FIRST BANCSHARES INC /MS/
Form 10-Q
August 14, 2012

U. S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

S QUARTERLY REPORT UNDER SECTION 13 OR 15 (D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED: June 30, 2012

OR

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

COMMISSION FILE NUMBER: 33-94288

THE FIRST BANCSHARES, INC.
(EXACT NAME OF ISSUER AS SPECIFIED IN ITS CHARTER)

MISSISSIPPI	64-0862173
(STATE OF INCORPORATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

6480 U.S. HIGHWAY 98 WEST	
HATTIESBURG, MISSISSIPPI	39402
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

(601) 268-8998
(ISSUER'S TELEPHONE NUMBER, INCLUDING AREA CODE)

NONE

(FORMER NAME, ADDRESS AND FISCAL YEAR, IF CHANGED SINCE LAST REPORT)

INDICATE BY CHECK MARK WHETHER THE ISSUER: (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS.

YES x NO ¨

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A LARGE ACCELERATED FILER, AN ACCELERATED FILER, OR A NON-ACCELERATED FILER. SEE DEFINITION OF “ACCELERATED FILER AND LARGE ACCELERATED FILER” IN RULE 12B-2 OF THE EXCHANGE ACT.

LARGE ACCELERATED FILER ¨ ACCELERATED FILER ¨ NON-ACCELERATED FILER x

ON JUNE 30, 2012, 3,108,867 SHARES OF THE ISSUER'S COMMON STOCK, PAR VALUE $1.00 PER SHARE, WERE ISSUED AND OUTSTANDING.

TRANSITIONAL DISCLOSURE FORMAT (CHECK ONE):

YES ¨ NO x

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN RULE 12B-2 OF THE EXCHANGE ACT):

YES ¨ NO x

PART I - FINANCIAL INFORMATION

ITEM NO. 1. FINANCIAL STATEMENTS

THE FIRST BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

($ amounts in thousands)

	(Unaudited) June 30, 2012			December 31, 2011		
ASSETS						
Cash and due from banks	$	11,871		$	10,152	
Interest-bearing deposits with banks		10,495			12,788	
Federal funds sold		764			241	
Total cash and cash equivalents		23,130			23,181	
Securities held-to-maturity, at amortized cost		8,484			6,002	
Securities available-for-sale, at fair value		229,703			212,529	
Other securities		3,090			2,645	
Total securities		241,277			221,176	
Loans held for sale		3,210			2,906	
Loans		382,341			385,022	
Allowance for loan losses		(4,468	)		(4,511	)
Loans, net		381,083			383,417	

Premises and equipment		22,592			22,991	
Interest receivable		3,010			2,772	
Cash surrender value of life insurance		6,358			6,270	
Goodwill		9,362			9,362	
Other assets		13,804			12,244	
TOTAL ASSETS	$	700,616		$	681,413	
LIABILITIES AND STOCKHOLDERS' EQUITY						
LIABILITIES:						
Deposits:						
Noninterest-bearing	$	104,482		$	107,129	
Interest-bearing		483,547			466,265	
TOTAL DEPOSITS		588,029			573,394	
Interest payable		259			308	
Borrowed funds		28,291			27,032	
Subordinated debentures		10,310			10,310	
Other liabilities		10,427			9,944	
TOTAL LIABILITIES		637,316			620,988	
STOCKHOLDERS' EQUITY:						
Preferred stock, no par value, $1,000 per share liquidation, 10,000,000 shares authorized; 17,123 issued and outstanding at June 30, 2012 and at December 31, 2011		16,980			16,939	
Common stock, par value $1 per share, 10,000,000 shares authorized; 3,135,361 and 3,092,566 shares issued at June 30, 2012 and at December 31, 2011		3,135			3,093	
Additional paid-in capital		23,570			23,504	
Retained earnings		18,356			16,791	
Accumulated other comprehensive income		1,723			562	
Treasury stock, at cost, 26,494 shares at June 30, 2012 and at December 31,		(464	)		(464	)

2011

TOTAL STOCKHOLDERS' EQUITY		63,300		60,425
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	700,616	$	681,413

THE FIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME

($ amounts in thousands, except earnings and dividends per share)

