ABC BANCORP
Form 10-Q/A
August 22, 2002

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2002

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 0-16181

ABC BANCORP

(Exact name of registrant as specified in its charter)

GEORGIA	58-1456434
(State of incorporation)	(IRS Employer ID No.)

24 SECOND AVE., SE MOULTRIE, GA 31768

(Address of principal executive offices)

(229) 890-1111

(Registrant's telephone number)

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 X No

There were 9,854,279 shares of Common Stock outstanding as of June 30, 2002.

ABC BANCORP
QUARTERLY REPORT ON FORM 10-Q/A
FOR THE QUARTER ENDED JUNE 30, 2002

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ABC BANCORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)
(Unaudited)

	June 30 2002
Assets	
Cash and due from banks	$ 65,468
Securities available for sale, at fair value	176,494
Federal funds sold	136
Loans	828,511
Less allowance for loan losses	14,061
Loans, net	814,450

Premises and equipment, net	27,030
Intangible assets	5,256
Goodwill	19,240
Other assets	18,971
	$1,127,045
Liabilities and Stockholders' Equity	
Deposits	
Noninterest-bearing demand	112,487
Interest-bearing demand	240,336
Savings	64,072
Time, $100,000 and over	151,786
Other time	312,969
Total deposits	881,650
Federal funds purchased & securities sold under agreements to repurchase	3,250
Other borrowings	93,272
Other liabilities	8,409
Trust preferred securities	34,500
Total liabilities	1,021,081
Stockholders' equity	
Common stock, par value $1; 30,000,000 shares authorized; 10,790,969 and 10,790,369 shares issued, respectively	10,791
Capital surplus	45,616
Retained earnings	56,276
Accumulated other comprehensive income	1,889
Unearned compensation	(422)
	114,150
Less cost of shares acquired for the treasury, 936,690 and 790,982 shares	(8,186)
Total stockholders' equity	105,964
	$1,127,045

See Notes to Consolidated Financial Statements.

ABC BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
THREE MONTHS ENDED JUNE 30, 2002 AND 2001
(Dollars in Thousands)
(Unaudited)

	2002
Interest income	
Interest and fees on loans	$ 16,460
Interest on taxable securities	2,225
Interest on nontaxable securities	44
Interest on deposits in other banks	193
Interest on federal funds sold	12
	18,934
Interest expense	
Interest on deposits	5,021
Interest on federal funds purchased and securities sold under agreements to repurchase	30
Interest on other borrowings	1,842
	6,893
Net interest income	12,041
Provision for loan losses	774
Net interest income after provision for loan losses	11,267
Other income	
Service charges on deposit accounts	2,566
Other service charges, commissions and fees	723
Other	102
Loss on sale of securities	(4)
	3,387
Other expense	
Salaries and employee benefits	5,758
Equipment and occupancy expense	1,219
Other operating expenses	3,363
	10,340
Income before income taxes	4,314
Applicable income taxes	1,431
Net income	$ 2,883
Other comprehensive income, net of tax:	

Unrealized holding gains (losses) arising during period, net of tax	$ 1,774	$
Comprehensive income	$ 4,657	$
Income per common share-Basic	$ 0.29	$
Income per common share-Diluted	$ 0.29	$
Average shares outstanding	9,874,639	

See Notes to Consolidated Financial Statements.

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ABC BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
SIX MONTHS ENDED JUNE 30, 2002 AND 2001
(Dollars in Thousands)
(Unaudited)

	2002
Interest income	
Interest and fees on loans	$ 32,924
Interest on taxable securities	4,386
Interest on nontaxable securities	97
Interest on deposits in other banks	538
Interest on federal funds sold	24
	37,969
Interest expense	
Interest on deposits	10,898
Interest on federal funds purchased and securities sold under agreements to repurchase	74
Interest on other borrowings	3,548
	14,520
Net interest income	23,449
Provision for loan losses	1,733
Net interest income after provision for loan losses	21,716
Other income	
Service charges on deposit accounts	4,807
Other service charges, commissions and fees	1,595

