STAMPS.COM INC
Form 4
June 13, 2013

FORM 4

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

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
MILLER LLOYD I III

(Last) (First) (Middle)

222 LAKEVIEW AVENUE, SUITE 160-365

(Street)

WEST PALM BEACH, FL 33401

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
STAMPS.COM INC [STMP]

3. Date of Earliest Transaction (Month/Day/Year)
06/12/2013

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock								14,744 (1) (2)	I	By LIMFAM LLC (3)
Common Stock								43,920 (2) (4) (5)	I	By Trust C - Lloyd I. Miller
Common Stock								0 (4)	I	By Milgrat I (G7)
Common Stock								235,760 (6)	D	
								159,398 (2)	I	

Common Stock			By Trust A-4 - Lloyd I. Miller
Common Stock	110,273 (2) (7)	I	By Marli Miller Managed
Common Stock	304,249 (2)	I	By Milfam II L.P.
Common Stock	0 (5) (6) (7)	I	By Milgrat I (X7)
Common Stock	55,000 (2)	I	By Milfam I L.P.
Common Stock	1,000 (2)	I	By Lloyd I. Miller, custodian under Florida UGMA for Lloyd I. Miller, IV
Common Stock	1,000 (2)	I	By AMIL of Ohio, LLC

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Stock Option	$ 14.5							04/23/2004	04/23/2014	Common Stock	5,000

(Common Stock)										
Stock Option (Common Stock)	$ 20.69						05/25/2005	05/25/2015	Common Stock	5,000
Stock Option (Common Stock)	$ 31.64						06/07/2006	06/07/2016	Common Stock	5,000
Stock Option (Common Stock)	$ 13.81						06/06/2007	06/06/2017	Common Stock	5,000
Stock Option (Common Stock)	$ 13.48						05/22/2008	05/22/2018	Common Stock	5,000
Stock Option (Common Stock)	$ 8.86						06/25/2009	06/25/2019	Common Stock	5,000
Stock Option (Common Stock)	$ 10.55						06/16/2010	06/16/2020	Common Stock	5,000
Stock Option (Common Stock)	$ 12.33						06/15/2011	06/15/2021	Common Stock	5,000
Stock Option (Common Stock)	$ 23.18						06/13/2012	06/13/2022	Common Stock	5,000
Stock Option (Common Stock)	$ 37.19	06/12/2013		A	5,000		06/12/2013	06/12/2023	Common Stock	5,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
	X			

MILLER LLOYD I III
222 LAKEVIEW AVENUE
SUITE 160-365
WEST PALM BEACH, FL 33401

Signatures

/s/ David J. Hoyt Attorney-in-fact	06/13/2013
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) As a result of liquidating distributions to other members of the LLC, the Reporting Person is now reporting 14,744 securities held by Milfam NG LLC instead of 29,489 securities held by Milfam NG LLC as reported in prior filings. There has been no change in the Reporting Person's pecuniary interest in the securities referenced herein.

(2) The reporting person disclaims beneficial ownership of these securities except to the extent of his pecuniary interest therein. This filing shall not be deemed an admission that the reporting person is, for purposes of Section 16 of the Securities Exchange Act of 1934 or otherwise, the beneficial owner of any equity securities covered by this filing.

(3) Milfam NG LLC changed its legal entity name to LIMFAM LLC.

(4) On May 16, 2012, 20,040 securities held by Milgrat I (G7) were transferred to Trust C. Such transaction only effected a change in the form of beneficial ownership without changing the reporting person's pecuniary interest in such securities and was exempt from Section 16 of the Securities Exchange Act of 1934 pursuant to Rule 16a-13.

(5) On May 16, 2012, 10,573 securities held by Milgrat I (X7) were transferred to Trust C and on March 1, 2013, 13,307 securities held by Milgrat I (X7) were transferred to Trust C. Such transactions only effected a change in the form of beneficial ownership without changing the reporting person's pecuniary interest in such securities and was exempt from Section 16 of the Securities Exchange Act of 1934 pursuant to Rule 16a-13.

(6) On March 1, 2013, 17,312 securities held by Milgrat I (X7) were transferred to Lloyd I. Miller, III. Such transaction only effected a change in the form of beneficial ownership without changing the reporting person's pecuniary interest in such securities and was exempt from Section 16 of the Securities Exchange Act of 1934 pursuant to Rule 16a-13.

(7) On March 1, 2013, 17,313 securities held by Milgrat I (X7) were transferred to Marli Miller Managed. Such transaction only effected a change in the form of beneficial ownership without changing the reporting person's pecuniary interest in such securities and was exempt from Section 16 of the Securities Exchange Act of 1934 pursuant to Rule 16a-13.

(8) No purchase price was paid for these options. These options were granted pursuant to the non-employee director automatic option grant program.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ottom;display:inline-block;width:5%;font-size:13px;"> N/A
N/A
Impaired loans
$25,154
21,695
Appraised value and discounted cash flows

Discounts to reflect current market conditions and ultimate collectability

0 - 25%
Other real estate
$27
27
Appraised value

Discounts to reflect current market conditions and estimated costs to sell

0 - 25%

The carrying amount and estimated fair value of financial instruments at March 31, 2019 and December 31, 2018 are as follows:

(Dollars in thousands)

		Fair Value Measurements at March 31, 2019			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Assets:					
Cash and cash equivalents	$51,214	51,214	-	-	51,214
Investment securities available for sale	$184,428	-	184,178	250	184,428
Other investments	$4,329	-	-	4,329	4,329
Mortgage loans held for sale	$361	-	-	361	361
Loans, net	$816,996	-	-	795,070	795,070
Cash surrender value of life insurance	$16,031	-	16,031	-	16,031
Liabilities:					
Deposits	$908,114	-	-	888,492	888,492
Securities sold under agreements to repurchase	$41,231	-	41,231	-	41,231
Junior subordinated debentures	$20,619	-	20,619	-	20,619

(Dollars in thousands)

		Fair Value Measurements at December 31, 2018			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Assets:					
Cash and cash equivalents	$43,370	43,370	-	-	43,370
Investment securities available for sale	$194,578	-	194,328	250	194,578
Other investments	$4,361	-	-	4,361	4,361

Mortgage loans held for sale	$680	-	-	680	680
Loans, net	$797,578	-	-	748,917	748,917
Cash surrender value of life insurance	$15,936	-	15,936	-	15,936
Liabilities:					
Deposits	$877,213	-	-	857,999	857,999
Securities sold under agreements to repurchase	$58,095	-	58,095	-	58,095
Junior subordinated debentures	$20,619	-	20,619	-	20,619

26

Explanation of Responses:

(7)
Leases

As of March 31, 2019 the Company had operating ROU assets of $4.2 million and operating lease liabilities of $4.2 million. The Company maintains operating leases on land and buildings for some of the Bank's branch facilities and Loan Production Offices. Most leases include one option to renew, with renewal terms extending up to 15 years. The exercise of renewal options is based on the judgment of management as to whether or not the renewal option is reasonably certain to be exercised. Factors in determining whether an option is reasonably certain of exercise include, but are not limited to, the value of leasehold improvements, the value of renewal rate compared to market rates, and the presence of factors that would cause a significant economic penalty to the Company if the option is not exercised. As allowed by the standard, leases with a term of 12 months or less are not recorded on the balance sheet and instead are recognized in lease expense on a straight-line basis over the lease term.