	(Unaudited) Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
INTEREST INCOME:				
Interest and fees on loans	$5,353	$5,117	$10,807	$10,131
Interest and dividends on securities:				
Taxable interest and dividends	729	468	1,423	838
Tax exempt interest	507	333	1,014	663
Interest on federal funds sold	20	23	31	42
TOTAL INTEREST INCOME	6,609	5,941	13,275	11,674
INTEREST EXPENSE:				
Interest on deposits	834	1,127	1,726	2,308
Interest on borrowed funds	267	303	556	604
TOTAL INTEREST EXPENSE	1,101	1,430	2,282	2,912
NET INTEREST INCOME	5,508	4,511	10,993	8,762
PROVISION FOR LOAN LOSSES	221	305	373	653
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,287	4,206	10,620	8,109
OTHER INCOME:				
Service charges on deposit accounts	857	567	1,727	1,126
Other service charges and fees	653	461	1,258	817
Impairment loss on securities:				
Total other-than-temporary impairment (gain)loss	-	469	-	380
Portion of gain (loss) recognized in other comprehensive income	-	(473)	-	(384)
Net impairment loss recognized in earnings	-	(4)	-	(4)
TOTAL OTHER INCOME	1,510	1,024	2,985	1,939

OTHER EXPENSES:				
Salaries and employee benefits	2,996	2,217	5,934	4,473
Occupancy and equipment	949	530	1,909	1,067
Other	1,469	1,546	3,093	3,277
TOTAL OTHER EXPENSES	5,414	4,293	10,936	8,817
INCOME BEFORE INCOME TAXES	1,383	937	2,669	1,231
INCOME TAXES	346	267	661	60
NET INCOME	1,037	670	2,008	1,171
PREFERRED STOCK ACCRETION AND DIVIDENDS	106	85	212	171
NET INCOME APPLICABLE TO COMMON STOCKHOLDERS	$931	$585	$1,796	$1,000
NET INCOME APPLICABLE TO COMMON STOCKHOLDERS:				
BASIC	$.30	$.19	$.58	$.33
DILUTED	.30	.19	.58	.33
DIVIDENDS PER SHARE – COMMON	.0375	.0375	.075	.075

THE FIRST BANCSHARES, Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income per consolidated statements of income	$1,037	$670	$2,008	$1,171
Other comprehensive income, net of tax:				
Unrealized gains on available for sale securities:				
Unrealized holding gains arising during the period	770	954	1,137	1,138
Unrealized gain (loss) on derivative carried at fair value during the period	42	(18)	24	(17)
Comprehensive Income	$1,849	$1,606	$3,169	$2,292

THE FIRST BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(unaudited)

($ in thousands)

	Common Stock	Preferred Stock	Stock Warrants	Additional Paid-in Capital	Retained Earnings	Accumulated Other Compre-hensive Income(Loss)	Treasury Stock	Total
Balance, January 1, 2011	$ 3,059	$ 16,939	$ 284	$ 23,135	$ 14,723	$ (577)	$ (464)	$ 57,099
Net income	-	-	-	-	1,171	-	-	1,171
Net change in unrealized gain(loss)on available- for-sale securities, net of tax	-	-	-	-	-	1,138	-	1,138
Net change in unrealized gain(loss)on derivative, net of tax	-	-	-	-	-	(17)	-	(17)
Dividends on preferred stock	-	-	-	-	(171)	-	-	(171)
Dividends on common stock, $.075 per share	-	-	-	-	(232)	-	-	(232)
Restricted stock grant	34	-	-	(34)	-	-	-	-
Compensation expense	-	-	-	56	-	-	-	56
Balance, June 30, 2011	$ 3,093	$ 16,939	$ 284	$ 23,157	$ 15,491	$ 544	$ (464)	$ 59,044
Balance, January 1, 2012	$ 3,093	$ 16,939	$ 284	$ 23,220	$ 16,791	$ 562	$ (464)	$ 60,425
Net income	-	-	-	-	2,008	-	-	2,008
Net change in unrealized gain(loss)on available- for-sale securities, net of tax	-	-	-	-	-	1,137	-	1,137
Net change in unrealized gain(loss)on derivative, net of tax	-	-	-	-	-	24	-	24
Accretion and dividends on preferred stock	-	41	-	-	(212)	-	-	(171)
Dividends on common stock, $.075 per share	-	-	-	-	(231)	-	-	(231)
Restricted stock grant	42	-	-	(42)	-	-	-	-
Compensation expense	-	-	-	108	-	-	-	108
Balance, June 30, 2012	$ 3,135	$ 16,980	$ 284	$ 23,286	$ 18,356	$ 1,723	$ (464)	$ 63,300

