FIRST BANCORP /NC/
Form 10-Q
November 09, 2010

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, 2010

Commission File Number 0-15572

FIRST BANCORP

(Exact Name of Registrant as Specified in its Charter)

NORTH CAROLINA (STATE OF OTHER JURASDICTION OF INCORPORATION OR ORGANIZATION)	56-1421916 (I.R.S. EMPLOYER IDENTIFICATION NUMBER)
341 NORTH MAIN STREET, TROY, NORTH CAROLINA (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	27371-0508 (ZIP CODE)
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)	(910) 576-6171

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

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

The number of shares of the registrant's Common Stock outstanding on October 31, 2010 was 16,797,070.

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FIRST BANCORP AND SUBSIDIARIES

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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 2009 Annual Report on Form 10-K.

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Part I. Financial Information
Item 1 - Financial Statements

First Bancorp and Subsidiaries
Consolidated Balance Sheets

($ in thousands-unaudited)	September 30, 2010	December 31, 2009 (audited)	September 30, 2009
ASSETS			
Cash and due from banks, noninterest-bearing	$51,812	60,071	43,667
Due from banks, interest-bearing	246,771	283,175	232,877
Federal funds sold	21,092	7,626	7,548
Total cash and cash equivalents	319,675	350,872	284,092
Securities available for sale	143,047	179,755	168,860
Securities held to maturity (fair values of $54,300, $34,947, and $28,692)	51,661	34,413	27,747
Presold mortgages in process of settlement	3,226	3,967	8,420
Loans – non-covered	2,096,439	2,132,843	2,147,615
Loans – covered by FDIC loss share agreements	413,735	520,022	578,485
Total loans	2,510,174	2,652,865	2,726,100
Less: Allowance for loan losses	(44,999)	(37,343)	(34,444)
Net loans	2,465,175	2,615,522	2,691,656
Premises and equipment	54,039	54,159	52,868
Accrued interest receivable	13,135	14,783	15,163
FDIC loss share receivable	93,125	143,221	187,029
Goodwill	65,835	65,835	65,835
Other intangible assets	4,742	5,113	5,330
Other	146,677	77,716	18,494
Total assets	$3,360,337	3,545,356	3,525,494
LIABILITIES			
Deposits: Demand - noninterest-bearing	$290,388	272,422	268,097
NOW accounts	370,654	362,366	264,267
Money market accounts	492,983	496,940	477,092
Savings accounts	154,955	149,338	142,391
Time deposits of $100,000 or more	759,037	816,540	883,784
Other time deposits	683,465	835,502	886,009
Total deposits	2,751,482	2,933,108	2,921,640
Securities sold under agreements to repurchase	68,157	64,058	58,209
Borrowings	158,907	176,811	176,927
Accrued interest payable	2,421	3,054	3,688
Other liabilities	28,415	25,942	28,648

Total liabilities	3,009,382	3,202,973	3,189,112
Commitments and contingencies			
SHAREHOLDERS' EQUITY			
Preferred stock, no par value per share. Authorized: 5,000,000 shares			
Issued and outstanding: 65,000 shares	65,000	65,000	65,000
Discount on preferred stock	(3,146)	(3,789)	(3,990)
Common stock, no par value per share. Authorized: 40,000,000, 20,000,000, and 20,000,000 shares			
Issued and outstanding: 16,785,750, 16,722,423, and 16,671,983 shares	99,303	98,099	97,745
Common stock warrants	4,592	4,592	4,592
Retained earnings	188,028	182,908	179,988
Accumulated other comprehensive income (loss)	(2,822)	(4,427)	(6,953)
Total shareholders' equity	350,955	342,383	336,382
Total liabilities and shareholders' equity	$3,360,337	3,545,356	3,525,494

See notes to consolidated financial statements

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First Bancorp and Subsidiaries
Consolidated Statements of Income

($ in thousands, except share data-unaudited)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
INTEREST INCOME				
Interest and fees on loans	$36,897	41,404	112,724	107,596
Interest on investment securities:				
Taxable interest income	1,364	1,650	4,473	5,112
Tax-exempt interest income	414	232	1,177	576
Other, principally overnight investments	135	188	463	293
Total interest income	38,810	43,474	118,837	113,577
INTEREST EXPENSE				
Savings, NOW and money market	1,541	2,355	5,069	6,476
Time deposits of $100,000 or more	2,991	5,020	9,645	14,586
Other time deposits	2,713	4,794	8,762	13,756
Securities sold under agreements to repurchase	60	198	244	599
Borrowings	434	597	1,333	2,097
Total interest expense	7,739	12,964	25,053	37,514
Net interest income	31,071	30,510	93,784	76,063
Provision for loan losses	8,391	5,200	24,017	13,611
Net interest income after provision for loan losses	22,680	25,310	69,767	62,452
NONINTEREST INCOME				
Service charges on deposit accounts	3,350	3,811	10,408	10,035
Other service charges, commissions and fees	1,325	1,216	4,048	3,542
Fees from presold mortgages	404	395	1,216	847
Commissions from sales of insurance and financial products	325	333	1,087	1,164
Data processing fees	–	38	32	103
Gain from acquisition	–	–	–	67,894
Securities gains (losses)	1	6	25	(113)
Other gains (losses)	(1,448)	(58)	(2,628)	(209)
Total noninterest income	3,957	5,741	14,188	83,263
NONINTEREST EXPENSES				
Salaries	8,637	8,549	25,988	21,662
Employee benefits	2,672	2,901	7,745	8,166
Total personnel expense	11,309	11,450	33,733	29,828
Net occupancy expense	1,768	2,070	5,408	4,283
Equipment related expenses	1,044	1,013	3,246	2,979
Intangibles amortization	219	218	654	414
Acquisition expenses	–	290	–	1,082
Other operating expenses	6,371	5,912	21,907	17,507

Total noninterest expenses	20,711	20,953	64,948	56,093
Income before income taxes	5,926	10,098	19,007	89,622
Income taxes	2,078	3,716	6,780	34,631
Net income	3,848	6,382	12,227	54,991
Preferred stock dividends and accretion	1,027	995	3,080	2,958
Net income available to common shareholders	$2,821	5,387	9,147	52,033
Earnings per common share:				
Basic	$0.17	0.32	0.55	3.13
Diluted	0.17	0.32	0.54	3.12
Dividends declared per common share	$0.08	0.08	0.24	0.24
Weighted average common shares outstanding:				
Basic	16,779,554	16,664,544	16,754,678	16,636,646
Diluted	16,807,135	16,805,770	16,784,032	16,674,649

See notes to consolidated financial statements.

