FIRST COMMUNITY BANCSHARES INC /NV/
Form 10-Q
November 14, 2012
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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 quarter ended September 30, 2012

Commission file number 000-19297

FIRST COMMUNITY BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Nevada	**55-0694814**
(State or other jurisdiction of	**(IRS Employer**

incorporation)	**Identification No.)**
P.O. Box 989	
Bluefield, Virginia	**24605-0989**
(Address of principal executive offices)	**(Zip Code)**

(276) 326-9000

(Registrant s telephone number, including area code)

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 12 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. þ Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes ¨ No

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

Large accelerated filer	¨	Accelerated filer	þ
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class Common Stock, $1.00 Par Value; 20,086,404 shares outstanding as of November 13, 2012

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FIRST COMMUNITY BANCSHARES, INC.

FORM 10-Q

For the quarter ended September 30, 2012

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share and per share data)	**September 30, 2012 (Unaudited)**	**December 31, 2011**
Assets		
Cash and due from banks	$ 44,865	$ 34,578
Federal funds sold	93,005	1,909
Interest-bearing deposits in banks	27,359	10,807
Total cash and cash equivalents	165,229	47,294
Securities available-for-sale	517,161	482,430
Securities held-to-maturity	816	3,490
Loans held for sale	4,446	5,820
Loans held for investment, net of unearned income:		
Covered under loss share agreements	221,977	
Not covered under loss share agreements	1,541,633	1,396,067
Less allowance for loan losses	25,835	26,205
Loans held for investment, net	1,737,775	1,369,862
FDIC receivable under loss share agreements	49,477	
Property, plant, and equipment, net	62,191	54,721
Other real estate owned:		
Covered under loss share agreements	3,553	
Not covered under loss share agreements	5,957	5,914
Interest receivable	6,038	6,193
Goodwill	104,022	83,056
Intangible assets	3,713	4,326
Other assets	109,272	101,683
Total assets	$ 2,769,650	$ 2,164,789
Liabilities		
Deposits:		
Noninterest-bearing	$ 335,100	$ 240,268
Interest-bearing	1,728,860	1,303,199
Total deposits	2,063,960	1,543,467
Interest, taxes, and other liabilities	29,538	20,452
Securities sold under agreements to repurchase	146,904	129,208
FHLB advances	161,558	150,000
Other borrowings	15,877	15,933
Total liabilities	2,417,837	1,859,060

Stockholders equity

Preferred stock, undesignated par value; 1,000,000 shares authorized: Series A Noncumulative Convertible Preferred Stock, $0.01 par value; 25,000 shares authorized; 17,921 shares outstanding at September 30, 2012, and 18,921 outstanding at December 31, 2011	17,921	18,921
Common stock, $1 par value; 50,000,000 shares authorized; 20,308,827 and 18,082,822 shares issued at September 30, 2012, and December 31, 2011, respectively; 222,423 and 233,446 shares in treasury at September 30, 2012, and December 31, 2011, respectively	20,309	18,083
Additional paid-in capital	213,320	188,118
Retained earnings	107,055	93,656
Treasury stock, at cost	(5,446)	(5,721)
Accumulated other comprehensive loss	(1,346)	(7,328)
Total stockholders equity	351,813	305,729
Total liabilities and stockholders equity	$ 2,769,650	$ 2,164,789

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in thousands, except share and per share data)	**2012**	**2011**	**2012**	**2011**
Interest income				
Interest and fees on loans held for investment	$ 28,275	$ 20,084	$ 68,496	$ 60,633
Interest on securities taxable	1,980	1,711	6,060	6,094
Interest on securities nontaxable	1,215	1,180	3,667	4,004
Interest on deposits in banks	66	75	177	244
Total interest income	31,536	23,050	78,400	70,975
Interest expense				
Interest on deposits	2,603	2,998	7,368	10,151
Interest on short-term borrowings	675	577	1,859	1,849
Interest on long-term borrowings	1,799	1,741	5,253	5,212
Total interest expense	5,077	5,316	14,480	17,212
Net interest income	26,459	17,734	63,920	53,763
Provision for loan losses	1,916	1,920	4,458	6,611
Net interest income after provision for loan losses	24,543	15,814	59,462	47,152
Noninterest income				
Wealth management income	1,005	868	2,839	2,692
Service charges on deposit accounts	3,895	3,404	10,237	9,788
Other service charges and fees	1,631	1,426	4,780	4,293
Insurance commissions	1,616	1,523	4,528	5,027
Impairment losses on securities	(942)	(210)	(942)	(737)
Portion of losses recognized in other comprehensive income				
Net impairment losses recognized in earnings	(942)	(210)	(942)	(737)
Net gain on sale of securities	228	178	270	5,238
Other operating income	3,730	877	5,785	2,627
Total noninterest income	11,163	8,066	27,497	28,928
Noninterest expense				
Salaries and employee benefits	10,860	8,409	27,974	26,223
Occupancy expense of bank premises	1,754	1,476	4,934	4,691
Furniture and equipment	955	862	2,741	2,686
Amortization of intangible assets	191	250	613	770
FDIC premiums and assessments	611	348	1,223	1,640
FHLB debt prepayment fees				471
Merger related expense	645		4,227	
Other operating expense	5,309	4,715	14,938	15,380
Total noninterest expense	20,325	16,060	56,650	51,861