THE FIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ Amounts in Thousands)

	(Unaudited) Six Months Ended June 30, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME	$2,008	$1,171
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	1,259	525
Impairment loss on securities	-	4
Provision for loan losses	373	653
Loss on sale/writedown of ORE	309	127
Restricted stock expense	108	56
Increase in cash value of life insurance	(88)	(93)
Federal Home Loan Bank stock dividends	(2)	(2)
Changes in:		
Interest receivable	(238)	(125)
Loans held for sale, net	(268)	271
Interest payable	(49)	(47)
Other, net	1,891	(222)
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,303	2,318
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities and calls of securities available- for-sale	24,455	17,583
Purchases of securities available-for-sale and held-to-maturity	(42,876)	(43,225)
Purchases of other securities	(443)	-
Net increase in loans	(1,725)	(17,319)
Net additions in premises and equipment	(200)	(838)
NET CASH USED IN INVESTING ACTIVITIES	(20,789)	(43,799)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits	14,573	37,302
Net increase (decrease) in borrowed funds	1,259	(37)
Dividends paid on common stock	(226)	(226)
Dividends paid on preferred stock	(171)	(171)
NET CASH PROVIDED BY FINANCING ACTIVITIES	15,435	36,868

NET DECREASE IN CASH	(51)	(4,613)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	23,181	33,976
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$23,130	$29,363
SUPPLEMENTAL DISCLOSURES:		
CASH PAYMENTS FOR INTEREST	$2,331	$2,959
CASH PAYMENTS FOR INCOME TAXES	768	648
LOANS TRANSFERRED TO OTHER REAL ESTATE	4,142	1,848
ISSUANCE OF RESTRICTED STOCK GRANTS	42	34

THE FIRST BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A — BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions to Form 10-Q of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2012, are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company's Form 10-K for the year ended December 31, 2011.

NOTE B — SUMMARY OF ORGANIZATION

The First Bancshares, Inc., Hattiesburg, Mississippi (the "Company"), was incorporated June 23, 1995, under the laws of the State of Mississippi for the purpose of operating as a bank holding company. The Company’s primary asset is its interest in its wholly-owned subsidiary, The First, A National Banking Association (the Bank).

At June 30, 2012, the Company had approximately $700.6 million in assets, $385.6 million in loans, $588.0 million in deposits, and $63.3 million in stockholders' equity. For the six months ended June 30, 2012, the Company reported net income of $2.0 million ($1.8 million applicable to common stockholders).

In the first and second quarters of 2012, the Company declared and paid a dividend of $.0375 per common share.

NOTE C – BUSINESS COMBINATION

On September 16, 2011 the Company completed the purchase of seven (7) branches located on the Mississippi Gulf Coast and one (1) branch located in Bogalusa, Louisiana from Whitney National Bank and Hancock Bank of Louisiana (the "Whitney branches"). As part of the agreement, the Company purchased loans of $46.8 million and assumed deposit liabilities of $179.3 million, and purchased the related fixed assets and cash of the branches. The Company operates the acquired bank branches under the name The First, A National Banking Association. The acquisition allowed the Company to expand its presence in South Mississippi as well as enter a new market in Louisiana. The Company's condensed consolidated statements of income include the results of operations of the Whitney branches.

In connection with the acquisition, the Company recorded $8.7 million of goodwill and $2.4 million of core deposit intangible. The core deposit intangible of $2.4 million will be expensed over 10 years. The recorded goodwill is deductible for tax purposes.

The Company acquired the $46.8 million loan portfolio at a fair value discount of $.7 million. The discount represents expected credit losses, adjustments to market interest rates and liquidity adjustments. The non credit quality portion of the discount was $.1 million and the credit quality portion of the discount was $.6 million.

