FIRST BANCORP /NC/
Form 10-Q
August 11, 2014

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, 2014

Commission File Number 0-15572

FIRST BANCORP

(Exact Name of Registrant as Specified in its Charter)

North Carolina	56-1421916
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

300 SW Broad Street, Southern Pines, North Carolina	28387
(Address of Principal Executive Offices)	(Zip Code)
(Registrant's telephone number, including area code)	(910) 246-2500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ý YES ¨ 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 ¨ 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)

¨ Large Accelerated Filer ý Accelerated Filer ¨ Non-Accelerated Filer

¨ 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). ¨ YES ý NO

The number of shares of the registrant's Common Stock outstanding on July 31, 2014 was 19,705,381.

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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 2013 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC).

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Part I. Financial Information

Item 1 - Financial Statements

First Bancorp and Subsidiaries

Consolidated Balance Sheets

($ in thousands-unaudited)	June 30, 2014	December 31, 2013 (audited)	June 30, 2013
ASSETS			
Cash and due from banks, noninterest-bearing	$92,633	83,881	82,798
Due from banks, interest-bearing	313,141	136,644	154,199
Federal funds sold	1,508	2,749	603
Total cash and cash equivalents	407,282	223,274	237,600
Securities available for sale	124,078	173,041	186,634
Securities held to maturity (fair values of $57,612, $56,700, and $58,376)	53,879	53,995	54,361
Presold mortgages in process of settlement	5,926	5,422	4,552
Loans – non-covered	2,257,530	2,252,885	2,190,583
Loans – covered by FDIC loss share agreement	176,855	210,309	240,279
Total loans	2,434,385	2,463,194	2,430,862
Allowance for loan losses – non-covered	(41,966)	(44,263)	(44,816)
Allowance for loan losses – covered	(3,830)	(4,242)	(6,035)
Total allowance for loan losses	(45,796)	(48,505)	(50,851)
Net loans	2,388,589	2,414,689	2,380,011
Premises and equipment	76,705	77,448	77,597
Accrued interest receivable	8,795	9,649	9,780
FDIC indemnification asset	29,406	48,622	92,950
Goodwill	65,835	65,835	65,835
Other intangible assets	2,446	2,834	3,274
Foreclosed real estate – non-covered	9,346	12,251	15,425
Foreclosed real estate – covered	9,934	24,497	32,005
Bank-owned life insurance	44,685	44,040	43,276
Other assets	39,593	29,473	44,110
Total assets	$3,266,499	3,185,070	3,247,410
LIABILITIES			
Deposits: Noninterest bearing checking accounts	$525,332	482,650	454,785
Interest bearing checking accounts	551,577	557,413	546,203
Money market accounts	558,373	551,335	564,837

Savings accounts	175,084	169,023	166,497
Time deposits of $100,000 or more	554,537	564,527	612,912
Other time deposits	389,676	426,071	473,119
Total deposits	2,754,579	2,751,019	2,818,353
Borrowings	116,394	46,394	46,394
Accrued interest payable	778	879	1,071
Other liabilities	13,655	14,856	21,487
Total liabilities	2,885,406	2,813,148	2,887,305
Commitments and contingencies			
SHAREHOLDERS' EQUITY			
Preferred stock, no par value per share. Authorized: 5,000,000 shares			
Series B issued & outstanding: 63,500, 63,500, and 63,500 shares	63,500	63,500	63,500
Series C, convertible, issued & outstanding: 728,706, 728,706, and 728,706 shares	7,287	7,287	7,287
Common stock, no par value per share. Authorized: 40,000,000 shares			
Issued & outstanding: 19,705,381, 19,679,659, and 19,679,659 shares	132,417	132,099	132,097
Retained earnings	175,871	167,136	158,708
Accumulated other comprehensive income (loss)	2,018	1,900	(1,487)
Total shareholders' equity	381,093	371,922	360,105
Total liabilities and shareholders' equity	$3,266,499	3,185,070	3,247,410

