it would equal \$22.98.

DeKalb can terminate the merger agreement, provided that it is not in material breach of any representation, warranty, or covenant, or other agreement in the merger agreement, if, prior to the adoption of the merger agreement by the

shareholders at the special meeting, the DeKalb board of directors has (x) withdrawn or modified or changed its recommendation or approval of the merger agreement in a manner adverse to First Community in order to approve and permit DeKalb to accept a superior proposal and (y) determined, after

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consultation with and the receipt of advice from outside legal counsel to DeKalb, that the failure to take such action would be likely to result in a breach of the board of directors' fiduciary duties under applicable law.

DeKalb may also terminate the Agreement if at any time during the three business day period commencing on the Determination Date (as defined in the merger agreement) the final FCCO Stock Price (as defined in the merger agreement) is greater than \$15.32. Within three business days of receiving DeKalb's notice of termination, First Community will have the option of increasing the per share purchase price to be received by DeKalb shareholders so that it would equal \$15.32.

Amendment and Waiver

To the extent permitted by law, DeKalb and First Community, with the approval of their respective boards of directors, may amend the merger agreement by written agreement at any time without the approval of DeKalb shareholders. However, after the approval of the merger proposal by DeKalb shareholders, no amendment may decrease the consideration to be received without the further approval of DeKalb shareholders.

Prior to or at the effective time of the merger, either DeKalb or First Community may waive any default in the performance of any term of the merger agreement by the other party, may waive or extend the time for the fulfillment by the other party of any of its obligations under the merger agreement, and may waive any of the conditions precedent to the obligations of such party under the merger agreement, except any condition that, if not satisfied, would result in the violation of an applicable law.

Conduct of Business Pending the Merger

Under the merger agreement, each of First Community and DeKalb has agreed, except as otherwise contemplated by the merger agreement or with the prior written consent of the other party, to:

- operate its business only in the usual, regular, and ordinary course;
- use commercially reasonable efforts to preserve intact its business organizations and assets and maintain its rights and franchises;
- use commercially reasonable efforts to cause its representations and warranties to be correct at all times;
- take no action which would (1) adversely affect the ability of any party to obtain any consents required for the transactions contemplated by the merger agreement without imposition of a condition or restriction which, in the reasonable judgment of the board of directors of First Community or DeKalb, as applicable, would so materially adversely impact the economic or business benefits of the transactions contemplated by the merger agreement as to render inadvisable the consummation of the merger, or (2) adversely affect in any material respect the ability of either party to perform its covenants and agreements under the merger agreement; and
- use its best efforts to provide all information requested by First Community related to loans or other transactions made by DeKalb with a value equal to or exceeding \$250,000.

Further, DeKalb has agreed, except as otherwise contemplated by the merger agreement or with the prior written consent of First Community, to:

- use its best efforts to provide all information requested by First Community related to loans or other transactions made by DeKalb with a value equal to or exceeding \$300,000;

- consult with First Community prior to entering into or making any loans or other transactions with a value equal to or exceeding \$600,000, other than residential mortgage loans for which DeKalb has a commitment to buy from a reputable investor; and

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- consult with First Community prior to entering into or making any loans that exceed regulatory loan to value guidelines.

In addition, DeKalb has agreed in the merger agreement not to take certain actions pending consummation of the merger without the prior consent of First Community. Such actions include, without limitation:

- amending its articles of incorporation, bylaws, or other governing corporate instruments;
- becoming responsible for any obligation for borrowed money in excess of an aggregate of \$50,000, except in the ordinary course of business consistent with past practices or allowing the imposition of a lien on any asset;
- acquiring or exchanging (other than exchanges in the ordinary course under employee benefit plans) any shares (or securities convertible into any shares) of DeKalb capital stock or paying any dividend on its common stock;
- subject to certain exceptions, issuing, selling, or pledging additional shares of DeKalb common stock, any rights to acquire any such stock, or any security convertible into such stock;
- adjusting or reclassifying any DeKalb capital stock or issuing or authorizing the issuance of any other securities in respect of, or in substitution for, shares of DeKalb common stock or its subsidiary's common stock, or otherwise disposing of any asset other than in the ordinary course for reasonable and adequate consideration;
- purchasing any securities or making any material investments in any person or otherwise acquiring direct or indirect control over any person, subject to certain exceptions;
- granting any increase in compensation or benefits to employees, officers, or directors of DeKalb, paying any bonus, entering into or amending any severance agreements with employees, officers, or directors of DeKalb (except for the payment of \$400,000 to Mr. Bochette as described elsewhere in this proxy statement/prospectus), or granting any increase in compensation or other benefits to directors of DeKalb;
- except as contemplated by the merger agreement, entering into or amending (unless required by law) any employment contract that does not give it the unconditional right to terminate the agreement following the effective date of the merger without liability other than for services already rendered;
- subject to certain exceptions, adopting any new employee benefit plan or materially changing any existing plan or program;
- making any significant change in tax or accounting methods, except for any change required by law or generally accepted accounting principles;
 - commencing any litigation other than in accordance with past practice or settling any litigation for money damages or which places material restrictions on operations;
- except in the ordinary course of business, modifying, amending, or terminating any material contracts (including any loan with respect to any extension of credit with an unpaid balance exceeding \$600,000) or waiving, releasing, or assigning any material rights or claims, or making any adverse changes in the mix, rates, terms, or maturities of DeKalb's deposits and other liabilities;
 - causing its allowance for loan losses to be less than 1.00% of loans and leases and other credits; or

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- taking any action or failing to take any action that at the time of such action or inaction is reasonably likely to prevent, or would be reasonably likely to materially interfere with, the consummation of the merger.

DeKalb has also agreed that neither it, nor its affiliates or representatives, will solicit an acquisition proposal (generally, a tender offer or proposal for a merger, asset acquisition, or other business combination), other than the transactions contemplated by the merger agreement. Pursuant to the merger agreement, except to the extent necessary to comply with the fiduciary duties of its board of directors, neither DeKalb, nor any of its affiliates or representatives, will furnish any non-public information that it is not legally obligated to furnish, or negotiate with respect to, or enter into any contract with respect to, any acquisition proposal. However, DeKalb may communicate information about an acquisition proposal to its shareholders if and to the extent that it is required to do so in order to comply with its legal obligations as advised by counsel. In the merger agreement, DeKalb also agreed to terminate any negotiations conducted prior to the date of the merger agreement with any other parties with respect to any of the foregoing and agreed to use its reasonable efforts to cause its representatives to comply with any of the foregoing.

Expenses and Termination Fees

The merger agreement provides that each party will be responsible for its own direct costs and expenses incurred in connection with the negotiation and consummation of the transactions contemplated by the merger agreement. In the case of DeKalb, these expenses will be paid at or before closing and prior to the effective time of the merger.

The merger agreement provides for the reimbursement of First Community's out-of- pocket expenses, not to exceed \$150,000, if First Community terminates the merger agreement because:

- the DeKalb board of directors fails to reaffirm its approval upon First Community's request for such reaffirmation of the merger or the DeKalb board of directors resolves not to reaffirm the merger;
- the DeKalb board of directors fails to include in the proxy statement its recommendation, without modification or qualification, that the shareholders approve the merger or the DeKalb board of directors withdraws, qualifies, modifies, or proposes publicly to withdraw, qualify, or modify, in a manner adverse to First Community, the recommendation that the shareholders approve the merger;
- the DeKalb board of directors affirms, recommends, or authorizes entering into any acquisition transaction other than the merger or, within five business days after commencement of any tender or exchange offer for any shares of its common stock, the DeKalb board of directors makes any recommendation other than against acceptance of such tender or exchange offer; or
- the DeKalb board of directors negotiates or authorizes the conduct of negotiations (and five business days have elapsed without such negotiations being discontinued) with a third party regarding an acquisition proposal other than the merger.

If within 12 months after such termination DeKalb consummates another acquisition transaction (as defined in the merger agreement), DeKalb must pay an additional \$500,000 termination fee (less the amount paid for First Community's out-of- pocket expenses).

If the board of directors of DeKalb determines, after consultation with legal counsel, that in light of a superior proposal (as defined in the merger agreement), it is necessary to terminate the agreement to comply with its fiduciary duties, and within 12 months of such termination an acquisition transaction has been announced or an acquisition agreement has been entered into by DeKalb, DeKalb must pay First Community's out-of- pocket expenses as described above. If within 12 months after such termination, DeKalb consummates the acquisition transaction, DeKalb must pay the additional termination fee as described above.

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Finally, if the merger agreement is terminated following the commencement of any tender or exchange offer for more than 50% of the shares of DeKalb and within 12 months of such termination an acquisition transaction has occurred involving the tender offeror or its affiliates and DeKalb, then DeKalb must reimburse First Community's out-of-pocket expenses and pay the additional termination as described above.

Resales of First Community Common Stock

The issuance of the shares of First Community common stock to be issued to DeKalb shareholders in the merger has been registered under the Securities Act of 1933. These shares may be traded freely and without restriction by those shareholders not deemed to be "affiliates" of DeKalb or First Community as that term is defined under the Securities Act. Any subsequent transfer of such shares, however, by any person who is an affiliate of DeKalb at the time the merger is submitted for a vote or consent of the shareholders of DeKalb will, under existing law, require either:

- the registration under the Securities Act of the subsequent transfer of the shares of First Community common stock;
- compliance with Rule 145 promulgated under the Securities Act (permitting limited sales under certain circumstances); or
- the availability of another exemption from registration.

An "affiliate" of DeKalb, as defined by the rules promulgated pursuant to the Securities Act, is a person who directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with DeKalb. DeKalb has agreed that it will use its reasonable efforts to cause each person or entity that is an "affiliate" for purposes of complying with Rule 145 to enter into a written agreement relating to such restrictions on sale or other transfer.

Accounting Treatment

The merger will be accounted for using the purchase method of accounting, with First Community being treated as the acquiring entity for accounting purposes. Under the purchase method of accounting, the assets and liabilities of DeKalb as of the effective time will be recorded at their respective fair values and added to those of First Community. Financial statements issued after consummation of an acquisition accounted for as a purchase would reflect such values and would not be restated retroactively to reflect the historical financial position or results of operations of the acquired company.

Rights of Dissenting DeKalb Shareholders

Chapter 13 of the South Carolina Business Corporation Act sets forth the rights of the shareholders of DeKalb who object to the merger. The following is a summary of the material terms of the statutory procedures to be followed by a shareholder in order to dissent from the merger and perfect dissenters' rights under the South Carolina Business Corporation Act. A copy of Chapter 13 of the South Carolina Business Corporation Act is attached as Appendix B to this proxy statement/prospectus. *The only rights of dissent available to DeKalb shareholders are those provided in the law. Nothing in this proxy statement/prospectus shall be deemed to create or grant any such rights.*

If you elect to exercise such a right to dissent and demand appraisal, you must satisfy each of the following conditions:

- (a) you must give to DeKalb and DeKalb must actually receive, before the vote at the shareholders' special meeting on approval or disapproval of the merger proposal is taken, written notice of your intent to demand payment for your shares if the merger is effectuated (this notice must be in addition to and separate from any proxy or vote against the merger proposal; neither voting against, abstaining from voting, nor failing to vote on the merger proposal will

constitute a notice within the meaning of the South Carolina Business Corporation Act); and

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(b) you must not vote in favor of the merger proposal. A failure to vote or a vote against the merger proposal will satisfy this requirement. The return of a signed proxy which does not specify whether you vote in favor or against approval of the merger proposal will not constitute a waiver of your dissenters' rights. If you notify DeKalb that you intend to dissent, a vote cast in favor of the merger proposal by the holder of the proxy will not disqualify you from demanding payment for your shares.

