FIRST BANCORP /NC/
Form 10-Q
May 11, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015

Commission File Number 0-15572

FIRST BANCORP

(Exact Name of Registrant as Specified in its Charter)

North Carolina (State or Other Jurisdiction of Incorporation or Organization)	56-1421916 (I.R.S. Employer Identification Number)
300 SW Broad St., Southern Pines, North Carolina (Address of Principal Executive Offices)	28387 (Zip Code)
(Registrant's telephone number, including area code)	(910) 246-2500

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 twelve 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. x YES o NO

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

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

o Large Accelerated Filer x Accelerated Filer o Non-Accelerated Filer o Smaller Reporting Company

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

The number of shares of the registrant's Common Stock outstanding on April 30, 2015 was 19,740,183.

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FIRST BANCORP AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS

Part I of this report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995, which statements are inherently subject to risks and uncertainties. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Further, forward-looking statements are intended to speak only as of the date made. Such statements are often characterized by the use of qualifying words (and their derivatives) such as “expect,” “believe,” “estimate,” “plan,” “project,” or other statement concerning our opinions or judgment about future events. Our actual results may differ materially from those anticipated in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control. Factors that could influence the accuracy of such forward-looking statements include, but are not limited to, the financial success or changing strategies of our customers, our level of success in integrating acquisitions, actions of government regulators, the level of market interest rates, and general economic conditions. For additional information about factors that could affect the matters discussed in this paragraph, see the “Risk Factors” section of our 2014 Annual Report on Form 10-K.

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Part I. Financial Information

Item 1 - Financial Statements

First Bancorp and Subsidiaries

Consolidated Balance Sheets

($ in thousands-unaudited)	March 31, 2015	December 31, 2014 (audited)	March 31, 2014
ASSETS			
Cash and due from banks, noninterest-bearing	$84,208	81,068	219,779
Due from banks, interest-bearing	159,527	171,248	163,489
Federal funds sold	752	768	821
Total cash and cash equivalents	244,487	253,084	384,089
Securities available for sale	178,190	164,034	180,190
Securities held to maturity (fair values of $174,756, $182,411, and $57,192)	170,804	178,687	53,937
Presold mortgages in process of settlement	8,273	6,019	4,587
Loans – non-covered	2,275,570	2,268,580	2,256,726
Loans – covered by FDIC loss share agreement	119,829	127,594	190,551
Total loans	2,395,399	2,396,174	2,447,277
Allowance for loan losses – non-covered	(33,770)	(38,345)	(44,706
Allowance for loan losses – covered	(2,226)	(2,281)	(3,421
Total allowance for loan losses	(35,996)	(40,626)	(48,127
Net loans	2,359,403	2,355,548	2,399,150
Premises and equipment	75,573	75,113	76,970
Accrued interest receivable	8,744	8,920	8,990
FDIC indemnification asset	18,452	22,569	35,504
Goodwill	65,835	65,835	65,835
Other intangible assets	1,877	2,058	2,640
Foreclosed real estate – non-covered	8,978	9,771	11,740
Foreclosed real estate – covered	2,055	2,350	19,504
Bank-owned life insurance	55,793	55,421	44,367
Other assets	21,124	18,974	27,320
Total assets	$3,219,588	3,218,383	3,314,823
LIABILITIES			
Deposits: Noninterest bearing checking accounts	$591,283	560,230	511,612

Interest bearing checking accounts	578,784	583,903	550,702
Money market accounts	571,124	551,002	557,346
Savings accounts	183,036	180,317	177,744
Time deposits of $100,000 or more	433,942	470,066	584,481
Other time deposits	335,445	350,388	404,839
Total deposits	2,693,614	2,695,906	2,786,724
Borrowings	116,394	116,394	136,394
Accrued interest payable	619	686	758
Other liabilities	15,717	17,698	14,860
Total liabilities	2,826,344	2,830,684	2,938,736
Commitments and contingencies			
SHAREHOLDERS' EQUITY			
Preferred stock, no par value per share. Authorized: 5,000,000 shares			
Series B issued & outstanding: 63,500, 63,500, and 63,500 shares	63,500	63,500	63,500
Series C, convertible, issued & outstanding: 728,706, 728,706, and 728,706 shares	7,287	7,287	7,287
Common stock, no par value per share. Authorized: 40,000,000 shares			
Issued & outstanding: 19,740,183, 19,709,881, and 19,695,316 shares	132,752	132,532	132,215
Retained earnings	190,150	184,958	171,021
Accumulated other comprehensive income (loss)	(445)	(578)	2,064
Total shareholders' equity	393,244	387,699	376,087
Total liabilities and shareholders' equity	$3,219,588	3,218,383	3,314,823

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Income

($ in thousands, except share data-unaudited)	Three Months Ended March 31, 2015	2014
INTEREST INCOME		
Interest and fees on loans	$29,441	36,086
Interest on investment securities:		
Taxable interest income	1,359	1,001
Tax-exempt interest income	463	470
Other, principally overnight investments	195	119
Total interest income	31,458	37,676
INTEREST EXPENSE		
Savings, checking and money market accounts	269	252
Time deposits of $100,000 or more	847	1,183
Other time deposits	342	456
Borrowings	297	250
Total interest expense	1,755	2,141
Net interest income	29,703	35,535
Provision for loan losses – non-covered	104	3,365
Provision (reversal) for loan losses – covered	(268)	210
Total provision (reversal) for loan losses	(164)	3,575
Net interest income after provision for loan losses	29,867	31,960
NONINTEREST INCOME		
Service charges on deposit accounts	2,892	3,573
Other service charges, commissions and fees	2,542	2,367
Fees from presold mortgage loans	808	607
Commissions from sales of insurance and financial products	561	594
Bank-owned life insurance income	371	327
Foreclosed property gains (losses) – non-covered	(494)	(156)
Foreclosed property gains (losses) – covered	237	(2,117)
FDIC indemnification asset income (expense), net	(2,392)	(4,916)
Other gains (losses)	4	19
Total noninterest income	4,529	298
NONINTEREST EXPENSES		
Salaries	11,497	11,648
Employee benefits	2,183	2,311
Total personnel expense	13,680	13,959
Net occupancy expense	1,869	1,880

