

FIRST COMMUNITY BANCSHARES INC /NV/
Form 10-Q/A
August 16, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

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

For the quarter ended March 31, 2010

Commission file number 000-19297

FIRST COMMUNITY BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation)

55-0694814
(IRS Employer Identification No.)

P.O. Box 989
Bluefield, Virginia
(Address of principal executive offices)

24605-0989
(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.

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).

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" "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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; 17,782,791 shares outstanding as of April 26, 2010

FIRST COMMUNITY BANCSHARES, INC.
FORM 10-Q/A
For the quarter ended March 31, 2010

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Explanatory Note

Overview

First Community Bancshares, Inc. (“the Company”) is filing this amendment to its Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (the “Original Filing”) to amend and restate financial statements and other financial information in the Original Filing as filed with the Securities and Exchange Commission (“SEC”) to reflect the correction of a computational error in its model used to calculate its allowance for loan losses. For the same reason, Company also is restating the financial statements and other financial information filed with the SEC for the years ended December 31, 2009 and 2008 and each of the quarters ended March 31, 2009, June 30, 2009 and September 30, 2009.

Background

The reason for the restatement is to correct a computational error in the model that the Company used to calculate the quantitative basis for its allowance for loan losses for the periods indicated. The Company identified the computational error as a result of one of its routine internal audits. In connection with its determination of the appropriate loan loss reserves at December 31, 2008, the Company made certain modifications to its loan loss reserves model with respect to a \$130.76 million pool of loans. However, in calculating the loan loss reserves for this pool of loans, the computational error resulted in the Company’s historical quarterly net charge-off rates not being annualized.

The Company has corrected the computational error in its model for calculating the allowance for loan losses. Based on the Company’s modeling using the corrected computations, the Company, in consultation with the Audit Committee of its Board of Directors, determined that the amount of the allowance for loan losses should be increased by an aggregate of \$2.55 million for the period beginning December 31, 2008 and ending March 31, 2010.

Amendments to the Original Filing

The following sections of this Quarterly Report on Form 10-Q/A have been revised to reflect the restatement: Part I - Item 1 – Financial Statements, Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations, Item 4 - Controls and Procedures, and Part II – Item 6 – Exhibits. Except to the extent relating to the restatement of the Company’s financial statements and other financial information described above, the financial statements and other disclosures in this Quarterly Report on Form 10-Q/A do not reflect any events that have occurred after the Original Filing was filed with the SEC on May 7, 2010. This Quarterly Report on Form 10-Q/A does not modify or update those disclosures affected by subsequent events. Information not affected by the restatement is unchanged and reflects the disclosures made at the time of the Original Filing. Although the Company is amending only certain portions of its Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, for convenience and ease of reference, it is filing the entire Quarterly Report on this Form 10-Q/A.

PART I. ITEM 1. Financial Statements

FIRST COMMUNITY BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Per Share Data)	March 31, 2010 (Restated)	December 31, 2009* (Restated)
Assets		
Cash and due from banks	\$ 33,071	\$ 36,265
Federal funds sold	41,891	61,376
Interest-bearing balances with banks	12,744	3,700
Total cash and cash equivalents	87,706	101,341
Securities available for sale	524,297	486,057
Securities held to maturity	7,155	7,454
Loans held for sale	1,494	11,576
Loans held for investment, net of unearned income	1,390,874	1,393,931
Less allowance for loan losses	24,508	24,277
Net loans held for investment	1,366,366	1,369,654
Premises and equipment, net	56,772	56,946
Other real estate owned	4,740	4,578
Interest receivable	8,630	8,610
Goodwill and other intangible assets	90,805	91,061
Other assets	130,974	136,006
Total Assets	\$ 2,278,939	\$ 2,273,283
Liabilities		
Deposits:		
Noninterest bearing	\$ 205,810	\$ 208,244
Interest bearing	1,449,801	1,437,716
Total Deposits	1,655,611	1,645,960
Interest, taxes and other liabilities	21,912	22,498
Securities sold under agreements to repurchase	144,381	153,634
FHLB borrowings and other indebtedness	195,873	198,924
Total Liabilities	2,017,777	2,021,016
Stockholders' Equity		
Common stock, \$1 par value; 25,000,000 shares authorized; 18,082,822 shares issued at March 31, 2010, and December 31, 2009, including 300,031 and 317,658 shares in treasury, respectively	18,083	18,083
Additional paid-in capital	190,650	190,967
Retained earnings	70,262	66,760
Treasury stock, at cost	(9,342)	(9,891)
Accumulated other comprehensive loss	(8,491)	(13,652)
Total Stockholders' Equity	261,162	252,267
Total Liabilities and Stockholders' Equity	\$ 2,278,939	\$ 2,273,283

* Derived from audited financial statements.

See Notes to Consolidated Financial Statements.

FIRST COMMUNITY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Dollars In Thousands, Except Per Share Data)	Three Months Ended March 31,	
	2010	2009 (Restated)
Interest Income		
Interest and fees on loans held for investment	\$ 21,354	\$ 19,984
Interest on securities-taxable	3,786	5,164
Interest on securities-nontaxable	1,426	1,676
Interest on federal funds sold and deposits in banks	46	39
Total interest income	26,612	26,863
Interest Expense		
Interest on deposits	5,502	7,567
Interest on borrowings	2,491	2,863
Total interest expense	7,993	10,430
Net interest income	18,619	16,433
Provision for loan losses	3,665	2,148
Net interest income after provision for loan losses	14,954	14,285
Noninterest Income		
Wealth management income	885	984
Service charges on deposit accounts	2,992	3,157
Other service charges and fees	1,281	1,178
Insurance commissions	2,201	2,317
Total impairment losses on securities	-	(209)
Portion of loss recognized in other comprehensive income	-	-
Net impairment losses recognized in earnings	-	(209)
Net gains on sale of securities	250	411
Other operating income	969	579
Total noninterest income	8,578	8,417
Noninterest Expense		
Salaries and employee benefits	7,969	7,866
Occupancy expense of bank premises	1,709	1,603
Furniture and equipment expense	904	938
Amortization of intangible assets	256	245
FDIC premiums and assessments	701	188
Merger related expenses	-	1
Other operating expense	4,533	4,346
Total noninterest expense	16,072	15,187
Income before income taxes	7,460	7,515
Income tax expense	2,182	2,323
Net income	5,278	5,192
Dividends on preferred stock	-	571
Net income available to common shareholders	\$ 5,278	\$ 4,621
Basic earnings per common share		
Basic earnings per common share	\$ 0.30	\$ 0.40
Diluted earnings per common share		
Diluted earnings per common share	\$ 0.30	\$ 0.40

Dividends declared per common share	\$	0.10	\$	-
Weighted average basic shares outstanding		17,765,556		11,567,769
Weighted average diluted shares outstanding		17,784,449		11,616,568

See Notes to Consolidated Financial Statements.

