FIRST BANCORP /NC/
Form 10-Q
November 10, 2008

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UNITED STATES
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, 2008

Commission File Number 0-15572

FIRST BANCORP
(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| North Carolina<br>(State or Other Jurisdiction of Incorporation or Organization) | 56-1421916<br>(I.R.S. Employer Identification Number) |
| 341 North Main Street, Troy, North Carolina<br>(Address of Principal Executive Offices) | 27371-0508<br>(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. ý

YES o 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)

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

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

The number of shares of the registrant's Common Stock outstanding on November 1, 2008 was 16,546,964.

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FIRST BANCORP AND SUBSIDIARIES

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Part I. Financial Information
Item 1 - Financial Statements

First Bancorp and Subsidiaries
Consolidated Balance Sheets

| ($ in thousands-unaudited) | September 30, 2008 | December 31, 2007 (audited) | September 30, 2007 |
|---|---|---|---|
| ASSETS | | | |
| Cash & due from banks, noninterest-bearing | $ 86,825 | 31,455 | 36,352 |
| Due from banks, interest-bearing | 83,105 | 111,591 | 114,824 |
| Federal funds sold | 8,779 | 23,554 | 33,438 |
| Total cash and cash equivalents | 178,709 | 166,600 | 184,614 |
| | | | |
| Securities available for sale (costs of $169,425, $135,028, and $140,993) | 166,364 | 135,114 | 139,738 |
| | | | |
| Securities held to maturity (fair values of $15,885, $16,649, and $13,643) | 16,123 | 16,640 | 13,652 |
| | | | |
| Presold mortgages in process of settlement | 2,468 | 1,668 | 4,136 |
| | | | |
| Loans | 2,211,678 | 1,894,295 | 1,838,346 |
| Less: Allowance for loan losses | (27,928) | (21,324) | (20,631) |
| Net loans | 2,183,750 | 1,872,971 | 1,817,715 |
| | | | |
| Premises and equipment | 51,334 | 46,050 | 46,123 |
| Accrued interest receivable | 12,945 | 12,961 | 13,157 |
| Goodwill | 65,835 | 49,505 | 49,505 |
| Other intangible assets | 2,052 | 1,515 | 1,608 |
| Other | 21,086 | 14,225 | 14,015 |
| Total assets | $ 2,700,666 | 2,317,249 | 2,284,263 |
| | | | |
| LIABILITIES | | | |
| Deposits: Demand - noninterest-bearing | $ 235,334 | 232,141 | 229,727 |
| NOW accounts | 197,942 | 192,785 | 193,577 |
| Money market accounts | 315,492 | 264,653 | 250,036 |
| Savings accounts | 124,227 | 100,955 | 105,328 |
| Time deposits of $100,000 or more | 562,736 | 479,176 | 468,565 |
| Other time deposits | 587,091 | 568,567 | 571,675 |
| Total deposits | 2,022,822 | 1,838,277 | 1,818,908 |
| Repurchase agreements | 49,008 | 39,695 | 39,059 |
| Borrowings | 387,390 | 242,394 | 233,013 |
| Accrued interest payable | 5,449 | 6,010 | 6,156 |
| Other liabilities | 16,643 | 16,803 | 16,357 |

| | | | |
|---|---|---|---|
| Total liabilities | 2,481,312 | 2,143,179 | 2,113,493 |
| | | | |
| Commitments and contingencies | - | - | - |
| | | | |
| SHAREHOLDERS' EQUITY | | | |
| Common stock, No par value per share | | | |
| Issued and outstanding: 16,522,581, 14,377,981, and 14,375,303 shares | 95,352 | 56,302 | 56,256 |
| Retained earnings | 130,100 | 122,102 | 119,073 |
| Accumulated other comprehensive income (loss) | (6,098) | (4,334) | (4,559) |
| Total shareholders' equity | 219,354 | 174,070 | 170,770 |
| Total liabilities and shareholders' equity | $ 2,700,666 | 2,317,249 | 2,284,263 |

See notes to consolidated financial statements.

First Bancorp and Subsidiaries
Consolidated Statements of Income

| ($ in thousands, except share data-unaudited) | Three Months Ended September 30, 2008 | Three Months Ended September 30, 2007 | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 |
|---|---|---|---|---|
| INTEREST INCOME | | | | |
| Interest and fees on loans | $ 35,556 | 35,717 | 104,309 | 103,420 |
| Interest on investment securities: | | | | |
| Taxable interest income | 1,867 | 1,605 | 5,506 | 4,750 |
| Tax-exempt interest income | 155 | 138 | 484 | 407 |
| Other, principally overnight investments | 211 | 715 | 930 | 2,051 |
| Total interest income | 37,789 | 38,175 | 111,229 | 110,628 |
| INTEREST EXPENSE | | | | |
| Savings, NOW and money market | 2,546 | 2,831 | 7,296 | 7,655 |
| Time deposits of $100,000 or more | 5,047 | 5,908 | 16,345 | 16,768 |
| Other time deposits | 5,131 | 6,789 | 17,293 | 19,822 |
| Other, primarily borrowings | 2,280 | 2,470 | 6,245 | 7,662 |
| Total interest expense | 15,004 | 17,998 | 47,179 | 51,907 |
| Net interest income | 22,785 | 20,177 | 64,050 | 58,721 |
| Provision for loan losses | 2,851 | 1,299 | 6,443 | 3,742 |
| Net interest income after provision for loan losses | 19,934 | 18,878 | 57,607 | 54,979 |
| NONINTEREST INCOME | | | | |
| Service charges on deposit accounts | 3,610 | 2,323 | 10,148 | 6,800 |
| Other service charges, commissions and fees | 1,190 | 1,273 | 3,812 | 3,798 |
| Fees from presold mortgages | 199 | 230 | 657 | 849 |
| Commissions from sales of insurance and financial products | 419 | 374 | 1,174 | 1,177 |
| Data processing fees | 42 | 52 | 140 | 152 |
| Securities gains (losses) | 2 | - | (14) | 487 |
| Other gains (losses) | (28) | 25 | 229 | 107 |
| Total noninterest income | 5,434 | 4,277 | 16,146 | 13,370 |
| NONINTEREST EXPENSES | | | | |
| Salaries | 7,173 | 6,494 | 21,016 | 19,372 |
| Employee benefits | 1,734 | 1,836 | 5,574 | 5,598 |
| Total personnel expense | 8,907 | 8,330 | 26,590 | 24,970 |
| Net occupancy expense | 1,063 | 949 | 3,074 | 2,809 |
| Equipment related expenses | 1,034 | 953 | 3,074 | 2,830 |
| Intangibles amortization | 107 | 93 | 309 | 281 |
| Other operating expenses | 4,359 | 3,616 | 13,538 | 11,691 |
| Total noninterest expenses | 15,470 | 13,941 | 46,585 | 42,581 |

| | | | | | |
|---|---|---|---|---|---|
| Income before income taxes | | 9,898 | 9,214 | 27,168 | 25,768 |
| Income taxes | | 3,701 | 3,471 | 10,164 | 9,720 |
| | | | | | |
| NET INCOME | $ | 6,197 | 5,743 | 17,004 | 16,048 |
| | | | | | |
| Earnings per share: | | | | | |
| Basic | $ | 0.38 | 0.40 | 1.08 | 1.12 |
| Diluted | | 0.37 | 0.40 | 1.07 | 1.11 |
| | | | | | |
| Dividends declared per share | $ | 0.19 | 0.19 | 0.57 | 0.57 |
| | | | | | |
| Weighted average common shares outstanding: | | | | | |
| Basic | | 16,515,507 | 14,391,739 | 15,789,027 | 14,378,787 |
| Diluted | | 16,539,179 | 14,462,266 | 15,846,966 | 14,474,673 |

See notes to consolidated financial statements.

First Bancorp and Subsidiaries
Consolidated Statements of Comprehensive Income

| ($ in thousands-unaudited) | Three Months Ended September 30, 2008 | Three Months Ended September 30, 2007 | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 |
|---|---|---|---|---|
| Net income | $ 6,197 | 5,743 | 17,004 | 16,048 |
| Other comprehensive income (loss): | | | | |
| Unrealized gains (losses) on securities available for sale: | | | | |
| Unrealized holding gains (losses) arising during the period, pretax | (1,485) | 1,002 | (3,161) | 92 |
| Tax benefit (expense) | 579 | (391) | 1,233 | (36) |
| Reclassification to realized (gains) losses | (2) | - | 14 | (487) |
| Tax expense (benefit) | 1 | - | (6) | 190 |
| Postretirement Plans: | | | | |
| Amortization of unrecognized net actuarial loss | 46 | 117 | 232 | 351 |
| Tax expense | (18) | (45) | (91) | (137) |
| Amortization of prior service cost and transition obligation | 7 | 10 | 25 | 30 |
| Tax expense | (3) | (4) | (10) | (12) |
| Other comprehensive income (loss) | (875) | 689 | (1,764) | (9) |
| Comprehensive income | $ 5,322 | 6,432 | 15,240 | 16,039 |

See notes to consolidated financial statements.

First Bancorp and Subsidiaries
Consolidated Statements of Shareholders' Equity

| (In thousands, except per share - unaudited) | Common Stock Shares | Common Stock Amount | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Share-holders' Equity |
|---|---|---|---|---|---|
| Balances, January 1, 2007 | 14,353 | $ 56,035 | 111,220 | (4,550) | 162,705 |
| Net income | | | 16,048 | | 16,048 |
| Cash dividends declared ($0.57 per share) | | | (8,195) | | (8,195) |
| Common stock issued under stock option plan | 49 | 538 | | | 538 |
| Purchases and retirement of common stock | (27) | (532) | | | (532) |
| Tax benefit realized from exercise of nonqualified stock options | - | 36 | | | 36 |
| Stock-based compensation | - | 179 | | | 179 |
| Other comprehensive loss | | | | (9) | (9) |
| Balances, September 30, 2007 | 14,375 | $ 56,256 | 119,073 | (4,559) | 170,770 |
| 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 share) | | | (9,006) | | (9,006) |
| Common stock issued under stock option plan | 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 loss | | | | (1,764) | (1,764) |
| Balances, September 30, 2008 | 16,523 | $ 95,352 | 130,100 | (6,098) | 219,354 |

See notes to consolidated financial statements.

First Bancorp and Subsidiaries
Consolidated Statements of Cash Flows

| ($ in thousands-unaudited) | Nine Months Ended September 30, 2008 | 2007 |
|---|---|---|
| Cash Flows From Operating Activities | | |
| Net income | $ 17,004 | 16,048 |
| Reconciliation of net income to net cash provided by operating activities: | | |
| Provision for loan losses | 6,443 | 3,742 |
| Net security premium amortization (discount accretion) | (101) | 54 |
| Net purchase accounting adjustments - discount accretion | (732) | – |
| Loss (gain) on sale of securities available for sale | 14 | (487) |
| Other gains | (229) | (107) |
| Increase in net deferred loan fees and costs | (106) | (35) |
| Depreciation of premises and equipment | 2,582 | 2,437 |
| Stock-based compensation expense | 143 | 179 |
| Amortization of intangible assets | 309 | 281 |
| Deferred income tax benefit | (1,282) | (918) |
| Originations of presold mortgages in process of settlement | (46,594) | (56,093) |
| Proceeds from sales of presold mortgages in process of settlement | 45,794 | 56,723 |
| Decrease (increase) in accrued interest receivable | 997 | (999) |
| Decrease in other assets | 2,188 | 1,135 |
| Increase (decrease) in accrued interest payable | (864) | 507 |
| Decrease in other liabilities | (670) | (2,567) |
| Net cash provided by operating activities | 24,896 | 19,900 |
| | | |
| Cash Flows From Investing Activities | | |
| Purchases of securities available for sale | (126,357) | (65,093) |
| Purchases of securities held to maturity | (1,305) | (2,123) |
| Proceeds from maturities/issuer calls of securities available for sale | 106,573 | 51,103 |
| Proceeds from maturities/issuer calls of securities held to maturity | 2,157 | 1,577 |
| Proceeds from sales of securities available for sale | 503 | 4,185 |
| Net increase in loans | (139,806) | (101,550) |
| Proceeds from sales of foreclosed real estate | 2,547 | 1,095 |
| Purchases of premises and equipment | (3,572) | (5,010) |
| Net cash received in acquisition of Great Pee Dee Bancorp | 2,461 | – |
| Net cash used by investing activities | (156,799) | (115,816) |
| | | |
| Cash Flows From Financing Activities | | |
| Net increase in deposits and repurchase agreements | 46,743 | 119,012 |
| Proceeds from borrowings, net | 104,565 | 23,000 |
| Cash dividends paid | (8,598) | (8,192) |
| Proceeds from issuance of common stock | 1,274 | 538 |
| Purchases and retirement of common stock | – | (532) |
| Tax benefit from exercise of nonqualified stock options | 28 | 36 |
| Net cash provided by financing activities | 144,012 | 133,862 |

| | | |
|---|---|---|
| Increase in Cash and Cash Equivalents | 12,109 | 37,946 |
| Cash and Cash Equivalents, Beginning of Period | 166,600 | 146,668 |
| | | |
| Cash and Cash Equivalents, End of Period | $ 178,709 | 184,614 |
| | | |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash paid during the period for: | | |
| Interest | $ 48,043 | 51,400 |
| Income taxes | 11,514 | 12,714 |
| Non-cash transactions: | | |
| Unrealized loss on securities available for sale, net of taxes | (1,920) | (241) |
| Foreclosed loans transferred to other real estate | 4,057 | 1,582 |
| Common stock issued in acquisition | 37,605 | — |

See notes to consolidated financial statements.