The following table presents lease cost and other lease information as of March 31, 2019:

(Dollars in thousands)

	March 31, 2019
Operating lease cost:	
Operating lease cost	$4,392
Amortization of right-of-use assets	(199)
Interest on lease liability	-
Variable lease cost	-
Total operating lease cost	$4,193
Other information:	
Cash paid for amounts included in the measurement of lease liabilities	214
Operating cash flows from operating leases	-
Right-of-use assets obtained in exchange for new finance operating liabilities	-
Weighted-average remaining lease term - operating leases	4.42 years
Weighted-average discount rate - operating leases	2.90%

(Dollars in thousands)

The following table presents lease maturities as of March 31, 2019:

Maturity Analysis of Operating Lease Liabilities:	March 31, 2019
2020	$865
2021	804
2022	728
2023	473
2024	370
Thereafter	1,539
Total	$4,779
Less: Imputed Interest	(586)
Operating Lease Liability	$4,193

(8)
Subsequent Events

The Company has reviewed and evaluated subsequent events and transactions for material subsequent events through the date the financial statements are issued. Management has concluded that there were no material subsequent events.

27

Explanation of Responses:

Item 2.
Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion of the financial position and results of operations of the Company and should be read in conjunction with the information set forth under Item 1A Risk Factors and the Company’s Consolidated Financial Statements and Notes thereto on pages A-24 through A-68 of the Company’s 2018 Annual Report to Shareholders which is Appendix A to the Proxy Statement for the May 2, 2019 Annual Meeting of Shareholders.

Introduction

Management’s discussion and analysis of earnings and related data are presented to assist in understanding the consolidated financial condition and results of operations of the Company. The Company is the parent company of the Bank and a registered bank holding company operating under the supervision of the Board of Governors of the Federal Reserve System (the “Federal Reserve”). The Bank is a North Carolina-chartered bank, with offices in Catawba, Lincoln, Alexander, Mecklenburg, Iredell, Wake and Durham counties, operating under the banking laws of North Carolina and the rules and regulations of the Federal Deposit Insurance Corporation.

Overview

Our business consists principally of attracting deposits from the general public and investing these funds in commercial loans, real estate mortgage loans, real estate construction loans and consumer loans. Our profitability depends primarily on our net interest income, which is the difference between the income we receive on our loan and investment securities portfolios and our cost of funds, which consists of interest paid on deposits and borrowed funds. Net interest income also is affected by the relative amounts of our interest-earning assets and interest-bearing liabilities. When interest-earning assets approximate or exceed interest-bearing liabilities, a positive interest rate spread will generate net interest income. Our profitability is also affected by the level of other income and operating expenses. Other income consists primarily of miscellaneous fees related to our loans and deposits, mortgage banking income and commissions from sales of annuities and mutual funds. Operating expenses consist of compensation and benefits, occupancy related expenses, federal deposit and other insurance premiums, data processing, advertising and other expenses.

Our operations are influenced significantly by local economic conditions and by policies of financial institution regulatory authorities. The earnings on our assets are influenced by the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve, inflation, interest rates, market and monetary fluctuations. Lending activities are affected by the demand for commercial and other types of loans, which in turn is affected by the interest rates at which such financing may be offered. Our cost of funds is influenced by interest rates on competing investments and by rates offered on similar investments by competing financial institutions in our market area, as well as general market interest rates. These factors can cause fluctuations in our net interest income and other income. In addition, local economic conditions can impact the credit risk of our loan portfolio, in that (1) local employers may be required to eliminate employment positions of individual borrowers, and (2) small businesses and commercial borrowers may experience a downturn in their operating performance and become unable to make timely payments on their loans. Management evaluates these factors in estimating the allowance for loan losses and changes in these economic factors could result in increases or decreases to the provision for loan losses.

Current economic conditions, while not as robust as those experienced in the pre-crisis period from 2004 to 2007, have stabilized such that businesses in our market area are growing and investing again. The uncertainty expressed in the local, national and international markets through the primary economic indicators of activity are currently sufficiently stable to allow for reasonable economic growth in our markets.

Although we are unable to control the external factors that influence our business, by maintaining high levels of balance sheet liquidity, managing our interest rate exposures and by actively monitoring asset quality, we seek to minimize the potentially adverse risks of unforeseen and unfavorable economic trends.

Our business emphasis has been and continues to be to operate as a well-capitalized, profitable and independent community-oriented financial institution dedicated to providing quality customer service. We are committed to meeting the financial needs of the communities in which we operate. We expect growth to be achieved in our local markets and through expansion opportunities in contiguous or nearby markets. While we would be willing to consider growth by acquisition in certain circumstances, we do not consider the acquisition of another company to be necessary for our continued ability to provide a reasonable return to our shareholders. We believe that we can be more effective in serving our customers than many of our non-local competitors because of our ability to quickly and effectively provide senior management responses to customer needs and inquiries. Our ability to provide these services is enhanced by the stability and experience of our Bank officers and managers.

28

Explanation of Responses:

The Federal Reserve maintained the Federal Funds rate at 0.25% from December 2008 to December 2015 before increasing the Fed Funds rate nine times since December 2015 to the Fed Funds rate of 2.50% at March 31, 2019. These increases have had a positive impact on earnings in recent periods and should continue to have a positive impact on the Bank's net interest income in future periods.

Summary of Significant Accounting Policies

The Company's accounting policies are fundamental to understanding management's discussion and analysis of results of operations and financial condition. Many of the Company's accounting policies require significant judgment regarding valuation of assets and liabilities and/or significant interpretation of specific accounting guidance. A more complete description of the Company's significant accounting policies can be found in Note 1 of the Notes to Consolidated Financial Statements in the Company's 2018 Annual Report to Shareholders which is Appendix A to the Proxy Statement for the May 2, 2019 Annual Meeting of Shareholders.

Many of the Company's assets and liabilities are recorded using various techniques that require significant judgment as to recoverability. The collectibility of loans is reflected through the Company's estimate of the allowance for loan losses. The Company performs periodic and systematic detailed reviews of its lending portfolio to assess overall collectibility. In addition, certain assets and liabilities are reflected at their estimated fair value in the consolidated financial statements. Such amounts are based on either quoted market prices or estimated values derived from dealer quotes used by the Company, market comparisons or internally generated modeling techniques. The Company's internal models generally involve present value of cash flow techniques. The various techniques are discussed in greater detail elsewhere in this management's discussion and analysis and the Notes to the Consolidated Financial Statements. Fair value of the Company's financial instruments is discussed in Note (6) of the Notes to Consolidated Financial Statements (Unaudited) included in this Quarterly Report.

