

FIRST COMMUNITY CORP /SC/
Form 10-Q
August 13, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

for the quarterly period ended June 30, 2013

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

for the transition period from to

Commission File No. 000-28344

FIRST COMMUNITY CORPORATION

(Exact name of registrant as specified in its charter)

South Carolina

57-1010751

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(State of Incorporation)

(I.R.S. Employer Identification No.)

5455 Sunset Boulevard, Lexington, South Carolina 29072

(Address of Principal Executive Offices, Including Zip Code)

(803) 951-2265

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: On August 13, 2013, 5,293,116 shares of the issuer's common stock, par value \$1.00 per share, were issued and outstanding.

Table of Contents

TABLE OF CONTENTS

<u>PART I - FINANCIAL INFORMATION</u>	3
<u>Item 1. Financial Statements</u>	3
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Income</u>	4
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	6
<u>Consolidated Statements of Changes in Shareholders' Equity</u>	7
<u>Consolidated Statements of Cash Flows</u>	8
<u>Notes to Consolidated Financial Statements</u>	9
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	39
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	55
<u>Item 4. Controls and Procedures</u>	55
<u>PART II - OTHER INFORMATION</u>	55
<u>Item 1. Legal Proceedings</u>	55
<u>Item 1A. Risk Factors</u>	55
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	55
<u>Item 3. Defaults Upon Senior Securities</u>	55
<u>Item 4. Mine Safety Disclosures</u>	55
<u>Item 5. Other Information</u>	56
<u>Item 6. Exhibits</u>	56
<u>SIGNATURES</u>	57
<u>INDEX TO EXHIBITS</u>	58
EX-31.1 RULE 13A-14(A) CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER	
EX-31.2 RULE 13A-14(A) CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER	
EX-32 SECTION 1350 CERTIFICATIONS	

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****FIRST COMMUNITY CORPORATION****CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands, except par value)	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Cash and due from banks	\$ 9,727	\$ 11,517
Interest-bearing bank balances	14,155	6,779
Federal funds sold and securities purchased under agreements to resell	405	412
Investment securities - available for sale	223,646	203,445
Other investments, at cost	2,269	2,527
Loans held for sale	5,789	9,658
Loans	341,089	332,111
Less, allowance for loan losses	4,439	4,621
Net loans	336,650	327,490
Property, furniture and equipment - net	17,255	17,258
Bank owned life insurance	11,024	10,868
Other real estate owned	2,824	3,987
Intangible assets	65	160
Goodwill	571	571
Other assets	8,805	8,253
Total assets	\$ 633,185	\$ 602,925
LIABILITIES		
Deposits:		
Non-interest bearing demand	\$ 105,478	\$ 97,526
NOW and money market accounts	186,778	150,874
Savings	47,238	41,100
Time deposits less than \$100,000	102,311	111,182
Time deposits \$100,000 and over	67,814	74,295
Total deposits	509,619	474,977
Securities sold under agreements to repurchase	15,650	15,900
Federal Home Loan Bank advances	34,335	36,344
Junior subordinated debt	15,464	15,464
Other liabilities	5,289	6,057
Total liabilities	580,357	548,742
SHAREHOLDERS EQUITY		
Preferred stock, par value \$1.00 per share, 10,000,000 shares authorized; none issued and outstanding		
Common stock, par value \$1.00 per share; 10,000,000 shares authorized; issued and outstanding 5,293,116 at June 30, 2013 5,227,300 at December 31, 2012	5,293	5,227
Common stock warrants issued	50	50
Additional paid in capital	62,151	61,615
Restricted stock	(593)	(152)
Accumulated Deficit	(13,193)	(14,915)
Accumulated other comprehensive income (loss)	(880)	2,358

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Total shareholders' equity		52,828		54,183
Total liabilities and shareholders' equity	\$	633,185	\$	602,925

