

SOUTHERN FIRST BANCSHARES INC  
Form 10-Q  
August 04, 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 June 30, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from to  
Commission file number 000-27719

**Southern First Bancshares, Inc.**

(Exact name of registrant as specified in its charter)

**South Carolina**

(State or other jurisdiction of incorporation or organization)

**58-2459561**

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

**100 Verdae Boulevard, Suite 100**

**Greenville, S.C.**

(Address of principal executive offices)

**29606**

(Zip Code)

**864-679-9000**

(Registrant's telephone number, including area code)

**Not Applicable**

(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 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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller Reporting Company

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

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:  
6,236,144 shares of common stock, par value \$0.01 per share, were issued and outstanding as of July 28, 2015.

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**SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY**  
**June 30, 2015 Form 10-Q**

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**PART I. CONSOLIDATED FINANCIAL INFORMATION**  
**Item 1. CONSOLIDATED FINANCIAL STATEMENTS**

**SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**

(dollars in thousands, except share data)	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
<b>ASSETS</b>		
Cash and cash equivalents:		
Cash and due from banks	\$ 12,085	9,862
Interest-bearing deposits with banks	5,219	25,849
Federal funds sold	24,106	5,553
Total cash and cash equivalents	41,410	41,264
Investment securities:		
Investment securities available for sale	51,465	55,024
Other investments	5,532	6,522
Total investment securities	56,997	61,546
Loans held for sale	12,402	11,765
Loans	963,496	871,446
Less allowance for loan losses	(12,927)	(11,752)
Loans, net	950,569	859,694
Bank owned life insurance	22,382	22,050
Property and equipment, net	22,704	20,845
Deferred income taxes	5,929	5,509
Other assets	6,607	7,192
Total assets	\$ 1,119,000	1,029,865
<b>LIABILITIES</b>		
Deposits	\$ 894,524	788,907
Federal Home Loan Bank advances and other borrowings	115,200	135,200
Junior subordinated debentures	13,403	13,403
Other liabilities	8,206	9,363
Total liabilities	1,031,333	946,873
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock, par value \$.01 per share, 10,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, par value \$.01 per share, 10,000,000 shares authorized, 6,236,144 and 6,219,002 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	62	62
Nonvested restricted stock	(400)	(494)
Additional paid-in capital	69,192	68,785
Accumulated other comprehensive income (loss)	(112)	302
Retained earnings	18,925	14,337
Total shareholders' equity	87,667	82,992
Total liabilities and shareholders' equity	\$ 1,119,000	1,029,865

See notes to consolidated financial statements that are an integral part of these consolidated statements.

**SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
(dollars in thousands, except share data)				
<b>Interest income</b>				
Loans	\$ 10,941	9,309	21,341	18,127
Investment securities	356	465	731	977
Federal funds sold	19	16	45	30
Total interest income	11,316	9,790	22,117	19,134
<b>Interest expense</b>				
Deposits	854	696	1,621	1,376
Borrowings	971	1,024	1,935	2,044
Total interest expense	1,825	1,720	3,556	3,420
Net interest income	9,491	8,070	18,561	15,714
Provision for loan losses	1,000	950	1,625	1,950
Net interest income after provision for loan losses	8,491	7,120	16,936	13,764
<b>Noninterest income</b>				
Loan and mortgage fee income	1,409	613	2,605	955
Service fees on deposit accounts	219	231	445	445
Income from bank owned life insurance	165	167	331	329
Gain on sale of investment securities	36	230	295	230
Other income	286	277	580	529
Total noninterest income	2,115	1,518	4,256	2,488
<b>Noninterest expenses</b>				
Compensation and benefits	4,106	3,514	8,382	6,925
Occupancy	842	730	1,579	1,457
Real estate owned expenses	93	12	855	25
Data processing and related costs	573	622	1,158	1,216
Insurance	213	203	415	395
Professional fees	233	294	466	517
Marketing	222	197	460	398
Other	364	743	791	1,152
Total noninterest expenses	6,646	6,315	14,106	12,085
Income before income tax expense	3,960	2,323	7,086	4,167
<b>Income tax expense</b>	1,400	757	2,498	1,351
<b>Net income</b>	2,560	1,566	4,588	2,816
Preferred stock dividend	-	253	-	445
<b>Net income available to common shareholders</b>	\$ 2,560	1,313	4,588	2,371
<b>Earnings per common share</b>				
Basic	\$ 0.41	0.28	0.74	0.51
Diluted	0.39	0.26	0.70	0.48
<b>Weighted average common shares outstanding</b>				
Basic	6,233,745	4,763,407	6,229,522	4,686,748
Diluted	6,533,658	5,036,553	6,524,317	4,957,000