Results of Operations

Summary. Net earnings were $3.7 million or $0.61 basic and diluted net earnings per share for the three months ended March 31, 2019, compared to $3.3 million or $0.55 basic and diluted net earnings per share for the same period one year ago. The increase in first quarter net earnings is primarily the result of an increase in net interest income and an increase in non-interest income, which were partially offset by an increase in the provision for loan losses and an increase in non-interest expense during the three months ended March 31, 2019, compared to the three months ended March 31, 2018, as discussed below.

The annualized return on average assets was 1.36% for the three months ended March 31, 2019, compared to 1.24% for the same period one year ago, and annualized return on average shareholders' equity was 11.86% for the three months ended March 31, 2019, compared to 11.49% for the same period one year ago.

Net Interest Income. Net interest income, the major component of the Company's net earnings, was $11.4 million for the three months ended March 31, 2019, compared to $10.3 million for the three months ended March 31, 2018. The increase in net interest income was primarily due to a $1.4 million increase in interest income, which was partially offset by a $290,000 increase in interest expense. The increase in interest income was primarily attributable to an increase in the average outstanding balance of loans and a 0.75% increase in the prime rate since March 31, 2018.

Interest income was $12.2 million for the three months ended March 31, 2019, compared to $10.8 million for the three months ended March 31, 2018. The increase in interest income was primarily due to an increase in interest income on loans, which was partially offset by a decrease in interest income on investment securities. During the quarter ended March 31, 2019, average loans increased $49.5 million to $815.2 million from $765.7 million for the quarter ended March 31, 2018. During the quarter ended March 31, 2019, average investment securities available for sale decreased $27.6 million to $189.8 million from $217.4 million for the quarter ended March 31, 2018. The average yield on loans for the quarters ended March 31, 2019 and 2018 was 5.28% and 4.80%, respectively. The average yield on investment securities available for sale was 3.66% and 3.48% for the quarters ended March 31, 2019 and 2018, respectively. The average yield on earning assets was 4.97% and 4.48% for the quarters ended March 31, 2019 and 2018, respectively.

Interest expense was $757,000 for the three months ended March 31, 2019, compared to $467,000 for the three months ended March 31, 2018. The increase in interest expense was primarily due to an increase in the cost of funds. The average rate paid on interest-bearing checking and savings accounts was 0.24% and 0.15% for the three months ended March 31, 2019 and 2018, respectively. The average rate paid on certificates of deposit was 0.59% for the three months ended March 31, 2019, compared to 0.35% for the same period one year ago. The average rate paid on interest-bearing liabilities was 0.47% for the three months ended March 31, 2019, compared to 0.28% for the same period one year ago. During the quarter ended March 31, 2019, average certificates of deposit decreased $17.1 million to $103.5 million from $120.6 million for the quarter ended March 31, 2018. Average FHLB borrowings increased $6.9 million to $6.9 million for the three months ended March 31, 2019 from zero for the three months ended March 31, 2018.

29

The following table sets forth for each category of interest-earning assets and interest-bearing liabilities, the average amounts outstanding, the interest incurred on such amounts and the average rate earned or incurred for the three months ended March 31, 2019 and 2018. The table also sets forth the average rate earned on total interest-earning assets, the average rate paid on total interest-bearing liabilities, and the net yield on total average interest-earning assets for the same periods. Yield information does not give effect to changes in fair value that are reflected as a component of shareholders' equity. Yields and interest income on tax-exempt investments for the three months ended March 31, 2019 and 2018 have been adjusted to a tax equivalent basis using an effective tax rate of 22.98% for securities that are both federal and state tax exempt and an effective tax rate of 20.48% for federal tax exempt securities. Non-accrual loans and the interest income that was recorded on non-accrual loans, if any, are included in the yield calculations for loans in all periods reported.

	Three months ended March 31, 2019			Three months ended March 31, 2018		
(Dollars in thousands)	Average Balance	Interest	Yield / Rate	Average Balance	Interest	Yield / Rate
Interest-earning assets:						
Loans receivable	$815,203	10,619	5.28%	$765,670	9,069	4.80%
Investments - taxable	57,592	466	3.28%	55,672	405	2.95%
Investments - nontaxable*	137,457	1,312	3.86%	164,214	1,510	3.73%
Other	3,058	14	2.12%	12,670	45	1.44%
Total interest-earning assets	1,013,310	12,411	4.97%	998,226	11,029	4.48%
Non-interest earning assets:						
Cash and due from banks	33,743			35,869		
Allowance for loan losses	(6,429)			(6,367)		
Other assets	51,198			53,044		
Total assets	$1,091,822			$1,080,772		
Interest-bearing liabilities:						
NOW, MMDA & savings deposits	$479,927	282	0.24%	$491,883	176	0.15%
Time deposits	103,510	151	0.59%	120,572	105	0.35%
FHLB borrowings	6,893	46	2.71%	-	-	-
Trust preferred securities	20,000	226	4.58%	20,619	171	3.36%
Other	40,238	52	0.51%	39,520	15	0.15%
Total interest-bearing liabilities	650,568	757	0.47%	672,594	467	0.28%

Non-interest bearing liabilities and shareholders' equity:						
Demand deposits	312,271			288,224		
Other liabilities	3,634			3,376		
Shareholders' equity	125,349			116,578		
Total liabilities and shareholder's equity	$1,091,822			$1,080,772		
Net interest spread		$11,654	4.50%		$10,562	4.20%
Net yield on interest-earning assets			4.66%			4.29%
Taxable equivalent adjustment Investment securities		$228			$270	
Net interest income		$11,426			$10,292	

*Includes U.S. Government agency securities that are non-taxable for state income tax purposes of $34.9 million in 2019 and $39.8 million in 2018. A tax rate of 2.50% was used to calculate the tax equivalent yield on these securities in 2019 and 2018.

Changes in interest income and interest expense can result from variances in both volume and rates. The following table presents the impact on the Company's tax equivalent net interest income resulting from changes in average balances and average rates for the periods indicated. The changes in interest due to both volume and rate have been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the changes in each.

30

Explanation of Responses:

(Dollars in thousands)	Three months ended March 31, 2019 compared to three months ended March 31, 2018			Three months ended March 31, 2018 compared to three months ended March 31, 2017		
	Changes in average volume	Changes in average rates	Total Increase (Decrease)	Changes in average volume	Changes in average rates	Total Increase (Decrease)
Interest income:						
Loans: Net of unearned income	$616	934	1,550	420	368	788
Investments - taxable	15	46	61	(95)	61	(34)
Investments - nontaxable	(250)	49	(201)	(101)	(257)	(358)
Other	(42)	13	(29)	(7)	22	15
Total interest income	339	1,042	1,381	217	194	411
Interest expense:						
NOW, MMDA & savings deposits	(6)	112	106	3	41	44
Time deposits	(20)	66	46	(18)	(5)	(23)
FHLB borrowings	23	23	46	(96)	(96)	(192)
Trust preferred securities	(6)	61	55	-	36	36
Other	1	35	36	(1)	5	4
Total interest expense	(8)	297	289	(112)	(19)	(131)
Net interest income	$347	745	1,092	329	213	542

Provision for Loan Losses. The provision for loan losses for the three months ended March 31, 2019 was $178,000, compared to $31,000 for the three months ended March 31, 2018. The increase in the provision for loan losses is primarily attributable to a $57.7 million increase in loans from March 31, 2018 to March 31, 2019.

