

FIRST COMMUNITY BANCSHARES INC /NV/

Form 10-Q

May 06, 2016

[Table of Contents](#)

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2016

Commission file number 000-19297

FIRST COMMUNITY BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction

of incorporation)

55-0694814
(IRS Employer

Identification No.)

P.O. Box 989

Bluefield, Virginia
(Address of principal executive offices)

24605-0989
(Zip Code)

(276) 326-9000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class Common Stock, \$1.00 Par Value; 17,514,176 shares outstanding as of April 29, 2016

Table of Contents

FIRST COMMUNITY BANCSHARES, INC.

FORM 10-Q

For the quarter ended March 31, 2016

INDEX

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
<u>Condensed Consolidated Balance Sheets as of March 31, 2016 (Unaudited) and December 31, 2015</u>	3
<u>Condensed Consolidated Statements of Income for the Three Months Ended March 31, 2016 and 2015 (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2016 and 2015 (Unaudited)</u>	5
<u>Condensed Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended March 31, 2016 and 2015 (Unaudited)</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2016 and 2015 (Unaudited)</u>	7
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	37
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	51
Item 4. <u>Controls and Procedures</u>	52
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	53
Item 1A. <u>Risk Factors</u>	53
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	53
Item 3. <u>Defaults Upon Senior Securities</u>	54
Item 4. <u>Mine Safety Disclosures</u>	54
Item 5. <u>Other Information</u>	54
Item 6. <u>Exhibits</u>	54
<u>SIGNATURES</u>	57
<u>EXHIBIT INDEX</u>	58

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****FIRST COMMUNITY BANCSHARES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2016	December 31, 2015
	(Unaudited)	
<i>(Amounts in thousands, except share and per share data)</i>		
Assets		
Cash and due from banks	\$ 36,275	\$ 37,383
Federal funds sold	2,407	13,498
Interest-bearing deposits in banks	905	906
Total cash and cash equivalents	39,587	51,787
Securities available for sale	338,469	366,173
Securities held to maturity	72,485	72,541
Loans held for investment, net of unearned income		
Non-covered	1,685,891	1,623,506
Covered	76,538	83,035
Less allowance for loan losses	(20,467)	(20,233)
Loans held for investment, net	1,741,962	1,686,308
FDIC indemnification asset	18,787	20,844
Premises and equipment, net	50,799	52,756
Other real estate owned, non-covered	5,313	4,873
Other real estate owned, covered	2,279	4,034
Interest receivable	5,968	6,007
Goodwill	100,486	100,486
Other intangible assets	4,965	5,243
Other assets	89,187	91,224
Total assets	\$ 2,470,287	\$ 2,462,276
Liabilities		
Deposits		
Noninterest-bearing	\$ 453,336	\$ 451,511
Interest-bearing	1,421,329	1,421,748
Total deposits	1,874,665	1,873,259
Interest, taxes, and other liabilities	24,576	26,630
Federal funds purchased	18,000	

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Securities sold under agreements to repurchase	134,661	138,614
FHLB borrowings	65,000	65,000
Other borrowings	15,756	15,756
Total liabilities	2,132,658	2,119,259
Stockholders equity		
Common stock, \$1 par value; 50,000,000 shares authorized; 21,381,779 shares issued at both March 31, 2016, and December 31, 2015; 3,750,768 and 3,283,638 shares in treasury at March 31, 2016, and December 31, 2015, respectively	21,382	21,382
Additional paid-in capital	227,725	227,692
Retained earnings	159,223	155,647
Treasury stock, at cost	(64,968)	(56,457)
Accumulated other comprehensive loss	(5,733)	(5,247)
Total stockholders equity	337,629	343,017
Total liabilities and stockholders equity	\$ 2,470,287	\$ 2,462,276

See Notes to Consolidated Financial Statements.