FIRST COMMUNITY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In Thousands)	Three Months Ended March 31,	
	2010	2009 (Restated)
Operating activities:		
Net income	\$ 5,278	\$ 5,192
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,665	2,148
Depreciation and amortization of premises and equipment	1,021	1,096
Intangible amortization	256	245
Net investment amortization and accretion	1	193
Net gain on the sale of assets	(214)	(439)
Mortgage loans originated for sale	(7,583)	(8,481)
Proceeds from sales of mortgage loans	17,886	8,083
Gain on sales of loans	(221)	(23)
Equity-based compensation expense	22	40
Deferred income tax expense (benefit)	73	(340)
(Increase) decrease in interest receivable	(20)	1,235
Net impairment losses recognized in earnings	-	209
Other operating activities, net	1,925	945
Net cash provided by operating activities	22,089	10,103
Investing activities:		
Proceeds from sales of securities available-for-sale	11,512	46,394
Proceeds from maturities and calls of securities available-for-sale	23,490	10,346
Proceeds from maturities and calls of securities held-to-maturity	301	200
Purchase of securities available-for-sale	(65,168)	(97,018)
Net (increase) decrease in loans held for investment	(580)	18,065
Proceeds from the redemption of FHLB stock	-	324
Proceeds from sales of equipment	3	7
Purchase of premises and equipment	(853)	(971)
Net cash used in investing activities	(31,295)	(22,653)
Financing activities:		
Net increase in demand and savings deposits	58,674	27,482
Net (decrease) increase in time deposits	(49,023)	52,204
Net decrease in securities sold under agreement to repurchase	(9,253)	(12,090)
Net decrease in FHLB and other borrowings	(3,051)	(7)
Preferred dividends paid	-	(518)
Common dividends paid	(1,776)	-
Net cash (used in) provided by financing activities	(4,429)	67,071
(Decrease) increase in cash and cash equivalents	(13,635)	54,521
Cash and cash equivalents at beginning of period	101,341	46,439
Cash and cash equivalents at end of period	\$ 87,706	\$ 100,960

Supplemental information — Noncash items

Transfer of loans to other real estate	\$	1,587	\$	2,030
Cumulative effect adjustment, net of tax*	\$	-	\$	6,131

* In accordance with FASB Accounting Standards Codification Investments — Debt and Equity Securities Topic 320

See Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
(Dollars in Thousands)							
Balance January 1, 2009 (restated)	\$ 40,419	\$ 12,051	\$ 128,526	\$ 106,104	\$ (15,368)	\$ (52,517)	\$ 219,215
Cumulative effect of change in accounting principle	-	-	-	6,131	-	(6,131)	-
Comprehensive income:							
Net income (restated)	-	-	-	5,192	-	-	5,192
Other comprehensive loss — See Note 10	-	-	-	-	-	(7,724)	(7,724)
Comprehensive loss	-	-	-	11,323	-	(13,855)	(2,532)
Preferred dividend, net	52	-	(38)	(571)	-	-	(557)
Equity-based compensation expense	-	-	40	-	-	-	40
Retirement plan contribution — 28,800 shares issued	-	-	(536)	-	915	-	379
Balance March 31, 2009 (restated)	\$ 40,471	\$ 12,051	\$ 127,992	\$ 116,856	\$ (14,453)	\$ (66,372)	\$ 216,545
Balance January 1, 2010 (restated)	\$ -	\$ 18,083	\$ 190,967	\$ 66,760	\$ (9,891)	\$ (13,652)	\$ 252,267
Comprehensive income:							
Net income (restated)	-	-	-	5,278	-	-	5,278
Other comprehensive income — See Note 10	-	-	-	-	-	5,161	5,161
Comprehensive income	-	-	-	5,278	-	5,161	10,439

Common dividends paid	-	-	-	(1,776)	-	-	(1,776)
Equity-based compensation expense	-	-	22	-	-	-	22
Retirement plan contribution — 17,627 shares issued	-	-	(339)	-	549	-	210
Balance March 31, 2010 (restated)	\$ -	\$ 18,083	\$ 190,650	\$ 70,262	\$ (9,342)	\$ (8,491)	\$ 261,162

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. General

Unaudited Consolidated Financial Statements

The accompanying unaudited consolidated financial statements of First Community Bancshares, Inc. and subsidiaries (“First Community” or the “Company”) have been prepared in accordance with United States generally accepted accounting principles (“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. These results are not necessarily indicative of the results of consolidated operations that might be expected for the full calendar year.

The consolidated balance sheet as of December 31, 2009, has been derived from the restated audited consolidated financial statements included in the Company’s 2009 Annual Report on Form 10-K/A, as amended (the “2009 Form 10-K/A”). 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 2009 on Form 10-K/A.

A more complete and detailed description of First Community’s significant accounting policies is included within Footnote 1 of Item 8, “Financial Statements and Supplementary Data” in the Company’s 2009 Form 10-K/A. Further discussion of the Company’s application of critical accounting policies is included within the “Application of Critical Accounting Policies” section of Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included herein.

The Company operates within two business segments, banking and insurance services. Insurance services are comprised of agencies which sell property and casualty and life and health insurance policies and arrangements. All other operations, including commercial and consumer banking, lending activities, and wealth management are included within the banking segment.

Earnings Per Share

Basic earnings per share is determined by dividing net income available to common shareholders by the weighted average number of shares outstanding. Diluted earnings per share is determined by dividing net income available to common shareholders by the weighted average shares outstanding, which includes the dilutive effect of stock options, warrants and contingently issuable shares. Basic and diluted net income per common share calculations follow:

(Amounts in Thousands, Except Share and Per Share Data)	For the three months ended March 31,	
	2010	2009 (Restated)
Net income available to common shareholders	\$ 5,278	\$ 4,621
Weighted average shares outstanding	17,765,556	11,567,769
Dilutive shares for stock options	4,336	6,332
Contingently issuable shares	14,557	42,467
Weighted average dilutive shares outstanding	17,784,449	11,616,568

Basic earnings per share	\$	0.30	\$	0.40
Diluted earnings per share	\$	0.30	\$	0.40

For the three month period ended March 31, 2010, options and warrants to purchase 576,962 shares of common stock were outstanding but were not included in the computation of diluted earnings per common share because they would have an anti-dilutive effect. Likewise, options and warrants to purchase 391,104 shares of common stock were excluded from the 2009 computations of diluted earnings per common share because their effect would be anti-dilutive.

Reclassifications

The Company has made certain reclassifications of March 31, 2010 and 2009 amounts necessary to conform with the current year presentation. These reclassifications had no effect on the Company's financial position, shareholders' equity, or results of operations.

Recent Accounting Pronouncements

FASB ASC Topic 810, Consolidation. New authoritative accounting guidance under ASC Topic 810 amends prior guidance to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The new authoritative accounting guidance requires additional disclosures about the reporting entity's involvement with variable interest entities and any significant changes in risk exposure due to that involvement as well as its affect on the entity's financial statements. The Company adopted the provisions of the new authoritative accounting guidance under ASC Topic 810 during the first quarter of 2010. The adoption of the guidance had no significant impact on the Company's financial statements.

FASB ASC Topic 820, Fair Value Measurements and Disclosures. New authoritative guidance under ASC Topic 820, "Fair Value Measurements and Disclosures," amends prior guidance that requires entities to disclose additional information regarding assets and liabilities that are transferred between levels of the fair value hierarchy. Entities are also required to disclose information in the Level 3 rollforward about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, existing guidance pertaining to the level of disaggregation at which fair value disclosures should be made and the requirements to disclose information about the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements is further clarified. The Company adopted the new authoritative accounting guidance under ASC Topic 820 in the first quarter of 2010 and new disclosures are presented in Note 13 — Fair Value of the Notes to Consolidated Financial Statements.

