FIRST BANCORP /NC/
Form 10-Q
August 09, 2011

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

FORM 10-Q

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

For the quarterly period ended June 30, 2011

Commission File Number 0-15572

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

North Carolina (State or Other Jurisdiction of Incorporation or Organization)	56-1421916 (I.R.S. Employer Identification Number)
341 North Main Street, Troy, North Carolina (Address of Principal Executive Offices)	27371-0508 (Zip Code)
(Registrant's telephone number, including area code)	(910) 576-6171

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

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

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

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

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

The number of shares of the registrant's Common Stock outstanding on July 31, 2011 was 16,877,731.

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FIRST BANCORP AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS

Part I of this report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act, which statements are inherently subject to risks and uncertainties. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often characterized by the use of qualifying words (and their derivatives) such as “expect,” “believe,” “estimate,” “plan,” “project,” o other statements concerning our opinions or judgment about future events. Factors that could influence the accuracy of such forward-looking statements include, but are not limited to, the financial success or changing strategies of our customers, our level of success in integrating acquisitions, actions of government regulators, the level of market interest rates, and general economic conditions. For additional information that could affect the matters discussed in this paragraph, see the “Risk Factors” section of our 2010 Annual Report on Form 10-K.

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Part I. Financial Information
Item 1 - Financial Statements

First Bancorp and Subsidiaries
Consolidated Balance Sheets

($ in thousands-unaudited)	June 30, 2011	December 31, 2010 (audited)	June 30, 2010
ASSETS			
Cash and due from banks, noninterest-bearing	$73,676	56,821	59,944
Due from banks, interest-bearing	163,414	154,320	148,539
Federal funds sold	1,157	861	5,091
Total cash and cash equivalents	238,247	212,002	213,574
Securities available for sale	171,844	181,182	163,317
Securities held to maturity (fair values of $59,860, $53,312, and $47,786)	57,593	54,018	47,312
Presold mortgages in process of settlement	2,466	3,962	3,123
Loans – non-covered	2,040,714	2,083,004	2,099,099
Loans – covered by FDIC loss share agreement	401,726	371,128	455,477
Total loans	2,442,440	2,454,132	2,554,576
Allowance for loan losses – non-covered	(34,465)	(38,275)	(42,215)
Allowance for loan losses – covered	(5,540)	(11,155)	
Total allowance for loan losses	(40,005)	(49,430)	(42,215)
Net loans	2,402,435	2,404,702	2,512,361
Premises and equipment	68,898	67,741	54,026
Accrued interest receivable	12,000	13,579	12,975
FDIC indemnification asset	142,894	123,719	118,072
Goodwill	65,835	65,835	65,835
Other intangible assets	4,349	4,523	4,962
Other real estate owned – non-covered	31,849	21,081	14,690
Other real estate owned – covered	102,883	94,891	80,074
Other	32,456	31,697	28,021
Total assets	$3,333,749	3,278,932	3,318,342
LIABILITIES			
Deposits: Demand - noninterest-bearing	$323,223	292,759	293,555
NOW accounts	371,693	292,623	356,626
Money market accounts	499,286	500,360	494,979
Savings accounts	145,576	153,325	157,343
Time deposits of $100,000 or more	765,787	762,990	782,663
Other time deposits	641,853	650,456	709,722
Total deposits	2,747,418	2,652,513	2,794,888
Securities sold under agreements to repurchase	68,608	54,460	61,766
Borrowings	138,796	196,870	76,579
Accrued interest payable	2,208	2,082	2,665

Other liabilities	24,421	28,404	33,706
Total liabilities	2,981,451	2,934,329	2,969,604
Commitments and contingencies	–	–	–
SHAREHOLDERS’ EQUITY			
Preferred stock, no par value per share. Authorized: 5,000,000 shares			
Issued and outstanding: 65,000 shares	65,000	65,000	65,000
Discount on preferred stock	(2,474)	(2,932)	(3,361)
Common stock, no par value per share. Authorized: 40,000,000 shares			
Issued and outstanding: 16,862,536, 16,801,426, and 16,770,119 shares	100,549	99,615	98,973
Common stock warrants	4,592	4,592	4,592
Retained earnings	188,737	183,413	186,552
Accumulated other comprehensive income (loss)	(4,106)	(5,085)	(3,018)
Total shareholders’ equity	352,298	344,603	348,738
Total liabilities and shareholders’ equity	$3,333,749	3,278,932	3,318,342

See notes to consolidated financial statements.

