

SOUTHERN FIRST BANCSHARES INC  
Form 424B5  
October 31, 2014

Table of Contents

Filed Pursuant to Rule 424(b)(5)  
Registration Statement Number 333-194020

The information in this preliminary prospectus supplement relates to an effective registration statement, but is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell securities and are not soliciting an offer to buy these securities in any state or jurisdiction where the offer or sale is not permitted.

**SUBJECT TO COMPLETION, DATED OCTOBER 31, 2014**

**Preliminary Prospectus Supplement  
To the Prospectus Dated February 28, 2014**

**1,200,000 Shares**

**Common Stock**

We are offering 1,200,000 shares of our common stock, par value \$0.01 per share, at a public offering price of \$ per share. Our common stock is traded on The NASDAQ Global Market under the symbol SFST. On October 30, 2014, the last reported sale price of our common stock on The NASDAQ Global Market was \$14.61 per share.

**Investing in our common stock involves risks. Please carefully read the Risk Factors beginning on page S-15 of this prospectus supplement and appearing in our Quarterly Report on Form 10-Q for the period ended September 30, 2014 for a discussion of certain factors that you should consider before making your investment decision.**

	<u>Per Share</u>	<u>Total</u>
Public offering price	\$	\$
Underwriting discount <sup>(1)</sup>	\$	\$
Proceeds to us, before expenses	\$	\$

- (1) See Underwriting beginning on page S-24 for disclosure regarding the underwriting discounts, expenses payable to the underwriter and proceeds to us, before expenses.

The shares of our common stock are being offered through the underwriter on a firm commitment basis. We have granted the underwriter a 30 day option to purchase up to 180,000 additional shares of our common stock at the same price, and on the same terms, solely to cover over-allotments, if any.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement and the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

## Edgar Filing: SOUTHERN FIRST BANCSHARES INC - Form 424B5

**These securities are not deposits, savings accounts, or other obligations of a depository institution and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.**

As of October 24, 2014, the aggregate market value of our outstanding common stock held by non-affiliates was approximately \$61.0 million, which is based on 4,832,014 shares of outstanding common stock, of which 4,140,662 shares were held by non-affiliates, and a per share price of \$14.74 based on the closing sale price of our common stock, on October 24, 2014. As of the date of this prospectus supplement, we have not offered any securities pursuant to General Instruction I.B.6 of Form S-3 during the prior 12 calendar months that ends on the date of this prospectus supplement.

The underwriter expects to deliver the shares of our common stock in book-entry form only, through the facilities of The Depository Trust Company, against payment on or about November , 2014, subject to customary closing conditions.

The date of this prospectus supplement is November , 2014.

---

### Table of Contents

---

### Table of Contents

#### TABLE OF CONTENTS

##### Prospectus Supplement

	<b>Page</b>
<u>About This Prospectus Supplement</u>	S-1
<u>Special Note Regarding Forward-Looking Statements</u>	S-1
<u>Prospectus Supplement Summary</u>	S-3
<u>The Offering</u>	S-12
<u>Selected Historical Financial Data</u>	S-13
<u>Risk Factors</u>	S-15
<u>Use of Proceeds</u>	S-19
<u>Capitalization</u>	S-20
<u>Market for Common Stock and Our Dividend Policy</u>	S-22
<u>Description of Our Capital Stock</u>	S-23
<u>Underwriting</u>	S-24
<u>Legal Matters</u>	S-27
<u>Experts</u>	S-27
<u>Where You Can Find More Information</u>	S-27
<u>Incorporation of Certain Information by Reference</u>	S-28

#### Prospectus

<a href="#"><u>About this Prospectus</u></a>	1
<a href="#"><u>Incorporation of Certain Information by Reference</u></a>	2
<a href="#"><u>Risk Factors</u></a>	3
<a href="#"><u>Special Note Regarding Forward-Looking Statements</u></a>	4
<a href="#"><u>Prospectus Summary</u></a>	6
<a href="#"><u>Southern First Bancshares, Inc.</u></a>	8
<a href="#"><u>Use of Proceeds</u></a>	8
<a href="#"><u>Plan of Distribution</u></a>	8
<a href="#"><u>Description of Debt Securities</u></a>	11
<a href="#"><u>Description of Preferred Stock</u></a>	16
<a href="#"><u>Description of Depositary Shares</u></a>	19
<a href="#"><u>Description of Common Stock</u></a>	22
<a href="#"><u>Description of Purchase Contracts</u></a>	23
<a href="#"><u>Description of Units</u></a>	23
<a href="#"><u>Description of Warrants</u></a>	23
<a href="#"><u>Description of Rights</u></a>	25
<a href="#"><u>Anti-Takeover Effects of Certain Articles of Incorporation Provisions</u></a>	26
<a href="#"><u>Validity of Securities</u></a>	27
<a href="#"><u>Experts</u></a>	27
<a href="#"><u>Where You Can Find More Information</u></a>	28