Table of Contents

FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

<i>(Amounts in thousands, except share and per share data)</i>	Three Months Ended March 31,	
	2016	2015
Interest income		
Interest and fees on loans	\$ 21,573	\$ 21,914
Interest on securities taxable	1,019	1,035
Interest on securities tax-exempt	938	1,016
Interest on deposits in banks	20	133
Total interest income	23,550	24,098
Interest expense		
Interest on deposits	1,114	1,730
Interest on short-term borrowings	516	490
Interest on long-term debt	809	1,039
Total interest expense	2,439	3,259
Net interest income	21,111	20,839
Provision for loan losses	1,187	1,100
Net interest income after provision for loan losses	19,924	19,739
Noninterest income		
Wealth management	684	666
Service charges on deposits	3,291	2,903
Other service charges and fees	2,010	2,008
Insurance commissions	2,191	2,127
Net gain (loss) on sale of securities	1	(23)
Net FDIC indemnification asset amortization	(1,159)	(1,565)
Other operating income	885	720
Total noninterest income	7,903	6,836
Noninterest expense		
Salaries and employee benefits	10,475	9,693
Occupancy expense	1,531	1,534
Furniture and equipment expense	1,096	1,237
Amortization of intangibles	278	277
FDIC premiums and assessments	374	415
Merger, acquisition, and divestiture expense	39	86
Other operating expense	5,021	4,538
Total noninterest expense	18,814	17,780

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Income before income taxes	9,013	8,795
Income tax expense	2,929	2,837
Net income	6,084	5,958
Dividends on preferred stock		105
Net income available to common shareholders	\$ 6,084	\$ 5,853
Earnings per common share		
Basic	\$ 0.34	\$ 0.31
Diluted	0.34	0.31
Cash dividends per common share	0.14	0.13
Weighted average shares outstanding		
Basic	17,859,197	18,633,574
Diluted	17,892,531	19,344,443
<i>See Notes to Consolidated Financial Statements.</i>		

Table of Contents**FIRST COMMUNITY BANCSHARES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

	Three Months Ended March 31,	
	2016	2015
<i>(Amounts in thousands, except share and per share data)</i>		
Net income	\$ 6,084	\$ 5,958
Other comprehensive income, before tax		
Available-for-sale securities:		
Change in net unrealized (losses) gains on securities without other-than-temporary impairment	(722)	1,617
Reclassification adjustment for net (gains) losses recognized in net income	(1)	23
Net unrealized (losses) gains on available-for-sale securities	(723)	1,640
Employee benefit plans:		
Net actuarial loss	(125)	(98)
Reclassification adjustment for amortization of prior service cost and net actuarial loss recognized in net income	71	82
Net unrealized losses on employee benefit plans	(54)	(16)
Other comprehensive (loss) income, before tax	(777)	1,624
Income tax benefit (expense)	291	(610)
Other comprehensive (loss) income, net of tax	(486)	1,014
Total comprehensive income	\$ 5,598	\$ 6,972

See Notes to Consolidated Financial Statements.

Table of Contents

FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
(UNAUDITED)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
<i>(Amounts in thousands, except share and per share data)</i>							
Balance January 1, 2015	\$ 15,151	\$ 20,500	\$ 215,873	\$ 141,206	\$ (35,751)	\$ (5,605)	\$ 351,374
Net income				5,958			5,958
Other comprehensive income						1,014	1,014
Common dividends declared \$0.13 per share				(2,403)			(2,403)
Preferred dividends declared \$15.00 per share				(105)			(105)
Preferred stock converted to common stock 882,096 shares	(12,784)	882	11,902				
Redemption of preferred stock 2,367 shares	(2,367)						(2,367)
Equity-based compensation expense			20				20
Common stock options exercised 3,000 shares			(10)		51		41
Restricted stock awards 6,594 shares			(1)		112		111
Issuance of treasury stock to 401(k) plan 6,599 shares			(2)		112		110
Purchase of treasury shares 339,234 shares at \$16.47 per share					(5,602)		(5,602)
Balance March 31, 2015	\$	\$ 21,382	\$ 227,782	\$ 144,656	\$ (41,078)	\$ (4,591)	\$ 348,151
Balance January 1, 2016	\$	\$ 21,382	\$ 227,692	\$ 155,647	\$ (56,457)	\$ (5,247)	\$ 343,017
Net income				6,084			6,084
Other comprehensive loss						(486)	(486)
Common dividends declared \$0.14 per share				(2,508)			(2,508)
			7				7