Income before income taxes	15,381	7,820	30,309	24,219
Income tax expense	5,322	2,502	10,171	7,422
Net income	10,059	5,318	20,138	16,797
Dividends on preferred stock	220	286	786	417
Net income available to common shareholders	$ 9,839	$ 5,032	$ 19,352	$ 16,380
Basic earnings per common share	$ 0.49	$ 0.28	$ 1.03	$ 0.92
Diluted earnings per common share	$ 0.47	$ 0.28	$ 1.00	$ 0.91
Cash dividends per common share	$ 0.11	$ 0.10	$ 0.32	$ 0.30
Weighted average basic shares outstanding	20,013,264	17,896,534	18,812,516	17,886,902
Weighted average diluted shares outstanding	21,476,497	19,205,634	20,159,386	18,533,364

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Amounts in thousands, except share and per share data)	**Three Months Ended September 30, 2012**	**Three Months Ended September 30, 2011**	**Nine Months Ended September 30, 2012**	**Nine Months Ended September 30, 2011**
Net income	$ 10,059	$ 5,318	$ 20,138	$ 16,797
Other comprehensive income, before tax				
Available-for-sale securities:				
Unrealized gains (losses) on securities available-for-sale with other-than-temporary impairment	1,287	(657)	1,182	(678)
Unrealized gains (losses) on securities available-for-sale without other-than-temporary impairment	1,628	(611)	7,450	11,868
Less: reclassification adjustment for gains realized in net income	(228)	(178)	(270)	(5,238)
Less: reclassification adjustment for credit related other-than-temporary impairments recognized in net income	942	210	942	737
Unrealized gains on available-for-sale securities in OCI	3,629	(1,236)	9,304	6,689
Reclassification adjustment for amortization in net prior service cost	164		314	
Derivative securities:				
Unrealized gains on derivative securities				30
Other comprehensive income (loss), before tax	3,793	(1,236)	9,617	6,719
Income tax expense related to items of other comprehensive income	(1,434)	460	(3,635)	(2,503)
Other comprehensive income, net of tax	2,359	(776)	5,982	4,216
Total comprehensive income	$ 12,418	$ 4,542	$ 26,120	$ 21,013

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (Unaudited)

(Amounts in thousands, except share and per share data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance January 1, 2011	$	$ 18,083	$ 189,239	$ 81,486	$ (6,740)	$ (12,190)	$ 269,878
Net income				16,797			16,797
Other comprehensive income						4,216	4,216
Common dividends declared $0.30 per share				(5,368)			(5,368)
Preferred dividends declared $14.50 per share				(417)			(417)
Issuance of preferred stock 18,921 shares	18,921		(119)				18,802
Equity-based compensation expense			(5)		30		25
Common stock options exercised 2,969 shares			(60)		92		32
Issuance of treasury stock to 401(k) plan 47,570 shares			(812)		1,481		669
Purchase of treasury shares 48,310 shares at $10.58 per share					(514)		(514)
Balance September 30, 2011	$ 18,921	$ 18,083	$ 188,243	$ 92,498	$ (5,651)	$ (7,974)	$ 304,120
Balance January 1, 2012	$ 18,921	$ 18,083	$ 188,118	$ 93,656	$ (5,721)	$ (7,328)	$ 305,729
Net income				20,138			20,138
Other comprehensive income						5,982	5,982
Common dividends declared $0.32 per share				(5,953)			(5,953)
Preferred dividends declared $45.00 per share				(786)			(786)
Preferred stock converted to common stock 69,000 shares	(1,000)	69	931				
Equity-based compensation expense			72		17		89
Common stock options exercised 6,523 shares			(114)		258		144
Acquisition of Peoples Bank of Virginia 2,157,005 shares		2,157	24,313				26,470
Balance September 30, 2012	$ 17,921	$ 20,309	$ 213,320	$ 107,055	$ (5,446)	$ (1,346)	$ 351,813