**In making your investment decision, you should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or any free writing prospectus filed by us with the SEC. We have not, and the underwriter has not, authorized anyone else to provide you with different or additional information. If anyone provides you with any other information, you should not rely on it. We are not, and the underwriter is not, making an offer to sell these securities in any jurisdiction where the offer and sale is not permitted. You should not assume that the information in this prospectus supplement, the accompanying prospectus, any free writing prospectus or any document incorporated by reference is accurate as of any date other than their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.**

**You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, any free writing prospectus or any documents incorporated by reference herein, is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates. This prospectus supplement supersedes the accompanying prospectus to the extent it contains information that is different from or in addition to the information in that prospectus.**

## **Table of Contents**

### **ABOUT THIS PROSPECTUS SUPPLEMENT**

This document consists of two parts. The first part is this prospectus supplement, which describes the specific terms of this offering, and updates and adds to the information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part is the accompanying prospectus, which provides more general information about us, our common stock, and other securities we may offer from time to time, some of which may not apply to this offering. You should read this prospectus supplement, the accompanying prospectus and any free writing prospectus, together with additional information described below under the headings [Where You Can Find More Information](#) and [Incorporation of Certain Information by Reference](#) before deciding to invest in our common stock. Generally, when we refer to this prospectus we mean this prospectus supplement together with the accompanying prospectus.

We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where such offers and sales are permitted. The distribution of this prospectus supplement and the accompanying prospectus and the offering of the common stock in certain jurisdictions may be restricted by law. This prospectus supplement does not constitute, and may not be used in connection with, an offer to sell, or a

## Edgar Filing: SOUTHERN FIRST BANCSHARES INC - Form 424B5

solicitation of an offer to buy, any common stock offered by this prospectus supplement by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation.

Unless otherwise expressly stated or the context otherwise requires, all information in this prospectus supplement assumes that (i) the underwriter will not exercise its option to purchase additional shares of our common stock to cover over-allotments, if any, and (ii) no options, warrants, stock rights or shares of common stock were issued after November 1, 2014.

This prospectus supplement includes market size, market share and industry data that we have obtained from internal company surveys, market research, publicly available information and various industry publications. The third-party sources from which we have obtained information generally state that the information contained therein has been obtained from sources believed to be reliable, but we cannot assure you that this information is accurate or complete. We have not independently verified any of the data from third-party sources nor have we verified the underlying economic assumptions relied upon by those third parties. Similarly, internal company surveys, industry forecasts and market research, which we believe to be reliable based upon management's knowledge of the industry, have not been verified by any independent sources. Our internal company surveys are based on data we have collected over the past several years.

In this prospectus supplement, unless otherwise expressly stated or the context otherwise requires, the terms we, us, the Company, Southern First, and our refer to Southern First Bancshares, Inc. and our subsidiaries on a combined basis. References to the Bank refer to Southern First Bank, our banking subsidiary.

### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus contain or incorporate by reference forward looking statements within the meaning of Section 27A of the Securities Act of 1933 (the Securities Act), and Section 21E of the Securities Exchange Act of 1934 (the Exchange Act). These forward looking statements represent plans, estimates, objectives, goals, guidelines, expectations, intentions, projections and statements of our beliefs concerning future events, business plans, objectives, expected operating results and the assumptions upon which those statements are based. Forward looking statements include without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and are typically identified with words such as may, could, should, will, would, believe, an estimate, expect, intend, plan, or words or phrases of similar meaning. We caution that the forward looking statements are based largely on our expectations and are subject to a number of known and unknown risks and uncertainties that are subject to change based on factors which are, in many instances, beyond our control. Actual results, performance or achievements could differ materially from those contemplated, expressed, or implied by the forward looking statements.