Non-Interest Income. Total non-interest income was $4.1 million for the three months ended March 31, 2019, compared to $3.7 million for the three months ended March 31, 2018. The increase in non-interest income is primarily attributable to a $231,000 increase in gains on the sale of securities during the three months ended March 31, 2019, compared to the same period one year ago.

Non-Interest Expense. Total non-interest expense was $10.9 million for the three months ended March 31, 2019, compared to $10.0 million for the three months ended March 31, 2018. The increase in non-interest expense was primarily attributable to a $685,000 increase in salaries and benefits expense, which was primarily due to an increase in the number of full-time equivalent employees and annual salary increases.

Income Taxes. Income tax expense was $785,000 for the three months ended March 31, 2019, compared to $652,000 for the three months ended March 31, 2018. The effective tax rate was 17.63% for the three months ended March 31, 2019, compared to 16.49% for the three months ended March 31, 2018.

Analysis of Financial Condition

Investment Securities. Available for sale securities were $184.4 million at March 31, 2019, compared to $194.6 million at December 31, 2018. Average investment securities available for sale for the three months ended March 31, 2019 were $189.8 million, compared to $209.7 million for the year ended December 31, 2018.

Loans. At March 31, 2019, loans were $823.6 million, compared to $804.0 million at December 31, 2018. Average loans represented 80% and 77% of average earning assets for the three months ended March 31, 2019 and the year ended December 31, 2018, respectively.

The Company had $361,000 and $680,000 in mortgage loans held for sale as of March 31, 2019 and December 31, 2018, respectively.

Although the Company has a diversified loan portfolio, a substantial portion of the loan portfolio is collateralized by real estate, which is dependent upon the real estate market. Real estate mortgage loans include both commercial and residential mortgage loans. At March 31, 2019, the Company had $100.5 million in residential mortgage loans, $109.7 million in home equity loans and $394.2 million in commercial mortgage loans, which include $317.7 million secured by commercial property and $76.5 million secured by residential property. Residential mortgage loans include $33.7 million in non-traditional mortgage loans from the former Banco division of the Bank. All residential mortgage loans are originated as fully amortizing loans, with no negative amortization.

31

At March 31, 2019, the Company had $95.2 million in construction and land development loans. The following table presents a breakout of these loans.

(Dollars in thousands)

	Number of Loans	Balance Outstanding	Non-accrual Balance
Land acquisition and development - commercial purposes	45	$9,736	$-
Land acquisition and development - residential purposes	181	18,540	-
1 to 4 family residential construction	145	31,833	-
Commercial construction	20	35,110	-
Total construction and land development	391	$95,219	$-

Current year TDR modifications, past due TDR loans and non-accrual TDR loans totaled $3.5 million and $4.7 million at March 31, 2019 and December 31, 2018, respectively. The terms of these loans have been renegotiated to provide a concession to original terms, including a reduction in principal or interest as a result of the deteriorating financial position of the borrower. There was zero and $92,000 in performing loans classified as TDR loans at March 31, 2019 and December 31, 2018, respectively.

Allowance for Loan Losses. The allowance for loan losses reflects management's assessment and estimate of the risks associated with extending credit and its evaluation of the quality of the loan portfolio. The Bank periodically analyzes the loan portfolio in an effort to review asset quality and to establish an allowance for loan losses that management believes will be adequate in light of anticipated risks and loan losses. In assessing the adequacy of the allowance, size, quality and risk of loans in the portfolio are reviewed. Other factors considered are:

the Bank's loan loss experience;

the amount of past due and non-performing loans;

specific known risks;

the status and amount of other past due and non-performing assets;

underlying estimated values of collateral securing loans;

current and anticipated economic conditions; and

other factors which management believes affect the allowance for potential credit losses.

Management uses several measures to assess and monitor the credit risks in the loan portfolio, including a loan grading system that begins upon loan origination and continues until the loan is collected or collectability becomes doubtful. Upon loan origination, the Bank's originating loan officer evaluates the quality of the loan and assigns one of eight risk grades. The loan officer monitors the loan's performance and credit quality and makes changes to the credit grade as conditions warrant. When originated or renewed, all loans over a certain dollar amount receive in-depth reviews and risk assessments by the Bank's Credit Administration. Before making any changes in these risk grades, management considers assessments as determined by the third party credit review firm (as described below), regulatory examiners and the Bank's Credit Administration. Any issues regarding the risk assessments are addressed by the Bank's senior credit administrators and factored into management's decision to originate or renew the loan. The Bank's Board of Directors reviews, on a monthly basis, an analysis of the Bank's reserves relative to the range of reserves estimated by the Bank's Credit Administration.

As an additional measure, the Bank engages an independent third party to review the underwriting, documentation and risk grading analyses. This independent third party reviews and evaluates loan relationships greater than $1.0 million, excluding loans in default, and loans in process of litigation or liquidation. The third party's evaluation and report is shared with management and the Bank's Board of Directors.

Management considers certain commercial loans with weak credit risk grades to be individually impaired and measures such impairment based upon available cash flows and the value of the collateral. Allowance or reserve levels are estimated for all other graded loans in the portfolio based on their assigned credit risk grade, type of loan and other matters related to credit risk.

Explanation of Responses:

Management uses the information developed from the procedures described above in evaluating and grading the loan portfolio. This continual grading process is used to monitor the credit quality of the loan portfolio and to assist management in estimating the allowance for loan losses. The provision for loan losses charged or credited to earnings is based upon management's judgment of the amount necessary to maintain the allowance at a level appropriate to absorb probable incurred losses in the loan portfolio at the balance sheet date. The amount each quarter is dependent upon many factors, including growth and changes in the composition of the loan portfolio, net charge-offs, delinquencies, management's assessment of loan portfolio quality, the value of collateral, and other macro-economic factors and trends. The evaluation of these factors is performed quarterly by management through an analysis of the appropriateness of the allowance for loan losses.

The allowance for loan losses is comprised of three components: specific reserves, general reserves and unallocated reserves. After a loan has been identified as impaired, management measures impairment. When the measure of the impaired loan is less than the recorded investment in the loan, the amount of the impairment is recorded as a specific reserve. These specific reserves are determined on an individual loan basis based on management's current evaluation of the Bank's loss exposure for each credit, given the appraised value of any underlying collateral. Loans for which specific reserves are provided are excluded from the general allowance calculations as described below.