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First Bancorp and Subsidiaries
Consolidated Statements of Income

($ in thousands, except share data-unaudited)	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
INTEREST INCOME				
Interest and fees on loans	$ 38,464	37,609	75,271	75,827
Interest on investment securities:				
Taxable interest income	1,463	1,579	2,895	3,109
Tax-exempt interest income	499	409	999	763
Other, principally overnight investments	103	121	193	328
Total interest income	40,529	39,718	79,358	80,027
INTEREST EXPENSE				
Savings, NOW and money market	1,103	1,664	2,333	3,528
Time deposits of $100,000 or more	2,661	3,182	5,265	6,654
Other time deposits	1,767	2,825	3,936	6,049
Securities sold under agreements to repurchase	48	70	98	184
Borrowings	470	441	932	899
Total interest expense	6,049	8,182	12,564	17,314
Net interest income	34,480	31,536	66,794	62,713
Provision for loan losses – non-covered	7,607	8,003	15,177	15,626
Provision for loan losses – covered	3,327		7,100	
Total provision for loan losses	10,934	8,003	22,277	15,626
Net interest income after provision for loan losses	23,546	23,533	44,517	47,087
NONINTEREST INCOME				
Service charges on deposit accounts	3,655	3,593	6,609	7,058
Other service charges, commissions and fees	1,709	1,378	3,315	2,755
Fees from presold mortgages	346	440	641	812
Commissions from sales of insurance and financial products	409	340	764	762
Gain from acquisition			10,196	
Foreclosed property losses and write-downs – non-covered	(271)	(96)	(1,624)	(51)
Foreclosed property losses and write-downs – covered	(2,583)	(5,495)	(7,517)	(5,495)
FDIC indemnification asset income, net	1,826	4,396	6,866	4,396
Securities gains	60	15	74	24
Other gains (losses)	(37)	(34)	(17)	(30)
Total noninterest income	5,114	4,537	19,307	10,231
NONINTEREST EXPENSES				
Salaries	9,694	8,735	19,405	17,351
Employee benefits	2,954	2,589	6,156	5,073
Total personnel expense	12,648	11,324	25,561	22,424
Net occupancy expense	1,598	1,752	3,270	3,640
Equipment related expenses	1,110	1,063	2,172	2,202
Intangibles amortization	226	220	450	435

Merger expenses	243		594	
Other operating expenses	7,088	7,598	15,909	15,536
Total noninterest expenses	22,913	21,957	47,956	44,237
Income before income taxes	5,747	6,113	15,868	13,081
Income taxes	2,021	2,172	5,767	4,702
Net income	3,726	3,941	10,101	8,379
Preferred stock dividends and accretion	(1,041)	(1,026)	(2,083)	(2,053)
Net income available to common shareholders	$ 2,685	2,915	8,018	6,326
Earnings per common share:				
Basic	$ 0.16	0.17	0.48	0.38
Diluted	0.16	0.17	0.48	0.38
Dividends declared per common share	$ 0.08	0.08	0.16	0.16
Weighted average common shares outstanding:				
Basic	16,841,289	16,751,962	16,827,615	16,742,240
Diluted	16,868,571	16,784,126	16,855,027	16,772,969

See notes to consolidated financial statements.

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First Bancorp and Subsidiaries
Consolidated Statements of Comprehensive Income

($ in thousands-unaudited)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net income	$3,726	3,941	10,101	8,379
Other comprehensive income (loss):				
Unrealized gains on securities available for sale:				
Unrealized holding gains arising during the period, pretax	1,198	1,190	1,387	2,085
Tax benefit	(467)	(464)	(541)	(813)
Reclassification to realized gains	(60)	(15)	(74)	(24)
Tax expense	23	5	29	9
Postretirement Plans:				
Amortization of unrecognized net actuarial loss	140	117	280	234
Tax expense	(56)	(46)	(112)	(92)
Amortization of prior service cost and transition obligation	9	9	18	18
Tax expense	(4)	(4)	(8)	(8)
Other comprehensive income	783	792	979	1,409
Comprehensive income	$4,509	4,733	11,080	9,788

See notes to consolidated financial statements.