Equity-based compensation expense

Restricted stock awards 12,882 shares		18		222		240
Issuance of treasury stock to 401(k) plan 7,727 shares		8		134		142
Purchase of treasury shares 487,739 shares at \$18.14 per share				(8,867)		(8,867)
Balance March 31, 2016	\$	\$ 21,382	\$ 227,725	\$ 159,223	\$ (64,968)	\$ (5,733) \$ 337,629

See Notes to Consolidated Financial Statements.

Table of Contents**FIRST COMMUNITY BANCSHARES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

<i>(Amounts in thousands)</i>	Three Months Ended March 31,	
	2016	2015
Operating activities		
Net income	\$ 6,084	\$ 5,958
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,187	1,100
Depreciation and amortization of property, plant, and equipment	937	1,056
Amortization of premiums on investments, net	898	185
Amortization of FDIC indemnification asset, net	1,159	1,565
Amortization of intangible assets	278	277
Gain on sale of loans, net		(106)
Equity-based compensation expense	7	20
Restricted stock awards	240	111
Issuance of treasury stock to 401(k) plan	142	110
Loss on sale of property, plant, and equipment, net	360	
Loss on sale of other real estate	660	232
(Gain) loss on sale of securities	(1)	23
Proceeds from sale of mortgage loans		2,950
Originations of mortgage loans		(2,226)
Decrease in accrued interest receivable	39	127
Decrease in other operating activities	641	6,750
Net cash provided by operating activities	12,631	18,132
Investing activities		
Proceeds from sale of securities available for sale	16,074	15
Proceeds from maturities, prepayments, and calls of securities available for sale	10,027	7,481
Payments to acquire securities available for sale		(31,384)
Payments to acquire securities held to maturity		(15,003)
(Originations of) proceeds from loans, net	(58,845)	16,138
(Payments for) proceeds from FHLB stock, net	(661)	216
Cash paid in mergers, acquisitions, and divestitures, net		(88)
Proceeds from the FDIC	1,187	688
Proceeds from sale of (payments to acquire) property, plant, and equipment, net	659	(263)
Proceeds from sale of other real estate	2,650	987
Net cash used in investing activities	(28,909)	(21,213)
Financing activities		
Increase in noninterest-bearing deposits, net	1,825	15,693
Decrease in interest-bearing deposits, net	(419)	(25,263)
Increase in federal funds purchased	18,000	
Repayments of securities sold under agreements to repurchase, net	(3,953)	(5,440)

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Repayments of FHLB and other borrowings		(2,000)
Redemption of preferred stock		(2,367)
Proceeds from stock options exercised		41
Excess tax benefit from equity-based compensation		5
Payments for repurchase of treasury stock	(8,867)	(5,602)
Payments of common dividends	(2,508)	(2,403)
Payments of preferred dividends		(219)
Net cash provided by (used in) financing activities	4,078	(27,555)
Net decrease in cash and cash equivalents	(12,200)	(30,636)
Cash and cash equivalents at beginning of period	51,787	237,660
Cash and cash equivalents at end of period	\$ 39,587	\$ 207,024
Supplemental transactions noncash items		
Transfer of loans to other real estate	\$ 1,996	\$ 1,154
Loans originated to finance other real estate		31
Supplemental transactions cash flow information		
Cash paid for interest	2,471	3,301
Cash paid for income taxes		
<i>See Notes to Consolidated Financial Statements.</i>		