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Income

($ in thousands, except share data-unaudited)	Three Months Ended June 30, 2014	2013	Six Months Ended June 30, 2014	2013
INTEREST INCOME				
Interest and fees on loans	$34,376	37,030	70,462	70,581
Interest on investment securities:				
Taxable interest income	876	824	1,877	1,729
Tax-exempt interest income	471	477	941	956
Other, principally overnight investments	232	173	351	327
Total interest income	35,955	38,504	73,631	73,593
INTEREST EXPENSE				
Savings, checking and money market accounts	259	381	511	891
Time deposits of $100,000 or more	1,172	1,546	2,355	3,159
Other time deposits	419	719	875	1,508
Borrowings	297	256	547	512
Total interest expense	2,147	2,902	4,288	6,070
Net interest income	33,808	35,602	69,343	67,523
Provision for loan losses – non-covered	1,158	4,043	4,523	9,814
Provision for loan losses – covered	2,501	1,548	2,711	6,926
Total provision for loan losses	3,659	5,591	7,234	16,740
Net interest income after provision for loan losses	30,149	30,011	62,109	50,783
NONINTEREST INCOME				
Service charges on deposit accounts	3,446	3,254	7,019	6,189
Other service charges, commissions and fees	2,562	2,340	4,929	4,515
Fees from presold mortgage loans	790	820	1,397	1,567
Commissions from sales of insurance and financial products	706	579	1,300	978
Bank-owned life insurance income	318	212	645	420
Foreclosed property gains (losses) – non-covered	(551)	777	(707)	1,535
Foreclosed property gains (losses) – covered	(1,173)	(520)	(3,290)	(5,136)
FDIC indemnification asset income (expense), net	(1,578)	(3,407)	(6,494)	1,490
Securities gains	786	7	786	7
Other gains (losses)	(336)	425	(317)	30
Total noninterest income	4,970	4,487	5,268	11,595
NONINTEREST EXPENSES				
Salaries	11,366	11,003	23,014	21,680
Employee benefits	2,286	2,546	4,597	5,173
Total personnel expense	13,652	13,549	27,611	26,853
Net occupancy expense	1,804	1,759	3,684	3,433
Equipment related expenses	1,024	1,106	1,952	2,194

Intangibles amortization	194	220	388	419
Other operating expenses	8,106	9,122	14,696	16,081
Total noninterest expenses	24,780	25,756	48,331	48,980
Income before income taxes	10,339	8,742	19,046	13,398
Income tax expense	3,693	3,154	6,724	4,710
Net income	6,646	5,588	12,322	8,688
Preferred stock dividends	(217)	(217)	(434)	(462)
Net income available to common shareholders	$6,429	5,371	11,888	8,226
Earnings per common share:				
Basic	$0.33	0.27	0.60	0.42
Diluted	0.32	0.27	0.59	0.41
Dividends declared per common share	$0.08	0.08	0.16	0.16
Weighted average common shares outstanding:				
Basic	19,698,581	19,673,634	19,693,382	19,671,468
Diluted	20,434,263	20,415,103	20,428,861	20,412,456

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Comprehensive Income

($ in thousands-unaudited)	Three Months Ended June 30, 2014	2013	Six Months Ended June 30, 2014	2013
Net income	$ 6,646	5,588	12,322	8,688
Other comprehensive income (loss):				
Unrealized gains (losses) on securities available for sale:				
Unrealized holding gains (losses) arising during the period, pretax	749	(1,853)	1,052	(2,159)
Tax (expense) benefit	(292)	723	(410)	841
Reclassification to realized gains	(786)	(7)	(786)	(7)
Tax expense	306	3	306	3
Postretirement Plans:				
Amortization of unrecognized net actuarial (gain) loss	(56)	15	(110)	18
Tax expense (benefit)	33	(6)	66	(7)
Other comprehensive income (loss)	(46)	(1,125)	118	(1,311)
Comprehensive income	$ 6,600	4,463	12,440	7,377

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, 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
Balances, January 1, 2014	$ 70,787	19,680	$ 132,099	167,136	1,900	371,922
Net income				12,322		12,322
Cash dividends declared ($0.16 per common share)				(3,153)		(3,153)
Preferred dividends				(434)		(434)
Stock-based compensation		25	318			318
Other comprehensive income (loss)					118	118
Balances, June 30, 2014	$ 70,787	19,705	$ 132,417	175,871	2,018	381,093