Equipment related expenses	956	928
Intangibles amortization	180	194
Other operating expenses	7,029	6,590
Total noninterest expenses	23,714	23,551
Income before income taxes	10,682	8,707
Income tax expense	3,694	3,031
Net income	6,988	5,676
Preferred stock dividends	(217)	(217)
Net income available to common shareholders	$6,771	5,459
Earnings per common share:		
Basic	$0.34	0.28
Diluted	0.33	0.27
Dividends declared per common share	$0.08	0.08
Weighted average common shares outstanding:		
Basic	19,721,992	19,688,183
Diluted	20,454,614	20,424,475

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Comprehensive Income

($ in thousands-unaudited)	Three Months Ended March 31, 2015	2014
Net income	$6,988	5,676
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period, pretax	247	303
Tax (expense) benefit	(95)	(118)
Postretirement Plans:		
Amortization of unrecognized net actuarial (gain) loss	(31)	(54)
Tax expense (benefit)	12	33
Other comprehensive income (loss)	133	164
Comprehensive income	$7,121	5,840

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Shareholders' Equity

(In thousands, except per share - unaudited)	Preferred Stock	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Share-holders' Equity
Balances, January 1, 2014	$70,787	19,680	$132,099	167,136	1,900	371,922
Net income				5,676		5,676
Cash dividends declared ($0.08 per common share)				(1,574)		(1,574)
Preferred dividends				(217)		(217)
Stock-based compensation		15	116			116
Other comprehensive income (loss)					164	164
Balances, March 31, 2014	$70,787	19,695	$132,215	171,021	2,064	376,087
Balances, January 1, 2015	$70,787	19,710	$132,532	184,958	(578)	387,699
Net income				6,988		6,988
Cash dividends declared ($0.08 per common share)				(1,579)		(1,579)
Preferred dividends				(217)		(217)
Stock-based compensation		30	220			220
Other comprehensive income (loss)					133	133
Balances, March 31, 2015	$70,787	19,740	$132,752	190,150	(445)	393,244

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Cash Flows

($ in thousands-unaudited)	Three Months Ended March 31, 2015	2014
Cash Flows From Operating Activities		
Net income	$6,988	5,676
Reconciliation of net income to net cash provided by operating activities:		
Provision (reversal) for loan losses	(164)	3,575
Net security premium amortization	802	493
Purchase accounting accretion and amortization, net	835	(2,628)
Foreclosed property losses and write-downs, net	257	2,273
Other losses (gains)	(4)	(19)
Decrease in net deferred loan costs	163	169
Depreciation of premises and equipment	1,132	1,157
Stock-based compensation expense	127	23
Amortization of intangible assets	180	194
Origination of presold mortgages in process of settlement	(30,651)	(19,110)
Proceeds from sales of presold mortgages in process of settlement	28,364	20,073
Decrease in accrued interest receivable	176	659
Decrease (increase) in other assets	(3,116)	1,735
Decrease in accrued interest payable	(67)	(121)
Increase (decrease) in other liabilities	(1,921)	43
Net cash provided by operating activities	3,101	14,192
Cash Flows From Investing Activities		
Purchases of securities available for sale	(30,535)	(13,474)
Purchases of securities held to maturity	(1,146)	
Proceeds from maturities/issuer calls of securities available for sale	16,394	6,194
Proceeds from maturities/issuer calls of securities held to maturity	8,459	
Net decrease (increase) in loans	(3,869)	13,646
Proceeds from FDIC loss share agreements	2,282	9,384
Proceeds from sales of foreclosed real estate	2,403	7,739
Purchases of premises and equipment	(1,600)	(783)
Net cash provided (used) by investing activities	(7,612)	22,706
Cash Flows From Financing Activities		
Net increase (decrease) in deposits	(2,292)	35,708
Net increase in borrowings		90,000
Cash dividends paid – common stock	(1,577)	(1,574)
Cash dividends paid – preferred stock	(217)	(217)
Net cash provided (used) by financing activities	(4,086)	123,917
Increase (decrease) in cash and cash equivalents	(8,597)	160,815
Cash and cash equivalents, beginning of period	253,084	223,274

Cash and cash equivalents, end of period	$244,487	384,089
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$1,822	2,262
Income taxes	6,212	—
Non-cash transactions:		
Unrealized gain (loss) on securities available for sale, net of taxes	152	185
Foreclosed loans transferred to other real estate	1,572	4,508

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Notes to Consolidated Financial Statements

(*unaudited)* For the Periods Ended March 31, 2015 and 2014

Note 1 - Basis of Presentation

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the consolidated financial position of the Company as of March 31, 2015 and 2014 and the consolidated results of operations and consolidated cash flows for the periods ended March 31, 2015 and 2014. All such adjustments were of a normal, recurring nature. Reference is made to the 2014 Annual Report on Form 10-K filed with the SEC for a discussion of accounting policies and other relevant information with respect to the financial statements. The results of operations for the periods ended March 31, 2015 and 2014 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated all subsequent events through the date the financial statements were issued.

Note 2 – Accounting Policies

Note 1 to the 2014 Annual Report on Form 10-K filed with the SEC contains a description of the accounting policies followed by the Company and discussion of recent accounting pronouncements. The following paragraphs update that information as necessary.