The amounts of the acquired identifiable assets and liabilities as of the acquisition date were as follows (dollars in thousands):

Purchase price:	
Cash	$9,100
Total purchase price	9,100
Identifiable assets:	
Cash	125,243
Loans and leases	46,118
Core deposit intangible	2,402
Personal and real property	7,481
Other assets	95
Total assets	181,339
Liabilities and equity:	
Deposits	179,196
Other liabilities	1,703
Total liabilities	180,899
Net assets acquired	440
Goodwill resulting from acquisition	$8,660

The outstanding principal balance and the carrying amount of these loans included in the consolidated balance sheet at June 30, 2012 are as follows (dollars in thousands):

Outstanding principal balance	$28,987
Carrying amount	28,543

All loans obtained in the acquisition of the Whitney branches reflect no specific evidence of credit deterioration and very low probability that the Company would be unable to collect all contractually required principal and interest payments.

NOTE D – PREFERRED STOCK AND WARRANT

On February 6, 2009, as part of the U.S. Department of Treasury's ("Treasury") Capital Purchase Program ("CPP"), the Company received a $5.0 million equity investment by issuing 5 thousand shares of Series A, no par value preferred stock to the Treasury pursuant to a Letter Agreement and Securities Purchase Agreement that was previously disclosed by the Company. The Company also issued a warrant to the Treasury allowing it to purchase 54,705 shares of the Company's common stock at an exercise price of $13.71. The warrant can be exercised immediately and has a term of 10 years.

The non-voting Series A preferred shares issued, with a liquidation preference of $1 thousand per share, will pay a cumulative cash dividend quarterly at 5% per annum during the first five years the preferred shares are outstanding, resetting to 9% thereafter if not redeemed. The CPP also includes certain restrictions on dividend payments of the Company's lower ranking equity and the ability to purchase its outstanding common shares.

The Company allocated the proceeds received from the Treasury, net of transaction costs, on a pro rata basis to the Series A preferred stock and the warrant based on their relative fair values. The Company assigned $.3 million and $4.7 million to the warrant and the Series A preferred stock, respectively. The resulting discount on the Series A preferred stock is being accreted up to the $5.0 million liquidation amount at the time of the exchange that is described in the following paragraphs.

On September 29, 2010, and pursuant to the terms of the letter agreement between the Company and the United States Department of the Treasury (“Treasury”), the Company closed a transaction whereby Treasury exchanged its 5,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series UST, (the “CPP Preferred Shares”) for 5,000 shares of a new series of preferred stock designated Fixed Rate Cumulative Perpetual Preferred Stock, Series CD (the “CDCI Preferred Shares”). On the same day, and pursuant to the terms of the letter agreement between the Company and Treasury, the Company issued an additional 12,123 CDCI Preferred Shares to Treasury for a purchase price of $12,123,000. As a result of the CDCI Transactions, the Company is no longer participating in the TARP Capital Purchase Program being administered by Treasury and is now participating in Treasury’s TARP Community Development Capital Initiative (the “CDCI”). The terms of the CDCI Transactions are more fully set forth in the Exchange Letter Agreement and the Purchase Letter Agreement.

The Letter Agreement, pursuant to which the Preferred Shares were exchanged, contains limitations on the payment of dividends on the common stock to no more than 100% of the aggregate per share dividend and distributions for the immediate prior fiscal year (dividends of $0.15 per share were declared and paid in 2010) and on the Company’s ability to repurchase its common stock, and continues to subject the Company to certain of the executive compensation limitations included in the Emergency Economic Stabilization Act of 2008 (EESA), as previously disclosed by the Company.

The most significant difference in terms between the CDCI Preferred Shares and the CPP Preferred Shares is the dividend rate applicable to each. The CPP Preferred Shares entitled the holder to an annual dividend of 5% increasing to 9% after 5 years of the liquidation value of the shares, payable quarterly in arrears; by contrast, the CDCI Preferred Shares entitle the holder to an annual dividend of 2% for 8 years of the liquidation value of the shares, payable quarterly in arrears. Other differences in terms between the CDCI Preferred Shares and the CPP Preferred Shares, including, without limitation, the restrictions on common stock dividends and on redemption of common stock and other securities exist. The terms of the CDCI Preferred Shares are more fully set forth in the Articles of Amendment creating the CDCI Preferred Shares, which Articles of Amendment were filed with the Mississippi Secretary of State on September 27, 2010.

As a condition to participate in the CDCI, the Company was required to obtain certification as a Community Development Financial Institution (a “CDFI”) from the Treasury’s Community Development Financial Fund. On September 28, 2010, the Company was notified that its application for CDFI certification had been approved. In order to become certified and maintain its certification as a CDFI, the Company is required to meet the CDFI eligibility requirements set forth in 12 C.F.R. 1805.201(b).

