

Company Update

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FCCO: \$8.98

“Outperform”

Price Target: \$11.00

Summary Statistics

Exchange	NASDAQ
Market Cap (\$M)	\$47.5
Avg. Volume	6,060
Annual Dividend	\$0.00
Dividend Yield	0.00%
Tangible Book/Share	\$10.22
Price/Tangible Book	88%
Price/2013 EPS	11.7x
Price/2014 EPS	12.6x
Total Assets (\$M)	\$626
TCE/TA	8.69%
ROAA (2013)	0.67%
ROAE (2013)	7.35%

EPS Estimates

	2011	2012	2013	2014
Q1	\$0.12	\$0.19	\$0.20	\$0.17
Q2	\$0.17	\$0.23	\$0.21	\$0.18
Q3	\$0.24	\$0.19	\$0.19	\$0.19
Q4	\$0.27	\$0.19	\$0.18	\$0.18
FY	\$0.81	\$0.79	\$0.77	\$0.71

Industry Type	Bank
Headquarters	Lexington, SC
Offices	11
Date Established	1995
CEO	Michael C. Crapps
CFO	Joseph G. Sawyer

First Community Corporation

Healthy Dividend. Yield & Attractive Valuation for Well Capitalized Bank Posting Positive Profits Growing TBV; Maintain “Outperform”

- FCCO posted 1Q13 EPS of \$0.20. Core revenues declined due primarily to drop in fees as top line was unchanged benefitting from a higher NIM and expanding balance sheet. Core expenses were unchanged.
- Loan balances expanded \$1.5 Mil., or 2% annualized reflecting first quarter seasonality and the robust growth noted in fourth quarter. We are optimistic growth will continue for a third consecutive quarter and affirm our 3-4% annual forecast.
- Our biggest concern prospectively remains NIM compression as loan and securities yields continue to contract with little room for funding costs to drop further. The pace of margin compression is likely to pick up after second quarter as funding costs bottom.
- Without rapid loan growth, management has turned to growing wealth management income and tightening expense controls to help outrun NIM compression. FCCO has added new investment advisors in recent quarters which should pave the way for 25% plus growth in wealth management revenue in 2013.
- Credit metrics are in good shape underscored by a ~25% classified ratio, a sub 2.8% NPA to loan & OREO ratio, and NCOs of just 28 bps. The greatest opportunity to lower NPAs in the near term should come from selling OREO
- We are increasing our 2013 EPS estimate to \$0.77 from \$0.75 and lowering our 2014 EPS estimate to \$0.71 from \$0.80. The increase to 2013 reflects the notable balance sheet growth which occurred late in 1Q13 partially offset by greater margin compression. Our 2014 EPS reduction is largely margin driven.
- We are maintaining our “Outperform” rating. FCCO is a clean, well capitalized bank posting positive profits and growth in TBV. Our price target of \$11 assumes shares trade at 14x our 2013 EPS or ~103% of projected TBV. A healthy dividend allows investors to be patient as valuation gap narrows.

Please see important disclosures regarding FIG Partners’ equity rating system, distribution of ratings, and other report disclosures on the last page of this report.



Additional Analysis

Following a review of the quarter, we are increasing our 2013 EPS estimate to \$0.77 from \$0.75 and lowering our 2014 EPS estimate to \$0.71 from \$0.80. The increase to 2013 reflects the notable balance sheet growth which occurred late in 1Q13 partially offset by greater margin compression. Our 2014 EPS reduction is largely margin driven.

The primary pressure points for banks have moved from the balance sheet (capital and credit) to the income statement (NIM & mortgage). We are optimistic loan growth will expand at FCCO for a third consecutive quarter in 2Q13 though we are hesitant to raise our full year forecast beyond 3% given still sluggish demand. Much of this growth should be funded by the investment portfolio which grew notably this quarter reflecting continued success on the deposit gathering front. Continued improvements in the deposit mix over the balance of the year are expected.

NIM expanded 3 bps to 3.15% despite an 18 bps decline in loan yields to 5.23% as excess liquidity was deployed and further reductions in the cost of funds were noted.