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Cash Flows

	Six Months Ended June 30,	
($ in thousands-unaudited)	2014	2013
Cash Flows From Operating Activities		
Net income	$12,322	8,688
Reconciliation of net income to net cash provided by operating activities:		
Provision for loan losses	7,234	16,740
Net security premium amortization	1,036	1,360
Purchase accounting accretion and amortization, net	(11,168)	(10,055)
Foreclosed property losses and write-downs, net	3,997	3,601
Gain on securities available for sale	(786)	(7)
Other losses (gains)	317	(30)
Decrease in net deferred loan costs	277	156
Depreciation of premises and equipment	2,325	2,287
Stock-based compensation expense	225	220
Amortization of intangible assets	388	419
Origination of presold mortgages in process of settlement	(47,696)	(51,664)
Proceeds from sales of presold mortgages in process of settlement	47,347	55,602
Decrease in accrued interest receivable	854	421
Decrease (increase) in other assets	(6,866)	8,089
Decrease in accrued interest payable	(101)	(255)
Increase (decrease) in other liabilities	(1,222)	2,080
Net cash provided by operating activities	8,483	37,652
Cash Flows From Investing Activities		
Purchases of securities available for sale	(17,528)	(44,834)
Proceeds from sales of securities available for sale	47,473	—
Proceeds from maturities/issuer calls of securities available for sale	19,151	22,147
Proceeds from maturities/issuer calls of securities held to maturity	—	1,587
Purchase of bank-owned life insurance	—	(15,000)
Net decrease (increase) in loans	21,825	(50,937)
Proceeds from FDIC loss share agreements	15,256	12,018
Proceeds from sales of foreclosed real estate	21,396	33,092
Purchases of premises and equipment	(2,842)	(4,092)
Proceeds from sale of premises and equipment	811	—
Proceeds from loans held for sale	—	30,393
Net cash received in acquisition	—	38,315
Net cash provided by investing activities	105,542	22,689
Cash Flows From Financing Activities		
Net increase (decrease) in deposits	3,567	(60,324)
Proceeds from borrowings, net	70,000	—
Cash dividends paid – common stock	(3,150)	(3,147)
Cash dividends paid – preferred stock	(434)	(777)

Net cash provided (used) by financing activities	69,983	(64,248)
Increase (decrease) in cash and cash equivalents	184,008	(3,907)
Cash and cash equivalents, beginning of period	223,274	241,507
Cash and cash equivalents, end of period	$407,282	237,600
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$4,389	6,298
Income taxes	421	—
Non-cash transactions:		
Unrealized gain (loss) on securities available for sale, net of taxes	162	(1,322)
Foreclosed loans transferred to other real estate	7,925	10,548

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, 2014 and 2013

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, 2014 and 2013 and the consolidated results of operations and consolidated cash flows for the periods ended June 30, 2014 and 2013. All such adjustments were of a normal, recurring nature. Reference is made to the 2013 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, 2014 and 2013 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 2013 Annual Report on Form 10-K filed with the SEC contains a description of the accounting policies followed by the Company and discussion of recent accounting pronouncements. The following paragraphs update that information as necessary.

In July 2013, the Financial Accounting Standards Board (FASB) issued guidance to eliminate the diversity in practice regarding presentation of unrecognized tax benefits in the statement of financial position. Under the clarified guidance, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, will be presented in the financial statements as a reduction to a deferred tax asset unless certain criteria are met. The requirements should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The amendments became effective for the Company for reporting periods beginning after December 15, 2013 and did not have a material effect on its financial statements.

In January 2014, the FASB amended the Investments—Equity Method and Joint Ventures topic to address accounting for investments in qualified affordable housing projects. If certain conditions are met, the amendments permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects by amortizing the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizing the net investment performance in the income statement as a component of income tax expense (benefit). If those conditions are not met, the investment should be accounted for as an equity method investment or a cost method investment in accordance with existing accounting guidance. The amendments will be effective for the Company for interim and annual reporting periods beginning after December 15, 2014 and should be applied retrospectively for all periods presented. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2014, the FASB amended the Receivables topic of the Accounting Standards Codification. The amendments are intended to resolve diversity in practice with respect to when a creditor should reclassify a collateralized consumer mortgage loan to other real estate owned ("OREO"). In addition, the amendments require a creditor to reclassify a collateralized consumer mortgage loan to OREO upon obtaining legal title to the real estate collateral, or the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. The amendments will be effective for the Company for annual periods, and interim periods within those annual periods, beginning after December 15, 2014, with early implementation of the guidance permitted. In implementing this guidance, assets that are reclassified from real estate to loans are measured at the carrying value of the real estate at the date of adoption. Assets reclassified from loans to real estate are measured at the lower of the net amount of the loan receivable or the fair value of the real estate less costs to sell at the date of adoption. The Company can apply these amendments either prospectively or using a modified retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Company for reporting periods beginning after December 15, 2016. The Company can apply the guidance using either the full retrospective approach or modified retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

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In June 2014, the FASB issued guidance which makes limited amendments to the guidance on accounting for certain repurchase agreements. The new guidance (1) requires entities to account for repurchase-to-maturity transactions as secured borrowings (rather than as sales with forward repurchase agreements), (2) eliminates accounting guidance on linked repurchase financing transactions, and (3) expands disclosure requirements related to certain transfers of financial assets that are accounted for as sales and certain transfers (specifically, repos, securities lending transactions, and repurchase-to-maturity transactions) accounted for as secured borrowings. The amendments will be effective for the Company for the first interim or annual period beginning after December 15, 2014. The Company will apply the guidance by making a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The Company does not expect these amendments to have a material effect on its financial statements.