NOTE E — EARNINGS APPLICABLE TO COMMON STOCKHOLDERS

Basic per share data is calculated based on the weighted-average number of common shares outstanding during the reporting period. Diluted per share data includes any dilution from potential common stock outstanding, such as stock options.

	For the Three Months Ended June 30, 2012		
	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic per share	$931,000	3,108,867	$ .30
Effect of dilutive shares:			
Restricted stock grants		21,557	
Diluted per share	$931,000	3,130,424	$ .30

	For the Six Months Ended June 30, 2012		
	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic per share	$1,796,000	3,094,102	$ .58
Effect of dilutive shares:			
Restricted stock grants		21,557	
Diluted per share	$1,796,000	3,115,659	$ .58

	For the Three Months Ended June 30, 2011		
	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic per share	$585,000	3,066,072	$ .19
Effect of dilutive shares:			
Restricted stock grants		5,978	
Diluted per share	$585,000	3,072,050	$ .19

	For the Six Months Ended June 30, 2011		
	Net Income (Numerator)	Shares (Denominator)	Per Share Data

Basic per share	$1,000,000	3,060,430	$ .33
Effect of dilutive shares:			
Restricted stock grants		5,978	
Diluted per share	$1,000,000	3,066,408	$ .33

The Company granted 42,795 shares of restricted stock in the first quarter of 2012 and 33,850 shares of restricted stock in the first quarter of 2011.

NOTE F — COMPREHENSIVE INCOME

The following table discloses Comprehensive Income for the periods reported in the Consolidated Statements of Income:

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30	
	2012	2011	2012	2011
Unrealized holding gains on available-for-sale securities during the period, net of tax	$770	$954	$1,137	$1,138
Unrealized gain (loss) on derivative carried at fair value during the period, net of tax	42	(18)	24	(17)
Accumulated Other Comprehensive Income (Loss), beginning of period	911	(392)	562	(577)
Accumulated Other Comprehensive Income, end of period	$1,723	$544	$1,723	$544

NOTE G — FAIR VALUE OF ASSETS AND LIABILITIES

The Company groups its financial assets measured at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1:	Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
Level 2:	Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities
Level 3:	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying balance sheets.

Available-for-Sale Securities

The fair value of available-for-sale securities is determined by various valuation methodologies. Where quoted market prices are available in an active market, securities are classified within Level 1. If quoted market prices are not available, then fair values are estimated by using pricing models or quoted prices of securities with similar characteristics. Level 2 securities include U.S. Treasury securities, obligations of U.S. government corporations and agencies, obligations of states and political subdivisions, mortgage-backed securities and collateralized mortgage obligations. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The following table presents the Company's assets that are measured at fair value on a recurring basis and the level within the hierarchy in which the fair value measurements fell as of June 30,2012 and December 31, 2011 (in thousands):

June 30, 2012

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Obligations of U. S. Government Agencies	$ 47,709	$ -	$ 47,709	$ -
Municipal securities	99,248	-	99,248	-
Mortgage-backed securities	61,281	-	61,281	-
Corporate obligations	20,491	-	18,201	2,290
Other	974	974	-	-
Total	$ 229,703	$ 974	$ 226,439	$ 2,290

December 31, 2011

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Obligations of U. S. Government Agencies	$ 43,673	$ -	$ 43,673	$ -
Municipal securities	94,259	-	94,259	-
Mortgage-backed securities	59,330	-	59,330	-
Corporate obligations	14,293	-	12,041	2,252
Other	974	974	-	-
Total	$ 212,529	$ 974	$ 209,303	$ 2,252

The following is a reconciliation of activity for assets measured at fair value based on significant unobservable (non-market) information.