See notes to consolidated financial statements that are an integral part of these consolidated statements.

**SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited)

(dollars in thousands)	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Net income	\$2,560	1,566	4,588	2,816
Other comprehensive income (loss):				
Unrealized gain (loss) on securities available for sale:				
Unrealized holding gain (loss) arising during the period, pretax	(689)	1,093	(332)	2,259
Tax (expense) benefit	234	(371)	113	(768)
Reclassification of realized gain	(36)	(230)	(295)	(230)
Tax expense	12	78	100	78
Other comprehensive income (loss)	(479)	570	(414)	1,339
Comprehensive income	\$2,081	2,136	4,174	4,155

See notes to consolidated financial statements that are an integral part of these consolidated statements.

**SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014**  
**(Unaudited)**

	Common stock		Preferred stock		Nonvested restricted stock	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total
	Shares	Amount	Shares	Amount	stock	capital	(loss)	earnings	
(dollars in thousands, except share data)									
<b>December 31, 2013</b>	<b>4,319,750</b>	<b>\$ 43</b>	<b>15,299</b>	<b>\$ 15,299</b>	<b>\$ (636)</b>	<b>\$ 43,585</b>	<b>\$ (1,348)</b>	<b>\$ 8,722</b>	<b>\$ 65,665</b>
Net income	-	-	-	-	-	-	-	2,816	2,816
Preferred stock transactions:									
Redemption of preferred stock	-	-	(4,057)	(4,057)	-	-	-	-	(4,057)
Cash dividends on Series T preferred stock	-	-	-	-	-	-	-	(434)	(434)
Issuance of common stock	475,000	5	-	-	-	5,945	-	-	5,950
Proceeds from exercise of stock options	32,764	-	-	-	-	287	-	-	287
Issuance of restricted stock	2,000	-	-	-	(27)	27	-	-	-
Amortization of deferred compensation on restricted stock	-	-	-	-	98	-	-	-	98
Compensation expense related to stock options, net of tax	-	-	-	-	-	222	-	-	222
Other comprehensive income	-	-	-	-	-	-	1,339	-	1,339
<b>June 30, 2014</b>	<b>4,829,514</b>	<b>48</b>	<b>11,242</b>	<b>11,242</b>	<b>(565)</b>	<b>50,066</b>	<b>(9)</b>	<b>11,104</b>	<b>71,886</b>
<b>December 31, 2014</b>	<b>6,219,002</b>	<b>62</b>	<b>-</b>	<b>-</b>	<b>(494)</b>	<b>68,785</b>	<b>302</b>	<b>14,337</b>	<b>82,992</b>
Net income	-	-	-	-	-	-	-	4,588	4,588
Proceeds from exercise of stock options	17,142	-	-	-	-	117	-	-	117
Amortization of deferred compensation on restricted stock	-	-	-	-	94	-	-	-	94
Compensation expense related to stock options, net of tax	-	-	-	-	-	290	-	-	290
Other comprehensive loss	-	-	-	-	-	-	(414)	-	(414)
<b>June 30, 2015</b>	<b>6,236,144</b>	<b>\$ 62</b>	<b>-</b>	<b>\$ -</b>	<b>\$ (400)</b>	<b>\$ 69,192</b>	<b>\$ (112)</b>	<b>\$ 18,925</b>	<b>\$ 87,667</b>

See notes to consolidated financial statements that are an integral part of these consolidated statements.

**SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(dollars in thousands)	For the six months ended June 30,	
	2015	2014
<b>Operating activities</b>		
Net income	\$ 4,588	2,816
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan losses	1,625	1,950
Depreciation and other amortization	688	591
Accretion and amortization of securities discounts and premium, net	148	200
Gain on sale of investment securities available for sale	(295)	(230)
Gain on sale of real estate owned	(74)	-
Write-down of real estate owned	737	-
Compensation expense related to stock options and grants	384	320
Gain on sale of loans held for sale	(2,484)	(880)
Loans originated and held for sale	(106,754)	(37,555)
Proceeds from sale of loans held for sale	108,601	34,857
Increase in cash surrender value of bank owned life insurance	(332)	(329)
Increase in deferred tax asset	(207)	(856)
Decrease in other assets, net	165	90
Decrease in other liabilities	(1,157)	(13)
Net cash provided by operating activities	5,633	961
<b>Investing activities</b>		
Increase (decrease) in cash realized from:		
Origination of loans, net	(92,843)	(80,392)
Purchase of property and equipment	(2,547)	(1,456)
Purchase of investment securities:		
Available for sale	(9,352)	(2,073)
Other	(149)	-
Payments and maturity of investment securities:		
Available for sale	2,359	2,427
Other	1,140	157
Proceeds from sale of investment securities available for sale	10,071	10,427
Proceeds from sale of real estate owned	100	75
Net cash used for investing activities	(91,221)	(70,835)
<b>Financing activities</b>		
Increase (decrease) in cash realized from:		
Increase in deposits, net	105,617	67,050
Increase in other borrowings	-	3,000
Decrease in Federal Home Loan Bank advances and other borrowings	(20,000)	-
Cash dividend on preferred stock	-	(434)
Redemption of preferred stock	-	(4,057)
Issuance of common stock	-	5,950
Proceeds from the exercise of stock options and warrants	117	287
Net cash provided by financing activities	85,734	71,796
Net increase in cash and cash equivalents	146	1,922
<b>Cash and cash equivalents at beginning of the period</b>	41,264	39,203
<b>Cash and cash equivalents at end of the period</b>	\$ 41,410	41,125
<b>Supplemental information</b>		
<b>Cash paid for</b>		
Interest	\$ 3,634	3,320
Income taxes	2,705	2,207
<b>Schedule of non-cash transactions</b>		
Real estate acquired in settlement of loans	343	154
Unrealized gain (loss) on securities, net of income taxes	(219)	1,491

See notes to consolidated financial statements that are an integral part of these consolidated statements.





**SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 Nature of Business and Basis of Presentation**

*Business Activity*

**Southern First Bancshares, Inc.** (the "Company") is a South Carolina corporation that owns all of the capital stock of Southern First Bank (the "Bank") and all of the stock of Greenville First Statutory Trust I and II (collectively, the "Trusts"). The Trusts are special purpose non-consolidated entities organized for the sole purpose of issuing trust preferred securities. The Bank's primary federal regulator is the Federal Deposit Insurance Corporation (the "FDIC"). The Bank is also regulated and examined by the South Carolina Board of Financial Institutions. The Bank is primarily engaged in the business of accepting demand deposits and savings deposits insured by the FDIC, and providing commercial, consumer and mortgage loans to the general public.

*Basis of Presentation*

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles ( GAAP ) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on March 3, 2015. The consolidated financial statements include the accounts of the Company and the Bank. In accordance with Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 810, Consolidation, the financial statements related to the Trusts have not been consolidated.

*Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amount of income and expenses during the reporting periods. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, real estate acquired in the settlement of loans, fair value of financial instruments, evaluating other-than-temporary-impairment of investment securities and valuation of deferred tax assets.

*Reclassifications*

Certain amounts, previously reported, have been reclassified to state all periods on a comparable basis and had no effect on shareholders' equity or net income.

*Subsequent Events*

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management performed an evaluation to determine whether there have been any subsequent events since the balance sheet date and determined that no subsequent events occurred requiring accrual or disclosure.

