FIRST BANCORP /NC/
Form 10-Q
August 09, 2013

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, 2013

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 S.W. Broad Street, Southern Pines, North Carolina	28387
(Address of Principal Executive Offices)	(Zip Code)
(Registrant's telephone number, including area code)	(910) 576-6171

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. ý 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). ý 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 ý Accelerated Filer o Non-Accelerated Filer
o Smaller Reporting Company (Do not check if a 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 ý NO

The number of shares of the registrant's Common Stock outstanding on July 31, 2013 was 19,679,659.

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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 2012 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)	June 30, 2013	December 31, 2012 (audited)	June 30, 2012
ASSETS			
Cash and due from banks, noninterest-bearing	$82,798	96,588	58,872
Due from banks, interest-bearing	154,199	144,919	203,313
Federal funds sold	603	—	—
Total cash and cash equivalents	237,600	241,507	262,185
Securities available for sale	186,634	167,352	171,907
Securities held to maturity (fair values of $58,376, $61,496, and $61,676)	54,361	56,064	56,182
Presold mortgages in process of settlement	4,552	8,490	4,053
Loans – non-covered	2,190,583	2,094,143	2,114,906
Loans – covered by FDIC loss share agreement	240,279	282,314	322,895
Total loans	2,430,862	2,376,457	2,437,801
Allowance for loan losses – non-covered	(44,816)	(41,643)	(47,523)
Allowance for loan losses – covered	(6,035)	(4,759)	(5,931)
Total allowance for loan losses	(50,851)	(46,402)	(53,454)
Net loans	2,380,011	2,330,055	2,384,347
Loans held for sale	—	30,393	—
Premises and equipment	77,597	74,371	73,642
Accrued interest receivable	9,780	10,201	10,932
FDIC indemnification asset	92,950	102,559	116,902
Goodwill	65,835	65,835	65,835
Other intangible assets	3,274	3,108	3,452
Foreclosed real estate – non-covered	15,425	26,285	37,895
Foreclosed real estate – covered	32,005	47,290	70,850
Bank-owned life insurance	43,276	27,857	27,380
Other assets	44,110	53,543	43,193
Total assets	$3,247,410	3,244,910	3,328,755
LIABILITIES			
Deposits: Noninterest bearing checking accounts	$454,785	413,195	381,353
Interest bearing checking accounts	546,203	519,573	472,342
Money market accounts	564,837	556,354	545,356
Savings accounts	166,497	158,578	160,137

Time deposits of $100,000 or more	612,912	664,330	725,699
Other time deposits	473,119	509,330	553,411
Total deposits	2,818,353	2,821,360	2,838,298
Borrowings	46,394	46,394	111,394
Accrued interest payable	1,071	1,299	1,549
Other liabilities	21,487	19,740	37,440
Total liabilities	2,887,305	2,888,793	2,988,681
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 0 shares	7,287	7,287	—
Common stock, no par value per share. Authorized: 40,000,000 shares			
Issued & outstanding: 19,679,659, 19,669,302, and 16,973,008 shares	132,097	131,877	105,437
Retained earnings	158,708	153,629	179,298
Accumulated other comprehensive income (loss)	(1,487)	(176)	(8,161)
Total shareholders' equity	360,105	356,117	340,074
Total liabilities and shareholders' equity	$3,247,410	3,244,910	3,328,755

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Income (Loss)

($ in thousands, except share data-unaudited)	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
INTEREST INCOME				
Interest and fees on loans	$37,030	35,636	70,581	70,678
Interest on investment securities:				
Taxable interest income	824	1,149	1,729	2,407
Tax-exempt interest income	477	491	956	984
Other, principally overnight investments	173	178	327	317
Total interest income	38,504	37,454	73,593	74,386
INTEREST EXPENSE				
Savings, checking and money market accounts	381	759	891	1,608
Time deposits of $100,000 or more	1,546	2,085	3,159	4,260
Other time deposits	719	1,169	1,508	2,438
Securities sold under agreements to repurchase	—	—	—	4
Borrowings	256	490	512	1,034
Total interest expense	2,902	4,503	6,070	9,344
Net interest income	35,602	32,951	67,523	65,042
Provision for loan losses – non-covered	4,043	5,194	9,814	23,751
Provision for loan losses – covered	1,548	1,273	6,926	4,271
Total provision for loan losses	5,591	6,467	16,740	28,022
Net interest income after provision for loan losses	30,011	26,484	50,783	37,020
NONINTEREST INCOME				
Service charges on deposit accounts	3,254	2,967	6,189	5,814
Other service charges, commissions and fees	2,340	2,167	4,515	4,359
Fees from presold mortgage loans	820	489	1,567	900
Commissions from sales of insurance and financial products	579	432	978	815
Bank-owned life insurance income	212	162	420	173
Foreclosed property gains (losses and write-downs) – non-covered	777	(1,318)	1,535	(2,006)
Foreclosed property losses and write-downs – covered	(520)	(6,554)	(5,136)	(11,101)
FDIC indemnification asset income (expense), net	(3,407)	3,558	1,490	7,663
Securities gains (losses)	7	(3)	7	449
Other gains (losses)	425	(130)	30	53
Total noninterest income	4,487	1,770	11,595	7,119
NONINTEREST EXPENSES				
Salaries	11,003	10,173	21,680	20,347
Employee benefits	2,546	2,777	5,173	6,691
Total personnel expense	13,549	12,950	26,853	27,038
Net occupancy expense	1,759	1,615	3,433	3,296

Equipment related expenses	1,106	1,164	2,194	2,334
Intangibles amortization	220	223	419	446
Other operating expenses	9,122	7,496	16,081	14,709
Total noninterest expenses	25,756	23,448	48,980	47,823
Income (loss) before income taxes	8,742	4,806	13,398	(3,684)
Income tax expense (benefit)	3,154	1,516	4,710	(1,792)
Net income (loss)	5,588	3,290	8,688	(1,892)
Preferred stock dividends	(217)	(829)	(462)	(1,589)
Net income (loss) available to common shareholders	$5,371	2,461	8,226	(3,481)
Earnings (loss) per common share:				
Basic	$0.27	0.15	0.42	(0.21)
Diluted	0.27	0.15	0.41	(0.21)
Dividends declared per common share	$0.08	0.08	0.16	0.16
Weighted average common shares outstanding:				
Basic	19,673,634	16,952,624	19,671,468	16,938,620
Diluted	20,415,103	16,952,624	20,412,456	16,938,620

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

($ in thousands-unaudited)	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Net income (loss)	$ 5,588	3,290	8,688	(1,892)
Other comprehensive income (loss):				
Unrealized gains on securities available for sale:				
Unrealized holding gains (losses) arising during the period, pretax	(1,853)	186	(2,159)	901
Tax (expense) benefit	723	(72)	841	(350)
Reclassification to realized (gains) losses	(7)	3	(7)	(449)
Tax expense (benefit)	3	(1)	3	175
Postretirement Plans:				
Amortization of unrecognized net actuarial loss	15	82	18	383
Tax expense	(6)	(32)	(7)	(149)
Amortization of prior service cost and transition obligation	—	8	—	17
Tax expense	—	(3)	—	(7)
Other comprehensive income (loss)	(1,125)	171	(1,311)	521
Comprehensive income (loss)	$ 4,463	3,461	7,377	(1,371)