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First Bancorp and Subsidiaries
Consolidated Statements of Shareholders' Equity

(In thousands, except per share – unaudited)	Preferred Stock	Preferred Stock Discount	Common Stock Shares	Common Stock Amount	Common Stock Warrants	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Share-holders' Equity
Balances, January 1, 2010	$ 65,000	(3,789)	16,722	$ 98,099	4,592	182,908	(4,427)	342,383
Net income						8,379		8,379
Common stock issued under stock option plans			17	171				171
Common stock issued into dividend reinvestment plan			15	226				226
Cash dividends declared ($0.16 per common share)						(2,682)		(2,682)
Preferred dividends						(1,625)		(1,625)
Accretion of preferred stock discount		428				(428)		–
Tax benefit realized from exercise of nonqualified stock options				36				36
Stock-based compensation			16	441				441
Other comprehensive income							1,409	1,409
Balances, June 30, 2010	$ 65,000	(3,361)	16,770	$ 98,973	4,592	186,552	(3,018)	348,738
Balances, January 1, 2011	$ 65,000	(2,932)	16,801	$ 99,615	4,592	183,413	(5,085)	344,603
Net income						10,101		10,101
Common stock issued under stock option plans			2	30				30

Common stock issued into dividend reinvestment plan			30	421				421
Cash dividends declared ($0.16 per common share)						(2,694)		(2,694)
Preferred dividends						(1,625)		(1,625)
Accretion of preferred stock discount		458				(458)		–
Stock-based compensation			29	483				483
Other comprehensive income							979	979
Balances, June 30, 2011	$ 65,000	(2,474)	16,862	$ 100,549	4,592	188,737	(4,106)	352,298

See notes to consolidated financial statements.

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First Bancorp and Subsidiaries
Consolidated Statements of Cash Flows

($ in thousands-unaudited)	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cash Flows From Operating Activities		
Net income	$ 10,101	8,379
Reconciliation of net income to net cash provided by operating activities:		
Provision for loan losses	22,277	15,626
Net security premium amortization	748	765
Purchase accounting accretion and amortization, net	(6,565)	(5,192)
Gain from acquisition	(10,196)	
Foreclosed property losses and write-downs	9,141	5,546
Gain on securities available for sale	(74)	(24)
Other losses	17	30
Increase in net deferred loan costs	(323)	(317)
Depreciation of premises and equipment	2,182	1,974
Stock-based compensation expense	483	441
Amortization of intangible assets	450	435
Origination of presold mortgages in process of settlement	(35,532)	(38,379)
Proceeds from sales of presold mortgages in process of settlement	37,028	39,223
Decrease in accrued interest receivable	1,579	1,808
Increase in other assets	(6,866)	(10,836)
Increase (decrease) in accrued interest payable	126	(389)
Increase (decrease) in other liabilities	(5,238)	9,270
Net cash provided by operating activities	19,338	28,360
Cash Flows From Investing Activities		
Purchases of securities available for sale	(23,721)	(33,282)
Purchases of securities held to maturity	(3,816)	(15,173)
Proceeds from maturities/issuer calls of securities available for sale	34,829	51,079
Proceeds from maturities/issuer calls of securities held to maturity	1,053	2,235
Proceeds from sales of securities available for sale	2,518	
Net decrease in loans	45,905	42,703
Proceeds from FDIC loss share agreements	32,468	21,192
Proceeds from sales of foreclosed real estate	16,425	10,030
Purchases of premises and equipment	(3,323)	(1,809)
Net cash received (paid) in acquisition	54,037	(170)
Net cash provided by investing activities	156,375	76,805
Cash Flows From Financing Activities		
Net decrease in deposits and repurchase agreements	(83,523)	(138,597)
Repayments of borrowings, net	(62,081)	(100,000)
Cash dividends paid – common stock	(2,690)	(2,674)
Cash dividends paid – preferred stock	(1,625)	(1,625)
Proceeds from issuance of common stock	451	397
Tax benefit from exercise of nonqualified stock options	–	36
Net cash used by financing activities	(149,468)	(242,463)

Increase (decrease) in cash and cash equivalents	26,245	(137,298)
Cash and cash equivalents, beginning of period	212,002	350,872
Cash and cash equivalents, end of period	$238,247	213,574
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$12,438	17,703
Income taxes	11,710	7,569
Non-cash transactions:		
Unrealized gain on securities available for sale, net of taxes	801	1,257
Foreclosed loans transferred to other real estate	42,984	52,151

See notes to consolidated financial statements.

