

FIRST BANCORP /NC/
Form 10-Q
November 09, 2009

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2009

Commission File Number 0-15572

FIRST BANCORP

(Exact Name of Registrant as Specified in its Charter)

North Carolina
(State or Other Jurisdiction of Incorporation or
Organization)

56-1421916
(I.R.S. Employer Identification Number)

341 North Main Street, Troy, North Carolina
(Address of Principal Executive Offices)

27371-0508
(Zip Code)

(Registrant's telephone number, including area
code)

(910) 576-6171

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

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Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES NO

The number of shares of the registrant's Common Stock outstanding on October 31, 2009 was 16,682,166.

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FIRST BANCORP AND SUBSIDIARIES

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Item 1 - Financial StatementsFirst Bancorp and Subsidiaries
Consolidated Balance Sheets

(\$ in thousands-unaudited)	September 30, 2009	December 31, 2008 (audited)	September 30, 2008
ASSETS			
Cash & due from banks, noninterest-bearing	\$43,667	88,015	86,825
Due from banks, interest-bearing	232,877	105,191	83,105
Federal funds sold	7,548	31,574	8,779
Total cash and cash equivalents	284,092	224,780	178,709
Securities available for sale (costs of \$167,292, \$170,920, and \$169,425)	168,860	171,193	166,364
Securities held to maturity (fair values of \$28,692, \$15,811, and \$15,885)	27,747	15,990	16,123
Presold mortgages in process of settlement	8,420	423	2,468
Loans – non-covered	2,147,615	2,211,315	2,211,678
Loans – covered by FDIC loss share agreement	549,439	–	–
Total loans	2,697,054	2,211,315	2,211,678
Less: Allowance for loan losses	(34,444)	(29,256)	(27,928)
Net loans	2,662,610	2,182,059	2,183,750
Premises and equipment	52,868	52,259	51,334
Accrued interest receivable	15,163	12,653	12,945
FDIC loss share receivable	210,266	–	–
Goodwill	65,835	65,835	65,835
Other intangible assets	5,330	1,945	2,052
Other	18,494	23,430	21,086
Total assets	\$3,519,685	2,750,567	2,700,666
LIABILITIES			
Deposits: Demand - noninterest-bearing	\$268,097	229,478	235,334
NOW accounts	264,267	198,775	197,942
Money market accounts	477,092	340,739	315,492
Savings accounts	142,391	125,240	124,227
Time deposits of \$100,000 or more	883,784	592,192	562,736
Other time deposits	886,009	588,367	587,091
Total deposits	2,921,640	2,074,791	2,022,822
Securities sold under agreements to repurchase	58,209	61,140	49,008
Borrowings	176,927	367,275	387,390
Accrued interest payable	3,688	5,077	5,449
Other liabilities	26,354	22,416	16,643
Total liabilities	3,186,818	2,530,699	2,481,312

Commitments and contingencies	-	-	-
SHAREHOLDERS' EQUITY			
Preferred stock, no par value per share. Authorized: 5,000,000 shares Issued and outstanding: 65,000 shares at September 30, 2009	65,000	-	-
Discount on preferred stock	(3,990)	-	-
Common stock, no par value per share. Authorized 20,000,000 shares Issued and outstanding: 16,671,983, 16,573,826, and 16,522,581 shares	97,745	96,072	95,352
Common stock warrants	4,592	-	-
Retained earnings	176,473	131,952	130,100
Accumulated other comprehensive income (loss)	(6,953)	(8,156)	(6,098)
Total shareholders' equity	332,867	219,868	219,354
Total liabilities and shareholders' equity	\$3,519,685	2,750,567	2,700,666

See notes to consolidated financial statements.

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First Bancorp and Subsidiaries
Consolidated Statements of Income

(\$ in thousands, except share data-unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
INTEREST INCOME				
Interest and fees on loans	\$41,404	35,556	107,596	104,309
Interest on investment securities:				
Taxable interest income	1,650	1,867	5,112	5,506
Tax-exempt interest income	232	155	576	484
Other, principally overnight investments	188	211	293	930
Total interest income	43,474	37,789	113,577	111,229
INTEREST EXPENSE				
Savings, NOW and money market	2,355	2,546	6,476	7,296
Time deposits of \$100,000 or more	5,020	5,047	14,586	16,345
Other time deposits	4,794	5,131	13,756	17,293
Other, primarily borrowings	795	2,280	2,696	6,245
Total interest expense	12,964	15,004	37,514	47,179
Net interest income	30,510	22,785	76,063	64,050
Provision for loan losses	5,200	2,851	13,611	6,443
Net interest income after provision for loan losses	25,310	19,934	62,452	57,607
NONINTEREST INCOME				
Service charges on deposit accounts	3,811	3,610	10,035	10,148
Other service charges, commissions and fees	1,216	1,116	3,542	3,371
Fees from presold mortgages	395	199	847	657
Commissions from sales of insurance and financial products	333	419	1,164	1,174
Data processing fees	38	42	103	140
Gain from acquisition	-	-	62,085	-
Securities gains (losses)	6	2	(113)	(14)
Other gains (losses)	(58)	(28)	(209)	229
Total noninterest income	5,741	5,360	77,454	15,705
NONINTEREST EXPENSES				
Salaries	8,549	7,173	21,662	21,016
Employee benefits	2,901	1,734	8,166	5,574
Total personnel expense	11,450	8,907	29,828	26,590
Net occupancy expense	2,070	1,063	4,283	3,074
Equipment related expenses	1,013	1,034	2,979	3,074
Intangibles amortization	218	107	414	309
Acquisition expenses	290	-	1,082	-
Other operating expenses	5,912	4,285	17,507	13,097
Total noninterest expenses	20,953	15,396	56,093	46,144

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Income before income taxes	10,098	9,898	83,813	27,168
Income taxes	3,716	3,701	32,338	10,164
Net income	6,382	6,197	51,475	17,004
Preferred stock dividends and accretion	995	–	2,958	–
Net income available to common shareholders	\$5,387	6,197	48,517	17,004
Earnings per common share:				
Basic	\$0.32	0.38	2.92	1.08
Diluted	0.32	0.37	2.91	1.07
Dividends declared per common share	\$0.08	0.19	0.24	0.57
Weighted average common shares outstanding:				
Basic	16,664,544	16,515,507	16,636,646	15,789,027
Diluted	16,805,770	16,539,179	16,674,649	15,846,966

See notes to consolidated financial statements.