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, 2012	$63,500	16,910	$104,841	185,491	(8,682)	345,150
Net income (loss)				(1,892)		(1,892)
Common stock issued into dividend reinvestment plan		31	335			335
Repurchases of common stock		—	(2)			(2)
Cash dividends declared ($0.16 per common share)				(2,712)		(2,712)
Preferred dividends				(1,589)		(1,589)
Stock-based compensation		32	263			263
Other comprehensive income					521	521
Balances, June 30, 2012	$63,500	16,973	$105,437	179,298	(8,161)	340,074
Balances, January 1, 2013	$70,787	19,669	$131,877	153,629	(176)	356,117
Net income				8,688		8,688
Cash dividends declared ($0.16 per common share)				(3,147)		(3,147)
Preferred dividends				(462)		(462)
Stock-based compensation		11	220			220
Other comprehensive income (loss)					(1,311)	(1,311)
Balances, June 30, 2013	$70,787	19,680	$132,097	158,708	(1,487)	360,105

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Cash Flows

($ in thousands-unaudited)	Six Months Ended June 30, 2013	2012
Cash Flows From Operating Activities		
Net income (loss)	$ 8,688	(1,892)
Reconciliation of net income (loss) to net cash provided by operating activities:		
Provision for loan losses	16,740	28,022
Net security premium amortization	1,360	907
Purchase accounting accretion and amortization, net	(10,055)	(5,721)
Foreclosed property losses and write-downs, net	3,601	13,107
Gain on securities available for sale	(7)	(449)
Other gains	(30)	(53)
Decrease (increase) in net deferred loan costs	156	(96)
Depreciation of premises and equipment	2,287	2,278
Stock-based compensation expense	220	263
Amortization of intangible assets	419	446
Origination of presold mortgages in process of settlement	(51,664)	(41,858)
Proceeds from sales of presold mortgages in process of settlement	55,602	43,895
Decrease in accrued interest receivable	421	847
Decrease (increase) in other assets	8,089	(13,188)
Decrease in accrued interest payable	(255)	(323)
Increase in other liabilities	2,080	415
Net cash provided by operating activities	37,652	26,600
Cash Flows From Investing Activities		
Purchases of securities available for sale	(44,834)	(47,395)
Proceeds from sales of securities available for sale	—	9,641
Proceeds from maturities/issuer calls of securities available for sale	22,147	48,590
Proceeds from maturities/issuer calls of securities held to maturity	1,587	1,685
Purchase of bank-owned life insurance	(15,000)	(25,000)
Net increase in loans	(50,937)	(42,993)
Proceeds from FDIC loss share agreements	12,018	15,286
Proceeds from sales of foreclosed real estate	33,092	25,767
Purchases of premises and equipment	(4,092)	(5,945)
Proceeds from loans held for sale	30,393	—
Net cash received in acquisition	38,315	—
Net cash provided (used) by investing activities	22,689	(20,364)
Cash Flows From Financing Activities		
Net increase (decrease) in deposits	(60,324)	66,211
Repayments of borrowings	—	(22,500)
Cash dividends paid – common stock	(3,147)	(2,708)
Cash dividends paid – preferred stock	(777)	(1,554)
Proceeds from issuance of common stock	—	335

Repurchase of common stock	—	(2)
Net cash provided (used) by financing activities	(64,248)	39,782
Increase (decrease) in cash and cash equivalents	(3,907)	46,018
Cash and cash equivalents, beginning of period	241,507	216,167
Cash and cash equivalents, end of period	$237,600	262,185
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$6,298	9,667
Income taxes	—	5,275
Non-cash transactions:		
Unrealized gain (loss) on securities available for sale, net of taxes	(1,322)	277
Foreclosed loans transferred to other real estate	10,548	25,324

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 June 30, 2013 and 2012

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 June 30, 2013 and 2012 and the consolidated results of operations and consolidated cash flows for the periods ended June 30, 2013 and 2012. All such adjustments were of a normal, recurring nature. Reference is made to the 2012 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 June 30, 2013 and 2012 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 2012 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.

The Comprehensive Income topic was amended in June 2011. The amendment eliminated the option to present other comprehensive income as a part of the statement of changes in stockholders' equity and required consecutive presentation of the statement of net income and other comprehensive income. The amendments were applicable to the Company commencing on January 1, 2012 and have been applied retrospectively. In December 2011, the topic was further amended to defer the effective date of presenting reclassification adjustments from other comprehensive income to net income on the face of the financial statements while the Financial Accounting Standards Board (FASB) redeliberated the presentation requirements for the reclassification adjustments. In February 2013, the FASB further amended the Comprehensive Income topic clarifying the conclusions from such redeliberations. Specifically, the amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments do require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, in certain circumstances an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The amendments were effective for the Company on a prospective basis for reporting periods beginning after

December 15, 2012. These amendments did not have a material effect on the Company’s financial statements.

In October 2012, the Business Combinations topic was amended to address the subsequent accounting for an indemnification asset resulting from a government-assisted acquisition of a financial institution. The guidance indicates that when a reporting entity records an indemnification asset as a result of a government-assisted acquisition of a financial institution involving an indemnification agreement, the indemnification asset should be subsequently measured on the same basis as the asset subject to indemnification. Any amortization of changes in value should be limited to any contractual limitations on the amount and the term of the indemnification agreement. The amendments should be applied prospectively to any new indemnification assets acquired and to changes in expected cash flows of existing indemnification assets occurring on or after the date of adoption. Prior periods would not be adjusted. The amendments were effective for 2013 and did not have a material effect on the Company’s 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 for the periods ended June 30, 2012 have been reclassified to conform to the presentation for June 30, 2013. These reclassifications had no effect on net income or shareholders’ equity for the periods presented, nor did they materially impact trends in financial information.

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Note 4 – Acquisition

On March 22, 2013, the Company completed the purchase of two branches from Four Oaks Bank & Trust Company located in Southern Pines and Rockingham, North Carolina. The Company acquired $57 million in deposits and $16 million in loans in the acquisition. The Company purchased the Rockingham branch building, but did not purchase the Southern Pines branch building and instead transferred the acquired accounts to one of the Company's nearby existing branches. The primary reason for this acquisition was to increase the Company's presence in existing market areas. The Company paid a deposit premium for the branches of approximately $586,000, which is the amount of the identifiable intangible asset associated with the fair value of the core deposit base. The intangible asset is being amortized as expense on a straight-line basis over a seven year period. The operations of the two branches are included in the accompanying Consolidated Statements of Income (Loss) beginning on the acquisition date of March 22, 2013. Historical pro forma information is not presented due to the immateriality of the transaction.

Note 5 – Equity-Based Compensation Plans

At June 30, 2013, the Company had the following equity-based compensation plans: the First Bancorp 2007 Equity Plan, the First Bancorp 2004 Stock Option Plan, and the First Bancorp 1994 Stock Option Plan. The Company's shareholders approved all equity-based compensation plans. The First Bancorp 2007 Equity Plan became effective upon the approval of shareholders on May 2, 2007. As of June 30, 2013, the First Bancorp 2007 Equity Plan was the only plan that had shares available for future grants.

The First Bancorp 2007 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 2007 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 12 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.

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 and the restricted stock award will vest in full on December 31, 2014 and December 31, 2015, respectively, if the Company achieves certain earnings targets for those years, and will be forfeited if the applicable targets are not achieved. Compensation expense for this grant will be recorded over the various periods based on the estimated number of options and restricted stock that are probable to vest. If the awards do not vest, no compensation cost will be recognized and any previously recognized compensation cost will be reversed. Based on current conditions, the Company has concluded that it is not probable that these awards will vest, and thus no compensation expense has been recorded.