	4Q-2012	Δ	1Q-2013
EPS	\$0.19	-	\$0.20
Operating/Core EPS*	\$0.21	-	\$0.21
FIG Estimate		-	\$0.20
Street Estimate		-	\$0.20
Net Interest Income	4.3	(0.5%)	4.3
Loan Loss Provision	0.1	87.5%	0.2
Core Non-Interest Income (ex. sec.)	2.2	(7.2%)	2.1
Core Non-Interest Expense	4.6	1.0%	4.6
Net Charge-Offs	0.2	53.9%	0.2
NCOs % of Avg Loans (bps)	128	(100)bps	28
NCOs % of Provision (bps)	193	(35)bps	158
Tangible Book Per Share	\$10.23	(0.1%)	\$10.22
Net Interest Margin	3.12%	3bps	3.15%
Gross Loans (\$Mil.)	332.1	0.5%	333.7
TCE Ratio (TCE/TA)	8.88%	(23)bps	8.65%
NPAs to Loans/REO	2.89%	(10)bps	2.79%

*Core EPS exclude various one-time items including gains on sale of securities.

Source: FIG Partners Research, Company Disclosure

Our biggest concern prospectively remains NIM compression as loan and securities yields continue to contract with little room for funding costs to drop further. The pace of margin compression is likely to pick up after second quarter as funding costs bottom. Average yields on CDs set to mature in third quarter and beyond are at ~50 bps which is in line with current offer rates. We are modeling NIM to decline ~5 bps in both third and 4th quarter reaching ~3.02% in 4Q13. Absent a change in rates or notable pick up in loan demand we expect further compression in 2014. This outlook pencils to flattish top line revenue in 2013 (\$17.5 Mil.) followed by a 2% reduction in 2014 to \$17.1 Mil.

Without rapid loan growth, management has turned to growing wealth management income and tightening expense controls to help outrun NIM compression. FCCO has added new investment advisors in recent quarters which should pave the way for 25% plus growth in wealth management revenue in 2013. Mortgage revenue is expected to remain mostly stable in 2013 despite a slowdown in refinance activity as several new originators have been added. FCCO's revenue diversification (30% Plus fee income) should allow them to maintain margin somewhat better than peer in an extended low rate environment. The current expense run rate of \$4.8 Mil.; 3% of average assets, is appropriate and has little room to decline.



Improvement in credit is expected to continue; however, the pace should be more measured in 2013 given the reduced level of NPAs. There is a core group of nonaccrual loans that are beginning to pay and will take time to upgrade to accrual status given conservatism on management's part. The greatest opportunity to lower NPAs will come by selling OREO and FCCO is making good progress on this front. The unallocated reserve remains lofty suggesting some reserve release is possible though we do not envision the relative reserve dropping significantly given it is already below peer level at 136%. An acquisition would drop it further which would likely raise concerns by investors even though the acquired loans would receive a credit mark. With credit and capital in good shape FCCO is eyeing M&A opportunities. A low valuation is not a significant impediment as many banks in the state are trading at lower levels. Management intends to be disciplined with pricing and does not expect to allow TCE to fall below 7% post transaction.

We are maintaining our "Outperform" rating on shares of FCCO. With credit and capital in excellent shape and our outlook for positive earnings and growth in tangible book we expect shares to trend toward tangible book at a minimum even with a ROTCE of ~7%. Our price target of \$11 assumes shares trade at 14x our 2013 estimate or ~103% of projected tangible book value. Further, investors are paid a healthy dividend to wait for valuation gap to narrow.

1Q13 EPS Review

FCCO posted 1Q13 Diluted EPS of \$0.20; in line with our estimate. Core EPS were a penny better adjusting for securities gains and OREO expense. Relative to our estimate most key metrics were as expected. Fee income was a bit lower though this was offset by a lower tax rate and slightly better margin. Loan growth was positive and credit held stable.

Core revenues declined ~3% due primarily to an 8% drop in fee income as top line revenue was largely unchanged. An 18% decline in mortgage revenue and 10% drop in service charge income more than offset a 25% lift in investment income leading to the contraction in fee income.

Top line revenue was unchanged despite a modest lift in both margin and average earning assets reflecting fewer days in the quarter. NIM expanded 3 bps to 3.15% despite an 18 bps decline in loan yields to 5.23% as excess liquidity was deployed and further reductions in the cost of funds were noted. Excess liquidity was deployed in securities yielding ~150bps while the cost of funds fell 12 bps to 75bps.

Loan balances expanded \$1.5mm, or 2% annualized reflecting first quarter seasonality and the robust growth noted in fourth quarter given tax implications. Deposits increased ~\$22mm, or 4.6% with continued mix improvements noted. One large relationship was a key contributor to growth.

NPAs dropped 3% allowing for a sub 2.8% NPA to loan/OREO ratio, NCOs ticked up to 28 bps through remain manageable and importantly, classified assets declined 20% resulting in a 26% classified ratio. 30-89 days past due increased over 40% though remain manageable at 1.1% of loans.