First Bancorp and Subsidiaries
Notes to Consolidated Financial Statements

(unaudited) For the Periods Ended June 30, 2011 and 2010

Note 1 - Basis of Presentation

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the consolidated financial position of the Company as of June 30, 2011 and 2010 and the consolidated results of operations and consolidated cash flows for the periods ended June 30, 2011 and 2010. All such adjustments were of a normal, recurring nature. Reference is made to the 2010 Annual Report on Form 10-K filed with the SEC for a discussion of accounting policies and other relevant information with respect to the financial statements. The results of operations for the periods ended June 30, 2011 and 2010 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated all subsequent events through the date the financial statements were issued.

Note 2 – Accounting Policies

Note 1 to the 2010 Annual Report on Form 10-K filed with the SEC contains a description of the accounting policies followed by the Company and discussion of recent accounting pronouncements. The following paragraphs update that information as necessary.

In July 2010, the FASB issued guidance that requires an entity to provide more information about the credit quality of its financing receivables, such as aging information, credit quality indicators and troubled debt restructurings, in the disclosures to its financial statements. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how the entity develops its allowance for credit losses and how it manages its credit exposure. Except for disclosures related to troubled debt restructurings (discussed in next paragraph), the required disclosures became effective for periods ending on or after December 15, 2010. The Company is required to include these disclosures in its interim and annual financial statements. See Note 8 for required disclosures.

In April 2011, the FASB issued guidance to assist creditors with their determination of when a restructuring is a troubled debt restructuring. The determination is based on whether the restructuring constitutes a concession and whether the debtor is experiencing financial difficulties, as both events must be present. This guidance and the new disclosures related to troubled debt restructurings will be effective for reporting periods beginning after June 15, 2011.

In December 2010, the FASB issued amended guidance to modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. Any resulting goodwill impairment should be recorded as a cumulative-effect adjustment to beginning retained earnings upon adoption. Impairments occurring subsequent to adoption should be included in earnings. The amendment was effective for the Company beginning January 1, 2011 and is not expected to impact the Company’s next goodwill impairment test.

Also in December 2010, the FASB issued amended guidance specifying that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendment also requires that the supplemental pro forma disclosures include a description of the nature and amount of any material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This amendment

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is effective for the Company for business combinations for which the acquisition date is on or after January 1, 2011.

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

Note 3 – Reclassifications

Certain amounts reported in the period ended June 30, 2010 have been reclassified to conform to the presentation for June 30, 2011. These reclassifications had no effect on net income or shareholders' equity for the periods presented, nor did they materially impact trends in financial information.

Note 4 – Acquisition of Bank of Asheville

On January 21, 2011, the Company announced that First Bank, its banking subsidiary, had entered into a loss share purchase and assumption agreement with the Federal Deposit Insurance Corporation (FDIC), as receiver for The Bank of Asheville, Asheville, North Carolina. Earlier that day, the North Carolina Commissioner of Banks issued an order for the closure of The Bank of Asheville and appointed the FDIC as receiver. According to the terms of the agreement, First Bank acquired substantially all of the assets and liabilities of The Bank of Asheville. All deposits were assumed by First Bank with no losses to any depositor.

The Bank of Asheville operated through five branches in Asheville, North Carolina with total assets of approximately $198 million and 50 employees.

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

First Bank received a $23.9 million discount on the assets acquired and paid no deposit premium. The acquisition was accounted for under the purchase method of accounting in accordance with relevant accounting guidance. The statement of net assets acquired as of January 21, 2011 and the resulting gain are presented in the following table. The purchased assets and assumed liabilities were recorded at their respective acquisition date fair values, and identifiable intangible assets were recorded at fair value. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as information relative to closing date fair values becomes available. The Company recorded an estimated receivable from the FDIC in the amount of $42.2 million, which represents the fair value of the FDIC's portion of the losses that are expected to be incurred and reimbursed to the Company.

An acquisition gain totaling $10.2 million resulted from the acquisition and is included as a component of noninterest income on the statement of income. The amount of the gain is equal to the amount by which the fair value of assets purchased exceeded the fair value of liabilities assumed.

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The statement of net assets acquired as of January 21, 2011 and the resulting gain that was recorded are presented in the following table.