First Bancorp and Subsidiaries
Notes to Consolidated Financial Statements

(unaudited) For the Periods Ended September 30, 2008 and 2007

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, 2008 and 2007 and the consolidated results of operations and consolidated cash flows for the periods ended September 30, 2008 and 2007. All such adjustments were of a normal, recurring nature. Reference is made to the 2007 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, 2008 and 2007 are not necessarily indicative of the results to be expected for the full year.

Note 2 – Accounting Policies

Note 1 to the 2007 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.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements" (Statement 157). Statement 157 provides enhanced guidance for using fair value to measure assets and liabilities. The standard 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, Statement 157 became effective for the Company as of January 1, 2008. For nonfinancial assets and liabilities, Statement 157 will become effective for the Company on January 1, 2009. The Company's January 1, 2008 adoption of Statement 157 as it relates to financial assets and liabilities had no impact on the Company's financial statements. See Note 11 for the disclosures required by Statement 157. The Company is currently evaluating any potential impact of the adoption of the remainder of Statement 157.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115" (Statement 159). This statement permits, but does not require, entities to measure many financial instruments at fair value. The objective is to provide entities with an opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Entities electing this option will apply it when the entity first recognizes an eligible instrument and will report unrealized gains and losses on such instruments in current earnings. This statement 1) applies to all entities, 2) specifies certain election dates, 3) can be applied on an instrument-by-instrument basis with some exceptions, 4) is irrevocable and 5) applies only to entire instruments. One exception is demand deposit liabilities, which are explicitly excluded from qualifying for the fair value option. With respect to FASB Statement No. 115, available for sale and held to maturity securities held at the effective date of Statement 159 are eligible for the fair value option at that date. If the fair value option is elected for those securities at the effective date, cumulative unrealized gains and losses at that date will be included in the cumulative-effect adjustment and thereafter, such securities will be accounted for as trading securities. Statement 159 became effective for the Company on January 1, 2008. Upon adoption, the Company elected not to expand its use of fair value

accounting.

In December 2007, the FASB issued SFAS No. 141(R), “Business Combinations” (Statement 141(R)) which replaces Statement 141, “Business Combinations.” Statement 141(R) retains the fundamental requirement in Statement 141 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. Statement 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as of the date that the acquirer achieves control. Statement 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values. This Statement requires the acquirer to recognize acquisition-related costs and restructuring costs separately from the business combination as period expense. This Statement is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of this Statement will impact the Company's accounting for and reporting of acquisitions completed after January 1, 2009.

In April 2008, the FASB issued FASB Staff Position No. 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." The intent of FSP 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R), "Business Combinations," and other U.S. generally accepted accounting principles. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years, and early adoption is prohibited. Accordingly, FSP 142-3 is effective for the Company on January 1, 2009. The Company does not believe the adoption of FSP 142-3 will have a material impact on its financial position, results of operations or cash flows.

Note 3 – Reclassifications

Certain amounts reported in the period ended September 30, 2007 have been reclassified to conform to the presentation for September 30, 2008. These reclassifications had no effect on net income or shareholders' equity for the periods presented, nor did they materially impact trends in financial information.

Note 4 – Equity-Based Compensation Plans

At September 30, 2008, 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, 2008, 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 and 2008, 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 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 achieves 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.

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, 2008, there were 846,010 options outstanding related to the three First Bancorp plans with exercise prices ranging from $9.75 to $22.12. At September 30, 2008, there were 777,313 shares remaining available for grant under the First Bancorp 2007 Equity Plan. The Company also has three stock option plans as a result of assuming plans of acquired companies. At September 30, 2008, there were 107,766 stock options outstanding in connection with these plans, with option prices ranging from $10.66 to $15.66.

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 recorded no stock-based compensation expense for the three-month period ended September 30, 2008 and recorded stock-based compensation expense of $12,000 for the same period in 2007. For the nine-month periods ended September 30, 2008 and 2007, the Company recorded stock-based compensation expense of $143,000 and $179,000, respectively, most of which was classified as "other operating expenses" on the Consolidated Statements of Income. The Company recognized no income tax benefits in the income statement related to stock-based compensation for the three-month periods ended September 30, 2008 and 2007. The Company recognized $53,000 and $56,000 of income tax benefits in the income statement for the first nine months of 2008 and 2007, respectively. The compensation expense recorded relates primarily to the grants of 2,250 options to each non-employee director of the Company in June of each year with no vesting requirements. Stock-based compensation expense is reflected as an adjustment to cash flows from operating activities on the Company's Consolidated Statement

of Cash Flows.

None of the compensation expense discussed in the preceding paragraph relates to the June 17, 2008 option and performance unit grant because the Company has determined that it is not probable that any of the minimum performance targets required for vesting will be achieved.

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 Statement 123(R), 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. Statement 123(R) 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 only been ten forfeitures or expirations, totaling 22,500 options, and therefore the Company assumes that all options granted without performance conditions will become vested.

As discussed above, the Company's share grants for the first nine months of 2008 were grants of 1) 5,000 incentive stock options to an executive officer 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 81,337 performance units to 19 senior officers 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 |
|---|---|
| Expected dividend yield | 4.58% |
| Risk-free interest rate | 4.17% |
| Expected life | 9.7 years |
| Expected volatility | 34.65% |

The Company's only option grants for the first nine months of 2007 were grants of 24,750 options to non-employee directors on June 1, 2007 (2,250 options per director). The per share weighted-average fair value of options granted during the nine months ended September 30, 2007 was $5.80 on the date of the grant using the following assumptions:

| | Nine months ended September 30, 2007 |
|---|---|
| Expected dividend yield | 3.88% |
| Risk-free interest rate | 4.92% |
| Expected life | 7 years |
| Expected volatility | 32.91% |

The following table presents information regarding the activity during the first nine months of 2008 for all of the Company’s stock options outstanding:

| | All Options Outstanding | | | |
|---|---|---|---|---|
| Nine months ended September 30, 2008 | Number of Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value ($000) |
| Outstanding at the beginning of the period | 607,982 | $ 17.38 | | |
| Granted during the period | 296,849 | 16.63 | | |
| Assumed in corporate acquisition | 88,409 | 14.39 | | |
| Exercised during the period | (39,464) | 13.46 | | |
| Forfeited or expired during the period | – | – | | |
| Outstanding at end of period | 953,776 | $ 17.03 | 5.7 | $ 99 |
| Exercisable at September 30, 2008 | 684,677 | $ 17.18 | 4.1 | $ 0 |

The Company received $441,000 and $538,000 as a result of stock option exercises during the nine months ended September 30, 2008 and 2007, respectively. The intrinsic value of the stock options exercised during the nine months ended September 30, 2008 and 2007 was $183,000 and $509,000, respectively. The Company recorded $28,000 and $36,000 in associated tax benefits from the exercise of nonqualified stock options during the nine months ended September 30, 2008 and 2007, respectively.

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. The following table presents information regarding the activity during the first nine months of 2008 related to the Company's performance units outstanding:

Nonvested Performance Units

| Nine months ended September 30, 2008 | Number of Units | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Nonvested at the beginning of the period | – | $ – |
| Granted during the period | 81,337 | 16.53 |
| Vested during the period | – | – |
| Forfeited or expired during the period | – | – |
| Nonvested at end of period | 81,337 | $ 16.53 |

At September 30, 2008, the Company had $30,000 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 3.3 years, with $9,000 being expensed in each of 2009 and 2010 and $6,000 being expensed in each of 2011 and 2012. At September 30, 2008, the Company had $2.7 million in unrecognized compensation expense associated with the June 17, 2008 award grant that has both performance conditions and service conditions. The Company currently believes that it is probable that none of these awards will vest and therefore none of the unrecognized compensation cost is expected to be recognized.

Note 5 – Earnings Per Share

Basic earnings per share were computed by dividing net income by the weighted average common shares outstanding. Diluted earnings per share includes the potentially dilutive effects of the Company's stock option plan. The following is a reconciliation of the numerators and denominators used in computing basic and diluted earnings per share:

| | For the Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | |
| ($ in thousands except per share amounts) | Income (Numer-ator) | Shares (Denom-inator) | Per Share Amount | Income (Numer-ator) | Shares (Denom-inator) | Per Share Amount |
| Basic EPS | | | | | | |
| Net income | $ 6,197 | 16,515,507 | $ 0.38 | $ 5,743 | 14,391,739 | $ 0.40 |
| | | | | | | |
| Effect of Dilutive Securities | - | 23,672 | | - | 70,527 | |
| | | | | | | |
| Diluted EPS | $ 6,197 | 16,539,179 | $ 0.37 | $ 5,743 | 14,462,266 | $ 0.40 |

| | For the Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | |
| ($ in thousands except per share amounts) | Income (Numer-ator) | Shares (Denom-inator) | Per Share Amount | Income (Numer-ator) | Shares (Denom-inator) | Per Share Amount |
| Basic EPS | | | | | | |
| Net income | $ 17,004 | 15,789,027 | $ 1.08 | $ 16,048 | 14,378,787 | $ 1.12 |
| | | | | | | |
| Effect of Dilutive Securities | - | 57,939 | | - | 95,886 | |
| | | | | | | |
| Diluted EPS | $ 17,004 | 15,846,966 | $ 1.07 | $ 16,048 | 14,474,673 | $ 1.11 |

For the three and nine months 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. For the three and nine months ended September 30, 2007, there were 271,230 and 214,980 options, respectively, that were antidilutive because the exercise price exceeded the average market price for the period. Antidilutive options have been omitted from the calculation of diluted earnings per share for the respective periods.

Note 6 – Asset Quality Information

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

| ($ in thousands) | | September 30, 2008 | December 31, 2007 | September 30, 2007 |
|---|---|---|---|---|
| Nonperforming loans: | | | | |
| Nonaccrual loans | $ | 19,558 | 7,807 | 6,941 |
| Accruing loans > 90 days past due | | – | – | – |
| Total nonperforming loans | | 19,558 | 7,807 | 6,941 |
| Other real estate | | 4,565 | 3,042 | 2,058 |
| Total nonperforming assets | $ | 24,123 | 10,849 | 8,999 |
| | | | | |
| Nonperforming loans to total loans | | 0.88% | 0.41% | 0.38% |
| Nonperforming assets as a percentage of loans and other real estate | | 1.09% | 0.57% | 0.49% |
| Nonperforming assets to total assets | | 0.89% | 0.47% | 0.39% |
| Allowance for loan losses to total loans | | 1.26% | 1.13% | 1.12% |

The following table presents information related to impaired loans, as defined by Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan."

| ($ in thousands) | | As of /for the nine months ended September 30, 2008 | As of /for the twelve months ended December 31, 2007 | As of /for the nine months ended September 30, 2007 |
|---|---|---|---|---|
| Impaired loans at period end | $ | 16,749 | 3,883 | 3,493 |
| Average amount of impaired loans for period | | 10,148 | 3,161 | 2,981 |
| Allowance for loan losses related to impaired loans at period end | | 2,583 | 751 | 1,055 |
| Amount of impaired loans with no related allowance at period end (1) | | 11,309 | 1,982 | 1,210 |

(1) Includes $4.3 million in net loans acquired in an acquisition that have already been written down by $4.7 million from a total loan balance of $9.0 million. See the following paragraph for additional discussion.