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First Bancorp and Subsidiaries
Consolidated Statements of Comprehensive Income

($ in thousands-unaudited)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net income	$3,848	6,382	12,227	54,991
Other comprehensive income (loss):				
Unrealized gains (losses) on securities available for sale:				
Unrealized holding gains (losses) arising during the period, pretax	150	2,484	2,235	1,180
Tax benefit (expense)	(58)	(969)	(871)	(460)
Reclassification to realized (gains) losses	(1)	(6)	(25)	113
Tax expense (benefit)	1	2	10	(44)
Postretirement Plans:				
Amortization of unrecognized net actuarial loss	164	217	398	652
Tax expense	(65)	(85)	(157)	(254)
Amortization of prior service cost and transition obligation	8	9	26	27
Tax expense	(3)	(3)	(11)	(11)
Other comprehensive income (loss)	196	1,649	1,605	1,203
Comprehensive income	$4,044	8,031	13,832	56,194

See notes to consolidated financial statements.

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First Bancorp and Subsidiaries
Consolidated Statements of Shareholders' Equity

(In thousands, except per share - unaudited)	Preferred Stock	Preferred Stock Discount	Common Stock Shares	Common Stock Amount	Common Stock Warrants	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Share-holders' Equity
Balances, January 1, 2009	$		16,574	$96,072	–	131,952	(8,156)	219,868
Net income						54,991		54,991
Preferred stock issued	65,000	(4,592)						60,408
Common stock warrants issued					4,592			4,592
Common stock issued under stock option plans			36	335				335
Common stock issued into dividend reinvestment plan			62	879				879
Cash dividends declared ($0.24 per common share)						(3,997)		(3,997)
Preferred dividends accrued						(2,356)		(2,356)
Accretion of preferred stock discount		602				(602)		–
Tax benefit realized from exercise of nonqualified stock options				73				73
Stock-based compensation				386				386
Other comprehensive income							1,203	1,203
Balances, September 30, 2009	$65,000	(3,990)	16,672	$97,745	4,592	179,988	(6,953)	336,382
	$65,000	(3,789)	16,722	$98,099	4,592	182,908	(4,427)	342,383

Balances, January 1, 2010								
Net income						12,227		12,227
Common stock issued under stock option plans			17	171				171
Common stock issued into dividend reinvestment plan			31	456				456
Cash dividends declared ($0.24 per common share)						(4,026)		(4,026)
Preferred dividends accrued						(2,438)		(2,438)
Accretion of preferred stock discount		643				(643)		–
Tax benefit realized from exercise of nonqualified stock options				36				36
Stock-based compensation			16	541				541
Other comprehensive income							1,605	1,605
Balances, September 30, 2010	$65,000	(3,146)	16,786	$99,303	4,592	188,028	(2,822)	350,955

See notes to consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Cash Flows

($ in thousands-unaudited)	Nine Months Ended September 30, 2010	2009
Cash Flows From Operating Activities		
Net income	$ 12,227	54,991
Reconciliation of net income to net cash provided by operating activities:		
Provision for loan losses	24,017	13,611
Net security premium amortization	1,096	722
Net purchase accounting adjustments	(6,742)	(2,473)
Loss (gain) on securities	(25)	113
Other (gains) losses	2,628	(67,685)
Increase in net deferred loan costs	(488)	(186)
Depreciation of premises and equipment	2,963	2,652
Stock-based compensation expense	541	386
Amortization of intangible assets	654	414
Origination of presold mortgages in process of settlement	(60,158)	(65,523)
Proceeds from sales of presold mortgages in process of settlement	60,899	60,775
Decrease in accrued interest receivable	1,648	716
Decrease (increase) in other assets	(1,230)	17,710
Decrease in accrued interest payable	(633)	(3,072)
Increase (decrease) in other liabilities	(1,913)	6,671
Net cash provided by operating activities	35,484	19,822
Cash Flows From Investing Activities		
Purchases of securities available for sale	(42,284)	(69,616)
Purchases of securities held to maturity	(19,710)	(13,435)
Proceeds from maturities/issuer calls of securities available for sale	80,225	112,648
Proceeds from maturities/issuer calls of securities held to maturity	2,367	1,626
Net decrease in loans	51,136	72,784
Proceeds from FDIC loss share agreements	46,433	–
Proceeds from sales of foreclosed real estate	16,840	3,633
Purchases of premises and equipment	(2,811)	(3,036)
Net cash paid for acquisition	(170)	–
Net cash received in acquisition	–	91,696
Net cash provided by investing activities	132,026	196,300
Cash Flows From Financing Activities		
Net increase (decrease) in deposits and repurchase agreements	(175,316)	134,129
Repayments of borrowings, net	(17,600)	(349,465)
Cash dividends paid – common stock	(4,016)	(5,809)
Cash dividends paid – preferred stock	(2,438)	(1,952)
Proceeds from issuance of preferred stock and common stock warrants	–	65,000
Proceeds from issuance of common stock	627	1,214
Tax benefit from exercise of nonqualified stock options	36	73
Net cash used by financing activities	(198,707)	(156,810)

Increase (decrease) in cash and cash equivalents	(31,197)	59,312
Cash and cash equivalents, beginning of period	350,872	224,780
Cash and cash equivalents, end of period	$319,675	284,092
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$25,686	40,586
Income taxes	16,238	10,592
Non-cash transactions:		
Unrealized gain on securities available for sale, net of taxes	1,349	789
Foreclosed loans transferred to other real estate	94,949	5,151

See notes to consolidated financial statements.

First Bancorp and Subsidiaries
Notes to Consolidated Financial Statements

(unaudited) For the Periods Ended September 30, 2010 and 2009

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, 2010 and 2009 and the consolidated results of operations and consolidated cash flows for the periods ended September 30, 2010 and 2009. All such adjustments were of a normal, recurring nature. Reference is made to the 2009 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, 2010 and 2009 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated all subsequent events through the date the financial statements were issued.