S-1

---

### Table of Contents

The following factors, among others, could cause our financial performance to differ materially from that expressed in such forward looking statements:

Restrictions or conditions imposed by our regulators on our operations;

Increases in competitive pressure in the banking and financial services industries;

Changes in access to funding or increased regulatory requirements with regard to funding;

Changes in deposit flows;

Credit losses as a result of declining real estate values, increasing interest rates, increasing unemployment, changes in payment behavior or other factors;

Credit losses due to loan concentration;

Changes in the amount of our loan portfolio collateralized by real estate and weaknesses in the real estate market;

## Edgar Filing: SOUTHERN FIRST BANCSHARES INC - Form 424B5

Our ability to attract and retain key personnel;

Changes in the interest rate environment which could reduce anticipated or actual margins;

Changes in political conditions or the legislative or regulatory environment, including governmental initiatives affecting the financial services industry;

Changes in economic conditions resulting in, among other things, a deterioration in credit quality;

Changes occurring in business conditions and inflation;

Increased cybersecurity risk, including potential business disruptions or financial losses;

Changes in technology;

The adequacy of the level of our allowance for loan losses and the amount of loan loss provisions required in future periods;

Examinations by our regulatory authorities, including the possibility that the regulatory authorities may, among other things, require us to increase our allowance for loan losses or write-down assets;

Changes in monetary and tax policies;

The rate of delinquencies and amounts of loans charged-off;

The rate of loan growth in recent years and the lack of seasoning of a portion of our loan portfolio;

Our ability to maintain appropriate levels of capital and to comply with our capital ratio requirements;

Adverse changes in asset quality and resulting credit risk-related losses and expenses;

Changes in accounting policies and practices; and

Other risks and uncertainties contained in this prospectus supplement or incorporated by reference into this prospectus supplement from the other reports and filings with the Securities and Exchange Commission, which we refer to as the SEC.

If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this prospectus supplement and in the information incorporated by reference herein. Therefore, we caution you not to place undue reliance on our forward-looking information and statements. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our periodic and current reports that we file with the SEC. Also note that we provide cautionary discussion of risks, uncertainties and possibly inaccurate assumptions relevant to our businesses in our periodic and current reports to the SEC incorporated by reference in this prospectus supplement, the accompanying prospectus and other offering materials. These are factors that, individually or in the aggregate, management believes could cause our actual results to differ materially from expected and historical results.

**PROSPECTUS SUPPLEMENT SUMMARY**

*This summary highlights selected information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus and may not contain all the information that you need to consider in making your investment decision. To understand this offering fully, you should read this prospectus supplement and the accompanying prospectus carefully. You should carefully read the sections titled **Risk Factors** in this prospectus supplement and in the accompanying prospectus and the documents identified in the section **Incorporation of Certain Information by Reference**.*

**The Company**

Southern First Bancshares, Inc. was incorporated under the laws of South Carolina and is a bank holding company registered under the Bank Holding Company Act of 1956. Our primary business is to serve as the holding company for Southern First Bank, a South Carolina state bank. The Bank is a commercial bank with nine retail offices located in Greenville, Columbia and Charleston, South Carolina with total assets of \$1.0 billion as of September 30, 2014. The Bank is primarily engaged in the business of accepting demand deposits and savings deposits insured by the Federal Deposit Insurance Corporation (the **FDIC**), and providing commercial, consumer and mortgage loans to the general public.

**Our Competitive Strengths**

We believe that the following business strengths have been instrumental to the success of our core operations. These attributes will enable us to continue profitable growth, while remaining fundamentally sound and driving value to our shareholders.

**Simple and Efficient ClientFIRST Model.** We operate our Bank using a simple and efficient style of banking that is focused on providing core banking products and services to our clients through a team of talented and experienced bankers. We refer to this model as **ClientFIRST** and it is structured to deliver superior client service via relationship teams, which provide each client with a specific banker contact and a consistent support team responsible for all of the client's banking needs. We believe this model results in a consistent and superior level of professional service that affords us with a distinct competitive advantage by enabling us to build and maintain long-term relationships with desirable clients, enhancing the quality and stability of our funding and lending operations and positioning us to take advantage of future growth opportunities in our existing markets. We also believe that this client focused culture has led to our successful expansion into new markets in the past, and will enable us to be successful if we seek to expand into new markets in the future.