The general allowance reflects reserves established under GAAP for collective loan impairment. These reserves are based upon historical net charge-offs using the greater of the last two, three, four or five years' loss experience. This charge-off experience may be adjusted to reflect the effects of current conditions. The Bank considers information derived from its loan risk ratings and external data related to industry and general economic trends in establishing reserves.

The unallocated allowance is determined through management's assessment of probable losses that are in the portfolio but are not adequately captured by the other two components of the allowance, including consideration of current economic and business conditions and regulatory requirements. The unallocated allowance also reflects management's acknowledgement of the imprecision and subjectivity that underlie the modeling of credit risk. Due to the subjectivity involved in determining the overall allowance, including the unallocated portion, the unallocated portion may fluctuate from period to period based on management's evaluation of the factors affecting the assumptions used in calculating the allowance.

Effective December 31, 2012, certain mortgage loans from the former Banco division of the Bank were analyzed separately from other single family residential loans in the Bank's loan portfolio. These loans are first mortgage loans made to the Latino market, primarily in Mecklenburg, North Carolina and surrounding counties. These loans are non-traditional mortgages in that the customer normally did not have a credit history, so all credit information was accumulated by the loan officers.

Various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require adjustments to the allowance based on their judgments of information available to them at the time of their examinations. Management believes it has established the allowance for credit losses pursuant to GAAP, and has taken into account the views of its regulators and the current economic environment. Management considers the allowance for loan losses adequate to cover the estimated losses inherent in the Bank's loan portfolio as of the date of the financial statements. Although management uses the best information available to make evaluations, significant future additions to the allowance may be necessary based on changes in economic and other conditions, thus adversely affecting the operating results of the Company.

There were no significant changes in the estimation methods or fundamental assumptions used in the evaluation of the allowance for loan losses for the three months ended March 31, 2019 compared to the three-months ended March 31, 2018. Revisions, estimates and assumptions may be made in any period in which the supporting factors indicate that loss levels may vary from the previous estimates.

The allowance for loan losses at March 31, 2019 was $6.6 million or 0.80% of total loans, compared to $6.4 million or 0.80% of total loans at December 31, 2018.

The following table presents the percentage of loans assigned to each risk grade at March 31, 2019 and December 31, 2018.

33

Explanation of Responses:

Percentage of Loans

By Risk Grade

Risk Grade	3/31/2019	12/31/2018
Risk Grade 1 (Excellent Quality)	0.86%	0.94%
Risk Grade 2 (High Quality)	24.99%	25.47%
Risk Grade 3 (Good Quality)	61.24%	60.84%
Risk Grade 4 (Management Attention)	10.57%	10.19%
Risk Grade 5 (Watch)	1.56%	1.72%
Risk Grade 6 (Substandard)	0.78%	0.84%
Risk Grade 7 (Doubtful)	0.00%	0.00%
Risk Grade 8 (Loss)	0.00%	0.00%

At March 31, 2019, including non-accrual loans, there were two relationships exceeding $1.0 million in the Watch risk grade (which totaled $3.2 million). There were no relationships exceeding $1.0 million in the Substandard risk grade.

Non-performing Assets. Non-performing assets totaled $2.8 million at March 31, 2019 or 0.25% of total assets, compared to $3.3 million or 0.31% of total assets at December 31, 2018. Non-accrual loans were $2.8 million at March 31, 2019 and $3.3 million at December 31, 2018. As a percentage of total loans outstanding, non-accrual loans were 0.34% at March 31, 2019, compared to 0.41% at December 31, 2018. Non-accrual loans include $2.7 million in commercial and residential mortgage loans and $89,000 in other loans at March 31, 2019, compared to $3.2 million in commercial and residential mortgage loans, $1,000 in construction and land development loans and $99,000 in other loans at December 31, 2018. The Bank had no loans 90 days past due and still accruing at March 31, 2019 or December 31, 2018. The Bank had $27,000 in other real estate owned at March 31, 2019 and December 31, 2018.

Deposits. Total deposits at March 31, 2019 were $908.1 million compared to $877.2 million at December 31, 2018. Core deposits, which include demand deposits, savings accounts and non-brokered certificates of deposits of denominations less than $250,000, amounted to $887.6 million at March 31, 2019, compared to $859.2 million at December 31, 2018.

Borrowed Funds. There were no FHLB borrowings outstanding at March 31, 2019 and December 31, 2018.

Securities sold under agreements to repurchase were $41.2 million at March 31, 2019, compared to $58.1 million at December 31, 2018.

Junior Subordinated Debentures (related to Trust Preferred Securities). In June 2006, the Company formed a wholly owned Delaware statutory trust, PEBK Capital Trust II (“PEBK Trust II”), which issued $20.0 million of guaranteed preferred beneficial interests in the Company’s junior subordinated deferrable interest debentures. All of the common securities of PEBK Trust II are owned by the Company. The proceeds from the issuance of the common securities and the trust preferred securities were used by PEBK Trust II to purchase $20.6 million of junior subordinated debentures of the Company, which pay a floating rate equal to three-month LIBOR plus 163 basis points. The proceeds received by the Company from the sale of the junior subordinated debentures were used to repay in December 2006 the trust preferred securities issued in December 2001 by PEBK Capital Trust, a wholly owned Delaware statutory trust of the Company, and for general purposes. The debentures represent the sole asset of PEBK Trust II. PEBK Trust II is not included in the Consolidated Financial Statements.

The trust preferred securities issued by PEBK Trust II accrue and pay quarterly at a floating rate of three-month LIBOR plus 163 basis points. The Company has guaranteed distributions and other payments due on the trust preferred securities to the extent PEBK Trust II does not have funds with which to make the distributions and other payments. The net combined effect of the trust preferred securities transaction is that the Company is obligated to make the distributions and other payments required on the trust preferred securities.

These trust preferred securities are mandatorily redeemable upon maturity of the debentures on June 28, 2036, or upon earlier redemption as provided in the indenture. The Company has the right to redeem the debentures purchased by PEBK Trust II, in whole or in part, which became effective on June 28, 2011. As specified in the indenture, if the debentures are redeemed prior to maturity, the redemption price will be the principal amount plus any accrued but unpaid interest.

Asset Liability and Interest Rate Risk Management. The objective of the Company’s Asset Liability and Interest Rate Risk strategies is to identify and manage the sensitivity of net interest income to changing interest rates and to minimize the interest rate risk between interest-earning assets and interest-bearing liabilities at various maturities. This is to be done in conjunction with the need to maintain adequate liquidity and the overall goal of maximizing net interest income.