In January 2014, the Financial Accounting Standards Board ("FASB") amended the Equity Method and Joint Ventures topic of the Accounting Standards Codification. The amendments provide criteria that must be met in order to apply a proportional amortization method to Low-Income Housing Tax Credit investments and provide guidance on the method used to amortize the investment, the impairment approach, and the eligibility criteria for entities that have other arrangements (e.g., loans) with the limited liability entity. The amendments were effective for the Company on January 1, 2015 for new investments in qualified affordable housing projects. These amendments did not have a material effect on the Company's financial statements.

In January 2014, the FASB amended the Receivables topic of the Accounting Standards Codification. The amendments are intended to resolve diversity in practice with respect to when a creditor should reclassify a collateralized consumer mortgage loan to other real estate owned ("OREO"). In addition, the amendments require a creditor to reclassify a collateralized consumer mortgage loan to OREO upon obtaining legal title to the real estate collateral, or the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. The amendments were effective for the Company on January 1, 2015. In implementing this guidance, assets that are reclassified from real estate to loans are measured at the carrying value of the real estate at the date of adoption. Assets reclassified from loans to real estate are measured at the lower of the net amount of the loan receivable or the fair value of the real estate less costs to sell at the date of adoption. These amendments did not have a material effect on the Company’s financial statements.

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Company for interim and annual reporting periods beginning after December 15, 2017. The Company can apply the guidance using either a full retrospective approach or a modified retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

In June 2014, the FASB issued guidance which makes limited amendments to the guidance on accounting for certain repurchase agreements. The new guidance (1) requires entities to account for repurchase-to-maturity transactions as secured borrowings (rather than as sales with forward repurchase agreements), (2) eliminates accounting guidance on linked repurchase financing transactions, and (3) expands disclosure requirements related to certain transfers of financial assets that are accounted for as sales and certain transfers (specifically, repos, securities lending transactions, and repurchase-to-maturity transactions) accounted for as secured borrowings. The amendments were effective for the Company on January 1, 2015. These amendments did not have a material effect on the Company’s financial statements.

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In June 2014, the FASB issued guidance which clarifies that performance targets associated with stock compensation should be treated as a performance condition and should not be reflected in the grant date fair value of the stock award. The amendments will be effective for the Company for fiscal years that begin after December 15, 2015. The Company will apply the guidance to all stock awards granted or modified after the amendments are effective. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2015, the FASB issued guidance to eliminate from U.S. GAAP the concept of an extraordinary item, which is an event or transaction that is both (1) unusual in nature and (2) infrequently occurring. Under the new guidance, an entity will no longer (1) segregate an extraordinary item from the results of ordinary operations; (2) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; or (3) disclose income taxes and earnings-per-share data applicable to an extraordinary item. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company will apply the guidance prospectively.

In February 2015, the FASB issued guidance which amends the consolidation requirements and significantly changes the consolidation analysis required under U.S. GAAP. The amendments are expected to result in the deconsolidation of many entities. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted (including during an interim period), provided that the guidance is applied as of the beginning of the annual period containing the adoption date. The Company does not expect these amendments to have a material effect on its financial statements.

In April 2015, the FASB issued guidance that will require debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This update affects disclosures related to debt issuance costs but does not affect existing recognition and measurement guidance for these items. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. The Company does not expect these amendments to have a material effect on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

Note 3 – Reclassifications

Certain amounts reported in the period ended March 31, 2014 have been reclassified to conform to the presentation for March 31, 2015. These reclassifications had no effect on net income or shareholders’ equity for the periods presented, nor did they materially impact trends in financial information.

Note 4 – Equity-Based Compensation Plans

At March 31, 2015, the Company had the following equity-based compensation plans: the First Bancorp 2014 Equity Plan, the First Bancorp 2007 Equity Plan, and the First Bancorp 2004 Stock Option Plan. The Company’s shareholders approved all equity-based compensation plans. The First Bancorp 2014 Equity Plan became effective upon the approval of shareholders on May 8, 2014. As of March 31, 2015, the First Bancorp 2014 Equity Plan was the only plan that had shares available for future grants.

The First Bancorp 2014 Equity Plan is intended to serve as a means to attract, retain and motivate key employees and directors and to associate the interests of the plans’ participants with those of the Company and its shareholders. The First Bancorp 2014 Equity Plan allows for both grants of stock options and other types of equity-based compensation, including stock appreciation rights, restricted stock, restricted performance stock, unrestricted stock, and performance units.

Recent equity grants to employees have either had performance vesting conditions, service vesting conditions, or both. Compensation expense for these grants is recorded over the various service periods based on the estimated number of equity grants that are probable to vest. No compensation cost is recognized for grants that do not vest and any previously recognized compensation cost will be reversed. As it relates to director equity grants, the Company grants common shares, valued at approximately $16,000 to each non-employee director (currently 8 in total) in June of each year. Compensation expense associated with these director grants is recognized on the date of grant since there are no vesting conditions.

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Pursuant to an employment agreement, the Company granted the chief executive officer 75,000 non-qualified stock options and 40,000 shares of restricted stock during the third quarter of 2012. The option award would have fully vested on December 31, 2014 if the Company achieved a certain earnings target for 2014. The Company did not achieve the applicable target, and therefore, the option award was forfeited as of December 31, 2014. No compensation expense was recognized for the option award. The restricted stock award will vest in full on December 31, 2015, if the Company achieves a certain earnings target in 2015, and will be forfeited if the applicable target is not achieved. Based on current conditions, the Company has concluded that it is not probable that the restricted stock award will vest, and thus no compensation expense has been recorded.