As discussed in Note 12, the Company completed a corporate acquisition on April 1, 2008. The Company determined that gross loan balances totaling $9.0 million were impaired on the date of acquisition. The estimated fair value of

these impaired loans was determined to be $4.3 million. Accordingly, the Company wrote the gross balances down by $4.7 million in connection with the recording of the transaction. All of these acquired impaired loans are on nonaccrual basis and are currently being accounted for under the cost recovery method of accounting, in which all payments received will be credited to the remaining carrying balance of the loan. Since the date of acquisition, there have been no amounts received in excess of the initial carrying amount of any of these impaired loans.

All of the impaired loans noted in the table above were on nonaccrual status at each respective period end except that at September 30, 2008, a $4.0 million loan that is classified as an impaired loan due to a restructured interest rate was performing as agreed and was on accruing status.

Note 7 – Deferred Loan Costs

The amount of loans shown on the Consolidated Balance Sheets includes net deferred loan costs of approximately $252,000, $146,000, and $62,000 at September 30, 2008, December 31, 2007, and September 30, 2007, respectively.

Note 8 – 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, 2008, December 31, 2007, and September 30, 2007 and the carrying amount of unamortized intangible assets as of those same dates.

| | September 30, 2008 | | December 31, 2007 | | September 30, 2007 | |
|---|---|---|---|---|---|---|
| ($ in thousands) | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Amortizable intangible assets: | | | | | | |
| Customer lists | $ 394 | 203 | 394 | 179 | 394 | 171 |
| Core deposit premiums | 3,792 | 1,930 | 2,945 | 1,645 | 2,945 | 1,560 |
| Total | $ 4,186 | 2,133 | 3,339 | 1,824 | 3,339 | 1,731 |
| | | | | | | |
| Unamortizable intangible assets: | | | | | | |
| Goodwill | $ 65,835 | | 49,505 | | 49,505 | |

Amortization expense totaled $107,000 and $93,000 for the three months ended September 30, 2008 and 2007, respectively. Amortization expense totaled $309,000 and $281,000 for the nine months ended September 30, 2008 and 2007, respectively.

The following table presents the estimated amortization expense for each of the five calendar years ending December 31, 2012 and the estimated amount amortizable thereafter. These estimates are subject to change in future periods to the extent management determines it is necessary to make adjustments to the carrying value or estimated useful lives of amortized intangible assets.

| (Dollars in thousands) | Estimated Amortization Expense |
|---|---|
| 2008 | $ 401 |
| 2009 | 393 |
| 2010 | 376 |
| 2011 | 361 |
| 2012 | 349 |
| Thereafter | 481 |
| Total | $ 2,361 |

Note 9 – 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.

The Company recorded pension expense totaling $543,000 and $674,000 for the three months ended September 30, 2008 and 2007, 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, 2008 Pension Plan | 2007 Pension Plan | 2008 SERP Plan | 2007 SERP Plan | 2008 Total Both Plans | 2007 Total Both Plans |
|---|---|---|---|---|---|---|
| Service cost – benefits earned during the period | $ 367 | 385 | 118 | 120 | 485 | 505 |
| Interest cost | 304 | 292 | 62 | 62 | 366 | 354 |
| Expected return on plan assets | (361) | (329) | | | (361) | (329) |
| Amortization of transition obligation | | | | | | |
| Amortization of net (gain)/loss | 36 | 111 | 10 | 25 | 46 | 136 |
| Amortization of prior service cost | 3 | 3 | 4 | 5 | 7 | 8 |
| Net periodic pension cost | $ 349 | 462 | 194 | 212 | 543 | 674 |

The Company recorded pension expense totaling $1,755,000 and $1,811,000 for the nine months ended September 30, 2008 and 2007, respectively, related to the Pension Plan and the SERP Plan. The following table contains the components of the pension expense.

| (in thousands) | For the Nine Months Ended September 30, 2008 Pension Plan | 2007 Pension Plan | 2008 SERP Plan | 2007 SERP Plan | 2008 Total Both Plans | 2007 Total Both Plans |
|---|---|---|---|---|---|---|
| Service cost – benefits earned during the period | $ 1,117 | 1,105 | 336 | 311 | 1,453 | 1,416 |
| Interest cost | 928 | 825 | 202 | 181 | 1,130 | 1,006 |
| Expected return on plan assets | (1,085) | (974) | | | (1,085) | (974) |
| Amortization of transition obligation | 2 | | | | 2 | |
| Amortization of net (gain)/loss | 188 | 268 | 44 | 66 | 232 | 334 |
| Amortization of prior service cost | 9 | 9 | 14 | 20 | 23 | 29 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net periodic pension cost | $ | 1,159 | 1,233 | 596 | 578 | 1,755 | 1,811 |

The Company’s contributions to the Pension Plan are based on computations by independent actuarial consultants and are intended to ensure that the Pension Plan exceeds minimum funding standards at all times according to standards established by the Internal Revenue Service.  The contributions are invested to provide for benefits under the Pension Plan.  The Company estimates that its contribution to the Pension Plan will be $1.4 million during 2008.

The Company’s funding policy with respect to the SERP is to fund the related benefits from the operating cash flow of the Company.  The Company expects to make SERP benefit payments of $104,000 during 2008.

Note 10 – Comprehensive Income

Comprehensive income is defined as the change in equity during a period for non-owner transactions and is divided into net income and other comprehensive income. Other comprehensive income includes revenues, expenses, gains, and losses that are excluded from earnings under current accounting standards. The components of accumulated other comprehensive income for the Company are as follows:

| | September 30, 2008 | December 31, 2007 | September 30, 2007 |
|---|---|---|---|
| Unrealized gain (loss) on securities available for sale | $ (3,061) | 86 | (1,255) |
| Deferred tax asset (liability) | 1,194 | (34) | 490 |
| Net unrealized gain (loss) on securities available for sale | (1,867) | 52 | (765) |
| | | | |
| Additional pension liability | (6,984) | (7,240) | (6,268) |
| Deferred tax asset | 2,753 | 2,854 | 2,474 |
| Net additional pension liability | (4,231) | (4,386) | (3,794) |
| | | | |
| Total accumulated other comprehensive income (loss) | $ (6,098) | (4,334) | (4,559) |

Note 11 – Fair Value

As discussed in Note 2, on January 1, 2008, the Company adopted Statement of Financial Accounting Standard No. 157, "Fair Value Measurements" (Statement 157), as it applies to financial assets and liabilities. Statement 157 provides enhanced guidance for measuring assets and liabilities using fair value and applies to situations where other standards require or permit assets or liabilities to be measured at fair value. Statement 157 also requires expanded disclosure of items that are measured at fair value, the information used to measure fair value and the effect of fair value measurements on earnings.

Statement 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Quoted prices for similar instrument in active or non-active markets and model-derived valuations in which all significant inputs are observable in active markets.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The following table summarizes the Company's financial instruments that were measured at fair value on a recurring basis at September 30, 2008.

($ in thousands)

| Description of Financial Instruments | Fair Value at September 30, 2008 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Securities available for sale | $ 166,364 | $ 547 | $ 165,817 | $ — |
| Impaired loans | 16,749 | — | 16,749 | — |

The following is a description of the valuation methodologies used for instruments measured at fair value.

Securities available for sale — When quoted market prices are available in an active market, the securities are classified as Level 1 in the valuation hierarchy. Level 1 securities for the Company include certain equity securities. If quoted market prices are not available, but fair values can be estimated by observing quoted prices of securities with similar characteristics, the securities are classified as Level 2 on the valuation hierarchy. For the Company, Level 2 securities include mortgage backed securities, collateralized mortgage obligations, government sponsored entity securities, and corporate bonds. In cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Impaired loans — Statement 157 applies to loans that are measured for impairment using the practical expedients permitted by SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." Fair values for impaired loans in the above table are collateral dependent and are estimated based on underlying collateral values, which are then adjusted for the cost related to liquidation of the collateral.

For the three and nine months ended September 30, 2008, the decrease in the fair value of securities available for sale was $1,487,000 and $3,147,000, respectively, which is included in other comprehensive income (net of taxes of $580,000 and $1,227,000, respectively). Fair value measurement methods at September 30, 2008 are consistent with those used in prior reporting periods.

Note 12 – Acquisition of Great Pee Dee Bancorp, Inc.

On April 1, 2008 the Company completed the acquisition of Great Pee Dee Bancorp, Inc. (Great Pee Dee). The results of Great Pee Dee are included in First Bancorp's results for the periods ended September 30, 2008 beginning on the April 1, 2008 acquisition date.

Great Pee Dee was the parent company of Sentry Bank and Trust (Sentry), a South Carolina community bank with one branch in Florence, South Carolina and two branches in Cheraw, South Carolina. Great Pee Dee had $213 million in total assets as of the date of acquisition. This acquisition represented a natural extension of the Company's market area with Sentry's Cheraw offices being in close proximity to the Company's Rockingham, North Carolina branch and Sentry's Florence office being in close proximity to existing branches in Dillon and Latta, South Carolina. The Company's primary reason for the acquisition was to expand into a contiguous market with facilities, operations and experienced staff in place. The Company agreed to a purchase price that resulted in recognition of goodwill primarily

due to the reasons just noted, as well as the generally positive earnings of Great Pee Dee. The terms of the agreement called for shareholders of Great Pee Dee to receive 1.15 shares of First Bancorp stock for each share of Great Pee Dee stock they owned. The transaction was completed on April 1, 2008 with the Company issuing 2,059,091 shares of common stock that were valued at approximately $37.0 million and assuming employee stock options with a fair market value of approximately $0.6 million. The value of the stock issued was determined using a Company stock price of $17.98, which was the average of the daily closing price of

the Company's stock for the five trading days closest to the July 12, 2007 announcement of the execution of the definitive merger agreement. The value of the employee stock options assumed was determined using the Black-Scholes option-pricing model.

This acquisition has been accounted for using the purchase method of accounting for business combinations, and accordingly, the assets and liabilities of Great Pee Dee were recorded based on estimates of fair values as of April 1, 2008. The table below is a condensed balance sheet disclosing the amount assigned to each major asset and liability category of Great Pee Dee on April 1, 2008, and the related fair value adjustments recorded by the Company to reflect the acquisition. The $16.3 million in goodwill that resulted from this transaction is non-deductible for tax purposes.

| ($ in thousands) | As Recorded by Great Pee Dee | Fair Value Adjustments | As Recorded by First Bancorp |
|---|---|---|---|
| Assets | | | |
| Cash and cash equivalents | $ 3,242 | – | 3,242 |
| Securities | 15,364 | – | 15,364 |
| Loans, gross | 187,309 | 1,226 (a) | 183,840 |
| | | (4,695)(b) | |
| Allowance for loan losses | (2,353) | (805)(c) | (3,158) |
| Premises and equipment | 5,060 | (708)(d) | 4,352 |
| Core deposit intangible | 355 | 492 (e) | 847 |
| Other | 4,285 | 2,690 (f) | 6,975 |
| Total | 213,262 | (1,800) | 211,462 |
| | | | |
| Liabilities | | | |
| Deposits | $ 146,611 | 1,098 (g) | 147,709 |
| Borrowings | 39,337 | 1,328 (h) | 40,665 |
| Other | 1,058 | – | 1,058 |
| Total | 187,006 | 2,426 | 189,432 |
| | | | |
| Net identifiable assets acquired | | | 22,030 |
| | | | |
| Total cost of acquisition | | | |
| Value of stock issued | | $ 37,022 | |
| Value of assumed options | | 587 | |
| Direct costs of acquisition | | 751 | |
| Total cost of acquisition | | | 38,360 |
| | | | |
| Goodwill recorded related to acquisition of Great Pee Dee Bancorp | | | $ 16,330 |

Explanation of Fair Value Adjustments

(a) This fair value adjustment was recorded because the yields on the loans purchased from Great Pee Dee exceed the current market rates. This amount will be amortized to reduce interest income over the remaining lives of the related loans, which have a weighted average life of approximately 6.3 years.