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Amounts in thousands)	**Nine Months Ended September 30, 2012**	**2011**
Operating activities		
Net income	$ 20,138	$ 16,797
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	4,458	6,611
Depreciation and amortization of property, plant, and equipment	2,832	3,030
Accretion of discounts and amortization of premiums on investments	1,292	1,047
Amortization of intangible assets	613	770
Gain on sale of loans	(721)	(531)
Equity-based compensation expense	89	25
Gain (loss) on sale of property, plant, and equipment	91	(212)
Losses on sales of other real estate	1,592	2,074
Gain on sale of securities	(270)	(5,238)
Net impairment losses recognized in earnings	942	737
Losses on payments of FHLB debt prepayment fees		471
Deferred income tax expense	1,656	2,618
Proceeds from sale of mortgage loans	51,061	31,132
Origination of mortgage loans	(48,966)	(29,482)
Decrease in accrued interest receivable	2,182	1,411
Decrease in other operating activities	10,816	5,041
Net cash provided by operating activities	47,805	36,301
Investing activities		
Proceeds from sale of securities available-for-sale	78,092	191,397
Proceeds from maturities, prepayments, and calls of securities available-for-sale	66,318	29,624
Proceeds from maturities, prepayments, and calls of securities held-to-maturity	2,690	1,300
Payments to acquire securities available-for-sale	(109,637)	(180,501)
Origination of loans	38,748	(2,587)
Proceeds from the redemption of FHLB stock, net of purchases	1,757	1,098
Net cash acquired in acquisitions	152,774	1,586
Payments to acquire property, plant, and equipment	(4,088)	(2,169)
Proceeds from sale of property, plant, and equipment	1,118	565
Proceeds from sale of other real estate	5,792	4,405
Net cash provided by investing activities	233,564	44,718
Financing activities		
Net increase in noninterest-bearing deposits	4,405	28,532
Net decrease in interest-bearing deposits	(133,095)	(58,996)
Repayments of securities sold under agreements to repurchase	(2,386)	(1,384)
Repayments of long-term debt	(25,769)	(25,252)
Proceeds from issuance of preferred stock		18,802
Proceeds from stock options exercised	144	32
Payments for repurchase of treasury stock		(514)
Payments of FHLB debt prepayment fees		(471)
Excess tax benefit from share-based compensation	6	5
Payments of common dividends	(5,953)	(5,368)
Payments of preferred dividends	(851)	(274)

Net cash used in financing activities	(163,499)	(44,888)
Increase in cash and cash equivalents	117,870	36,131
Cash and cash equivalents at beginning of period	47,294	112,189
Cash and cash equivalents at end of period	$ 165,164	$ 148,320
Supplemental information noncash items		
Transfer of other real estate	$ 6,916	$ 7,511
Loans originated to finance other real estate	$ 1,324	$

See Notes to Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. General

The accompanying unaudited condensed consolidated financial statements of First Community Bancshares, Inc. and subsidiaries (First Community or the Company) have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments, including normal recurring accruals, necessary for a fair presentation have been made. All significant intercompany balances and transactions have been eliminated in consolidation. Operating results for the interim period are not necessarily indicative of the results that may be expected for the full calendar year. The Company has made certain reclassifications of prior period information necessary to conform to the current period presentation. These reclassifications had no effect on the Company s financial position, results of operations, or stockholders equity.

The condensed consolidated balance sheet as of December 31, 2011, has been derived from the audited consolidated financial statements included in the Company s 2011 Annual Report on Form 10-K (the 2011 Form 10-K), as filed with the Securities and Exchange Commission (the SEC) on March 2, 2012. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been omitted in accordance with standards for the preparation of interim consolidated financial statements. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s 2011 Form 10-K.

The Company operates in one business segment, Community Banking. The Community Banking segment consists of all operations, including commercial and consumer banking, lending activities, wealth management, and insurance services.

Significant Accounting Policies

A complete and detailed description of the Company s significant accounting policies is included in Note 1, Summary of Significant Accounting Policies, of the Notes to Condensed Consolidated Financial Statements in Part II, Item 8, Financial and Supplementary Data, of the Company s 2011 Form 10-K and Note 1, General, of the Notes to Consolidated Financial Statements in Part I, Item 1, Financial Statements, of the Company s Quarterly Report on Form 10-Q for the period ended March 31, 2012. Additional discussion of the Company s application of critical accounting estimates is included within Application of Critical Accounting Estimates in Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations, herein.

Reclassifications and Corrections

During the third quarter of 2012, the Company discovered certain overstatements of loan charge-offs reported in prior periods beginning in 2007 which resulted from not recognizing the impact of interest payments that had been applied to principal for loans that were on non-accrual status. The error was discovered during the Company s core system conversion completed during the third quarter of 2012. The overstatements of charge-offs resulted in an overstatement of provision for loan losses and corresponding understatement of pre-tax income that totaled $321 thousand, $639 thousand, and $938 thousand for the years-ended December 31, 2009, 2010, and 2011, respectively. The total periodic charge-off overstatements from 2007 to year-end 2011 approximated $2.39 million. Management analyzed the error to determine if any of the prior years were materially misstated and determined that they were not. Management also determined that correcting the error in the current year would not materially misstate this year s results. The Company recorded the correction to the prior period understatements in the quarter ended September 30, 2012, through an increase to other income in the amount of $2.39 million.

Recent Accounting Pronouncements

In August 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2012-03, Technical Amendments and Corrections to SEC Sections, to codify various amendments and corrections included in SEC Staff Accounting Bulletin 114, SEC Release 33-9250, and ASU 2010-22, Accounting for Various Topics: Technical Corrections to SEC Paragraphs. The amendments and corrections included in ASU 2012-03 are effective upon issuance. The guidance had no impact on the Company s financial statements.