The Company manages its exposure to fluctuations in interest rates through policies established by our Asset/Liability Committee ("ALCO"). ALCO meets quarterly and has the responsibility for approving asset/liability management policies, formulating and implementing strategies to improve balance sheet positioning and/or earnings and reviewing the interest rate sensitivity of the Company. ALCO tries to minimize interest rate risk between interest-earning assets and interest-bearing liabilities by attempting to minimize wide fluctuations in net interest income due to interest rate movements. The ability to control these fluctuations has a direct impact on the profitability of the Company. Management monitors this activity on a regular basis through analysis of its portfolios to determine the difference between rate sensitive assets and rate sensitive liabilities.

The Company's rate sensitive assets are those earning interest at variable rates and those with contractual maturities within one year. Rate sensitive assets therefore include both loans and available for sale securities. Rate sensitive liabilities include interest-bearing checking accounts, money market deposit accounts, savings accounts, time deposits and borrowed funds. Average rate sensitive assets for the three months ended March 31, 2019 totaled $1.0 billion, exceeding average rate sensitive liabilities of $650.1 million by $362.7 million.

The Company has an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. By using derivative instruments, the Company is exposed to credit and market risk. If the counterparty fails to perform, credit risk is equal to the extent of the fair-value gain in the derivative. The Company minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by the Company. The Company did not have any interest rate derivatives outstanding as of March 31, 2019.

Included in the rate sensitive assets are $273.5 million in variable rate loans indexed to prime rate subject to immediate repricing upon changes by the Federal Open Market Committee ("FOMC"). The Company utilizes interest rate floors on certain variable rate loans to protect against further downward movements in the prime rate. At March 31, 2019, the Company had $156.9 million in loans with interest rate floors. The floors were in effect on $2.3 million of these loans pursuant to the terms of the promissory notes on these loans. The weighted average rate on these loans is 0.47% higher than the indexed rate on the promissory notes without interest rate floors.

Liquidity. The objectives of the Company's liquidity policy are to provide for the availability of adequate funds to meet the needs of loan demand, deposit withdrawals, maturing liabilities and to satisfy regulatory requirements. Both deposit and loan customer cash needs can fluctuate significantly depending upon business cycles, economic conditions and yields and returns available from alternative investment opportunities. In addition, the Company's liquidity is affected by off-balance sheet commitments to lend in the form of unfunded commitments to extend credit and standby letters of credit. As of March 31, 2019, such unfunded commitments to extend credit were $270.1 million, while commitments in the form of standby letters of credit totaled $3.3 million.

The Company uses several sources to meet its liquidity requirements. The primary source is core deposits, which includes demand deposits, savings accounts and non-brokered certificates of deposit of denominations less than $250,000. The Company considers these to be a stable portion of the Company's liability mix and the result of on-going consumer and commercial banking relationships. As of March 31, 2019, the Company's core deposits totaled $887.6 million, or 97.74% of total deposits.

The other sources of funding for the Company are through large denomination certificates of deposit, including brokered deposits, federal funds purchased, securities under agreements to repurchase and FHLB borrowings. The Bank is also able to borrow from the Federal Reserve Bank ("FRB") on a short-term basis. The Company's policies include the ability to access wholesale funding of up to 40% of total assets. The Company's wholesale funding includes FHLB borrowings, FRB borrowings, brokered deposits, internet certificates of deposit and certificates of deposit issued to the State of North Carolina. The Company's ratio of wholesale funding to total assets was 0.64% as of March 31, 2019.

The Bank has a line of credit with the FHLB equal to 20% of the Bank’s total assets. There were no FHLB borrowings outstanding at March 31, 2019 and December 31, 2018. At March 31, 2019, the carrying value of loans pledged as collateral to the FHLB totaled $148.0 million compared to $140.0 million at December 31, 2018. The remaining availability under the line of credit with the FHLB was $91.6 million at March 31, 2019 compared to $84.9 million at December 31, 2018. The Bank had no borrowings from the FRB at March 31, 2019 or December 31, 2018. FRB borrowings are collateralized by a blanket assignment on all qualifying loans that the Bank owns which are not pledged to the FHLB. At March 31, 2019, the carrying value of loans pledged as collateral to the FRB totaled $453.0 million compared to $442.6 million at December 31, 2018.

35

The Bank also had the ability to borrow up to $82.5 million for the purchase of overnight federal funds from six correspondent financial institutions as of March 31, 2019.

The liquidity ratio for the Bank, which is defined as net cash, interest-bearing deposits, federal funds sold and certain investment securities, as a percentage of net deposits and short-term liabilities was 15.48% at March 31, 2019 and 16.09% at December 31, 2018. The minimum required liquidity ratio as defined in the Bank's Asset/Liability and Interest Rate Risk Management Policy was 10% at March 31, 2019 and December 31, 2018.

Contractual Obligations and Off-Balance Sheet Arrangements. The Company's contractual obligations and other commitments as of March 31, 2019 and December 31, 2018 are summarized in the table below. The Company's contractual obligations include junior subordinated debentures, as well as certain payments under current lease agreements. Other commitments include commitments to extend credit. Because not all of these commitments to extend credit will be drawn upon, the actual cash requirements are likely to be significantly less than the amounts reported for other commitments below.

(Dollars in thousands)

	March 31, 2019	December 31, 2018
Contractual Cash Obligations		
Junior subordinated debentures	$20,619	20,619
Operating lease obligations	4,743	4,940
Total	$25,362	25,559
Other Commitments		
Commitments to extend credit	$270,052	268,708
Standby letters of credit and financial guarantees written	3,295	3,651
Income tax credits	755	755
Total	$274,102	273,114

The Company enters into derivative contracts from time to time to manage various financial risks. A derivative is a financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index or referenced interest rate. Derivative contracts are carried at fair value on the consolidated balance sheet with the fair value representing the net present value of expected future cash receipts or payments based on market interest rates as of the balance sheet date. Derivative contracts are written in amounts referred to as notional amounts, which only provide the basis for calculating payments between counterparties and are not a measure of financial risk. Further discussions of derivative instruments are included above in the section entitled "Asset Liability and Interest Rate Risk Management".

Capital Resources. Shareholders' equity was $126.6 million, or 11.39% of total assets, as of March 31, 2019, compared to $123.6 million, or 11.31% of total assets, as of December 31, 2018.

Annualized return on average equity for the three months ended March 31, 2019 was 11.86%, compared to 11.49% for the three months ended March 31, 2018. Total cash dividends paid on common stock were $1.4 million and $783,000 for the three months ended March 31, 2019 and 2018, respectively.

The Board of Directors, at its discretion, can issue shares of preferred stock up to a maximum of 5,000,000 shares. The Board is authorized to determine the number of shares, voting powers, designations, preferences, limitations and relative rights. The Board of Directors does not currently anticipate issuing any additional series of preferred stock.

In February of 2019, the Company’s Board of Directors authorized a stock repurchase program, whereby up to $5 million will be allocated to repurchase the Company’s common stock. Any purchases under the Company’s stock repurchase program may be made periodically as permitted by securities laws and other legal requirements in the open market or in privately-negotiated transactions. The timing and amount of any repurchase of shares will be determined by the Company’s management, based on its evaluation of market conditions and other factors. The stock repurchase program may be suspended at any time or from time-to-time without prior notice. The Company has repurchased approximately $152,000, or 5,518 shares of its common stock, under this stock repurchase program as of March 31, 2019.