(b)

This fair value adjustment was recorded to write-down impaired loans assumed in the acquisition to their estimated fair market value.

(c) This fair value adjustment was the estimated amount of additional inherent loan losses associated with non-impaired loans.

(d) This adjustment represents the amount necessary to reduce premises and equipment from its book value on the date of acquisition to its estimated fair market value.

(e) 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 expense on a straight-line basis over the weighted average life of the core deposit base, which was estimated to be 7.4 years.

(f) This fair value adjustment represents the net deferred tax asset associated with the other fair value adjustments made to record the transaction.

(g) This fair value adjustment was recorded because the weighted average interest rate of Great Pee Dee'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 over the remaining lives of the related time deposits, which have a weighted average life of approximately 11 months.

(h) This fair value adjustment was recorded because the interest rates of Great Pee Dee's fixed rate borrowings exceeded current interest rates on similar borrowings. This amount will be amortized to reduce interest expense over the remaining lives of the related borrowings, which range from 28 months to 48 months.

The following unaudited pro forma financial information presents the combined results of the Company and Great Pee Dee as if the acquisition had occurred as of January 1, 2007, after giving effect to certain adjustments, including amortization of the core deposit intangible, and related income tax effects. The pro forma financial information does not necessarily reflect the results of operations that would have occurred had the Company and Great Pee Dee constituted a single entity during such period.

| ($ in thousands, except share data) | Three Months Ended September 30, 2008 | Three Months Ended September 30, 2007 | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 |
|---|---|---|---|---|
| Net interest income | $ 22,785 | 22,255 | 65,978 | 64,722 |
| Noninterest income | 5,434 | 4,552 | 16,375 | 14,240 |
| Total revenue | 28,219 | 26,807 | 82,353 | 78,962 |
| Provision for loan losses | 2,851 | 1,366 | 6,793 | 3,870 |
| Noninterest expense | 15,470 | 15,503 | 50,570 | 46,691 |
| Income before income taxes | 9,898 | 9,938 | 24,990 | 28,401 |
| Income tax expense | 3,701 | 3,868 | 9,589 | 10,852 |
| Net income | 6,197 | 6,070 | 15,401 | 17,549 |
| Earnings per share | | | | |
| Basic | $ 0.38 | 0.37 | 0.93 | 1.07 |
| Diluted | 0.37 | 0.37 | 0.93 | 1.06 |

The above pro forma results for the nine months ended September 30, 2008 include merger-related expenses and charges recorded by Great Pee Dee prior to the merger that are nonrecurring in nature and amounted to $2.9 million pretax, or $2.0 million after-tax ($0.12 per share). The pro forma results for the three and nine month periods ended September 30, 2007 each include nonrecurring merger-related expenses of $304,000 (pretax and after-tax), or $0.02

per share.

## Item 2 - Management's Discussion and Analysis of Consolidated Results of Operations and Financial Condition

### CRITICAL ACCOUNTING POLICIES

We follow and apply accounting principles that conform with accounting principles generally accepted in the United States of America and with general practices followed by the banking industry. Certain of these principles involve a significant amount of judgment and/or use of estimates based on our best assumptions at the time of the estimation. We have identified two policies as being more sensitive in terms of judgments and estimates, taking into account their overall potential impact to our consolidated financial statements – 1) the allowance for loan losses and 2) intangible assets.

### Allowance for Loan Losses

Due to the estimation process and the potential materiality of the amounts involved, we have identified the accounting for the allowance for loan losses and the related provision for loan losses as an accounting policy critical to our consolidated financial statements. The provision for loan losses charged to operations is an amount sufficient to bring the allowance for loan losses to an estimated balance considered adequate to absorb losses inherent in the portfolio.

Our determination of the adequacy of the allowance is based primarily on a mathematical model that estimates the appropriate allowance for loan losses. This model has two components. The first component involves the estimation of losses on loans defined as “impaired loans.” A loan is considered to be impaired when, based on current information and events, it is probable we will be unable to collect all amounts due according to the contractual terms of the loan agreement. The estimated valuation allowance is the difference, if any, between the loan balance outstanding and the value of the impaired loan as determined by either 1) an estimate of the cash flows that we expect to receive from the borrower discounted at the loan’s effective rate, or 2) in the case of a collateral-dependent loan, the fair value of the collateral.

The second component of the allowance model is an estimate of losses for all loans not considered to be impaired loans. First, loans that we have risk graded as having more than “standard” risk but are not considered to be impaired are assigned estimated loss percentages generally accepted in the banking industry. Loans that we have classified as having normal credit risk are segregated by loan type, and estimated loss percentages are assigned to each loan type, based on the historical losses, current economic conditions, and operational conditions specific to each loan type.

The reserve estimated for impaired loans is then added to the reserve estimated for all other loans. This becomes our “allocated allowance.” In addition to the allocated allowance derived from the model, we also evaluate other data such as the ratio of the allowance for loan losses to total loans, net loan growth information, nonperforming asset levels and trends in such data. Based on this additional analysis, we may determine that an additional amount of allowance for loan losses is necessary to reserve for probable losses. This additional amount, if any, is our “unallocated allowance.” The sum of the allocated allowance and the unallocated allowance is compared to the actual allowance for loan losses recorded on our books and any adjustment necessary for the recorded allowance to equal the computed allowance is recorded as a provision for loan losses. The provision for loan losses is a direct charge to earnings in the period recorded.

Although we use the best information available to make evaluations, future material adjustments may be necessary if economic, operational, or other conditions change. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize additions to the allowance based on the examiners’ judgment about information available to them at the time of their examinations.

For further discussion, see “Nonperforming Assets” and “Summary of Loan Loss Experience” below.

Intangible Assets

Due to the estimation process and the potential materiality of the amounts involved, we have also identified the accounting for intangible assets as an accounting policy critical to our consolidated financial statements.

When we complete an acquisition transaction, the excess of the purchase price over the amount by which the fair market value of assets acquired exceeds the fair market value of liabilities assumed represents an intangible asset. We must then determine the identifiable portions of the intangible asset, with any remaining amount classified as goodwill. Identifiable intangible assets associated with these acquisitions are generally amortized over the estimated life of the related asset, whereas goodwill is tested annually for impairment, but not systematically amortized. Assuming no goodwill impairment, it is beneficial to our future earnings to have a lower amount assigned to identifiable intangible assets and higher amount of goodwill as opposed to having a higher amount considered to be identifiable intangible assets and a lower amount classified as goodwill.

The primary identifiable intangible asset we typically record in connection with a whole bank or bank branch acquisition is the value of the core deposit intangible, whereas when we acquire an insurance agency, the primary identifiable intangible asset is the value of the acquired customer list. Determining the amount of identifiable intangible assets and their average lives involves multiple assumptions and estimates and is typically determined by performing a discounted cash flow analysis, which involves a combination of any or all of the following assumptions: customer attrition/runoff, alternative funding costs, deposit servicing costs, and discount rates. We typically engage a third party consultant to assist in each analysis. For the whole bank and bank branch transactions recorded to date, the core deposit intangibles have generally been estimated to have a life ranging from seven to ten years, with an accelerated rate of amortization. For insurance agency acquisitions, the identifiable intangible assets related to the customer lists were determined to have a life of ten to fifteen years, with amortization occurring on a straight-line basis.

Subsequent to the initial recording of the identifiable intangible assets and goodwill, we amortize the identifiable intangible assets over their estimated average lives, as discussed above. In addition, on at least an annual basis, goodwill is evaluated for impairment by comparing the fair value of our reporting units to their related carrying value, including goodwill (our community banking operation is our only material reporting unit). At our last evaluation, the fair value of our community banking operation exceeded its carrying value, including goodwill. If the carrying value of a reporting unit were ever to exceed its fair value, we would determine whether the implied fair value of the goodwill, using a discounted cash flow analysis, exceeded the carrying value of the goodwill. If the carrying value of the goodwill exceeded the implied fair value of the goodwill, an impairment loss would be recorded in an amount equal to that excess. Performing such a discounted cash flow analysis would involve the significant use of estimates and assumptions.

We review identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Our policy is that an impairment loss is recognized, equal to the difference between the asset’s carrying amount and its fair value, if the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. Estimating future cash flows involves the use of multiple estimates and assumptions, such as those listed above.

Current Accounting Matters

See Note 2 to the Consolidated Financial Statements above for information about accounting standards that we have recently adopted.

RESULTS OF OPERATIONS

Overview

Net income for the third quarter of 2008 amounted to $6,197,000, or $0.37 per diluted share. This represents an increase in net income of 7.9% and a decrease in diluted earnings per share of 7.5% from the $5,743,000, or $0.40 per diluted share, reported in the third quarter of 2007. For the nine months ended September 30, 2008, net income amounted to $17,004,000, or $1.07 per diluted share. This represents an increase in net income of 6.0% and a decrease in diluted earnings per share of 3.6% from the net income of $16,048,000, or $1.11 per diluted share, reported for the first nine months of 2007. The 2008 earnings reflect the impact of the acquisition of Great Pee Dee Bancorp, which had $213 million in total assets as of the acquisition date of April 1, 2008, and resulted in the issuance of 2,059,091 shares of First Bancorp common stock.

Net Interest Income and Net Interest Margin

Net interest income for the third quarter of 2008 amounted to $22.8 million, a 12.9% increase over the $20.2 million recorded in the third quarter of 2007. Net interest income for the nine months ended September 30, 2008 amounted to $64.1 million, a 9.1% increase over the $58.7 million recorded in the same nine month period in 2007.

The impact of growth in loans and deposits on net interest income was partially offset by a decline in our net interest margin (tax-equivalent net interest income divided by average earning assets). Our net interest margin for the third quarter of 2008 was 3.79%, a 21 basis point decline from the 4.00% margin realized in the third quarter of 2007. Our net interest margin for the first nine months of 2008 was 3.76% compared to 4.00% for the same nine months of 2007. Our net interest margin has been negatively impacted by the Federal Reserve lowering interest rates by a total of 325 basis points from September 2007 to September 2008.

Our net interest margin of 3.79% realized for the third quarter of 2008 was an eight basis point increase from the margin realized in the second quarter of 2008. With no changes in the prime rate of interest during the third quarter of 2008, this margin increase was primarily due to our ability to reprice time deposits that matured during the quarter at lower interest rates.

Provision for Loan Losses

Our provision for loan losses amounted to $2,851,000 in the third quarter of 2008 compared to $1,299,000 in the third quarter of 2007. The provision for loan losses for the nine month period ended September 30, 2008 was $6,443,000 compared to $3,742,000 recorded in the first nine months of 2007. The higher provisions in 2008 are primarily related to negative trends in asset quality.

Noninterest Income

Noninterest income amounted to $5.4 million for the third quarter of 2008, a 27.1% increase from the $4.3 million recorded in the third quarter of 2007. Noninterest income for the nine months ended September 30, 2008 amounted to $16.1 million, an increase of 20.8% from the $13.4 million recorded in the first nine months of 2007. The increases in noninterest income in 2008 primarily relate to increases in service charges on deposit accounts. These higher service charges were primarily associated with our customer overdraft protection program – we expanded the program in the fourth quarter of 2007 to include debit card purchases and ATM withdrawals. Previously the overdraft protection program, in which we charge a fee for honoring payments on overdrawn accounts, only applied to written checks.

Noninterest Expenses

Noninterest expenses amounted to $15.5 million in the third quarter of 2008, an 11.0% increase over 2007. Noninterest expenses for the nine months ended September 30, 2008 amounted to $46.6 million, a 9.4% increase from the $42.6 million recorded in the first nine months of 2007. These increases are primarily attributable to our growth, including the April 1, 2008 acquisition of Great Pee Dee. Additionally, we recorded FDIC insurance expense of $337,000 and $839,000 for the three and nine month periods ended September 30, 2008, respectively, compared to none for the same periods in 2007, as a result of the FDIC recently beginning to charge for FDIC insurance again in order to replenish its reserves.

Our effective tax rate was 37%-38% for each of the three and nine month periods ended September 30, 2008 and 2007.