Note 2 – Accounting Policies

Note 1 to the 2009 Annual Report on Form 10-K filed with the SEC contains a description of the accounting policies followed by the Company and discussion of recent accounting pronouncements. The following paragraphs update that information as necessary.

In June 2009, the Financial Accounting Standards Board ("FASB") issued guidance that removed the concept of a special purpose entity (SPE) from previous accounting guidance. The amended guidance limits the circumstances in which a financial asset should be derecognized when the transferor has not transferred the entire financial asset by taking into consideration the transferor's continuing involvement. The guidance requires that a transferor recognize and initially measure at fair value all assets obtained (including a transferor's beneficial interest) and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. The concept of a qualifying SPE is no longer applicable. The guidance was effective for all interim and annual periods beginning after November 15, 2009. The adoption of this guidance on January 1, 2010 did not have a material impact on the Company's consolidated statements.

In January 2010, new guidance was issued by the FASB requiring improved disclosures about fair value measurements. The guidance requires entities to disclose significant transfers in and out of fair value hierarchy levels, and the reasons for the transfers, and to present information about purchases, sales, issuances and settlements separately in the reconciliation of fair value measurements using significant unobservable inputs (Level 3). Additionally, the guidance clarifies that a reporting entity should provide fair value measurements for each class of assets and liabilities and disclose the inputs and valuation techniques used for fair value measurements using significant other observable inputs (Level 2) and significant unobservable inputs (Level 3). The Company has applied the new disclosure requirements as of January 1, 2010, except for the disclosures about purchases, sales, issuances and settlements in the Level 3 reconciliation, which will be effective for interim and annual periods beginning after December 15, 2010. The adoption of this guidance has not had and is not expected to have a material impact on the Company's consolidated financial statements.

In February 2010, the FASB issued new guidance related to subsequent events. The amendment removed the requirement to disclose the date through which subsequent events have been evaluated, and became effective immediately upon issuance and is to be applied prospectively. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

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In April 2010, the FASB issued new guidance related to accounting for acquired troubled loans that are subsequently modified. The guidance provides that if these loans meet the criteria to be accounted for within a pool, modifications to one or more of these loans does not result in the removal of the modified loan from the pool even if the modification would otherwise be considered a troubled debt restructuring. The pool of assets in which the loan is included will continue to be considered for impairment. The amendments do not apply to loans not meeting the criteria to be accounted for within a pool. These amendments are effective for modifications of loans accounted for within pools occurring in the first interim or annual period ending on or after July 15, 2010. The adoption of these amendments had no impact on the Company's consolidated financial statements.

In July 2010, the FASB issued guidance that will require an entity to provide more information about the credit quality of its financing receivables, such as aging information and credit quality indicators, in the disclosures to its financial statements. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how the entity develops its allowance for credit losses and how it manages its credit exposure. The required disclosures are effective for periods ending on or after December 15, 2010. The Company will provide all required disclosures beginning with the Annual Report on Form 10-K for the year ended December 31, 2010.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which significantly changes the regulation of financial institutions and the financial services industry. The Dodd-Frank Act includes several provisions that will affect how community banks, thrifts, and small bank and thrift holding companies will be regulated in the future. Among other things, these provisions abolish the Office of Thrift Supervision and transfer its functions to the other federal banking agencies, relax rules regarding interstate branching, allow financial institutions to pay interest on business checking accounts, change the scope of federal deposit insurance coverage, and impose new capital requirements on bank and thrift holding companies. The Dodd-Frank Act also establishes the Bureau of Consumer Financial Protection as an independent entity within the Federal Reserve, which will be given the authority to promulgate consumer protection regulations applicable to all entities offering consumer financial services or products, including banks. Additionally, the Dodd-Frank Act includes a series of provisions covering mortgage loan origination standards affecting originator compensation, minimum repayment standards, and pre-payments. Management is actively reviewing the provisions of the Dodd-Frank Act and assessing its probable impact on our business, financial condition, and results of operations.

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

Note 3 – Reclassifications

Certain amounts reported in the period ended September 30, 2009 have been reclassified to conform to the presentation for September 30, 2010. 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, 2010, 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 one plan that was assumed from an acquired entity. 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, 2010, 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 to attract, retain and motivate key employees and directors and to associate the interests of the plans' participants with those of the Company and its shareholders. The Predecessor Plans only provided for the ability to grant stock options, whereas the First Bancorp 2007 Equity Plan, in addition to providing for grants of stock options, also allows for grants of other types of equity-based compensation, including stock appreciation rights, restricted stock, restricted performance stock, unrestricted stock, and performance units. Since the First Bancorp 2007 Equity Plan became effective on May 2, 2007, the Company has granted the following stock-based compensation: 1) the grant of 2,250 stock options to each of the Company's non-employee directors on June 1, 2007, 2008, and 2009, 2) the grant of 5,000 incentive stock options to an executive officer on April 1, 2008 in connection with a corporate acquisition, 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), 4) the grant of 29,267 long-term restricted shares of common stock to certain senior executive officers on December 11, 2009, and 5) the grant of 1,039 shares of common stock to each of the Company's non-employee directors on June 1, 2010.

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, usually 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, until 2010 the Company had historically granted 2,250 vested stock options to each of the Company's non-employee directors in June of each year. In June 2010, the Company granted 1,039 common shares to each non-employee director, which had approximately the same value as 2,250 stock options. 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 (EPS) targets) and service conditions that must be met in order to vest. The 262,599 stock options and 81,337 performance units represent the maximum number of options and performance units that could have vested if the Company were to achieve specified maximum goals for EPS 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 are subject to vesting 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 is 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 is recognized and any previously recognized compensation cost will be reversed. The Company did not achieve the minimum EPS performance goal for 2008, and thus one-third of the above grant was permanently forfeited. As a result of a significant acquisition gain realized in June 2009 related to a failed bank acquisition, the Company achieved the EPS goal for 2009 and recorded compensation expense of $300,000 in 2009 and $225,000 for the first nine months of 2010. Assuming no forfeitures, the Company will record compensation expense of approximately $75,000 in the last quarter of 2010 and approximately $300,000 in 2011 as a result of the vesting of the 2009 performance period awards. The Company does not believe that the EPS goals for 2010 will be met, and thus no compensation expense has been recorded related to that performance period.

