

FIRST COMMUNITY CORP /SC/
Form 10-Q
August 10, 2012
[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, 2012

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

for the transition period from to

Commission File No. 000-28344

FIRST COMMUNITY CORPORATION

(Exact name of registrant as specified in its charter)

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South Carolina
(State of Incorporation)

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

5455 Sunset Boulevard, Lexington, South Carolina 29072

(Address of Principal Executive Offices)

(803) 951-2265

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: On August 10, 2012, 5,221,365 shares of the issuer's common stock, par value \$1.00 per share, were issued and outstanding.

Table of Contents

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets

Consolidated Statements of Income

Consolidated Statements of Comprehensive Income

Consolidated Statements of Changes in Shareholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Item 1A. Risk Factors

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Item 3. Defaults Upon Senior Securities

Item 4. Mine Safety Disclosures

Item 5. Other Information

Item 6. Exhibits

SIGNATURES

INDEX TO EXHIBITS

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, 2012 (Unaudited)	December 31, 2011
ASSETS		
Cash and due from banks	\$ 10,345	\$ 10,599
Interest-bearing bank balances	17,946	5,512
Federal funds sold and securities purchased under agreements to resell	259	381
Investment securities - available for sale	196,581	201,032
Other investments, at cost	4,800	5,637
Loans held for sale	4,356	3,725
Loans	324,913	324,311
Less, allowance for loan losses	4,742	4,699
Net loans	320,171	319,612
Property, furniture and equipment - net	17,451	17,483
Bank owned life insurance	10,689	10,974
Other real estate owned	4,909	7,351
Intangible assets	263	365
Goodwill	571	571
Other assets	9,673	10,645
Total assets	\$ 598,014	\$ 593,887
LIABILITIES		
Deposits:		
Non-interest bearing demand	\$ 90,557	\$ 83,572
NOW and money market accounts	146,347	136,483
Savings	39,321	34,048
Time deposits less than \$100,000	120,882	128,616
Time deposits \$100,000 and over	76,912	81,866
Total deposits	474,019	464,585
Securities sold under agreements to repurchase	12,817	13,616
Federal Home Loan Bank advances	38,496	43,862
Junior subordinated debt	17,916	17,913
Other liabilities	5,470	6,015
Total liabilities	548,718	545,991
Commitments and contingencies		
SHAREHOLDERS EQUITY		
Preferred stock, par value \$1.00 per share, 10,000,000 shares authorized; 11,350 issued and outstanding	11,191	11,137
Common stock, par value \$1.00 per share; 10,000,000 shares authorized; issued and outstanding 3,346,365 at June 30, 2012 3,307,531 at December 31, 2011	3,346	3,308
Common stock warrants issued	560	560
Additional paid in capital	49,443	49,165
Restricted stock	(242)	
Accumulated deficit	(16,477)	(17,603)

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Accumulated other comprehensive income	1,475	1,329
Total shareholders' equity	49,296	47,896
Total liabilities and shareholders' equity	\$ 598,014	\$ 593,887

See Notes to Consolidated Financial Statements

Table of Contents

FIRST COMMUNITY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Six Months Ended June 30, 2012 (Unaudited)	Six Months Ended June 30, 2011 (Unaudited)
(Dollars in thousands, except per share data)		
Interest income:		
Loans, including fees	\$ 9,256	\$ 9,629
Taxable securities	2,341	3,203
Non taxable securities	249	33
Federal funds sold and securities purchased under resale agreements	17	21
Other	21	20
Total interest income	11,884	12,906
Interest expense:		
Deposits	1,735	2,443
Federal funds sold and securities sold under agreement to repurchase	18	18
Other borrowed money	1,171	1,372
Total interest expense	2,924	3,833
Net interest income	8,960	9,073
Provision for loan losses	301	750
Net interest income after provision for loan losses	8,659	8,323
Non-interest income:		
Deposit service charges	764	936
Mortgage origination fees	1,600	454
Investment advisory fees and non-deposit commissions	309	313
Gain (loss) on sale of securities	(27)	141
Gain (loss) on sale of other assets	14	(91)
Fair value loss adjustments	(37)	(125)
Other-than-temporary-impairment write-down on securities	(200)	(4)
Loss on early extinguishment of debt	(121)	
Other	1,016	974
Total non-interest income	3,318	2,598
Non-interest expense:		
Salaries and employee benefits	5,305	4,509
Occupancy	680	617
Equipment	570	571
Marketing and public relations	294	297
FDIC assessments	380	505
Other real estate expense	386	504
Amortization of intangibles	102	310
Other	1,803	1,790
Total non-interest expense	9,520	9,103
Net income before tax	2,457	1,818
Income taxes	730	522
Net income	\$ 1,727	\$ 1,296
Preferred stock dividends, including discount accretion	337	335
Net income available to common shareholders	\$ 1,390	\$ 961
Basic earnings per common share	\$ 0.42	\$ 0.29
Diluted earnings per common share	\$ 0.42	\$ 0.29