The Company granted long-term restricted shares of common stock to certain senior executives on February 23, 2012 with a two year minimum vesting period. The total compensation expense associated with this grant was $89,700 and the grant will fully vest on February 23, 2014. The Company recorded $19,000 and $14,900 in stock option expense during the six months ended June 30, 2013 and 2012, respectively, and expects to record $1,000 in stock option expense each quarter thereafter until the awards vest.

The Company granted long-term restricted shares of common stock to certain senior executives on February 24, 2011 with a two year minimum vesting period. The total compensation expense associated with this grant was $105,500 and the grant fully vested on February 24, 2013. The Company recorded $6,500 and $22,000 in stock option expense during the six months ended June 30, 2013 and 2012, respectively.

Under the terms of the Predecessor Plans and the First Bancorp 2007 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 if there is a change in control (as defined in the plans).

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At June 30, 2013, there were 466,813 options outstanding related to the three First Bancorp plans, with exercise prices ranging from $9.76 to $22.12. At June 30, 2013, there were 761,538 shares remaining available for grant under the First Bancorp 2007 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’s equity grants for the six months ended June 30, 2013 were the issuance of 13,164 shares of common stock to non-employee directors on June 3, 2013 (1,097 shares per director), at a fair market value of $14.68 per share, which was the closing price of the Company’s common stock on that date.

The Company’s equity grants for the six months ended June 30, 2012 were the issuance of 1) 9,559 shares of long-term restricted stock to certain senior executives on February 23, 2012, at a fair market value of $10.96 per share, which was the closing price of the Company’s common stock on that date, and 2) 25,452 shares of common stock to non-employee directors on June 1, 2012 (1,818 shares per director), at a fair market value of $8.86 per share, which was the closing price of the Company’s common stock on that date.

The Company recorded total stock-based compensation expense of $220,000 and $263,000 for the six-month periods ended June 30, 2013 and 2012, respectively. Of the $220,000 in expense that was recorded in 2013, approximately $193,000 related to the June 3, 2013 director grants, which is classified as “other operating expenses” in the Consolidated Statements of Income (Loss). The remaining $27,000 in expense 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 $86,000 and $103,000 of income tax benefits related to stock based compensation expense in the income statement for the six months ended June 30, 2013 and 2012, respectively.

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 options granted without performance conditions will become vested.

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The following table presents information regarding the activity for the first six months of 2013 related to all of 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 December 31, 2012	521,613	$ 17.80		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Expired	(54,800)	16.62		
Outstanding at June 30, 2013	466,813	$ 17.94	3.8	$ 325,500
Exercisable at June 30, 2013	391,813	$ 19.51	2.8	$ —

The Company did not have any stock option exercises during the six months ended June 30, 2013 or 2012. The Company recorded no tax benefits from the exercise of nonqualified stock options during the six months ended June 30, 2013 or 2012.

Note 6 – Earnings Per Common Share

Basic Earnings Per Common Share is calculated by dividing net income (loss) 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.

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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 June 30, 2013 Income (Numer-ator)	Shares (Denom-inator)	Per Share Amount	2012 Income (Numer-ator)	Shares (Denom-inator)	Per Share Amount
Basic EPS						
Net income available to common shareholders	$5,371	19,673,634	$ 0.27	$2,461	16,952,624	$ 0.15
Effect of Dilutive Securities	58	741,469		—	—	
Diluted EPS per common share	$5,429	20,415,103	$ 0.27	$2,461	16,952,624	$ 0.15

($ in thousands except per share amounts)	For the Six Months Ended June 30 2013 Income (Numer-ator)	Shares (Denom-inator)	Per Share Amount	2012 Income (Numer-ator)	Shares (Denom-inator)	Per Share Amount
Basic EPS						
Net income (loss) available to common shareholders	$8,226	19,671,468	$0.42	$(3,481)	16,938,620	$(0.21)
Effect of Dilutive Securities	117	740,988		—	—	
Diluted EPS per common share	$8,343	20,412,456	$0.41	$(3,481)	16,938,620	$(0.21)

For both the three and six months ended June 30, 2013, there were 391,813 options that were antidilutive because the exercise price exceeded the average market price for the period. For both the three and six months ended June 30, 2012, there were 386,662 options that were antidilutive. Antidilutive options have been omitted from the calculation of diluted earnings per share for the respective periods.

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Note 7 – Securities

The book values and approximate fair values of investment securities at June 30, 2013 and December 31, 2012 are summarized as follows:

($ in thousands)	June 30, 2013 Amortized Cost	Fair Value	Unrealized Gains	(Losses)	December 31, 2012 Amortized Cost	Fair Value	Unrealized Gains	(Losses)
Securities available for sale:								
Government-sponsored enterprise securities	$14,500	14,459	40	(81)	11,500	11,596	96	—
Mortgage-backed securities	163,028	164,527	2,764	(1,265)	143,539	146,926	3,717	(330)
Corporate bonds	3,998	3,656	58	(400)	3,998	3,813	75	(260)
Equity securities	3,985	3,992	25	(18)	5,026	5,017	16	(25)
Total available for sale	$185,511	186,634	2,887	(1,764)	164,063	167,352	3,904	(615)
Securities held to maturity:								
State and local governments	$54,361	58,376	4,015	—	56,064	61,496	5,432	—

Included in mortgage-backed securities at June 30, 2013 were collateralized mortgage obligations with an amortized cost of $251,000 and a fair value of $261,000. Included in mortgage-backed securities at December 31, 2012 were collateralized mortgage obligations with an amortized cost of $381,000 and a fair value of $396,000. All of the Company's mortgage-backed securities, including 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 $3,894,000 at June 30, 2013 and $4,934,000 at December 31, 2012, 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 June 30, 2013:

($ 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	$ 5,419	81	—	—	5,419	81
Mortgage-backed securities	64,626	1,265	—	—	64,626	1,265
Corporate bonds	—	—	600	400	600	400
Equity securities	—	—	31	18	31	18
State and local governments	—	—	—	—	—	—
Total temporarily impaired securities	$ 70,045	1,346	631	418	70,676	1,764

The following table presents information regarding securities with unrealized losses at December 31, 2012:

($ 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	$ —	—	—	—	—	—
Mortgage-backed securities	26,330	330	—	—	26,330	330
Corporate bonds	—	—	740	260	740	260
Equity securities	—	—	30	25	30	25
State and local governments	—	—	—	—	—	—
Total temporarily impaired securities	$ 26,330	330	770	285	27,100	615

In the above tables, all of the non-equity securities that were in an unrealized loss position at June 30, 2013 and December 31, 2012 are bonds that the Company has determined are in a loss position due to interest rate factors, the overall economic downturn in the financial sector, and the broader economy in general. 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 June 30, 2013 and December 31, 2012 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.

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The aggregate carrying amount of cost-method investments was $3,894,000 and $4,934,000 at June 30, 2013 and December 31, 2012, respectively, which was the FHLB stock discussed above. The Company determined that none of its cost-method investments were impaired at either period end.

The book values and approximate fair values of investment securities at June 30, 2013, 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	$ —	—	—	—
Due after one year but within five years	17,498	17,515	5,428	5,868
Due after five years but within ten years	—	—	35,449	38,127
Due after ten years	1,000	600	13,484	14,381
Mortgage-backed securities	163,028	164,527	—	—
Total debt securities	181,526	182,642	54,361	58,376
Equity securities	3,985	3,992	—	—
Total securities	$ 185,511	186,634	54,361	58,376

At June 30, 2013 and December 31, 2012 investment securities with carrying values of $100,418,000 and $78,519,000, respectively, were pledged as collateral for public and private deposits.