Our annualized return on average assets for the third quarter of 2008 was 0.96% compared to 1.06% for the third quarter of 2007. Our annualized return on average assets for the nine months ended September 30, 2008 was 0.93% compared to 1.01% for the first nine months of 2007.

Our annualized return on average equity for the third quarter of 2008 was 11.09% compared to 13.25% for the third quarter of 2007. Our annualized return on average equity for the nine months ended September 30, 2008 was 11.02% compared to 12.68% for the first nine months of 2007.

Balance Sheet Growth

During the third quarter of 2008, loans outstanding increased by $45 million, or 8.3% annualized, while deposits increased by $6 million, or 1.3% annualized. Our growth in deposits during the quarter was concentrated in brokered CD’s, which had interest rates meaningfully lower than the interest rates being offered by several local competitors in our marketplace. Our brokered CD’s amounted to $47 million at September 30, 2008 compared to $22 million at June 30, 2008. The $47 million in brokered CD’s at September 30, 2008 represented just 2.3% of our total deposits.

Total assets at September 30, 2008 amounted to $2.7 billion, 18.2% higher than a year earlier. Total loans at September 30, 2008 amounted to $2.2 billion, a 20.3% increase from a year earlier, and total deposits amounted to $2.0 billion at September 30, 2008, an 11.2% increase from a year earlier. We completed the acquisition of Great Pee Dee Bancorp on April 1, 2008, which had $187 million in loans, $148 million in deposits, and $213 million in assets.

Components of Earnings

Net interest income is the largest component of earnings, representing the difference between interest and fees generated from earning assets and the interest costs of deposits and other funds needed to support those assets. Net interest income for the three month period ended September 30, 2008 amounted to $22,785,000, an increase of $2,608,000, or 12.9%, from the $20,177,000 recorded in the third quarter of 2007. Net interest income on a taxable equivalent basis for the three months ended September 30, 2008 amounted to $22,950,000, an increase of $2,637,000, or 13.0%, from the $20,313,000 recorded in the third quarter of 2007. We believe that analysis of net interest income on a tax-equivalent basis is useful and appropriate because it allows a comparison of net interest income amounts in different periods without taking into account the different mix of taxable versus non-taxable investments that may have existed during those periods.

| ($ in thousands) | Three Months Ended September 30, 2008 | 2007 |
|---|---|---|
| Net interest income, as reported | $ 22,785 | 20,177 |
| Tax-equivalent adjustment | 165 | 136 |
| Net interest income, tax-equivalent | $ 22,950 | 20,313 |

Net interest income for the nine months ended September 30, 2008 amounted to $64,050,000, an increase of $5,329,000, or 9.1%, from the $58,721,000 recorded in the first nine months of 2007. Net interest income on a taxable equivalent basis for the nine months ended September 30, 2008 amounted to $64,543,000, an increase of $5,423,000, or 9.2%, from the $59,120,000 recorded in the first nine months of 2007.

| ($ in thousands) | Nine Months Ended September 30, 2008 | 2007 |
|---|---|---|
| Net interest income, as reported | $ 64,050 | 58,721 |
| Tax-equivalent adjustment | 493 | 399 |
| Net interest income, tax-equivalent | $ 64,543 | 59,120 |

There are two primary factors that cause changes in the amount of net interest income that we record - 1) growth in loans and deposits, and 2) our net interest margin (tax-equivalent net interest income divided by average earning assets). For the three and nine months ended September 30, 2008, the increases in net interest income over the comparable periods in 2007 were due to growth in loans and deposits, as our net interest margins in 2008 have been lower than in the comparable periods of 2007. Our net interest margin of 3.79% in the third quarter of 2008 was lower than the 4.00% recorded in the third quarter of 2007. For the nine months ended September 30, 2008 and 2007, our net interest margin was 3.76% and 4.00%, respectively. Our net interest margin has been negatively impacted by the Federal Reserve lowering interest rates by a total of 325 basis points from September 2007 to September 2008. When interest rates are lowered, our net interest margin declines, at least temporarily, as most of our adjustable rate loans reprice downward immediately by the amount of the Federal Reserve cut, while rates on our customers' time deposits are fixed, and thus do not adjust downward until they mature. Also, for many of our deposit products, including time deposits that have recently matured, we have been unable to lower the interest rates we pay our customers by the full 325 basis point interest rate decrease due to competitive pressures. Additionally, some of our deposit accounts had rates lower than 3.25% prior to the rate cuts, and thus could not be reduced by 325 basis points.

The following tables present net interest income analysis on a taxable-equivalent basis for the three and nine month periods ended September 30, 2008 and 2007.

| | For the Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | |
| ($ in thousands) | Average Volume | Average Rate | Interest Earned or Paid | Average Volume | Average Rate | Interest Earned or Paid |
| Assets | | | | | | |
| Loans (1) | $ 2,195,971 | 6.44% | $ 35,556 | $ 1,819,253 | 7.79% | $ 35,717 |
| Taxable securities | 161,589 | 4.60% | 1,867 | 133,644 | 4.76% | 1,605 |
| Non-taxable securities (2) | 15,983 | 7.96% | 320 | 13,506 | 8.05% | 274 |
| Short-term investments | 38,494 | 2.18% | 211 | 50,077 | 5.66% | 715 |
| Total interest-earning assets | 2,412,037 | 6.26% | 37,954 | 2,016,480 | 7.54% | 38,311 |
| | | | | | | |
| Cash and due from banks | 39,076 | | | 39,055 | | |
| Premises and equipment | 51,053 | | | 45,779 | | |
| Other assets | 67,901 | | | 55,841 | | |
| Total assets | $ 2,570,067 | | | $ 2,157,155 | | |
| | | | | | | |
| Liabilities | | | | | | |
| NOW accounts | $ 197,710 | 0.19% | $ 94 | $ 191,389 | 0.39% | $ 187 |
| Money market accounts | 326,995 | 2.28% | 1,876 | 249,104 | 3.47% | 2,176 |
| Savings accounts | 133,672 | 1.71% | 576 | 107,312 | 1.73% | 468 |
| Time deposits >$100,000 | 539,657 | 3.72% | 5,047 | 463,525 | 5.06% | 5,908 |
| Other time deposits | 584,137 | 3.49% | 5,131 | 570,958 | 4.72% | 6,789 |
| Total interest-bearing deposits | 1,782,171 | 2.84% | 12,724 | 1,582,288 | 3.89% | 15,528 |
| Securities sold under agreements to repurchase | 39,293 | 1.96% | 194 | 34,410 | 3.78% | 328 |
| Borrowings | 270,865 | 3.06% | 2,086 | 124,797 | 6.81% | 2,142 |
| Total interest-bearing liabilities | 2,092,329 | 2.85% | 15,004 | 1,741,495 | 4.10% | 17,998 |
| | | | | | | |
| Non-interest-bearing deposits | 236,142 | | | 226,180 | | |
| Other liabilities | 19,359 | | | 17,533 | | |
| Shareholders' equity | 222,237 | | | 171,947 | | |
| Total liabilities and shareholders' equity | $ 2,570,067 | | | $ 2,157,155 | | |
| | | | | | | |
| Net yield on interest-earning assets and net interest income | | 3.79% | $ 22,950 | | 4.00% | $ 20,313 |
| Interest rate spread | | 3.41% | | | 3.44% | |
| | | | | | | |
| Average prime rate | | 5.00% | | | 8.18% | |

(1) Average loans include nonaccruing loans, the effect of which is to lower the average rate shown.

(2)

Includes tax-equivalent adjustments of $165,000 and $136,000 in 2008 and 2007, respectively, to reflect the tax benefit that the Company receives related to its tax-exempt securities, which carry interest rates lower than similar taxable investments due to their tax exempt status. This amount has been computed assuming a 39% tax rate and is reduced by the related nondeductible portion of interest expense.

| | For the Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | |
| ($ in thousands) | Average Volume | Average Rate | Interest Earned or Paid | Average Volume | Average Rate | Interest Earned or Paid |
| Assets | | | | | | |
| Loans (1) | $ 2,085,331 | 6.68% | $ 104,309 | $ 1,786,631 | 7.74% | $ 103,420 |
| Taxable securities | 146,791 | 5.01% | 5,506 | 129,306 | 4.91% | 4,750 |
| Non-taxable securities (2) | 16,327 | 7.98% | 977 | 13,308 | 8.11% | 806 |
| Short-term investments | 43,406 | 2.86% | 930 | 47,335 | 5.79% | 2,051 |
| Total interest-earning assets | 2,291,855 | 6.51% | 111,722 | 1,976,580 | 7.51% | 111,027 |
| | | | | | | |
| Cash and due from banks | 39,730 | | | 39,173 | | |
| Premises and equipment | 49,067 | | | 45,139 | | |
| Other assets | 64,341 | | | 57,127 | | |
| Total assets | $ 2,444,993 | | | $ 2,118,019 | | |
| | | | | | | |
| Liabilities | | | | | | |
| NOW accounts | $ 196,956 | 0.20% | $ 300 | $ 192,321 | 0.40% | $ 574 |
| Money market accounts | 303,831 | 2.40% | 5,456 | 231,690 | 3.35% | 5,806 |
| Savings accounts | 124,058 | 1.66% | 1,540 | 106,662 | 1.60% | 1,275 |
| Time deposits >$100,000 | 523,711 | 4.17% | 16,345 | 443,539 | 5.05% | 16,768 |
| Other time deposits | 585,511 | 3.95% | 17,293 | 566,076 | 4.68% | 19,822 |
| Total interest-bearing deposits | 1,734,067 | 3.15% | 40,934 | 1,540,288 | 3.84% | 44,245 |
| Securities sold under agreements to repurchase | 39,403 | 2.22% | 656 | 40,198 | 3.82% | 1,148 |
| Other, principally borrowings | 210,193 | 3.55% | 5,589 | 128,687 | 6.77% | 6,514 |
| Total interest-bearing liabilities | 1,983,663 | 3.18% | 47,179 | 1,709,173 | 4.06% | 51,907 |
| | | | | | | |
| Non-interest-bearing deposits | 235,750 | | | 221,184 | | |
| Other liabilities | 19,401 | | | 18,411 | | |
| Shareholders' equity | 206,179 | | | 169,251 | | |
| Total liabilities and shareholders' equity | $ 2,444,993 | | | $ 2,118,019 | | |
| | | | | | | |
| Net yield on interest-earning assets and net interest income | | 3.76% | $ 64,543 | | 4.00% | $ 59,120 |
| Interest rate spread | | 3.33% | | | 3.45% | |
| | | | | | | |
| Average prime rate | | 5.43% | | | 8.23% | |

(1) Average loans include nonaccruing loans, the effect of which is to lower the average rate shown.

(2) Includes tax-equivalent adjustments of $493,000 and $399,000 in 2008 and 2007, respectively, to reflect the tax benefit that the Company receives related to its tax-exempt securities, which carry interest rates lower than similar

taxable investments due to their tax exempt status. This amount has been computed assuming a 39% tax rate and is reduced by the related nondeductible portion of interest expense.

Average loans outstanding for the third quarter of 2008 were $2.196 billion, which was 20.7% higher than the average loans outstanding for the third quarter of 2007 ($1.819 billion). Average loans outstanding for the nine months ended September 30, 2008 were $2.085 billion, which was 16.7% higher than the average loans outstanding for the nine months ended September 30, 2007 ($1.787 billion).

Average total deposits outstanding for the third quarter of 2008 were $2.018 billion, which was 11.6% higher than the average deposits outstanding for the third quarter of 2007 ($1.808 billion). Average deposits outstanding for the nine months ended September 30, 2008 were $1.970 billion, which was 11.9% higher than the average deposits outstanding for the nine months ended September 30, 2007 ($1.761 billion). Generally, we can reinvest funds from deposits at higher yields than the interest rate being paid on those deposits, and therefore increases in deposits typically result in higher amounts of net interest income.

A majority of the increases in loans and deposits came as a result of the acquisition of Great Pee Dee. As of the April 1, 2008 acquisition, Great Pee Dee had $187 million in loans and $148 million in deposits. See additional discussion regarding the nature of the growth in loans and deposits in the section entitled "Financial Condition" below. The effect of the higher amounts of average loans and deposits was to increase net interest income in 2008.