If the requirements of (a) and (b) above are not satisfied and the merger proposal becomes effective, you will not be entitled to payment for your shares under the provisions of Chapter 13 of the South Carolina Business Corporation Act.

If you are a dissenting DeKalb shareholder, any notices should be addressed to DeKalb Bankshares, Inc., 631 West DeKalb Street, Camden, South Carolina 29020, Attention: William C. Bochette, III. The notice must be executed by the holder of record of the shares of DeKalb common stock as to which dissenters' rights are to be exercised. A beneficial owner may assert dissenters' rights only if he dissents with respect to all shares of DeKalb common stock of which he is the beneficial owner. With respect to shares of DeKalb common stock which are owned of record by a voting trust or by a nominee, the beneficial owner of such shares may exercise dissenters' rights if such beneficial holder also submits to DeKalb the name and address of the record shareholder of the shares, if known to him. A record owner, such as a broker, who holds shares of DeKalb common stock as a nominee for others may exercise dissenters' rights with respect to the shares held for all or less than all beneficial owners of shares as to which such person is the record owner, provided such record owner dissents with respect to all DeKalb common stock beneficially owned by any one person. In such case, the notice submitted by the broker as record owner must set forth the name and address of the shareholder who is objecting to the merger proposal and demanding payment for such person's shares.

If you properly dissent and the merger proposal is approved, DeKalb must mail by registered or certified mail, return receipt requested, a written dissenters' notice to you. This notice must be sent no later than 10 days after the shareholder approval of the merger proposal. The dissenters' notice will state where your payment demand must be sent, and where and when certificates for shares of DeKalb common stock must be deposited; supply a form for demanding payment; set a date by which DeKalb must receive your payment demand (not fewer than 30 days nor more than 60 days after the dissenters' notice is mailed and which must not be earlier than 20 days after the demand date); and include a copy of Chapter 13 of the South Carolina Business Corporation Act.

If you receive a dissenters' notice, you must demand payment and deposit your share certificates in accordance with the terms of the dissenters' notice. If you demand payment and deposit your share certificates, you retain all other rights of a shareholder until these rights are canceled or modified by the merger. If you do not demand payment or deposit your share certificates where required, each by the date set in the dissenters' notice, you are not entitled to payment for your shares under the South Carolina Business Corporation Act.

Within 30 days after receipt of your demand for payment, DeKalb is required to pay you the amount it estimates to be the fair value of your shares, plus interest accrued from the effective date of the merger to the date of payment. The payment must be accompanied by:

- DeKalb's most recent available balance sheet, income statement, and statement of cash flows as of the end of or for the fiscal year ending not more than 16 months before the date of payment, and the latest available interim financial statements, if any;
- an explanation of how DeKalb estimated the fair value of the shares;
- an explanation of the interest calculation;
- a statement of the dissenters' right to demand payment (as described below); and
- a copy of Chapter 13 of the South Carolina Business Corporation Act.

If the merger is not consummated within 60 days after the date set for demanding payment and depositing share certificates, DeKalb must return your deposited certificates. If after returning your deposited certificates the merger is consummated, DeKalb must send you a new dissenters' notice and repeat the payment demand procedure.

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Demand for Payment. You may, however, notify DeKalb in writing of your own estimate of the fair value of your shares and amount of interest due, and demand payment of the excess of your estimate of the fair value of your shares over the amount previously paid by DeKalb if:

- (a) you believe that the amount paid is less than the fair value of DeKalb common stock or that the interest is incorrectly calculated;
- (b) DeKalb fails to make payment of its estimate of fair value to you within 30 days after receipt of a demand for payment; or
- (c) the merger not having been consummated, DeKalb does not return your deposited certificates within 60 days after the date set for demanding payment.

You waive the right to demand payment unless you notify DeKalb of your demand in writing within 30 days of DeKalb's payment of its estimate of fair value (with respect to clause (a) above) or DeKalb's failure to perform (with respect to clauses (b) and (c) above). If you fail to notify DeKalb of your demand within such 30-day period, you shall be deemed to have withdrawn your shareholder's dissent and demand for payment.

Appraisal Proceeding. If your demand for payment remains unsettled, DeKalb must commence a proceeding within 60 days after receiving the demand for additional payment by filing a complaint with the South Carolina Court of Common Pleas in Kershaw County to determine the fair value of the shares and accrued interest. If DeKalb does not commence the proceeding within such 60-day period, DeKalb shall pay you the amount you demanded.

The court in such an appraisal proceeding will determine all costs of the proceeding and assess the costs as it finds equitable. The proceeding is to be tried as in other civil actions; however, you will not have the right to a trial by jury. The court may also assess the fees and expenses of counsel and expenses for the respective parties, in the amounts the court finds equitable: (a) against DeKalb if the court finds that it did not comply with the statute; or (b) against DeKalb or you, if the court finds that the party against whom the fees and expenses are assessed acted arbitrarily, vexatiously, or not in good faith. If the court finds that the services of counsel for you were of substantial benefit to other dissenting shareholders, and that the fees for those services should not be assessed against DeKalb, the court may award to these counsel reasonable fees to be paid out of the amounts awarded the dissenting shareholders who were benefited. If DeKalb failed to commence an appraisal proceeding within 60 days, the court shall assess the costs of the proceedings and the fees and expenses of counsel for DeKalb.

The summary set forth above does not purport to be a complete statement of the provisions of the South Carolina Business Corporation Act relating to the rights of dissenting shareholders and is qualified in its entirety by reference to the applicable sections of the South Carolina Business Corporation Act, which are included as Appendix B to this proxy statement/prospectus. If you intend to exercise your dissenters' rights, you are urged to carefully review Appendix B and to consult with legal counsel so as to be in strict compliance therewith.

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DESCRIPTION OF FIRST COMMUNITY CAPITAL STOCK

General

The articles of incorporation of First Community authorize the issuance of capital stock consisting of 10,000,000 shares of common stock, \$1.00 par value per share, and 10,000,000 shares of preferred stock, \$1.00 par value per share. As of , 2006 there were shares of First Community common stock issued and outstanding and no shares of First Community preferred stock issued and outstanding.

In the future, the authorized but unissued and unreserved shares of First Community common stock will be available for issuance for general purposes, including, but not limited to, possible issuance as stock dividends or stock splits, future mergers or acquisitions, or future private placements or public offerings. Except as may be required to approve a merger or other transaction in which the additional authorized shares of First Community common stock would be issued, no shareholder approval will be required for the issuance of those shares. See section entitled "Comparative Rights of First Community and DeKalb Shareholders" for a discussion of the rights of the holders of First Community common stock as compared to the holders of DeKalb common stock.

Common Stock

General. Each share of First Community common stock has the same relative rights as, and is identical in all respects to, each other share of First Community common stock.

Dividend Rights. The holders of common stock of First Community are entitled to receive and share equally in any dividends as may be declared by the board of directors of First Community out of funds legally available for the payment of dividends. The payment of dividends by First Community is subject to limitations imposed by law and applicable regulations. The Federal Reserve Board generally prohibits bank holding companies from paying dividends except out of operating earnings and unless the prospective rate of earnings retention appears consistent with the holding company's capital needs, asset quality, and overall financial condition. Notwithstanding the above, the ability of First Community to pay dividends to the holders of shares of First Community common stock will be completely dependent upon the amount of dividends its subsidiary, First Community Bank, is permitted to pay to First Community. The ability of a national bank to pay dividends is restricted under applicable law and regulations. The National Bank Act states that a national banking association, such as First Community Bank, may only pay dividends out of undivided profits. Additionally, a national banking association may not pay dividends until its surplus fund equals its common capital, unless at least 10% of its net income during the past six month period has been carried to its surplus fund (in the case of quarterly or semi-annual dividends) or (in the case of annual dividends) at least 10% of its net income during the past 12 months. Also, under federal banking law, no cash dividend may be paid if the bank is undercapitalized or insolvent or if payment of the cash dividend would render the bank undercapitalized or insolvent, and no cash dividend may be paid by the bank if it is in default of any deposit insurance assessment due to the FDIC.

Voting Rights. Each share of First Community common stock will entitle the holder thereof to one vote on all matters upon which shareholders have the right to vote. Currently, the board of directors of First Community is comprised of 14 directors, who are elected in staggered terms of three years. Following the consummation of the merger, the board will be increased to 15 directors. The new director will be a former DeKalb director other than Mr. Bochette. Shareholders of First Community are not entitled to cumulate their votes for the election of directors.

Liquidation Rights. In the event of any liquidation, dissolution, or winding up of First Community, the holders of shares of First Community common stock will be entitled to receive, after payment of all debts and liabilities of First Community, all remaining assets of First Community available for distribution in cash or in kind. If First Community issued preferred stock, the holders of preferred stock may have priority over the holders of common stock in the event of liquidation or dissolution.

No Preemptive Rights; Redemption and Assessment. Holders of shares of First Community common stock are not entitled to preemptive rights with respect to any shares that may be issued. First Community common stock is not subject to redemption or any sinking fund and the outstanding shares are fully paid and non-assessable.

Preferred Stock

First Community may issue preferred stock with such designations, powers, preferences, and rights as First Community's board of directors may from time to time determine. The board of directors can, without shareholder approval, issue preferred stock with voting, dividend, liquidation, and conversion rights that could dilute the voting strength of the holders of the common stock and may assist management in impeding an unfriendly takeover or attempted change in control. None of the shares of the authorized preferred stock will be issued in connection with the merger and there are no current plans to issue preferred stock.

Certain Articles and Bylaw Provisions Having Potential Anti-Takeover Effects

First Community's articles of incorporation and bylaws contain provisions that could make an acquisition of First Community by means of a tender offer, proxy contest, or otherwise more difficult. Certain provisions will also render the removal of the incumbent board of directors or management of First Community more difficult. These provisions may have the effect of deterring or defeating a future takeover attempt that is not approved by First Community's board of directors, but which First Community shareholders may deem to be in their best interests or in which shareholders may receive a substantial premium for their shares over then current market prices. As a result, shareholders who might desire to participate in such a transaction may not have the opportunity to do so. The following description of these provisions is only a summary and does not provide all of the information contained in First Community's articles of incorporation and bylaws. See "Additional Information" as to where to obtain a copy of these documents.

Authorized but Unissued Stock. The authorized but unissued shares of common stock and preferred stock will be available for future issuance without shareholder approval. These additional shares may be used for a variety of corporate purposes, including future private or public offerings to raise additional capital, corporate acquisitions, and employee benefit plans. The existence of authorized but unissued and unreserved shares of common stock and preferred stock may enable the board of directors to issue shares to persons friendly to current management, which could render more difficult or discourage any attempt to obtain control of First Community by means such as a proxy contest, tender offer, or merger, and thereby protect the continuity of the company's management.