FASB ASC Topic 860, Transfers and Servicing. New authoritative accounting guidance under ASC Topic 860, "Transfers and Servicing," amends prior accounting guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The authoritative accounting guidance eliminates the concept of a "qualifying special purpose entity" and changes the requirements for derecognizing financial assets. The authoritative accounting guidance also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The Company adopted the new authoritative accounting guidance under ASC Topic 860 effective January 1, 2010, and it did not have a significant impact on the Company's financial statements.

Note 2. Restatement of Consolidated Financial Statements

As a result of a routine internal audit, the Company determined there was a computational error in the model that it uses to calculate the quantitative basis for its allowance for loan losses. In connection with its determination of the appropriate loan loss reserve at December 31, 2008, the Company made certain modifications to its loan loss reserve model with respect to a \$130.76 million pool of loans. However, in calculating the loan loss reserves for this pool of loans, the historical quarterly net charge-off rates were not annualized as was the case with all other quarterly loss rates in the model. The Company has corrected the computational error in its model for calculating the allowance for loan losses. Based on the Company's modeling using the corrected computations, the Company, in consultation with the Audit Committee of its Board of Directors, determined that the amount of the allowance for loan losses should be increased by an aggregate of \$2.55 million for the period beginning December 31, 2008 and ending March 31, 2010.

In this Form 10-Q/A, the Company is restating its unaudited consolidated balance sheet as of March 31, 2010, and the consolidated statement of changes in stockholders' equity for the three months ended March 31, 2010. The consolidated statements of income and cash flows for the three months ended March 31, 2010, were not affected by the restatement.

In its 2009 Form 10-K/A, which has been filed with SEC , the Company restated its consolidated balance sheet, statements of income, statements of cash flows and statement of changes in stockholders' equity at and for the year ended December 31, 2009. In its Form 10-Q/A for the three months ended March 31, 2009, the Company restated its unaudited consolidated balance sheet, statement of income, statement of cash flows and statement of changes in stockholders' equity. For ease of reference, the effects of the restatement on the consolidated balance sheet for the year ended December 31, 2009 is provided below in this Note 2.

The effects of the restatement by line item for the periods presented in this Quarterly Report on Form 10-Q/A follow.

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Impact on Consolidated
Balance Sheets

	March 31, 2010			December 31, 2009		
	As Previously Reported	As Restated	Effect of Change	As Previously Reported	As Restated	Effect of Change
(Amounts in Thousands)						
Allowance for loan losses	\$ 21,956	\$ 24,508	\$ 2,552	\$ 21,725	\$ 24,277	\$ 2,552
Net loans held for investment	1,368,918	1,366,366	(2,552)	1,372,206	1,369,654	(2,552)
Other assets	130,017	130,974	957	135,049	136,006	957
Total assets	2,280,534	2,278,939	(1,595)	2,274,878	2,273,283	(1,595)
Retained earnings	71,857	70,262	(1,595)	68,355	66,760	(1,595)
Total stockholders' equity	262,757	261,162	(1,595)	253,862	252,267	(1,595)

Impact on Consolidated
Statements of Income

	Three Months Ended March 31, 2009		
	As Previously Reported	As Restated	Effect of Change
(Amounts in Thousands, except per share data)			
Provision for loan losses	\$ 2,087	\$ 2,148	\$ 61
Net interest income after provision for loan losses	14,346	14,285	(61)
Income before income taxes	7,576	7,515	(61)
Income tax expense	2,346	2,323	(23)
Net income	5,230	5,192	(38)
Net income to common shareholders	4,659	4,621	(38)
Net income per share			
Basic	\$ 0.40	\$ 0.40	\$ -
Diluted	\$ 0.40	\$ 0.40	\$ -

Impact on Consolidated
Statements of Cash Flows
Three Months Ended March 31, 2009

	As		
	Previously Reported	As Restated	Effect of Change
(Amounts in Thousands)			
Operating Activities:			
Net income	\$ 5,230	\$ 5,192	\$ (38)
Provision for loan losses	2,087	2,148	61
Deferred income tax benefit	(317)	(340)	(23)

Impact on Consolidated

	Statements of Changes in Stockholders' Equity					
	Three Months Ended March 31, 2010			Three Months Ended March 31, 2009		
	As Previously Reported	As Restated	Effect of Change	As Previously Reported	As Restated	Effect of Change
(Amounts in Thousands)						
Total retained earnings, January 1	\$ 68,355	\$ 66,760	\$ (1,595)	\$ 107,231	\$ 106,104	\$ (1,127)
Net income	5,278	5,278	-	5,230	5,192	(38)
Total retained earnings, March 31	71,857	70,262	(1,595)	118,021	116,856	(1,165)

Note 3. Mergers, Acquisitions, and Branching Activity

In July 2009, the Company acquired TriStone Community Bank (“TriStone”), based in Winston-Salem, North Carolina. TriStone had two full service locations in Winston-Salem. At acquisition, TriStone had total assets of \$166.82 million, total loans of \$132.23 million and total deposits of \$142.27 million. Each outstanding common share of TriStone was exchanged for .5262 shares of the Company’s common stock and the overall acquisition cost was approximately \$10.78 million. The acquisition of TriStone significantly augmented the Company’s market presence and human resources in the Winston-Salem, North Carolina market.

Note 4. Investment Securities

As of March 31, 2010, and December 31, 2009, the amortized cost and estimated fair value of available-for-sale securities were as follows:

(In Thousands)	March 31, 2010				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	OTTI in AOCI
U.S. Government agency securities	\$ 50,042	\$ 329	\$ (97)	\$ 50,274	\$ -
States and political subdivisions	130,923	3,732	(848)	133,807	-
Trust preferred securities:					
Single issue	55,664	-	(12,461)	43,203	-
Pooled	1,648	1,926	-	3,574	-
Total trust preferred securities	57,312	1,926	(12,461)	46,777	-
FDIC-backed securities	25,388	-	(71)	25,317	-
Mortgage-backed securities:					
Agency	243,602	6,962	(616)	249,948	-
Non-Agency prime residential	5,286	-	(447)	4,839	-
Non-Agency Alt-A residential	20,770	-	(9,297)	11,473	(9,297)
Total mortgage-backed securities	269,658	6,962	(10,360)	266,260	(9,297)
Equities	1,611	340	(89)	1,862	-
Total	\$ 534,934	\$ 13,289	\$ (23,926)	\$ 524,297	\$ (9,297)

(In Thousands)	December 31, 2009				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	OTTI in AOCI
U.S. Government agency securities	\$ 25,421	\$ 10	\$ (155)	\$ 25,276	\$ -
States and political subdivisions	133,185	3,309	(893)	135,601	-
Trust preferred securities:					
Single issue	55,624	-	(14,514)	41,110	-
Pooled	1,648	-	-	1,648	-
Total trust preferred securities	57,272	-	(14,514)	42,758	-
Mortgage-backed securities:					
Agency	260,220	5,399	(1,401)	264,218	-
Non-Agency prime residential	5,743	-	(573)	5,170	-
Non-Agency Alt-A residential	20,968	-	(9,667)	11,301	(9,667)
Total mortgage-backed securities	286,931	5,399	(11,641)	280,689	(9,667)
Equities	1,717	207	(191)	1,733	-
Total	\$ 504,526	\$ 8,925	\$ (27,394)	\$ 486,057	\$ (9,667)

As of March 31, 2010, and December 31, 2009, the amortized cost and estimated fair value of held-to-maturity securities were as follows:

(In Thousands)	Amortized Cost	March 31, 2010		Fair Value
		Unrealized Gains	Unrealized Losses	
States and political subdivisions	\$ 7,155	\$ 132	\$ -	\$ 7,287
Total	\$ 7,155	\$ 132	\$ -	\$ 7,287

(In Thousands)	Amortized Cost	December 31, 2009		Fair Value
		Unrealized Gains	Unrealized Losses	
States and political subdivisions	\$ 7,454	\$ 125	\$ -	\$ 7,579
Total	\$ 7,454	\$ 125	\$ -	\$ 7,579

The amortized cost and estimated fair value of available-for-sale securities by contractual maturity at March 31, 2010, 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.