Explanation of Responses:

In 2013, the FRB approved its final rule on the Basel III capital standards, which implement changes to the regulatory capital framework for banking organizations. The Basel III capital standards, which became effective January 1, 2015, include new risk-based capital and leverage ratios, which were phased in from 2015 to 2019. The new minimum capital level requirements applicable to the Company and the Bank under the final rules are as follows: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total risk based capital ratio of 8% (unchanged from previous rules); and (iv) a Tier 1 leverage ratio of 4% (unchanged from previous rules). An additional capital conservation buffer was added to the minimum requirements for capital adequacy purposes beginning on January 1, 2016 and was phased in through 2019 (increasing by 0.625% on January 1, 2016 and each subsequent January 1, until it reached 2.5% on January 1, 2019). This resulted in the following minimum ratios beginning in 2019: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. Under the final rules, institutions would be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained earnings that could be utilized for such actions.

Under the regulatory capital guidelines, financial institutions are currently required to maintain a total risk-based capital ratio of 8.0% or greater, with a Tier 1 risk-based capital ratio of 6.0% or greater and a common equity Tier 1 capital ratio of 4.5% or greater, as required by the Basel III capital standards referenced above. Tier 1 capital is generally defined as shareholders' equity and trust preferred securities less all intangible assets and goodwill. Tier 1 capital at March 31, 2019 and December 31, 2018 includes $20.0 million in trust preferred securities. The Company's Tier 1 capital ratio was 15.63% and 15.46% at March 31, 2019 and December 31, 2018, respectively. Total risk-based capital is defined as Tier 1 capital plus supplementary capital. Supplementary capital, or Tier 2 capital, consists of the Company's allowance for loan losses, not exceeding 1.25% of the Company's risk-weighted assets. Total risk-based capital ratio is therefore defined as the ratio of total capital (Tier 1 capital and Tier 2 capital) to risk-weighted assets. The Company's total risk-based capital ratio was 16.33% and 16.15% at March 31, 2019 and December 31, 2018, respectively. The Company's common equity Tier 1 capital consists of common stock and retained earnings. The Company's common equity Tier 1 capital ratio was 13.47% and 13.29% at March 31, 2019 and December 31, 2018, respectively. Financial institutions are also required to maintain a leverage ratio of Tier 1 capital to total average assets of 4.0% or greater. The Company's Tier 1 leverage capital ratio was 13.27% and 13.05% at March 31, 2019 and December 31, 2018, respectively.

The Bank's Tier 1 risk-based capital ratio was 14.83% and 15.21% at March 31, 2019 and December 31, 2018, respectively. The total risk-based capital ratio for the Bank was 15.954% and 15.91% at March 31, 2019 and December 31, 2018, respectively. The Bank's common equity Tier 1 capital ratio was 14.83% and 15.21% at March 31, 2019 and December 31, 2018, respectively. The Bank's Tier 1 leverage capital ratio was 12.52% and 12.76% at March 31, 2019 and December 31, 2018, respectively.

A bank is considered to be "well capitalized" if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a common equity Tier 1 capital ratio of 6.5% or greater and a leverage ratio of 5.0% or greater. Based upon these guidelines, the Bank was considered to be "well capitalized" at March 31, 2019.

Explanation of Responses:

Item 3.
Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the Quantitative and Qualitative Disclosures About Market Risk from those previously disclosed in Part 7A. of Part II of the Company's Form 10-K, filed with the SEC on March 14, 2019.

Item 4.
Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II.
OTHER INFORMATION

Item 1.
Legal Proceedings

On October 19, 2018, the Bank received a draft audit report from the North Carolina Department of Revenue ("NCDOR") setting forth certain proposed adjustments to the North Carolina income tax returns for the Bank for the tax years January 1, 2014 through December 31, 2016. The NCDOR is seeking to disallow certain tax credits taken by the Bank in tax years January 1, 2014 through December 31, 2016 from an investment made by the Bank. The total proposed adjustments sought by the NCDOR as of the date of the draft audit report (including additional tax, penalties and interest up to the date of the draft audit report) is approximately $1.4 million. The Bank disagrees with the NCDOR's proposed adjustments and the disallowance of certain tax credits, and intends to challenge the proposed adjustments and the disallowance of such tax credits. The Bank purchased a Guaranty Agreement along with this tax credit investment that unconditionally guarantees the amount of its investment plus associated penalties and interest which management believes would limit the Bank's exposure to approximately $150,000. The Tax Credit Guaranty Agreement from State Tax Credit Exchange, LLC dated September 10, 2014 was attached to the Company's September 30, 2018 Form 10-Q as Exhibit 99.

Item 1A.
Risk Factors

Not applicable.

Item 2.
Unregistered Sales of Equity Securities and Use of Proceeds

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (3)
January 1 - 31, 2019	-	$-	-	$-
February 1 - 28, 2019	1,047	26.86	5,518	$4,847,977
March 1 - 31, 2019	892	28.49	-	$4,847,977
Total	1,939(1)	$26.86	5,518	

(1) The Company purchased 1,939 shares on the open market in the three months ended March 31, 2019 for its deferred compensation plan. All purchases were funded by participant contributions to the plan.

(2) Reflects shares purchased under the Company's stock repurchase program.

(3) Reflects dollar value of shares that may yet be purchased under the Company's stock repurchase program , which was funded in February 2019.

Item 3.
Defaults Upon Senior Securities

Not applicable

Item 5.
Other Information

Not applicable

Item 6.
Exhibits

Exhibit (3)(i)(a)	Articles of Incorporation of the Registrant, incorporated by reference to Exhibit (3)(i) to the Form 8-A filed with the Securities and Exchange Commission on September 2, 1999
Exhibit (3)(i)(b)	Articles of Amendment dated December 19, 2008, regarding the Series A Preferred Stock, incorporated by reference to Exhibit (3)(1) to the Form 8-K filed with the Securities and Exchange Commission on December 29, 2008
Exhibit (3)(i)(c)	Articles of Amendment dated February 26, 2010, incorporated by reference to Exhibit (3)(2) to the Form 10-K filed with the Securities and Exchange Commission on March 25, 2010
Exhibit (3)(ii)	Second Amended and Restated Bylaws of the Registrant, incorporated by reference to Exhibit (3)(ii) to the Form 8-K filed with the Securities and Exchange Commission on June 24, 2015
Exhibit (4)	Specimen Stock Certificate, incorporated by reference to Exhibit (4) to the Form 8-A filed with the Securities and Exchange Commission on September 2, 1999