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First Bancorp and Subsidiaries
Consolidated Statements of Comprehensive Income

(\$ in thousands-unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net income	\$6,382	6,197	51,475	17,004
Other comprehensive income (loss):				
Unrealized gains (losses) on securities available for sale:				
Unrealized holding gains (losses) arising during the period, pretax	2,484	(1,485)	1,180	(3,161)
Tax benefit (expense)	(969)	579	(460)	1,233
Reclassification to realized (gains) losses	(6)	(2)	113	14
Tax expense (benefit)	2	1	(44)	(6)
Postretirement Plans:				
Amortization of unrecognized net actuarial loss	217	46	652	232
Tax expense	(85)	(18)	(254)	(91)
Amortization of prior service cost and transition obligation	9	7	27	25
Tax expense	(3)	(3)	(11)	(10)
Other comprehensive income (loss)	1,649	(875)	1,203	(1,764)
Comprehensive income	\$8,031	5,322	52,678	15,240

See notes to consolidated financial statements.

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First Bancorp and Subsidiaries
Consolidated Statements of Shareholders' Equity

(In thousands, except per share - unaudited)	Common Stock				Common Stock Warrants	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Share- holders' Equity
	Preferred Stock	Preferred Stock Discount	Shares	Amount				
Balances, January 1, 2008	\$		14,378	\$56,302		122,102	(4,334)	174,070
Net income						17,004		17,004
Cash dividends declared (\$0.57 per common share)						(9,006)		(9,006)
Common stock issued under stock option plans			35	441				441
Common stock issued into dividend reinvestment plan			51	833				833
Common stock issued in acquisition			2,059	37,605				37,605
Tax benefit realized from exercise of nonqualified stock options				28				28
Stock-based compensation				143				143
Other comprehensive income							(1,764)	(1,764)
Balances, September 30, 2008	\$		16,523	\$95,352		130,100	(6,098)	219,354
Balances, January 1, 2009	\$	\$	16,574	\$96,072		131,952	(8,156)	219,868
Net income						51,475		51,475
Preferred stock issued	65,000	(4,592)						60,408
Common stock warrants issued					4,592			4,592
			36	335				335

Common stock issued under stock option plans								
Common stock issued into dividend reinvestment plan	62		879					879
Cash dividends declared (\$0.24 per common share)						(3,996)		(3,996)
Preferred dividends accrued						(2,356)		(2,356)
Accretion of preferred stock discount	602					(602)		–
Tax benefit realized from exercise of nonqualified stock options			73					73
Stock-based compensation			386					386
Other comprehensive income							1,203	1,203
Balances, September 30, 2009	\$ 65,000	(3,990)	16,672	\$97,745	4,592	176,473	(6,953)	332,867

See notes to consolidated financial statements.

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First Bancorp and Subsidiaries
Consolidated Statements of Cash Flows

	Nine Months Ended September 30,	
(\$ in thousands-unaudited)	2009	2008
Cash Flows From Operating Activities		
Net income	\$51,475	17,004
Reconciliation of net income to net cash provided by operating activities:		
Provision for loan losses	13,611	6,443
Net security premium amortization (discount accretion)	722	(101)
Net purchase accounting adjustments - discount accretion	(2,473)	(732)
Loss on securities available for sale	113	14
Other gains, primarily the acquisition gain	(61,876)	(229)
Increase in net deferred loan costs	(186)	(106)
Depreciation of premises and equipment	2,652	2,582
Stock-based compensation expense	386	143
Amortization of intangible assets	414	309
Deferred income tax expense (benefit)	15,366	(1,282)
Origination of presold mortgages in process of settlement	(65,523)	(46,594)
Proceeds from sales of presold mortgages in process of settlement	60,775	45,794
Decrease in accrued interest receivable	716	997
Decrease in other assets	2,184	2,188
Decrease in accrued interest payable	(3,072)	(864)
Increase (decrease) in other liabilities	4,538	(670)
Net cash provided by operating activities	19,822	24,896
Cash Flows From Investing Activities		
Purchases of securities available for sale	(69,616)	(126,357)
Purchases of securities held to maturity	(13,435)	(1,305)
Proceeds from maturities/issuer calls of securities available for sale	112,648	106,573
Proceeds from maturities/issuer calls of securities held to maturity	1,626	2,157
Proceeds from sales of securities available for sale	-	503
Net decrease (increase) in loans	72,784	(139,806)
Proceeds from sales of foreclosed real estate	3,633	2,547
Purchases of premises and equipment	(3,036)	(3,572)
Net cash received in acquisition	91,696	2,461
Net cash provided (used) by investing activities	196,300	(156,799)
Cash Flows From Financing Activities		
Net increase in deposits and repurchase agreements	134,129	46,743
Proceeds from (repayments of) borrowings, net	(349,465)	104,565
Cash dividends paid – common stock	(5,809)	(8,598)
Cash dividends paid – preferred stock	(1,952)	-
Proceeds from issuance of preferred stock and common stock warrants	65,000	-
Proceeds from issuance of common stock	1,214	1,274
Tax benefit from exercise of nonqualified stock options	73	28
Net cash provided (used) by financing activities	(156,810)	144,012

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Increase in cash and cash equivalents	59,312	12,109
Cash and cash equivalents, beginning of period	224,780	166,600
Cash and cash equivalents, end of period	\$284,092	178,709
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$40,586	48,043
Income taxes	10,592	11,514
Non-cash transactions:		
Unrealized gain (loss) on securities available for sale, net of taxes	789	(1,920)
Foreclosed loans transferred to other real estate	5,151	4,057
Common stock issued in acquisition	–	37,605

See notes to consolidated financial statements.

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First Bancorp and Subsidiaries
Notes to Consolidated Financial Statements

(unaudited) For the Periods Ended September 30, 2009 and 2008

Note 1 – Basis of Presentation

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the consolidated financial position of the Company as of September 30, 2009 and 2008 and the consolidated results of operations and consolidated cash flows for the periods ended September 30, 2009 and 2008. Except for the retrospective purchase accounting adjustments discussed in Note 4, all such adjustments were of a normal, recurring nature. Reference is made to the 2008 Annual Report on Form 10-K filed with the SEC for a discussion of accounting policies and other relevant information with respect to the financial statements. The results of operations for the periods ended September 30, 2009 and 2008 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated all subsequent events through November 9, 2009, the date the financial statements were issued.

Note 2 – Accounting Policies

Note 1 to the 2008 Annual Report on Form 10-K filed with the SEC contains a description of the accounting policies followed by the Company and a discussion of recent accounting pronouncements. The following paragraphs update that information as necessary.

On July 1, 2009, the Financial Accounting Standards Board's (FASB) Generally Accepted Accounting Principles (GAAP) Accounting Standards Codification became effective as the sole authoritative source of US GAAP. This codification was issued under FASB Statement No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162." This Codification reorganizes current GAAP for non-governmental entities into a topical index to facilitate accounting research and to provide users additional assurance that they have referenced all related literature pertaining to a given topic. Existing GAAP prior to the Codification was not altered in compilation of the GAAP Codification. The GAAP Codification encompasses all FASB Statements of Financial Accounting Standards, Emerging Issues Task Force statements, FASB Staff Positions, FASB Interpretations, FASB Derivative Implementation Guides, American Institute of Certified Public Accountants Statement of Positions, Accounting Principles Board Opinions and Accounting Research Bulletins along with the remaining body of GAAP effective as of June 30, 2009. Financial statements issued for all interim and annual periods ending after September 15, 2009 will reference accounting guidance embodied in the Codification as opposed to referencing the prior authoritative pronouncements. Citing particular content in the Codification involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure. FASB suggests that all citations begin with "FASB ASC," where ASC stands for Accounting Standards Codification. Changes to the ASC subsequent to June 30, 2009 are referred to as Accounting Standards Updates (ASU).