($ in thousands)	As Recorded by The Bank of Asheville	Fair Value Adjustments		As Recorded by the Company
Assets				
Cash and cash equivalents	$ 27,297	–		27,297
Securities	4,461	–		4,461
Loans	153,994	(51,726)	(a)	102,268
Core deposit intangible	–	277	(b)	277
FDIC indemnification asset	–	42,218	(c)	42,218
Foreclosed properties	3,501	(2,159)	(d)	1,342
Other assets	1,146	(370)	(e)	776
Total	190,399	(11,760)		178,639
Liabilities				
Deposits	192,284	460	(f)	192,744
Borrowings	4,004	77	(g)	4,081
Other	111	1,447	(h)	1,558
Total	196,399	1,984		198,383
Excess of liabilities received over assets	(6,000)	(13,744)		(19,744)
Less: Asset discount	(23,940)			
Cash received/receivable from FDIC at closing	29,940			29,940
Total gain recorded				$ 10,196

Explanation of Fair Value Adjustments

(a) This estimated adjustment is necessary as of the acquisition date to write down The Bank of Asheville's book value of loans to the estimated fair value as a result of future expected loan losses.

(b) This fair value adjustment represents the value of the core deposit base assumed in the acquisition based on a study performed by an independent consulting firm. This amount was recorded by the Company as an identifiable intangible asset and will be amortized as an expense on a straight-line basis over the average life of the core deposit base, which is estimated to be seven years.

(c) This adjustment is the estimated fair value of the amount that the Company expects to receive from the FDIC under its loss share agreements as a result of future loan losses.

(d) This is the estimated adjustment necessary to write down The Bank of Asheville's book value of foreclosed real estate properties to their estimated fair value as of the acquisition date.

(e) This is an immaterial adjustment made to reflect fair value.

(f) This fair value adjustment was recorded because the weighted average interest rate of The Bank of Asheville's time deposits exceeded the cost of similar wholesale funding at the time of the acquisition. This amount will be amortized to reduce interest expense on a declining basis over the life of the portfolio of approximately 48 months.

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

(h) This adjustment relates primarily to the estimate of what the Company will owe to the FDIC at the conclusion of the loss share agreements based on a pre-established formula set forth in those agreements that is based on total expected losses in relation to the amount of the discount bid.

The operating results of the Company for the period ended June 30, 2011 include the operating results of the acquired assets and assumed liabilities for the period subsequent to the acquisition date of January 21, 2011 and were not material to the six month period ended June 30, 2011. Due primarily to the significant amount of fair value adjustments and the FDIC loss share agreements now in place, historical results of The Bank of Asheville are not believed to be relevant to the Company's results, and thus no pro forma information is presented.

Note 5 – Equity-Based Compensation Plans

At June 30, 2011, the Company had the following equity-based compensation plans: the First Bancorp 2007 Equity Plan, the First Bancorp 2004 Stock Option Plan, the First Bancorp 1994 Stock Option Plan, and one plan that was assumed from an acquired entity. The Company's shareholders approved all equity-based compensation plans, except for those assumed from acquired companies. The First Bancorp 2007 Equity Plan became effective upon the approval of shareholders on May 2, 2007. As of June 30, 2011, the First Bancorp 2007 Equity Plan was the only plan that had shares available for future grants.

The First Bancorp 2007 Equity Plan and its predecessor plans, the First Bancorp 2004 Stock Option Plan and the First Bancorp 1994 Stock Option Plan ("Predecessor Plans"), are intended to serve as a means to attract, retain and motivate key employees and directors and to associate the interests of the plans' participants with those of the Company and its shareholders. The Predecessor Plans only provided for the ability to grant stock options, whereas the First Bancorp 2007 Equity Plan, in addition to providing for grants of stock options, also allows for grants of other types of equity-based compensation, including stock appreciation rights, restricted stock, restricted performance stock, unrestricted stock, and performance units. Since the First Bancorp 2007 Equity Plan became effective on May 2, 2007, the Company has granted the following stock-based compensation: 1) the grant of 2,250 stock options to each of the Company's non-employee directors on June 1, 2007, 2008, and 2009, 2) the grant of 5,000 incentive stock options to an executive officer on April 1, 2008 in connection with a corporate acquisition, 3) the grant of 262,599 stock options and 81,337 performance units to 19 senior officers on June 17, 2008 (each performance unit represents the right to acquire one share of the Company's common stock upon satisfaction of the vesting conditions), 4) the grant of 29,267 long-term restricted shares of common stock to certain senior executive officers on December 11, 2009, 5) the grant of 1,039 shares of common stock to each of the Company's non-employee directors on June 1, 2010, 6) the grant of 7,259 long-term restricted shares of common stock to certain senior executive officers on February 24, 2011, and 7) the grant of 1,414 shares of common stock to each of the Company's non-employee directors on June 1, 2011.