The relative reserve dropped to 1.36% of loans and has room to move lower given the large unallocated reserve. We think any reduction from current levels will be modest given the possibility of an acquisition and the impact it would have optically.

Core expenses were unchanged at ~\$4.6mm and represent a good run rate prospectively. OREO expense dropped 75% (\$340k) from 4Q12's elevated level and is at a more normalized level. Expenses represent 3.1% of average assets.

Tangible common equity declined 23 bps to 8.65% as balance sheet growth outstripped expansion in equity. The ratio of tangible common equity to risk weighted assets increased 5 bps as nearly all growth was in lower risk investments versus loans.



FCCO- First Community Corporation

Criticized Asset Trends - 5 Quarter Look Back

	<u>3/31/13</u>		<u>12/31/12</u>		<u>9/30/12</u>		<u>6/30/12</u>		<u>3/31/12</u>	
Special Mention	9,097	2.7%	8,696	2.6%	8,539	2.6%	9,917	3.0%	8,632	2.6%
Substandard	13,870	4.1%	17,612	5.2%	17,160	5.2%	16,612	5.0%	16,807	5.0%
Doubtful	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
OREO	3,335	1.0%	3,987	1.2%	5,570	1.7%	4,909	1.5%	5,383	1.6%
Total Loans	333,720		332,111		323,534		324,913		331,090	
Pass	307,418	91.2%	301,816	89.8%	292,265	88.8%	293,475	89.0%	300,268	89.2%
Criticized	26,302	7.8%	30,295	9.0%	31,269	9.5%	31,438	9.5%	30,822	9.2%
Classified	17,205	5.1%	21,599	6.4%	22,730	6.9%	21,521	6.5%	22,190	6.6%
LLR	4,534	1.3%	4,621	1.4%	4,695	1.4%	4,742	1.4%	4,745	1.4%
Tier 1 Capital	64,654		63,381		63,860		58,822		57,461	
Loans + OREO	337,055		336,098		329,104		329,822		336,473	
LLR-to-Criticized		17.2%		15.3%		15.0%		15.1%		15.4%
LLR-to-Criticized sans OREO		19.7%		17.6%		18.3%		17.9%		18.7%
Criticized-to-Tier 1 + LLR		38.0%		44.6%		45.6%		49.5%		49.5%
LLR-to-Classified		26.4%		21.4%		20.7%		22.0%		21.4%
LLR-to-Classified sans OREO		32.7%		26.2%		27.4%		28.5%		28.2%
Classified-to-Tier 1 + LLR		24.9%		31.8%		33.2%		33.9%		35.7%

Source: FIG Partners Research, SNL Financial, FCCO 10-Q filings.

BACKGROUND & RISKS

Headquartered in Lexington, South Carolina, First Community (FCCO) is a ~\$625 Million bank holding company (BHC) and the parent of First Community Bank, NA.

Founded in 1995 by a group of former executives from Republic National Bank (acquired by South Financial Group, Inc.), FCCO provides traditional retail, commercial and mortgage banking services through a network of 11 branches in the Midlands area of South Carolina.

We see primary risks to include (1) integration of acquisitions; (2) negative impact from persistently low or rapidly changing interest rates and/or a flattening yield curve; and (3) potential for rising credit costs in light of further growth in unemployment.