In September 2006, the FASB issued Accounting Standards Codification (ASC) 820, "Fair Value Measurements and Disclosures." FASB ASC 820 provides enhanced guidance for using fair value to measure assets and liabilities and also requires expanded disclosures about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. As it relates to financial assets and liabilities, FASB ASC 820 became effective for the Company as of January 1, 2008. For nonfinancial assets and liabilities, FASB ASC 820 became effective for the Company on January 1, 2009. The Company's adoption of FASB ASC 820 on January 1, 2008 and January 1, 2009 had no impact on the Company's

financial statements. See Note 13 for the disclosures required by FASB ASC 820.

In December 2007, the FASB issued FASB ASC 805, "Business Combinations," which retains the fundamental requirement that the acquisition method of accounting (formerly referred to as purchase method) be used for all business combinations and that an acquirer be identified for each business combination. FASB ASC 805 defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. FASB ASC 805 requires an acquirer to recognize the

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assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values. The provisions require the acquirer to recognize acquisition-related costs and restructuring costs separately from the business combination as period expense. The Company adopted FASB ASC 805 on January 1, 2009 and applied its provisions to the assets acquired and liabilities assumed related to Cooperative Bank – see Note 4 for additional discussion.

In April 2008, the FASB issued FASB ASC 350-30-50, “Intangibles Other than Goodwill,” which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of FASB ASC 350-30-50 is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset under FASB ASC 805, “Business Combinations,” and other U.S. generally accepted accounting principles. FASB ASC 350-30-50 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years, and early adoption was prohibited. Accordingly, this provision became effective for the Company on January 1, 2009. The adoption of FASB ASC 350-30-50 did not have a material impact on the Company’s financial position, results of operations or cash flows.

On April 9, 2009, the FASB issued three provisions related to fair value which are discussed in the following three paragraphs below. Each of the provisions became effective as of and for the periods ended June 30, 2009.

FASB ASC 320-10-65-1, “Investments – Debt and Equity Securities,” categorizes losses on debt securities available-for-sale or held-to-maturity determined by management to be other-than-temporarily impaired as losses due to credit issues and losses related to all other factors. Other-than-temporary impairment (OTTI) exists when it is more likely than not that the security will mature or be sold before its amortized cost basis can be recovered. An OTTI related to credit losses should be recognized through earnings. An OTTI related to other factors should be recognized in other comprehensive income. The ASC does not amend existing recognition and measurement guidance related to OTTI impairments of equity securities. Other than the required disclosures that are presented in Note 7, the adoption of this guidance did not impact the Company, but its provisions could impact the Company in future periods.

FASB ASC 820-10-65-4, “Fair Value Measurements and Disclosures,” recognizes that quoted prices may not be determinative of fair value when the volume and level of trading activity has significantly decreased. The evaluation of certain factors may necessitate that fair value be determined using a different valuation technique. Fair value should be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction, not a forced liquidation or distressed sale. If a transaction is considered to not be orderly, little, if any, weight should be placed on the transaction price. If there is not sufficient information to conclude as to whether or not the transaction is orderly, the transaction price should be considered when estimating fair value. An entity’s intention to hold an asset or liability is not relevant in determining fair value. Quoted prices provided by pricing services may still be used when estimating fair value in accordance with FASB ASC 820; however, the entity should evaluate whether the quoted prices are based on current information and orderly transactions. Inputs and valuation techniques are required to be disclosed in addition to any changes in valuation techniques. The Company applied the provisions of this guidance in determining the fair market value of loans assumed in the Cooperative Bank acquisition – see Note 4 for additional discussion.

FASB ASC 825-10-65-1, “Financial Instruments,” requires disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. A publicly traded company includes any company whose securities trade in a public market on either a stock exchange or in the over-the-counter market, or any company that is a conduit bond obligor. Additionally, when a company makes a filing with a regulatory agency in preparation for sale of its securities in a public market, it is considered a publicly traded company for this purpose. The Company has presented the fair value disclosures required by this guidance in Note 13.

In May 2009, the FASB issued ASC 855, “Subsequent Events,” which sets forth guidance concerning the recognition or disclosure of events or transactions that occur subsequent to the balance sheet date but prior to the release of the financial statements. The guidance also defines “available to be issued” financial statements as financial statements that have received all the required approvals from management and other constituents. The guidance sets forth that management of a public company must evaluate subsequent events for recognition and/or disclosure through the date of issuance, whereas private companies need only evaluate subsequent events through the date the financial

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statements became available to be issued. The provision also delineates between and defines the recognition and disclosure requirements for Recognized Subsequent Events and Non-Recognized Subsequent Events. Recognized Subsequent Events are defined as conditions that existed as of the balance sheet date and will be recognized in the entity's financial statements. Non-Recognized Subsequent Events are defined as conditions that did not exist as of the balance sheet date and that, if material, will warrant disclosure of the nature of the subsequent event and the financial impact. FASB ASC 855 requires disclosure of the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or available to be issued. This guidance is effective for interim and annual reporting periods ending after June 15, 2009, and the Company has made the required disclosures in Note 1. The adoption of this guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In June 2009, the FASB issued Statement No. 166, "Accounting for the Transfer of Financial Assets and Amendment of FASB Statement No. 140 Instruments." Pursuant to ASC 105-10-65-1-d, Statement No. 166 will remain authoritative until integrated into the ASC. The Statement removes the concept of a special purpose entity (SPE) from Statement No. 140 and removes the exception of applying FASB Interpretation 46 "Variable Interest Entities," to Variable Interest Entities that are SPEs. It limits the circumstances in which a transferor derecognizes a financial asset. Statement No. 166 amends the requirements for the transfer of a financial asset to meet the requirements for "sale" accounting. The Statement is effective for all interim and annual periods beginning after November 15, 2009. The Company does not expect the adoption to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In June 2009, the FASB issued Statement No. 167, "Amendments to FASB Interpretation No. 46(R)." Pursuant to ASC 105-10-65-1-d, Statement No. 167 will remain authoritative until integrated into the ASC. This Statement amends Interpretation 46(R) to require an enterprise to perform an analysis to determine whether the enterprise's variable interest gives it a controlling financial interest in the variable interest entity. Statement No. 167 is effective for all interim and annual periods beginning after November 15, 2009. The Company does not expect the adoption to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In August 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-05, which updates ASC 820 "Fair Value Measurements and Disclosures." The ASU provides guidance when estimating the fair value of a liability. When a quoted price in an active market for the identical liability is not available, fair value should be measured using (a) the quoted price of an identical liability when traded as an asset; (b) quoted prices for similar liabilities or similar liabilities when traded as assets; or (c) another valuation technique consistent with the principles of FASB ASC 820 such as an income approach or a market approach. If a restriction exists that prevents the transfer of the liability, a separate adjustment related to the restriction is not required when estimating fair value. The ASU was effective October 1, 2009 for the Company and had no material impact on the Company's consolidated financial position, results of operations or cash flows.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Note 3 – Reclassifications

Certain amounts reported in the period ended September 30, 2008 have been reclassified to conform to the presentation for September 30, 2009. These reclassifications had no effect on net income or shareholders' equity for the periods presented, nor did they materially impact trends in financial information.