The December 11, 2009 grant of 29,267 long-term restricted shares of common stock to senior executives vests in accordance with the minimum rules for long-term equity grants for companies participating in the U.S. Treasury's Troubled Asset Relief Program (TARP). These rules require that the vesting of the stock be tied to repayment of the financial assistance. For each 25% of total financial assistance repaid, 25% of the total long-term restricted stock may become transferrable. The total compensation expense associated with this grant was $398,000 and is being initially amortized over a four year period, with approximately $25,000 being expensed in each quarter of 2010-2013. See

Note 13 for further information related to the Company’s participation in the TARP.

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Under the terms of the Predecessor Plans and the First Bancorp 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, 2010, there were 728,645 options outstanding related to the three First Bancorp plans, with exercise prices ranging from $14.35 to $22.12. At September 30, 2010, there were 849,356 shares remaining available for grant under the First Bancorp 2007 Equity Plan. The Company also has a stock option plan as a result of a corporate acquisition. At September 30, 2010, there were 5,788 stock options outstanding in connection with the acquired plan, with option prices ranging from $10.66 to $15.22.

The Company issues new shares of common stock 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 future volatility is reasonably expected to differ from the past); and the weighted-average expected life is based on the historical behavior of employees related to exercises, forfeitures and cancellations.

The Company's only equity grants for the nine months ended September 30, 2010 were the issuance of 15,585 shares of common stock to non-employee directors on June 1, 2010 (1,039 shares per director). The fair market value of the Company's common stock on the grant date was $15.51 per share, which was the closing price of the Company's common stock on that date.

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

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

The Company recorded stock-based compensation expense of $100,000 and $75,000 for the three-month periods ended September 30, 2010 and September 30, 2009, respectively. For the nine-month periods ended September 30, 2010 and September 30, 2009, the Company recorded stock-based compensation expense of $541,000 and $386,000, respectively. Approximately $242,000 of the expense for the nine months ended September 30, 2010 relates to the June 1, 2010 director grants and is classified as "other operating expenses." The remaining 2010 expense is classified as "personnel expense" on the Consolidated Statements of Income with approximately $224,000 ($74,500 each quarter) relating to the June 17, 2008 grants to 19 senior officers and $75,000 ($25,000 each quarter) relating to the vesting of the restricted stock awards granted in December 2009. Of the $386,000 in expense that was recorded in the nine month period ended September 30, 2009, approximately $224,000 ($74,500 each quarter) relates to the June 17, 2008 officer grants and is classified as "personnel expense" on the Consolidated Statements of Income, while $162,000 relates

to the June 1, 2009 director grants and is classified as “other operating expenses.” Stock-based compensation expense is reflected as an adjustment to cash flows from operating activities on the Company’s Consolidated Statement of Cash Flows. The Company recognized income tax benefits in the income statement related to stock-based compensation in the amount of $39,000 and $29,000 for the three month periods ended September 30, 2010 and 2009, respectively. The Company recognized income tax benefits in the income statement related to stock-

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based compensation in the amount of $211,000 and $150,000 for the nine month periods ended September 30, 2010 and 2009, respectively.

At September 30, 2010, the Company had $31,000 of unrecognized compensation costs related to unvested stock options that have vesting requirements based solely on service conditions. The cost is expected to be amortized over a weighted-average life of 2.1 years, with $18,000 being expensed in 2010, $6,000 being expensed in each of 2011 and 2012, and $1,000 being expensed in 2013. At September 30, 2010, the Company had $1.2 million in unrecognized compensation expense associated with the June 17, 2008 award grant that has both performance conditions and service conditions. Based on the performance conditions, the Company believes that only the 2009 performance awards will ultimately vest, and therefore, the Company expects to record $75,000 in each quarter of 2010 and 2011.

As noted above, certain of the Company's stock option grants contain terms that provide for a graded vesting schedule whereby portions of the award vest in increments over the requisite service period. 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. Compensation expense is based on the estimated number of stock options and awards that will ultimately vest. Over the past five years, there have only been minimal amounts of forfeitures or expirations, and therefore the Company assumes that all options granted without performance conditions will become vested.

The following table presents information regarding the activity for the first nine months of 2010 related to all of the Company's stock options outstanding:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Contractual Term (years)	Aggregate Intrinsic Value
Balance at December 31, 2009	753,116	$ 17.73		
Granted	–	–		
Exercised	(18,667)	10.46		$ 97,940
Forfeited	–	–		
Expired	–	–		
Outstanding at September 30, 2010	734,449	$ 17.91	4.4	$ 9,487
Exercisable at September 30, 2010	572,467	$ 18.27	3.5	$ 9,487

The Company received $171,000 and $335,000 as a result of stock option exercises during the nine months ended September 30, 2010 and 2009, respectively. The Company recorded $36,000 in associated tax benefits from the exercise of nonqualified stock options during the nine months ended September 30, 2010 compared to $73,000 in the comparable period of 2009.

As discussed above, the Company granted 81,337 performance units to 19 senior officers on June 17, 2008. Each performance unit represents the right to acquire one share of the Company's common stock upon satisfaction of the vesting conditions (discussed above). The fair market value of the Company's common stock on the grant date was

$16.53 per share. One-third of this grant was forfeited on December 31, 2008 because the Company failed to meet the minimum performance goal required for vesting. Also, as discussed above, the Company granted 29,267 long-term restricted shares of common stock to certain senior executives on December 11, 2009.