Supermajority Shareholder Vote Required for Merger. The articles require the affirmative vote of the holders of at least two-thirds of the outstanding shares of common stock entitled to vote to approve any merger, consolidation, or sale of First Community or any substantial part of the company's assets.

Number and Qualifications of Directors. The articles and bylaws provide that the number of directors shall be fixed from time to time by resolution adopted by a majority of the directors then in office, but may not consist of fewer than nine nor more than 25 members. The bylaws also provide that no individual who is or becomes a Business Competitor (as defined below) or who is or becomes affiliated with, employed by, or a representative of any individual, corporation, or other entity which the board of directors, after having such matter formally brought to its attention, determines to be in competition with First Community or any of its subsidiaries (any such individual, corporation, or other entity being a "Business Competitor") shall be eligible to serve as a director if the board of directors determines that it would not be in First Community's best interests for such individual to serve as a director of the company. Any financial institution having branches or affiliates within Richland or Lexington Counties, South Carolina shall be presumed to be a Business Competitor unless the board of directors determines otherwise.

Classified Board of Directors. The articles and bylaws divide the board of directors into three classes of directors serving staggered three-year terms. As a result, approximately one-third of the board of directors will be elected at each annual meeting of shareholders. The classification of directors, together with the provisions in the articles and bylaws described below that limit the ability of shareholders to remove directors and that permit the remaining directors to fill any vacancies on the board of directors, have the effect of making it more difficult for shareholders to

change the composition of the board of directors. As a result, at least two annual meetings of shareholders may be required for the shareholders to change a majority of the directors.

Removal of Directors and Filling Vacancies. Under the bylaws, removal of directors without cause requires the approval of the holders of two-thirds of the shares entitled to vote at an election of directors, and all

vacancies on the board of directors, including those resulting from an increase in the number of directors, may be filled by a majority of the remaining directors, even if they do not constitute a quorum. When a director resigns effective at a future date, a majority of directors then in office, including the director who is to resign, may vote on filling the vacancy.

Advance Notice Requirements for Shareholder Proposals and Director Nominations. The bylaws establish advance notice procedures with regard to shareholder proposals and the nomination, other than by or at the direction of the board of directors or a committee of the board, of candidates for election as directors. These procedures provide that the notice of shareholder proposals and shareholder nominations for the election of directors at any meeting of shareholders must be in writing and be received by the secretary of First Community not later than 90 days prior to the meeting. First Community may reject a shareholder proposal or nomination that is not made in accordance with such procedures.

Certain Nomination Requirements. Pursuant to the bylaws, First Community has established certain nomination requirements for an individual to be elected as a director of the company at any annual or special meeting of the shareholders, including that the nominating party provide First Community within a specified time prior to the meeting (i) notice that such party intends to nominate the proposed director; (ii) the name and certain biographical information on the nominee; and (iii) a statement that the nominee has consented to the nomination. The chairman of any shareholders' meeting may, for good cause shown, waive the operation of these provisions. These provisions could reduce the likelihood that a third party would nominate and elect individuals to serve on First Community's board of directors.

Business Combinations with Interested Shareholders. First Community is subject to the South Carolina business combination statute, which restricts mergers and other similar business combinations between public companies headquartered in South Carolina and any 10% shareholder of the company. The statute prohibits such a business combination for two years following the date the person acquires shares to become a 10% shareholder unless the business combination or such purchase of shares is approved by a majority of the company's outside directors. The statute also prohibits such a business combination with a 10% shareholder at any time unless the transaction complies with First Community's articles of incorporation and either (i) the business combination or the shareholder's purchase of shares is approved by a majority of the company's outside directors; (ii) the business combination is approved by a majority of the shares held by the company's other shareholders at a meeting called no earlier than two years after the shareholder acquired the shares to become a 10% shareholder; or (iii) the business combination meets specified fair price and form of consideration requirements.

Consideration of Other Constituencies in Mergers. The articles grant the board of directors the discretion, when considering whether a proposed merger or similar transaction is in the best interests of First Community and its shareholders, to take into account the effect of the transaction on the employees, customers, and suppliers of the company and upon the communities in which the offices of the company are located.

Transfer Agent and Registrar

The transfer agent and registrar for First Community's common stock is Registrar & Transfer Company.

COMPARATIVE RIGHTS OF FIRST COMMUNITY AND DEKALB SHAREHOLDERS

General

The following is a comparison of certain rights of DeKalb shareholders and those of First Community shareholders. Certain significant differences in the rights of DeKalb shareholders and those of First Community shareholders arise from differing provisions of DeKalb's and First Community's respective governing corporate instruments.

The following summary does not purport to be a complete statement of the provisions affecting, and differences between, the rights of DeKalb shareholders and those of First Community shareholders. The identification of specific provisions or differences is not meant to indicate that other equally or more significant differences do not exist. This summary is qualified in its entirety by reference to the South Carolina Business Corporation Act of 1988 and to the respective governing corporate instruments of DeKalb and First Community, to which DeKalb shareholders are referred.

Authorized Capital Stock

DeKalb

DeKalb is authorized to issue 20,000,000 shares of common stock, no par value, of which shares were issued and outstanding as of the date of this proxy statement/prospectus. DeKalb's articles of incorporation do not provide that shareholders have a preemptive right to acquire authorized and unissued shares of DeKalb.

First Community

First Community is authorized to issue 10,000,000 shares of common stock, par value \$1.00 per share, of which shares were issued and outstanding as of the date of this proxy statement/prospectus, and 10,000,000 shares of preferred stock, par value \$1.00 per share. First Community's articles of incorporation do not provide that shareholders have a preemptive right to acquire authorized and unissued shares of First Community.

Size of Board of Directors

DeKalb

DeKalb's articles and bylaws provide that the board must consist of six or more directors, with the exact number fixed by the board of directors. The DeKalb board of directors currently has 10 members.

First Community

First Community's bylaws provide that the board must consist of not less than nine directors and no more than 25 directors, with the exact number fixed by the board of directors. First Community's board of directors is currently comprised of 14 persons. The merger agreement requires that the board increase the number of members from 14 to 15 members, and to fill the vacancies by appointing one former director of DeKalb mutually acceptable to First Community and DeKalb.

Classification of Directors

DeKalb

DeKalb's articles of incorporation divide the board of directors into three classes of directors, with each class accounting for one-third and with each class being elected to a staggered three-year term.

First Community

First Community's articles of incorporation also divide the board of directors into three classes of directors serving staggered three-year terms.

Election of Directors

DeKalb

DeKalb's bylaws provide that all elections are determined by a plurality of the votes cast, in person or by proxy, at a meeting of shareholders at which a quorum is present. DeKalb's articles of incorporation and bylaws provide that shareholders do not have cumulative voting rights for the election of directors.

First Community

First Community's bylaws also provide that all elections are determined by a plurality of the votes cast, in person or by proxy, at a meeting of shareholders at which a quorum is present. First Community's articles of incorporation provide that shareholders do not have cumulative voting rights.

Removal of Directors

DeKalb

DeKalb's articles of incorporation provide that any director may be removed by shareholders, with or without cause; provide, however, that an affirmative vote of the holders of at least 80% of the outstanding shares is required to remove directors without cause.

First Community

First Community's articles of incorporation require the affirmative vote of the holders of not less than two-thirds of the outstanding voting securities of First Community to remove any director.

Filling Vacancies on the Board of Directors

DeKalb

DeKalb's bylaws provide that vacancies on the board of directors may be filled by the affirmative vote of a majority of the remaining members of the board of directors even if less than a quorum exists. The term of a director appointed to fill a vacancy expires at the next shareholders' meeting wherein directors are elected. If the directors fail or are unable to fill such vacancies within 30 days, then the president or secretary must call a special meeting of shareholders to fill such vacancy. The board is prohibited from increasing or decreasing the board by more than 30% of the number of directors last approved by shareholders. Any vacancy created by increasing the number of directors may also be filled by the shareholders.

First Community

First Community's bylaws provide that vacancies on the board of directors shall be filled by a majority of the remaining members of the board of directors. Shareholders may elect a director to fill any vacancy not filled by the directors at a special meeting of shareholders.

Nomination of Director Candidates

DeKalb

DeKalb's articles of incorporation provide that any shareholder entitled to vote for the election of directors may make nominations for the election of directors by giving written notice to the secretary of DeKalb at least 90 days prior to the annual meeting of shareholders at which directors are to be elected.

First Community

First Community's bylaws provide that any shareholder entitled to vote for the election of directors may make nominations for the election of directors by giving written notice to the secretary of First Community at least 90 days prior to the annual meeting of shareholders at which directors are to be elected, unless this requirement is waived in advance of the meeting by the board of directors. With respect to an election at a special meeting of shareholders, nominations must be received no later than the close of business on the seventh day following the date on which the notice is first given to shareholders.

Shareholder Action Without Meeting

DeKalb

Under South Carolina law, any action required or permitted to be taken by shareholders at a meeting may be taken without a meeting if a written consent describing the action to be taken is signed by all of the shareholders entitled to vote with respect to the subject matter thereof.

First Community

First Community's organizational documents do not alter the default rules under South Carolina law.

Calling Meetings of Shareholders

DeKalb

DeKalb bylaws provide that special meetings of shareholders may be called at any time for any purpose by DeKalb's president or chairman of the board of directors, or by a majority of the board of directors. DeKalb must call a special meeting when requested in writing by shareholders owning shares representing at least one-tenth of all outstanding votes entitled to be cast on any issue at the meeting.

First Community

First Community's bylaws provide that special meetings of shareholders may be called at any time for any purpose by First Community's chief executive officer, president, or chairman of the board of directors, or by a majority of the board of directors. First Community must call a special meeting when requested in writing by shareholders owning shares representing at least one-tenth of all outstanding votes entitled to be cast on any issue at the meeting.

Indemnification of Directors, Officers, and Employees

DeKalb

South Carolina law prescribes the extent to which directors and officers will be indemnified by DeKalb. A corporation, with certain exceptions, may to indemnify a current or former director against liability if (i) he conducted himself in good faith, (ii) he reasonably believed (x) that his conduct in his official capacity with the corporation was in its best interest and (y) his conduct in other capacities was at least not opposed to the corporation's best interest, and (iii) in the case of any criminal proceeding, he had no reasonable cause to believe his conduct was unlawful. A corporation may not indemnify a current or former director in connection with a

proceeding by or in the right of the corporation in which he was adjudged liable to the corporation or in connection with a proceeding charging improper personal benefit to him. The above standard of conduct is determined by the board of directors or a committee thereof or special legal counsel or the shareholders

DeKalb must indemnify a director or officer in the defense of any proceeding to which such person was a party because of his or her capacity as officer or director against reasonable expenses when such person is wholly successful in his or her defense, unless the articles of incorporation provide otherwise. Upon application, the court may order indemnification of the director or officer if such person is adjudged fairly and reasonably so entitled. DeKalb also may indemnify and advance expenses to an officer, employee or agent who is not a director to the same extent as a director or as otherwise set forth in the corporation's articles or bylaws or by resolution of the board of directors or by contract.