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Note 4 – Acquisition of Cooperative Bank

On June 19, 2009, the Company announced that First Bank, its banking subsidiary, had entered into a purchase and assumption agreement with the Federal Deposit Insurance Corporation (FDIC), as receiver for Cooperative Bank (sometimes referred to as “Cooperative”), Wilmington, North Carolina. Earlier that day, the North Carolina Commissioner of Banks issued an order requiring the closure of Cooperative Bank and appointing the FDIC as receiver. According to the terms of the agreement, First Bank acquired all deposits (except certain brokered deposits) and borrowings, and substantially all of the assets of Cooperative Bank and its subsidiary, Lumina Mortgage. All deposits were assumed by First Bank with no losses to any depositor.

Cooperative Bank operated through twenty-one branches in North Carolina and three branches in South Carolina with assets totaling approximately \$959 million and approximately 200 employees.

The loans and foreclosed real estate purchased are covered by two loss share agreements between the FDIC and First Bank, which affords First Bank significant loss protection. Under the loss share agreements, the FDIC will cover 80% of covered loan and foreclosed real estate losses up to \$303 million and 95% of losses in excess of that amount. The term for loss sharing on residential real estate loans is ten years, while the term for loss sharing on non-residential real estate loans is five years in respect to losses and eight years in respect to loss recoveries. The reimbursable losses from the FDIC are based on the book value of the relevant loan as determined by the FDIC at the date of the transaction. New loans made after that date are not covered by the shared-loss agreements.

First Bank received a \$123 million discount on the assets acquired and paid no deposit premium. The acquisition was accounted for under the purchase method of accounting in accordance with FASB ASC 805, “Business Combinations.” The purchased assets and assumed liabilities were recorded at their respective acquisition date fair values, and identifiable intangible assets were recorded at fair value. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as information relative to closing date fair values becomes available. The Company recorded an estimated receivable from the FDIC in the amount of \$208.3 million as of June 30, 2009, which represents the fair value of the FDIC’s portion of the losses that are expected to be incurred and reimbursed to the Company.

An acquisition gain totaling \$62.1 million resulted from the acquisition and is included as a component of noninterest income on the statement of income. In the Company’s second quarter 2009 filings, this gain was reported as being \$53.8 million. During the third quarter of 2009, the Company obtained third-party appraisals for the majority of Cooperative’s collateral dependent problem loans. Overall, the appraised values were higher than the Company’s original estimates made as of the acquisition date. In addition, during the third quarter, the Company received payoffs related to certain loans for which losses had been anticipated. Accordingly, as required by FASB ASC 805, “Business Combinations,” the Company retrospectively adjusted the fair value of the loans acquired for these factors, which resulted in a higher gain being reflected in the second quarter of 2009.

The statement of net assets acquired as of June 19, 2009 and the resulting gain (as adjusted) are presented in the following table.

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(\$ in thousands)	As Recorded by Cooperative Bank	Fair Value Adjustments	As Recorded by First Bancorp
Assets			
Cash and cash equivalents	\$ 66,096	–	66,096
Securities	40,189	–	40,189
Presold mortgages	3,249	–	3,249
Loans	828,958	(256,900)	572,058 (a)
Core deposit intangible	–	3,798	3,798 (b)
FDIC loss share receivable	–	208,349	208,349 (c)
Foreclosed properties	15,993	(3,534)	12,459 (d)
Other assets	4,178	(137)	4,041 (e)
Total	958,663	(48,424)	910,239
Liabilities			
Deposits	\$ 706,139	5,922	712,061 (f)
Borrowings	153,056	6,409	159,465 (g)
Other	2,227	160	2,387 (e)
Total	861,422	12,491	873,913
Excess of assets received over liabilities	97,241	(60,915)	36,326
Less: Asset discount	(123,000)		
Cash received from FDIC at closing	25,759		25,759
Total gain recorded			\$62,085

Explanation of Fair Value Adjustments

- (a) This estimated adjustment is necessary as of the acquisition date to write down Cooperative's book value of loans to the estimated fair value as a result of future expected loan losses.
- (b) This fair value adjustment represents the value of the core deposit base assumed in the acquisition based on a study performed by an independent consulting firm. This amount was recorded by the Company as an identifiable intangible asset and will be amortized as an expense on a straight-line basis over the average life of the core deposit base, which is estimated to be 8 years.
- (c) This adjustment is the estimated fair value of the amount that the Company will receive from the FDIC under its loss sharing agreements as a result of future loan losses.
- (d) This is the estimated adjustment necessary to write down Cooperative's book value of foreclosed real estate properties to their estimated fair value as of the acquisition date.
- (e) These are other immaterial adjustments made to acquired assets and assumed liabilities to reflect fair value.
- (f) This fair value adjustment was recorded because the weighted average interest rate of Cooperative's time deposits exceeded the cost of similar wholesale funding at the time of the acquisition. This amount will be amortized to reduce interest expense on a declining basis over the average life of the portfolio of approximately 15 months.

(g) This fair value adjustment was recorded because the interest rates of Cooperative's fixed rate borrowings exceeded current interest rates on similar borrowings. This amount was realized shortly after the acquisition by prepaying the borrowings at a premium and thus there will be no future amortization related to this adjustment.

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The operating results of First Bancorp for the three and nine month periods ended September 30, 2009 include the operating results of the acquired assets and assumed liabilities since the acquisition date of June 19, 2009. Due primarily to the significant amount of fair value adjustments and the FDIC loss sharing agreements now in place, historical results of Cooperative are not believed to be relevant to the Company's results, and thus no pro forma information is presented.

Note 5 – Equity-Based Compensation Plans

At September 30, 2009, the Company had the following equity-based compensation plans: the First Bancorp 2007 Equity Plan, the First Bancorp 2004 Stock Option Plan, the First Bancorp 1994 Stock Option Plan, and three plans that were assumed from acquired entities. The Company's shareholders approved all equity-based compensation plans, except for those assumed from acquired companies. The First Bancorp 2007 Equity Plan became effective upon the approval of shareholders on May 2, 2007. As of September 30, 2009, the First Bancorp 2007 Equity Plan was the only plan that had shares available for future grants.