Our **ClientFIRST** model focuses on achieving cost efficiencies by diligently managing the growth of our number of employees and banking offices. We have historically insisted that the identification of talented bankers drives our growth strategy, as opposed to a more general desire to enter a specific geography or market. This strategy translates into a smaller number of brick and mortar offices relative to our size and compared to peer banks, but larger overall deposit balances in our offices as compared to peers. As a result, our offices average approximately \$86 million in total deposits. We believe this style of banking allows us to deliver exceptional client service, while achieving lower efficiency ratios relative to our local competitors, as evidenced by our 60% efficiency ratio<sup>(1)</sup> for the quarter ended September 30, 2014.

We have also made significant investments in our IT systems and technology offerings to our clients that we believe will continue to drive low-cost deposit growth. For example, we launched our new mobile banking platform in early 2014 and have successfully registered 3,600 mobile devices, with the expectation that our active users will increase significantly in the coming years. We believe that our current mobile banking, on-line banking and cash management offerings are industry-leading solutions amongst community banks, and we will continue to invest in the latest technology solutions to ensure we meet the evolving needs of our clients and maintain this competitive advantage over other community banks.

---

(1) Computed by dividing noninterest expense by the sum of net interest income and noninterest income.

---

**Table of Contents**

**Attractive South Carolina Markets.** We have nine banking offices located in Greenville, Columbia and Charleston, South Carolina, which are the three largest markets in South Carolina. The following table illustrates our market share, by insured deposits as of the dates indicated, in our primary markets:

## Edgar Filing: SOUTHERN FIRST BANCSHARES INC - Form 424B5

### Our Market Deposits

Market <sup>(1)</sup>	Total Offices	June 30, 2014	Total Market Deposits <sup>(2)</sup>	Rank <sup>(2)</sup>	Market Share <sup>(2)</sup>
(Dollars in thousands)					
Greenville	4	\$537,386	\$ 9,441,739	5 of 31	5.69%
Columbia	3	146,673	15,190,022	9 of 23	0.97%
Charleston	2	65,449	8,299,988	16 of 29	0.79%

(1) Represents Greenville County, Richland and Lexington Counties in Columbia, and Charleston County.

(2) The total market deposits, rank and market share data displayed are as of June 30, 2014 as reported by the FDIC.

*Greenville.* The city of Greenville is located in Greenville County, South Carolina approximately midway between Atlanta and Charlotte on the heavily traveled I-85 business corridor. Greenville County is South Carolina's most populous county with an estimated 474,000 residents as of July 1, 2013 and is also one of the state's wealthiest counties with estimated median household income of \$48,000 for 2012. A large and diverse metropolitan area, Greenville County is one of the southeast region's premier areas for business, serving as headquarters for Michelin and Hubbell Lighting as well as hosting significant operations for BMW and Lockheed Martin.

*Columbia.* The city of Columbia is located in Richland County, South Carolina and its surrounding suburban areas expand into adjoining Lexington County. Columbia is the state capital, the largest city in the state and the home of the University of South Carolina and Fort Jackson, the Army's largest Initial Entry Training Center. Richland County is the second largest county in the state with an estimated population of 399,000 residents as of July 1, 2013. Lexington County is the sixth largest county in South Carolina with an estimated population of 274,000 as of July 1, 2013. The median household income for Richland County and Lexington County was \$48,000 and \$54,000, respectively, for 2012.

*Charleston.* The city of Charleston is the second largest city in the state and is located in Charleston County, South Carolina, which is the third largest county in the state with an estimated population of 373,000 as of July 1, 2013. Charleston is home to the deepest port in the Southeast and boasts top companies in the aerospace, biomedical and technology fields such as Boeing, the Medical University of South Carolina (MUSC) and Blackbaud. The median household income for Charleston County was approximately \$50,000 for 2012. We opened our first retail office in the Charleston market in the downtown area of Charleston in December 2012 and our second retail office in the Charleston market in the city of Mount Pleasant in August 2014. Mount Pleasant is located just north of Charleston in Charleston County and ranks as the fourth largest city in South Carolina.

We believe that the demographics and growth characteristics of these three markets will provide us with significant opportunities to further develop existing client relationships and expand our client base.

***Experienced Management Team, Dedicated Board of Directors and Talented Employees.*** Our senior management team is led by Art Seaver, Justin Strickland, Mike Dowling and Len Howell, whose biographies are included below. These executives lead a team of 22 additional senior team members which we believe compares favorably to any community bank management team assembled in South Carolina.