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

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, 2013 have been reclassified to conform to the presentation for June 30, 2014. These reclassifications had no effect on net income or shareholders’ equity for the periods presented, nor did they materially impact trends in financial information.

Note 4 – Equity-Based Compensation Plans

At June 30, 2014, the Company had the following equity-based compensation plans: the First Bancorp 2014 Equity Plan, the First Bancorp 2007 Equity Plan, and the First Bancorp 2004 Stock Option Plan. The Company’s shareholders approved all equity-based compensation plans. The First Bancorp 2014 Equity Plan became effective upon the approval of shareholders on May 8, 2014. As of June 30, 2014, the First Bancorp 2014 Equity Plan was the only plan that had shares available for future grants.

The First Bancorp 2014 Equity Plan is intended to serve as a means to attract, retain and motivate key employees and directors and to associate the interests of the plans’ participants with those of the Company and its shareholders. The

First Bancorp 2014 Equity Plan allows for both grants of stock options and other types of equity-based compensation, including stock appreciation rights, restricted stock, restricted performance stock, unrestricted stock, and performance units.

Recent equity grants to employees have either had performance vesting conditions, service vesting conditions, or both. Compensation expense for these grants is recorded over the various service periods based on the estimated number of equity grants that are probable to vest. No compensation cost is recognized for grants that do not vest and any previously recognized compensation cost will be reversed. As it relates to director equity grants, the Company grants common shares, valued at approximately $16,000, to each non-employee director (currently 11 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.

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Based on the Company’s performance in 2013, the Company granted long-term restricted shares of common stock to the chief executive officer on February 11, 2014 with a two-year minimum vesting period. The total compensation expense associated with the grant was $278,200 and the grant will fully vest on January 1, 2016. One third of this value was expensed during 2013. The Company recorded $23,200 and $46,400 in compensation expense during the three and six months ended June 30, 2014, respectively, and expects to record $23,200 in compensation expense each quarter thereafter until the award vests.

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 $58,900 and the grant fully vested on February 23, 2014. The Company recorded $600 and $14,900 in stock option expense related to this grant during the six months ended June 30, 2014 and 2013, respectively.

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

At June 30, 2014, there were 277,679 options outstanding related to the three First Bancorp plans, with exercise prices ranging from $9.76 to $22.12. At June 30, 2014, there were 989,935 shares remaining available for grant under the First Bancorp 2014 Equity Plan.

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

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

The Company’s equity grants for the six months ended June 30, 2014 were the issuance of 1) 15,657 shares of long-term restricted stock to the chief executive officer on February 11, 2014, at a fair market value of $17.77 per share, which was the closing price of the Company’s common stock on that date, and 2) 10,065 shares of common stock to non-employee directors on June 2, 2014 (915 shares per director), at a fair market value of $17.60 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, 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 recorded total stock-based compensation expense of $225,000 and $220,000 for the six-month periods ended June 30, 2014 and 2013, respectively. Of the $224,000 in expense that was recorded in 2014, approximately $177,000 related to the June 2, 2014 director grants, which is classified as "other operating expenses" in the Consolidated Statements of Income. The remaining $47,000 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 Statements of Cash Flows. The Company recognized $87,000 and $86,000 of income tax benefits related to stock based compensation expense in the income statement for the six months ended June 30, 2014 and 2013, 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 2014 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 January 1, 2014	408,408	$ 17.75		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Expired	(130,729)	21.22		
Outstanding at June 30, 2014	277,679	$ 16.11	4.5	$ 856,677
Exercisable at June 30, 2014	202,679	$ 18.46	3.1	$ 227,802

The Company did not have any stock option exercises during the six months ended June 30, 2014 or 2013. The Company recorded no tax benefits from the exercise of nonqualified stock options during the six months ended June 30, 2014 or 2013.

The following table presents information regarding the activity the first six months of 2014 related to the Company's outstanding restricted stock:

	Long-Term Restricted Stock	
	Number of Units	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2014	45,374	$ 9.90
Granted during the period	15,657	17.77
Vested during the period	(10,593)	14.32
Forfeited or expired during the period	—	—
Nonvested at June 30, 2014	50,438 &nbs	