Prior to the June 17, 2008 grant, stock option grants to employees generally had five-year vesting schedules (20% vesting each year) and had been irregular, usually falling into three categories - 1) to attract and retain new employees, 2) to recognize changes in responsibilities of existing employees, and 3) to periodically reward exemplary performance. Compensation expense associated with these types of grants is recorded pro-ratably over the vesting period. As it relates to directors, until 2010 the Company had historically granted 2,250 vested stock options to each of the Company's non-employee directors in June of each year. In June 2011 and 2010, the Company granted 1,414 common shares and 1,039 common shares, respectively, to each non-employee director, which had approximately the same value as 2,250 stock options. Compensation expense associated with these director grants is recognized on the date of grant since there are no vesting conditions.

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The June 17, 2008 grant of a combination of performance units and stock options have both performance conditions (earnings per share targets) and service conditions that must be met in order to vest. The 262,599 stock options and 81,337 performance units represent the maximum number of options and performance units that could have vested if the Company were to achieve specified maximum goals for earnings per share during the three annual performance periods ending on December 31, 2008, 2009, and 2010. Up to one-third of the total number of options and performance units granted are subject to vesting annually as of December 31 of each year beginning in 2010, if (1) the Company achieves specific earnings per share (EPS) goals during the corresponding performance period and (2) the executive or key employee continues employment for a period of two years beyond the corresponding performance period. Compensation expense for this grant is recorded over the various service periods based on the estimated number of options and performance units that are probable to vest. If the awards do not vest, no compensation cost is recognized and any previously recognized compensation cost will be reversed. The Company did not achieve the minimum earnings per share performance goal for 2008 or 2010, and thus two-thirds of the above grant has been permanently forfeited. As a result of the significant acquisition gain realized in June 2009 related to a failed bank acquisition, the Company achieved the EPS goal for 2009 and the related awards will vest on December 31, 2011 for each grantee that remains employed as of that date. The Company recorded compensation expense of $299,000 in each of 2009 and 2010 related to this grant and its expected vesting. Assuming no forfeitures, the Company will record compensation expense of approximately $75,000 in each quarter of 2011 related to this grant.

The December 11, 2009 and February 24, 2011 grants of long-term restricted shares of common stock to senior executives vest in accordance with the minimum rules for long-term equity grants for companies participating in the U.S. Treasury's Troubled Asset Relief Program (TARP). These rules require that the vesting of the stock be tied to repayment of the financial assistance. For each 25% of total financial assistance repaid, 25% of the total long-term restricted stock may become transferrable. The total compensation expense associated with the December 11, 2009 grant was $398,000 and is being initially amortized over a four-year period. The amount of compensation expense recorded by the Company in 2009 was insignificant. The Company recorded approximately $49,000 in each of the first six months of 2011 and 2010 related to this grant. The Company will continue to record approximately $24,500 in each quarter through the end of 2013 related to the 2009 grant. The total compensation expense associated with the February 24, 2011 grant was $105,500 and is being initially amortized over a three-year period, with approximately $8,800 being expensed in each quarter of 2011-2013. See Note 15 for further information related to the Company's participation in the TARP.

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

At June 30, 2011, there were 635,309 options outstanding related to the three First Bancorp plans, with exercise prices ranging from $14.35 to $22.12. At June 30, 2011, there were 927,478 shares remaining available for grant under the First Bancorp 2007 Equity Plan. The Company also has a stock option plan as a result of a corporate acquisition. At June 30, 2011, there were 4,788 stock options outstanding in connection with the acquired plan, with option prices ranging from $10.66 to $15.22.

The Company issues new shares of common stock when options are exercised.

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

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The Company's equity grants for the six months ended June 30, 2011 were the issuance of 1) 7,259 shares of long-term restricted stock to certain senior executives on February 24, 2011, at a fair market value of $14.54 per share, which was the closing price of the Company's common stock on that date, and 2) 21,210 shares of common stock to non-employee directors on June 1, 2011 (1,414 shares per director), at a fair market value of $11.39 per share, which was the closing price of the Company's common stock on that date.