The First Bancorp 2007 Equity Plan and its predecessor plans, the First Bancorp 2004 Stock Option Plan and the First Bancorp 1994 Stock Option Plan ("Predecessor Plans"), are intended to serve as a means of attracting, retaining and motivating key employees and directors and to associate the interests of the plans' participants with those of the Company and its shareholders. The Predecessor Plans only provided for the ability to grant stock options, whereas the First Bancorp 2007 Equity Plan, in addition to providing for grants of stock options, also allows for grants of other types of equity-based compensation including stock appreciation rights, restricted stock, restricted performance stock, unrestricted stock, and performance units. Since the First Bancorp 2007 Equity Plan became effective on May 2, 2007, the Company has granted the following stock-based compensation: 1) the grant of 2,250 stock options to each of the Company's non-employee directors on June 1, 2007, 2008, and 2009, 2) the grant of 5,000 incentive stock options to an executive officer on April 1, 2008 in connection with a corporate acquisition, and 3) the grant of 262,599 stock options and 81,337 performance units to 19 senior officers on June 17, 2008. Each performance unit represents the right to acquire one share of the Company's common stock upon satisfaction of the vesting conditions.

Prior to the June 17, 2008 grant, stock option grants to employees generally had five-year vesting schedules (20% vesting each year) and had been irregular, generally falling into three categories - 1) to attract and retain new employees, 2) to recognize changes in responsibilities of existing employees, and 3) to periodically reward exemplary performance. Compensation expense associated with these types of grants is recorded pro-ratably over the vesting period. As it relates to directors, the Company has historically granted 2,250 vested stock options to each of the Company's non-employee directors in June of each year, and expects to continue doing so for the foreseeable future. Compensation expense associated with these director grants is recognized on the date of grant since there are no vesting conditions.

The June 17, 2008 grant of a combination of performance units and stock options has both performance conditions (earnings per share, or EPS, targets) and service conditions that must be met in order to vest. The 262,599 stock options and 81,337 performance units represent the maximum amount of options and performance units that could vest if the Company were to achieve specified maximum goals for earnings per share during the three annual performance periods ending on December 31, 2008, 2009, and 2010. Up to one-third of the total number of options and performance units granted will vest annually as of December 31 of each year beginning in 2010, if (1) the Company achieves specific EPS goals during the corresponding performance period and (2) the executive or key employee continues employment for a period of two years beyond the corresponding performance period. Compensation expense for this grant will be recorded over the various service periods based on the estimated number of options and performance units that are probable to vest. If the awards do not vest, no compensation cost will be recognized and any previously recognized compensation cost will be reversed. The Company did not achieve the minimum earnings per share performance goal for 2008, and thus one-third of the above grant has been

permanently forfeited. During June 2009, as a result of the significant gain realized related to the Cooperative Bank acquisition (see Note 4), the Company determined that it was probable that the EPS goal for 2009 would be met. Accordingly, the Company recorded compensation expense of \$149,000 in June 2009 and \$75,000 during the third quarter of 2009. The Company expects to record compensation expense of approximately \$75,000 on a quarterly basis through the

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vesting period of December 31, 2011. The Company does not believe that the EPS goals for 2010 will be met, and thus no compensation expense has been recorded related to that performance period.

Under the terms of the Predecessor Plans and the 2007 Equity Plan, options can have a term of no longer than ten years, and all options granted thus far under these plans have had a term of ten years. The Company's options provide for immediate vesting if there is a change in control (as defined in the plans).

At September 30, 2009, there were 743,828 options outstanding related to the three First Bancorp plans with exercise prices ranging from \$9.75 to \$22.12. At September 30, 2009, there were 864,941 shares remaining available for grant under the 2007 Equity Plan. The Company also has three stock option plans as a result of assuming plans of acquired companies. At September 30, 2009, there were 14,690 stock options outstanding in connection with these plans, with option prices ranging from \$10.66 to \$15.22.

The Company issues new shares when options are exercised.

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

The Company's only option grants for the nine months ended September 30, 2009 were grants of 27,000 options to non-employee directors on June 1, 2009 (2,250 options per director). The per share weighted-average fair value of these was \$6.06 on the date of the grant using the following assumptions:

	Nine months ended September 30, 2009
Expected dividend yield	2.23%
Risk-free interest rate	3.28%
Expected life	7 years
Expected volatility	46.32%

During the nine months ended September 30, 2008, the Company made the following grants - 1) 5,000 incentive stock options to a key employee on April 1, 2008, 2) 29,250 stock options to non-employee directors on June 1, 2008 (2,250 options per director), and 3) 262,599 stock options and 81,338 performance units to 19 executive officers and certain key employees on June 17, 2008. The per share weighted-average fair value for the stock option grants listed above was \$5.09 on the date of the grant using the following weighted average assumptions:

	Nine months ended September 30, 2008
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Expected dividend yield	4.58%
Risk-free interest rate	4.17%
Expected life	9.7 years
Expected volatility	34.65%

For the three month period ended September 30, 2009, the Company recorded stock-based compensation expense of \$75,000. The Company recorded no stock-based compensation expense for the three month period ended September 30, 2008. For the nine month periods ended September 30, 2009 and 2008, the Company recorded stock-based compensation expense of \$386,000 and \$143,000, respectively. Of the \$386,000 in expense that was recorded in the nine month period ended September 30, 2009, approximately \$224,000 related to the June 17, 2008 grants to 19 officers and is classified as “personnel expense” on the Consolidated Statements of Income, while \$162,000 relates to the June 1, 2009 director grants and is classified as “other operating expenses.” Substantially all of the expense recorded in the nine month period ended September 30, 2008 relates to the June 1, 2008 director grants and is

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classified as “other operating expenses.” Stock-based compensation expense is reflected as an adjustment to cash flows from operating activities on the Company’s Consolidated Statement of Cash Flows. The Company recognized income tax benefits in the income statement related to stock-based compensation of \$29,000 for the three month period ended September 30, 2009 and none for the three month period ended September 30, 2008. The Company recognized income tax benefits in the income statement related to stock-based compensation in the amount of \$150,000 and \$53,000 for the nine month periods ended September 30, 2009 and 2008, respectively.

At September 30, 2009, the Company had \$31,000 of unrecognized compensation costs related to unvested stock options that have vesting requirements based solely on service conditions. The cost is expected to be amortized over a weighted-average life of 3.0 years, with \$9,000 being expensed in each of 2009 and 2010, \$6,000 being expensed in each of 2011 and 2012, and \$1,000 being expensed in 2013. At September 30, 2009, the Company had \$1.6 million in unrecognized compensation expense associated with the June 17, 2008 award grant that has both performance conditions and service conditions. Based on the performance conditions, the Company believes that only \$675,000 of this amount will ultimately vest, with approximately \$75,000 to be recognized as expense in the last quarter of 2009 and approximately \$300,000 to be recorded as expense in each of 2010 and 2011.