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The following table presents information regarding the activity during 2010 related to the Company's outstanding performance units and restricted stock:

	Nonvested Performance Units		Long-Term Restricted Stock	
Nine months ended September 30, 2010	Number of Units	Weighted-Average Grant-Date Fair Value	Number of Units	Weighted-Average Grant-Date Fair Value
Nonvested at the beginning of the period	54,225	$ 16.53	29,267	$ 13.59
Granted during the period	–	–	–	–
Vested during the period	–	–	–	–
Forfeited or expired during the period	–	–	–	–
Nonvested at end of period	54,225	$ 16.53	29,267	$ 13.59

Note 5 – Earnings Per Common Share

Basic earnings per common share were computed by dividing net income available to common shareholders by the weighted average common shares outstanding. Diluted earnings per common share includes the potentially dilutive effects of the Company's equity plans and the warrant issued to the U.S. Treasury in connection with the Company's participation in the Treasury's Capital Purchase Program – see Note 13 for additional information. The following is a reconciliation of the numerators and denominators used in computing basic and diluted earnings per common share:

	For the Three Months Ended September 30,					
	2010			2009		
($ 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 available to common shareholders	$2,821	16,779,554	$0.17	$5,387	16,664,544	$0.32
Effect of Dilutive Securities	-	27,581		-	141,226	
Diluted EPS per common share	$2,821	16,807,135	$0.17	$5,387	16,805,770	$0.32

	For the Nine Months Ended September 30,					
	2010			2009		
($ 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 available to common shareholders	$9,147	16,754,678	$0.55	$52,033	16,636,646	$3.13
Effect of Dilutive Securities	-	29,354		-	38,003	

Diluted EPS per common share	$9,147	16,784,032	$0.54	$52,033	16,674,649	$3.12

For the three and nine months ended September 30, 2010, there were 636,252 and 609,252 options, respectively, that were antidilutive because the exercise price exceeded the average market price for the period. For the three and

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nine month periods ended September 30, 2009, there were 265,730 and 704,018 options, respectively, that were antidilutive because the exercise price exceeded the average market price for the period. In addition, the warrant issued to the U.S. Treasury (see Note 13) was anti-dilutive for the three and nine months ended September 30, 2010 and 2009. Antidilutive options and warrants have been omitted from the calculation of diluted earnings per share for the respective period.

Note 6 – Securities

The book values and approximate fair values of investment securities at September 30, 2010 and December 31, 2009 are summarized as follows:

	September 30, 2010				December 31, 2009			
	Amortized	Fair	Unrealized		Amortized	Fair	Unrealized	
($ in thousands)	Cost	Value	Gains	(Losses)	Cost	Value	Gains	(Losses)
Securities available for sale:								
Government-sponsored enterprise securities	$16,028	16,267	239	–	36,106	36,518	412	–
Mortgage-backed securities	91,783	95,457	3,674	–	109,430	111,797	2,423	(56)
Corporate bonds	15,759	15,587	234	(406)	15,769	14,436	–	(1,333)
Equity securities	15,435	15,736	342	(41)	16,618	17,004	417	(31)
Total available for sale	$139,005	143,047	4,489	(447)	177,923	179,755	3,252	(1,420)
Securities held to maturity:								
State and local governments	$51,654	54,293	2,639	–	34,394	34,928	612	(78)
Other	7	7	–	–	19	19	–	–
Total held to maturity	$51,661	54,300	2,639	–	34,413	34,947	612	(78)

Included in mortgage-backed securities at September 30, 2010 were collateralized mortgage obligations with an amortized cost of $3,414,000 and a fair value of $3,555,000. Included in mortgage-backed securities at December 31, 2009 were collateralized mortgage obligations with an amortized cost of $5,413,000 and a fair value of $5,601,000.

The Company owned Federal Home Loan Bank stock with a cost and fair value of $15,336,000 and $16,519,000 at September 30, 2010 and December 31, 2009, respectively, which is included in equity securities above and serves as part of the collateral for the Company's line of credit with the Federal Home Loan Bank. The investment in this stock is a requirement for membership in the Federal Home Loan Bank system.

The following table presents information regarding securities with unrealized losses at September 30, 2010:

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

		Losses		Unrealized Losses		Unrealized Losses
Government-sponsored enterprise securities	$–	–	–	–	–	–
Mortgage-backed securities	–	–	–	–	–	–
Corporate bonds	2,040	11	5,472	395	7,512	406
Equity securities	–	–	30	41	30	41
State and local governments	–	–	–	–	–	–
Total temporarily impaired securities	$2,040	11	5,502	436	7,542	447

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The following table presents information regarding securities with unrealized losses at December 31, 2009:

	Securities in an Unrealized Loss Position for Less than 12 Months		Securities in an Unrealized Loss Position for More than 12 Months		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprise securities	$–	–	–	–	–	–
Mortgage-backed securities	9,575	56	–	–	9,575	56
Corporate bonds	1,609	224	12,827	1,109	14,436	1,333
Equity securities	17	10	27	21	44	31
State and local governments	5,821	77	230	1	6,051	78
Total temporarily impaired securities	$17,022	367	13,084	1,131	30,106	1,498

In the above tables, all of the non-equity securities that were in an unrealized loss position at September 30, 2010 and December 31, 2009 are bonds that the Company has determined are in a loss position due to interest rate factors, the overall economic downturn in the financial sector, and the broader economy in general. The Company has evaluated the collectability of each of these bonds and has concluded that there is no other-than-temporary impairment. The Company does not intend to sell these securities, and it is more likely than not that the Company will not be required to sell these securities before recovery of the amortized cost. The Company has also concluded that each of the equity securities in an unrealized loss position at September 30, 2010 and December 31, 2009 was in such a position due to temporary fluctuations in the market prices of the securities. The Company's policy is to record an impairment charge for any of these equity securities that remain in an unrealized loss position for twelve consecutive months unless the amount is insignificant.

The aggregate carrying amount of cost-method investments was $15,343,000 and $16,538,000 at September 30, 2010 and December 31, 2009, respectively, which included the Federal Home Loan Bank stock discussed above. The Company determined that none of its cost-method investments were impaired at either period end.

The book values and approximate fair values of investment securities at September 30, 2010, by contractual maturity, are summarized in the table below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available for Sale		Securities Held to Maturity	
($ in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Debt securities				
Due within one year	$–	–	148	156
Due after one year but within five years	16,028	16,267	1,638	1,699
Due after five years but within ten years	2,995	3,042	13,509	14,428
Due after ten years	12,764	12,545	36,366	38,017
Mortgage-backed securities	91,783	95,457	–	–
Total debt securities	123,570	127,311	51,661	54,300

Equity securities	15,435	15,736	–	–
Total securities	$139,005	143,047	51,661	54,300

At September 30, 2010 and December 31, 2009, investment securities with book values of $90,018,000 and $85,438,000, respectively, were pledged as collateral for public and private deposits and securities sold under agreements to repurchase.