In 2014, the Company's Compensation Committee determined that seven of the Company's senior officers would receive 50% of the bonus earned under the Company's annual incentive plan in shares of restricted stock, instead of being exclusively cash, which had been the Company's standard practice. This resulted in the Company granting a total of 14,882 shares of restricted common stock to those officers on February 24, 2015. The shares vest annually in one-third increments beginning on December 31, 2015. The total compensation expense associated with this grant was $258,000, which is being recorded over the vesting period. The Company recorded $23,300 in compensation expense during the three months ended March 31, 2015 related to these grants, and expects to record $23,300 in compensation expense during each remaining quarter of 2015.

Also, on February 24, 2015, the Company granted a total of 30,404 shares of restricted common stock to eleven senior officers. The shares vest annually in one-third increments beginning on December 31, 2015. The total compensation expense associated with this grant was $527,000, which is being recorded over the vesting period. The Company recorded $80,500 in compensation expense during the three months ended March 31, 2015 related to these grants, and expects to record $80,500 in compensation expense during each remaining quarter of 2015.

Based on the Company's performance in 2013, the Company granted long-term restricted shares of common stock to the chief executive officer on February 11, 2014 with a two year minimum vesting period. The total compensation expense associated with this grant was $278,200 and the grant will fully vest on January 1, 2016. One third of this value was expensed during each of 2013 and 2014, with the remaining one third being expensed in 2015. The Company recorded $23,200 in compensation expense during each of the three months ended March 31, 2015 and 2014, and expects to record $23,200 in compensation expense in each remaining quarter of 2015.

Under the terms of the Predecessor Plans and the First Bancorp 2014 Equity Plan, options can have a term of no longer than ten years, and all options granted thus far under these plans have had a term of ten years. The Company's options provide for immediate vesting under certain conditions if there is a change in control (as defined in the plans).

At March 31, 2015, there were 179,102 options outstanding related to the three First Bancorp plans, with exercise prices ranging from $14.35 to $22.12. At March 31, 2015, there were 959,632 shares remaining available for grant under the First Bancorp 2014 Equity Plan.

The Company issues new shares of common stock when options are exercised.

The Company measures the fair value of each option award on the date of grant using the Black-Scholes option-pricing model. The Company determines the assumptions used in the Black-Scholes option pricing model as follows: the risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant; the dividend yield is based on the Company's dividend yield at the time of the grant (subject to adjustment if the dividend yield on the grant date is not expected to approximate the dividend yield over the expected life of the option); the volatility factor is based on the historical volatility of the Company's stock (subject to adjustment if future volatility is reasonably expected to differ from the past); and the weighted-average expected life is based on the historical behavior of employees related to exercises, forfeitures and cancellations.

The Company recorded total stock-based compensation expense of $127,000 and $23,800 for the three-month periods ended March 31, 2015 and 2014, respectively, which relates to the employee grants discussed above and is recorded as "salaries expense." Stock based compensation is reflected as an adjustment to cash flows from operating activities on the Company's Consolidated Statement of Cash Flows. The Company recognized $49,500 and $9,300 of income tax benefits related to stock based compensation expense in the income statement for the three months ended March 31, 2015 and 2014, respectively.

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As noted above, certain of the Company's stock option grants contain terms that provide for a graded vesting schedule whereby portions of the award vest in increments over the requisite service period. The Company has elected to recognize compensation expense for awards with graded vesting schedules on a straight-line basis over the requisite service period for the entire award. Compensation expense is based on the estimated number of stock options and awards that will ultimately vest. Over the past five years, there have only been minimal amounts of forfeitures, and therefore the Company assumes that all awards granted without performance conditions will become vested.

The following table presents information regarding the activity for the first three months of 2015 related to the Company's stock options outstanding:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Contractual Term (years)	Aggregate Intrinsic Value
Balance at January 1, 2015	179,102	$ 18.55		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Expired	—	—		
Outstanding at March 31, 2015	179,102	$ 18.55	1.8	$ 125,000
Exercisable at March 31, 2015	179,102	$ 18.55	1.8	$ 125,000

The Company did not have any stock option exercises during the three months ended March 31, 2015 or 2014. The Company recorded no tax benefits from the exercise of nonqualified stock options during the three months ended March 31, 2015 or 2014.

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The following table presents information regarding the activity the first three months of 2015 related to the Company's outstanding restricted stock:

	Long-Term Restricted Stock	
	Number of Units	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2015	45,219	$ 10.68
Granted during the period	45,286	17.33
Vested during the period	—	—
Forfeited or expired during the period	—	—
Nonvested at March 31, 2015	90,505	$ 14.01

Note 5 – Earnings Per Common Share

Basic Earnings Per Common Share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted Earnings Per Common Share is computed by assuming the issuance of common shares for all potentially dilutive common shares outstanding during the reporting period. Currently, the Company's potentially dilutive common stock issuances relate to stock option grants under the Company's equity-based compensation plans and the Company's Series C Preferred Stock, which is convertible into common stock on a one-for-one ratio.

In computing Diluted Earnings Per Common Share, adjustments are made to the computation of Basic Earnings Per Common shares, as follows. As it relates to stock options, it is assumed that all dilutive stock options are exercised during the reporting period at their respective exercise prices, with the proceeds from the exercises used by the Company to buy back stock in the open market at the average market price in effect during the reporting period. The difference between the number of shares assumed to be exercised and the number of shares bought back is included in the calculation of dilutive securities. As it relates to the Series C Preferred Stock, it is assumed that the preferred stock was converted to common stock during the reporting period. Dividends on the preferred stock are added back to net income and the shares assumed to be converted are included in the number of shares outstanding.

If any of the potentially dilutive common stock issuances have an anti-dilutive effect, which is the case when a net loss is reported, the potentially dilutive common stock issuance is disregarded.