The Company did not sell any securities during the six months ended June 30, 2013. There were $9,641,000 in sales of securities during the six months ended June 30, 2012, which resulted in a net gain of $439,000. During the six months ended June 30, 2013 and 2012, the Company recorded a net gain of $7,000 and $11,000, respectively, related to the call of several municipal and bond securities. Also, during the six months ended June 30, 2013 and 2012, the Company recorded a net loss of $0 and $1,000, respectively, related to write-downs of the Company's equity portfolio.

Note 8 – 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.”

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

($ in thousands)	June 30, 2013		December 31, 2012		June 30, 2012	
	Amount	Percentage	Amount	Percentage	Amount	Perce
All loans (non-covered and covered):						
Commercial, financial, and agricultural	$164,767	7%	160,790	7%	163,761	7%
Real estate – construction, land development & other land loans	297,390	12%	298,458	13%	343,620	14%
Real estate – mortgage – residential (1-4 family) first mortgages	832,761	34%	815,281	34%	815,605	34%
Real estate – mortgage – home equity loans / lines of credit	231,446	10%	238,925	10%	250,627	10%
Real estate – mortgage – commercial and other	834,554	34%	789,746	33%	789,290	32%
Installment loans to individuals	68,776	3%	71,933	3%	73,522	3%
Subtotal	2,429,694	100%	2,375,133	100%	2,436,425	100
Unamortized net deferred loan costs	1,168		1,324		1,376	
Total loans	$2,430,862		2,376,457		2,437,801	

As of June 30, 2013, December 31, 2012 and June 30, 2012, net loans include unamortized premiums of $252,000, $485,000, and $717,000, respectively, related to acquired loans.

At December 31, 2012, the Company also had $30 million classified as “loans held for sale” that are not included in the loan balances disclosed above or in the disclosures presented in the remainder of Note 8. In the fourth quarter of 2012, the Company identified approximately $68 million of non-covered higher risk loans that it targeted for sale to a third-party investor. Based on an offer to purchase these loans received prior to year-end, the Company wrote the loans down by approximately $38 million to their estimated liquidation value of approximately $30 million and reclassified them as “loans held for sale.” The sale of the loans was completed in January 2013 with the Company receiving sales proceeds of approximately $30 million.

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

($ in thousands)	June 30, 2013		December 31, 2012		June 30, 2012	
	Amount	Percentage	Amount	Percentage	Amount	Perce
Non-covered loans:						
Commercial, financial, and agricultural	$159,964	7%	155,273	7%	155,879	7%
Real estate – construction, land development & other land loans	262,397	12%	251,569	12%	283,818	13%
Real estate – mortgage – residential (1-4 family) first mortgages	712,802	33%	679,401	33%	669,088	32%
Real estate – mortgage – home equity loans / lines of credit	214,473	10%	219,443	11%	229,415	11%
Real estate – mortgage – commercial and other	771,711	35%	715,973	34%	702,717	33%
Installment loans to individuals	68,068	3%	71,160	3%	72,613	4%
Subtotal	2,189,415	100%	2,092,819	100%	2,113,530	100
Unamortized net deferred loan costs	1,168		1,324		1,376	
Total non-covered loans	$2,190,583		2,094,143		2,114,906	

The carrying amount of the covered loans at June 30, 2013 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	$69	142	4,734	6,096	4,803	6,238
Real estate – construction, land development & other land loans	302	579	34,691	60,018	34,993	60,597
Real estate – mortgage – residential (1-4 family) first mortgages	720	1,772	119,239	142,694	119,959	144,466
Real estate – mortgage – home equity loans / lines of credit	15	53	16,958	21,060	16,973	21,113
Real estate – mortgage – commercial and other	2,234	4,081	60,609	81,525	62,843	85,606
Installment loans to individuals	—	—	708	743	708	743
Total	$3,340	6,627	236,939	312,136	240,279	318,763

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The carrying amount of the covered loans at December 31, 2012 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	$71	148	5,446	7,009	5,517	7,157
Real estate – construction, land development & other land loans	1,575	2,594	45,314	82,676	46,889	85,270
Real estate – mortgage – residential (1-4 family) first mortgages	794	1,902	135,086	161,416	135,880	163,318
Real estate – mortgage – home equity loans / lines of credit	16	56	19,466	24,431	19,482	24,487
Real estate – mortgage – commercial and other	2,369	4,115	71,404	94,502	73,773	98,617
Installment loans to individuals	—	—	773	828	773	828
Total	$4,825	8,815	277,489	370,862	282,314	379,677

The following table presents information regarding covered purchased nonimpaired loans since December 31, 2011. 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, 2011	$353,370
Principal repayments	(51,582)
Transfers to foreclosed real estate	(30,181)
Loan charge-offs	(10,584)
Accretion of loan discount	16,466
Carrying amount of nonimpaired covered loans at December 31, 2012	277,489
Principal repayments	(37,938)
Transfers to foreclosed real estate	(7,232)
Loan charge-offs	(5,650)
Accretion of loan discount	10,270
Carrying amount of nonimpaired covered loans at June 30, 2013	$236,939

As reflected in the table above, the Company accreted $10,270,000 of the loan discount on purchased nonimpaired loans into interest income during the first six months of 2013. As of June 30, 2013, there was remaining loan discount of $36,068,000 related to purchased performing 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 80% of the loan discount accretion, which reduces noninterest income. At June 30, 2013, the Company also had $17,262,000 of loan discount related to purchased nonperforming 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, 2011, substantially all 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, 2011	$ 18,316	9,532	8,784
Change due to payments received	(355)	44	(399)
Transfer to foreclosed real estate	(7,636)	(3,487)	(4,149)
Change due to loan charge-off	(359)	(531)	172
Other	(1,151)	(1,568)	417
Balance at December 31, 2012	8,815	3,990	4,825
Change due to payments received	(187)	27	(214)
Transfer to foreclosed real estate	(2,000)	(730)	(1,270)
Other	(1)	—	(1)
Balance at June 30, 2013	$ 6,627	3,287	3,340

Each of the purchased impaired loans is on nonaccrual status and considered to be impaired. 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 six months of 2013 and 2012, the Company received $38,000 and $0, 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)*	June 30, 2013	December 31, 2012	June 30, 2012
Non-covered nonperforming assets			

Nonaccrual loans	$42,338	33,034	73,918
Restructured loans - accruing	21,333	24,848	20,684
Accruing loans > 90 days past due	—	—	—
Total non-covered nonperforming loans	63,671	57,882	94,602
Nonperforming loans held for sale	—	21,938	—
Foreclosed real estate	15,425	26,285	37,895
Total non-covered nonperforming assets	$79,096	106,105	132,497
Covered nonperforming assets			
Nonaccrual loans (1)	$50,346	33,491	39,075
Restructured loans - accruing	6,790	15,465	19,054
Accruing loans > 90 days past due	—	—	—
Total covered nonperforming loans	57,136	48,956	58,129
Foreclosed real estate	32,005	47,290	70,850
Total covered nonperforming assets	$89,141	96,246	128,979
Total nonperforming assets	$168,237	202,351	261,476

(1) At June 30, 2013, December 31, 2012, and June 30, 2012, the contractual balance of the nonaccrual loans covered by FDIC loss share agreements was $89.3 million, $64.4 million, and $60.4 million, respectively.

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The following table presents information related to the Company's impaired loans.