As noted above, certain of the Company’s stock option grants contain terms that provide for a graded vesting schedule whereby portions of the award vest in increments over the requisite service period. As provided for under FASB ASC 718, “Stock Compensation,” the Company has elected to recognize compensation expense for awards with graded vesting schedules on a straight-line basis over the requisite service period for the entire award. FASB ASC 718 requires companies to recognize compensation expense based on the estimated number of stock options and awards that will ultimately vest. Over the past five years, there have been only minimal amounts of forfeitures and expirations, and therefore the Company assumes that all options granted without performance conditions will become vested.

The following table presents information regarding the activity for the first nine months of 2009 related to all of the Company’s stock options outstanding:

	Number of Shares	Weighted-Average Exercise Price	Options Outstanding Weighted-Average Contractual Term (years)	Aggregate Intrinsic Value
Balance at December 31, 2008	828,876	17.21		
Granted	27,000	14.35		
Exercised	(68,441)	13.33		\$ 227,639
Forfeited	–	–		
Expired	(28,917)	11.52		
Outstanding at September 30, 2009	758,518	\$ 17.68	5.3	\$ 462,388
Exercisable at September 30, 2009	578,434	\$ 17.99	4.2	\$ 168,930

The Company received \$335,000 and \$441,000 as a result of stock option exercises during the nine months ended September 30, 2009 and 2008, respectively. The Company recorded \$73,000 and \$28,000 in associated tax benefits from the exercise of nonqualified stock options during the nine months ended September 30, 2009 and 2008, respectively.

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As discussed above, the Company granted 81,337 performance units to 19 senior officers on June 17, 2008. Each performance unit represents the right to acquire one share of the Company's common stock upon satisfaction of the vesting conditions (discussed above). The fair market value of the Company's common stock on the grant date was \$16.53 per share. One-third of this grant was forfeited on December 31, 2008 because the Company failed to meet the minimum performance goal required for vesting. The following table presents information regarding the activity during 2009 related to the Company's performance units outstanding:

Nine months ended September 30, 2009	Nonvested Performance Units	
	Number of Units	Weighted-Average Grant-Date Fair Value
Nonvested at the beginning of the period	54,225	\$ 16.53
Granted during the period	–	–
Vested during the period	–	–
Forfeited or expired during the period	–	–
Nonvested at the end of the period	54,225	\$ 16.53

Note 6 – Earnings Per Common Share

Basic earnings per common share were computed by dividing net income available to common shareholders by the weighted average common shares outstanding. Diluted earnings per common share includes the potentially dilutive effects of the Company's equity plan and the warrant issued to the U.S. Treasury in connection with the Company's participation in the Treasury's Capital Purchase Program – see Note 14 for additional information. The following is a reconciliation of the numerators and denominators used in computing basic and diluted earnings per common share:

(\$ in thousands except per share amounts)	For the Three Months Ended September 30,					
	Income (Numerator)	2009 Shares (Denominator)	Per Share Amount	Income (Numerator)	2008 Shares (Denominator)	Per Share Amount
Basic EPS						
Net income available to common shareholders	\$5,387	16,664,544	\$0.32	\$6,197	16,515,507	\$0.38
Effect of Dilutive Securities	-	141,226		-	23,672	
Diluted EPS per common share	\$5,387	16,805,770	\$0.32	\$6,197	16,539,179	\$0.37

(\$ in thousands except per share amounts)	For the Nine Months Ended September 30,					
	Income (Numerator)	2009 Shares (Denominator)	Per Share Amount	Income (Numerator)	2008 Shares (Denominator)	Per Share Amount
Basic EPS						
Net income available to common shareholders	\$48,517	16,636,646	\$2.92	\$17,004	15,789,027	\$1.08

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Effect of Dilutive Securities	-	38,003	-	57,939		
Diluted EPS per common share	\$48,517	16,674,649	\$2.91	\$17,004	15,846,966	\$1.07

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For the three and nine month periods ended September 30, 2009, there were 265,730 and 704,018 options, respectively, that were antidilutive because the exercise price exceeded the average market price for the period. In addition, the warrant issued to the U.S. Treasury (see Note 14) was anti-dilutive for the nine months ended September 30, 2009. For the three and nine month periods ended September 30, 2008, there were 582,879 and 202,480 options, respectively, that were antidilutive because the exercise price exceeded the average market price for the period. Antidilutive options and warrants have been omitted from the calculation of diluted earnings per share for the respective periods.

Note 7 – Securities

The book values and approximate fair values of investment securities at September 30, 2009 and December 31, 2008 are summarized as follows:

(\$ in thousands)	September 30, 2009				December 31, 2008			
	Amortized Cost	Fair Value	Unrealized Gains	Unrealized (Losses)	Amortized Cost	Fair Value	Unrealized Gains	Unrealized (Losses)
Securities available for sale:								
Government-sponsored enterprise securities	\$43,194	43,753	562	(4)	88,951	90,424	1,473	–
Mortgage-backed securities	91,672	93,732	2,096	(36)	46,340	46,962	779	(157)
Corporate bonds	15,773	14,399	–	(1,374)	18,885	16,848	380	(2,417)
Equity securities	16,653	16,976	351	(28)	16,744	16,959	280	(65)
Total available for sale	\$167,292	168,860	3,009	(1,442)	170,920	171,193	2,912	(2,639)
Securities held to maturity:								
State and local governments	\$27,725	28,670	945	–	15,967	15,788	109	(288)
Other	22	22	–	–	23	23	–	–
Total held to maturity	\$27,747	28,692	945	–	15,990	15,811	109	(288)

Included in mortgage-backed securities at September 30, 2009 were collateralized mortgage obligations with an amortized cost of \$5,999,000 and a fair value of \$6,179,000. Included in mortgage-backed securities at December 31, 2008 were collateralized mortgage obligations with an amortized cost of \$7,853,000 and a fair value of \$7,773,000.

The Company owned Federal Home Loan Bank stock with a cost and fair value of \$16,519,000 at September 30, 2009 and \$16,491,000 at December 31, 2008, which is included in equity securities above and serves as part of the collateral for the Company's line of credit with the Federal Home Loan Bank. The investment in this stock is a requirement for membership in the Federal Home Loan Bank system.