The following is a reconciliation of the numerators and denominators used in computing Basic and Diluted Earnings Per Common Share:

($ in thousands except per share amounts)	For the Three Months Ended March 31, 2015 Income (Numer-ator)	Shares (Denom-inator)	Per Share Amount	2014 Income (Numer-ator)	Shares (Denom-inator)	Per Share Amount
Basic EPS						
Net income available to common shareholders	$6,771	19,721,992	$ 0.34	$5,459	19,688,183	$ 0.28
Effect of Dilutive Securities	58	732,622		58	736,292	
Diluted EPS per common share	$6,829	20,454,614	$ 0.33	$5,517	20,424,475	$ 0.27

For the three months ended March 31, 2015 and 2014, there were 84,000 options and 255,229 options, respectively, that were antidilutive because the exercise price exceeded the average market price for the period, and thus are not included in the calculation to determine the effect of dilutive securities. Also, for the three months ended March 31, 2014, the Company excluded 75,000 options that had an exercise price below the average market price for the period, but had performance vesting requirements that the Company concluded were not probable to vest.

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Note 6 – Securities

The book values and approximate fair values of investment securities at March 31, 2015 and December 31, 2014 are summarized as follows:

	March 31, 2015				December 31, 2014			
($ in thousands)	Amortized Cost	Fair Value	Unrealized Gains	(Losses)	Amortized Cost	Fair Value	Unrealized Gains	(Losses)
Securities available for sale:								
Government-sponsored enterprise securities	$44,291	44,365	97	(23)	27,546	27,521	33	(58)
Mortgage-backed securities	127,382	126,930	761	(1,213)	130,073	129,510	751	(1,314)
Corporate bonds	1,000	900	—	(100)	1,000	865	—	(135)
Equity securities	5,960	5,995	48	(13)	6,105	6,138	46	(13)
Total available for sale	$178,633	178,190	906	(1,349)	164,724	164,034	830	(1,520)
Securities held to maturity:								
Mortgage-backed securities	$118,399	118,385	115	(129)	124,924	124,861	45	(108)
State and local governments	52,405	56,371	3,966	—	53,763	57,550	3,787	—
Total held to maturity	$170,804	174,756	4,081	(129)	178,687	182,411	3,832	(108)

Included in mortgage-backed securities at March 31, 2015 were collateralized mortgage obligations with an amortized cost of $95,000 and a fair value of $97,000. Included in mortgage-backed securities at December 31, 2014 were collateralized mortgage obligations with an amortized cost of $108,000 and a fair value of $111,000. All of the Company's mortgage-backed securities, including the collateralized mortgage obligations, were issued by government-sponsored corporations.

The Company owned Federal Home Loan Bank ("FHLB") stock with a cost and fair value of $5,871,000 at March 31, 2015 and $6,016,000 at December 31, 2014, which is included in equity securities above and serves as part of the collateral for the Company's line of credit with the FHLB. The investment in this stock is a requirement for membership in the FHLB system. Periodically the FHLB recalculates the Company's required level of holdings, and the Company either buys more stock or the FHLB redeems a portion of the stock at cost.

The following table presents information regarding securities with unrealized losses at March 31, 2015:

($ in thousands)	Securities in an Unrealized Loss Position for Less than 12 Months	Securities in an Unrealized Loss Position for More than 12 Months	Total

	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprise securities	$ —	—	2,977	23	2,977	23
Mortgage-backed securities	86,232	404	29,291	938	115,523	1,342
Corporate bonds	—	—	900	100	900	100
Equity securities	—	—	19	13	19	13
State and local governments	—	—	—	—	—	—
Total temporarily impaired securities	$ 86,232	404	33,187	1,074	119,419	1,478

The following table presents information regarding securities with unrealized losses at December 31, 2014:

($ in thousands)	Securities in an Unrealized Loss Position for Less than 12 Months		Securities in an Unrealized Loss Position for More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprise securities	$ 5,489	11	2,953	47	8,442	58
Mortgage-backed securities	69,985	318	33,557	1,104	103,542	1,422
Corporate bonds	—	—	865	135	865	135
Equity securities	—	—	17	13	17	13
State and local governments	—	—	—	—	—	—
Total temporarily impaired securities	$ 75,474	329	37,392	1,299	112,866	1,628

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In the above tables, all of the non-equity securities that were in an unrealized loss position at March 31, 2015 and December 31, 2014 are bonds that the Company has determined are in a loss position due primarily to interest rate factors and not credit quality concerns. The Company has evaluated the collectability of each of these bonds and has concluded that there is no other-than-temporary impairment. The Company does not intend to sell these securities, and it is more likely than not that the Company will not be required to sell these securities before recovery of the amortized cost. The Company has also concluded that each of the equity securities in an unrealized loss position at March 31, 2015 and December 31, 2014 was in such a position due to temporary fluctuations in the market prices of the securities. The Company's policy is to record an impairment charge for any of these equity securities that remains in an unrealized loss position for twelve consecutive months unless the amount is insignificant.

The aggregate carrying amount of cost-method investments was $5,871,000 and $6,016,000 at March 31, 2015 and December 31, 2014, respectively, which was the FHLB stock discussed above. The Company determined this stock was not impaired at either period end.

The book values and approximate fair values of investment securities at March 31, 2015, by contractual maturity, are summarized in the table below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available for Sale		Securities Held to Maturity	
($ in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Debt securities				
Due within one year	$ —	—	774	793
Due after one year but within five years	44,291	44,365	10,966	11,683
Due after five years but within ten years	—	—	37,920	40,964
Due after ten years	1,000	900	2,745	2,931
Mortgage-backed securities	127,382	126,930	118,399	118,385
Total debt securities	172,673	172,195	170,804	174,756
Equity securities	5,960	5,995	—	—
Total securities	$ 178,633	178,190	170,804	174,756

At March 31, 2015 and December 31, 2014 investment securities with carrying values of $91,904,000 and $100,113,000, respectively, were pledged as collateral for public deposits.