As derived from the table above, in comparing third quarter 2008 to third quarter 2007, the yield earned on loans, our primary earning asset, decreased by 135 basis points (from 7.79% to 6.44%) while the average rate paid on other time deposits, our largest deposit category, only decreased by 123 basis points (from 4.72% to 3.49%). In comparing the nine months ended September 30, 2008 to the same period in 2007, the yield earned on loans decreased by 106 basis points (from 7.74% to 6.68%), while the average rate paid on other time deposits decreased by only 73 basis points (from 4.68% to 3.95%). The difference in these decreases negatively impacted our net interest margin and was due to both the lag in the ability to reprice time deposits until they mature, and competitive pressures that prevented us from lowering the interest rates paid on maturing time deposits by the full amount of the Federal Reserve interest rate cuts (as discussed above).

Another factor negatively impacting our net interest margins in 2008 was a lower proportion of our funding coming from non-interest bearing deposit accounts as a result of lower growth in this type of deposit. Non-interest bearing deposits represented 10.1% and 10.6% of our total funding for the three and nine months ended September 30, 2008 compared to 11.5% for both the comparable periods of 2007.

During the second and third quarters of 2008, we recorded non-cash net interest income purchase accounting adjustments related to the Great Pee Dee acquisition totaling $366,000 in each quarter, which increased net interest income. The largest of the adjustments relates to recording the Great Pee Dee time deposit portfolio at fair market value. This adjustment was $1.1 million and is being amortized to reduce interest expense over a total of eleven months, or $100,000 per month, until March 2009.

See additional information regarding net interest income in the section entitled "Interest Rate Risk."

Our provision for loan losses amounted to $2,851,000 in the third quarter of 2008 compared to $1,299,000 in the third quarter of 2007. The provision for loan losses for the nine month period ended September 30, 2008 was $6,443,000 compared to $3,742,000 recorded in the first nine months of 2007. The higher provisions in 2008 are primarily related to negative trends in asset quality, as discussed in the following paragraphs.

Although we have no subprime exposure, the current economic environment has resulted in an increase in our delinquencies and classified assets. At September 30, 2008, our nonperforming assets were $24.1 million compared to $9.0 million at September 30, 2007. At September 30, 2008, approximately $4.3 million of our nonaccrual loans outstanding related to loans assumed in the acquisition of Great Pee Dee. The total amount receivable related to those loans was $9.0 million at September 30, 2008, the balances of which were written down as of the date of the acquisition by $4.7 million in accordance with applicable accounting requirements.

Our nonperforming assets to total assets ratio was 0.89% at September 30, 2008 compared to 0.39% at September 30, 2007. Our ratio of annualized net charge-offs to average loans was 0.18% for the third quarter of 2008 compared to 0.17% in the third quarter of 2007. For the nine months ended September 30, 2008, our ratio of annualized net charge-offs to average loans was 0.17% compared to 0.15% in the comparable period of 2007.

Although our asset quality ratios discussed above reflect unfavorable trends, they remain superior to those of our peers based on public information available. The table below shows how our ratios compare to Federal Reserve data for all bank holding companies with between $1 billion and $3 billion in assets at June 30, 2008 (the most recent information available):

| | First Bancorp | Peer Average |
|---|---|---|
| Nonperforming assets to total assets | 0.78% | 1.53% |
| Annualized net charge-offs to average loans | 0.16% | 0.39% |

Noninterest income amounted to $5.4 million for the third quarter of 2008, a 27.1% increase from the $4.3 million recorded in the third quarter of 2007. Noninterest income for the nine months ended September 30, 2008 amounted to $16.1 million, an increase of 20.8% from the $13.4 million recorded in the first nine months of 2007. The increases in noninterest income in 2008 primarily relate to increases in service charges on deposit accounts. These higher service charges were primarily associated with our customer overdraft protection program – we expanded the program in the fourth quarter of 2007 to include debit card purchases and ATM withdrawals. Previously the overdraft protection program, in which we charge a fee for honoring payments on overdrawn accounts, only applied to written checks.

Miscellaneous securities and other gains were negligible for both the three month periods ended September 30, 2008 and 2007. For the nine months ended September 30, 2008, we recorded securities losses of $14,000 compared to securities gains of $487,000 for the same period in 2007. The securities gains recorded in 2007 related to the sales of two corporate bonds that we believed had an attractive fair market value and also as a means to record income.

The line item “Other gains (losses)” reflects a net gain for the nine months ended September 30, 2008 in the amount of $229,000 compared to a net gain of $107,000 for the same period in 2007. The variances in “other gains” in 2008 compared to 2007 relate to two main items: 1) during the first quarter of 2008, we recorded a gain of $306,000 related to the VISA initial public offering that occurred in March 2008 and 2) during the first half of 2007, we recorded “other gains” in the amount of $190,000 ($50,000 in the first quarter of 2007 and $140,000 in the second quarter) as a result of finalizing a 2006 merchant credit card exposure that incurred less loss than we originally estimated.

Noninterest expenses amounted to $15.5 million in the third quarter of 2008, an 11.0% increase over 2007. Noninterest expenses for the nine months ended September 30, 2008 amounted to $46.6 million, a 9.4% increase from the $42.6 million recorded in the first nine months of 2007. These increases are primarily attributable to our growth, including the April 1, 2008 acquisition of Great Pee Dee. Additionally, we recorded FDIC insurance expense of $337,000 and $839,000 for the three and nine month periods ended September 30, 2008, respectively, compared to none for the same periods in 2007, as a result of the FDIC recently beginning to charge for FDIC insurance again in order to replenish its reserves. Annualized noninterest expenses to average assets amounted to 2.39% and 2.55% for the three and nine months ended September 30, 2008, respectively, compared to 2.56% and 2.69% for the comparable periods of 2007, respectively.

The provision for income taxes was $3,701,000 in the third quarter of 2008, an effective tax rate of 37.4%, compared to $3,471,000 in the third quarter of 2007, an effective tax rate of 37.7%. The provision for income taxes was $10,164,000 for the nine months ended September 30, 2008, an effective tax rate of 37.4%, compared to $9,720,000 for the nine months ended September 30, 2008, an effective tax rate of 37.7%. We expect our effective tax rate to remain at approximately 37-38% for the foreseeable future.

The Consolidated Statements of Comprehensive Income reflect other comprehensive losses of $875,000 and $1,764,000 for the three and nine months ended September 30, 2008, respectively, compared to other comprehensive

gains/(losses) amounting to $689,000 and ($9,000) for the comparable periods in 2007, respectively. The primary component of other comprehensive income/loss for the periods presented was changes

in unrealized holding gains/losses of our available for sale securities. Our available for sale securities portfolio is predominantly comprised of fixed rate bonds that increase in value when market yields for fixed rate bonds decrease and decline in value when market yields for fixed rate bonds increase. Market yields for fixed rate bonds increased significantly during the second and third quarters of 2008 as a result of the turbulent credit markets.

FINANCIAL CONDITION

Total assets at September 30, 2008 amounted to $2.7 billion, 18.2% higher than a year earlier. Total loans at September 30, 2008 amounted to $2.2 billion, a 20.3% increase from a year earlier, and total deposits amounted to $2.0 billion at September 30, 2008, an 11.2% increase from a year earlier.

The following tables present information regarding the nature of the Company's growth since September 30, 2007.

| October 1, 2007 to September 30, 2008 | Balance at beginning of period | Internal Growth | Growth from Acquisitions | Balance at end of period | Total percentage growth | Percentage growth, excluding acquisitions |
|---|---|---|---|---|---|---|
| | | | ($ in thousands) | | | |
| Loans | $ 1,838,346 | 184,797 | 188,535 | 2,211,678 | 20.3% | 10.1% |
| | | | | | | |
| Deposits - Noninterest bearing | $ 229,727 | (2,829) | 8,436 | 235,334 | 2.4% | -1.2% |
| Deposits - NOW | 193,577 | (6,030) | 10,395 | 197,942 | 2.3% | -3.1% |
| Deposits - Money market | 250,036 | 50,395 | 15,061 | 315,492 | 26.2% | 20.2% |
| Deposits - Savings | 105,328 | 16,311 | 2,588 | 124,227 | 17.9% | 15.5% |
| Deposits - Time>$100,000 | 468,565 | 30,942 | 63,229 | 562,736 | 20.1% | 6.6% |
| Deposits - Time<$100,000 | 571,675 | (32,584) | 48,000 | 587,091 | 2.7% | -5.7% |
| Total deposits | $ 1,818,908 | 56,205 | 147,709 | 2,022,822 | 11.2% | 3.1% |
| | | | | | | |
| January 1, 2008 to September 30, 2008 | | | | | | |
| Loans | $ 1,894,295 | 128,848 | 188,535 | 2,211,678 | 16.8% | 6.8% |
| | | | | | | |
| Deposits - Noninterest bearing | $ 232,141 | (5,243) | 8,436 | 235,334 | 1.4% | -2.3% |
| Deposits - NOW | 192,785 | (5,238) | 10,395 | 197,942 | 2.7% | -2.7% |
| Deposits - Money market | 264,653 | 35,778 | 15,061 | 315,492 | 19.2% | 13.5% |
| Deposits - Savings | 100,955 | 20,684 | 2,588 | 124,227 | 23.1% | 20.5% |
| Deposits - Time>$100,000 | 479,176 | 20,331 | 63,229 | 562,736 | 17.4% | 4.2% |
| Deposits - Time<$100,000 | 568,567 | (29,476) | 48,000 | 587,091 | 3.3% | -5.2% |
| Total deposits | $ 1,838,277 | 36,836 | 147,709 | 2,022,822 | 10.0% | 2.0% |

As derived from the table above, for the twelve months preceding September 30, 2008, our loans increased by $373 million, or 20.3%, of which $185 million was internal growth and $189 million was from the acquisition of Great Pee Dee Bancorp that occurred early in the second quarter of 2008. Over that same period, deposits increased $204 million, or 11.2%, of which $56 million was internal growth and $148 million was from the acquisition of Great Pee Dee. For the first nine months of 2008, loans increased by $317 million, or 16.8%, and deposits increased by $185 million, or 10.0%.

The high growth in money market accounts and savings accounts was due to growth of balances in specific products within these categories that pay premium interest rates. A portion of the growth of Time Deposits > $100,000 relates to growth in brokered CD's. Our brokered CD's amounted to $47 million at September 30, 2008 compared $22 million at June 30, 2008 and zero at December 31, 2007 and September 30, 2007. We utilized brokered CD's more heavily in the third quarter of 2008 because they had interest rates meaningfully lower than the interest rates being offered by several local competitors in our marketplace. The $47 million in brokered CD's at September 30, 2008 represented just 2.3% of our total deposits. The general declines in time deposits<$100,000

were a result of our decision not to match high promotional time deposit rates being offered by several of our local competitors and, as a result, losing the deposits.

The mix of our loan portfolio remained substantially the same at September 30, 2008 compared to December 31, 2007, with approximately 88% of our loans being real estate loans, 9% being commercial, financial, and agricultural loans, and the remaining 3% being consumer installment loans. The majority of our real estate loans are personal and commercial loans where real estate provides additional security for the loan.

The following table provides additional information regarding our mix of loans.

| ($ in thousands) | September 30, 2008 | | December 31, 2007 | | September 30, 2007 | |
|---|---|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage | Amount | Percentage |
| Commercial, financial, and agricultural | $ 195,527 | 9% | 172,530 | 9% | 167,375 | 9% |
| Real estate – construction, land development & other land loans | 415,042 | 19% | 383,973 | 20% | 338,708 | 18% |
| Real estate – mortgage – residential (1-4 family) first mortgages | 623,933 | 28% | 514,329 | 27% | 566,971 | 31% |
| Real estate – mortgage – home equity loans / lines of credit | 243,385 | 11% | 209,852 | 11% | 205,498 | 11% |
| Real estate – mortgage – commercial and other | 657,898 | 30% | 528,590 | 28% | 476,992 | 26% |
| Installment loans to individuals | 75,641 | 3% | 84,875 | 5% | 82,740 | 5% |
| Subtotal | 2,211,426 | 100% | 1,894,149 | 100% | 1,838,284 | 100% |
| Unamortized net deferred loan costs | 252 | | 146 | | 62 | |
| Loans, including deferred loan costs | $ 2,211,678 | | 1,894,295 | | 1,838,346 | |

The above loan groupings are generally consistent with regulatory report requirements except that the company classifies $52 million in loans secured by manufactured homes with land as “Real estate – mortgage residential (1-4 family) first mortgages” in the table above whereas these loans are required by our regulators to be classified in the category entitled “Real estate – construction, land development & other.”