The following table presents information regarding securities with unrealized losses at September 30, 2009:

(\$ in thousands)	Securities in an	Securities in an	Total
	Unrealized Loss Position for Less than 12 Months Fair Value	Unrealized Loss Position for More than 12 Months Fair Value	

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		Unrealized Losses		Unrealized Losses		Unrealized Losses	
Government-sponsored enterprise securities	\$3,528	4	–	–	3,528	4	4
Mortgage-backed securities	5,271	36	–	–	5,271	36	36
Corporate bonds	14,399	1,374	–	–	14,399	1,374	1,374
Equity securities	18	14	28	14	46	28	28
State and local governments	–	–	–	–	–	–	–
Total temporarily impaired securities	\$23,216	1,428	28	14	23,244	1,442	1,442

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The following table presents information regarding securities with unrealized losses at December 31, 2008:

(\$ in thousands)	Securities in an Unrealized Loss Position for Less than 12 Months		Securities in an Unrealized Loss Position for More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprise securities	\$-	-	-	-	-	-
Mortgage-backed securities	3,468	27	5,430	130	8,898	157
Corporate bonds	8,543	2,165	2,847	252	11,390	2,417
Equity securities	29	14	49	51	78	65
State and local governments	8,737	288	-	-	8,737	288
Total temporarily impaired securities	\$20,777	2,494	8,326	433	29,103	2,927

In the above tables, all of the non-equity securities that were in an unrealized loss position at September 30, 2009 and December 31, 2008 are bonds that the Company has determined are in a loss position due to interest rate factors, the overall economic downturn in the financial sector, and the broader economy in general. The Company has evaluated the collectability of each of these bonds and has concluded that there is no other-than-temporary impairment. The Company has the ability and intent to hold these investments until maturity with no accounting loss. The Company has concluded that each of the equity securities in an unrealized loss position at September 30, 2009 and December 31, 2008 was in such a position due to temporary fluctuations in the market prices of the securities. The Company's policy is to record an impairment charge for any of these equity securities that remains in an unrealized loss position for twelve consecutive months unless the amount is insignificant.

The aggregate carrying amount of cost-method investments was \$16,541,000 and \$16,564,000 at September 30, 2009 and December 31, 2008, respectively, which included the Federal Home Loan Bank stock discussed above. The Company determined that none of its cost-method investments were impaired at either period end.

The book values and approximate fair values of investment securities at September 30, 2009, by contractual maturity, are summarized in the table below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(\$ in thousands)	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Debt securities				
Due within one year	\$5,107	5,123	1,009	1,020
Due after one year but within five years	38,087	38,630	1,993	2,061
Due after five years but within ten years	2,994	2,833	9,736	10,211
Due after ten years	12,779	11,566	15,009	15,400
Mortgage-backed securities	91,672	93,732	-	-
Total debt securities	150,639	151,884	27,747	28,692
Equity securities	16,653	16,976	-	-
Total securities	\$167,292	168,860	27,747	28,692

At September 30, 2009 and December 31, 2008, investment securities with book values of \$120,294,000 and \$135,285,000, respectively, were pledged as collateral for public and private deposits and securities sold under agreements to repurchase.

There were no securities sales during the nine months ended September 30, 2009 and 2008. During the nine months ended September 30, 2009 and 2008, the Company recorded net losses of \$113,000 and \$14,000, respectively, related to write-downs of the Company's equity portfolio.

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Note 8 – Loans and Asset Quality Information

As discussed in Note 4 above, on June 19, 2009 the Company acquired substantially all of the assets and liabilities of Cooperative Bank. The loans and foreclosed real estate that were acquired in this transaction are covered by loss share agreements between the FDIC and First Bank, which afford First Bank significant loss protection. Under the loss share agreement, the FDIC will cover 80% of covered loan and foreclosed real estate losses up to \$303 million and 95% of losses that exceed that amount. Because of the loss protection provided by the FDIC, the risk of the Cooperative Bank loans and foreclosed real estate are significantly different from those assets not covered under the loss share agreements. Accordingly, the Company presents separately loans subject to the loss share agreements as “covered loans” in the information below and loans that are not subject to the loss share agreements as “non-covered loans.” See the section entitled “Financial Discussion” within Management’s Discussion and Analysis for a table which shows the combined loan mix of the Company’s covered and non-covered loans.

The following is a summary of the major categories of non-covered loans outstanding:

(\$ in thousands)	September 30, 2009		December 31, 2008		September 30, 2008	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Non-covered loans:						
Commercial, financial, and agricultural	\$ 165,842	8 %	190,428	9 %	191,861	9 %
Real estate – construction, land development & other land loans	418,437	19 %	481,849	22 %	479,752	22 %
Real estate – mortgage – residential (1-4 family) first mortgages	589,712	27 %	576,884	26 %	569,358	26 %
Real estate – mortgage – home equity loans / lines of credit	249,650	12 %	249,764	11 %	243,385	11 %
Real estate – mortgage – commercial and other	637,713	30 %	620,444	28 %	633,326	28 %
Installment loans to individuals	85,840	4 %	91,711	4 %	93,744	4 %
Subtotal	2,147,194	100 %	2,211,080	100 %	2,211,426	100 %
Unamortized net deferred loan costs	421		235		252	
Total non-covered loans	\$2,147,615		2,211,315		2,211,678	

The carrying amount of the covered loans at September 30, 2009 consisted of loans accounted for in accordance with FASB ASC 310-30 “Loans and Debt Securities Acquired with Deteriorated Credit Quality,” and loans not subject to ASC 310-30 as detailed in the following table.

(\$ in thousands)	ASC 310-30 Loans	Non ASC 310-30 Loans	Total Covered Loans
Covered loans:			
Commercial, financial, and agricultural	\$–	9,058	9,058
Real estate – construction, land development & other land loans	45,745	145,861	191,606

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Real estate – mortgage – residential (1-4 family) first mortgages	–	233,622	233,622
Real estate – mortgage – home equity loans / lines of credit	–	26,351	26,351
Real estate – mortgage – commercial and other	4,287	78,979	83,266
Installment loans to individuals	–	5,536	5,536
Total	\$50,032	499,407	549,439

The following table presents the loans receivable not subject to ASC 310-30 at the acquisition date of June 19, 2009. The amounts include principal only and do not reflect accrued interest as of the date of the acquisition or beyond.

(\$ in thousands)

Contractual loan principal payments receivable	\$735,186
Estimate of contractual principal not expected to be collected	(213,136)
Fair value of Non ASC 310-30 loans receivable	\$522,050

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The following table presents the ASC 310-30 loans receivable at the acquisition date of June 19, 2009. The Company initially applied the cost recovery method to all loans subject to ASC 310-30 at the acquisition date of June 19, 2009 due to the uncertainty as to the timing of expected cash flows as reflected in the following table.