(In Thousands)	Amortized Cost	Fair Value
Due within one year	\$ 72	\$ 74
Due after one year but within five years	54,140	54,505
Due after five years but within ten years	71,647	74,072
Due after ten years	137,806	127,524
	263,665	256,175
Mortgage-backed securities	269,658	266,260
Equity securities	1,611	1,862
Total	\$ 534,934	\$ 524,297

The amortized cost and estimated fair value of held-to-maturity securities by contractual maturity at March 31, 2010, 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.

(In Thousands)	Amortized Cost	Fair Value
Due within one year	\$ 905	\$ 913
Due after one year but within five years	4,113	4,193
Due after five years but within ten years	2,137	2,181
Due after ten years	-	-
Total	\$ 7,155	\$ 7,287

The carrying value of securities pledged to secure public deposits and for other purposes required by law was \$335.44 million and \$354.92 million at March 31, 2010, and December 31, 2009, respectively.

During the three months ended March 31, 2010, net gains on the sale of securities were \$250 thousand. Gross gains were \$258 thousand while gross losses were \$8 thousand. During the three months ended March 31, 2009, net gains on the sale of securities were \$411 thousand. Gross gains were \$1.17 million while gross losses were \$761 thousand.

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The following tables reflect those investments, both available-for-sale and held-to-maturity, in a continuous unrealized loss position for less than 12 months and for 12 months or longer at March 31, 2010 and December 31, 2009.

	Less than 12 Months		March 31, 2010 12 Months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In Thousands)						
U.S. Government agency securities	\$ 25,518	\$ (97)	\$ -	\$ -	\$ 25,518	\$ (97)
States and political subdivisions	10,271	(143)	17,924	(705)	28,195	(848)
Single issue trust preferred securities	-	-	43,204	(12,461)	43,204	(12,461)
FDIC-backed securities	25,317	(71)	-	-	25,317	(71)
Mortgage-backed securities:						
Agency	48,135	(616)	33	-	48,168	(616)
Prime residential	-	-	4,839	(447)	4,839	(447)
Alt-A residential	-	-	11,108	(9,297)	11,108	(9,297)
Total mortgage-backed securities	48,135	(616)	15,980	(9,744)	64,115	(10,360)
Equity securities	274	(44)	187	(45)	461	(89)
Total	\$ 109,515	\$ (971)	\$ 77,295	\$ (22,955)	\$ 186,810	\$ (23,926)

	Less than 12 Months		December 31, 2009 12 Months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In Thousands)						
U.S. Government agency securities	\$ 23,271	\$ (155)	\$ -	\$ -	\$ 23,271	\$ (155)
States and political subdivisions	13,864	(270)	16,285	(623)	30,149	(893)
Single issue trust preferred securities	-	-	41,111	(14,514)	41,111	(14,514)
Mortgage-backed securities:						
Agency	83,491	(1,400)	34	(1)	83,525	(1,401)
Prime residential	-	-	5,169	(573)	5,169	(573)
Alt-A residential	11,301	(9,667)	-	-	11,301	(9,667)
Total mortgage-backed securities	94,792	(11,067)	5,203	(574)	99,995	(11,641)
Equity securities	86	(60)	731	(131)	817	(191)
Total	\$ 132,013	\$ (11,552)	\$ 63,330	\$ (15,842)	\$ 195,343	\$ (27,394)

At March 31, 2010, the combined depreciation in value of the 85 individual securities in an unrealized loss position was approximately 4.56% of the combined reported value of the aggregate securities portfolio. At December 31, 2009, the combined depreciation in value of the 89 individual securities in an unrealized loss position was approximately 5.64% 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, except for pooled trust preferred securities, it does not intend to sell securities that are impaired and has asserted that it is not more likely than not that it will have to sell impaired securities before recovery of the impairment occurs. The Company’s assertion is based upon its investment strategy for the particular type of security and the Company’s cash flow needs, liquidity position, capital adequacy and interest rate risk position.

For non-beneficial 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. Non-beneficial interest debt securities consist of U.S. government agency securities, states and political subdivisions, single issue trust preferred securities, and FDIC-backed 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 credit related impairment and record any credit related OTTI through earnings and the non-credit related OTTI through other comprehensive income (“OCI”). During the three month periods ended March 31, 2010 and 2009, respectively, the Company incurred no OTTI charges related to non-beneficial interest debt securities. The temporary impairment on these securities is primarily related to changes in interest rates, certain disruptions in the credit markets, 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 mortgage-backed securities and pooled trust preferred securities. 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 non-credit related OTTI is accounted for in OCI.

During the three month periods ended March 31, 2010 2009, the Company incurred no credit-related OTTI charges related to beneficial interest debt securities. For the beneficial interest debt securities not deemed to have incurred OTTI, the Company has concluded that the primary difference in the fair value of the securities and credit impairment evident in its cash flow model is the significantly higher rate of return currently demanded by market participants in this illiquid and inactive market as compared to the rate of return that the Company received when it purchased the securities in a normally functioning market.

As of March 31, 2010, the Company cannot assert its intent to hold its remaining pooled trust preferred securities to recovery or maturity and that it is more likely than not it will sell the securities in order to convert deferred tax assets to current tax receivables. Accordingly, the Company carries those securities at the lower of its adjusted cost basis or market value. The securities continue to remain categorized as available for sale.

For the non-Agency Alt-A residential MBS, the Company models cash flows using the following assumptions: constant prepayment speed of 5, a customized constant default rate scenario starting at 15 for the first six quarters ramping down over the course of the next three-and-a-half years to 3 beginning with the fourth year, and a loss severity of 45. For the non-Agency prime residential MBS, the Company models cash flows using the following assumptions: constant prepayment speed of 5, a constant default rate of 5, and a loss severity of 10. The scenarios presented do not indicate OTTI for either security.

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

	Three Months Ended March 31, 2010
(In Thousands)	
Estimated credit losses, beginning balance (1)	\$ 4,251
Additions for credit losses on securities not previously recognized	-
Additions for credit losses on securities previously recognized	-
Reduction for increases in cash flows	-
Reduction for securities management no longer intends to hold to recovery	-
Reduction for securities sold/realized losses	-
Estimated credit losses as of March 31, 2010	\$ 4,251

(1) The beginning balance includes credit-related losses included in OTTI charges recognized on debt securities in prior periods.

For equity securities, the Company reviews for OTTI based upon the prospects of the underlying companies, analysts' expectations, and certain other qualitative factors to determine if impairment is recoverable over a foreseeable period

of time. During the three months ended March 31, 2010, the Company did not recognize any OTTI charges on equity securities. For the three months ended March 31, 2009, the Company recognized OTTI charges of \$209 thousand on certain of its equity positions.