First Community

The bylaws for First Community follow the standards under South Carolina as outline above.

Limitation of Liability for Directors

Each of DeKalb's and First Community's articles of incorporation provides that a director's liability is eliminated or limited to the fullest extent permitted by South Carolina law. A director is not personally liable to the company or any of its shareholders for monetary damages for breach of any duty as director, except for liability:

- for any breach of the director's duty of loyalty to the corporation or its shareholders;
- for acts or omissions not in good faith or which involved gross negligence, intentional misconduct, or a knowing violation of law;
- for unlawful corporate distributions; or
- for any transaction from which the director derived an improper personal material tangible benefit.

Amendment to Articles of Incorporation

DeKalb

DeKalb's articles provide that any amendments to Article 5 of the articles must be approved by the affirmative vote of the holders of 80% of the outstanding shares of the corporation, unless at least two-thirds of the board of directors approves the amendment. In that case, the amendment need only be approved by the affirmative vote of the holders of two-thirds of the outstanding shares. All other amendments to the articles may be approved by the affirmative vote of the holders of two-thirds of the outstanding shares.

First Community

South Carolina law provides that a corporation may amend its articles of incorporation if the board of directors proposes the amendment to the shareholders, and the amendment receives the requisite shareholder approval. Unless a corporation's articles of incorporation provide otherwise, amendments must be approved by two-thirds of all votes entitled to be cast on the matter, as well as two-thirds of the votes entitled to be cast on the matter within each voting group entitled to vote as a separate voting group on the amendment. First Community's articles do not alter the default provisions of South Carolina law.

Amendment to Bylaws

DeKalb

DeKalb's bylaws provide that the board of directors may amend the bylaws upon the affirmative vote of a majority of the directors present at a meeting at which a quorum is present unless (i) the shareholders in adopting, amending or repealing a particular bylaw expressly provide that the board of directors may not amend or repeal that bylaw or (ii) the bylaw establishes, amends, or deletes a supermajority shareholder quorum or voting requirement.

Shareholders may amend the bylaws upon the affirmative vote of the holders of a majority the shareholders entitled to vote for the election of directors.

First Community

According to First Community's articles, the board of directors may amend the bylaws upon the affirmative vote of a majority directors or unanimous written consent. Shareholders may amend the bylaws only upon the affirmative vote of the holders of not less than two-thirds of the votes entitled to be cast.

Shareholder Vote on Fundamental Issues

DeKalb

DeKalb's articles of incorporation provide that a merger, exchange, or consolidation of DeKalb with, or a sale, exchange, or lease of all or substantially all the assets of DeKalb to, any person or entity must be approved by holders of not less than 80% of the outstanding voting stock if two-thirds of the board of directors does not approve such transaction. If two-thirds of the board of directors approves the transaction, approval is governed by the default rules under South Carolina described below.

First Community

Under South Carolina law, a plan of merger must generally be approved by the affirmative vote of the holders of at least two-thirds of the votes entitled to be cast on the plan regardless of the class or voting group to which the shares belong, and two-thirds of the votes entitled to be cast on the plan within each voting group entitled to vote as a separate voting group on the plan. A corporation's articles of incorporation may require a lower or higher vote for approval, but the required vote must be at least a majority of the votes entitled to be cast on the plan by each voting group entitled to vote separately on the plan. First Community's articles of incorporation do not alter the default rules of South Carolina law.

Under South Carolina law, to authorize the sale, lease, exchange, or other disposition of all or substantially all of the property of a corporation, other than in the usual and regular course of business, or to voluntarily dissolve the corporation, South Carolina law requires the affirmative vote of at least two-thirds of all the votes entitled to be cast on the transaction. A corporation's articles of incorporation may require a lower or higher vote for approval, but the required vote must be at least a majority of all the votes entitled to be cast on the transaction. First Community's articles of incorporation do not alter the default rules of South Carolina law.

Control Share Acquisition Provisions

DeKalb

South Carolina law contains provisions that, under certain circumstances, would preclude an acquiror of the shares of a South Carolina corporation who crosses one of three voting thresholds (20%, 33 1/3% or 50%) from obtaining voting rights with respect to such shares unless a majority in interest of the disinterested shareholders of the corporation votes to accord voting power to such shares.

The legislation provides that, if authorized by the articles of incorporation or bylaws prior to the occurrence of a control share acquisition, the corporation may redeem the control shares for their fair value if the acquiring person has not complied with certain procedural requirements (including the filing of an "acquiring person statement "with the corporation within 60 days after the control share acquisition) or if the control shares are not accorded full voting rights by the shareholders. DeKalb is not authorized by its articles of incorporation or bylaws to redeem control shares

pursuant to such legislation.

First Community

First Community has specifically opted out of coverage of the control share acquisition provisions of South Carolina law.

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Business Combination Statute

South Carolina law prohibits specified “business combinations” with “interested shareholders” unless certain conditions are satisfied. The act defines an “interested shareholder” as any person (other than the corporation or any of its subsidiaries) that (i) beneficially owns 10% or more of the corporation’s outstanding voting shares or (ii) at any time within the preceding two-year period beneficially owned 10% of the voting power of the corporation’s outstanding shares and is an affiliate or associate of the corporation.

Covered business combinations with interested shareholders or an affiliate or associate of an interested shareholder include, among other transactions:

- merger of the corporation;
- sale, lease, exchange, mortgage, pledge, transfer, or other disposition of assets having a value equal to 10% or more of the value of all assets of the corporation, the value of all outstanding shares of the corporation, or the earning power or net income of the corporation;
- transfer of shares of the corporation equaling 5% or more of the market value of all outstanding shares of the corporation; and
- dissolution or liquidation of the corporation proposed by or under an arrangement with an interested shareholder or its affiliate or associate.

Covered business combinations are prohibited unless:

- the board of directors of the corporation approved of the business combination before the interested shareholder became an interested shareholder;
- a majority of shares not beneficially owned by the interested shareholder approved the combination; and
- certain transactional requirements are met.

Covered business combinations are prohibited for two years after an interested shareholder becomes interested unless the board of directors of the corporation approved of the business combination before the interested party became interested.

Both DeKalb and First Community are subject to the business combination provisions of the South Carolina statute.

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PROPOSAL NO. 2 - AUTHORIZATION TO ADJOURN

At the special meeting, shareholders of DeKalb are being asked to consider and vote on a proposal to authorize management to adjourn the meeting to allow time for the further solicitation of proxies if there are insufficient votes present at the meeting, in person or by proxy, to approve the merger.

THE BOARD OF DIRECTORS OF DEKALB RECOMMENDS A VOTE “FOR” THE PROPOSAL TO AUTHORIZE MANAGEMENT TO ADJOURN THE SPECIAL MEETING OF SHAREHOLDERS TO ALLOW TIME FOR THE FURTHER SOLICITATION OF PROXIES TO APPROVE THE MERGER AGREEMENT.

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INFORMATION ABOUT DEKALB

General

DeKalb is a holding company for Bank of Camden. DeKalb was organized in March 2003, and acquired Bank of Camden in September 2003. DeKalb currently engages in no business other than ownership of Bank of Camden.

Bank of Camden conducts a general banking business under a state charter approved by the South Carolina State Board of Financial Institutions and granted by the Secretary of State of South Carolina. Bank of Camden was originally organized as a South Carolina state bank in 2000 and commenced operations in February 2001. Bank of Camden conducts its activities from its office located in Camden, South Carolina.

Bank of Camden's business primarily consists of accepting deposits and making loans. Bank of Camden seeks deposit accounts from households and businesses in its primary market area by offering a full range of savings accounts, retirement accounts (including Individual Retirement Accounts and Keogh plans), checking accounts, money market accounts, and time certificates of deposit. It also makes primarily commercial, real estate and installment loans, primarily on a secured basis, to borrowers in and around Kershaw County and makes other authorized investments. Residential Mortgage loans are primarily made for resale in the secondary market. As of December 31, 2005, Bank of Camden employed 14 persons.

Competition

Bank of Camden competes in the South Carolina county of Kershaw, for which the most recent market share data available is as of June 30, 2005. At that time, eight banks, and savings banks with 13 branch locations competed in Kershaw County for aggregate deposits of approximately \$550,013,000. Bank of Camden had a county-wide deposit market share of 5.10% and a market share rank of seven.

Banks generally compete with other financial institutions through the savings products and services offered, the pricing of services, the level of service provided, the convenience and availability of services, and the degree of expertise and personal concern with which services are offered. In the conduct of certain areas of its business, Bank of Camden competes with commercial banks, savings and loan associations, credit unions, consumer finance companies, insurance companies, money market mutual funds and other financial institutions, some of which are not subject to the same degree of regulation and restriction imposed upon Bank of Camden. Many of these competitors have substantially greater resources and lending limits than Bank of Camden and offer certain services, such as international banking services and trust services, that Bank of Camden does not provide. Moreover, most of these competitors have more branch offices located throughout their market areas, a competitive advantage that Bank of Camden does not have to the same degree.

The banking industry is significantly affected by prevailing economic conditions as well as by government policies and regulations concerning, among other things, monetary and fiscal affairs, the housing industry and financial institutions. Deposits at banks are influenced by a number of economic factors, including interest rates, competing instruments, levels of personal income and savings, and the extent to which interest on retirement savings accounts is tax deferred. Lending activities are also influenced by a number of economic factors, including demand for and supply of housing, conditions in the construction industry, and availability of funds. Primary sources of funds for lending activities include savings deposits, income from investments, loan principal repayments, and proceeds from sales of loans to conventional participating lenders.

Effect of Government Regulation

Bank holding companies and banks are extensively regulated under federal and state law. Most such regulations are intended to benefit depositors and other customers of banks and not the shareholders of banks and bank holding companies. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to such statutes and regulations. Any change in applicable law or regulation may have a material effect on the business of DeKalb and Bank of Camden.

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General

As a bank holding company under the Bank Holding Company Act ("BHCA"), DeKalb is subject to the regulations of the Board of Governors of the Federal Reserve System (the "Federal Reserve"). Under the BHCA, DeKalb's activities and those of its subsidiaries are limited to banking, managing or controlling banks, furnishing services to or performing services for its subsidiaries or engaging in any other activity which the Federal Reserve determines to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. DeKalb may engage in a broader range of activities if it becomes a "financial holding company" pursuant to the Gramm-Leach-Bliley Act, which is described below under the caption "Gramm-Leach-Bliley Act." The BHCA prohibits DeKalb from acquiring direct or indirect control of more than 5% of the outstanding voting stock or substantially all of the assets of any bank or from merging or consolidating with another bank holding company without prior approval of the Federal Reserve. Additionally, the BHCA prohibits DeKalb from engaging in or from acquiring ownership or control of more than 5% of the outstanding voting stock of any company engaged in a non-banking business unless such business is determined by the Federal Reserve to be so closely related to banking as to be properly incident thereto. The BHCA generally does not place territorial restrictions on the activities of such non-banking related activities.

DeKalb is also subject to regulation and supervision by the South Carolina State Board of Financial Institutions (the "State Board"). A South Carolina bank holding company must provide the State Board with information with respect to the financial condition, operations, management and inter-company relationships of the holding company and its subsidiaries. The State Board also may require such other information as is necessary to keep itself informed about whether the provisions of South Carolina law and the regulations and orders issued thereunder by the State Board have been complied with, and the State Board may examine any bank holding company and its subsidiaries.