(*Dollars in thousands)*	Bank-Issued Trust Preferred Securities	
	2012	2011
Balance, January 1	$ 2,252	$ 2,619
Transfers into Level 3	-	-
Transfers out of Level 3	-	-
Other-than-temporary impairment loss included in earnings	-	(4)
Unrealized gain (loss) included in comprehensive income	38	(363)
Balance at June 30, 2012 and December 31, 2011	$ 2,290	$ 2,252

Following is a description of the valuation methodologies used for assets measured at fair value on a non-recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Impaired Loans

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans or, where a loan is determined not to be collateral dependent, using the discounted cash flow method.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. If the impaired loan is determined not to be collateral dependent, then the discounted cash flow method is used. This method requires the impaired loan to be recorded at the present value of expected future cash flows discounted at the loan's effective interest rate. The effective interest rate of a loan is the contractual interest rate adjusted for any net deferred loan fees or costs, or premium or discount existing at origination or acquisition of the loan. Impaired loans are classified within Level 2 of the fair value hierarchy.

Other Real Estate Owned

Other real estate owned acquired through loan foreclosure is initially recorded at fair value less estimated costs to sell, establishing a new cost basis. The adjustment at the time of foreclosure is recorded through the allowance for loan losses. Due to the subjective nature of establishing the fair value, the actual fair value of the other real estate owned or foreclosed asset could differ from the original estimate. If it is determined the fair value declines subsequent to foreclosure, a valuation allowance is recorded through non-interest expense. Operating costs associated with the assets are also recorded as non-interest expense. Gains and losses on the disposition of other real estate owned and foreclosed assets are netted and posted to other non-interest expense. Other real estate owned measured at fair value on a non-recurring basis at June 30, 2012, amounted to $6.7 million. Other real estate owned is classified within Level 2 of the fair value hierarchy.

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fell at June 30, 2012 and December 31, 2011.

($ in thousands)

June 30, 2012

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$2,303	$-	$ 2,303	$ -
Other real estate owned	6,744	-	6,744	-

December 31, 2011

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$5,125	$-	$ 5,125	$ -
Other real estate owned	4,353	-	4,353	-

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Cash and Cash Equivalents – For such short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investment in securities available-for-sale and held-to-maturity – The fair value measurement for securities available-for-sale was discussed earlier. The same measurement approach was used for securities held-to-maturity.

Loans – The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits – The fair values of demand deposits are, as required by ASC Topic 825, equal to the carrying value of such deposits. Demand deposits include noninterest-bearing demand deposits, savings accounts, NOW accounts, and money market demand accounts. The fair value of variable rate term deposits, those repricing within six months or less, approximates the carrying value of these deposits. Discounted cash flows have been used to value fixed rate term deposits and variable rate term deposits repricing after six months. The discount rate used is based on interest rates currently being offered on comparable deposits as to amount and term.

Short-Term Borrowings – The carrying value of any federal funds purchased and other short-term borrowings approximates their fair values.

FHLB and Other Borrowings – The fair value of the fixed rate borrowings are estimated using discounted cash flows, based on current incremental borrowing rates for similar types of borrowing arrangements. The carrying amount of any variable rate borrowing approximates its fair value.

Subordinated Debentures – The subordinated debentures bear interest at a variable rate and the carrying value approximates the fair value.

Off-Balance Sheet Instruments – Fair values of off-balance sheet financial instruments are based on fees charged to enter into similar agreements. However, commitments to extend credit do not represent a significant value until such commitments are funded or closed. Management has determined that these instruments do not have a distinguishable fair value and no fair value has been assigned.

	As of June 30, 2012		As of December 31, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Financial Instruments:				
Assets:				
Cash and cash equivalents	$23,130	$23,130	$23,181	$23,181
Securities available-for-sale	229,703	229,703	212,529	212,529
Securities held-to-maturity	8,484	8,850	6,002	6,002
Other securities	3,090	3,090	2,645	2,645
Loans, net	381,083	394,334	383,417	396,905
Liabilities:				
Noninterest-bearing deposits	$104,482	$104,482	$107,129	$107,129
Interest-bearing deposits	483,547	484,272	466,265	467,198
Subordinated debentures	10,310	10,310	10,310	10,310
FHLB and other borrowings	28,291	28,291	27,032	27,032

NOTE H — LOANS

Loans typically provide higher yields than the other types of earning assets, and thus one of the Company's goals is for loans to be the largest category of the Company's earning assets. At June 30, 2012 and December 31, 2011, respectively, loans accounted for 60.4% and 62.4% of earning assets. The Company controls and mitigates the inherent credit and liquidity risks through the composition of its loan portfolio.