See Notes to Consolidated Financial Statements

Table of Contents

FIRST COMMUNITY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share amounts)	Six Months Ended June 30, 2013 (Unaudited)	Six Months Ended June 30, 2012 (Unaudited)
Interest income:		
Loans, including fees	\$ 8,823	\$ 9,256
Taxable securities	1,312	2,341
Non taxable securities	486	249
Federal funds sold and securities purchased under resale agreements	15	17
Other	17	21
Total interest income	10,653	11,884
Interest expense:		
Deposits	970	1,735
Federal funds sold and securities sold under agreement to repurchase	18	18
Other borrowed money	963	1,171
Total interest expense	1,951	2,924
Net interest income	8,702	8,960
Provision for loan losses	250	301
Net interest income after provision for loan losses	8,452	8,659
Non-interest income:		
Deposit service charges	728	764
Mortgage origination fees	2,198	1,600
Investment advisory fees and non-deposit commissions	416	309
Gain (loss) on sale of securities	148	(27)
Gain on sale of other assets	30	14
Fair value loss adjustments	(2)	(37)
Other-than-temporary-impairment write-down on securities		(200)
Loss on early extinguishment of debt	(141)	(121)
Other	1,001	1,016
Total non-interest income	4,378	3,318
Non-interest expense:		
Salaries and employee benefits	5,986	5,305
Occupancy	680	680
Equipment	597	570
Marketing and public relations	205	294
FDIC assessments	201	380
Other real estate expense	206	386
Amortization of intangibles	96	102
Other	1,791	1,803
Total non-interest expense	9,762	9,520
Net income before tax	3,068	2,457
Income taxes	827	730
Net income	\$ 2,241	\$ 1,727
Preferred stock dividends		337
Net income available to common shareholders	\$ 2,241	\$ 1,390
Basic earnings per common share	\$ 0.42	\$ 0.42
Diluted earnings per common share	\$ 0.42	\$ 0.42

Table of Contents

FIRST COMMUNITY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30, 2013 (Unaudited)	Three Months Ended June 30, 2012 (Unaudited)
(Dollars in thousands except per share amounts)		
Interest income:		
Loans, including fees	\$ 4,462	\$ 4,629
Taxable securities	632	1,026
Non taxable securities	259	163
Federal funds sold and securities purchased under resale agreements	9	11
Other	8	11
Total interest income	5,370	5,840
Interest expense:		
Deposits	457	808
Federal funds sold and securities sold under agreement to repurchase	9	9
Other borrowed money	481	572
Total interest expense	947	1,389
Net interest income	4,423	4,451
Provision for loan losses	100	71
Net interest income after provision for loan losses	4,323	4,380
Non-interest income:		
Deposit service charges	367	375
Mortgage origination fees	1,183	877
Investment advisory fees and non-deposit commissions	218	162
Gain (loss) on sale of securities	133	(38)
Gain (loss) on sale of other assets	32	(36)
Fair value gain (loss) adjustments	(2)	(4)
Loss on early extinguishment of debt	(141)	
Other	505	519
Total non-interest income	2,295	1,855
Non-interest expense:		
Salaries and employee benefits	2,994	2,747
Occupancy	334	335
Equipment	314	283
Marketing and public relations	112	108
FDIC assessment	102	196
Other real estate expense	115	267
Amortization of intangibles	45	51
Other	939	921
Total non-interest expense	4,955	4,908
Net income before tax	1,663	1,327
Income taxes	460	399
Net income	\$ 1,203	\$ 928
Preferred stock dividends		168
Net income available to shareholders	1,203	\$ 760
Basic earnings per common share	\$ 0.23	\$ 0.23
Diluted earnings per common share	\$ 0.23	\$ 0.23