As a condition to membership in the Federal Home Loan Bank (“FHLB”) system, the Company is required to subscribe to a minimum level of stock in the FHLB of Atlanta (“FHLBA”). The Company feels this ownership position provides access to relatively inexpensive wholesale and overnight funding. The Company accounts for FHLBA and Federal Reserve Bank stock as a long-term investment in other assets. At March 31, 2010, and December 31, 2009, the Company owned approximately \$13.70 million in FHLBA stock, which is classified as other assets. The Company’s policy is to review for impairment of such assets at the end of each reporting period. During the three months ended March 31, 2010, FHLBA paid quarterly dividends. At March 31, 2010, FHLBA was in compliance with all of its regulatory capital requirements. Based on its review, the Company believes that, as of March 31, 2010, its FHLBA stock was not impaired.

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Note 5. Loans

Loans, net of unearned income, consist of the following:

(Dollars in Thousands)	March 31, 2010		December 31, 2009	
	Amount	Percent	Amount	Percent
Loans held for investment:				
Commercial, financial, and agricultural	\$ 102,022	7.34%	\$ 96,366	6.91%
Real estate — commercial	461,542	33.18%	450,611	32.33%
Real estate — construction (1)	113,139	8.13%	124,896	8.96%
Real estate — residential	647,921	46.59%	657,367	47.16%
Consumer	60,632	4.36%	60,090	4.31%
Other	5,618	0.40%	4,601	0.33%
Total	\$ 1,390,874	100.00%	\$ 1,393,931	100.00%
Loans held for sale	\$ 1,494		\$ 11,576	

(1) Real estate construction includes land and land development loans.

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. These instruments involve, to varying degrees, elements of credit and interest rate risk beyond the amount recognized on the balance sheet. The contractual amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. The Company's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit and financial guarantees written is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparties. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income producing commercial properties.

Standby letters of credit and written financial guarantees are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. To the extent deemed necessary, collateral of varying types and amounts is held to secure customer performance under certain of those letters of credit outstanding.

Financial instruments whose contract amounts represent credit risk are commitments to extend credit (including availability of lines of credit) of \$232.96 million and standby letters of credit and financial guarantees written of \$9.67 million at March 31, 2010. Additionally, the Company had gross notional amounts of outstanding commitments to lend related to secondary market mortgage loans of \$2.97 million at March 31, 2010.

Note 6. Allowance for Loan Losses

The allowance for loan losses is maintained at a level sufficient to absorb probable loan losses inherent in the loan portfolio. The allowance is increased by charges to earnings in the form of provision for loan losses and recoveries of prior loan charge-offs, and decreased by loans charged off. The provision is calculated to bring the allowance to a level which, according to a systematic process of measurement, reflects the amount management estimates is needed to absorb probable losses within the portfolio.

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Management performs periodic assessments to determine the appropriate level of allowance. Differences between actual loan loss experience and estimates are reflected through adjustments that are made by either increasing or decreasing the loss provision based upon current measurement criteria. Commercial, consumer and mortgage loan portfolios are evaluated separately for purposes of determining the allowance. The specific components of the allowance include allocations to individual commercial credits and allocations to the remaining non-homogeneous and homogeneous pools of loans. Management's allocations are based on judgment of qualitative and quantitative factors about both macro and micro economic conditions reflected within the portfolio of loans and the economy as a whole. Factors considered in this evaluation include, but are not necessarily limited to, probable losses from loan and other credit arrangements, general economic conditions, changes in credit concentrations or pledged collateral, historical loan loss experience, and trends in portfolio volume, maturities, composition, delinquencies, and non-accruals. While management has allocated the allowance for loan losses to various portfolio segments, the entire allowance is available for use against any type of loan loss deemed appropriate by management.

The following table details the Company's allowance for loan loss activity for the three-month periods ended March 31, 2010 and 2009.

(In Thousands)	For the Three Months Ended March 31,	
	2010 (Restated)	2009 (Restated)
Beginning balance	\$ 24,277	\$ 17,782
Provision for loan losses	3,665	2,148
Charge-offs	(3,732)	(1,730)
Recoveries	298	220
Ending balance	\$ 24,508	\$ 18,420

The following table presents the Company's investment in loans considered to be impaired and related information on those impaired loans for the periods ended March 31, 2010, and December 31, 2009. Interest income realized on impaired loans is recognized upon receipt if the impaired loan is on a non-accrual basis.

(In Thousands)	March 31, 2010	December 31, 2009
Recorded investment in loans considered to be impaired:		
Recorded investment in impaired loans with related allowance	\$ 10,771	\$ 13,241
Recorded investment in impaired loans with no related allowance	16,739	13,371
Total impaired loans	27,510	26,612
Loans considered to be impaired that were on a non-accrual basis	17,477	17,014
Allowance for loan losses related to loans considered to be impaired	2,113	932
Total interest income recognized on impaired loans, year-to-date	537	663

Note 7. Deposits

The following is a summary of interest-bearing deposits by type as of March 31, 2010, and December 31, 2009.

(In Thousands)	March 31, 2010	December 31, 2009
Interest-bearing demand deposits	\$ 246,513	\$ 231,907
Savings and money market deposits	427,883	381,381

Certificates of deposit	775,405	824,428
Total	\$ 1,449,801	\$ 1,437,716

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Note 8. Borrowings

The following schedule details the Company's FHLB borrowings and other indebtedness at March 31, 2010, and December 31, 2009.

	March 31, 2010	December 31, 2009
(In Thousands)		
FHLB borrowings	\$ 180,134	\$ 183,177
Subordinated debt	15,464	15,464
Other long-term debt	275	283
Total	\$ 195,873	\$ 198,924

FHLB borrowings included \$175.00 million in convertible and callable advances at March 31, 2010, and December 31, 2009. The weighted average interest rate of all the advances was 2.41% at March 31, 2010, and December 31, 2009.

The Company has entered into a derivative interest rate swap instrument where it receives LIBOR-based variable interest payments and pays fixed interest payments. The notional amount of the derivative swap is \$50.00 million and effectively fixes the interest rate of a portion of the FHLB borrowings at approximately 4.34%. After considering the effect of the interest rate swap, the effective weighted average interest rate of all FHLB borrowings was 3.61% at March 31, 2010. The fair value of the interest rate swap was a liability of \$1.69 million at March 31, 2010. The Company maintained a cash deposit with its counterparty to collateralize the interest rate swap of \$3.20 million at March 31, 2010, and December 31, 2009.

At March 31, 2010, the FHLB advances have approximate contractual maturities between four months and eleven years. The scheduled maturities of the advances are as follows:

	Amount
(In Thousands)	
2010	\$ 5,134
2011	-
2012	-
2013	-
2014	-
2015 and thereafter	175,000
Total	\$ 180,134

The callable advances may be redeemed at quarterly intervals after various lockout periods. These call options may substantially shorten the lives of these instruments. If these advances are called, the debt may be paid in full, converted to another FHLB credit product, or converted to a fixed or adjustable rate advance. Prepayment of the advances may result in substantial penalties based upon the differential between contractual note rates and current advance rates for similar maturities. Advances from the FHLB are secured by stock in the FHLB of Atlanta, qualifying loans, mortgage-backed securities, and certain other securities.