Other	209
Gain (Loss) on sale of securities	22
	6,633
Other expense	
Salaries and employee benefits	11,589
Equipment and occupancy expense	2,424
Other operating expenses	6,793
	20,806
Income before income taxes	7,543
Applicable income taxes	2,488
Net income	$ 5,055
Other comprehensive income, net of tax:	
Unrealized holding gains arising during period, net of tax	$ 855
Comprehensive income	$ 5,910
Income per common share-Basic	$ 0.51
Income per common share-Diluted	$ 0.51
Average shares outstanding	9,899,474

See Notes to Consolidated Financial Statements.

ABC BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2002 AND 2001
(Dollars in Thousands)
(Unaudited)

	2002
OPERATING ACTIVITIES	
Net Income	$ 5,055
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	1,151

Provision for loan losses	1,733
Amortization of intangible assets	818
Other prepaids, deferrals and accruals, net	1,521
Total adjustments	5,223
Net cash provided by operating activities	10,278
INVESTING ACTIVITIES	
Proceeds from maturities of investment securities	39,256
Purchase of investment securities	(58,655)
Proceeds from sales of securities available for sale	1,015
Decrease in federal funds sold	(92)
Increase in loans	(26,051)
Net cash received from acquisitions	-
Purchase of premises and equipment	(1,360)
Net cash used in investing activities	(45,887)
FINANCING ACTIVITIES	
Net increase (decrease) in deposits	(49,506)
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	(542)
Increase (decrease) in other borrowings	(2,021)
Dividends paid	(2,367)
Purchase of treasury stock	(1,962)
Net cash used in financing activities	(56,398)
Net increase (decrease) in cash and due from banks	$(92,007)
Cash and due from banks at beginning of period	157,475
Cash and due from banks at end of period	$ 65,468

See Notes to Consolidated Financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of ABC Bancorp and subsidiaries ("the Company") conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The interim consolidated financial statements included herein are unaudited, but reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the consolidated financial position and results of operations for the interim periods presented. All adjustments reflected in the interim financial statements are of a normal, recurring nature. Such financial statements should be read in conjunction with the financial statements and notes thereto and the report of independent auditors included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001. The results of operations for the six months ended June 30, 2002 are not necessarily indicative of the results to be expected for the full year.

NOTE 2. RECENTLY ADOPTED ACCOUNTING STANDARDS

In June 2001, the Financial Accounting Standards Board issued two new accounting standards: Statement of Financial Standards ("SFAS") No 141, "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets." SFAS No 141, which was effective immediately, requires that all business combinations consummated after June 30, 2001 be accounted for by the purchase method unless the combination was initiated on or prior to that date and it meets the conditions to be accounted for by the pooling-of-interests method in accordance with AFB Opinion No. 16, "Business Combinations." Under SFAS No. 142, goodwill and intangible assets that management concludes have indefinite useful lives will no longer be amortized, but will be subject to impairment tests performed at least annually. The Company was required to adopt SFAS No. 142 on January 1, 2002. During the quarter ended June 30, 2002, the Company performed the first of the required impairment tests of goodwill and indefinite-lived intangible assets. The test results indicated that there was no impairment of goodwill and indefinite-lived intangible assets.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources

Liquidity management involves the matching of the cash flow requirements of customers, who may be either depositors desiring to withdraw funds or borrowers needing assurance that sufficient funds will be available to meet their credit needs, and the ability of ABC Bancorp and its subsidiaries (the "Company") to meet those needs. The Company strives to maintain an adequate liquidity position by

managing the balances and maturities of interest-earning assets and interest-bearing liabilities so that the balance it has in short-term investments at any given time will adequately cover any reasonably anticipated immediate need for funds. Additionally, the subsidiary Banks (the "Banks") maintain relationships with correspondent banks which could provide funds to them on short notice, if needed.