($ in thousands)	As of /for the six months ended June 30, 2013	As of /for the year ended December 31, 2012	As of /for the six months ended June 30, 2012
Impaired loans at period end			
Non-covered	$ 68,445	57,882	94,602
Covered	57,136	48,956	58,129
Total impaired loans at period end	$ 125,581	106,838	152,731
Average amount of impaired loans for period			
Non-covered	$ 63,208	85,198	86,723
Covered	55,965	54,773	56,449
Average amount of impaired loans for period – total	$ 119,173	139,971	143,172
Allowance for loan losses related to impaired loans at period end			
Non-covered	$ 5,960	5,051	11,051
Covered	4,700	3,509	5,158
Allowance for loan losses related to impaired loans - total	$ 10,660	8,560	16,209
Amount of impaired loans with no related allowance at period end			
Non-covered	$ 20,072	12,049	22,235
Covered	43,708	35,196	40,613
Total impaired loans with no related allowance at period end	$ 63,780	47,245	62,848

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 June 30, 2013.

($ in thousands)	Non-covered	Covered	Total
Commercial, financial, and agricultural:			
Commercial – unsecured	$ 66	101	167
Commercial – secured	2,270	127	2,397
Secured by inventory and accounts receivable	36	826	862
Real estate – construction, land development & other land loans	9,408	20,066	29,474

Real estate – residential, farmland and multi-family	15,840	16,393	32,233
Real estate – home equity lines of credit	1,519	504	2,023
Real estate – commercial	12,427	12,265	24,692
Consumer	772	64	836
Total	$ 42,338	50,346	92,684

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The following table presents the Company's nonaccrual loans as of December 31, 2012.

($ in thousands)	Non-covered	Covered	Total
Commercial, financial, and agricultural:			
Commercial - unsecured	$ 307	150	457
Commercial - secured	2,398	3	2,401
Secured by inventory and accounts receivable	17	59	76
Real estate – construction, land development & other land loans	6,354	11,698	18,052
Real estate – residential, farmland and multi-family	9,629	10,712	20,341
Real estate – home equity lines of credit	1,622	465	2,087
Real estate - commercial	9,885	10,342	20,227
Consumer	2,822	62	2,884
Total	$ 33,034	33,491	66,525

The following table presents an analysis of the payment status of the Company's loans as of June 30, 2013.

($ 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	$158	85	66	35,532	35,841
Commercial - secured	526	536	2,270	116,948	120,280
Secured by inventory and accounts receivable	38	15	36	20,452	20,541
Real estate – construction, land development & other land loans	669	192	9,408	222,083	232,352
Real estate – residential, farmland, and multi-family	7,320	1,043	15,840	825,857	850,060
Real estate – home equity lines of credit	1,363	394	1,519	195,005	198,281
Real estate - commercial	1,441	275	12,427	666,464	680,607
Consumer	372	210	772	50,099	51,453
Total non-covered	$11,887	2,750	42,338	2,132,440	2,189,415
Unamortized net deferred loan costs					1,168
Total non-covered loans					$2,190,583
Covered loans	$2,970	458	50,346	186,505	240,279

Total loans	$14,857	3,208	92,684	2,318,945	2,430,862

The Company had no non-covered or covered loans that were past due greater than 90 days and accruing interest at June 30, 2013.

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The following table presents an analysis of the payment status of the Company’s loans as of December 31, 2012.

($ 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	$91	10	307	35,278	35,686
Commercial - secured	1,020	220	2,398	110,074	113,712
Secured by inventory and accounts receivable	52	4	17	21,270	21,343
Real estate – construction, land development & other land loans	490	263	6,354	211,001	218,108
Real estate – residential, farmland, and multi-family	9,673	2,553	9,629	797,584	819,439
Real estate – home equity lines of credit	976	320	1,622	197,962	200,880
Real estate - commercial	4,326	1,131	9,885	612,598	627,940
Consumer	462	219	2,822	52,208	55,711
Total non-covered	$17,090	4,720	33,034	2,037,975	2,092,819
Unamortized net deferred loan costs					1,324
Total non-covered loans					$2,094,143
Covered loans	$6,564	3,417	33,491	238,842	282,314
Total loans	$23,654	8,137	66,525	2,276,817	2,376,457

The Company had no non-covered or covered loans that were past due greater than 90 days and accruing interest at December 31, 2012.

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The following table presents the activity in the allowance for loan losses for non-covered loans for the three and six months ended June 30, 2013.

($ 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 June 30, 2013								
Beginning balance	$4,949	14,857	15,285	2,040	5,714	1,791	125	44,7
Charge-offs	(560)	(394)	(858)	(265)	(1,907)	(562)	—	(4,5
Recoveries	214	24	117	4	93	106	—	558
Provisions	1,357	106	417	282	1,339	368	174	4,04
Ending balance	$5,960	14,593	14,961	2,061	5,239	1,703	299	44,8
As of and for the six months ended June 30, 2013								
Beginning balance	$4,687	12,856	14,082	1,884	5,247	1,939	948	41,6
Charge-offs	(1,384)	(1,217)	(1,655)	(889)	(2,447)	(1,090)	(659)	(9,3
Recoveries	233	617	663	62	882	243	—	2,70
Provisions	2,424	2,337	1,871	1,004	1,557	611	10	9,8
Ending balance	$5,960	14,593	14,961	2,061	5,239	1,703	299	44,8
Ending balances as of June 30, 2013: Allowance for loan losses								
Individually evaluated for impairment	$901	—	52	—	683	—	—	1,63
Collectively evaluated for impairment	$5,059	14,593	14,909	2,061	4,556	1,703	299	43,
Loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—
Loans receivable as of June 30, 2013:								
Ending balance – total	$176,662	232,352	850,060	198,281	680,607	51,453	—	2,18
Ending balances as of June 30, 2013: Loans								
Individually evaluated for impairment	$1,911	5,977	1,739	—	14,040	—	—	23,6
Collectively evaluated for impairment	$174,751	226,375	848,321	198,281	666,567	51,453	—	2,16
Loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—

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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, 2012.

($ 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, 2012								
Beginning balance	$3,780	11,306	13,532	1,690	3,414	1,872	16	35,6
Charge-offs	(4,912)	(19,312)	(20,879)	(3,287)	(16,616)	(1,539)	—	(66,5
Recoveries	354	986	430	209	333	273	—	2,58
Provisions	5,465	19,876	20,999	3,272	18,116	1,333	932	69,9
Ending balance	$4,687	12,856	14,082	1,884	5,247	1,939	948	41,6
Ending balances as of December 31, 2012: Allowance for loan losses								
Individually evaluated for impairment	$—	—	50	—	957	—	—	1,00
Collectively evaluated for impairment	$4,687	12,856	14,032	1,884	4,290	1,939	948	40,6
Loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—
Loans receivable as of December 31, 2012:								
Ending balance – total	$170,741	218,108	819,439	200,880	627,940	55,711	—	2,09
Ending balances as of December 31, 2012: Loans								
Individually evaluated for impairment	$—	4,276	1,705	—	15,040	—	—	21,0
Collectively evaluated for impairment	$170,741	213,832	817,734	200,880	612,900	55,711	—	2,07
Loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—

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The following table presents the activity in the allowance for loan losses for non-covered loans for the three and six months ended June 30, 2012.