Also included in other indebtedness is \$15.46 million of junior subordinated debentures (the "Debentures") issued by the Company in October 2003 to an unconsolidated trust subsidiary, FCBI Capital Trust (the "Trust"), with an interest rate of three month LIBOR plus 2.95%. The Trust was able to purchase the Debentures through the issuance of trust preferred securities which had substantially identical terms as the Debentures. The Debentures mature on October 8,

2033, and are currently callable.

The Company has committed to irrevocably and unconditionally guarantee the following payments or distributions with respect to the preferred securities to the holders thereof to the extent that the Trust has not made such payments or distributions: (i) accrued and unpaid distributions, (ii) the redemption price, and (iii) upon a dissolution or termination of the Trust, the lesser of the liquidation amount and all accrued and unpaid distributions and the amount of assets of the Trust remaining available for distribution, in each case to the extent the Trust has funds available.

In addition to investment securities, at March 31, 2010, wholesale repurchase agreements were collateralized by \$9.27 million of interest bearing balances with banks.

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Note 9. Net Periodic Benefit Cost-Defined Benefit Plans

The following sets forth the components of the net periodic benefit cost of the Company's domestic non-contributory defined benefit plan for the three-month periods ended March 31, 2010 and 2009.

(In Thousands)	Three Months Ended	
	March 31, 2010	2009
Service cost	\$ 52	\$ 53
Interest cost	52	47
Net periodic cost	\$ 104	\$ 100

Note 10. Comprehensive Income (Loss)

The components of the Company's comprehensive income (loss), net of income taxes, for the three-month periods ended March 31, 2010 and 2009, are as follows:

(In Thousands)	Three Months Ended	
	March 31, 2010	2009 (Restated)
Net income	\$ 5,278	\$ 5,192
Other comprehensive income (loss)		
Unrealized gain (loss) on securities available-for-sale without other-than-temporary impairment	8,050	(12,703)
Reclassification adjustment for gains realized in net income	(250)	(411)
Reclassification adjustment for credit related other-than-temporary impairments recognized in earnings	-	209
Unrealized gain on derivative contract	424	243
Income tax effect	(3,063)	4,938
Total other comprehensive income (loss)	5,161	(7,724)
Comprehensive income (loss)	\$ 10,439	\$ (2,532)

Note 11. Commitments and Contingencies

In the normal course of business, the Company is a defendant in various legal actions and asserted claims. While the Company and its legal counsel are unable to assess the ultimate outcome of each of these matters with certainty, the Company does not believe the resolution of these actions, singly or in the aggregate, should not have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

Note 12. Segment Information

The Company operates within two business segments, Community Banking and Insurance Services. The Community Banking segment includes both commercial and consumer lending and deposit services. This segment provides customers with such products as commercial loans, real estate loans, business financing and consumer loans. This segment also provides customers with several choices of deposit products including demand deposit accounts, savings accounts and certificates of deposit. In addition, the Community Banking segment provides wealth management services to a broad range of customers. The Insurance Services segment is a full-service insurance agency providing commercial and personal lines of insurance.

The following table sets forth information about the reportable operating segments and reconciliation of this information to the consolidated financial statements at and for the three-month periods ended March 31, 2010 and 2009.

	For the Three Months Ended March 31, 2010			
	Community Banking	Insurance Services	Parent/ Elimination	Total
(In Thousands)				
Net interest income (loss)	\$ 18,678	\$ (33)	\$ (26)	\$ 18,619
Provision for loan losses	3,665	-	-	3,665
Noninterest income (loss)	6,609	2,219	(250)	8,578
Noninterest expense (income)	15,021	1,479	(428)	16,072
Income before income taxes	6,601	707	152	7,460
Provision for income taxes	1,869	291	22	2,182
Net income	\$ 4,732	\$ 416	\$ 130	\$ 5,278
End of period goodwill and other intangibles	\$ 79,237	\$ 11,568	\$ -	\$ 90,805
End of period assets (restated)	\$ 2,252,443	\$ 12,465	\$ 14,031	\$ 2,278,939

	For the Three Months Ended March 31, 2009			
	Community Banking (Restated)	Insurance Services	Parent/ Elimination	Total (Restated)
(In Thousands)				
Net interest income (loss)	\$ 16,492	\$ (18)	\$ (41)	\$ 16,433
Provision for loan losses	2,148	-	-	2,148
Noninterest income (loss)	6,124	2,344	(44)	8,424
Noninterest expense (income)	13,582	1,638	(26)	15,194
(Loss) income before income taxes	6,886	688	(59)	7,515
Provision for income taxes	1,909	203	211	2,323
Net income (loss)	\$ 4,977	\$ 485	\$ (270)	\$ 5,192
End of period goodwill and other intangibles	\$ 78,657	\$ 10,681	\$ -	\$ 89,338
End of period assets	\$ 2,169,529	\$ 11,698	\$ 16,749	\$ 2,197,976

Note 13. Fair Value

Under ASC Topic 820, "Fair Value Measurements and Disclosures," fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or

liability. The price in the principal, or most advantageous, market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

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The fair value hierarchy under ASC Topic 820 is as follows:

Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, such as interest rates, volatilities, prepayment speeds, and credit risks, or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's assets and liabilities carried at fair value. In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon third party models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality, the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available-for-Sale: Securities classified as available-for-sale are reported at fair value utilizing Level 1, Level 2, and Level 3 inputs. Securities are classified as Level 1 within the valuation hierarchy when quoted prices are available in an active market. This includes securities whose value is based on quoted market prices in active markets for identical assets. The Company also uses Level 1 inputs for the valuation of equity securities traded in active markets.

Securities are classified as Level 2 within the valuation hierarchy when the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the bond's terms and conditions, among other things. Level 2 inputs are used to value U.S. Agency securities, mortgage-backed securities, municipal securities, single issue trust preferred securities, pooled trust preferred securities, and certain equity securities that are not actively traded.

Fair value models may be required when trading activity has declined significantly or does not exist, prices are not current or pricing variations are significant. The Company's fair value from third party models utilizes modeling software that uses market participant data and knowledge of the structures of each individual security to develop cash flows specific to each security. The fair values of the securities are determined by using the cash flows developed by the fair value model and applying appropriate market observable discount rates. The discount rates are developed by determining credit spreads above a benchmark rate, such as LIBOR, and adding premiums for illiquidity developed based on a comparison of initial issuance spread to LIBOR versus a financial sector curve for recently issued debt to LIBOR. Specific securities that have increased uncertainty regarding the receipt of cash flows are discounted at

higher rates due to the addition of a deal specific credit premium. Finally, internal fair value model pricing and external pricing observations are combined by assigning weights to each pricing observation. Pricing is reviewed for reasonableness based on the direction of the specific markets and the general economic indicators.

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Other Assets and Associated Liabilities: Securities held for trading purposes are recorded at fair value and included in “other assets” on the consolidated balance sheets. Securities held for trading purposes include assets related to employee deferred compensation plans. The assets associated with these plans are generally invested in equities and classified as Level 1. Deferred compensation liabilities, also classified as Level 1, are carried at the fair value of the obligation to the employee, which corresponds to the fair value of the invested assets.

Derivatives: Derivatives are reported at fair value utilizing Level 2 inputs. The Company obtains dealer quotations based on observable data to value its derivatives.

Impaired Loans: Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on appraisals adjusted for customized discounting criteria.