Table of Contents

FIRST COMMUNITY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30, 2012 (Unaudited)	Three Months Ended June 30, 2011 (Unaudited)
(Dollars in thousands, except per share data)		
Interest income:		
Loans, including fees	\$ 4,629	\$ 4,821
Taxable securities	1,026	1,611
Non taxable securities	163	14
Federal funds sold and securities purchased under resale agreements	11	10
Other	11	10
Total interest income	5,840	6,466
Interest expense:		
Deposits	808	1,185
Federal funds sold and securities sold under agreement to repurchase	9	10
Other borrowed money	572	652
Total interest expense	1,389	1,847
Net interest income	4,451	4,619
Provision for loan losses	71	390
Net interest income after provision for loan losses	4,380	4,229
Non-interest income:		
Deposit service charges	375	478
Mortgage origination fees	877	263
Investment advisory fees and non-deposit commissions	162	138
Gain (loss) on sale of securities	(38)	7
Loss on sale of other assets	(36)	(44)
Fair value loss adjustments	(4)	(129)
Other	519	505
Total non-interest income	1,855	1,218
Non-interest expense:		
Salaries and employee benefits	2,747	2,196
Occupancy	335	308
Equipment	283	290
Marketing and public relations	108	126
FDIC assessment	196	250
Other real estate expense	267	158
Amortization of intangibles	51	155
Other	921	944
Total non-interest expense	4,908	4,427
Net income before tax	1,327	1,020
Income taxes	399	294
Net income	\$ 928	\$ 726
Preferred stock dividends, including discount accretion	168	168
Net income available to common shareholders	\$ 760	\$ 558
Basic earnings per common share	\$ 0.23	\$ 0.17
Diluted earnings per common share	\$ 0.23	\$ 0.17

See Notes to Consolidated Financial Statements

Table of Contents

FIRST COMMUNITY CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(Dollars in thousands)	Six months ended June 30,	
	2012	2011
Net income	\$ 1,727	\$ 1,296
Other comprehensive income:		
Unrealized gain(loss) during the period on available-for-sale securities, net of tax expense(benefit) of \$2 and \$771, respectively	(4)	1,420
Less: Reclassification adjustment for (gain)loss included in net income, net of tax (expense)benefit of \$9 and \$49, respectively	18	(92)
Reclassification adjustment for other-than-temporary-impairment on securities net of tax benefit of \$68 and \$1, respectively	132	3
Other comprehensive income	146	1,331
Comprehensive income	\$ 1,873	\$ 2,627

(Dollars in thousands)	Three months ended June 30,	
	2012	2011
Net income	\$ 928	\$ 726
Other comprehensive income (loss):		
Unrealized gain(loss) during the period on available-for-sale securities, net of tax expense(benefit) of \$394 and \$510, respectively.	(742)	937
Less: Reclassification adjustment for (gain)loss included in net income, net of tax (expense)benefit of \$13 and \$2, respectively.	25	(5)
Other comprehensive income (loss)	(717)	932
Comprehensive income	\$ 211	\$ 1,658

See Notes to Consolidated Financial Statements

Table of Contents**FIRST COMMUNITY CORPORATION****Consolidated Statements of Changes in Shareholders' Equity****Six Months ended June 30, 2012 and June 30, 2011****(Unaudited)**

(Dollars and shares in thousands)	Preferred	Shares	Common	Common	Additional	Nonvested	Accumulated	Accumulated	Total
	Stock	Issued	Stock	Stock Warrants	Paid-in Capital	Restricted Stock	Deficit	Other Comprehensive Income (Loss)	
Balance, December 31, 2010	\$ 11,035	3,270	\$ 3,270	\$ 509	\$ 48,956	\$	\$ (19,732)	\$ (2,241)	\$ 41,797
Net income							1,296		1,296
Other comprehensive income net of tax expense of \$723								1,331	1,331
Dividends: Common (\$0.08 per share)							(262)		(262)
Preferred							(335)		(335)
Accretion	51								51
Dividend reinvestment plan		7	7		41				48
Balance, June 30, 2011	\$ 11,086	3,277	\$ 3,277	\$ 509	\$ 48,997	\$	\$ (19,033)	\$ (910)	\$ 43,926
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 benefit 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