Obligations of DeKalb to its Subsidiary Bank

A number of obligations and restrictions are imposed on bank holding companies and their depository institution subsidiaries by Federal law and regulatory policy that are designed to reduce potential loss exposure to the depositors of such depository institutions and to the FDIC insurance funds in the event the depository institution is in danger of becoming insolvent or is insolvent. For example, under the policy of the Federal Reserve, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so absent such policy. In addition, the "cross-guarantee" provisions of the Federal Deposit Insurance Act, as amended ("FDIA"), require insured depository institutions under common control to reimburse the FDIC for any loss suffered or reasonably anticipated by either the Savings Association Insurance Fund ("SAIF") or the Bank Insurance Fund ("BIF") of the FDIC as a result of the default of a commonly controlled insured depository institution or for any assistance provided by the FDIC to a commonly controlled insured depository institution in danger of default. The FDIC may decline to enforce the cross-guarantee provisions if it determines that a waiver is in the best interest of the SAIF or the BIF or both. The FDIC's claim for damages is superior to claims of shareholders of the insured depository institution or its holding company but is subordinate to claims of depositors, secured creditors and holders of subordinated debt (other than affiliates) of the commonly controlled insured depository institutions.

The FDIA also provides that amounts received from the liquidation or other resolution of any insured depository institution by any receiver must be distributed (after payment of secured claims) to pay the deposit liabilities of the institution prior to payment of any other general or unsecured senior liability, subordinated liability, general creditor or shareholder. This provision would give depositors a preference over general and subordinated creditors and shareholders in the event a receiver is appointed to distribute the assets of Bank of Camden.

Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's

bankruptcy, any commitment by a bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

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Capital Adequacy Guidelines for Bank Holding Companies and State Banks

The various federal bank regulators, including the Federal Reserve and the FDIC have adopted risk-based and leverage capital adequacy guidelines for assessing bank holding company and bank capital adequacy. These standards define what qualifies as capital and establish minimum capital standards in relation to assets and off-balance sheet exposures, as adjusted for credit risks.

Failure to meet capital guidelines could subject Bank of Camden to a variety of enforcement remedies, including prohibitions on various activities and, in some cases, the appointment of a receiver for Bank of Camden.

The risk-based capital standards of both the Federal Reserve Board and the FDIC explicitly identify concentrations of credit risk and the risk arising from non-traditional activities, as well as an institution's ability to manage these risks, as important factors to be taken into account by the agencies in assessing an institution's overall capital adequacy. The capital guidelines also provide that an institution's exposure to a decline in the economic value of its capital due to changes in interest rates be considered by the agencies as a factor in evaluating a bank's capital adequacy. The Federal Reserve Board also has recently issued additional capital guidelines for bank holding companies that engage in certain trading activities.

Bank of Camden exceeded all applicable capital requirements by a wide margin at December 31, 2005. For small holding companies, such as DeKalb, capital adequacy is measured by the capital adequacy of the subsidiary bank.

Payment of Dividends

DeKalb is a legal entity separate and distinct from its bank subsidiary. Most of the revenues of DeKalb are expected to result from dividends paid to DeKalb by Bank of Camden. There are statutory and regulatory requirements applicable to the payment of dividends by Bank of Camden as well as by DeKalb to its shareholders. It is not anticipated that DeKalb will pay cash dividends in the near future.

Certain Transactions by DeKalb with its Affiliates

Federal law regulates transactions among a bank holding company and its affiliates, including the amount of its bank's loans to or investments in nonbank affiliates and the amount of advances to third parties collateralized by securities of an affiliate. Further, a bank holding company and its affiliates are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.

FDIC Insurance Assessments

Because Bank of Camden's deposits are insured by the BIF, Bank of Camden is subject to insurance assessments imposed by the FDIC. Currently, the assessments imposed on all FDIC deposits for deposit insurance have an effective rate ranging from 0 to 27 basis points per \$100 of insured deposits, depending on the institution's capital position and other supervisory factors. In addition, Bank of Camden is subject to an assessment to pay a pro rata portion of the interest due on the obligations issued by the Financing Corporation ("FICO"). The FICO assessment is adjusted quarterly to reflect changes in the assessment bases of the respective funds based on quarterly Call Report and Thrift Financial Report submissions. The Federal Deposit Insurance Reform Act of 2005 will change the manner and amount of insurance assessments beginning in 2006. The changes are not expected to have a material effect on Bank of Camden in 2006.

Regulation of Bank of Camden

Bank of Camden is subject to regulation and examination by FDIC and the State Board. In addition, Bank of Camden is subject to various other state and federal laws and regulations, including state usury laws, laws relating to fiduciaries, consumer credit laws and laws relating to branch banking. Bank of Camden's loan operations are also subject to certain federal consumer credit laws and regulations promulgated thereunder, including, but not limited to: the federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers; the Home Mortgage Disclosure Act, requiring financial institutions to provide certain information concerning their mortgage lending; the

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Equal Credit Opportunity Act and the Fair Housing Act, prohibiting discrimination on the basis of certain prohibited factors in extending credit; the Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies; the Bank Secrecy Act, dealing with, among other things, the reporting of certain currency transactions; and the Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies. The deposit operations of Bank of Camden are also subject to the Truth in Savings Act, requiring certain disclosures about rates paid on savings accounts; the Expedited Funds Availability Act, which deals with disclosure of the availability of funds deposited in accounts and the collection and return of checks by banks; the Right to Financial Privacy Act, which imposes a duty to maintain certain confidentiality of consumer financial records and the Electronic Funds Transfer Act and regulations promulgated thereunder, which govern 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.

Bank of Camden is also subject to the requirements of the Community Reinvestment Act (the "CRA"). The CRA imposes on financial institutions an affirmative and ongoing obligation to meet the credit needs of their local communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of those institutions. Each financial institution's actual performance in meeting community credit needs is evaluated as part of the examination process, and also is considered in evaluating mergers, acquisitions and applications to open a branch or facility.

Safety and Soundness Regulations

Prompt Corrective Action. The federal banking agencies have broad powers under current federal law to take prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institutions in question are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized."

A bank that is "undercapitalized" becomes subject to provisions of the FDIA: restricting payment of capital distributions and management fees; requiring the FDIC to monitor the condition of the bank; requiring submission by the bank of a capital restoration plan; prohibiting the acceptance of employee benefit plan deposits; restricting the growth of the bank's assets and requiring prior approval of certain expansion proposals. A bank that is "significantly undercapitalized" is also subject to restrictions on compensation paid to senior management of the bank, and a bank that is "critically undercapitalized" is further subject to restrictions on the activities of the bank and restrictions on payments of subordinated debt of the bank. The purpose of these provisions is to require banks with less than adequate capital to act quickly to restore their capital and to have the FDIC move promptly to take over banks that are unwilling or unable to take such steps.

Brokered Deposits. Under current FDIC regulations, "well capitalized" banks may accept brokered deposits without restriction, "adequately capitalized" banks may accept brokered deposits with a waiver from the FDIC (subject to certain restrictions on payment of rates), while "undercapitalized" banks may not accept brokered deposits. The regulations provide that the definitions of "well capitalized", "adequately capitalized" and "undercapitalized" are the same as the definitions adopted by the agencies to implement the prompt corrective action provisions described in the previous paragraph.

Interstate Banking

Under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, DeKalb and any other adequately capitalized bank holding company located in South Carolina can acquire a bank located in any other state, and a bank holding company located outside South Carolina can acquire any South Carolina-based bank, in either case subject to certain deposit percentage and other restrictions. Unless prohibited by state law, adequately capitalized and managed bank holding companies are permitted to consolidate their multistate bank operations into a single bank subsidiary and

to branch interstate through acquisitions. De novo branching by an out-of-state bank is permitted only if the laws of the host state expressly permit it. The authority of a bank to establish and operate branches within a state continue to be subject to applicable state branching laws. South Carolina law was amended, effective July 1, 1996, to permit such interstate branching but not de novo branching by an out-of-state bank.

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Gramm-Leach-Bliley Act

The Gramm-Leach-Bliley Act, which makes it easier for affiliations between banks, securities firms and insurance companies to take place, became effective in March 2000. The Act removes Depression-era barriers that had separated banks and securities firms, and seeks to protect the privacy of consumers' financial information. Most of the provisions of the Act require the applicable regulators to adopt regulations in order to implement these provisions.

Under provisions of the legislation and regulations adopted by the appropriate regulators, banks, securities firms and insurance companies are able to structure new affiliations through a holding company structure or through a financial subsidiary. The legislation creates a new type of bank holding company called a "financial holding company" which has powers much more extensive than those of standard holding companies. These expanded powers include authority to engage in "financial activities," which are activities that are (1) financial in nature; (2) incidental to activities that are financial in nature; or (3) complementary to a financial activity and that do not impose a safety and soundness risk. Significantly, the permitted financial activities for financial holding companies include authority to engage in merchant banking and insurance activities, including insurance portfolio investing. A bank holding company can qualify as a financial holding company and expand the services it offers only if all of its subsidiary depository institutions are well-managed, well-capitalized and have received a rating of "satisfactory" on their last Community Reinvestment Act examination.

The legislation also creates another new type of entity called a "financial subsidiary." A financial subsidiary may be used by a national bank or a group of national banks to engage in many of the same activities permitted for a financial holding company, though several of these activities, including real estate development or investment, insurance or annuity underwriting, insurance portfolio investing and merchant banking, are reserved for financial holding companies. A bank's investment in a financial subsidiary affects the way in which the bank calculates its regulatory capital, and the assets and liabilities of financial subsidiaries may not be consolidated with those of the bank. The bank must also be certain that its risk management procedures are adequate to protect it from financial and operational risks created both by itself and by any financial subsidiary. Further, the bank must establish policies to maintain the separate corporate identities of the bank and its financial subsidiary and to prevent each from becoming liable for the obligations of the other.

The Act also establishes the concept of "functional supervision," meaning that similar activities should be regulated by the same regulator. Accordingly, the Act spells out the regulatory authority of the bank regulatory agencies, the Securities and Exchange Commission and state insurance regulators so that each type of activity is supervised by a regulator with corresponding expertise. The Federal Reserve Board is intended to be an umbrella supervisor with the authority to require a bank holding company or financial holding company or any subsidiary of either to file reports as to its financial condition, risk management systems, transactions with depository institution subsidiaries and affiliates, and compliance with any federal law that it has authority to enforce.

Although the Act reaffirms that states are the regulators for insurance activities of all persons, including federally-chartered banks, the Act prohibits states from preventing depository institutions and their affiliates from conducting insurance activities.

The Act also establishes a minimum federal standard of privacy to protect the confidentiality of a consumer's personal financial information and gives the consumer the power to choose how personal financial information may be used by financial institutions. The privacy provisions of the Act have been implemented by adoption of regulations by various federal agencies.