There were no securities sales during the nine months ended September 30, 2010 or 2009. During the nine months ended September 30, 2010, the Company recorded a gain of $25,000 related to the call of three municipal securities.

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During the nine months ended September 30, 2009, the Company recorded losses of $113,000 related to write-downs of the Company's equity portfolio.

Note 7 – Loans and Asset Quality Information

On June 19, 2009 the Company acquired substantially all of the assets and liabilities of Cooperative Bank. (See the Company's 2009 Annual Report on Form 10-K for more information regarding this transaction.) The loans and foreclosed real estate that were acquired in this transaction are covered by loss share agreements between the FDIC and the Company's banking subsidiary, First Bank, which afford First Bank significant loss protection. Under the loss share agreements, the FDIC will cover 80% of covered loan and foreclosed real estate losses up to $303 million and 95% of losses that exceed that amount. Because of the loss protection provided by the FDIC, the risk of the Cooperative Bank loans and foreclosed real estate are significantly different from those assets not covered under the loss share agreements. Accordingly, the Company presents separately loans subject to the loss share agreements as "covered loans" in the information below and loans that are not subject to the loss share agreements as "non-covered loans."

The following is a summary of the major categories of total loans outstanding:

($ in thousands)	September 30, 2010		December 31, 2009		September 30, 2009	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
All loans (non-covered and covered):						
Commercial, financial, and agricultural	$160,824	7%	$173,611	7%	$175,062	6%
Real estate – construction, land development & other land loans	473,446	19%	551,714	21%	630,358	23%
Real estate – mortgage – residential (1-4 family) first mortgages	810,794	32%	849,875	32%	831,103	31%
Real estate – mortgage – home equity loans / lines of credit	266,608	11%	270,054	10%	275,753	10%
Real estate – mortgage – commercial and other	713,794	28%	718,723	27%	722,008	27%
Installment loans to individuals	83,846	3%	88,514	3%	91,395	3%
Subtotal	2,509,312	100%	2,652,491	100%	2,725,679	100%
Unamortized net deferred loan costs	862		374		421	
Total loans	$2,510,174		$2,652,865		$2,726,100	

As of September 30, 2010, December 31, 2009, and September 30, 2009, net loans include an unamortized premium of $736,000, $883,000 and $932,000, respectively, on loans acquired from Great Pee Dee Bancorp ("Great Pee Dee").

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

($ in thousands)	September 30, 2010		December 31, 2009		September 30, 2009	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Non-covered loans:						
Commercial, financial, and agricultural	$155,498	7 %	$164,225	8 %	$165,842	8 %
Real estate – construction, land development & other land loans	370,805	18 %	408,458	19 %	418,437	19 %
Real estate – mortgage – residential (1-4 family) first mortgages	615,681	29 %	594,470	28 %	589,712	27 %
Real estate – mortgage – home equity loans / lines of credit	243,092	12 %	247,995	11 %	249,650	12 %
Real estate – mortgage – commercial and other	629,316	30 %	632,985	30 %	637,713	30 %
Installment loans to individuals	81,185	4 %	84,336	4 %	85,840	4 %
Subtotal	2,095,577	100 %	2,132,469	100 %	2,147,194	100 %
Unamortized net deferred loan costs	862		374		421	
Total non-covered loans	$2,096,439		$2,132,843		$2,147,615	

The carrying amount of the covered loans at September 30, 2010 consisted of impaired and nonimpaired purchased loans, as follows:

($ in thousands)	Impaired Purchased Loans	Nonimpaired Purchased Loans	Total Covered Loans	Unpaid Principal Balance
Covered loans:				
Commercial, financial, and agricultural	$–	5,326	5,326	6,491
Real estate – construction, land development & other land loans	4,602	98,039	102,641	166,289
Real estate – mortgage – residential (1-4 family) first mortgages	–	195,113	195,113	229,965
Real estate – mortgage – home equity loans / lines of credit	–	23,516	23,516	26,755
Real estate – mortgage – commercial and other	3,232	81,246	84,478	108,894
Installment loans to individuals	–	2,661	2,661	2,952
Total	$7,834	405,901	413,735	541,346

The carrying amount of covered loans at December 31, 2009 was as follows:

($ in thousands)

Covered loans:	Impaired Purchased Loans	Nonimpaired Purchased Loans	Total Covered Loans	Unpaid Principal Balance
Commercial, financial, and agricultural	$–	9,386	9,386	12,406
Real estate – construction, land development & other land loans	29,479	113,777	143,256	254,897
Real estate – mortgage – residential (1-4 family) first mortgages	–	255,405	255,405	329,141
Real estate – mortgage – home equity loans / lines of credit	–	22,059	22,059	24,504
Real estate – mortgage – commercial and other	4,971	80,767	85,738	108,908
Installment loans to individuals	–	4,178	4,178	4,673
Total	$34,450	485,572	520,022	734,529

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The following table presents information regarding purchased nonimpaired loans at the Cooperative Bank acquisition date of June 19, 2009 and changes from that date to September 30, 2010. The amounts include principal only and do not reflect accrued interest as of the date of the acquisition or beyond.

($ in thousands)

Contractual loan principal payments receivable	$738,182
Fair market value adjustment	(194,460)
Fair value of purchased nonimpaired loans at June 19, 2009	543,722
Principal repayments	(45,670)
Transfers to foreclosed real estate	(13,949)
Accretion of loan discount	1,469
Carrying amount of nonimpaired Cooperative Bank loans at December 31, 2009	485,572
Principal repayments	(30,876)
Transfers to foreclosed real estate	(53,169)
Accretion of loan discount	4,374
Carrying amount of nonimpaired Cooperative Bank loans at September 30, 2010	$405,901

As reflected in the table above, the Company accreted $4,374,000 of the loan discount on purchased nonimpaired loans into interest income during the first nine months of 2010 in order to recognize the difference between the initial recorded investment and the loans' expected repayment amounts.