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,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 1,727	\$ 1,296
Adjustments to reconcile net income to net cash provided in operating activities:		
Depreciation	417	425
Premium amortization (discount accretion)	1,298	874
Provision for loan losses	301	750
Writedowns of other real estate owned	206	202
(Gain) loss on sale of other real estate owned	(14)	91
Amortization of intangibles	102	310
(Gain) loss on sale of securities	27	(141)
Other-than-temporary-impairment on securities	200	4
Net decrease in fair value option instruments and derivatives	37	125
Loss on early extinguishment of debt	121	
Decrease in other assets	1,217	612
Decrease in other liabilities	(543)	(525)
Net cash provided from operating activities	5,096	4,023
Cash flows from investing activities:		
Purchase of investment securities available-for-sale and other investments	(63,384)	(67,467)
Maturity of investment securities available-for-sale	17,443	17,425
Proceeds from sale of securities available-for-sale and other investments	50,012	36,817
Increase in loans	(2,445)	(941)
Proceeds from sale of other real estate owned	3,130	1,408
Purchase of property and equipment	(385)	(119)
Proceeds from sale of land		9
Net cash provided (used) in investing activities	4,371	(12,868)
Cash flows from financing activities:		
Increase in deposit accounts	9,434	15,573
Increase (decrease) in securities sold under agreements to repurchase	(799)	2,865
Decrease in other borrowings		(20)
Advances from the Federal Home Loan Bank	1,500	
Repayment of advances from FHLB	(6,987)	(13,866)
Dividends paid:		
Common Stock	(264)	(262)
Preferred Stock	(337)	(335)
Dividend reinvestment plan	44	48
Net cash provided from financing activities	2,591	4,003
Net increase (decrease) in cash and cash equivalents	12,058	(4,842)
Cash and cash equivalents at beginning of period	16,492	26,461
Cash and cash equivalents at end of period	\$ 28,550	\$ 21,619
Supplemental disclosure:		
Cash paid during the period for:		
Interest	\$ 3,351	\$ 4,165
Income taxes	\$	\$
Non-cash investing and financing activities:		
Unrealized gain on securities	\$ 146	\$ 1,331
Transfer of loans to foreclosed property	\$ 904	\$ 3,655

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

In the opinion of management, the accompanying unaudited consolidated balance sheets, and the consolidated statements of income, comprehensive income, changes in shareholders' equity, and the consolidated statements of cash flows of First Community Corporation (the Company), present fairly in all material respects the Company's financial position at June 30, 2012 and December 31, 2011, the Company's results of operations and cash flows for the six months ended June 30, 2012 and 2011. The results of operations for the six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

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 2011 Annual Report on Form 10-K should be referred to in connection with these unaudited interim financial statements.

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,	
	2012	2011	2012	2011
Numerator (Net income available to common shareholders)	\$ 1,390	\$ 961	\$ 760	\$ 558
Denominator				
Weighted average common shares outstanding for:				
Basic earnings per share	3,319	3,274	3,329	3,276
Dilutive securities:				
Warrants - Treasury stock method	24		28	
Diluted earnings per share	3,343	3,274	3,357	3,276
The average market price used in calculating assumed number of shares	\$ 7.63	\$ 6.59	\$ 7.99	\$ 6.86

At June 30, 2012, there were 75,022 outstanding options at an average exercise price of \$19.69 and warrants for 196,000 shares at \$8.69. None of these options or warrants has an exercise price below the average market price for the three-month and six-month periods ended June 30, 2012, 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 December 16, 2019. Interest is payable quarterly and the notes may be prepaid at anytime without penalty. Warrants for 107,500 shares of

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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, 2012:				
Government sponsored enterprises	\$ 1,527	\$ 2	\$	\$ 1,529
Mortgage-backed securities	117,104	2,005	809	118,300
Small Business Administration pools	45,236	722	113	45,845
State and local government	28,101	451	90	28,462
Corporate and other securities	2,432	50	37	2,445
	\$ 194,400	\$ 3,230	\$ 1,049	\$ 196,581
December 31, 2011:				
Government sponsored enterprises	\$ 31	\$ 3	\$	\$ 34
Mortgage-backed securities	141,103	2,876	2,348	141,631
Small Business Administration pools	35,889	634	44	36,479
State and local government	19,617	871		20,488
Corporate and other securities	2,432	54	86	2,400
	\$ 199,072	\$ 4,438	\$ 2,478	\$ 201,032