The Act and the regulations create opportunities for DeKalb to offer expanded services to customers in the future, though DeKalb has not yet determined what the nature of the expanded services might be or when the Company might find it feasible to offer them. The Act has increased competition from larger financial institutions that are currently

more capable than DeKalb of taking advantage of the opportunity to provide a broader range of services. However, DeKalb continues to believe that its commitment to providing high quality, personalized service to customers will permit it to remain competitive in its market area.

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Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act became effective in 2002, and mandated extensive reforms and requirements for public companies. The Sarbanes-Oxley Act and the SEC's new regulations have increased DeKalb's cost of doing business, particularly its fees for internal and external audit services and legal services, and the law and regulations are expected to continue to do so. However, DeKalb does not believe that it will be affected by Sarbanes-Oxley and the new SEC regulations in ways that are materially different or more onerous than those of other public companies of similar size and in similar businesses.

Legislative Proposals

Proposed legislation which could significantly affect the business of banking is introduced in Congress and the General Assembly of South Carolina from time to time. Management of DeKalb cannot predict the future course of such legislative proposals or their impact on DeKalb and Bank of Camden should they be adopted.

Fiscal and Monetary Policy

Banking is a business which depends to a large extent on interest rate differentials. In general, the difference between the interest paid by a bank on its deposits and its other borrowings, and the interest received by a bank on its loans and securities holdings, constitutes the major portion of a bank's earnings. Thus, the earnings and growth of DeKalb and Bank of Camden are subject to the influence of economic conditions generally, both domestic and foreign, and also to the monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve. The Federal Reserve regulates the supply of money through various means, including open market dealings in United States government securities, the discount rate at which banks may borrow from the Federal Reserve, and the reserve requirements on deposits. The nature and timing of any changes in such policies and their impact on DeKalb and the Bank cannot be predicted.

Description of Property

Bank of Camden owns its office at 631 West DeKalb Street, Camden, South Carolina. The office is an approximately 11,000 square foot one story banking office with on site parking and drive through windows. Bank of Camden's property is believed to be well suited for its needs.

Legal Proceedings

DeKalb is not a party to any legal proceedings other than routine collection matters.

Market for Common Equity and Related Stockholder Matters

Although DeKalb's common stock is traded from time to time on an individual basis, no established trading market has developed and none is expected to develop in the foreseeable future. DeKalb's common stock is not traded on the NASDAQ National Market System, nor are there any market makers known to management. During 2005, management is aware of a few transactions in which DeKalb's common stock traded in the price range of \$11.00 to \$12.00 per share. However, management has not ascertained that these transactions are the result of arm's length negotiations between the parties, and because of the limited number of shares involved, these prices may not be indicative of the market value of DeKalb's common stock.

As of December 31, 2005, there were approximately 593 holders of record of DeKalb's common stock, excluding individual participants in security position listings.

DeKalb has never paid any cash dividends, and to support its continued capital growth, does not expect to pay cash dividends in the near future. The dividend policy of DeKalb is subject to the discretion of its board of directors and depends upon a number of factors, including earnings, financial conditions, cash needs, and general business conditions, as well as applicable regulatory considerations. DeKalb's only source of dividends at this time is dividends paid to it by Bank of Camden. South Carolina banking regulations restrict the amount of cash

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dividends that can be paid to shareholders, and all of Bank of Camden's cash dividends to shareholders are subject to the prior approval of the South Carolina Commissioner of Banking.

During the fiscal year ended December 31, 2005, DeKalb did not sell any securities that were not registered under the Securities Act of 1933.

Neither DeKalb nor any "affiliated purchaser" as defined in 17 C.F.R. 240.10b-18(a)(3) purchased any shares or units of any class of DeKalb's equity securities that is registered pursuant to Section 12 of the Exchange Act during the fourth quarter of 2005. Accordingly, no disclosure is required pursuant to 17 C.F.R. Section 228.703.

The following table sets forth aggregated information about all of DeKalb's compensation plans (including individual compensation arrangements) under which equity securities of DeKalb are authorized for issuance as of December 31, 2005:

<u>Plan category</u>	Number of securities to be issued upon exercise of outstanding options, <u>warrants and rights</u> (a)	Weighted-average exercise price of outstanding options, <u>warrants and rights</u> (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	88,000	\$ 10.78	10,921
Equity compensation plans not approved by security holders	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$
Total	88,000	\$ 10.78	10,921

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Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
DeKalb Bankshares, Inc.
Camden, South Carolina

We have audited the accompanying consolidated balance sheets of DeKalb Bankshares, Inc. (DeKalb) and subsidiary as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in shareholders' equity and comprehensive income (loss), and cash flows for the years then ended. These consolidated financial statements are the responsibility of DeKalb's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of DeKalb Bankshares, Inc. and subsidiary as of December 31, 2005 and 2004, and the results of their operations and cash flows for each of the years in the two year period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

/s/ Elliott Davis, LLC

Elliott Davis, LLC
Columbia, South Carolina
January 19, 2006

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DEKALB BANKSHARES, INC. AND SUBSIDIARY**Consolidated Balance Sheets**

	December 31,	
	2005	2004
Assets:		
Cash and cash equivalents:		
Cash and due from banks	\$ 589,136	\$ 567,773
Federal funds sold	1,330,000	3,175,000
Securities purchased under agreements to resell	501,576	-
Other interest bearing deposits	51,826	61,793
Total cash and cash equivalents	2,472,538	3,804,566
Time deposits with other banks	-	313,494
Investment securities:		
Securities available-for-sale	11,031,973	9,594,385
Nonmarketable equity securities	576,695	474,813
Total investment securities	11,608,668	10,069,198
Loans held for sale	626,223	-
Loans receivable	29,905,856	26,643,037
Less allowance for loan losses	(305,000)	(266,478)
Loans, net	29,600,856	26,376,559
Premises and equipment, net	1,344,362	1,411,412
Accrued interest receivable	194,422	150,875
Other assets	479,183	433,673
Total assets	46,326,252	42,559,777
Liabilities:		
Deposits:		
Noninterest-bearing transaction accounts	\$ 2,979,405	\$ 2,788,768
Interest-bearing transaction accounts	4,177,455	3,449,845
Savings	3,135,976	3,812,952
Time deposits \$100,000 and over	14,249,513	12,771,447
Other time deposits	5,758,276	5,487,366
Total deposits	30,300,625	28,310,378
Securities sold under agreements to repurchase	3,000,000	3,000,000
Advances from the Federal Home Loan Bank	7,600,000	5,900,000
Accrued interest payable	204,556	120,117
Other liabilities	63,544	36,887
Total liabilities	41,168,725	37,367,382
Commitments and contingencies (Notes 1, 13, and 14)		
Shareholders' equity:		
Common stock, no par value; 20,000,000 shares authorized;		
610,139 shares issued and outstanding	5,877,597	5,877,597
Retained deficit	(538,897)	(644,608)
Accumulated other comprehensive loss	(181,173)	(40,594)
Total shareholders' equity	5,157,527	5,192,395
Total liabilities and shareholders' equity	\$ 46,326,252	\$ 42,559,777

The accompanying notes are an integral part of the consolidated financial statements.

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DEKALB BANKSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Income

	Years ended December 31,	
	2005	2004
Interest income:		
Loans, including fees	\$ 1,959,542	\$ 1,584,586
Investment securities:		
Taxable	401,067	347,763
Other interest and dividends	19,684	11,890
Federal funds sold	51,464	26,156
Securities purchased under agreements to resell	1,576	-
Time deposits with other banks	2,567	6,665
Total interest income	2,435,900	1,977,060
Interest expense:		
Time deposits \$100,000 and over	381,158	210,130
Other deposits	230,534	173,440
Other interest expense	324,487	192,520
Total interest expense	936,179	576,090
Net interest income	1,499,721	1,400,970
Provision for loan losses	58,120	109,000
Net interest income after provision for loan losses	1,441,601	1,291,970
Noninterest income:		
Service charges on deposit accounts	149,199	156,178
Gains on residential mortgage loan sales	205,022	38,692
Other service charges, commissions, and fees	38,669	29,586
Total noninterest income	392,890	224,456
Noninterest expenses:		
Salaries and employee benefits	903,485	705,553
Net occupancy	83,432	76,336
Furniture and equipment	51,665	47,268
Other operating	610,703	547,395
Total noninterest expenses	1,649,285	1,376,552
Income before income taxes	185,206	139,874
Income tax expense	79,495	52,153
Net income	\$ 105,711	\$ 87,721
Income per common share		

Basic	\$	0.17	\$	0.14
Diluted	\$	0.17	\$	0.14

The accompanying notes are an integral part of the consolidated financial statements.

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DEKALB BANKSHARES, INC. AND SUBSIDIARY**Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income (Loss)
Years ended December 31, 2005 and 2004**

	Common Stock Shares	Common Stock Amount	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total
Balance, December 31, 2003	609,060	\$ 5,866,807	(\$732,329)	(\$22,632)	\$ 5,111,846
Net income			87,721		87,721
Other comprehensive loss, net of tax of \$10,549				(17,962)	(17,962)
Comprehensive income					69,759
Proceeds from exercise of stock options	1,079	10,790			10,790
Balance, December 31, 2004	610,139	5,877,597	(644,608)	(40,594)	5,192,395
Net income			105,711		105,711
Other comprehensive loss, net of tax of \$82,563				(140,579)	(140,579)
Comprehensive loss					(34,868)
Balance, December 31, 2005	610,139	\$ 5,877,597	(\$538,897)	(\$181,173)	\$ 5,157,527

The accompanying notes are an integral part of the consolidated financial statements.

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DEKALB BANKSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

	Years ended December 31,	
	2005	2004
Cash flows from operating activities:		
Net income	\$ 105,711	\$ 87,721
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	58,120	109,000
Depreciation and amortization expense	120,917	119,618
Gain on sale of premises and equipment	(1,274)	-
Accretion and premium amortization	16,411	17,548
Deferred income tax provision	61,359	52,359
Proceeds from sales of residential mortgages	12,930,382	2,647,850
Disbursements for residential mortgages held-for-sale	(13,556,605)	(2,527,850)
Increase in interest receivable	(43,547)	(39,058)
Increase in interest payable	84,439	82,324
Increase in other assets	(24,306)	(28,177)
Increase (decrease) in other liabilities	26,657	(2,349)
Net cash provided (used) by operating activities	(221,736)	518,986
Cash flows from investing activities:		
Net increase in loans made to customers	(3,282,418)	(5,286,410)
Purchases of securities available-for-sale	(3,515,070)	(6,576,919)
Maturities, calls and paydowns of securities available-for-sale	1,837,929	3,875,107
Purchases of premises and equipment	(64,993)	(112,290)
Proceeds received from sales of premises and equipment	12,400	-
Redemption (purchases) of time deposits with other banks	313,494	(3,416)
Purchases of nonmarketable equity securities	(101,881)	(503,713)
Proceeds from sales of nonmarketable equity securities	-	248,900
Net cash used by investing activities	(4,800,539)	(8,358,741)
Cash flows from financing activities:		
Proceeds from exercise of stock options	-	10,790
Net increase in demand deposits, interest-bearing transaction accounts and savings accounts	241,271	1,133,547
Net increase in certificates of deposit and other time deposits	1,748,976	3,330,289
Increase in advances from Federal Home Loan Bank	1,700,000	1,900,000
Increase in securities sold under agreements to repurchase	-	3,000,000
Net cash provided by financing activities	3,690,247	9,374,626
Net increase (decrease) in cash and cash equivalents	(1,332,028)	1,534,871

Cash and cash equivalents, beginning of year		3,804,566		2,269,695
Cash and cash equivalents, end of year	\$	2,472,538	\$	3,804,566
Cash paid during the period for:				
Interest	\$	851,740	\$	493,766
Taxes	\$	5,536	\$	3,177

The accompanying notes are an integral part of the consolidated financial statements.