The liquidity and capital resources of the Company are monitored continuously by the Company's Board-authorized Asset and Liability Management Committee, and on a periodic basis by state and federal regulatory authorities. As determined under guidelines established by these regulatory authorities, the Company's and the Banks' liquidity ratios at June 30, 2002 were considered satisfactory. At that date, the Banks' short-term investments were adequate to cover any reasonably anticipated immediate need for funds. The Company is aware of no events or trends likely to result in a material change in liquidity.

During the six months ended June 30, 2002, total capital increased $1,816,000 to $105,964,000. Of this change, $2,692,000 resulted from the retention of earnings (net of $2,367,000 dividends paid to shareholders), plus $235,000 for the accrual for grants of restricted shares as incentive to certain employees, plus $855,000 in other comprehensive income, net of taxes, less $1,966,000 for the purchase of Treasury Stock.

At June 30, 2002, ABC had binding commitments for capital expenditures of approximately $200,000. The Company anticipates that approximately $500,000 will be required for capital expenditures during the remainder of 2002. Additional expenditures may be required for other mergers and acquisitions.

Results of Operations

The Company's results of operations are determined by its ability to effectively manage interest income and expense, to minimize loan and investment losses, to generate noninterest income and to control noninterest expense. Since interest rates are determined by market forces and economic conditions beyond the control of the Company, the ability to generate net interest income is dependent upon the Banks' ability to obtain an adequate spread between the rate earned on interest-earning assets and the rate paid on interest-bearing liabilities. Thus, the key performance measure for net interest income is the interest margin or net yield, which is taxable-equivalent net interest income divided by average earning assets.

The primary component of consolidated earnings is net interest income, or the difference between interest income on interest-earning assets and interest paid on interest-bearing liabilities. The net interest margin is net interest income expressed as a percentage of average interest-earning assets. Interest-earning assets consist of loans, investment securities and Federal funds sold. Interest-bearing liabilities consist of deposits and borrowings, such as Federal funds purchased, securities sold under repurchase agreements and Federal Home Loan Bank advances. A portion of interest income is earned on tax-exempt investments, such as state and municipal bonds, and on loans to states and municipalities. This tax-exempt income and its resultant yields are stated on a taxable-equivalent basis in order to be comparable to taxable investments and loans.

Comparison of Statements of Income

The net interest margin on a taxable-equivalent basis was 4.53% and 5.02% during the six months ended June 30, 2002 and 2001, respectively, a decrease of 49 basis points. These variances are attributable to fluctuations in the average rates charged and fees earned on loans and the average rates paid on deposit accounts. Several decreases in key interest rates by the Federal Reserve Bank during the last half of 2001 also attributed to the decrease in net interest margin, because the rate of yield on certain variable-rate assets decreased immediately, whereas most interest-bearing liabilities are fixed-rate, and thus rates could not be decreased until maturity.

Net interest income was $23.4 million as compared to $19.4 million during the six months ended June 30, 2002 and 2001, respectively, representing an increase of 20.62%. This increase of $4 million was largely attributable to the new acquisitions which contributed $3.6 million of this increase.

The provision for loan losses is a charge to earnings in the current period to replenish the allowance for loan losses and maintain it at the level management determines is adequate. The provision for loan losses charged to earnings amounted to $1,733,000 and $1,216,000 during the six months ended June 30, 2002 and 2001. This $517,000 increase in 2002 over 2001 was primarily attributable to replenishing the reserve for loan losses to an adequate level due to $2.6 million in charge offs, net of recoveries, for the first six months and also for the 3.08% growth in the loan portfolio. Charge offs, net of recoveries, for the first six months of 2001 amounted to a net recovery of $179,000. The comparatively high net charge offs for the first six months of 2002 resulted in part from anticipated charge offs against reserves established in connection with two acquisitions made during 2001, and in part from an aggressive effort during the first two quarters of 2002 to resolve a number of small non-performing loans on the books of the subsidiary banks.