The following table shows the composition of the loan portfolio by category:

Composition of Loan Portfolio

	June 30, 2012			December 31, 2011		
	Amount	Percent of Total		Amount	Percent of Total	
	(Dollars in thousands)					
Mortgage loans held for sale	$3,210	0.8	%	$ 2,906	0.7	%
Commercial, financial and agricultural	50,306	13.0		48,385	12.5	
Real Estate:						
Mortgage-commercial	134,933	35.0		138,943	35.8	
Mortgage-residential	121,611	31.5		117,692	30.3	
Construction	60,939	15.8		63,357	16.3	
Consumer and other	14,552	3.9		16,645	4.4	
Total loans	385,551	100	%	387,928	100	%
Allowance for loan losses	(4,468)			(4,511)		
Net loans	$381,083			$ 383,417		

In the context of this discussion, a "real estate mortgage loan" is defined as any loan, other than a loan for construction purposes, secured by real estate, regardless of the purpose of the loan. The Company follows the common practice of financial institutions in the Company’s market area of obtaining a security interest in real estate whenever possible, in addition to any other available collateral. This collateral is taken to reinforce the likelihood of the ultimate repayment of the loan and tends to increase the magnitude of the real estate loan portfolio component. Generally, the Company limits its loan-to-value ratio to 80%. Management attempts to maintain a conservative philosophy regarding its underwriting guidelines and believes it will reduce the risk elements of its loan portfolio through strategies that diversify the lending mix.

Loans held for sale consist of mortgage loans originated by the Bank and sold into the secondary market. Commitments from investors to purchase the loans are obtained upon origination.

Activity in the allowance for loan losses for the period is as follows:

(In thousands)

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Balance at beginning of period	$ 4,372	$ 4,511
Loans charged-off:		
Real Estate	(96)	(364)
Installment and Other	(65)	(98)
Commercial, Financial and Agriculture	(2)	(26)
Total	(163)	(488)
Recoveries on loans previously charged-off:		
Real Estate	13	14
Installment and Other	22	39
Commercial, Financial and Agriculture	3	19
Total	38	72
Net Charge-offs	(125)	(416)
Provision for Loan Losses	221	373
Balance at end of period	$ 4,468	$ 4,468

The following tables represent how the allowance for loan losses is allocated to a particular loan type as well as the percentage of the category to total loans at June 30, 2012 and December 31, 2011.

Allocation of the Allowance for Loan Losses

	June 30, 2012 (Dollars in thousands)		
	Amount	% of loans in each category to total loans	
Commercial Non Real Estate	$552	12.7	%
Commercial Real Estate	2,924	66.5	
Consumer Real Estate	710	16.4	
Consumer	133	4.3	
Unallocated	149	.1	
Total	$4,468	100	%

	December 31, 2011 (Dollars in thousands)		
	Amount	% of loans in each category to total loans	
Commercial Non Real Estate	$ 397	16.3	%
Commercial Real Estate	3,356	63.8	
Consumer Real Estate	680	15.7	
Consumer	78	4.2	
Unallocated	-	-	
Total	$ 4,511	100	%

The following table represents the Company's impaired loans at June 30, 2012 and December 31, 2011. This table excludes performing troubled debt restructurings.

	June 30, 2012	December 31, 2011
	(In thousands)	
Impaired Loans:		

Impaired loans without a valuation allowance	$1,230	$ 2,791
Impaired loans with a valuation allowance	1,073	2,334
Total impaired loans	$2,303	$ 5,125
Allowance for loan losses on impaired loans at period end	290	738
Total nonaccrual loans	2,303	5,125
Past due 90 days or more and still accruing	1,205	496
Average investment in impaired loans	3,439	4,185

The following table is a summary of interest recognized and cash-basis interest earned on impaired loans:

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Average of individually impaired loans during period	$ 2,596	$ 3,439
Interest income recognized during impairment	-	-
Cash-basis interest income recognized	-	2

The gross interest income that would have been recorded in the period that ended if the nonaccrual loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination, if held for part of the three and six months ended June 30, 2012, was $67,100 and $69,400, respectively. The Company had no loan commitments to borrowers in non-accrual status at June 30, 2012 and 2011.

The following tables provide the ending balances in the Company's loans (excluding mortgage loans held for sale) and allowance for loan losses, broken down by portfolio segment as of June 30, 2012 and December 31, 2011. The tables also provide additional detail as to the amount of our loans and allowance that correspond to individual versus collective impairment evaluation. The impairment evaluation corresponds to the Company's systematic methodology for estimating its Allowance for Loan Losses.