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

The Company recorded total stock-based compensation expense of $483,000 and $441,000 for the six-month periods ended June 30, 2011 and 2010, respectively. Stock-based compensation expense is recorded as "salaries expense" in the Consolidated Statements of Income and as an adjustment to cash flows from operating activities on the Company's Consolidated Statement of Cash Flows. The Company recognized no income tax benefits in the income statement related to stock-based compensation for the six-month period ended June 30, 2011 and approximately $36,000 in income tax benefits for the same period in 2010.

At June 30, 2011, the Company had $10,000 of unrecognized compensation costs related to unvested stock options that have vesting requirements based solely on service conditions. The cost is expected to be amortized over a weighted-average life of 1.8 years, with $3,000 being expensed in 2011, $6,000 being expensed in 2012, and $1,000 being expensed in 2013. At June 30, 2011, the Company had $149,000 in unrecognized compensation expense associated with the June 17, 2008 award grant that has both performance conditions and service conditions and will record $74,500 in each remaining quarter of 2011.

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

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The following table presents information regarding the activity for the first six months of 2011 related to all of the Company’s stock options outstanding:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Contractual Term (years)	Aggregate Intrinsic Value
Balance at December 31, 2010	642,413	$ 18.11		
Granted	–	–		
Exercised	(2,300)	13.30		$ 6,949
Forfeited	–	–		
Expired	–	–		
Outstanding at June 30, 2011	640,113	$ 18.13	3.3	$ 0
Exercisable at June 30, 2011	567,167	$ 18.32	2.8	$ 0

The Company received $30,000 and $171,000 as a result of stock option exercises during the six months ended June 30, 2011 and 2010, respectively. The Company recorded no tax benefits from the exercise of nonqualified stock options during the three months ended June 30, 2011 or 2010.

As discussed above, the Company granted 81,337 performance units to 19 senior officers on June 17, 2008. Each performance unit represents the right to acquire one share of the Company’s common stock upon satisfaction of the vesting conditions (discussed above). The fair market value of the Company’s common stock on the grant date was $16.53 per share. One-third of this grant was forfeited on December 31, 2008 and another one-third was forfeited on December 31, 2010 because the Company failed to meet the minimum performance goal required for vesting. Also, as discussed above, the Company granted 29,267 and 7,259 long-term restricted shares of common stock to certain senior executives on December 11, 2009 and February 24, 2011, respectively.

The following table presents information regarding the activity during 2011 related to the Company’s outstanding performance units and restricted stock:

	Nonvested Performance Units		Long-Term Restricted Stock	
Six months ended June 30, 2011	Number of Units	Weighted-Average Grant-Date Fair Value	Number of Units	Weighted-Average Grant-Date Fair Value
Nonvested at the beginning of the period	27,113	$ 16.53	29,267	$ 13.59
Granted during the period	–	–	7,259	14.54
Vested during the period	–	–	–	–
Forfeited or expired during the period	–	–	–	–
Nonvested at end of period	27,113	$ 16.53	36,526	$ 13.78

Note 6 – Earnings Per Common Share

Basic earnings per common share were computed by dividing net income available to common shareholders by the weighted average common shares outstanding. Diluted earnings per common share includes the potentially dilutive effects of the Company’s equity plans and the warrant issued to the U.S. Treasury in connection with the Company’s participation in the Treasury’s Capital Purchase Program – see Note 15 for additional information. The

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following is a reconciliation of the numerators and denominators used in computing basic and diluted earnings per common share:

	For the Three Months Ended June 30,					
	2011			2010		
($ in thousands except per share amounts)	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS						
Net income available to common shareholders	$2,685	16,841,289	$0.16	$2,915	16,751,962	$0.17
Effect of Dilutive Securities	-	27,282		-	32,164	
Diluted EPS per common share	$2,685	16,868,571	$0.16	$2,915	16,784,126	$0.17

	For the Six Months Ended June 30,					
	2011			2010		
($ in thousands except per share amounts)	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS						
Net income available to common shareholders	$8,018	16,827,615	$0.48	$6,326	16,742,240	$0.38
Effect of Dilutive Securities	-	27,412		-	30,729	
Diluted EPS per common share	$8,018	16,855,027	$0.48	$6,326	16,772,969	$0.38

For both the three and six month periods ended June 30, 2011, there were 542,916 options that were antidilutive because the exercise price exceeded the average market price for the period. For the three and six months ended June 30, 2010, there 464,848 and 609,252 options, respectively, that were antidilutive because the exercise price exceeded the average market price for the period. In addition, the warrant for 616,308 shares issued to the U.S. Treasury (see Note 15) was antidilutive for the three and six months ended June 30, 2011 and 2010. Antidilutive options and warrants have been omitted from the calculation of diluted earnings per common share for the respective periods.