The Company maintains an active and robust problem credit identification system. When a credit is identified as exhibiting characteristics of weakening, the Company will assess the credit for potential impairment. Examples of weakening include delinquency and deterioration of the borrower’s capacity to repay as determined by the Company’s regular credit review function. As part of the impairment review, the Company will evaluate the current collateral value. It is the Company’s standard practice to obtain updated third party collateral valuations to assist management in measuring potential impairment of a credit and the amount of the impairment to be recorded.

Internal collateral valuations are generally performed within two to four weeks of the original identification of potential impairment and receipt of the third party valuation. The internal valuation is performed by comparing the original appraisal to current local real estate market conditions and experience and considers liquidation costs. The result of the internal valuation is compared to the outstanding loan balance, and, if warranted, a specific impairment reserve will be established at the completion of the internal evaluation.

A third party evaluation is typically received within thirty to forty-five days of the completion of the internal evaluation. Once received, the third party evaluation is reviewed by Special Assets staff and/or Credit Appraisal staff for reasonableness. Once the evaluation is reviewed and accepted, discounts to fair market value are applied based upon such factors as the bank’s historical liquidation experience of like collateral, and an estimated net realizable value is established. That estimated net realizable value is then compared to the outstanding loan balance to determine the amount of specific impairment reserve. The specific impairment reserve, if necessary, is adjusted to reflect the results of the updated evaluation. A specific impairment reserve is generally maintained on impaired loans during the time period while awaiting receipt of the third party evaluation as well as on impaired loans that continue to make some form of payment and liquidation is not imminent. Impaired loans not meeting the aforementioned criteria and that do not have a specific impairment reserve have usually been previously written down through a partial charge-off, to their net realizable value.

The Company’s Special Assets staff assumes the management and monitoring of all loans determined to be impaired. While awaiting the completion of the third party appraisal, the Company generally begins to complete the tasks necessary to gain control of the collateral and prepare for liquidation, including, but not limited to engagement of counsel, inspection of collateral, and continued communication with the borrower, if appropriate. Special Assets staff also regularly reviews the relationship to identify any potential adverse developments during this time.

Generally, the only difference between current appraised value, adjusted for liquidation costs, and the carrying amount of the loan less the specific reserve is any downward adjustment to the appraised value that the Company’s Special Assets staff determines appropriate. These differences generally consist of costs to sell the property, as well as a deflator for the devaluation of property seen when banks are the sellers, and the Company deemed these adjustments as fair value adjustments.

In the Company's experience, it rarely returns loans to performing status after they have been partially charged off. Generally, credits identified as impaired move quickly through the process towards ultimate resolution of the problem credit.

Other Real Estate Owned. The fair value of the Company's other real estate owned is determined using current and prior appraisals, estimates of costs to sell, and proprietary qualitative adjustments. Accordingly, other real estate owned is stated at a Level 3 fair value.

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The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of March 31, 2010, and December 31, 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

(In Thousands)	March 31, 2010			Total Fair Value
	Level 1	Level 2	Level 3	
Available-for-sale securities:				
Agency securities	\$ -	\$ 50,274	\$ -	\$ 50,274
Agency mortgage-backed securities	-	249,948	-	249,948
Non-Agency prime residential MBS	-	4,839	-	4,839
Non-Agency Alt-A residential MBS	-	11,473	-	11,473
Municipal securities	-	133,807	-	133,807
FDIC-backed securities	-	25,317	-	25,317
Single issue trust preferred securities	-	43,203	-	43,203
Pooled trust preferred securities	-	3,574	-	3,574
Equity securities	1,842	20	-	1,862
Total available-for-sale securities	1,842	522,455	-	524,297
Deferred compensation assets	2,924	-	-	2,924
Deferred compensation liabilities	2,924	-	-	2,924
Derivative liabilities				
Interest rate swap	-	1,691	-	1,691
Interest rate lock commitments	-	49	-	49
Total derivative liabilities	-	1,740	-	1,740
Total	\$ 7,690	\$ 524,195	\$ -	\$ 531,885

(In Thousands)	December 31, 2009			Total Fair Value
	Level 1	Level 2	Level 3	
Available-for-sale securities:				
Agency securities	\$ -	\$ 25,276	\$ -	\$ 25,276
Agency mortgage-backed securities	-	264,218	-	264,218
Non-Agency prime residential MBS	-	5,170	-	5,170
Non-Agency Alt-A residential MBS	-	11,301	-	11,301
Municipal securities	-	135,601	-	135,601
Single issue trust preferred securities	-	41,110	-	41,110
Pooled trust preferred securities	-	-	1,648	1,648
Equity securities	1,713	20	-	1,733
Total available-for-sale securities	1,713	482,696	1,648	486,057
Deferred compensation assets	2,872	-	-	2,872
Derivative assets				
Interest rate lock commitments	-	2	-	2
Total derivative assets	-	2	-	2
Deferred compensation liabilities	2,872	-	-	2,872
Derivative liabilities				
Interest rate swap	-	2,117	-	2,117
Interest rate lock commitments	-	74	-	74
Total derivative liabilities	-	2,191	-	2,191

Total	\$	7,457	\$	484,889	\$	1,648	\$	493,994
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The following table presents additional information about financial assets and liabilities measured at fair value for the three months ended March 31, 2010, on a recurring basis and for which Level 3 inputs are utilized to determine fair value:

	Fair Value Measurements Using Significant Unobservable Inputs Available-for-Sale Securities Pooled Trust Preferred Securities	
(In Thousands)		
Balance, January 1, 2010	\$	1,648
Transfers into Level 3		-
Transfers out of Level 3		(3,574)
Total gains or losses		
Included in earnings (or changes in net assets)		-
Included in other comprehensive income		1,926
Purchases, issuances, sales, and settlements		
Purchases		-
Issuances		-
Sales		-
Settlements		-
Balance, March 31, 2010	\$	-

The Company transferred \$3.57 million out of Level 3 for the three month period ended March 31, 2010. During this period, the Company changed the fair value of pooled trust preferred securities from Level 3 to Level 2 pricing. The Company has been successful in obtaining a quote from a qualified market participant, and although the market for these securities is increasing, it still remains inactive.

Certain financial and non-financial assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, for example, when there is evidence of impairment. Items subjected to nonrecurring fair value adjustments at March 31, 2010, and December 31, 2009, are as follows:

	March 31, 2010			Total Fair Value
	Fair Value Measurements Level 1	Fair Value Measurements Using Level 2	Fair Value Measurements Using Level 3	
(In Thousands)				
Impaired loans	\$ -	\$ -	\$ 10,207	\$ 10,207
Other real estate owned	-	-	4,740	4,740
	December 31, 2009			Total Fair Value
	Fair Value Measurements Level 1	Fair Value Measurements Using Level 2	Fair Value Measurements Using Level 3	
(In Thousands)				
Impaired loans	\$ -	\$ -	\$ 11,702	\$ 11,702
Other real estate owned	-	-	4,578	4,578

Fair Value of Financial Instruments

Fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practical to estimate the value is based upon the characteristics of the instruments and relevant market information. Financial instruments include cash, evidence of ownership in an entity, or contracts that convey or impose on an entity that contractual right or obligation to either receive or deliver cash for another financial instrument. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price if one exists.