The allowance for loan losses represents a reserve for potential losses in the loan portfolio. The adequacy of the allowance for loan losses is evaluated quarterly based on a review of all significant loans, with a particular emphasis on non-accruing, past due and other loans that management believes require attention. Another factor used in determining the adequacy of the reserve is management's judgment about factors affecting loan quality and assumptions about the local and national economy.

The allowance for loan losses totaled $14.06 million and $14.94 million as of June 30, 2002 and December 31, 2001, respectively. The allowance for loan losses as a percentage of total loans was 1.70% and 1.86% as of June 30, 2002 and December 31, 2001, respectively.

Non-performing assets were $10.2 million and $13.2 as of June 30, 2002 and December 31, 2001, respectively. The ratio of non-performing assets as a percentage of the loan loss reserve was 72.6% and 88.4% as of June 30, 2002 and December 31, 2001, respectively.

Management considers the allowance for loan losses as of June 30, 2002 adequate to cover potential losses in the loan portfolio.

Following is a comparison of noninterest income for the six months ended June 30, 2002 and 2001 (dollars in thousands).

	Six months Ended June	
	2002	2001
Service charges on deposits	$4,807	$3,247
Other service charges, commissions and fees	1,595	1,139
Other income	209	146
Gain (Loss) on sale of securities	22	(1)
Total noninterest income	$6,633	$4,531

Total noninterest income for the six months ended June 30, 2002 was $2,102,000 higher than during the same period in 2001. Three recent acquisitions are reflected in 2002's results, but not 2001. Approximately $688,000 of the increase is attributable to these acquisitions. Approximately 90% of the remaining increase is attributable to three retail-related initiatives: (1) an increase in mortgage loan fees; (2) an increase in credit life insurance premiums; and (3) a new program to increase overdraft fees on deposit accounts.

Additionally insufficient fund charges on checking deposit accounts in all other subsidiary banks increased $1,253,000 during the six months ended June 30, 2002 as compared to the same period last year. This increase is mostly attributable to an increase in the per item charge for overdrafts. Other service charges, commissions and fees increased because of enhanced income from the Company's retail division, particularly mortgage financing. Of the $456,000 increase, 70% or $317,000 was attributable to mortgage financing.

Following is an analysis of noninterest expense for the six months ended June 30, 2002 and 2001 (dollars in thousands).

	Six months Ended June	
	2002	2001
Salaries and employee benefits	$11,589	$ 8,965
Occupancy and equipment expense	2,424	2,267
Other expense	6,793	4,891
Total noninterest expense	$20,806	$16,123

Total noninterest expense for the six months ended June 30, 2002 was $4,683,000 higher than during the same period in 2001.

Salaries and employee benefits for the six months ended June 30, 2002 were $2,624,000 or 29.27% higher than during the same period in 2001. The new acquisitions accounted for approximately $1,567,000 of the increase and the remaining $1,057,000 related to normal increases in salaries and employee benefits, and an increase in the number of employees throughout the company. Of the $1,902,000 million increase in other expense $496,000 is attributable to an increase in amortization expense as a result of acquisitions made during the last three quarters of 2001, $836,000 is attributable to other expenses of the acquired banks, and $102,000 is attributable to systems conversion expenses of the acquired banks.

Following is a condensed summary of net income during the six months ended June 30, 2002 and 2001 (dollars in thousands).

	Six months Ended June 30,	
	2002	2001
Net interest income	$23,449	$19,427
Provision for loan losses	1,733	1,216
Other income	6,633	4,531
Other expense	20,806	16,123
Income before income taxes	7,543	6.619
Applicable income taxes	2,488	2,131
Net income	$ 5,055	$ 4,488

Net income increased $567,000 or 12.63% to $5,055,000 for the six months ended June 30, 2002 as compared to $4,488,000 for the six months ended June 30, 2001. Net interest income of ABC and its subsidiaries increased $4,022,000, the provision for loan losses increased by $517,000 and all other noninterest expense increased by $4,683,000.