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Note 2. Earnings Per Common Share

Basic earnings per common share is determined by dividing net income available to common shareholders by the weighted average common shares outstanding. Diluted earnings per common share is determined by dividing net income by the weighted average common shares outstanding, including diluted shares for stock options, warrants, contingently issuable shares, and convertible preferred shares. The calculation for basic and diluted earnings per common share follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in thousands, except share and per share data)	**2012**	**2011**	**2012**	**2011**
Net income	$ 10,059	$ 5,318	$ 20,138	$ 16,797
Dividends on preferred stock	220	286	786	417
Net income available to common shareholders	$ 9,839	$ 5,032	$ 19,352	$ 16,380
Weighted average common shares outstanding, basic	20,013,264	17,896,534	18,812,516	17,886,902
Diluted shares for stock options	162,184	3,551	42,832	5,643
Convertible preferred shares	1,301,049	1,305,549	1,304,038	640,819
Weighted average common shares outstanding, diluted	21,476,497	19,205,634	20,159,386	18,533,364
Basic earnings per common share	$ 0.49	$ 0.28	$ 1.03	$ 0.92
Diluted earnings per common share	$ 0.47	$ 0.28	$ 1.00	$ 0.91

The Company s Series A Noncumulative Convertible Preferred Stock (Series A Preferred Stock) carry a 6% dividend rate. Each share is convertible into 69 shares of the Company s Common Stock (Common Stock) at any time and mandatorily converts after five years. The Company may redeem the shares at face value after May 20, 2014. There were 17,921 shares of Series A Preferred Stock outstanding at September 30, 2012 and 18,921 shares outstanding at September 30, 2011.

The following outstanding options and warrants to purchase Common Stock were excluded from the calculation of diluted earnings per share because the exercise price was greater than the market value of the Common Stock, which would result in an antidilutive effect on diluted earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Options and warrants	338,536	480,045	450,966	480,221

Note 3. Business Combinations

The Company accounts for business combinations under FASB Accounting Standard Codification (ASC) Topic 805, Business Combinations , which requires the use of the acquisition method of accounting. In accordance with the acquisition method of accounting, all identifiable assets acquired, including loans, are recorded at fair value. No allowance is recorded on the acquisition date for acquired loans because the fair values of the loans incorporate assumptions regarding credit risk. Acquired loans are recorded at fair value in accordance with the fair value methodology prescribed in FASB ASC Topic 820, Fair Value Measurements and Disclosures , exclusive of the loss share agreements with the Federal Deposit Insurance Corporation (FDIC). The fair value estimates associated with the loans include expected prepayments and the amount and timing of expected principal, interest, and other cash flows. Fair values are subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available.

Acquired credit impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality, found in FASB ASC Topic 310-30, Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality , formerly American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer , and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Loans exhibit evidence of credit deterioration when it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments. Evidence of credit quality deterioration, as of the purchase date, may include measures such as nonaccrual status, credit scores, declines in collateral value, current loan to value percentages, and days past due. The

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Company considers expected prepayments and estimates the amount and timing of expected principal, interest, and other cash flows for each loan or pool of loans meeting the criteria above, and determines the excess of the loan s scheduled contractual principal and contractual interest payments over all cash flows expected at acquisition as an amount that should not be accreted (nonaccretable difference). The remaining amount, representing the excess of the loan s or pool s cash flows expected to be collected over the amount deemed paid for the loan or pool of loans, is accreted into interest income over the remaining life of the loan or pool (accretable yield). The Company records a discount on these loans at acquisition to record them at their realizable cash flows. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference which is included in the carrying amount of the loans. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges, or a reversal of the nonaccretable difference with a positive impact on interest income prospectively. Further, any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of such cash flows. In accordance with FASB ASC Topic 310-30, the Company aggregated purchase credit impaired loans that have common risk characteristics into pools within the following loan categories: construction and development, commercial and industrial, commercial real estate, consumer, home equity lines of credit, residential real estate 1st lien, residential real estate 2nd lien, and lines of credit.

Purchased performing loans are recorded at fair value and include credit and interest rate marks associated with acquisition accounting adjustments, as accounted for under the contractual cash flow method of accounting. The fair value adjustment is accreted as an adjustment to yield over the estimated contractual lives of the loans. There is no allowance for loan losses established at the acquisition date for acquired performing loans. A provision for loan losses is recorded for any credit deterioration in these loans subsequent to the acquisition. In accordance with GAAP, there was no carryover of previously established allowance for loan losses on acquired portfolios.

Peoples Bank of Virginia

On May 31, 2012, the Company completed the acquisition of Peoples Bank of Virginia (Peoples), a commercial bank headquartered in Richmond, Virginia. At acquisition, Peoples had total assets of $276.88 million, total loans of $184.84 million, total deposits of $232.75 million, and common equity of $43.38 million. The transaction was accounted for under the purchase method of accounting and accordingly, assets acquired, liabilities assumed, and consideration exchanged were recorded at estimated fair value on the acquisition date. The acquisition expands the Company s existing presence in the Richmond, Virginia market by four branches and affords the opportunity to realize certain operating cost savings.