During the six months ended June 30, 2012 and June 30, 2011, the Company received proceeds of \$49.1 million and \$36.2 million, respectively, from the sale of investment securities available-for-sale. Gross realized gains amounted to \$2.0 million and gross realized losses amounted to \$2.1 million for the six months ended June 30, 2012. For the six months ended June 30, 2011, gross realized gains amounted to \$1.7 million and gross realized losses amounted to \$1.5 million.

At June 30, 2012, corporate and other securities available-for-sale included the following at fair value: corporate bonds at \$1.5 million, mutual funds at \$893.1 thousand, foreign debt of \$59.4 thousand and Federal Home Loan Mortgage Corporation (the FHLMC or Freddie Mac) preferred stock of \$28.4 thousand. At December 31 2011, corporate and other securities available-for-sale included the following at fair value: corporate bonds at \$1.4 million, mutual funds at \$904.9 thousand foreign debt of \$59.0 thousand and FHLMC preferred stock of \$20.9 thousand.

Table of Contents**Note 3 Investment Securities continued**

During the six and three months ended June 30, 2012 and 2011, the Company recorded other-than-temporary-impairment (OTTI) losses on available-for-sale securities as follows:

(Dollars in thousands)	Six months ended June 30, 2012 Available-for- sale securities	Three 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	\$

(Dollars in thousands)	Six months ended June 30, 2011 Available-for- sale securities	Three months ended June 30, 2011 Available-for- sale securities
Total OTTI charge realized and unrealized	\$ 71	\$
OTTI recognized in other comprehensive income (non-credit component)	67	
Net impairment losses recognized in earnings (credit component)	\$ 4	\$

During 2012 and 2011, OTTIs 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, 2012 and 2011.

(Dollars in thousands)	2012 Available for Sale	2011 Available for Sale
Balance at beginning of period	\$ 930	\$ 2,143
Other-than-temporary-impairment not previously recognized	173	50
Additional increase for which an other-than-temporary impairment was previously recognized related to credit losses	27	247
Other-than-temporary-impairment previously recognized on securities sold	(679)	
Realized losses during the period	(136)	(1,510)
Balance related to credit losses on debt securities at end of period	\$ 315	\$ 930

Table of Contents

Note 3 Investment Securities continued

For the six months ended June 30, 2012, there were two non-agency mortgage backed securities with OTTI in which only the amount of loss related to credit was recognized in earnings. For the three months ended June 30, 2012 and June 30, 2011, there was no OTTI recognized in earnings. In evaluating the non-agency mortgage backed securities, relevant assumptions such as prepayment rate, default rate and loss severity on a loan level basis are used in determining the expected recovery of the contractual cash flows. The assumptions are that all loans greater than 60 days delinquent will be resolved across a two-year period at loss severities based on location and category. The balance of the underlying portfolio cash flows are evaluated using ongoing assumptions for loss severities, prepayment rates and default rates. The ongoing assumptions for average prepayment rate, default rate and severity used in the valuations were approximately 5.4%, 3.3%, and 51.6%, respectively. The underlying collateral on substantially all of these securities is fixed rate residential first mortgages located throughout the United States. The underlying collateral includes various percentages of owner-occupied, as well as, investment related single-family, 1-4 family and condominium residential properties. The securities were purchased at various discounts to par value. Based on the assumptions used in valuing the securities, the Company believes the existing discount and remaining subordinated collateral provide coverage against future credit losses on the downgraded securities for which no OTTI has been recognized.

Table of Contents*Note 3 Investment Securities continued*

The following table shows gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous loss position at June 30, 2012 and December 31, 2011.

June 30, 2012

(Dollars in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<i>Available-for-sale securities:</i>						
Small Business Administration Pools	\$ 7,899	\$ 95	\$ 4,271	\$ 18	\$ 12,170	\$ 113
Government Sponsored Enterprise mortgage-backed securities	27,101	163	5,999	66	33,100	229
Non-agency mortgage-backed securities	1,133	494	1,598	86	2,731	580
Corporate bonds and other	989	12	524	25	1,513	