Table of Contents

FIRST COMMUNITY CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

(Dollars in thousands)	Six months ended June 30,	
	2013	2012
Net income	\$ 2,241	\$ 1,727
Other comprehensive income (loss):		
Unrealized loss during the period on available-for-sale securities, net of tax benefit of \$1,617 and \$2, respectively	(3,140)	(4)
Less: Reclassification adjustment for (gain)loss included in net income, net of tax (expense)benefit of \$50 and (\$9), respectively	(98)	18
Reclassification adjustment for other-than-temporary-impairment on securities net of tax benefit of \$0 and \$68, respectively		132
Other comprehensive income (loss)	(3,238)	146
Comprehensive income (loss)	\$ (997)	\$ 1,873

(Dollars in thousands)	Three months ended June 30,	
	2013	2012
Net income	\$ 1,203	\$ 928
Other comprehensive income (loss):		
Unrealized loss during the period on available-for-sale securities, net of tax benefit of \$1,492 and \$394, respectively.	(2,896)	(742)
Less: Reclassification adjustment for (gain) loss included in net income, net of tax (expense)benefit of \$45 and (\$13) respectively.	(88)	25
Other comprehensive loss	(2,984)	(717)
Comprehensive income (loss)	\$ (1,781)	\$ 211

See Notes to Consolidated Financial Statements

Table of Contents**FIRST COMMUNITY CORPORATION****Consolidated Statements of Changes in Shareholders Equity****Six Months ended June 30, 2013 and June 30, 2012****(Unaudited)**

(Dollars and shares in thousands)	Preferred Stock	Shares Issued	Common Stock	Common Stock Warrants	Additional Paid-in Capital	Nonvested Restricted Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2011	\$ 11,137	3,308	\$ 3,308	\$ 560	\$ 49,165	\$	\$ (17,603)	\$ 1,329	\$ 47,896
Net income							1,727		1,727
Other comprehensive income net of tax expense of \$75								146	146
Issuance of restricted stock		33	33		239	(272)			
Amortization compensation restricted stock						30			30
Dividends: Common (\$0.08 per share)							(264)		(264)
Preferred							(337)		(337)
Accretion	54								54
Dividend reinvestment plan		5	5		39				44
Balance, June 30, 2012	\$ 11,191	3,346	\$ 3,346	\$ 560	\$ 49,443	\$ (242)	\$ (16,477)	\$ 1,475	\$ 49,296
Balance, December 31, 2012	\$	5,227	\$ 5,227	\$ 50	\$ 61,615	\$ (152)	\$ (14,915)	\$ 2,358	\$ 54,183
Net income							2,241		2,241
Other comprehensive loss net of tax benefit of \$1,667								(3,238)	(3,238)
Issuance of restricted stock		60	60		493	(553)			
Amortization compensation restricted stock						112			112
Dividends: Common (\$0.10 per share)							(519)		(519)
Dividend reinvestment plan		6	6		43				49
Balance, June 30, 2013	\$	5,293	\$ 5,293	\$ 50	\$ 62,151	\$ (593)	\$ (13,193)	\$ (880)	\$ 52,828