Peoples shareholders received $6.08 in cash and 1.07 shares of Common Stock for each share of Peoples common stock resulting in a purchase price of approximately $40.28 million, which includes Common Stock valued at $26.47 million and total cash consideration of $12.26 million. In connection with the transaction, the Company issued 2,157,005 shares of Common Stock with an estimated fair value of $12.27 per share. The preliminary purchase price has been allocated to the identifiable tangible and intangible assets resulting in an addition to goodwill of $9.10 million. Because the consideration paid was greater than the net fair value of the assets acquired and liabilities assumed, the Company recorded goodwill as part of the acquisition. The Company does not expect any goodwill recorded in connection with the acquisition to be deductible for tax purposes.

The Company estimated the fair value of assets acquired and liabilities assumed using expected cash flows discounted at appropriate rates of interest. The estimated fair values, including identifiable intangible assets, are preliminary and subject to refinement for up to one year after the closing date of the acquisition.

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The consideration transferred and the net assets acquired in connection with the Peoples acquisition are presented as of the acquisition date:

(Amounts in thousands, except share data)	
Consideration	
Cash consideration	$ 12,259
Common stock 2,157,005 shares	26,469
Cash in lieu of fractional shares	2
Stock option consideration	1,547
Fair value of consideration paid	$ 40,277
Identifiable assets	
Cash and cash equivalents	$ 81,834
Securities	2,917
Loans	166,471
Property, plant, and equipment	3,432
Other assets	11,407
Identifiable assets	266,061
Identifiable liabilities	
Total deposits	234,146
Other liabilities	741
Identifiable liabilities	234,887
Identifiable net assets acquired	31,174
Goodwill recorded for acquisition	$ 9,103

The following table presents the carrying amount of acquired loans at May 31, 2012, which consist of loans with no credit deterioration, or performing loans, and loans with credit deterioration, or impaired loans.

		May 31, 2012	
(Amounts in thousands)	**Purchased Performing**	**Purchased Impaired**	**Total**
Commercial loans			
Construction, development, and other land	$ 9,641	$ 9,426	$ 19,067
Commercial and industrial	17,583	2,418	20,001
Multi-family residential	2,111	3,152	5,263
Non-farm, non-residential	75,399	12,193	87,592
Total commercial loans	104,734	27,189	131,923
Consumer real estate loans			
Home equity lines	7,637	336	7,973
Single family owner occupied	18,767	5,078	23,845
Total consumer real estate loans	26,404	5,414	31,818
Consumer and other loans			
Consumer loans	2,730		2,730
Loans held for investment, net of unearned income	$ 133,868	$ 32,603	$ 166,471

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The following table presents the acquired performing loans receivable at the acquisition date. The amounts include principal only and do not reflect accrued interest as of the date of the acquisition or beyond:

(Amounts in thousands)	**May 31, 2012**
Contractually required principal payments receivable	$ 139,275
Fair value of adjustment for credit, interest rate, and liquidity	(5,407)
Fair value of performing loans receivable	$ 133,868

The following table presents the acquired impaired loans receivable at acquisition. The Company has not noted any further deterioration in the acquired impaired loan portfolio.

(Amounts in thousands)	**May 31, 2012**
Contractually required payments receivable	$ 48,826
Nonaccretable difference	(12,823)
Cash flows expected to be collected	36,003
Accretable difference	(3,400)
Fair value of acquired impaired loans	$ 32,603

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The Company s operating results for the three and nine months ended September 30, 2012, include the impact of the Peoples acquisition since May 31, 2012. The following table presents unaudited proforma information as if the acquisition had occurred on January 1, 2011. The information presented does not necessarily reflect the results of operation that would have occurred had the acquisition been completed at the beginning of each fiscal period, nor does it indicate future consolidated results. For the three and nine months ended September 30, 2012, the Company incurred merger related expenses related to the Peoples acquisition of $163 thousand and $3.15 million, respectively.

	For the Nine Months Ended September 30, 2012			
(Amounts in thousands)	**First Community**	**Peoples**	**Proforma Adjustments**	**Proforma Combined**
Interest income	$ 74,343	$ 8,191	$ 1,663	$ 84,197
Interest expense	14,192	1,867	(371)	15,688
Net interest income	60,151	6,324	2,034	68,509
Provision for loan losses	4,458	100		4,558
Net interest income after provision for loan losses	55,693	6,224	2,034	63,951
Noninterest income	27,459	383		27,842
Noninterest expense [(1)]	55,625	3,946	0	59,571
Income (loss) before taxes	27,527	2,661	2,034	32,222
Income tax expense (benefit)	9,868		303	10,171
Net income (loss)	17,659	2,661	1,731	22,051
Dividends on preferred stock	786			786
Net income (loss) available to common shareholders	$ 16,873	$ 2,661	$ 1,731	$ 21,265

	For the Nine Months Ended September 30, 2011			
	First Community	**Peoples**	**Proforma Adjustments**	**Proforma Combined**
Interest income	$ 70,975	$ 9,506	$ 1,663	$ 82,144
Interest expense	17,212	2,700	(371)	19,541
Net interest income	53,763	6,806	2,034	62,603
Provision for loan losses	6,611	1,125		7,736
Net interest income after provision for loan losses	47,152	5,681	2,034	54,867
Noninterest income	28,928	339		29,267
Noninterest expense [(1)]	51,861	3,733	0	55,594
Income (loss) before taxes	24,219	2,287	2,034	28,540
Income tax expense (benefit)	7,422	770	303	8,495
Net income (loss)	16,797	1,517	1,731	20,045
Dividends on preferred stock	417			417
Net income (loss) available to common shareholders	$ 16,380	$ 1,517	$ 1,731	$ 19,628

Waccamaw Bank

On June 8, 2012, the Company s wholly-owned subsidiary, First Community Bank (the Bank), entered into a Purchase and Assumption Agreement (the Agreement) with loss share arrangements with the FDIC to purchase certain assets and assume substantially all of the deposits and certain liabilities of Waccamaw Bank (Waccamaw), a full service community bank, headquartered in Whiteville, North Carolina. Waccamaw operated sixteen branches throughout North Carolina and South Carolina.