The following table presents information regarding purchased impaired loans at the Cooperative Bank acquisition date of June 19, 2009 and changes from that date to September 30, 2010. The Company has applied the cost recovery method to all purchased impaired loans at the acquisition date of June 19, 2009 due to the uncertainty as to the timing of expected cash flows as reflected in the following table.

($ in thousands)

Contractually required principal payments receivable	$90,776
Nonaccretable difference	(33,394)
Present value of cash flows expected to be collected	57,382
Accretable difference	–
Fair value of purchased impaired loans at June 19, 2009	57,382
Transfer to foreclosed real estate	(22,932)
Carrying amount of impaired Cooperative Bank loans at December 31, 2009	34,450
Principal repayments	(482)
Transfer to foreclosed real estate	(26,042)
Change due to loan-charge-off	(320)
Other	228
Carrying amount of impaired Cooperative Bank loans at September 30, 2010	$7,834

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The following table presents information regarding all purchased impaired loans, which includes the Company's acquisition of Great Pee Dee on April 1, 2008, and the Company's acquisition of certain assets and liabilities of Cooperative Bank on June 19, 2009:

($ in thousands) Purchased Impaired Loans	Contractual Principal Receivable	Fair Market Value Adjustment – Write Down (Nonaccretable Difference)	Carrying Amount
As of April 1, 2008 Great Pee Dee acquisition date	$ 7,663	4,695	2,968
Additions due to borrower advances	663	–	663
Change due to payments received	(510)	–	(510)
Change due to legal discharge of debt	(102)	(102)	–
Balance at December 31, 2008	7,714	4,593	3,121
Additions due to acquisition of Cooperative Bank	90,776	33,394	57,382
Change due to payments received	(822)	(150)	(672)
Transfer to foreclosed real estate	(31,102)	(7,817)	(23,285)
Change due to loan charge-off	(27,273)	(26,778)	(495)
Balance at December 31, 2009	39,293	3,242	36,051
Change due to payments received	(678)	–	(678)
Transfer to foreclosed real estate	(26,042)	–	(26,042)
Change due to loan charge-off	(945)	(625)	(320)
Other	(59)	(286)	227
Balance at September 30, 2010	$ 11,569	2,331	9,238

Each of the purchased impaired loans are on nonaccrual status and considered to be impaired. Because of the uncertainty of the expected cash flows, the Company is accounting for each purchased impaired loan under the cost recovery method, in which all cash payments are applied to principal. Thus, there is no accretable yield associated with the above loans. Through September 30, 2010, the Company has received $67,000 in payments that exceeded the initial carrying amount of the purchased impaired loans. These payments were recorded as interest income.

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

ASSET QUALITY DATA ($ in thousands)	September 30, 2010	December 31, 2009	September 30, 2009
Non-covered nonperforming assets			
Nonaccrual loans	$80,318	62,206	51,015
Restructured loans	20,447	21,283	6,963
Accruing loans >90 days past due	–	–	–
Total non-covered nonperforming loans	100,765	83,489	57,978
Other real estate	17,475	8,793	7,549
Total non-covered nonperforming assets	$118,240	92,282	65,527
Covered nonperforming assets (1)			

Nonaccrual loans (2)	$75,116	117,916	122,308
Restructured loans	4,160	–	–
Accruing loans > 90 days past due	–	–	–
Total covered nonperforming loans	79,276	117,916	122,308
Other real estate	101,389	47,430	10,439
Total covered nonperforming assets	$180,665	165,346	132,747
Total nonperforming assets	$298,905	257,628	198,274

(1) Covered nonperforming assets consist of assets that are included in loss-share agreements with the FDIC.
(2) At September 30, 2010, the contractual balance of the nonaccrual loans covered by FDIC loss share agreements was $103.9 million.

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The following table presents information related to impaired loans, as defined by relevant accounting standards.

($ in thousands)	As of /for the nine months ended September 30, 2010	As of /for the year ended December 31, 2009	As of /for the nine months ended September 30, 2009
Impaired loans at period end			
Non-covered	$100,765	55,574	35,771
Covered	79,276	94,746	71,083
Total impaired loans at period end	$180,041	150,320	106,854
Average amount of impaired loans for period			
Non-covered	$85,126	36,171	25,805
Covered	99,391	34,161	32,116
Average amount of impaired loans for period – total	$184,517	70,332	57,921
Allowance for loan losses related to impaired loans at period end (1)	$15,767	9,717	6,360
Amount of impaired loans with no related allowance at period end			
Non-covered	$24,473	30,236	14,143
Covered	79,276	94,746	71,083
Total impaired loans with no related allowance at period end	$103,749	124,982	85,226

(1) Relates entirely to non-covered loans.

All of the impaired loans noted in the table above were on nonaccrual status at each respective period end except for those classified as restructured loans (see previous table above for balances).

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Note 8 – Deferred Loan Costs

The amount of loans shown on the Consolidated Balance Sheets includes net deferred loan costs of approximately $862,000, $374,000, and $421,000 at September 30, 2010, December 31, 2009, and September 30, 2009, respectively.

Note 9 – 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, 2010, December 31, 2009, and September 30, 2009 and the carrying amount of unamortized intangible assets as of those same dates. The Company recorded $284,000 in customer lists intangibles in connection with the acquisition of an insurance agency in February 2010.

	September 30, 2010		December 31, 2009		September 30, 2009	
($ in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets:						
Customer lists	$678	282	394	241	394	234
Core deposit premiums	7,590	3,244	7,590	2,630	7,590	2,420
Total	$8,268	3,526	7,984	2,871	7,984	2,654
Unamortizable intangible assets:						
Goodwill	$65,835		65,835		65,835	

Amortization expense totaled $219,000 and $218,000 for the three months ended September 30, 2010 and 2009, respectively. Amortization expense totaled $654,000 and $414,000 for the nine months ended September 30, 2010 and 2009, respectively.

The following table presents the estimated amortization expense for the last quarter of 2010 and for each of the four calendar years ending December 31, 2014 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.