The Company recorded no gains or losses on securities during the three month periods ended March 31, 2015 or 2014.

Note 7 – Loans and Asset Quality Information

The loans and foreclosed real estate that were acquired in FDIC-assisted transactions are covered by loss share agreements between the FDIC and the Company's banking subsidiary, First Bank, which afford First Bank significant loss protection - see Note 2 to the financial statements included in the Company's 2011 Annual Report on Form 10-K for detailed information regarding these transactions. Because of the loss protection provided by the FDIC, the risk of the loans and foreclosed real estate that are covered by loss share agreements are significantly different from those assets not covered under the loss share agreements. Accordingly, the Company presents separately loans subject to the loss share agreements as "covered loans" in the information below and loans that are not subject to the loss share agreements as "non-covered loans."

On July 1, 2014, one of the Company's loss share agreements with the FDIC expired. The agreement that expired related to the non-single family assets of Cooperative Bank, a failed bank acquisition from June 2009. Accordingly, the remaining balances associated with these loans and foreclosed real estate were transferred from the covered portfolio to the non-covered portfolio on July 1, 2014. The Company will bear all future losses on this portfolio of loans and foreclosed real estate. Immediately prior to the transfer to non-covered status, the loans in this portfolio had a carrying value of $39.7 million and the foreclosed real estate in this portfolio had a carrying value of $3.0 million. Of the $39.7 million in loans that lost loss share protection, approximately $9.7 million were on nonaccrual status and $2.1 million were classified as accruing troubled debt restructurings as of July 1, 2014. Additionally, approximately $1.7 million in allowance for loan losses associated with this portfolio of loans was transferred to the allowance for loan losses for non-covered loans on July 1, 2014.

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The following is a summary of the major categories of total loans outstanding:

($ in thousands)	March 31, 2015		December 31, 2014		March 31, 2014	
	Amount	Percentage	Amount	Percentage	Amount	Perc
All loans (non-covered and covered):						
Commercial, financial, and agricultural	$176,013	7%	$160,878	7%	$179,363	7%
Real estate – construction, land development & other land loans	285,319	12%	288,148	12%	296,141	12
Real estate – mortgage – residential (1-4 family) first mortgages	776,313	33%	789,871	33%	829,671	34
Real estate – mortgage – home equity loans / lines of credit	223,679	9%	223,500	9%	229,167	9%
Real estate – mortgage – commercial and other	885,282	37%	882,127	37%	857,327	35
Installment loans to individuals	48,010	2%	50,704	2%	54,849	3%
Subtotal	2,394,616	100%	2,395,228	100%	2,446,518	10
Unamortized net deferred loan costs	783		946		759	
Total loans	$2,395,399		$2,396,174		$2,447,277	

The following is a summary of the major categories of non-covered loans outstanding:

($ in thousands)	March 31, 2015		December 31, 2014		March 31, 2014	
	Amount	Percentage	Amount	Percentage	Amount	Perc
Non-covered loans:						
Commercial, financial, and agricultural	$174,516	8%	$159,195	7%	$176,597	8%
Real estate – construction, land development & other land loans	279,780	12%	282,604	13%	269,216	12
Real estate – mortgage – residential (1-4 family) first mortgages	690,910	31%	700,101	31%	729,080	32
Real estate – mortgage – home equity loans / lines of credit	211,337	9%	210,697	9%	215,128	10
Real estate – mortgage – commercial and other	870,234	38%	864,333	38%	811,612	36
Installment loans to individuals	48,010	2%	50,704	2%	54,334	2%
Subtotal	2,274,787	100%	2,267,634	100%	2,255,967	10
Unamortized net deferred loan costs	783		946		759	
Total non-covered loans	$2,275,570		$2,268,580		$2,256,726	

The carrying amount of the covered loans at March 31, 2015 consisted of impaired and nonimpaired purchased loans (as determined on the date of acquisition), as follows:

($ in thousands)	Impaired Purchased Loans – Carrying Value	Impaired Purchased Loans – Unpaid Principal Balance	Nonimpaired Purchased Loans – Carrying Value	Nonimpaired Purchased Loans - Unpaid Principal Balance	Total Covered Loans – Carrying Value	Total Covered Loans – Unpaid Principal Balance
Covered loans:						
Commercial, financial, and agricultural	$63	121	1,434	1,426	1,497	1,547
Real estate – construction, land development & other land loans	304	529	5,235	6,108	5,539	6,637
Real estate – mortgage – residential (1-4 family) first mortgages	337	1,288	85,066	99,858	85,403	101,146
Real estate – mortgage – home equity loans / lines of credit	12	19	12,330	14,356	12,342	14,375
Real estate – mortgage – commercial and other	1,146	3,188	13,902	14,997	15,048	18,185
Total	$1,862	5,145	117,967	136,745	119,829	141,890

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The carrying amount of the covered loans at December 31, 2014 consisted of impaired and nonimpaired purchased loans (as determined on the date of the acquisition), as follows:

($ in thousands)	Impaired Purchased Loans – Carrying Value	Impaired Purchased Loans – Unpaid Principal Balance	Nonimpaired Purchased Loans – Carrying Value	Nonimpaired Purchased Loans - Unpaid Principal Balance	Total Covered Loans – Carrying Value	Total Covered Loans – Unpaid Principal Balance
Covered loans:						
Commercial, financial, and agricultural	$66	123	1,617	1,661	1,683	1,784
Real estate – construction, land development & other land loans	309	534	5,235	6,471	5,544	7,005
Real estate – mortgage – residential (1-4 family) first mortgages	362	1,298	89,408	104,678	89,770	105,976
Real estate – mortgage – home equity loans / lines of credit	12	19	12,791	15,099	12,803	15,118
Real estate – mortgage – commercial and other	1,201	3,209	16,593	17,789	17,794	20,998
Total	$1,950	5,183	125,644	145,698	127,594	150,881

The following table presents information regarding covered purchased nonimpaired loans since December 31, 2013. The amounts include principal only and do not reflect accrued interest as of the date of the acquisition or beyond.