Pursuant to the Agreement, the Bank received a discount of $15.00 million on the assets acquired and did not pay the FDIC a premium to assume all customer deposits. Most of the loans and foreclosed real estate purchased are covered by loss share agreements between the FDIC and the Bank. Under the loss share agreements, the FDIC will cover 80% of loan and foreclosed real estate losses and certain collection costs. Gains and recoveries on covered assets will offset losses, or be paid to the FDIC, at the applicable loss share percentage at the time of recovery. The loss sharing agreement applicable to single family assets, both loans and OREO, provides for FDIC loss sharing and Bank reimbursement to the FDIC for ten years. The

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loss share agreement applicable to commercial assets, both loans and OREO, provides for FDIC loss sharing for five years and Bank reimbursement of recoveries to the FDIC for eight years. As of the date of acquisition, we calculated the amount of such reimbursements that we expect to receive from the FDIC using the present value of anticipated cash flows from the loss sharing based on the adjustments estimated for each pool of loans and the estimated losses on foreclosed assets. In accordance with FASB ASC Topic 805, the FDIC indemnification asset was initially recorded at its fair value, and is measured separately from the loan assets and foreclosed assets because the loss sharing agreements are not contractually embedded in them or transferable with them in the event of disposal. The balance of the FDIC indemnification asset increases and decreases as the expected and actual cash flows from the covered assets fluctuate, as loans are paid off or impaired and as loans and foreclosed assets are sold. There are no contractual interest rates on this contractual receivable from the FDIC; however, a discount was recorded against the initial balance of the FDIC indemnification asset in conjunction with the fair value measurement as this receivable will be collected over the term of the loss sharing agreement. This discount will be accreted to non-interest income over future periods.

The Bank did not immediately acquire all the real estate, furniture, and equipment of Waccamaw as a part of the purchase agreement. The bank purchased two properties at acquisition and committed to purchase two properties during the 30-day option extended from the FDIC.

The purchase accounting adjustments and the loss sharing arrangement with the FDIC significantly impact the effects of the acquired entity on the ongoing operations of the Company. Additionally, disclosure of pro forma financial information is made more difficult by the nature of Waccamaw s operations prior to the date of the combination. Accordingly, no pro forma financial information has been presented.

Goodwill of $11.66 million was recorded as part of the acquisition of Waccamaw. The amount of the goodwill was equal to the amount by which the fair value of liabilities assumed exceeded the fair value of assets acquired, and resulted from the discount bid on the assets acquired and the impact of the FDIC loss share agreements. For the three and nine months ended September 30, 2012, the Company incurred merger related expenses related to the Waccamaw acquisition of $482 thousand and $1.08 million, respectively.

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The following table presents the assets acquired and liabilities assumed as of June 8, 2012, as recorded by Waccamaw on the acquisition date and as adjusted for purchase accounting adjustments:

(Amounts in thousands)	Balances Acquired from FDIC	Fair Value and Purchase Adjustments	Recorded Investment
Assets			
Cash and due from banks [(1)]	$ 44,809	$	$ 44,809
Interest-bearing deposits in banks	40,140		40,140
Total cash and cash equivalents	84,949		84,949
Securities available-for-sale	59,816		59,816
Loans held for investment, net of unearned income	318,317	(67,686)	250,631
FDIC receivable under loss share agreements		49,755	49,755
Property, plant, and equipment, net	4,102		4,102
Other real estate owned	9,347	(3,959)	5,388
Interest receivable	1,363		1,363
Other assets	5,264	(194)	5,070
Total assets	$ 483,158	$ (22,084)	$ 461,074
Liabilities			
Deposits:			
Noninterest-bearing	$ 47,892	$	$ 47,892
Interest-bearing	366,233	912	367,145
Total deposits	414,125	912	415,037
Securities sold under agreements to repurchase	17,042	3,040	20,082
FHLB advances	35,000	2,271	37,271
Other borrowings	345		345
Total liabilities	$ 466,512	$ 6,223	$ 472,735
Net assets acquired over (under) liabilities assumed	$ 16,646	$ (28,307)	$ (11,661)
Excess of net assets acquired over liabilities assumed	$ 16,646		
Aggregate fair value and purchase adjustments		$ (28,307)	
Goodwill on acquisition			$ 11,661

(1) Includes $17.27 million transferred to the FDIC in connection with the acquisition.