Nonperforming Assets

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

| ($ in thousands) | September 30, 2008 | December 31, 2007 | September 30, 2007 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Nonperforming loans: | | | |
| Nonaccrual loans | $ 19,558 | 7,807 | 6,941 |
| Accruing loans > 90 days past due | – | – | – |
| Total nonperforming loans | 19,558 | 7,807 | 6,941 |
| Other real estate | 4,565 | 3,042 | 2,058 |
| Total nonperforming assets | $ 24,123 | 10,849 | 8,999 |
| | | | |
| Ratios: | | | |
| Nonperforming loans to total loans | 0.88% | 0.41% | 0.38% |
| Nonperforming assets as a percentage of loans and other real estate | 1.09% | 0.57% | 0.49% |
| Nonperforming assets to total assets | 0.89% | 0.47% | 0.39% |
| Allowance for loan losses to total loans | 1.26% | 1.13% | 1.12% |

We have reviewed the collateral for the nonperforming assets, including nonaccrual loans, and have included this review among the factors considered in the evaluation of the allowance for loan losses discussed below.

Although we have no subprime exposure, we have experienced increases in delinquencies and classified assets consistent with current economic conditions.  At September 30, 2008, our nonperforming assets were $24.1 million compared to $20.5 million at June 30, 2008, $10.8 million at December 31, 2007 and $9.0 million at September 30, 2007.  At September 30, 2008, approximately $4.3 million of our nonaccrual loans outstanding related to loans assumed in the acquisition of Great Pee Dee.  The total amount receivable related to those loans was $9.0 million at September 30, 2008, the balances of which were written down as of the date of the acquisition by $4.7 million in accordance with applicable accounting requirements.

At September 30, 2008, our largest nonaccrual loan relationship amounted to $1.9 million, and the largest carrying amount of any single piece of other real estate amounted to $425,500.

The following table presents information related to our loans that are considered to be impaired in accordance with Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan."  See Note 6 to the consolidated financial statements for additional discussion.

| ($ in thousands) | As of /for the nine months ended September 30, 2008 | As of /for the twelve months ended December 31, 2007 | As of /for the nine months ended September 30, 2007 |
|---|---|---|---|
| Impaired loans at period end | $ 16,749 | 3,883 | 3,493 |
| Average amount of impaired loans for period | 10,148 | 3,161 | 2,981 |
| Allowance for loan losses related to impaired loans at period end | 2,583 | 751 | 1,055 |
| Amount of impaired loans with no related allowance at period end (1) | 11,309 | 1,982 | 1,210 |

(1)  Includes $4.3 million in net loans acquired in an acquisition that have already been written down by $4.7 million from a total loan balance of $9.0 million.  See the following paragraph for additional discussion.

All of the impaired loans noted in the table above were on nonaccrual status at each respective period end except that at September 30, 2008, a $4.0 million loan that is classified as an impaired loan due to a restructured interest rate was performing as agreed and was on accruing status.  For the periods noted above, the only interest income we recognized on any impaired loan was $150,000 related to the impaired loan with the restructured interest rate.

Summary of Loan Loss Experience

The allowance for loan losses is created by direct charges to operations. Losses on loans are charged against the allowance in the period in which such loans, in management's opinion, become uncollectible. The recoveries realized during the period are credited to this allowance.

We have no foreign loans, few agricultural loans and do not engage in significant lease financing or highly leveraged transactions. Commercial loans are diversified among a variety of industries. The majority of our real estate loans are primarily personal and commercial loans where real estate provides additional security for the loan. Collateral for virtually all of these loans is located within our principal market area.

Our provision for loan losses amounted to $2,851,000 in the third quarter of 2008 compared to $1,299,000 in the third quarter of 2007. The provision for loan losses for the nine month period ended September 30, 2008 was $6,443,000 compared to $3,742,000 recorded in the first nine months of 2007. The higher provisions in 2008 are primarily related to negative trends in asset quality, as previously discussed.

In the third quarter of 2008, we recorded $984,000 in net charge-offs, which resulted in an annualized ratio of net charge-offs to average loans of 0.18%, compared to $773,000 (0.17%) in the third quarter of 2007. For the nine month periods ended September 30, 2008 and 2007, our annualized net charge-offs to average loans ratios were 17 basis points and 15 basis points, respectively. Our ratio of nonperforming assets to total assets was 0.89% at September 30, 2008 compared to 0.39% at September 30, 2007.

At September 30, 2008, the allowance for loan losses amounted to $27,928,000, compared to $21,324,000 at December 31, 2007 and $20,631,000 at September 30, 2007. The allowance for loan losses as a percentage of total loans was 1.26% at September 30, 2008, 1.13% at December 31, 2007, and 1.12% at September 30, 2007.

We believe our reserve levels are adequate to cover probable loan losses on the loans outstanding as of each reporting date. It must be emphasized, however, that the determination of the reserve using our procedures and methods rests upon various judgments and assumptions about economic conditions and other factors affecting loans. No assurance can be given that we will not in any particular period sustain loan losses that are sizable in relation to the amounts reserved or that subsequent evaluations of the loan portfolio, in light of conditions and factors then prevailing, will not require significant changes in the allowance for loan losses or future charges to earnings. See "Critical Accounting Policies – Allowance for Loan Losses" above.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses and value of other real estate. Such agencies may require us to recognize adjustments to the allowance or the carrying value of other real estate based on their judgments about information available at the time of their examinations.

For the periods indicated, the following table summarizes our balances of loans outstanding, average loans outstanding, changes in the allowance for loan losses arising from charge-offs and recoveries, additions to the allowance for loan losses that have been charged to expense, and additions that were recorded related to acquisitions.

| ($ in thousands) | Nine Months Ended September 30, 2008 | Twelve Months Ended December 31, 2007 | Nine Months Ended September 30, 2007 |
|---|---|---|---|
| Loans outstanding at end of period | $ 2,211,678 | 1,894,295 | 1,838,346 |
| Average amount of loans outstanding | $ 2,085,331 | 1,808,219 | 1,786,631 |
| | | | |
| Allowance for loan losses, at beginning of period | $ 21,324 | 18,947 | 18,947 |
| | | | |
| Loans charged-off: | | | |
| Commercial, financial and agricultural | (202) | (982) | (560) |
| Real estate - mortgage | (1,654) | (982) | (864) |
| Installment loans to individuals | (706) | (894) | (654) |
| Overdraft losses | (525) | (319) | (229) |
| Total charge-offs | (3,087) | (3,177) | (2,307) |
| Recoveries of loans previously charged-off: | | | |
| Commercial, financial and agricultural | 26 | 49 | 34 |
| Real estate - mortgage | 236 | 66 | 33 |
| Installment loans to individuals | 84 | 148 | 123 |
| Overdraft losses | 108 | 74 | 59 |
| Total recoveries | 454 | 337 | 249 |
| Net charge-offs | (2,633) | (2,840) | (2,058) |
| | | | |
| Additions to the allowance charged to expense | 6,443 | 5,217 | 3,742 |
| Additions related to loans assumed in corporate acquisitions | 2,794 | – | – |
| | | | |
| Allowance for loan losses, at end of period | $ 27,928 | 21,324 | 20,631 |
| | | | |
| Ratios: | | | |
| Net charge-offs (annualized) as a percent of average loans | 0.17% | 0.16% | 0.15% |
| Allowance for loan losses as a percent of loans at end of period | 1.26% | 1.13% | 1.12% |

Based on the results of our loan analysis and grading program and our evaluation of the allowance for loan losses at September 30, 2008, there have been no material changes to the allocation of the allowance for loan losses among the

various categories of loans since December 31, 2007.

Liquidity, Commitments, and Contingencies

Our liquidity is determined by our ability to convert assets to cash or acquire alternative sources of funds to meet the needs of our customers who are withdrawing or borrowing funds, and to maintain required reserve levels, pay expenses and operate our business on an ongoing basis. Our primary internal liquidity sources are net income from operations, cash and due from banks, federal funds sold and other short-term investments. Our securities portfolio is comprised almost entirely of readily marketable securities, which could also be sold to provide cash.

In addition to internally generated liquidity sources, we have the ability to obtain borrowings from the following three sources - 1) an approximately $531 million line of credit with the Federal Home Loan Bank (of which $285 million was outstanding at September 30, 2008), 2) a $70 million overnight federal funds line of credit

with a correspondent bank (of which $35 million was outstanding at September 30, 2008), and 3) an approximately $126 million line of credit through the Federal Reserve Bank of Richmond's discount window (none of which was outstanding at September 30, 2008). In addition to the outstanding borrowings from the FHLB that reduce the available borrowing capacity of that line of credit, our borrowing capacity was further reduced by $55 million and $40 million at September 30, 2008 and December 31, 2007, respectively, as a result of the Company pledging letters of credit for public deposits at each of those dates. Unused and available lines of credit amounted to $352 million at September 30, 2008 compared to $256 million at December 31, 2007.

Our liquidity decreased slightly during the first nine months of 2008 primarily as a result of our acquisition of Great Pee Dee. Great Pee Dee had a loan to deposit ratio of 128% on the date of acquisition. Our loan to deposit ratio was 109.3% at September 30, 2008 compared to 103.0% at December 31, 2007. The level of our liquid assets (consisting of cash, due from banks, federal funds sold, presold mortgages in process of settlement and securities) as a percentage of deposits, securities sold under agreements to repurchase and borrowings was 14.8% at September 30, 2008 compared to 15.1% at December 31, 2007.

We believe our liquidity sources, including unused lines of credit, are at an acceptable level and remain adequate to meet our operating needs in the foreseeable future. We will continue to monitor our liquidity position carefully and will explore and implement strategies to increase liquidity if deemed appropriate. See discussion below under "Capital Resources" regarding the U.S. Department of Treasury's Capital Purchase Program.

The amount and timing of our contractual obligations and commercial commitments has not changed materially since December 31, 2007, detail of which is presented in Table 18 on page 59 of our 2007 Form 10-K.

We are not involved in any legal proceedings that, in our opinion, could have a material effect on the consolidated financial position of the Company.

Off-Balance Sheet Arrangements and Derivative Financial Instruments

Off-balance sheet arrangements include transactions, agreements, or other contractual arrangements in which we have obligations or provide guarantees on behalf of an unconsolidated entity. We have no off-balance sheet arrangements of this kind other than repayment guarantees associated with trust preferred securities.

Derivative financial instruments include futures, forwards, interest rate swaps, options contracts, and other financial instruments with similar characteristics. We have not engaged in derivative activities through September 30, 2008, and have no current plans to do so.

Capital Resources

We are regulated by the Board of Governors of the Federal Reserve Board (FED) and are subject to the securities registration and public reporting regulations of the Securities and Exchange Commission. Our banking subsidiary is regulated by the Federal Deposit Insurance Corporation (FDIC) and the North Carolina Office of the Commissioner of Banks. We are not aware of any recommendations of regulatory authorities or otherwise which, if they were to be implemented, would have a material effect on our liquidity, capital resources, or operations.

We must comply with regulatory capital requirements established by the FED and FDIC. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting

practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. These capital standards require us to maintain minimum ratios of "Tier 1" capital to total risk-weighted assets and total capital to risk-weighted assets of 4.00% and 8.00%, respectively. Tier 1 capital is comprised of total shareholders' equity calculated in accordance with generally accepted accounting principles, excluding accumulated other

comprehensive income (loss), less intangible assets, and total capital is comprised of Tier 1 capital plus certain adjustments, the largest of which is our allowance for loan losses. Risk-weighted assets refer to our on- and off-balance sheet exposures, adjusted for their related risk levels using formulas set forth in FED and FDIC regulations.

In addition to the risk-based capital requirements described above, we are subject to a leverage capital requirement, which calls for a minimum ratio of Tier 1 capital (as defined above) to quarterly average total assets of 3.00% to 5.00%, depending upon the institution's composite ratings as determined by its regulators. The FED has not advised us of any requirement specifically applicable to us.