($ in thousands)	
Carrying amount of nonimpaired covered loans at December 31, 2013	$207,167
Principal repayments	(50,183)
Transfers to foreclosed real estate	(5,061)
Transfers to non-covered loans due to expiration of loss-share agreement	(38,987)
Net loan (charge-offs) / recoveries	(3,301)
Accretion of loan discount	16,009
Carrying amount of nonimpaired covered loans at December 31, 2014	125,644
Principal repayments	(8,942)
Transfers to foreclosed real estate	(505)
Net loan (charge-offs) / recoveries	213
Accretion of loan discount	1,557
Carrying amount of nonimpaired covered loans at March 31, 2015	$117,967

As reflected in the table above, the Company accreted $1,557,000 of the loan discount on purchased nonimpaired loans into interest income during the first quarter of 2015. As of March 31, 2015, there was remaining loan discount of $16,365,000 related to purchased accruing loans. If these loans continue to be repaid by the borrowers, the Company will accrete the remaining loan discount into interest income over the covered lives of the respective loans. In such circumstances, a corresponding entry to reduce the indemnification asset will be recorded amounting to approximately 80% of the loan discount accretion, which reduces noninterest income. At March 31, 2015, the Company also had

$2,687,000 of loan discount related to purchased nonaccruing loans. It is not expected that a significant amount of this discount will be accreted, as it represents estimated losses on these loans.

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The following table presents information regarding all purchased impaired loans since December 31, 2013, the majority of which are covered loans. The Company has applied the cost recovery method to all purchased impaired loans at their respective acquisition dates due to the uncertainty as to the timing of expected cash flows, as reflected in the following table.

($ in thousands)	Contractual Principal Receivable	Fair Market Value Adjustment – Write Down (Nonaccretable Difference)	Carrying Amount
Purchased Impaired Loans			
Balance at December 31, 2013	$ 6,263	3,121	3,142
Change due to payments received	(599)	227	(826)
Change due to loan charge-off	(2)	29	(31)
Other	197	(115)	312
Balance at December 31, 2014	5,859	3,262	2,597
Change due to payments received	(42)	62	(104)
Other	(3)	(3)	—
Balance at March 31, 2015	$ 5,814	3,321	2,493

Because of the uncertainty of the expected cash flows, the Company is accounting for each purchased impaired loan under the cost recovery method, in which all cash payments are applied to principal. Thus, there is no accretable yield associated with the above loans. During the first quarter of 2015 and 2014, the Company received $0 and $179,000, respectively, in payments that exceeded the initial carrying amount of the purchased impaired loans, which is included in the loan discount accretion amount discussed previously.

Nonperforming assets are defined as nonaccrual loans, restructured loans, loans past due 90 or more days and still accruing interest, nonperforming loans held for sale, and foreclosed real estate. Nonperforming assets are summarized as follows:

ASSET QUALITY DATA *($ in thousands)*	March 31, 2015	December 31, 2014	March 31, 2014
Non-covered nonperforming assets			
Nonaccrual loans	$ 47,416	$ 50,066	$ 44,129
Restructured loans - accruing	33,997	35,493	26,335

Accruing loans > 90 days past due	—	—	—
Total non-covered nonperforming loans	81,413	85,559	70,464
Foreclosed real estate	8,978	9,771	11,740
Total non-covered nonperforming assets	$ 90,391	$ 95,330	$ 82,204
Covered nonperforming assets			
Nonaccrual loans (1)	$ 8,596	$ 10,508	$ 31,986
Restructured loans - accruing	3,874	5,823	7,429
Accruing loans > 90 days past due	—	—	—
Total covered nonperforming loans	12,470	16,331	39,415
Foreclosed real estate	2,055	2,350	19,504
Total covered nonperforming assets	$ 14,525	$ 18,681	$ 58,919
Total nonperforming assets	$ 104,916	$ 114,011	$ 141,123

(1) At March 31, 2015, December 31, 2014, and March 31, 2014, the contractual balance of the nonaccrual loans covered by FDIC loss share agreements was $14.1 million, $16.0 million, and $49.3 million, respectively.

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The remaining tables in this note present information derived from the Company’s allowance for loan loss model. Relevant accounting guidance requires certain disclosures to be disaggregated based on how the Company develops its allowance for loan losses and manages its credit exposure. This model combines loan types in a different manner than the tables previously presented.

The following table presents the Company’s nonaccrual loans as of March 31, 2015.

($ in thousands)	Non-covered	Covered	Total
Commercial, financial, and agricultural:			
Commercial – unsecured	$ 217	—	217
Commercial – secured	2,998	—	2,998
Secured by inventory and accounts receivable	536	147	683
Real estate – construction, land development & other land loans	6,796	1,024	7,820
Real estate – residential, farmland and multi-family	23,371	5,042	28,413
Real estate – home equity lines of credit	2,140	290	2,430
Real estate – commercial	11,027	2,093	13,120
Consumer	331	—	331
Total	$ 47,416	8,596	56,012

The following table presents the Company’s nonaccrual loans as of December 31, 2014.