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NOTE 1 - PENDING MERGER WITH FIRST COMMUNITY CORPORATION

On January 19, 2006, DeKalb Bankshares, Inc. ("DeKalb") entered into an agreement and plan of merger with First Community Corporation ("First Community"), the parent holding company for First Community Bank in Lexington, South Carolina. Pursuant to the agreement, DeKalb will be merged with and into First Community and The Bank of Camden will be merged with and into First Community Bank. Each share of DeKalb common stock will be converted into the right to receive \$3.875 in cash and 0.60705 shares of First Community common stock. The boards of directors of both companies have approved the merger agreement. The agreement is subject to the approval of shareholders of DeKalb and regulatory authorities. The transaction is expected to close during the late second or early third quarter of 2006.

NOTE 2 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation - DeKalb was incorporated to serve as a bank holding company for its subsidiary, Bank of Camden. Bank of Camden was incorporated on February 14, 2001 and commenced business on February 20, 2001. The principal business activity of Bank of Camden is to provide commercial banking services to domestic markets, principally in Kershaw County, South Carolina. Bank of Camden is a state-chartered bank, and its deposits are insured by the Federal Deposit Insurance Corporation. The consolidated financial statements include the accounts of the parent company and its wholly-owned subsidiary after elimination of all significant intercompany balances and transactions.

Management's Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans, including valuation allowances for impaired loans, and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties. Management must also make estimates in determining the estimated useful lives and methods for depreciating premises and equipment.

While management uses available information to recognize losses on loans and foreclosed real estate, future additions to the allowances may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review Bank of Camden's allowances for losses on loans and foreclosed real estate. Such agencies may require Bank of Camden to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowances for losses on loans and foreclosed real estate may change materially in the near term.

Significant Group Concentrations of Credit Risk - Financial instruments, which potentially subject DeKalb to concentrations of credit risk, consist principally of loans receivable, investment securities, federal funds sold and amounts due from banks.

DeKalb makes loans to individuals and small businesses for various personal and commercial purposes primarily in Kershaw County, South Carolina. DeKalb's loan portfolio is not concentrated in loans to any single borrower or a

relatively small number of borrowers. Additionally, management is not aware of any concentrations of loans to classes of borrowers or industries that would be similarly affected by economic conditions except for loans secured by residential 1-4 family dwellings and non-farm, non-residential real estate. These concentrations of 1-4 family dwelling loans and non-farm non-residential real estate loans totaled \$9,661,018 and \$9,320,210, respectively, at December 31, 2005, representing 186% and 180%, respectively, of total equity and 33% and 31%, respectively, of net loans receivable. At December 31, 2004, these concentrations totaled \$10,029,077 and \$7,699,603, respectively, representing 193% and 148%, respectively, of total equity and 38% and 29%, respectively, of net loans receivable.

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NOTE 2 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

such as loans that subject borrowers to substantial payment increases (e.g., principal deferral periods, loans with initial interest-only periods, etc.) and loans with high loan-to-value ratios. Management has determined that there is no concentration of credit risk associated with its lending policies or practices. Additionally, there are industry practices that could subject DeKalb to increased credit risk should economic conditions change over the course of a loan's life. For example, DeKalb makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully paid (i.e., balloon payment loans). These loans are underwritten and monitored to manage the associated risks. Therefore, management believes that these particular practices do not subject DeKalb to unusual credit risk.

DeKalb's investment portfolio consists principally of obligations of the United States, its agencies or its corporations and mortgage backed securities. In the opinion of Management, there is no concentration of credit risk in its investment portfolio. DeKalb places its deposits and correspondent accounts with and sells its federal funds to high quality institutions. Management believes credit risk associated with correspondent accounts is not significant.

Securities Available-for-Sale - Securities available-for-sale are carried at amortized cost and adjusted to estimated market value by recognizing the aggregate unrealized gains or losses in a valuation account. Aggregate market valuation adjustments are recorded in stockholders' equity net of deferred income taxes. Reductions in market value considered by management to be other than temporary are reported as a realized loss and a reduction in the cost basis of the security. The adjusted cost basis of investments available-for-sale is determined by specific identification and is used in computing the gain or loss upon sale.

Nonmarketable Equity Securities - Nonmarketable equity securities include the cost of DeKalb's investment in stock of the Federal Home Loan Bank and Community Financial Services, Inc. The stocks have no quoted market value and no ready market for them exists. Investment in the Federal Home Loan Bank is a condition of borrowing from the Federal Home Loan Bank, and the stock is pledged to collateralize such borrowings. At December 31, 2005 and 2004, Bank of Camden's investment in Federal Home Loan Bank stock was \$427,200 and \$331,600, respectively. At December 31, 2005 and 2004, investment in Community Financial Services, Inc. was \$149,495 and 143,213, respectively. Dividends received on these stocks are included as a separate component of interest income.

Loans - Loans are stated at their unpaid principal balance. Interest income is computed using the simple interest method and is recorded in the period earned.

When serious doubt exists as to the collectibility of a loan, interest income is generally discontinued unless the estimated net realizable value of collateral exceeds the principal balance and accrued interest.

Impaired loans are measured based on the present value of discounted expected cash flows. When it is determined that a loan is impaired, a direct charge to bad debt expense is made for the difference between the net present value of expected future cash flows based on the contractual rate and discount rate and DeKalb's recorded investment in the related loan. The corresponding entry is to a related allowance account. The accrual of interest is discontinued on impaired loans when management determines that a borrower may be unable to meet payments as they become due. Subsequent interest earned is recognized only to the point that cash payments are received. All payments are applied to principal if the ultimate amount of principal is not expected to be collected.

Allowance for Loan Losses - An allowance for loan losses is maintained at a level deemed appropriate by management to provide adequately for known and inherent losses in the loan portfolio. The allowance is based upon a continuing review of past loan loss experience, current and future economic conditions which may affect the borrowers' ability to pay, and the underlying collateral value of the loans. Loans deemed uncollectible are charged off and deducted from the allowance. The provision for loan losses and recoveries of loans previously charged off are

added to the allowance.

Residential Mortgage Loans Held-for-Sale - DeKalb's residential mortgage lending activities for sale in the secondary market are comprised of accepting residential mortgage loan applications, qualifying borrowers to standards established by investors, funding residential mortgage loans and selling mortgage loans to investors under pre-existing commitments. Funded residential mortgages held temporarily for sale to investors are recorded at the lower of cost or market value. Application and origination fees collected by DeKalb are recognized as income upon sale to the investor.

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NOTE 2 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Premises and Equipment - Premises and equipment are stated at cost, less accumulated depreciation. The provision for depreciation is computed by the straight-line method, based on the estimated useful lives for buildings of 40 years and furniture and equipment of 5 to 10 years. The cost of assets sold or otherwise disposed of, and the related allowance for depreciation, is eliminated from the accounts and the resulting gains or losses are reflected in the income statement when incurred. Maintenance and repairs are charged to current expense. The costs of major renewals and improvements are capitalized.

Securities Sold Under Agreements to Repurchase - Bank of Camden enters into sales of securities under agreements to repurchase. Fixed-coupon repurchase agreements are treated as financing, with the obligation to repurchase securities sold being reflected as a liability and the securities underlying the agreements remaining as assets.

Income Taxes - Income taxes are the sum of amounts currently payable to taxing authorities, and the net changes in income taxes payable or refundable in future years. Income taxes deferred to future years are determined utilizing a liability approach. This method gives consideration to the future tax consequences associated with differences between financial accounting and tax bases of certain assets and liabilities, which are principally the allowance for loan losses and depreciable premises and equipment.

Advertising Expense - Advertising and public relations costs are generally expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent. Advertising and public relations costs of \$27,150 and \$36,637 were included in DeKalb's results of operations for 2005 and 2004, respectively.

Retirement Plan - DeKalb has a SIMPLE retirement plan covering substantially all employees. Under the plan, participants were permitted to make discretionary contributions in 2005 up to \$10,000, unless age 50 and over, as to which the amount is \$12,000. DeKalb can match employee contributions by contributing up to 3% of each employee's annual compensation. DeKalb matched contributions in 2005 and 2004 and charges to earnings were \$14,987 and \$3,972, respectively.

Stock-Based Compensation - DeKalb has a stock-based employee compensation plan which is further described in Note 16. DeKalb accounts for the plan under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. No stock-based employee compensation cost is reflected in the net income, as all stock options granted under this plan had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per common share as if DeKalb had applied the fair value recognition provisions of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation for the years ended December 31, 2005 and 2004.

	2005	2004
Net income, as reported	\$ 105,711	\$ 87,721
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	83,735	7,858

Pro forma net income	\$	21,976	\$	79,863
Income per share:				
Basic - as reported	\$	0.17	\$	0.14
Basic - pro forma	\$	0.04	\$	0.13
Diluted - as reported	\$	0.17	\$	0.14
Diluted - pro forma	\$	0.04	\$	0.13

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NOTE 2 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Income Per Common Share - Basic income per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by DeKalb relate solely to outstanding stock options and are determined using the treasury stock method.

Comprehensive Income - Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income (loss).

The components of other comprehensive loss and related tax effects for the years ended December 31, 2005 and 2004 are as follows:

	2005	2004
Unrealized holding losses on securities available-for-sale	(\$223,142)	(\$28,511)
Reclassification adjustment for losses realized in net income	-	-
Net unrealized losses on securities available-for-sale	(223,142)	(28,511)
Tax effect	82,563	10,549
Net-of-tax amount	(\$140,579)	(\$17,962)

Statement of Cash Flows - For purposes of reporting cash flows, DeKalb considers certain highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents include amounts due from banks and federal funds sold.

Changes in the valuation account of securities available-for-sale, including the deferred tax effects, are considered noncash transactions for purposes of the statements of cash flows and are presented in detail in the notes to the financial statements.

Off-Balance-Sheet Financial Instruments - In the ordinary course of business, DeKalb enters into off-balance-sheet financial instruments consisting of commitments to extend credit and letters of credit. These financial instruments are recorded in the financial statements when they become payable by the customer.

Recent Accounting Pronouncements - The following is a summary of recent authoritative pronouncements that affect accounting, reporting, and disclosure of financial information by DeKalb:

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)"). SFAS No. 123(R) will require companies to measure all employee stock-based compensation awards using a fair value method and record such expense in its financial statements. In addition, the adoption of SFAS No. 123(R) requires additional accounting and disclosures related to the income tax and cash flow effects resulting from share-based payment arrangements. SFAS No. 123(R) is effective beginning as of the fiscal year beginning after December 15, 2005. SFAS No. 123(R) allows for adoption using either the modified prospective or modified retrospective methods. DeKalb anticipates using the modified prospective method when this statement is adopted in the first quarter of 2006. DeKalb has evaluated the impact upon adoption of SFAS No. 123(R) and has concluded that the adoption will not have a material impact on its financial position or results of operations upon adoption.