Comparison of Balance Sheets

Total assets decreased by $50 million, or 4.25% to $1,127 million at June 30, 2002 from $1,177 million at December 31, 2001.

Total earning assets decreased by $33 million, or 3.09%, to $1,035 million at June 30, 2002 from $1,068 million at December 31, 2001.

Loans, net of the allowance for loan losses, increased by $24 million, or 3.08% to $814 million at June 30, 2002 from $790 million at December 31, 2001.

Total deposits decreased by $49 million, or 5.26% to $882 million at June 30, 2002 from $931 million at December 31, 2001. Approximately 12.75% and 13.53% of deposits were noninterest-bearing as of June 30, 2002 and December 31, 2001, respectively.

The decrease in total assets and deposits was due to an intentional reduction in non-core deposits. Retaining maturing deposits would have required paying higher rates than were desired because of current market pressures. Given the Company's current loan funding projections and alternative funding sources available, a significant amount of maturing deposits were not renewed.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed only to U. S. dollar interest rate changes and, accordingly, the Company manages exposure by considering the possible changes in the net interest margin. The Company does not have any trading instruments nor does it classify any portion of the investment portfolio as held for trading. The Company does not engage in any hedging activities or enter into any derivative instruments with a higher degree of risk than mortgage backed securities which are commonly pass through securities. Finally, the Company has no exposure to foreign currency exchange rate risk, commodity price risk, and other market risks.

Interest rates play a major part in the net interest income of a financial institution. The sensitivity to rate changes is known as "interest rate risk." The repricing of interest earning assets and interest-bearing liabilities can influence the changes in net interest income. As part of the Company's asset/liability management program, the timing of repriced assets and liabilities is referred to as Gap management. It is the policy of the Company to maintain a Gap ratio in the one-year time horizon of .80 to 1.20.

The Company uses simulation analysis to monitor changes in net interest income due to changes in market interest rates. The simulation of rising, declining and flat interest rate scenarios allows management to monitor and adjust interest rate sensitivity to minimize the impact of market interest rate swings. The analysis of the impact on net interest income over a twelve month period is subjected to a gradual 200 basis point increase or decrease in market rates on net interest income and is monitored on a quarterly basis. The most recent simulation model projects net interest income would increase 5.30% if rates rise gradually over the next year. On the other hand, the model projects net interest income to decrease 7.34% if rates decline over the next year.

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Part II. Other Information

Item 4. Submission of Matters to a Vote of Securities Holders

The Annual Meeting of the Shareholders of the Company was held on May 14, 2002. At this meeting proxies were solicited under Regulation 14a of the Securities and Exchange Act of 1934. Total shares outstanding, net of 911,690 shares held for the treasury amounted to 9,878,679. A total of 6,886,395 shares were represented by shareholders in attendance or by proxy. Director nominees were elected by a vote of 6,773,135 shares for, and 113,260 withholding authority, representing 69% in favor of the following directors elected to serve as Class II directors, until the annual meeting to be held in 2005.

J. Raymond Fulp
Robert P. Lynch
J. Thomas Whelchel
Henry C. Wortman

Ratification of the appointment of Mauldin & Jenkins, Certified Public Accountants and Consultants, LLC, as the Company's independent accountants for the fiscal year ended December 31, 2001, by a vote of 6,853,362 for, 18,520 against, and 14,513 abstaining, representing 69% in favor.

Item 6. Exhibits and Reports on Form 8-K

Exhibit 99.1 Section 906 Certification
Exhibit 99.2 Section 906 Certification

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the Undersigned thereunto duly authorized:

ABC BANCORP

8/21/02	/s/ W. EDWIN LANE, JR.
Date	W. EDWIN LANE, JR. EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER (Duly authorized officer and principal financial/accounting officer)

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