($ 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 June 30, 2012								
Beginning balance	$4,954	16,419	15,369	2,132	5,737	1,826	18	46,45
Charge-offs	(744)	(174)	(2,144)	(281)	(805)	(334)	—	(4,482
Recoveries	18	126	60	85	6	62	—	357
Provisions	833	1,448	1,674	210	781	237	10	5,193
Ending balance	$5,061	17,819	14,959	2,146	5,719	1,791	28	47,52
As of and for the six months ended June 30, 2012								
Beginning balance	$3,780	11,306	13,532	1,690	3,414	1,872	16	35,61
Charge-offs	(2,062)	(2,852)	(4,235)	(732)	(2,170)	(686)	—	(12,73
Recoveries	34	314	254	119	47	132	—	900
Provisions	3,309	9,051	5,408	1,069	4,428	473	12	23,75
Ending balance	$5,061	17,819	14,959	2,146	5,719	1,791	28	47,52
Ending balances as of June 30, 2012: Allowance for loan losses								
Individually evaluated for impairment	$869	4,819	635	439	1,480	—	—	8,242
Collectively evaluated for impairment	$4,192	13,000	14,324	1,707	4,239	1,791	28	39,28
Loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—
Loans receivable as of June 30, 2012:								
Ending balance – total	$173,676	244,723	810,106	207,686	622,508	54,831	—	2,113
Ending balances as of June 30, 2012: Loans								
Individually evaluated for impairment	$1,009	23,860	9,508	1,331	21,918	—	—	57,62
Collectively evaluated for impairment	$172,667	220,863	800,598	206,355	600,590	54,831	—	2,055
Loans acquired with deteriorated credit quality	$—	—	—	—	—	—	—	—

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The following table presents the activity in the allowance for loan losses for covered loans for the three and six months ended June 30, 2013.

($ in thousands)	Covered Loans
As of and for the three months ended June 30, 2013	
Beginning balance	$ 5,028
Charge-offs	(541)
Recoveries	—
Provisions	1,548
Ending balance	$ 6,035
As of and for the six months ended June 30, 2013	
Beginning balance	$ 4,759
Charge-offs	(5,650)
Recoveries	—
Provisions	6,926
Ending balance	$ 6,035
Ending balances as of June 30, 2013: Allowance for loan losses	
Individually evaluated for impairment	$ 5,583
Collectively evaluated for impairment	452
Loans acquired with deteriorated credit quality	17
Loans receivable as of June 30, 2013:	
Ending balance – total	$ 240,279
Ending balances as of June 30, 2013: Loans	
Individually evaluated for impairment	$ 74,690
Collectively evaluated for impairment	165,589
Loans acquired with deteriorated credit quality	3,340

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The following table presents the activity in the allowance for loan losses for covered loans for the year ended December 31, 2012.

($ in thousands)	Covered Loans
As of and for the year ended December 31, 2012	
Beginning balance	$ 5,808
Charge-offs	(10,728)
Recoveries	—
Provisions	9,679
Ending balance	$ 4,759
Ending balances as of December 31, 2012: Allowance for loan losses	
Individually evaluated for impairment	$ 4,459
Collectively evaluated for impairment	300
Loans acquired with deteriorated credit quality	17
Loans receivable as of December 31, 2012:	
Ending balance – total	$ 282,314
Ending balances as of December 31, 2012: Loans	
Individually evaluated for impairment	$ 74,914
Collectively evaluated for impairment	207,400
Loans acquired with deteriorated credit quality	4,825

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The following table presents the activity in the allowance for loan losses for covered loans for the three and six months ended June 30, 2012.

($ in thousands)	Covered Loans
As of and for the three months ended June 30, 2012	
Beginning balance	$ 6,372
Charge-offs	(1,714)
Recoveries	—
Provisions	1,273
Ending balance	$ 5,931
As of and for the six months ended June 30, 2012	
Beginning balance	$ 5,808
Charge-offs	(4,148)
Recoveries	—
Provisions	4,271
Ending balance	$ 5,931
Ending balances as of June 30, 2012: Allowance for loan losses	
Individually evaluated for impairment	$ 5,931
Collectively evaluated for impairment	—
Loans acquired with deteriorated credit quality	17
Loans receivable as of June 30, 2012:	
Ending balance – total	$ 322,895
Ending balances as of June 30, 2012: Loans	
Individually evaluated for impairment	$ 42,598
Collectively evaluated for impairment	280,297
Loans acquired with deteriorated credit quality	4,819

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The following table presents the Company’s impaired loans as of June 30, 2013.

($ in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Non-covered loans with no related allowance recorded:				
Commercial, financial, and agricultural:				
Commercial - unsecured	$ —	—	—	—
Commercial - secured	844	1,066	—	281
Secured by inventory and accounts receivable	—	—	—	—
Real estate – construction, land development & other land loans	5,977	6,705	—	3,935
Real estate – residential, farmland, and multi-family	1,522	1,605	—	1,040
Real estate – home equity lines of credit	—	—	—	—
Real estate – commercial	11,729	14,730	—	8,309
Consumer	—	—	—	—
Total non-covered impaired loans with no allowance	$ 20,072	24,106	—	13,565
Total covered impaired loans with no allowance	$ 43,708	82,622	—	41,251
Total impaired loans with no allowance recorded	$ 63,780	106,728	—	54,816
Non-covered loans with an allowance recorded:				
Commercial, financial, and agricultural:				
Commercial - unsecured	$ 66	66	48	133
Commercial - secured	2,924	3,326	819	2,568
Secured by inventory and accounts receivable	405	432	377	148
Real estate – construction, land development & other land loans	5,103	6,969	1,455	5,600
Real estate – residential, farmland, and multi-family	28,728	29,309	2,210	26,974
Real estate – home equity lines of credit	1,519	1,802	89	1,555
Real estate – commercial	8,855	9,557	863	11,163
Consumer	773	1,118	99	1,502
Total non-covered impaired loans with allowance	$ 48,373	52,579	5,960	49,643
Total covered impaired loans with allowance	$ 13,428	15,494	4,700	14,714
Total impaired loans with an allowance recorded	$ 61,801	68,073	10,660	64,357

Interest income recorded on non-covered and covered impaired loans during the six months ended June 30, 2013 is considered insignificant.

The related allowance listed above includes both reserves on loans specifically reviewed for impairment and general reserves on impaired loans that were not specifically reviewed for impairment.

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The following table presents the Company’s impaired loans as of December 31, 2012.

($ in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Non-covered loans with no related allowance recorded:				
Commercial, financial, and agricultural:				
Commercial – unsecured	$ —	—	—	—
Commercial - secured	—	—	—	87
Secured by inventory and accounts receivable	—	—	—	5
Real estate – construction, land development & other land loans	4,277	4,305	—	8,600
Real estate – residential, farmland, and multi-family	1,597	1,618	—	2,692
Real estate – home equity lines of credit	—	—	—	64
Real estate – commercial	6,175	6,851	—	12,724
Consumer	—	—	—	2
Total non-covered impaired loans with no allowance	$ 12,049	12,774	—	24,174
Total covered impaired loans with no allowance	$ 35,196	71,413	—	39,372
Total impaired loans with no allowance recorded	$ 47,245	84,187	—	63,546
Non-covered loans with an allowance recorded:				
Commercial, financial, and agricultural:				
Commercial - unsecured	$ 307	386	58	221
Commercial - secured	2,398	2,762	436	2,304
Secured by inventory and accounts receivable	17	43	4	548
Real estate – construction, land development & other land loans	3,934	5,730	1,213	12,199
Real estate – residential, farmland, and multi-family	23,859	25,844	1,955	27,186
Real estate – home equity lines of credit	1,645	2,120	96	2,901
Real estate – commercial	10,851	13,048	936	12,863
Consumer	2,822	2,858	353	2,802
Total non-covered impaired loans with allowance	$ 45,833	52,791	5,051	61,024
Total covered impaired loans with allowance	$ 13,760	18,271	3,509	15,401
Total impaired loans with an allowance recorded	$ 59,593	71,062	8,560	76,425

Interest income recorded on non-covered and covered impaired loans during the year ended December 31, 2012 is considered insignificant.