(\$ in thousands)

Contractually required principal payments receivable	\$93,772
Nonaccretable difference	(43,764)
Present value of cash flows expected to be collected	50,008
Accretable difference	–
Fair value of ASC 310-30 loans acquired	\$50,008

The following table presents information regarding all loans accounted for under ASC 310-30, which includes the Company's acquisition of Great Pee Dee Bancorp on April 1, 2008, and the Company's acquisition of certain assets and liabilities of Cooperative Bank on June 19, 2009:

(\$ in thousands)	Contractual Principal Receivable	Fair Market Value Adjustment – Write Down (Nonaccretable Difference)	Carrying Amount
ASC 310-30 Loans			
As of April 1, 2008 acquisition date	\$ 7,663	4,695	2,968
Additions due to borrower advances	663	–	663
Change due to payments received	(510)	–	(510)
Change due to legal discharge of debt	(102)	(102)	–
Balance at December 31, 2008	7,714	4,593	3,121
Additions due to borrower advances	–	–	–
Additions due to acquisition of Cooperative Bank	93,772	43,764	50,008
Change due to payments received	–	–	–
Transfer to foreclosed real estate	(380)	–	(380)
Change due to legal discharge of debt	(23)	–	(23)
Other	(54)	77	(131)
Balance at September 30, 2009	\$ 101,029	48,434	52,595

Each of the ASC 310-30 loans are on nonaccrual status and considered to be impaired. Because of the uncertainty of the expected cash flows, the Company is accounting for each ASC 310-30 loan under the cost recovery method, in which all cash payments are applied to principal. Thus, there is no accretable yield associated with the above loans. Since the date of acquisition, there have been no amounts received in excess of the initial carrying amount of any of these impaired loans.

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Nonperforming assets are defined as nonaccrual loans, restructured loans, loans past due 90 or more days and still accruing interest, and other real estate. Nonperforming assets are summarized as follows:

ASSET QUALITY DATA (\$ in thousands)	As of /for the three months ended			
	Sept. 30, 2009	Dec. 31, 2008	Sept. 30, 2008	
Nonaccrual loans – non-covered	\$51,015	26,600	19,558	
Nonaccrual loans – covered by FDIC loss share (1)	104,972	-	-	
Restructured loans – non-covered	6,963	3,995	3,995	
Accruing loans > 90 days past due	-	-	-	
Total nonperforming loans	162,950	30,595	23,553	
Other real estate – non-covered	7,549	4,832	4,565	
Other real estate – covered by FDIC loss share	10,439	-	-	
Total nonperforming assets	\$180,938	35,427	28,118	
Total nonperforming assets – non-covered	\$65,527	35,427	28,118	
Asset Quality Ratios – All Assets				
Net charge-offs to average loans - annualized	0.57	% 0.38	% 0.18	%
Nonperforming loans to total loans	6.04	% 1.38	% 1.06	%
Nonperforming assets to total assets	5.14	% 1.29	% 1.04	%
Allowance for loan losses to total loans	1.28	% 1.32	% 1.26	%
Allowance for loan losses to nonperforming loans	21.14	% 95.62	% 118.58	%
Asset Quality Ratios – Based on Non-covered Assets only				
Net charge-offs to average non-covered loans - annualized	0.72	% 0.38	% 0.18	%
Non-covered nonperforming loans to non-covered loans	2.70	% 1.38	% 1.06	%
Non-covered nonperforming assets to total non-covered assets	2.21	% 1.29	% 1.04	%
Allowance for loan losses to non-covered loans	1.60	% 1.32	% 1.26	%
Allowance for loan losses to non-covered nonperforming loans	59.41	% 95.62	% 118.58	%

(1) At September 30, 2009, the contractual balance of the nonaccrual loans covered by FDIC loss share agreements was \$193.8 million.

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The following table presents information related to impaired loans, as defined by FASB ASC 310-10-35, "Receivables – Subsequent Measurement."

(\$ in thousands)	As of /for the nine months ended September 30, 2009	As of /for the twelve months ended December 31, 2008	As of /for the nine months ended September 30, 2008
	Impaired loans at period end (1)	\$ 100,901	22,146
Average amount of impaired loans for period	44,742	12,547	10,148
Allowance for loan losses related to impaired loans at period end	6,360	2,869	2,583
Amount of impaired loans with no related allowance at period end (2)	74,424	14,609	11,309

(1) Effective March 31, 2009, the Company increased the threshold for loans that are exempt from ASC 310-10-35 as a result of being part of a smaller-balance homogeneous group of loans that are collectively evaluated for impairment from \$100,000 to \$250,000.

(2) Includes \$67.7 million in net loans acquired in acquisitions that were written down on their acquisition dates by \$53.7 million from a total loan balance of \$121.4 million.

At each period end, all of the impaired loans were on nonaccrual status except for those classified as restructured loans (see table on previous page for balances).

Note 9 – Deferred Loan Costs

The amount of loans shown on the Consolidated Balance Sheet includes net deferred loan costs of approximately \$421,000, \$235,000, and \$252,000 at September 30, 2009, December 31, 2008, and September 30, 2008, respectively.

Note 10 – Goodwill and Other Intangible Assets

The following is a summary of the gross carrying amount and accumulated amortization of amortizable intangible assets as of September 30, 2009, December 31, 2008, and September 30, 2008, and the carrying amount of unamortized intangible assets as of those same dates. The Company recorded a core deposit premium intangible of \$3,798,000 in connection with the acquisition of Cooperative Bank, which will be amortized on a straight line basis over the estimated life of the related deposits of eight years.

(\$ in thousands)	September 30, 2009		December 31, 2008		September 30, 2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets:						
Customer lists	\$ 394	234	394	210	394	203
Core deposit premiums	7,590	2,420	3,792	2,031	3,792	1,930
Total	\$ 7,984	2,654	4,186	2,241	4,186	2,133

Unamortizable intangible
assets:

Goodwill	\$65,835	65,835	65,835
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Amortization expense totaled \$218,000 and \$107,000 for the three months ended September 30, 2009 and 2008, respectively. Amortization expense totaled \$414,000 and \$309,000 for the nine months ended September 30, 2009 and 2008, respectively.

The following table presents the estimated amortization expense for each of the five calendar years ending December 31, 2013 and the estimated amount amortizable thereafter. These estimates are subject to change in future

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periods to the extent management determines it is necessary to make adjustments to the carrying value or estimated useful lives of amortized intangible assets.

(\$ in thousands)	Estimated Amortization Expense
Oct. 1 to Dec. 31, 2009	\$ 217
2010	851
2011	836
2012	824
2013	714
Thereafter	1,887
Total	\$ 5,329

Note 11 – Pension Plans

The Company sponsors two defined benefit pension plans – a qualified retirement plan (the “Pension Plan”), which is generally available to all employees, and a Supplemental Executive Retirement Plan (the “SERP Plan”), which is for the benefit of certain senior management executives of the Company. During the second quarter of 2009, the Company modified the Pension Plan to prohibit new entrants into the plan.

The Company recorded pension expense totaling \$937,000 and \$543,000 for the three months ended September 30, 2009 and 2008, respectively, related to the Pension Plan and the SERP Plan. The following table contains the components of the pension expense.

(\$ in thousands)	For the Three Months Ended September 30,					
	2009 Pension Plan	2008 Pension Plan	2009 SERP Plan	2008 SERP Plan	2009 Total Both Plans	2008 Total Both Plans
Service cost – benefits earned during the period	\$422	367	116	118	538	485
Interest cost	340	304	82	62	422	366
Expected return on plan assets	(250)	(361)			(250)	(361)
Amortization of transition obligation	1				1	
Amortization of net (gain)/loss	191	36	27	10	218	46
Amortization of prior service cost	3					