($ in thousands)	Estimated Amortization Expense
October 1 to December 31, 2010	$ 220
2011	864
2012	853
2013	742
2014	639
Thereafter	1,425
Total	$ 4,743

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Note 10 – 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”), which is for the benefit of certain senior management executives of the Company.

The Company recorded pension expense totaling $806,000 and $937,000 for the three months ended September 30, 2010 and 2009, respectively, related to the Pension Plan and the SERP. The following table contains the components of the pension expense.

	For the Three Months Ended September 30,					
($ in thousands)	2010 Pension Plan	2009 Pension Plan	2010 SERP	2009 SERP	2010 Total Both Plans	2009 Total Both Plans
Service cost – benefits earned during the period	$454	422	70	116	524	538
Interest cost	410	340	98	82	508	422
Expected return on plan assets	(399)	(250)	–	–	(399)	(250)
Amortization of transition obligation	–	1	–	–	–	1
Amortization of net (gain)/loss	139	191	25	27	164	218
Amortization of prior service cost	4	3	5	5	9	8
Net periodic pension cost	$608	707	198	230	806	937

The Company recorded pension expense totaling $2,372,000 and $2,810,000 for the nine months ended September 30, 2010 and 2009, respectively, related to the Pension Plan and the SERP. The following table contains the components of the pension expense.

	For the Nine Months Ended September 30,					
($ in thousands)	2010 Pension Plan	2009 Pension Plan	2010 SERP	2009 SERP	2010 Total Both Plans	2009 Total Both Plans
Service cost – benefits earned during the period	$1,302	1,266	306	348	1,608	1,614
Interest cost	1,166	1,020	283	246	1,449	1,266
Expected return on plan assets	(1,109)	(749)	–	–	(1,109)	(749)
Amortization of transition obligation	2	3	–	–	2	3
Amortization of net (gain)/loss	337	571	61	81	398	652
Amortization of prior service cost	10	9	14	15	24	24
Net periodic pension cost	$1,708	2,120	664	690	2,372	2,810

The Company’s contributions to the Pension Plan are based on computations by independent actuarial consultants and are intended to provide the Company with the maximum deduction for income tax purposes. The contributions are invested to provide for benefits under the Pension Plan. The Company has contributed $2,500,000 to the Pension Plan in 2010. During 2009, the Company amended the Pension Plan to prohibit new entrants into the plan.

The Company's funding policy with respect to the SERP is to fund the related benefits from the operating cash flow of the Company.

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Note 11 – 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 (loss) for the Company are as follows:

	September 30, 2010	December 31, 2009	September 30, 2009
Unrealized gain (loss) on securities available for sale	$4,042	1,832	1,567
Deferred tax asset (liability)	(1,576)	(715)	(611)
Net unrealized gain (loss) on securities available for sale	2,466	1,117	956
Additional pension liability	(8,740)	(9,164)	(13,014)
Deferred tax asset	3,452	3,620	5,105
Net additional pension liability	(5,288)	(5,544)	(7,909)
Total accumulated other comprehensive income (loss)	$(2,822)	(4,427)	(6,953)

Note 12 – Fair Value

The carrying amounts and estimated fair values of financial instruments at September 30, 2010 and December 31, 2009 are as follows:

	September 30, 2010		December 31, 2009	
($ in thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and due from banks, noninterest-bearing	$51,812	51,812	60,071	60,071
Due from banks, interest-bearing	246,771	246,771	283,175	283,175
Federal funds sold	21,092	21,092	7,626	7,626
Securities available for sale	143,047	143,047	179,755	179,755
Securities held to maturity	51,661	54,300	34,413	34,947
Presold mortgages in process of settlement	3,226	3,226	3,967	3,967
Loans, net of allowance	2,465,175	2,481,001	2,615,522	2,583,289
FDIC loss share receivable	93,125	92,433	143,221	141,253
Accrued interest receivable	13,135	13,135	14,783	14,783
Deposits	2,751,482	2,757,247	2,933,108	2,942,539
Securities sold under agreements to repurchase	68,157	68,157	64,058	64,058
Borrowings	158,907	131,461	176,811	141,176
Accrued interest payable	2,421	2,421	3,054	3,054

Fair value methods and assumptions are set forth below for the Company's financial instruments.

Cash and Due from Banks, Federal Funds Sold, Presold Mortgages in Process of Settlement, Accrued Interest Receivable, and Accrued Interest Payable – The carrying amounts approximate their fair value because of the short maturity of these financial instruments.

Available for Sale and Held to Maturity Securities – Fair values are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans – Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, financial and agricultural, real estate construction, real estate mortgages and installment loans to individuals. Each loan category is further segmented into fixed and variable interest rate terms. The fair value for each category is determined by discounting scheduled future cash flows using current interest rates offered on loans with similar risk characteristics. Fair values for impaired loans are estimated based on discounted cash flows or underlying collateral values, where applicable.

FDIC Loss Share Receivable – Fair value is equal to the FDIC reimbursement rate of the expected losses to be incurred and reimbursed by the FDIC and then discounted over the estimated period of receipt.

Deposits and Securities Sold Under Agreements to Repurchase – The fair value of securities sold under agreements to repurchase and deposits with no stated maturity, such as non-interest-bearing demand deposits, savings, NOW, and money market accounts, is equal to the amount payable on demand as of the valuation date. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Borrowings – The fair value of borrowings is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered by the Company’s lenders for debt of similar remaining maturities.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company’s entire holdings of a particular financial instrument. Because no highly liquid market exists for a significant portion of the Company’s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial assets or liabilities include net premises and equipment, intangible and other assets such as foreclosed properties, deferred income taxes, prepaid expense accounts, income taxes currently payable and other various accrued expenses. In addition, the income tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

Relevant accounting guidance 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 instruments 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.

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The following table summarizes the Company's assets and liabilities that were measured at fair value at September 30, 2010.

($ in thousands)

	Fair Value at Sept. 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring				
Securities available for sale:				
Government-sponsored enterprise securities	$16,267	$—	$16,267	$ —
Mortgage-backed securities	95,457	—	95,457	—
Corporate bonds	15,587	—	15,587	—
Equity securities	15,736	400	15,336	—
Total available for sale securities	143,047	400	142,647	—
Nonrecurring				