June 30, 2012

	Real Estate	Installment and Other	Commercial, Financial and Agriculture	Total
	(In thousands)			
Loans				
Individually evaluated	$2,016	$ 27	$ 260	$2,303
Collectively evaluated	315,180	16,475	48,383	380,038
Total	$317,196	$ 16,502	$ 48,643	$382,341
Allowance for Loan Losses				
Individually evaluated	$181	$ 12	$ 97	$290
Collectively evaluated	3,453	270	455	4,178

Total	$3,634	$ 282	$ 552	$4,468

December 31, 2011

	Real Estate	Installment and Other	Commercial, Financial and Agriculture	Total
	(In thousands)			
Loans				
Individually evaluated	$4,841	$ 38	$ 246	$5,125
Collectively evaluated	301,271	16,107	62,519	379,897
Total	$306,112	$ 16,145	$ 62,765	$385,022
Allowance for Loan Losses				
Individually evaluated	$662	$ 13	$ 63	$738
Collectively evaluated	3,375	64	334	3,773
Total	$4,037	$ 77	$ 397	$4,511

The following tables provide additional detail of impaired loans broken out according to class as of June 30, 2012 and December 31, 2011. The recorded investment included in the following table represents customer balances net of any partial charge-offs recognized on the loans, net of any deferred fees and costs. As nearly all of our impaired loans at June 30, 2012 are on nonaccrual status, recorded investment excludes any insignificant amount of accrued interest receivable on loans 90-days or more past due and still accruing. The unpaid balance represents the recorded balance prior to any partial charge-offs.

June 30, 2012

	Recorded Investment	Unpaid Balance	Related Allowance	Average Recorded Investment YTD	Interest Income Recognized YTD
	(In thousands)				
Impaired loans with no related allowance:					
Commercial installment	$77	$77	$ -	$ 77	$ -
Commercial real estate	920	920	-	904	2
Consumer real estate	231	231	-	274	-
Consumer installment	2	2	-	5	-
Total	$1,230	$1,230	$ -	$ 1,260	$ 2
Impaired loans with a related allowance:					
Commercial installment	$183	$183	$ 97	$ 200	$ -
Commercial real estate	613	613	157	810	-
Consumer real estate	252	252	24	298	-
Consumer installment	25	25	12	28	-
Total	$1,073	$1,073	$ 290	$ 1,336	$ -
Total Impaired Loans:					
Commercial installment	$260	$260	$ 97	$ 277	$ -
Commercial real estate	1,533	1,533	157	1,714	2
Consumer real estate	483	483	24	572	-
Consumer installment	27	27	12	33	-
Total Impaired Loans	$2,303	$2,303	$ 290	$ 2,596	$ 2

December 31, 2011

	Recorded Investment	Unpaid Balance	Related Allowance	Average Recorded Investment YTD	Interest Income Recognized YTD
	(Inthousands)				
Impaired loans with no related allowance:					
Commercial installment	$121	$121	$ -	$ 69	$ 5
Commercial real estate	2,420	2,420	-	1,457	85

Consumer real estate	241	241	-	288	3
Consumer installment	9	9	-	11	-
Total	$2,791	$2,791	$ -	$ 1,825	$ 93
Impaired loans with a related allowance:					
Commercial installment	$125	$125	$ 63	$ 128	$ -
Commercial real estate	1,533	1,533	571	1,463	23
Consumer real estate	647	647	91	740	12
Consumer installment	29	29	13	29	6
Total	$2,334	$2,334	$ 738	$ 2,360	$ 41
Total Impaired Loans:					
Commercial installment	$246	$246	$ 63	$ 197	$ 5
Commercial real estate	3,953	3,953	571	2,920	108
Consumer real estate	888	888	91	1,028	15
Consumer installment	38	38	13	40	6
Total Impaired Loans	$5,125	$5,125	$ 738	$ 4,185	$ 134

The following tables provide additional detail of troubled debt restructurings at June 30, 2012.

For the Three Months Ending June 30, 2012

Outstanding Recorded Investment Pre-Modification	Outstanding Recorded Investment Post - Modification	Number of Loans	Interest