R. Arthur Art Seaver, Jr. has served as the Chief Executive Officer of our Company and our Bank since their inception in 1999. Mr. Seaver is located in Greenville and has over 28 years of banking experience, all in the Greenville market. From 1986 until 1992, Mr. Seaver held various positions with The Citizens & Southern National Bank of South Carolina. From 1992 until February 1999, he was with Greenville National Bank, which was acquired by Regions Bank in 1998. He was the senior vice president

## Edgar Filing: SOUTHERN FIRST BANCSHARES INC - Form 424B5

in lending and was also responsible for managing Greenville National Bank's deposit strategies prior to leaving to form the Bank. Mr. Seaver is a 1986 graduate of Clemson University with a bachelor's degree in financial management and a 1999 graduate of the BAI Graduate School of Community Bank Management.

F. Justin Strickland has served as President of our Company and our Bank since 2006. Mr. Strickland leads our Columbia market and has over 29 years of banking experience, all in the Columbia market. From 1985 until 1993, Mr. Strickland held various positions with The Citizens & Southern National Bank of South Carolina. From 1993 until November 2006, he was with Carolina First Bank. From 1999 until November 2006, he held the position of South Carolina Midlands Market President at Carolina First Bank. Mr. Strickland is a 1985 graduate of the University of South Carolina with a bachelor's degree in finance and the LSU Graduate School of Banking of the South in Baton Rouge, Louisiana in 1996.

Michael D. Dowling has served as the Chief Financial Officer of our Company and our Bank since 2011. Mr. Dowling has over 20 years of experience in the banking industry. Mr. Dowling was previously employed with KPMG LLP from 1994 until 2011, including most recently as an Audit Partner (2005-2011) and a member of KPMG's Financial Services practice. Mr. Dowling has extensive experience working with public companies and financial institutions. He is a 1993 graduate of Clemson University, with a degree in Accounting and is a certified public accountant in South Carolina and North Carolina.

Lenwood B. Howell has served as an Executive Vice President and Charleston Regional Executive of our Company and our Bank since 2012. Mr. Howell has over 32 years of banking experience, including the last 22 years as Regional Executive South Coastal for National Bank of South Carolina (NBSC). Previous to his employment at NBSC, Mr. Howell held various positions with The Citizens & Southern National Bank of South Carolina. Mr. Howell is a graduate of The University of the South (Sewanee) and The University of Virginia Darden School of Banking.

Our entire executive management team brings an average of 28 years of experience in the banking industry and consists of the following in addition to Messrs. Seaver, Strickland, Dowling and Howell:

<b>Name</b>	<b>Position</b>	<b>Years of Experience</b>
Frederick Gilmer, III	Executive Vice President and Senior Lending Officer	27
Carolyn A. Herbert	Executive Vice President and Chief Retail Officer	46
Jason Starnes	Executive Vice President and Chief Information Officer	15
Michael M. Strickland	Executive Vice President and Chief Risk Officer	30

The management team is complemented by a dedicated board of directors with extensive local knowledge and a wide range of experience including accounting, business, banking, manufacturing, insurance, management and finance. We believe that our management's and board's incentives are closely aligned with our shareholders through the ownership of a substantial amount of our stock. As of September 30, 2014, our executive officers and board of directors owned an aggregate of 1,093,676 shares of our common stock, including options to purchase shares of our common stock, or approximately 21.67% of the fully-diluted amount of our common stock outstanding. We believe that our officers' and directors' experience and local market knowledge are valuable assets and will enable them to guide us successfully in the future.

In addition, we believe that we have assembled a group of highly talented employees by being an employer of choice in the markets we serve. We employed a total of 152 full-time equivalent employees as of September 30, 2014. Our employees are skilled in the areas of banking, information technology, management, sales, advertising and marketing, among others. We pride ourselves on maintaining excellent relations with all of our employees, which is evidenced by our less than 10% employee turnover ratio during 2013 and through the first nine months of 2014, and no attrition at the senior level since 2007. We strive to provide an umbrella for great talent, characterized by a culture of transparency and collaboration which permeates all levels of the organization. To drive our culture of transparency and collaboration, our employees engage in a series of weekly meetings to understand the goals and plan for each week. These meetings are intended to remind our employees of our vision, strategy and ClientFIRST service, and provide our employees with information regarding monthly and quarterly goals and client or prospect needs. In addition, each week is



started with a meeting of all Senior and Executive Vice Presidents to ensure that all team members are informed on the latest developments of our Company. Our employees and their ClientFIRST approach to service have been instrumental to our success.