	March 31, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(In Thousands)				
Assets				
Cash and cash equivalents	\$ 87,706	\$ 87,706	\$ 101,341	\$ 101,341
Investment securities	531,452	531,584	493,511	493,636
Loans held for sale	1,494	1,495	11,576	11,580
Loans held for investment (restated)	1,366,366	1,357,542	1,369,654	1,362,814
Accrued interest receivable	8,630	8,630	8,610	8,610
Bank owned life insurance	41,213	41,213	40,972	40,972
Derivative financial assets	-	-	2	2
Deferred compensation assets	2,924	2,924	2,872	2,872
Liabilities				
Demand deposits	\$ 205,810	\$ 205,810	208,244	208,244
Interest-bearing demand deposits	246,513	246,513	231,907	231,907
Savings deposits	427,883	427,883	381,381	381,381
Time deposits	775,405	784,244	824,428	834,546
Securities sold under agreements to repurchase	144,381	153,152	153,634	156,653
Accrued interest payable	3,671	3,671	4,130	4,130
FHLB and other indebtedness	195,873	205,748	198,924	208,334
Derivative financial liabilities	1,740	1,740	2,191	2,191
Deferred compensation liabilities	2,924	2,924	2,872	2,872

The following summary presents the methodologies and assumptions used to estimate the fair value of the Company's financial instruments presented below. The information used to determine fair value is highly subjective and judgmental in nature and, therefore, the results may not be precise. Subjective factors include, among other things, estimates of cash flows, risk characteristics, credit quality, and interest rates, all of which are subject to change. Since the fair value is estimated as of the balance sheet date, the amounts that will actually be realized or paid upon settlement or maturity on these various instruments could be significantly different.

Cash and Cash Equivalents: The book values of cash and due from banks and federal funds sold and purchased are considered to be equal to fair value as a result of the short-term nature of these items.

Investment Securities and Deferred Compensation Assets and Liabilities: Fair values are determined in the same manner as described above under ASC Topic 820.

Loans: The estimated fair value of loans held for investment is measured based upon discounted future cash flows using current rates for similar loans. Loans held for sale are recorded at lower of cost or estimated fair value. The fair value of loans held for sale is determined based upon the market sales price of similar loans.

Accrued Interest Receivable and Payable: The book value is considered to be equal to the fair value due to the short-term nature of the instrument.

Bank-owned Life Insurance: The fair value is determined by stated contract values.

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Derivative Financial Instruments: The estimated fair value of derivative financial instruments is based upon the current market price for similar instruments.

Deposits and Securities Sold Under Agreements to Repurchase: Deposits without a stated maturity, including demand, interest bearing demand, and savings accounts, are reported at their carrying value. No value has been assigned to the franchise value of these deposits. For other types of deposits and repurchase agreements with fixed maturities and rates, fair value has been estimated by discounting future cash flows based on interest rates currently being offered on instruments with similar characteristics and maturities.

FHLB and Other Indebtedness: Fair value has been estimated based on interest rates currently available to the Company for borrowings with similar characteristics and maturities. The fair value for trust preferred obligations has been estimated based on credit spreads seen in the marketplace for like issues.

Commitments to Extend Credit, Standby Letters of Credit, and Financial Guarantees: The amount of off-balance sheet commitments to extend credit, standby letters of credit, and financial guarantees is considered equal to fair value. Because of the uncertainty involved in attempting to assess the likelihood and timing of commitments being drawn upon, coupled with the lack of an established market and the wide diversity of fee structures, the Company does not believe it is meaningful to provide an estimate of fair value that differs from the given value of the commitment.

Note 14. Derivatives and Hedging Activities

The Company, through its mortgage banking and risk management operations, is party to various derivative instruments that are used for asset and liability management and customers' financing needs. Derivative assets and liabilities are recorded at fair value on the balance sheet.

The primary derivatives that the Company uses are interest rate swaps and interest rate lock commitments ("IRLC's"). Generally, these instruments help the Company manage exposure to market risk and meet customer financing needs. Market risk represents the possibility that economic value or net interest income will be adversely affected by fluctuations in external factors, such as interest rates, market-driven loan rates and prices or other economic factors.

The following table presents the aggregate contractual, or notional, amounts of derivative financial instruments as of the dates indicated:

	March 31, 2010	December 31, 2009	March 31, 2009
(In Thousands)			
Interest rate swap	\$ 50,000	\$ 50,000	\$ 50,000
IRLC's	2,966	4,636	11,300

As of March 31, 2010, December 31, 2009, and March 31, 2009, the fair values of the Company's derivatives were as follows:

	Asset Derivatives					
	March 31, 2010		December 31, 2009		March 31, 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
(In Thousands)						

Derivatives not designated
as hedges

IRLC's	Other assets	\$	-	Other assets	\$	2	Other assets	\$	57
Total		\$	-		\$	2		\$	57

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	March 31, 2010		Liability Derivatives December 31, 2009		March 31, 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
(In Thousands)						
Derivatives designated as hedges Interest rate swap	Other liabilities	\$ 1,691	Other liabilities	\$ 2,117	Other liabilities	\$ 3,081
Total		\$ 1,691		\$ 2,117		\$ 3,081
Derivatives not designated as hedges IRLC's	Other liabilities	\$ 49	Other liabilities	\$ 74	Other liabilities	\$ 4
Total		\$ 49		\$ 74		\$ 4
Total derivatives		\$ 1,740		\$ 2,191		\$ 3,085

Interest Rate Swaps. The Company uses interest rate swap contracts to modify its exposure to interest rate risk. The Company currently employs a cash flow hedging strategy to effectively convert certain floating-rate liabilities into fixed-rate instruments. The interest rate swap is accounted for under the “short-cut” method as required by the Derivatives and Hedging Topic 815 of the ASC. Changes in fair value of the interest rate swap are reported as a component of other comprehensive income. The Company does not currently employ fair value hedging strategies.

Interest Rate Lock Commitments. In the normal course of business, the Company sells originated mortgage loans into the secondary mortgage loan market. During the period of loan origination and prior to the sale of the loans in the secondary market, the Company has exposure to movements in interest rates associated with mortgage loans that are in the “mortgage pipeline.” A pipeline loan is one on which the potential borrower has set the interest rate for the loan by entering into an IRLC. Once a mortgage loan is closed and funded, it is included within loans held for sale and awaits sale and delivery into the secondary market. During the term of an IRLC, the Company has the risk that interest rates will change from the rate quoted to the borrower.

The Company’s balance of mortgage loans held for sale is subject to changes in fair value, due to fluctuations in interest rates from the loan closing date through the date of sale of the loan into the secondary market. Typically, the fair value of these loans decline when interest rates increase and rise when interest rates decrease.

Effect of Derivatives and Hedging Activities on the Income Statement

For the quarters ended March 31, 2010 and 2009, the Company has determined there was no amount of ineffectiveness on cash flow hedges. The following table details gains and losses recognized in income on non-designated hedging instruments for the three-month periods ended March 31, 2010 and 2009.

(In Thousands)	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative Three Months Ended March 31,	
		2010	2009
Derivatives Not Designated as Hedging Instruments	Other income	\$ 23	\$ 30
Total		\$ 23	\$ 30

Counterparty Credit Risk. Like other financial instruments, derivatives contain an element of “credit risk.” Credit risk is the possibility that the Company will incur a loss because a counterparty, which may be a bank, a broker-dealer or a

customer, fails to meet its contractual obligations. This risk is measured as the expected positive replacement value of contracts. All derivative contracts may be executed only with exchanges or counterparties approved by the Company's Asset/Liability Management Committee. The Company reviews its counterparty risk regularly and has determined that, as of March 31, 2010, there is no significant counterparty credit risk.