The related allowance listed above includes both reserves on loans specifically reviewed for impairment and general reserves on impaired loans that were not specifically reviewed for impairment.

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The Company tracks credit quality based on its internal risk ratings. Upon origination a loan is assigned an initial risk grade, which is generally based on several factors such as the borrower's credit score, the loan-to-value ratio, the debt-to-income ratio, etc. Loans that are risk-graded as substandard during the origination process are declined. After loans are initially graded, they are monitored monthly for credit quality based on many factors, such as payment history, the borrower's financial status, and changes in collateral value. Loans can be downgraded or upgraded depending on management's evaluation of these factors. Internal risk-grading policies are consistent throughout each loan type.

The following describes the Company's internal risk grades in ascending order of likelihood of loss:

Numerical Risk Grade	Description
Pass:	
1	Cash secured loans.
2	Non-cash secured loans that have no minor or major exceptions to the lending guidelines.
3	Non-cash secured loans that have no major exceptions to the lending guidelines.
Weak Pass:	
4	Non-cash secured loans that have minor or major exceptions to the lending guidelines, but the exceptions are properly mitigated.
Watch or Standard:	
9	Loans that meet the guidelines for a Risk Graded 5 loan, except the collateral coverage is sufficient to satisfy the debt with no risk of loss under reasonable circumstances. This category also includes all loans to insiders and any other loan that management elects to monitor on the watch list.
Special Mention:	
5	Existing loans with major exceptions that cannot be mitigated.
Classified:	
6	Loans that have a well-defined weakness that may jeopardize the liquidation of the debt if deficiencies are not corrected.
7	Loans that have a well-defined weakness that make the collection or liquidation improbable.
8	Loans that are considered uncollectible and are in the process of being charged-off.

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The following table presents the Company’s recorded investment in loans by credit quality indicators as of June 30, 2013.

($ in thousands)	Credit Quality Indicator (Grouped by Internally Assigned Gr					
	Pass (Grades 1, 2, & 3)	Weak Pass (Grade 4)	Watch or Standard Loans (Grade 9)	Special Mention Loans (Grade 5)	Classified Loans (Grades 6, 7, & 8)	Nonac Loans
Non-covered loans:						
Commercial, financial, and agricultural:						
Commercial - unsecured	$6,585	27,158	10	1,073	949	66
Commercial - secured	31,523	77,010	535	3,915	5,027	2,270
Secured by inventory and accounts receivable	2,233	14,147	231	2,228	1,666	36
Real estate – construction, land development & other land loans	29,496	171,173	2,619	10,453	9,203	9,408
Real estate – residential, farmland, and multi-family	247,194	517,930	6,198	33,761	29,137	15,84
Real estate – home equity lines of credit	120,662	66,336	1,408	5,783	2,573	1,519
Real estate - commercial	100,233	516,284	17,002	22,878	11,783	12,42
Consumer	25,171	23,680	82	953	795	772
Total	$563,097	1,413,718	28,085	81,044	61,133	42,33
Unamortized net deferred loan costs						
Total non-covered loans						
Total covered loans	$31,985	99,378	—	9,968	48,602	50,34
Total loans	$595,082	1,513,096	28,085	91,012	109,735	92,68

At June 30, 2013, there was an insignificant amount of loans that were graded “8” with an accruing status.

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The following table presents the Company’s recorded investment in loans by credit quality indicators as of December 31, 2012.

($ in thousands)	Credit Quality Indicator (Grouped by Internally Assigned Gr					
	Pass (Grades 1, 2, & 3)	Weak Pass (Grade 4)	Watch or Standard Loans (Grade 9)	Special Mention Loans (Grade 5)	Classified Loans (Grades 6, 7, & 8)	Nonac Loans
Non-covered loans:						
Commercial, financial, and agricultural:						
Commercial - unsecured	$10,283	24,031	10	472	583	307
Commercial - secured	32,196	72,838	1,454	3,676	1,150	2,398
Secured by inventory and accounts receivable	2,344	18,126	248	491	117	17
Real estate – construction, land development & other land loans	31,582	163,588	3,830	9,045	3,709	6,354
Real estate – residential, farmland, and multi-family	249,313	499,922	7,154	29,091	24,330	9,629
Real estate – home equity lines of credit	125,310	66,412	2,160	3,526	1,850	1,622
Real estate - commercial	123,814	449,316	21,801	14,050	9,074	9,885
Consumer	27,826	23,403	77	954	629	2,822
Total	$602,668	1,317,636	36,734	61,305	41,442	33,03
Unamortized net deferred loan costs						
Total non-covered loans						
Total covered loans	$42,935	124,451	—	7,569	73,868	33,49
Total loans	$645,603	1,442,087	36,734	68,874	115,310	66,52

At December 31, 2012, there was an insignificant amount of loans that were graded “8” with an accruing status.

Troubled Debt Restructurings

The restructuring of a loan is considered a “troubled debt restructuring” if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses.

The vast majority of the Company’s troubled debt restructurings modified during the three and six months ended June 30, 2013 related to interest rate reductions combined with restructured amortization schedules. The Company does not generally grant principal forgiveness.

All loans classified as troubled debt restructurings are considered to be impaired and are evaluated as such for determination of the allowance for loan losses. The Company’s troubled debt restructurings can be classified as either nonaccrual or accruing based on the loan’s payment status. The troubled debt restructurings that are nonaccrual are reported within the nonaccrual loan totals presented previously.

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The following table presents information related to loans modified in a troubled debt restructuring during the three and six months ended June 30, 2013.

($ in thousands)	For the three months ended June 30, 2013		
	Number of Contracts	Pre-Modification Restructured Balances	Post-Modification Restructured Balances
Non-covered TDRs – Accruing			
Real estate – residential, farmland, and multi-family	3	$ 574	$ 576
Real estate – commercial	1	103	103
Non-covered TDRs – Nonaccrual	—	—	—
Total non-covered TDRs arising during period	4	677	679
Total covered TDRs arising during period– Accruing	3	$ 312	$ 311
Total covered TDRs arising during period – Nonaccrual	—	—	—
Total TDRs arising during period	7	$ 989	$ 990

($ in thousands)	For the six months ended June 30, 2013		
	Number of Contracts	Pre-Modification Restructured Balances	Post-Modification Restructured Balances
Non-covered TDRs – Accruing			
Real estate – residential, farmland, and multi-family	9	$ 1,082	$ 1,084
Real estate – commercial	2	164	164
Consumer	1	14	14
Non-covered TDRs - Nonaccrual			
Real estate – residential, farmland, and multi-family	3	209	209
Total non-covered TDRs arising during period	15	1,469	1,471
Total covered TDRs arising during period– Accruing	4	$ 359	$ 351
Total covered TDRs arising during period – Nonaccrual	—	—	—
Total TDRs arising during period	19	$ 1,828	$ 1,822

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The following table presents information related to loans modified in a troubled debt restructuring during the three and six months ended June 30, 2012.