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NOTE 2 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - continued
Recent Accounting Pronouncements - continued

In April 2005, the Securities and Exchange Commission's Office of the Chief Accountant and its Division of Corporation Finance issued Staff Accounting Bulletin ("SAB") No.107 to provide guidance regarding the application of SFAS No.123(R). SAB No. 107 provides interpretive guidance related to the interaction between SFAS No.123(R) and certain SEC rules and regulations, as well as the staff's views regarding the valuation of share-based payment arrangements for public companies. SAB No. 107 also reminds public companies of the importance of including disclosures in filings made with the SEC relating to the accounting for share-based payment transactions, particularly during the transition to SFAS No.123(R).

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29." The standard is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged and eliminates the exception under ABP Opinion No. 29 for an exchange of similar productive assets and replaces it with an exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The standard is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of SFAS 153 is not expected to have a material impact on DeKalb's financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3". SFAS No. 154 establishes retrospective application as the required method for reporting a change in accounting principle, unless it is impracticable, in which case the changes should be applied to the latest practicable date presented. SFAS No. 154 also requires that a correction of an error be reported as a prior period adjustment by restating prior period financial statements. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In March 2004, the FASB issued Emerging Issues Task Force ("EITF") Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments." This issue addresses the meaning of other-than-temporary impairment and its application to investments classified as either available for sale or held to maturity under SFAS No. 115 and it also provides guidance on quantitative and qualitative disclosures. The disclosure requirements in paragraph 21 of this Issue were effective for annual financial statements for fiscal years ending after December 15, 2003 and were adopted by DeKalb effective December 31, 2003.

The recognition and measurement guidance in paragraphs 6-20 of Issue No. 03-1 was to be applied to other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004, but was delayed by FASB action in October 2004 through the issuance of a proposed FASB Staff Position ("FSP") on the issue. In July 2005, the FASB issued FSP FAS 115-1 and FAS 124-1—"The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments." This final guidance eliminated paragraphs 10-18 of EITF-03-1 (paragraphs 19-20 have no material impact on the financial position or results of operations of DeKalb) and will be effective for other-than-temporary impairment analysis conducted in periods beginning after December 15, 2005. DeKalb has evaluated the impact that the adoption of FSP FAS 115-1 and FAS 124-1 and has concluded that the adoption will not have a material impact on financial position and results of operations upon adoption.

In December 2005, the FASB issued FSP SOP 94-6-1, "Terms of Loan Products that May Give Rise to a Concentration of Credit Risk." The disclosure guidance in this FSP is effective for interim and annual periods ending after December 19, 2005. The FSP states that the terms of certain loan products may increase a reporting entity's exposure to credit risk and thereby may result in a concentration of credit risk as that term is used in SFAS No. 107, either as an individual product type or as a group of products with similar features. SFAS No. 107 requires disclosures about each significant concentration, including "information about the (shared) activity, region, or

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NOTE 2 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - continued**Recent Accounting Pronouncements** - continued

economic characteristic that identifies the concentration.” The FSP suggests possible shared characteristics on which significant concentrations may be determined which include, but are not limited to: borrowers subject to significant payment increases, loans with terms that permit negative amortization and loans with high loan-to-value ratios. This FSP requires entities to provide the disclosures required by SFAS No. 107 for loan products that are determined to represent a concentration of credit risk in accordance with the guidance of this FSP for all periods presented. DeKalb adopted this disclosure standard effective December 31, 2005.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

NOTE 3 - INVESTMENT SECURITIES

Securities available-for-sale consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Losses	Estimated Fair Value
December 31, 2005				
Securities of U.S. government agencies				
and corporations	\$ 3,996,122	\$ -	\$ 64,747	\$ 3,931,375
Mortgage-backed securities	7,323,427	-	222,829	7,100,598
Total	\$ 11,319,549	\$ -	\$ 287,576	\$ 11,031,973

December 31, 2004

Securities of U.S. government agencies				
and corporations	\$ 2,509,614	\$ 5,252	\$ 13,359	\$ 2,501,507
Mortgage-backed securities	7,149,205	2,214	58,541	7,092,878
Total	\$ 9,658,819	\$ 7,466	\$ 71,900	\$ 9,594,385

The following is a summary of maturities of securities available-for-sale. The amortized cost and estimated fair values are based on the contractual maturity dates. Actual maturities may differ from the contractual maturities because borrowers may have the right to prepay obligations with or without penalty. No maturity schedule is presented for mortgage-backed securities since paydowns are expected before contractual maturity dates.

	December 31,			
	2005		2004	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	\$ 750,000	\$ 736,563	\$ -	\$ -
Due after one year but within five years	3,246,122	3,194,812	2,509,614	2,501,507
Mortgage-backed securities	7,323,427	7,100,598	7,149,205	7,092,878
Total	\$ 11,319,549	\$ 11,031,973	\$ 9,658,819	\$ 9,594,385

The following table shows gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2005.

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NOTE 3 - INVESTMENT SECURITIES *Continued***Securities Available for Sale**

	Less than twelve months		Twelve months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Securities of U.S. government agencies and corporations	\$ 1,968,797	\$ 27,325	\$ 1,962,578	\$ 37,422	\$ 3,931,375	\$ 64,747
Mortgage-backed securities	2,155,231	47,856	4,945,367	174,973	7,100,598	222,829
	\$ 4,124,028	\$ 75,181	\$ 6,907,945	\$ 212,395	\$ 11,031,973	\$ 287,576

Securities classified as available-for-sale are recorded at fair market value. Approximately 73.9% of the unrealized losses, or fourteen individual securities, consisted of securities in a continuous loss position for twelve months or more. DeKalb has the ability and intent to hold these securities until such time as the value recovers or the securities mature. DeKalb believes, based on industry analyst reports and credit ratings, that the deterioration in value is attributable to changes in market interest rates and is not in the credit quality of the issuer and therefore, these losses are not considered other-than-temporary.

At December 31, 2005 and 2004, investment securities with a book value of \$11,214,823 and \$9,556,897 and a market value of \$10,929,354 and \$9,491,412, respectively, were pledged as collateral to secure public deposits and for other purposes as required or permitted by law.

NOTE 4 - LOANS RECEIVABLE

Loans receivable consisted of the following:

	December 31,	
	2005	2004
Mortgage loans on real estate:		
Residential 1-4 family	\$ 9,661,018	\$ 10,029,077
Commercial	9,320,210	7,699,603
Construction	5,197,612	2,426,209
Second mortgages	307,322	99,595
Equity lines of credit	2,292,288	1,880,511
	26,778,450	22,134,995
Commercial and industrial	2,090,227	3,278,822
Consumer and other	1,037,179	1,229,220
Total gross loans	\$ 29,905,856	\$ 26,643,037

Transactions in the allowance for loan losses for the years ended December 31, 2005 and 2004 are summarized below:

2005	2004
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Balance, beginning of year	\$	266,478	\$	305,000
Provision charged to operations		58,120		109,000
Recoveries on loans previously charged-off		1,067		5,184
Loans charged-off		(20,665)		(152,706)
Balance, end of year	\$	305,000	\$	266,478

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There were no loans in nonaccrual status, no loans past due ninety days or more and still accruing interest and no restructured loans at December 31, 2005 and 2004, respectively. DeKalb also had no loans that were considered to be impaired at December 31, 2005, and 2004.

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NOTE 5 - PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31,	
	2005	2004
Land	\$ 400,000	\$ 400,000
Land improvements	102,474	102,474
Building	763,930	759,470
Furniture and equipment	647,292	612,786
	1,913,696	1,874,730
Less, accumulated depreciation	(569,334)	(463,318)
Premises and equipment, net	\$ 1,344,362	\$ 1,411,412

Depreciation expense for the years ended December 31, 2005 and 2004 was \$120,917 and \$119,618, respectively.

NOTE 6 - DEPOSITS

At December 31, 2005, the scheduled maturities of certificates of deposit were as follows:

	Amount
2006	\$ 18,760,033
2007	910,124
2008	68,456
2009	269,176
	\$ 20,007,789

NOTE 7 - SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

Information concerning securities sold under agreement to repurchase is summarized as follows for the year ended December 31, 2005 and 2004:

	December 31,	
	2005	2004
Average balance during the year	\$ 3,000,000	\$ 2,852,055
Average interest rate during the year	2.95%	2.95%
Maximum month-end balance during the year	\$ 3,000,000	\$ 3,000,000

The agreement has a maturity date of January 20, 2007 and bears a fixed interest rate of 2.95%. Mortgage-backed securities with a book value of \$3,041,285 and a market value of \$2,961,252 at December 31, 2005 are used as collateral for the agreement. Mortgage-backed securities with a book value of \$3,106,649 and a market value of \$3,105,795 at December 31, 2004 were used as collateral for the agreement in 2004.

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NOTE 8 - ADVANCES FROM THE FEDERAL HOME LOAN BANK

Advances from the Federal Home Loan Bank consisted of the following:

		December 31,	
<u>Description</u>	<u>Interest Rate</u>	<u>2005 Balance</u>	<u>2004 Balance</u>
Fixed rate advances maturing:			
August 26, 2005	2.47%	\$ -	\$ 1,000,000
September 6, 2011	3.23	-	500,000
July 23, 2012	3.87	1,000,000	1,000,000
July 22, 2015	3.79	2,000,000	-
Variable rate advance maturing:			
March 10, 2006	4.48	400,000	400,000
September 6, 2011	4.45	500,000	-
Daily rate advance maturing:			
November 1, 2005	2.44	-	3,000,000
November 1, 2006	4.44	3,700,000	-
		\$ 7,600,000	\$ 5,900,000

Scheduled maturities of Federal Home Loan Bank advances are as follows:

2006	\$ 4,100,000
After five years	3,500,000
	\$ 7,600,000

As collateral, DeKalb has given a blanket lien on its first mortgage loans on one to four family residential loans aggregating \$9,661,018, a blanket lien on home equity lines of credits and second mortgages aggregating \$2,599,610 and a blanket lien on commercial real estate loans aggregating \$9,320,210, at December 31, 2005. In addition, DeKalb's Federal Home Loan Bank stock is pledged to secure the borrowings. Certain advances are subject to prepayment penalties.

NOTE 9 - RESTRICTIONS ON DIVIDENDS

South Carolina banking regulations restrict the payment of dividends to shareholders. Bank of Camden is authorized to pay cash dividends up to 100% of net income in any calendar year without obtaining the prior approval of the Commissioner of Banking provided that Bank of Camden received a composite rating of one or two at the last Federal or State regulatory examination. Otherwise, Bank of Camden must obtain prior approval to pay a dividend. Under Federal Reserve Board regulations, the amounts of loans or advances from Bank of Camden to the parent company are also restricted.

NOTE 10 - OTHER OPERATING EXPENSE

Other operating expense for the years ended December 31, 2005 and 2004 is summarized below:

	<u>2005</u>	<u>2004</u>
Professional fees	\$ 102,602	\$ 86,001
Printing and office supp		