### **Our Business Strategy**

We are focused on growing business relationships and building core deposits, profitable loans and non-interest income. We believe that we have built a dynamic franchise that meets the financial needs of our clients by providing an array of personalized products and services delivered by seasoned banking professionals with knowledge of our local markets. Our overall strategic goal is to provide the highest level of service to our clients while achieving high-performance metrics within the community banking space that drive franchise and shareholder value. Our specific business strategies include:

**Focus on Profitable and Efficient Growth.** Our executive management team and board of directors are dedicated to producing profits and returns for our shareholders. We actively manage the mix of assets and liabilities on our balance sheet to optimize our net interest margin while also maintaining expense controls and developing non-interest income streams. By constantly striving to build a well-structured balance sheet, we seek to increase profitability and improve our return on average assets, return on average equity and efficiency ratio. We believe that, as the economy continues to improve, our focus on maximizing our net interest margin and minimizing our efficiency ratio while maintaining credit quality controls will translate into continued and improving profitability and shareholder returns. We are committed to enhancing these levels of profitability by focusing on our core competencies of commercial lending and core deposit gathering. We believe that we have the infrastructure currently in place, such as technology, support staff and administration, to support expansion with limited associated noninterest expense increases.

**Provide a Distinctive Client Experience.** Our markets have been subject to consolidation of local community banks primarily by larger, out-of-state financial institutions. We believe there is a large client base in our markets that prefers doing business with a local institution and may be dissatisfied with the service offered by national and larger regional banks. We believe that the exceptional level of professional service provided to our clients as a result of our ClientFIRST model provides us with a distinct competitive advantage over our local competitors. We also believe that technology innovation will continue to play a critical role in retaining clients and winning new business. We believe that our current mobile banking, on-line banking and cash management offerings are industry-leading solutions amongst community banks. Through the first nine months of 2014, 77% of deposits were acquired through our office network, 22% came through the commercial remote deposit capture channel and the remaining 1% came through consumer mobile deposits. In comparison, during the first nine months of 2013, 83% of deposits were acquired through our office network and the remaining 17% came through the commercial remote deposit capture channel. We believe that the volume in remote deposit capture and mobile deposit channels will continue to increase over time as more clients become acquainted with the convenience these services provide. By delivering superior professional service through our ClientFIRST model, coupled with our deep understanding of our markets and our commitment to providing the latest technology solutions to meet our clients' banking needs, we believe that we can attract new clients and expand our total loans and deposits.

**Maintain a Rigorous Risk Management Infrastructure.** As we grow, one of our top priorities is to continue to build a robust enterprise risk management infrastructure. We believe effective risk management requires a culture of risk management and governance throughout the Company. The legislative and regulatory landscape continues to quickly evolve, so we are continually performing risk assessments throughout the organization and re-allocating resources where appropriate. We will continue to add new resources and technology investments to help enhance all of our risk management processes throughout the Bank. Our risk management success is exemplified by our historic credit risk management and disciplined underwriting practices, which have enabled us to successfully grow our balance sheet while maintaining strong credit quality metrics. We do not reduce our credit standards or pricing discipline to generate new loans. In addition, we are heavily focused on compliance risk and cybersecurity risk, as both of these risks have increased since our inception. Our management team continually analyzes emerging fraud and security risks and utilizes tools,

---

### **Table of Contents**

strategies and policies to manage risk while delivering an optimal and appropriate client experience. We believe our risk management structure allows our board and senior management to maintain effective oversight of our risks to ensure that our personnel are following prudent and

appropriate risk management practices resulting in strong loan quality and minimal loan losses.

**Attract Talented Banking Professionals With A ClientFIRST Focus.** We believe that our ability to attract and retain banking professionals with strong community relationships and significant knowledge of our markets will continue to drive our success and grow our business in an efficient manner. By focusing on experienced, established bankers who deliver exceptional client service through our ClientFIRST model, we believe we can enhance our market position and add profitable growth opportunities. We believe that the strength of our exceptional client service and relationship banking approach will continue to help us attract these new bankers. In recent years, we have invested in our internal infrastructure, including support and back office personnel, and we believe that we can continue to add experienced frontline bankers to our existing markets, which will drive our efficient growth.