At September 30, 2008, our capital ratios exceeded the regulatory minimum ratios discussed above. The following table presents our capital ratios and the regulatory minimums discussed above for the periods indicated.

| | September 30, 2008 | December 31, 2007 | September 30, 2007 |
|---|---|---|---|
| Risk-based capital ratios: | | | |
| Tier I capital to Tier I risk adjusted assets | 9.29% | 9.17% | 10.04% |
| Minimum required Tier I capital | 4.00% | 4.00% | 4.00% |
| | | | |
| Total risk-based capital to Tier II risk-adjusted assets | 10.54% | 10.30% | 11.63% |
| Minimum required total risk-based capital | 8.00% | 8.00% | 8.00% |
| | | | |
| Leverage capital ratios: | | | |
| Tier I leverage capital to adjusted most recent quarter average assets | 8.12% | 8.00% | 8.60% |
| Minimum required Tier I leverage capital | 4.00% | 4.00% | 4.00% |

In November 2007 we elected to redeem $20.6 million of trust preferred securities due to their high interest rate. Due to unfavorable market conditions, we elected to fund the redemption not with new trust preferred securities, which was our original intent, but rather with a third-party line of credit, which does not qualify as regulatory capital. This redemption reduced our regulatory capital by $20 million and reduced each of our regulatory capital ratios by approximately 100 basis points. The acquisition of Great Pee Dee Bancorp on April 1, 2008 increased our capital ratios slightly.

Our bank subsidiary is also subject to similar capital requirements as those discussed above. The bank subsidiary's capital ratios do not vary materially from our capital ratios presented above. At September 30, 2008, our bank subsidiary exceeded the minimum ratios established by the FED and FDIC.

We intend to apply to participate in the Capital Purchase Program (Program) recently announced by the United States Department of the Treasury (DOT). To participate in the Program, an eligible financial institution must apply with its primary banking regulator(s) on or before November 14, 2008. Our primary banking regulators are the FED and the FDIC. The DOT, in consultation with each applicant's primary banking regulator, will determine whether a financial institution will be permitted to participate in the Program and the amount of capital to be allocated to that financial institution. Each financial institution selected to participate in the Program (a "participating institution") may sell senior preferred shares to the DOT ("Program preferred shares") in an amount not less than 1% nor more than 3% of its risk-weighted assets, as determined by the DOT. Under these guidelines, we are permitted to apply to issue Program preferred shares generating gross proceeds to us of approximately $21 million to $65 million based on our September

30, 2008 financial statements. We intend to apply for the maximum amount of $65 million. If we are approved for this request, our risk-based capital ratios in the above table would each increase by 300 basis points on a pro forma basis, while our leverage ratio would increase by 260 basis points. Please see our preliminary proxy statement filed on Schedule 14A with the Securities and Exchange Commission on November 3, 2008 for additional information on the Program, including restrictions that will be placed on us if we participate related to dividend increases, share repurchases, and executive compensation.

BUSINESS DEVELOPMENT AND OTHER MATTERS

The following is a list of business development and other miscellaneous matters affecting First Bancorp and First Bank, our bank subsidiary, since January 1, 2008. In Virginia, First Bank does business as "First Bank of Virginia."

- We have no holdings of Freddie Mac or Fannie Mae preferred stock.
- On August 8, 2008, we replaced our modular building in Mt. Pleasant, North Carolina with a new, state-of-the-art building at the same address on Highway 49 North. With the new building, First Bank more than doubled the size of its former Mt. Pleasant Office.
- We recently increased our mortgage loan capabilities by adding FHA and VA loans to our product line.
- We recently completed a major expansion of our bank branch in Harmony, North Carolina.
- On April 1, 2008, we announced the completion of the merger acquisition of Great Pee Dee Bancorp, Inc. Great Pee Dee was the holding company for Sentry Bank & Trust, a three-branch community bank headquartered in Cheraw, South Carolina, with offices in Cheraw and Florence, South Carolina. Great Pee Dee had total assets of $213 million, total loans of $188 million, and total deposits of $148 million. The conversion of Sentry Bank & Trust to First Bank occurred on May 16, 2008.
- On March 10, 2008, First Bank of Virginia opened a full-service bank branch in Fort Chiswell, Virginia at 131 Ivanhoe Road (Max Meadows, Virginia). This represents our fifth branch located in southwestern Virginia.

SHARE REPURCHASES

We did not repurchase any shares of our common stock during the first nine months of 2008. At September 30, 2008, we had approximately 235,000 shares available for repurchase under existing authority from our board of directors. We may repurchase these shares in open market and privately negotiated transactions, as market conditions and our liquidity warrant, subject to compliance with applicable regulations. See also Part II, Item 2 "Unregistered Sales of Equity Securities and Use of Proceeds."

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

INTEREST RATE RISK (INCLUDING QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK)

Net interest income is our most significant component of earnings. Notwithstanding changes in volumes of loans and deposits, our level of net interest income is continually at risk due to the effect that changes in general market interest rate trends have on interest yields earned and paid with respect to the various categories of earning assets and interest-bearing liabilities. It is our policy to maintain portfolios of earning assets and interest-bearing liabilities with maturities and repricing opportunities that will afford protection, to the extent practical, against wide interest rate fluctuations. Our exposure to interest rate risk is analyzed on a regular basis by management using standard GAP reports, maturity reports, and an asset/liability software model that simulates future levels of interest income and expense based on current interest rates, expected future interest rates, and various intervals of "shock" interest rates. Over the years, we have been able to maintain a fairly consistent yield on average earning assets (net interest margin). Over the past five calendar years, our net interest margin has ranged from a low of 4.00% (realized in 2007) to a high of 4.52% (realized in 2003). During that five year period, the prime rate of interest ranged from a low of 4.00% to a high of 8.25%. Our net interest margin for the nine-month period ended September 30, 2008 was 3.76%.

Using stated maturities for all instruments except mortgage-backed securities (which are allocated to the periods of their expected payback) and securities and borrowings with call features that are expected to be called (which are shown in the period of their expected call), at September 30, 2008, we had $747 million more in interest-bearing liabilities than earning assets that are subject to interest rate changes within one year. This generally would indicate that net interest income would experience downward pressure in a rising interest rate environment and would benefit from a declining interest rate environment. However, this method of analyzing interest sensitivity only measures the magnitude of the timing differences and does not address earnings, market value, or management actions. Also, interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. In addition to the effects of "when" various rate-sensitive products reprice, market rate changes may not result in uniform changes in rates among all products. For example, included in interest-bearing liabilities subject to interest rate changes within one year at September 30, 2008 were deposits totaling $638 million comprised of NOW, savings, and certain types of money market deposits with interest rates set by management. These types of deposits historically have not repriced with or in the same proportion as general market indicators.

Overall we believe that in the near term (twelve months), net interest income will not likely experience significant downward pressure from rising interest rates. Similarly, we would not expect a significant increase in near term net interest income from falling interest rates. Generally, when rates change, our interest-sensitive assets that are subject to adjustment reprice immediately at the full amount of the change, while our interest-sensitive liabilities that are subject to adjustment reprice at a lag to the rate change and typically not to the full extent of the rate change. In the short-term (less than six months), this results in us being asset-sensitive, meaning that our net interest income benefits from an increase in interest rates and is negatively impacted by a decrease in interest rates. However, in the twelve-month horizon, the impact of having a higher level of interest-sensitive liabilities lessens the short-term effects of changes in interest rates.

From September 2007 to April 2008, the Federal Reserve reduced interest rates by a total of 325 basis points. As noted above, our net interest margin is negatively impacted, at least in the short-term, by reductions in interest rates. In addition to the initial normal decline in net interest margin that we experience when interest rates are reduced (as discussed above), the cumulative impact of the magnitude of the 325 basis points in interest rate cuts is expected to amplify and lengthen the negative impact on our net interest margin in 2008 and possibly beyond. This is primarily due to our inability to cut a large portion of our interest-bearing deposits by any significant amount due to their

already near-zero interest rate.  Also, for many of our deposit products, including time deposits that have recently matured, we have been unable to lower the interest rates we pay our customers by the full 325 basis point interest rate decrease due to competitive pressures.



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For the reasons noted above, our net interest margin declined steadily from September 2007 through April 2008 from approximately 4.00% before the interest rate cuts to 3.71% in the second quarter of 2008. In the third quarter of 2008, there were no changes in the prime rate of interest, and we were able to reprice time deposits that matured during the quarter at lower interest rates. As a result, our net interest margin increased by eight basis points to 3.79%.

As a result of two 50 basis point cut in interest rates announced by the Federal Reserve in October 2008, we expect our net interest margin will decline in the fourth quarter.

We have no market risk sensitive instruments held for trading purposes, nor do we maintain any foreign currency positions.

See additional discussion regarding net interest income, as well as discussion of the changes in the annual net interest margin in the section entitled "Net Interest Income" above.

Item 4. Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, which are our controls and other procedures that are designed to ensure that information required to be disclosed in our periodic reports with the SEC is recorded, processed, summarized and reported within the required time periods. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed is communicated to our management to allow timely decisions regarding required disclosure. Based on the evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective in allowing timely decisions regarding disclosure to be made about material information required to be included in our periodic reports with the SEC. In addition, no change in our internal control over financial reporting has occurred during, or subsequent to, the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

FORWARD-LOOKING STATEMENTS

Part I of this report contains statements that could be deemed forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act, which statements are inherently subject to risks and uncertainties. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often characterized by the use of qualifying words (and their derivatives) such as "expect," "believe," "estimate," "plan," "project," or other statements concerning our opinions or judgment about future events. Factors that could influence the accuracy of such forward-looking statements include, but are not limited to, the financial success or changing strategies of our customers, our level of success in integrating acquisitions, actions of government regulators, the level of market interest rates, and general economic conditions. For additional information that could affect the matters discussed in this paragraph, see the "Risk Factors" section of our 2007 Annual Report on Form 10-K.



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Part II. Other Information

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

Issuer Purchases of Equity Securities

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|---|---|---|---|---|
| July 1, 2008 to July 31, 2008 | - | - | - | 234,667 |
| August 1, 2008 to August 31, 2008 | - | - | - | 234,667 |
| September 1, 2008 to September 30, 2008 | - | - | - | 234,667 |
| Total | - | - | - | 234,667(2) |

Footnotes to the Above Table

(1) All shares available for repurchase are pursuant to publicly announced share repurchase authorizations. On July 30, 2004, we announced that our Board of Directors had approved the repurchase of 375,000 shares of our common stock. The repurchase authorization does not have an expiration date. There are no plans or programs we have determined to terminate prior to expiration, or under which we do not intend to make further purchases.

(2) The table above does not include shares that were used by option holders to satisfy the exercise price of the call options we issued to our employees and directors pursuant to our stock option plans. There were no such exercises during the three months ended September 30, 2008.

Item 6 - Exhibits

The following exhibits are filed with this report or, as noted, are incorporated by reference. Management contracts, compensatory plans and arrangements are marked with an asterisk (*).

3.a. Copy of Articles of Incorporation of the Company and amendments thereto were filed as Exhibits 3.a.i through 3.a.v to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2002, and are incorporated herein by reference.

3.b Copy of the Amended and Restated Bylaws of the Company was filed as Exhibit 3.b to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, and is incorporated herein by reference.

4 Form of Common Stock Certificate was filed as Exhibit 4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, and is incorporated herein by reference.

31.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.

31.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.

32.1 Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Copies of exhibits are available upon written request to: First Bancorp, Anna G. Hollers, Executive Vice President, P.O. Box 508, Troy, NC 27371

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

FIRST BANCORP

| | |
|---|---|
| November 7, 2008 | BY: /s/ Jerry L. Ocheltree<br>Jerry L. Ocheltree<br>President, Chief Executive Officer<br>(Principal Executive Officer),<br>Treasurer and Director |
| November 7, 2008 | BY: /s/ Anna G. Hollers<br>Anna G. Hollers<br>Executive Vice President,<br>Chief Operating Officer<br>and Secretary |
| November 7, 2008 | BY: /s/ Eric P. Credle<br>Eric P. Credle<br>Executive Vice President<br>and Chief Financial Officer |