Earnings Model

	Annual				2012 Quarterly				2013 Quarterly				2014 Quarterly			
	2011A	2012E	2013E	2014E	1Q12A	2Q12A	3Q12A	4Q12A	1Q13A	2Q13E	3Q13E	4Q13E	1Q14E	2Q14E	3Q14E	4Q14E
Income Data: (\$ in Millions)																
Net Interest Income	\$18.3	\$17,574	\$17,528	\$17,145	\$4.5	\$4.5	\$4.3	\$4.3	\$4.3	\$4.5	\$4.4	\$4.4	\$4.2	\$4.3	\$4.3	\$4.3
Loan Loss Provision	\$1.4	\$0.5	\$0,650	\$0,750	\$0.2	\$0.1	\$0.1	\$0.1	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2
Non-Interest Income	\$6.5	\$8.1	\$8,143	\$8,664	\$1.8	\$1.9	\$2.4	\$2.1	\$2.1	\$2.1	\$2.0	\$2.0	\$2.2	\$2.2	\$2.2	\$2.2
Gain/Loss on Loan Sales	\$0.0	\$0.0	\$0,000	\$0,000	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Gain/Loss on Securities	(\$0.0)	(\$0.3)	\$0,015	\$0,000	(\$0.3)	(\$0.0)	(\$0.0)	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
One-Time Items	(\$0.1)	\$0.1	\$0,000	\$0,000	\$0.0	\$0.0	\$0.0	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-Interest Expense	\$18.5	\$19.4	\$19,445	\$19,882	\$4.6	\$4.9	\$4.8	\$5.1	\$4.8	\$4.9	\$4.9	\$4.9	\$5.0	\$5.0	\$5.0	\$5.0
Pre-Tax Income	\$4.8	\$5.6	\$5,591	\$5,176	\$1.1	\$1.3	\$1.8	\$1.3	\$1.4	\$1.5	\$1.4	\$1.3	\$1.2	\$1.3	\$1.3	\$1.3
Taxes	\$1.5	\$1.6	\$1,507	\$1,408	\$0.3	\$0.4	\$0.6	\$0.3	\$0.4	\$0.4	\$0.4	\$0.4	\$0.3	\$0.3	\$0.4	\$0.4
Extraordinary Items	\$0.0	\$0.0	\$0,000	\$0,000	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Income	\$3.3	\$4.0	\$4.1	\$3.8	\$0.8	\$0.9	\$1.2	\$1.0	\$1.0	\$1.1	\$1.0	\$0.9	\$0.9	\$0.9	\$1.0	\$1.0
Preferred Dividend	\$0.7	\$0.7	\$0.0	\$0.0	\$0.2	\$0.2	\$0.3	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Income Avail. To Common	\$2.6	\$3.3	\$4.1	\$3.8	\$0.6	\$0.8	\$0.9	\$1.0	\$1.0	\$1.1	\$1.0	\$0.9	\$0.9	\$0.9	\$1.0	\$1.0
Avg. Shares O/S	3.3	4.2	5.3	5.3	3.3	3.4	4.7	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Earnings Per Share (EPS)	\$0.81	\$0.79	\$0.77	\$0.71	\$0.19	\$0.23	\$0.19	\$0.19	\$0.20	\$0.21	\$0.19	\$0.18	\$0.17	\$0.18	\$0.19	\$0.18
Per Share Data:																
Reported Book Value	\$11.13	\$10.37	\$10.78	\$11.29	\$11.52	\$11.39	\$10.25	\$10.37	\$10.35	\$10.51	\$10.65	\$10.78	\$10.89	\$11.02	\$11.16	\$11.29
Tangible Book Value	\$10.90	\$10.23	\$10.66	\$11.18	\$11.25	\$11.14	\$10.10	\$10.23	\$10.22	\$10.38	\$10.53	\$10.66	\$10.78	\$10.91	\$11.04	\$11.18
Dividends	\$0.16	\$0.16	\$0.20	\$0.20	\$0.04	\$0.04	\$0.04	\$0.04	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05
Pre-Tax, Pre-Provision EPS	\$1.94	\$1.50	\$1.18	\$1.12	\$0.48	\$0.51	\$0.45	\$0.36	\$0.31	\$0.34	\$0.32	\$0.30	\$0.28	\$0.30	\$0.31	\$0.31
CORE GAAP EPS	\$0.84	\$0.84	\$0.77	\$0.71	\$0.25	\$0.23	\$0.19	\$0.17	\$0.19	\$0.21	\$0.19	\$0.18	\$0.17	\$0.18	\$0.19	\$0.18
KEY Ratios:																
Net Interest Margin	3.34%	3.23%	3.09%	2.93%	3.36%	3.30%	3.12%	3.12%	3.15%	3.12%	3.07%	3.02%	2.97%	2.94%	2.92%	2.88%
Return on Avg Assets	0.55%	0.66%	0.67%	0.61%	0.54%	0.62%	0.80%	0.68%	0.69%	0.72%	0.66%	0.62%	0.57%	0.61%	0.63%	0.61%
Return on Avg Equity	8.10%	7.42%	7.35%	6.46%	6.86%	8.00%	7.22%	7.57%	7.61%	7.97%	7.16%	6.67%	6.12%	6.49%	6.70%	6.51%
Pre-Tax Pre-Provision ROA	1.05%	1.04%	1.02%	0.95%	1.07%	1.14%	1.39%	1.25%	1.09%	1.17%	1.10%	1.06%	0.97%	1.01%	1.05%	1.04%
Efficiency Ratio	72.27%	74.84%	74.95%	76.25%	72.70%	75.78%	70.46%	79.63%	73.85%	72.85%	74.05%	74.80%	76.47%	75.34%	74.39%	74.49%
Overhead Ratio	3.06%	3.23%	3.20%	3.19%	3.11%	3.28%	3.16%	3.38%	3.17%	3.21%	3.20%	3.21%	3.26%	3.21%	3.17%	3.14%
TCE/TA	6.07%	8.88%	8.97%	9.21%	6.20%	6.24%	8.71%	8.88%	8.65%	8.74%	8.86%	8.97%	9.17%	9.18%	9.20%	9.21%
TCE/RWA	10.22%	14.66%	15.26%	15.41%	10.18%	10.09%	14.75%	14.66%	14.71%	14.87%	15.07%	15.26%	15.35%	15.37%	15.39%	15.41%
Period-End Balances: (\$ in Millions)																
Earning Assets	\$540	\$557	\$585	\$597	\$552	\$549	\$557	\$557	\$582	\$585	\$585	\$585	\$578	\$585	\$591	\$597
Total Assets	\$594	\$603	\$629	\$643	\$602	\$598	\$606	\$603	\$625,855	\$629	\$629	\$629	\$622	\$629	\$636	\$643
Risk-Weighted Assets	\$352	\$365	\$369	\$384	\$366	\$370	\$358	\$365	\$368	\$369	\$369	\$369	\$371	\$375	\$380	\$384
Gross Loans	\$328	\$332	\$344	\$356	\$335	\$329	\$332	\$332	\$334	\$337	\$340	\$344	\$346	\$349	\$352	\$356
Total Deposits	\$465	\$475	\$501	\$507	\$477	\$474	\$474	\$475	\$497	\$498	\$500	\$501	\$503	\$505	\$506	\$507
Intangibles	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1
Total Common Equity	\$37	\$54	\$57	\$60	\$38	\$38	\$54	\$54	\$55	\$56	\$56	\$57	\$58	\$58	\$59	\$60