See Notes to Consolidated Financial Statements

Table of Contents

FIRST COMMUNITY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Dollars in thousands)	Six months ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 2,241	\$ 1,727
Adjustments to reconcile net income to net cash provided in operating activities:		
Depreciation	445	417
Premium amortization (discount accretion)	2,208	1,298
Provision for loan losses	250	301
Writedowns of other real estate owned	21	206
Gain on sale of other real estate owned	(30)	(14)
Sale of loans held-for-sale	76,725	51,242
Originations of loans held-for-sale	(72,856)	(51,874)
Amortization of intangibles	96	102
(Gain) loss on sale of securities	(148)	27
Other-than-temporary-impairment on securities		200
Net decrease in fair value option instruments and derivatives	2	37
Loss on early extinguishment of debt	141	121
Decrease in other assets	1,047	1,217
Decrease in other liabilities	(763)	(543)
Net cash provided from operating activities	9,379	4,464
Cash flows from investing activities:		
Purchase of investment securities available-for-sale and other investments	(58,755)	(63,384)
Maturity of investment securities available-for-sale	28,187	17,443
Proceeds from sale of securities available-for-sale	3,515	49,075
Proceeds from sale of other investments	257	937
Increase in loans	(9,548)	(1,813)
Proceeds from sale of other real estate owned	1,214	3,130
Purchase of property and equipment	(442)	(385)
Net cash provided (used) in investing activities	(35,572)	5,003
Cash flows from financing activities:		
Increase in deposit accounts	34,642	9,434
Decrease in securities sold under agreements to repurchase	(250)	(799)
Advances from the Federal Home Loan Bank	16,500	1,500
Repayment of advances from FHLB	(18,650)	(6,987)
Dividends paid: Common Stock	(519)	(264)
Preferred Stock		(337)
Dividend reinvestment plan	49	44
Net cash provided from financing activities	31,772	2,591
Net increase in cash and cash equivalents	5,579	12,058
Cash and cash equivalents at beginning of period	18,708	16,492
Cash and cash equivalents at end of period	\$ 24,287	\$ 28,550
Supplemental disclosure:		
Cash paid during the period for:		
Interest	\$ 2,314	\$ 3,351
Income taxes	\$	\$
Non-cash investing and financing activities:		
Unrealized gain (loss) on securities	\$ (3,238)	\$ 146
Transfer of loans to foreclosed property	\$ 46	\$ 904

See Notes to Consolidated Financial Statements

Table of Contents**Notes to Consolidated Financial Statements (unaudited)****Note 1 Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

The following table summarizes the changes in accumulated other comprehensive income (loss) by component, net of tax impact, at the dates and for the periods indicated (in thousands). All amounts are net of income taxes.

	Three months ended June 30,	
	2013	2012
Beginning Balance	\$ 2,104	\$ 2,192
Other comprehensive loss before reclassifications(a)	(2,896)	(742)
Amounts reclassified from accumulated other comprehensive income (loss)(a)	(88)	25
Net current-period other comprehensive income loss	(2,984)	(717)
Ending Balance	\$ (880)	\$ 1,475

	Six months ended June 30,	
	2013	2012
Beginning Balance	\$ 2,358	\$ 1,329
Other comprehensive loss before reclassifications(a)	(3,140)	(4)
Amounts reclassified from accumulated other comprehensive income (loss)(a)	(98)	150
Net current-period other comprehensive income (loss)	(3,238)	146
Ending Balance	\$ (880)	\$ 1,475

(a) All other comprehensive income (loss) and reclassifications are related to available-for-sale securities.

In the opinion of management, all adjustments necessary to fairly present the consolidated financial position and consolidated results of operations have been made. All such adjustments are of a normal, recurring nature. All significant intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements and notes thereto are presented in accordance with the instructions for Form 10-Q. The information included in the Company's 2012 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (the "SEC") on March 28, 2013, should be referred to in connection with these unaudited interim financial statements.

Table of Contents**Note 2 Earnings Per Common Share**

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

(In thousands, except price per share)	Six months Ended June 30,		Three months Ended June 30,	
	2013	2012	2013	2012
Numerator (Net income available to common shareholders)	\$ 2,241	\$ 1,390	\$ 1,203	\$ 760
Denominator				
Weighted average common shares outstanding for:				
Basic earnings per share	5,274	3,319	5,292	3,329
Dilutive securities:				
Warrants Treasury stock method	38	24	37	28
Diluted earnings per share	5,312	3,343	5,329	3,357
The average market price used in calculating assumed number of shares	\$ 9.15	\$ 7.63	\$ 9.05	\$ 7.99

At June 30, 2013, there were 73,022 outstanding options at an average exercise price of \$20.23. None of these options has an exercise price below the average market price of \$9.05 for the three-month period ended June 30, 2013 or \$9.15 for the six-month period ended June 30, 2013, and, therefore they are not deemed to be dilutive. In the fourth quarter of 2011, we issued \$2.5 million in 8.75% subordinated notes maturing on December 16, 2019. On November 15, 2012, the subordinated notes were redeemed in full at par. Warrants for 107,500 shares of common stock at \$5.90 per share were issued in connection with the issuance of the subordinated debt. These warrants expire December 16, 2019 and are included in dilutive securities in the table above.