We will continue to expand our franchise, but only in a controlled manner. We may choose to open new locations, but only after rigorous due diligence and substantial quantitative analysis regarding the financial and capital impacts of such investments. We may also choose to enter new, metropolitan markets contiguous to, or nearby, our current South Carolina footprint, but only after careful study and the identification and vetting of a local, senior level banking team with significant experience and reputational strength in that market. We have not yet supplemented our historic strategy of organic deposit and loan growth with traditional mergers or acquisitions. We evaluate potential acquisition opportunities that we believe would be complementary to our business as part of our growth strategy. However, we have not yet identified any specific acquisition opportunity that meets our strict requirements and do not have any immediate plans, arrangements or understandings relating to any acquisition. Furthermore, we do not believe an acquisition is necessary to successfully drive our growth and execute our ClientFIRST model.

### Our Financial Performance

We measure our financial performance in three primary ways: earnings metrics, growth attributes and asset quality ratios. All three of these categories are interdependent and equally important in our view of building value for our shareholders. Due to our simple and efficient ClientFIRST model, our attractive South Carolina markets and our experienced management team, we continue to deliver profitable results. We also reached \$1.0 billion in assets within 15 years of starting our Bank solely through organic growth, one client at a time. Our talented and experienced banking team continues to build client relationships and we are excited to see strong growth in each of our three markets, while maintaining strong asset quality. Further information regarding our earnings metrics, growth attributes and asset quality ratios is contained in the tables below. Our Selected Historical Financial Data on page S-13 also includes detailed results of operations for the Company for the years ended 2009-2013 and the three months ended September 30, 2014 and 2013.

**Earnings Metrics.** As noted above, we have consistently delivered profitable results. Net income available to common shareholders for the third quarter of 2014 was \$1.6 million, a 28% increase over the third quarter of 2013. The following table illustrates our earnings over the past five quarters:

	Quarter Ended				
	30-Sep 2014	30-Jun 2014	31-Mar 2014	31-Dec 2013	30-Sep 2013
<b>Earnings</b> (\$ in thousands, except per share data)					
Net income	\$1,826	\$1,566	\$1,250	\$1,439	\$1,419
Net income available to common shareholders	1,573	1,313	1,057	1,248	1,228
Earnings per common share, diluted	0.31	0.26	0.22	0.27	0.27

S-7

### Table of Contents

We view this offering as a means to improve our capital structure and our net income available to common shareholders by redeeming the remaining outstanding shares of our Fixed Rate Cumulative Perpetual Preferred Stock, Series T (the Series T Preferred Stock) that were issued to the U.S. Treasury pursuant to the U.S. Treasury's Capital Purchase Program. Since July of 2012, we have redeemed shares of the Series T Preferred Stock with a cumulative par value of \$6.1 million, thus reducing the balance to shares with a par value of \$11.2 million. The Series T Preferred Stock is entitled to cumulative dividends at a rate of 9% per annum resulting in approximately \$1.0 million of dividend expense

## Edgar Filing: SOUTHERN FIRST BANCSHARES INC - Form 424B5

annually. Subject to regulatory approval, we intend to use a substantial portion of the net proceeds from this offering to repurchase all of the remaining outstanding shares of Series T Preferred Stock at an aggregate repurchase price of approximately \$11.2 million plus accrued and unpaid dividends to the date of repurchase. We have received regulatory approval to repurchase the remaining outstanding shares of Series T Preferred Stock subject to the closing of this offering for a minimum of \$15.6 million in gross proceeds.

**Growth Attributes.** Despite ongoing challenges presented by the economic, regulatory and competitive environment in which we operate, we have achieved impressive growth in both retail deposits and organic loans in each of our three markets by leveraging our ClientFIRST relationship model to deepen current client relationships and attract new client relationships. Our loan balances have increased 18% to \$832.7 million as of September 30, 2014 compared to \$705.4 million at September 30, 2013. Likewise our retail deposits have increased 22% to \$698.7 million as of September 30, 2014 compared to \$573.7 million at September 30, 2013. One of our growth goals is to continue to fund our loan demand with local retail deposits in our three markets. We are proud of our growth results through September 30, 2014 as seen in the table below:

Market	YTD 2014 Loan Growth	Annualized Growth Rate	YTD 2014 Retail Deposit Growth	Annualized Growth Rate
	(Dollars in Thousands)		(Dollars in Thousands)	
Greenville	\$ 43,192	10.8%	\$ 41,108	12.5%
Columbia	23,683	24.5%		