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The following table presents the carrying amount of acquired loans at June 8, 2012, which consist of loans with no credit deterioration, or performing loans, and loans with credit deterioration, or impaired loans.

	June 8, 2012		
(Amounts in thousands)	**Purchased Performing**	**Purchased Impaired**	**Total**
Commercial loans			
Construction, development, and other land	$ 19,690	$ 6,524	$ 26,214
Commercial and industrial	9,027	1,817	10,844
Multi-family residential	2,462	926	3,388
Non-farm, non-residential	45,737	23,372	69,109
Agricultural	321	2	323
Farmland	1,522	1,045	2,567
Total commercial loans	78,759	33,686	112,445
Consumer real estate loans			
Home equity lines	21,439	68,081	89,520
Single family owner occupied	25,509	12,696	38,205
Total consumer real estate loans	46,948	80,777	127,725
Consumer and other loans			
Consumer loans	9,540	921	10,461
Loans held for investment, net of unearned income	$ 135,247	$ 115,384	$ 250,631

The following table presents the acquired performing loans receivable at the acquisition date. The amounts include principal only and do not reflect accrued interest as of the date of the acquisition or beyond:

(Amounts in thousands)	**June 8, 2012**
Contractually required principal payments receivable	$ 151,852
Fair value of adjustment for credit, interest rate, and liquidity	(16,605)
Fair value of performing loans receivable	$ 135,247

The following table presents the acquired impaired loans receivable at acquisition. The Company has not noted any further deterioration in the acquired impaired loan portfolio.

(Amounts in thousands)	**June 8, 2012**
Contractually required payments receivable	$ 211,042
Nonaccretable difference	(69,177)
Cash flows expected to be collected	141,865
Accretable difference	(26,481)
Fair value of acquired impaired loans	$ 115,384

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Note 4. Investment Securities

The amortized cost and estimated fair value of available-for-sale securities, including gross unrealized gains and losses, at September 30, 2012, and December 31, 2011, were as follows:

	September 30, 2012				
(Amounts in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	OTTI in AOCI(1)
Municipal securities	$ 147,134	$ 8,801	$ (7)	$ 155,928	$
Single issue trust preferred securities	55,692		(13,095)	42,597	
Corporate FDIC insured securities	13,467	12		13,479	
Mortgage-backed securities:					
Agency	281,009	7,394	(120)	288,283	
Non-Agency Alt-A residential	14,230		(3,018)	11,212	(3,018)
Total mortgage-backed securities	295,239	7,394	(3,138)	299,495	(3,018)
Equity securities	5,556	218	(112)	5,662	
Total	$ 517,088	$ 16,425	$ (16,352)	$ 517,161	$ (3,018)

	December 31, 2011				
(Amounts in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	OTTI in AOCI(1)
Municipal securities	$ 131,498	$ 6,317	$	$ 137,815	$
Single issue trust preferred securities	55,649		(15,405)	40,244	
Corporate FDIC insured securities	13,685	33		13,718	
Mortgage-backed securities:					
Agency	274,384	6,003	(285)	280,102	
Non-Agency Alt-A residential	15,980		(5,950)	10,030	(5,950)
Total mortgage-backed securities	290,364	6,003	(6,235)	290,132	(5,950)
Equity securities	419	206	(104)	521	
Total	$ 491,615	$ 12,559	$ (21,744)	$ 482,430	$ (5,950)

(1) Other-than-temporary impairment in accumulated other comprehensive income

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The amortized cost and estimated fair value of held-to-maturity securities, including gross unrealized gains and losses, at September 30, 2012, and December 31, 2011, were as follows:

	September 30, 2012			
(Amounts in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Municipal securities	$ 816	$ 9	$	$ 825
Total	$ 816	$ 9	$	$ 825

	December 31, 2011			
(Amounts in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Municipal securities	$ 3,490	$ 42	$	$ 3,532
Total	$ 3,490	$ 42	$	$ 3,532

The amortized cost and estimated fair value of available-for-sale and held-to-maturity securities by contractual maturity at September 30, 2012, are shown 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.

(Amounts in thousands)	**Amortized Cost**	**Fair Value**
Available-for-sale securities		
Due within one year	$ 14,567	$ 14,580
Due after one year but within five years	16,957	17,592
Due after five years but within ten years	19,505	20,561
Due after ten years	165,264	159,271
	216,293	212,004
Mortgage-backed securities	295,239	299,495
Equity securities	5,556	5,662
Total	$ 517,088	$ 517,161
Held-to-maturity securities		
Due within one year	$ 60	$ 61
Due after one year but within five years	756	764
Due after five years but within ten years		
Due after ten years		
Total	$ 816	$ 825

Available-for-sale securities in a continuous unrealized loss position for less than 12 months and for 12 months or longer at September 30, 2012, and December 31, 2011 were as follows:

	September 30, 2012					
	Less than 12 Months		**12 Months or longer**		**Total**	
(Amounts in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Municipal securities	$ 1,824	$ (7)	$	$	$ 1,824	$ (7)
Single issue trust preferred securities			42,598	(13,095)	42,598	(13,095)
Mortgage-backed securities:						
Agency	22,444	(120)	16		22,460	(120)
Non-Agency Alt-A residential			11,212	(3,018)	11,212	(3,018)
Total mortgage-backed securities	22,444	(120)	11,228	(3,018)	33,672	(3,138)
Equity securities	5,114	(22)	98	(90)	5,212	(112)
Total	$ 29,382	$ (149)	$ 53,924	$ (16,203)	$ 83,306	$ (16,352)

	December 31, 2011					
	Less than 12 Months		**12 Months or longer**		**Total**	
(Amounts in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Municipal securities	$	$	$ 40,244	$ (15,405)	$ 40,244	$ (15,405)
Mortgage-backed securities:						
Agency	52,300	(285)			52,300	(285)
Non-Agency Alt-A residential			10,030	(5,950)	10,030	(5,950)
Total mortgage-backed securities	52,300	(285)	10,030	(5,950)	62,330	(6,235)
Equity securities			188	(104)	188	(104)
Total	$ 52,300	$ (285)	$ 50,462	$ (21,459)	$ 102,762	$ (21,744)

There were no held-to-maturity securities in a continuous unrealized loss position at September 30, 2012, or December 31, 2011. The carrying value of securities pledged to secure public deposits and for other purposes was $303.62 million at September 30, 2012, and $288.80 million at December 31, 2011.

The following table details the Company s gross gains and gross losses realized from the sale of securities for the three and nine months ended September 30, 2012 and 2011.

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(Amounts in thousands)	**2012**	**2011**	**2012**	**2011**
Gross realized gains	$ 315	$ 208	$ 434	$ 6,889
Gross realized losses	(87)	(30)	(164)	(1,651)
Net (loss) gain on sale of securities	$ 228	$ 178	$ 270	$ 5,238

At September 30, 2012, the combined depreciation in value of the 25 individual securities in an unrealized loss position was 3.16% of the combined reported value of the aggregate securities portfolio. At December 31, 2011, the combined depreciation in value of 28 individual securities in an unrealized loss position was 4.51% of the combined reported value of the aggregate securities portfolio.

The Company reviews its investment portfolio on a quarterly basis for indications of other-than-temporary impairment (OTTI). The analysis differs depending upon the type of investment security being analyzed. For debt securities, the Company has determined that it does not intend to sell securities that are impaired and has asserted that it is not more likely than not that the Company will have to sell impaired securities before recovery of the impairment occurs. This determination is based upon the Company s investment strategy for the particular type of debt security and its cash flow needs, liquidity position, capital adequacy, and interest rate risk position.

For nonbeneficial interest debt securities, the Company analyzes several qualitative factors such as the severity and duration of the impairment, adverse conditions within the issuing industry, prospects for the issuer, performance of the security, changes in rating by rating agencies, and other qualitative factors to determine if the impairment will be recovered. Nonbeneficial interest debt securities consist of U.S. treasury securities, municipal securities, and single issue trust preferred

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securities. If it is determined that there is evidence that the impairment will not be recovered, the Company performs a present value calculation to determine the amount of impairment and records any credit-related OTTI through earnings and noncredit-related OTTI through OCI. During the three and nine months ended September 30, 2012 and September 30, 2011, the Company incurred no OTTI charges related to nonbeneficial interest debt securities. Temporary impairment on these securities is primarily related to changes in interest rates, certain disruptions in the credit markets, destabilization in the Eurozone, and other current economic factors.

For beneficial interest debt securities, the Company reviews cash flow analyses on each applicable security to determine if an adverse change in cash flows expected to be collected has occurred. Beneficial interest debt securities consist of corporate FDIC insured securities and mortgage-backed securities (MBS). An adverse change in cash flows expected to be collected has occurred if the present value of cash flows previously projected is greater than the present value of cash flows projected at the current reporting date and less than the current book value. If an adverse change in cash flows is deemed to have occurred, then an OTTI has occurred. The Company then compares the present value of cash flows using the current yield for the current reporting period to the reference amount, or current net book value, to determine the credit-related OTTI. The credit-related OTTI is then recorded through earnings and the noncredit-related OTTI is accounted for in OCI. During the three and nine months ended September 30, 2012, the Company incurred credit-related OTTI charges on beneficial interest debt securities of $942 thousand. During the three and nine months ended September 30, 2011, the Company incurred credit-related OTTI charges on beneficial interest debt securities of $210 thousand and $737 thousand, respectively. These charges were related to a non-Agency MBS.

For the non-Agency Alt-A residential MBS, the Company uses a discounted cash flow model with the following assumptions: voluntary constant prepayment rate of 5%, a customized constant default rate scenario that assumes approximately 21% of the remaining underlying mortgages will default within three years, and a customized loss severity rate scenario that ramps the loss rate down from 75% to 15% over the course of seven years.

The following table provides a cumulative roll forward of credit losses recognized in earnings for debt securities for which a portion of the OTTI is recognized in OCI:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in thousands)	**2012**	**2011**	**2012**	**2011**
Beginning balance [(1)]	$ 6,536	$ 4,778	$ 6,536	$ 4,251
Additions for credit losses on securities not previously recognized				
Additions for credit losses on securities previously recognized	942	210		