Table of Contents**Note 3 Investment Securities**

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

AVAILABLE-FOR-SALE:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2013:				
Government sponsored enterprises	\$ 1,518	\$ 1	\$ 57	\$ 1,462
Mortgage-backed securities	122,527	1,492	1,370	122,649
Small Business Administration pools	56,886	711	293	57,304
State and local government	41,753	108	1,939	39,922
Corporate and other securities	2,349	2	42	2,309
	\$ 225,033	\$ 2,314	\$ 3,701	\$ 223,646
December 31, 2012:				
Government sponsored enterprises	\$ 1,522	\$ 12	\$	\$ 1,534
Mortgage-backed securities	110,425	2,343	624	112,144
Small Business Administration pools	54,148	1,008	163	54,993
State and local government	31,483	936	46	32,373
Corporate and other securities	2,349	53	1	2,401
	\$ 199,927	\$ 4,352	\$ 834	\$ 203,445

During the six months ended June 30, 2013 and June 30, 2012, the Company received proceeds of \$3.5 million and \$49.1 million, respectively, from the sale of investment securities available-for-sale. Gross realized gains amounted to \$148.4 thousand for the six months ended June 30, 2013 and there were no gross realized losses for the same period. For the six months ended June 30, 2012, gross realized gains amounted to \$2.0 million and gross realized losses amounted to \$2.1 million. During the three months ended June 30, 2013 and June 30, 2012, the Company received proceeds of \$ 1.7 million and \$44.8 million, respectively, from the sale of investment securities available-for-sale. Gross realized gains amounted to \$133 thousand for the three months ended June 30, 2013 and there were no gross realized losses for the same period. For the three months ended June 30, 2012, gross realized gains amounted to \$1.9 million and gross realized losses amounted to \$1.9 million.

At June 30, 2013, corporate and other securities available-for-sale included the following at fair value: corporate bonds at \$1.0 million, mutual funds at \$829.9 thousand, foreign debt of \$59.5 thousand, and Corporate preferred stock in the amount of \$416.8 thousand. At December 31, 2012, corporate and other securities available-for-sale included the following at fair value: corporate bonds at \$1.0 million, mutual funds at \$884.5 thousand, foreign debt of \$59.7 thousand, Federal Home Loan Mortgage Corporation preferred stock of \$30.0 thousand and Corporate preferred stock in the amount of \$416.8 thousand.

Other investments, at cost, include Federal Home Loan Bank (FHLB) stock in the amount of \$2.3 million and \$2.5 million at June 30, 2013 and December 31, 2012 respectively.

Table of Contents*Note 3 Investment Securities continued*

During the three month period ended June 30, 2012 and during the three and six month periods ended June 30, 2013, the Company did not record any other-than-temporary impairment (OTTI) losses. During the six month period ended June 30, 2012, the Company recorded OTTI losses on available-for-sale securities as follows:

(Dollars in thousands)	Six months ended June 30, 2012	
	Available-for- sale securities	
Total OTTI charge realized and unrealized	\$	415
OTTI recognized in other comprehensive income (non-credit component)		215
Net impairment losses recognized in earnings (credit component)	\$	200

During 2013 and 2012, OTTI occurred for which only a portion was attributed to credit loss and recognized in earnings. The remainder was reported in other comprehensive income. The following is an analysis of amounts relating to credit losses on debt securities recognized in earnings during the six months ended June 30, 2013 and 2012.

(Dollars in thousands)	2013		2012	
	Available for Sale		Available for Sale	
Balance at beginning of period	\$	271	\$	930
Other-than-temporary-impairment not previously recognized				173
Additional increase for which an other-than-temporary impairment was previously recognized related to credit losses				27
Other-than-temporary-impairment previously recognized on securities sold				(679)
Realized losses during the period		(46)		(136)
Balance related to credit losses on debt securities at end of period	\$			