Source: FIG Partners Research, SNL Financial



Compliance

FIG Partners LLC Distribution of Ratings

	Buy/Outperform	Hold/Market-Perform	Sell/Underperform
% Rated	37.3%	59.8%	2.9%
IB Client % in Category	18.4%	26.2%	0.0%

Equity Rating System as of July 1, 2003

Buy/Outperform “O”	FIG expects that total return of the subject stock will outperform the industry benchmark (BIX) over the next 12 months
Hold/Market-Perform “M-P”	FIG expects that total return of the subject stock will perform inline with the industry benchmark (BIX) over the next 12 months
Sell/Underperform “U”	FIG expects that total return of the subject stock will under perform the industry benchmark (BIX) over the next 12 months

For purposes of FINRA rule 2711, outperform is classified as a buy, market perform is a hold and underperform is a sell. The industry benchmark that we use is the S&P Bank Index referred to as the BIX.

Ratings Changes for First Community Corporation (FCCO)



Additional Risks to Our Earnings Model Assumptions & Ratings:

Unexpected and/or rapid changes in interest rates may have significant negative impact on the company's balance-sheet. Likewise, persistently low interest rates, and/or a flat yield curve may add downward pressure to revenues and the absolute level of NIM-Net Interest Margin.

Declines in asset quality beyond our estimates due to an economic slowdown in the company's operating footprint may require increased expenses for loan losses which could decrease profitability. Further, this may cause an increase in Net Charge-offs, Nonperforming loans, and Classified Assets.

New rules set forth by regulatory agencies could reduce future profitability by eliminating certain revenue items, adding additional expenses, or requiring this institution to hold more capital. A similar effect is possible if new legislation (local, state, or federal) is passed.

Any regulatory action or litigation against the company could impact future earnings and also affect the public market perception towards this stock.



Compliance

- Neither the research analyst nor any member of the analyst's household has any financial interest in the subject company
- At the prior month end, neither FIG Partners LLC nor any of its partners or officers owned more than 1% of the outstanding equity securities of the subject company
- There are no material conflicts of interest of the analyst or FIG Partners LLC at the time of this report
- FIG has been a manager or co-manager of a public offering of any securities of the recommended issuer within the last three years
- FIG has received investment banking compensation from the subject company in the last three years
- FIG intends to seek investment banking compensation from the subject in the next three months
- The subject company is a client of FIG
- Neither the analyst nor anyone at FIG serves as an officer, director, or advisory board member of the subject company
- FIG will usually make a market in the subject security and was making a market in this security at the time of this report's publication
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- To determine price target, our analysts utilize a variety of valuation techniques including but not limited to: peer analysis, absolute P/E, relative P/E, projected P/E, absolute P/B, relative P/B, projected P/B, deposit premium, and a discounted cash flow model
- This research report reflects the analyst's actual opinion
- No research analyst is subject to the supervision or control of any employee of the member's investment banking department
- No employee of the investment banking department has reviewed or approved this report prior to publication
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