($ in thousands)	Non-covered	Covered	Total
Commercial, financial, and agricultural:			
Commercial – unsecured	$ 187	1	188
Commercial – secured	2,927	—	2,927
Secured by inventory and accounts receivable	454	103	557
Real estate – construction, land development & other land loans	7,891	1,140	9,031
Real estate – residential, farmland and multi-family	24,459	7,785	32,244
Real estate – home equity lines of credit	2,573	278	2,851
Real estate – commercial	11,070	1,201	12,271
Consumer	505	—	505
Total	$ 50,066	10,508	60,574

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The following table presents an analysis of the payment status of the Company's loans as of March 31, 2015.

($ in thousands)	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual Loans	Current	Total Loans Receivable
Non-covered loans					
Commercial, financial, and agricultural:					
Commercial - unsecured	$172	33	217	36,102	36,524
Commercial - secured	1,097	235	2,998	116,571	120,901
Secured by inventory and accounts receivable	—	21	536	23,939	24,496
Real estate – construction, land development & other land loans	2,219	1,207	6,796	246,629	256,851
Real estate – residential, farmland, and multi-family	13,902	2,268	23,371	799,110	838,651
Real estate – home equity lines of credit	497	301	2,140	196,238	199,176
Real estate - commercial	1,171	1,318	11,027	743,502	757,018
Consumer	345	198	331	40,296	41,170
Total non-covered	$19,403	5,581	47,416	2,202,387	2,274,787
Unamortized net deferred loan costs					783
Total non-covered loans					$2,275,570
Covered loans	$4,359	—	8,596	106,874	119,829
Total loans	$23,762	5,581	56,012	2,309,261	2,395,399

The Company had no non-covered or covered loans that were past due greater than 90 days and accruing interest at March 31, 2015.

The following table presents an analysis of the payment status of the Company's loans as of December 31, 2014.

($ in thousands)	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual Loans	Current	Total Loans Receivable
Non-covered loans					
Commercial, financial, and agricultural:					
Commercial - unsecured	$191	35	187	36,871	37,284
Commercial - secured	1,003	373	2,927	102,671	106,974
Secured by inventory and accounts receivable	30	225	454	21,761	22,470

Real estate – construction, land development & other land loans	1,950	139	7,891	247,535	257,515
Real estate – residential, farmland, and multi-family	11,272	3,218	24,459	807,884	846,833
Real estate – home equity lines of credit	1,585	352	2,573	194,067	198,577
Real estate - commercial	3,738	996	11,070	738,981	754,785
Consumer	695	131	505	41,865	43,196
Total non-covered	$20,464	5,469	50,066	2,191,635	2,267,634
Unamortized net deferred loan costs					946
Total non-covered loans					$2,268,580
Covered loans	$4,385	964	10,508	111,737	127,594
Total loans	$24,849	6,433	60,574	2,303,372	2,396,174

The Company had no non-covered or covered loans that were past due greater than 90 days and accruing interest at December 31, 2014.

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The following table presents the activity in the allowance for loan losses for non-covered loans for the three months ended March 31, 2015.

($ in thousands)	Commercial, Financial, and Agricultural	Real Estate – Construction, Land Development, & Other Land Loans	Real Estate – Residential, Farmland, and Multi-family	Real Estate – Home Equity Lines of Credit	Real Estate – Commercial and Other	Consumer	Unallo-cated	Total
As of and for the three months ended March 31, 2015								
Beginning balance	$8,391	6,470	9,720	3,731	9,045	841	147	38,3
Charge-offs	(944)	(1,256)	(1,569)	(67)	(923)	(601)	—	(5,3
Recoveries	88	267	16	17	202	91	—	681
Provisions	(1,778)	525	2,659	482	(2,405)	464	157	104
Ending balance	$5,757	6,006	10,826	4,163	5,919	795	304	33,7
Ending balances as of March 31, 2015: Allowance for loan losses								
Individually evaluated for impairment	$131	415	1,690	—	505	—	—	2,74
Collectively evaluated for impairment	$5,626	5,591	9,136	4,163	5,414	795	304	31,0
Loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—
Loans receivable as of March 31, 2015:								
Ending balance	$181,921	256,851	838,651	199,176	757,018	41,170	—	2,27
Unamortized net deferred loan costs								783
Total non-covered loans								$2,27
Ending balances as of March 31, 2015: Loans								
Individually evaluated for impairment	$800	6,720	23,527	—	20,504	—	—	51,5
Collectively evaluated for impairment	$181,121	250,131	815,124	199,176	735,883	41,170	—	2,22
Loans acquired with deteriorated credit quality	$—	—	—	—	631	—	—	631

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The following table presents the activity in the allowance for loan losses for non-covered loans for the year ended December 31, 2014.

($ in thousands)	Commercial, Financial, and Agricultural	Real Estate – Construction, Land Development & Other Land Loans	Real Estate – Residential, Farmland, and Multi-family	Real Estate – Home Equity Lines of Credit	Real Estate – Commercial and Other	Consumer	Unallo-cated	Total
As of and for the year ended December 31, 2014								
Beginning balance	$ 7,432	12,966	15,142	1,838	5,524	1,513	(152)	44,263
Charge-offs	(4,039)	(2,148)	(4,417)	(912)	(3,048)	(1,724)	—	(16,288)
Recoveries	140	398	331	45	181	451	—	1,546
Transfer from covered category	36	813	51	—	833	4	—	1,737
Provisions	4,822	(5,559)	(1,387)	2,760	5,555	597	299	7,087
Ending balance	$ 8,391	6,470	9,720	3,731	9,045	841	147	38,345
Ending balances as of December 31, 2014: Allowance for loan losses								
Individually evaluated for impairment	$ 211	415	1,686	—	165	—	—	2,477