39

Exhibit (10)(i)	Amended and Restated Executive Salary Continuation Agreement between Peoples Bank and Tony W. Wolfe dated December 18, 2008, incorporated by reference to Exhibit (10)(a)(iii) to the Form 8-K filed with the Securities and Exchange Commission on December 29, 2008
Exhibit (10)(ii)	Amended and Restated Executive Salary Continuation Agreement between Peoples Bank and Joseph F. Beaman, Jr. dated December 18, 2008, incorporated by reference to Exhibit (10)(b)(iii) to the Form 8-K filed with the Securities and Exchange Commission on December 29, 2008
Exhibit (10)(iii)	Amended and Restated Executive Salary Continuation Agreement between Peoples Bank and William D. Cable, Sr. dated December 18, 2008, incorporated by reference to Exhibit (10)(c)(iii) to the Form 8-K filed with the Securities and Exchange Commission on December 29, 2008
Exhibit (10)(iv)	Employment Agreement dated January 22, 2015 between the Registrant and William D. Cable, Sr., incorporated by reference to Exhibit (10)(c) to the Form 8-K filed with the Securities and Exchange Commission on February 9, 2015
Exhibit (10)(v)	Amended and Restated Executive Salary Continuation Agreement between Peoples Bank and Lance A. Sellers dated December 18, 2008, incorporated by reference to Exhibit (10)(d)(iii) to the Form 8-K filed with the Securities and Exchange Commission on December 29, 2008
Exhibit (10)(vi)	Employment Agreement dated January 22, 2015 between the Registrant and Lance A. Sellers, incorporated by reference to Exhibit (10)(a) to the Form 8-K filed with the Securities and Exchange Commission on February 9, 2015
Exhibit (10)(vii)	Amended and Restated Executive Salary Continuation Agreement between Peoples Bank and A. Joseph Lampron, Jr. dated December 18, 2008, incorporated by reference to Exhibit (10)(f)(iii) to the Form 8-K filed with the Securities and Exchange Commission on December 29, 2008
Exhibit (10)(viii)	Employment Agreement dated January 22, 2015 between the Registrant and A. Joseph Lampron, Jr., incorporated by reference to Exhibit (10)(b) to the Form 8-K filed with the Securities and Exchange Commission on February 9, 2015
Exhibit (10)(ix)	Peoples Bank Directors' and Officers' Deferral Plan, incorporated by reference to Exhibit 10(h) to the Form 10-K filed with the Securities and Exchange Commission on March 28, 2002
Exhibit (10)(x)	Rabbi Trust for the Peoples Bank Directors' and Officers' Deferral Plan, incorporated by reference to Exhibit 10(i) to the Form 10-K filed with the Securities and Exchange Commission on March 28, 2002
Exhibit (10)(xi)	Description of Service Recognition Program maintained by Peoples Bank, incorporated by reference to Exhibit 10(i) to the Form 10-K filed with the Securities and Exchange Commission on March 27, 2003
Exhibit (10)(xii)	Capital Securities Purchase Agreement dated as of June 26, 2006, by and among the Registrant, PEBK Capital Trust II and Bear, Sterns Securities Corp., incorporated by reference to Exhibit 10(j) to the Form 10-Q filed with the Securities and Exchange Commission on November 13, 2006
Exhibit (10)(xiii)	Amended and Restated Trust Agreement of PEBK Capital Trust II, dated as of June 28, 2006, incorporated by reference to Exhibit 10(k) to the Form 10-Q filed with the Securities and Exchange Commission on November 13, 2006

Exhibit (10)(xiv)	Guarantee Agreement of the Registrant dated as of June 28, 2006, incorporated by reference to Exhibit 10(l) to the Form 10-Q filed with the Securities and Exchange Commission on November 13, 2006

40

Exhibit (10)(xv)	Indenture, dated as of June 28, 2006, by and between the Registrant and LaSalle Bank National Association, as Trustee, relating to Junior Subordinated Debt Securities Due September 15, 2036, incorporated by reference to Exhibit 10(m) to the Form 10-Q filed with the Securities and Exchange Commission on November 13, 2006
Exhibit (10)(xvi)	Form of Amended and Restated Director Supplemental Retirement Agreement between Peoples Bank and Directors Robert C. Abernethy, James S. Abernethy, Douglas S. Howard, John W. Lineberger, Jr., Gary E. Matthews, Dr. Billy L. Price, Jr., Larry E Robinson, W. Gregory Terry, Dan Ray Timmerman, Sr., and Benjamin I. Zachary, incorporated by reference to Exhibit (10)(n) to the Form 8-K filed with the Securities and Exchange Commission on December 29, 2008
Exhibit (10)(xvii)	2009 Omnibus Stock Ownership and Long Term Incentive Plan incorporated by reference to Exhibit (10)(o) to the Form 10-K filed with the Securities and Exchange Commission on March 20, 2009
Exhibit (10)(xviii)	First Amendment to Amended and Restated Executive Salary Continuation Agreement between Peoples Bank and Lance A. Sellers dated February 16, 2018, incorporated by reference to Exhibit (10)(xx) to the Form 10-Q filed with the Securities and Exchange Commission on March 18, 2018
Exhibit (10)(xix)	First Amendment to Amended and Restated Executive Salary Continuation Agreement between Peoples Bank and A. Joseph Lampron, Jr. dated February 16, 2018, incorporated by reference to Exhibit (10)(xxi) to the Form 10-Q filed with the Securities and Exchange Commission on March 18, 2018
Exhibit (10)(xx)	First Amendment to Amended and Restated Executive Salary Continuation Agreement between Peoples Bank and William D. Cable, Sr. dated February 16, 2018, incorporated by reference to Exhibit (10)(xxii) to the Form 10-Q filed with the Securities and Exchange Commission on March 18, 2018
Exhibit (14)	Code of Business Conduct and Ethics of Peoples Bancorp of North Carolina, Inc., incorporated by reference to Exhibit (14) to the Form 10-K filed with the Securities and Exchange Commission on March 25, 2005
Exhibit (31)(a)	Certification of principal executive officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
Exhibit (31)(b)	Certification of principal financial officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
Exhibit (32)	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit (101)	The following materials from the Company’s 10-Q Report for the quarterly period ended March 31, 2019, formatted in XBRL: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Earnings, (iii) the Condensed Consolidated Statements of Comprehensive Income (iv) the Condensed Consolidated Statements of Changes in Shareholders’ Equity, (v) the Condensed Consolidated Statements of Cash Flows, and (vi) the Notes to the Condensed Consolidated Financial Statements, tagged as blocks of text.*

*Furnished, not filed.

41

SIGNATURES

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.

Peoples Bancorp of North Carolina, Inc.

May 3, 2019	/s/ Lance A. Sellers
	Lance A. Sellers
Date	President and Chief Executive Officer (Principal Executive Officer)

May 3, 2019	/s/ A. Joseph Lampron, Jr.
	A. Joseph Lampron, Jr.
Date	Executive Vice President and Chief Financial Officer (Principal Financial and Principal Accounting Officer)

42