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****Note 1. Basis of Presentation*****General***

First Community Bancshares, Inc. (the *Company*) is a financial holding company headquartered in Bluefield, Virginia that provides banking products and services to individuals and commercial customers through its wholly-owned subsidiary, First Community Bank (the *Bank*), a Virginia-chartered banking institution. The Bank operates 49 branches in 4 states under the trade names First Community Bank in Virginia, West Virginia, and North Carolina and People's Community Bank, a Division of First Community Bank, in Tennessee. The Company offers personal and commercial insurance products and services from 9 locations through its wholly owned subsidiary Greenpoint Insurance Group, Inc. (*Greenpoint*), which is headquartered in High Point, North Carolina. Greenpoint operates under the Greenpoint name and under the trade name First Community Insurance Services (*FCIS*) in North Carolina, Carr & Hyde Insurance and FCIS in Virginia, and FCIS in West Virginia. The Bank offers wealth management services and investment advice through its Trust Division and wholly-owned subsidiary First Community Wealth Management (*FCWM*). The Trust Division and FCWM managed \$755 million in combined assets as of March 31, 2016. These assets are not assets of the Company, but are managed under various fee-based arrangements as fiduciary or agent. The Company reported consolidated assets of \$2.47 billion as of March 31, 2016. Unless the context suggests otherwise, the term *Company* refers to First Community Bancshares, Inc. and its subsidiaries as a consolidated entity. The Company operates in one business segment, Community Banking, which consists of all operations, including commercial and consumer banking, lending activities, wealth management, and insurance services.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles (*GAAP*) in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments, including normal recurring accruals, necessary for a fair presentation have been made. All significant intercompany balances and transactions have been eliminated in consolidation. Assets held in an agency or fiduciary capacity are not assets of the Company and are not included in the Company's consolidated balance sheets. Operating results for the interim period are not necessarily indicative of the results that may be expected for the full calendar year.

The condensed consolidated balance sheet as of December 31, 2015, has been derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K (the *2015 Form 10-K*), as filed with the Securities and Exchange Commission (the *SEC*) on March 4, 2016. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been omitted in accordance with standards for the preparation of interim consolidated financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's 2015 Form 10-K.

Significant Accounting Policies

A complete and detailed description of the Company's significant accounting policies is included in Note 1, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements in Part II, Item 8 of the Company's 2015 Form 10-K. A discussion of the Company's application of critical accounting estimates is included in Critical Accounting Estimates in Item 2 of this report.

Reclassifications and Corrections

Certain amounts reported in prior years have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the Company's results of operations, financial position, or cash flow.

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The new guidance is intended to simplify several aspects of the accounting for share-based payment award transactions including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact that the new standard will have on its financial position, results of operations, and cash flows and does not expect this guidance to have a material effect on its financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The new guidance is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requiring more disclosures related to leasing transactions. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact that the new standard will have on its financial position, results of operations, and cash flows and does not expect this guidance to have a material effect on its financial statements.

Other accounting standards that have been issued by the FASB or other standards-setting bodies are not expected to have a material impact on the consolidated financial statements upon adoption.

Table of Contents**Note 2. Acquisitions and Divestitures**

On March 4, 2016, the Company announced it had entered into agreements with First Bank, North Carolina, pursuant to which the Bank is swapping a portion of its North Carolina branch network for First Bank's Virginia branch network. Under the agreements, the Bank will acquire seven branches in Southwestern Virginia with deposits totaling approximately \$150 million and sell six branches in the Winston-Salem and Mooresville areas of North Carolina with deposits totaling approximately \$130 million. Additionally, the swap will include up to \$175 million of loans. The branch exchange is intended to complement the Bank's 2014 acquisition of seven branches from Bank of America. Subject to regulatory approval and the satisfaction of customary closing conditions, the transaction is expected to close in the third quarter of 2016.