($ in thousands)	For the three months ended June 30, 2012		
	Number of Contracts	Pre-Modification Restructured Balances	Post-Modification Restructured Balances
Non-covered TDRs – Accruing			
Real estate – construction, land development & other land loans	1	$ 300	$ 300
Real estate – residential, farmland, and multi-family	1	303	303
Non-covered TDRs – Nonaccrual			
Real estate – construction, land development & other land loans	1	238	238
Total non-covered TDRs arising during period	3	841	841
Total covered TDRs arising during period– Accruing	3	$ 5,428	$ 5,428
Total covered TDRs arising during period – Nonaccrual	—	—	—
Total TDRs arising during period	6	$ 6,269	$ 6,269

($ in thousands)	For the six months ended June 30, 2012		
	Number of Contracts	Pre-Modification Restructured Balances	Post-Modification Restructured Balances
Non-covered TDRs – Accruing			
Real estate – construction, land development & other land loans	1	$ 300	$ 300
Real estate – residential, farmland, and multi-family	1	303	303
Non-covered TDRs – Nonaccrual			
Real estate – construction, land development & other land loans	1	238	238
Total non-covered TDRs arising during period	3	841	841
Total covered TDRs arising during period– Accruing	6	$ 7,526	$ 7,526
Total covered TDRs arising during period – Nonaccrual	—	—	—
Total TDRs arising during period	9	$ 8,367	$ 8,367

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Accruing restructured loans that were modified in the previous 12 months and that defaulted during the three and six months ended June 30, 2013 are presented in the table below. The Company considers a loan to have defaulted when it becomes 90 or more days delinquent under the modified terms, has been transferred to nonaccrual status, or has been transferred to foreclosed real estate.

($ in thousands)	For the three months ended June 30, 2013		For the six months ended June 30, 2013	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Non-covered accruing TDRs that subsequently defaulted				
Real estate – construction, land development & other land loans	1	$ 342	1	$ 342
Real estate – residential, farmland, and multi-family	—	—	1	252
Total non-covered TDRs that subsequently defaulted	1	$ 342	2	$ 594
Total accruing covered TDRs that subsequently defaulted	—	$ —	1	$ 3,501
Total accruing TDRs that subsequently defaulted	1	$ 342	3	$ 4,095

Accruing restructured loans that were modified in the previous 12 months and that defaulted during the three and six months ended June 30, 2012 are presented in the table below.

($ in thousands)	For the three months ended June 30, 2012		For the six months ended June 30, 2012	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Non-covered accruing TDRs that subsequently defaulted	—	$ —	—	$ —
Total non-covered TDRs that subsequently defaulted	—	$ —	—	$ —
Total accruing covered TDRs that subsequently defaulted	1	$ 439	1	$ 439
Total accruing TDRs that subsequently defaulted	1	$ 439	1	$ 439

Note 9 – Deferred Loan Costs

The amount of loans shown on the Consolidated Balance Sheets includes net deferred loan costs of approximately $1,168,000, $1,324,000, and $1,376,000 at June 30, 2013, December 31, 2012, and June 30, 2012, respectively.

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Note 10 – FDIC Indemnification Asset

The FDIC indemnification asset is the estimated amount that the Company will receive from the FDIC under loss share agreements associated with two FDIC-assisted failed bank acquisitions. See page 40 of the Company's 2012 Annual Report on Form 10-K for a detailed explanation of this asset.

The FDIC indemnification asset was comprised of the following components as of the dates shown:

($ in thousands)	June 30, 2013	December 31, 2012	June 30, 2012
Receivable related to loss claims incurred, not yet reimbursed	$40,401	33,040	18,574
Receivable related to estimated future claims on loans	45,866	62,044	79,308
Receivable related to estimated future claims on foreclosed real estate	6,683	7,475	19,020
FDIC indemnification asset	$92,950	102,559	116,902

The following presents a rollforward of the FDIC indemnification asset since December 31, 2012.

($ in thousands)	
Balance at December 31, 2012	$102,559
Increase related to unfavorable changes in loss estimates	9,514
Increase related to reimbursable expenses	2,365
Cash received from FDIC	(12,018)
Accretion of loan discount	(8,216)
Other	(1,254)
Balance at June 30, 2013	$92,950

Note 11 – Goodwill and Other Intangible Assets

The following is a summary of the gross carrying amount and accumulated amortization of amortizable intangible assets as of June 30, 2013, December 31, 2012, and June 30, 2012 and the carrying amount of unamortized intangible assets as of those same dates. In the first quarter of 2013, the Company recorded a core deposit premium intangible of $586,000 in connection with the acquisition of two branches, which is being amortized on a straight-line basis over the estimated life of the related deposits of seven years.

	June 30, 2013	December 31, 2012	June 30, 2012

($ in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets:						
Customer lists	$678	439	678	417	678	387
Core deposit premiums	8,560	5,525	7,974	5,128	7,867	4,707
Total	$9,238	5,964	8,652	5,545	8,545	5,094
Unamortizable intangible assets:						
Goodwill	$65,835		65,835		65,835	

Amortization expense totaled $220,000 and $223,000 for the three months ended June 30, 2013 and 2012, respectively. Amortization expense totaled $419,000 and $446,000 for the six months ended June 30, 2013 and 2012, respectively.

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The following table presents the estimated amortization expense for the last two quarters of calendar year 2013 and for each of the four calendar years ending December 31, 2017 and the estimated amount amortizable thereafter. These estimates are subject to change in future periods to the extent management determines it is necessary to make adjustments to the carrying value or estimated useful lives of amortized intangible assets.

($ in thousands)	Estimated Amortization Expense
July 1 to December 31, 2013	$ 441
2014	777
2015	721
2016	654
2017	404
Thereafter	277
Total	$ 3,274

Note 12 – Pension Plans

The Company has historically sponsored two defined benefit pension plans – a qualified retirement plan (the "Pension Plan") which was generally available to all employees, and a Supplemental Executive Retirement Plan (the "SERP"), which was for the benefit of certain senior management executives of the Company. Effective December 31, 2012, the Company froze both plans for all participants. Although no previously accrued benefits were lost, employees no longer accrue benefits for service subsequent to 2012.

The Company recorded pension income totaling $190,000 for the three months ended June 30, 2013, which primarily related to investment income from the Pension Plan's assets. For the three months ended June 30, 2012, the Company recorded pension expense totaling $619,000 related to the Pension Plan and the SERP. The following table contains the components of the pension (income) expense.

	For the Three Months Ended June 30,					
($ in thousands)	2013 Pension Plan	2012 Pension Plan	2013 SERP	2012 SERP	2013 Total Both Plans	2012 Total Both Plans
Service cost – benefits earned during the period	$—	457	—	76	—	533
Interest cost	302	363	67	70	369	433
Expected return on plan assets	(574)	(492)	—	—	(574)	(492)
Amortization of transition obligation	—	1	—	—	—	1
Amortization of net (gain)/loss	15	136	—	—	15	136
Amortization of prior service cost	—	3	—	5	—	8
Net periodic pension cost	$(257)	468	67	151	(190)	619

The Company recorded pension income totaling $327,000 for the six months ended June 30, 2013, which primarily related to investment income from the Pension Plan's assets. For the six months ended June 30, 2012, the Company recorded pension expense totaling $1,658,000 related to the Pension Plan and the SERP. The following table contains the components of the pension (income) expense.

	For the Six Months Ended June 30,					
	2013	2012	2013	2012	2013 Total	2012 Total
($ in thousands)	Pension Plan	Pension Plan	SERP	SERP	Both Plans	Both Plans