**NOTE 2 Preferred and Common Stock**

On November 12, 2014, the Company issued 1,380,000 shares of its common stock in a public offering at \$14.40 per share, including 180,000 shares which were sold to the underwriter pursuant to an option to purchase additional shares to cover any over-allotments. The net proceeds from the offering totaled approximately \$18.4 million, after deducting the underwriting discount as well as estimated offering expenses.

Using proceeds from the public offering, on December 12, 2014, the Company completed the repurchase of the remaining 11,242 shares of Series T preferred stock outstanding at \$1,000 par value from third party investors who purchased the shares in July 2012 through a Dutch auction conducted by the U.S. Treasury. As of December 31, 2014, the Company has no shares of preferred stock outstanding.

**NOTE 3 Investment Securities**

The amortized costs and fair value of investment securities are as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized		June 30, 2015
		Gains	Losses	Fair Value
<b>Available for sale</b>				
US government agencies	\$ 9,133	18	307	8,844
SBA securities	5,072	-	169	4,903
State and political subdivisions	16,148	325	127	16,346
Mortgage-backed securities	21,281	250	159	21,372
Total investment securities available for sale	\$ 51,634	593	762	51,465

(dollars in thousands)	Amortized Cost	Gross Unrealized		December 31, 2014
		Gains	Losses	Fair Value
<b>Available for sale</b>				
US government agencies	\$ 8,763	9	215	8,557
SBA securities	5,336	-	182	5,154
State and political subdivisions	16,253	598	51	16,800
Mortgage-backed securities	24,214	341	42	24,513
Total investment securities available for sale	\$ 54,566	948	490	55,024

During the first quarter of 2015, the Company developed a need for additional liquidity as it experienced increased loan demand and, as a result, sold \$5.8 million of its mortgage-backed securities and state and municipal obligations and recorded a net gain on sale of investment securities of \$259,000. During the second quarter of 2015, we sold and subsequently reinvested \$4.3 million of investment securities, recording a gain of \$36,000 from the transaction.

Contractual maturities and yields on the Company's investment securities at June 30, 2015 and December 31, 2014 are shown in the following table. 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.

(dollars in thousands)	Less than one year		One to five years		Five to ten years		Over ten years		June 30, 2015 Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
<b>Available for sale</b>										
US government agencies	\$ -	-	-	-	1,316	2.19%	7,528	2.42%	8,844	2.39%
SBA securities	-	-	-	-	-	-	4,903	1.88%	4,903	1.88%
State and political subdivisions	2,063	0.84%	-	-	7,529	3.07%	6,754	2.92%	16,346	2.72%
Mortgage-backed securities	-	-	-	-	1,155	1.77%	20,217	2.12%	21,372	2.10%
Total	\$ 2,063	0.84%	-	-	10,000	2.79%	39,402	2.28%	51,465	2.32%

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	December 31, 2014									
	Less than one year		One to five years		Five to ten years		Over ten years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
<b>Available for sale</b>										
US government agencies	\$ -	-	988	2.12%	-	-	7,569	2.43%	8,557	2.39%
SBA securities	-	-	-	-	-	-	5,154	1.88%	5,154	1.88%
State and political subdivisions	2,082	0.68%	399	3.14%	8,465	3.23%	5,854	3.00%	16,800	2.82%
Mortgage-backed securities	-	-	-	-	2,118	1.66%	22,395	2.62%	24,513	2.54%
Total	\$ 2,082	0.68%	1,387	2.41%	10,583	2.91%	40,972	2.54%	55,024	2.54%

The tables below summarize gross unrealized losses on investment securities and the fair market value of the related securities at June 30, 2015 and December 31, 2014, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

(dollars in thousands)	June 30, 2015								
	Less than 12 months			12 months or longer			Total		
	#	Fair value	Unrealized losses	#	Fair value	Unrealized losses	#	Fair value	Unrealized losses
<b>Available for sale</b>									
US government agencies	3	\$ 8,826	\$ 307	-	\$ -	\$ -	3	\$ 8,826	\$ 307
SBA securities	-	-	-	2	4,903	-			