Note 3. Investment Securities

The following tables present the amortized cost and aggregate fair value of available-for-sale securities, including gross unrealized gains and losses, as of the dates indicated:

	March 31, 2016			Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	
<i>(Amounts in thousands)</i>				
U.S. Agency securities	\$ 30,737	\$ 89	\$ (257)	\$ 30,569
Municipal securities	122,587	5,317	(59)	127,845
Single issue trust preferred securities	55,897		(11,809)	44,088
Corporate securities	70,343		(92)	70,251
Mortgage-backed Agency securities	65,778	282	(416)	65,644
Equity securities	66	6		72
Total securities available for sale	\$ 345,408	\$ 5,694	\$ (12,633)	\$ 338,469

	December 31, 2015			Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	
<i>(Amounts in thousands)</i>				
U.S. Agency securities	\$ 31,414	\$ 39	\$ (751)	\$ 30,702
Municipal securities	124,880	4,155	(357)	128,678
Single issue trust preferred securities	55,882		(8,050)	47,832
Corporate securities	70,571		(238)	70,333
Certificates of deposit	5,000			5,000
Mortgage-backed Agency securities	84,576	155	(1,175)	83,556
Equity securities	66	6		72
Total securities available for sale	\$ 372,389	\$ 4,355	\$ (10,571)	\$ 366,173

Table of Contents

The following tables present the amortized cost and aggregate fair value of held-to-maturity securities, including gross unrealized gains and losses, as of the dates indicated:

	March 31, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<i>(Amounts in thousands)</i>				
U.S. Agency securities	\$ 61,831	\$ 374	\$ (8)	\$ 62,197
Municipal securities	190	1		191
Corporate securities	10,464	91		10,555
Total securities held for investment	\$ 72,485	\$ 466	\$ (8)	\$ 72,943

	December 31, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<i>(Amounts in thousands)</i>				
U.S. Agency securities	\$ 61,863	\$ 75	\$ (106)	\$ 61,832
Municipal securities	190	3		193
Corporate securities	10,488		(23)	10,465
Total securities held for investment	\$ 72,541	\$ 78	\$ (129)	\$ 72,490

The following table presents the amortized cost and aggregate fair value of available-for-sale securities and held-to-maturity securities, by contractual maturity, as of March 31, 2016. Actual maturities could differ from contractual maturities because issuers may have the right to call or prepay obligations with or without penalties.

<i>(Amounts in thousands)</i>	Amortized Cost	Fair Value
Available-for-sale securities		
Due within one year	\$ 71,929	\$ 71,856
Due after one year but within five years	2,623	2,663
Due after five years but within ten years	88,169	92,622
Due after ten years	116,843	105,612
	279,564	272,753
Mortgage-backed securities	65,778	65,644
Equity securities	66	72
Total securities available for sale	\$ 345,408	\$ 338,469

Held-to-maturity securities

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Due within one year	\$ 25,232	\$ 25,231
Due after one year but within five years	47,253	47,712
Due after five years but within ten years		
Due after ten years		
Total securities held to maturity	\$ 72,485	\$ 72,943

Table of Contents

The following tables present the fair values and unrealized losses for available-for-sale securities in a continuous unrealized loss position for less than 12 months and for 12 months or longer as of the dates indicated:

	March 31, 2016					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(Amounts in thousands)</i>						
U.S. Agency securities	\$ 1,418	\$ (1)	\$ 23,809	\$ (256)	\$ 25,227	\$ (257)
Municipal securities	395	(1)	3,239	(58)	3,634	(59)
Single issue trust preferred securities			44,088	(11,809)	44,088	(11,809)
Corporate securities	60,210	(84)	10,041	(8)	70,251	(92)
Mortgage-backed Agency securities	5,020	(22)	37,329	(394)	42,349	(416)
Total	\$ 67,043	\$ (108)	\$ 118,506	\$ (12,525)	\$ 185,549	\$ (12,633)