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Note 7 – Securities

The book values and approximate fair values of investment securities at June 30, 2011 and December 31, 2010 are summarized as follows:

	June 30, 2011				December 31, 2010			
($ in thousands)	Amortized Cost	Fair Value	Unrealized Gains	Unrealized (Losses)	Amortized Cost	Fair Value	Unrealized Gains	Unrealized (Losses)
Securities available for sale:								
Government-sponsored enterprise securities	$32,149	32,380	251	(20)	43,432	43,273	214	(373)
Mortgage-backed securities	109,809	113,134	3,936	(611)	104,660	107,460	3,270	(470)
Corporate bonds	13,193	13,117	279	(355)	15,754	15,330	35	(459)
Equity securities	12,903	13,213	343	(33)	14,858	15,119	301	(40)
Total available for sale	$168,054	171,844	4,809	(1,019)	178,704	181,182	3,820	(1,342)
Securities held to maturity:								
State and local governments	$57,593	59,860	2,336	(68)	54,011	53,305	517	(1,223)
Other	–	–	–	–	7	7	–	–
Total held to maturity	$57,593	59,860	2,336	(68)	54,018	53,312	517	(1,223)

Included in mortgage-backed securities at June 30, 2011 were collateralized mortgage obligations with an amortized cost of $2,029,000 and a fair value of $2,100,000. Included in mortgage-backed securities at December 31, 2010 were collateralized mortgage obligations with an amortized cost of $2,644,000 and a fair value of $2,740,000.

The Company owned Federal Home Loan Bank stock with a cost and fair value of $12,809,000 and $14,759,000 at June 30, 2011 and December 31, 2010, respectively, which is included in equity securities above and serves as part of the collateral for the Company’s line of credit with the Federal Home Loan Bank. The investment in this stock is a requirement for membership in the Federal Home Loan Bank system.

The following table presents information regarding securities with unrealized losses at June 30, 2011:

($ in thousands)	Securities in an Unrealized Loss Position for Less than 12 Months		Securities in an Unrealized Loss Position for More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprise securities	$5,978	20	–	–	5,978	20
Mortgage-backed securities	36,343	611	–	–	36,343	611
Corporate bonds	2,028	18	2,963	337	4,991	355
Equity securities	9	3	22	30	31	33
State and local governments	3,671	68	–	–	3,671	68

Total temporarily impaired securities	$48,029	720	2,985	367	51,014	1,087

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The following table presents information regarding securities with unrealized losses at December 31, 2010:

(in thousands)	Securities in an Unrealized Loss Position for Less than 12 Months		Securities in an Unrealized Loss Position for More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprise securities	$ 18,607	373	–	–	18,607	373
Mortgage-backed securities	21,741	470	–	–	21,741	470
Corporate bonds	7,548	55	2,900	404	10,448	459
Equity securities	3	1	29	39	32	40
State and local governments	35,289	1,223	–	–	35,289	1,223
Total temporarily impaired securities	$ 83,188	2,122	2,929	443	86,117	2,565

In the above tables, all of the non-equity securities that were in an unrealized loss position at June 30, 2011 and December 31, 2010 are bonds that the Company has determined are in a loss position due to interest rate factors, the overall economic downturn in the financial sector, and the broader economy in general. The Company has evaluated the collectability of each of these bonds and has concluded that there is no other-than-temporary impairment. The Company does not intend to sell these securities, and it is more likely than not that the Company will not be required to sell these securities before recovery of the amortized cost. The Company has also concluded that each of the equity securities in an unrealized loss position at June 30, 2011 and December 31, 2010 was in such a position due to temporary fluctuations in the market prices of the securities. The Company's policy is to record an impairment charge for any of these equity securities that remains in an unrealized loss position for twelve consecutive months unless the amount is insignificant.

The aggregate carrying amount of cost-method investments was $12,809,000 and $14,766,000 at June 30, 2011 and December 31, 2010, respectively, which included the Federal Home Loan Bank stock discussed above. The Company determined that none of its cost-method investments were impaired at either period end.

The book values and approximate fair values of investment securities at June 30, 2011, by contractual maturity, are summarized in the table below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

($ in thousands)	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Debt securities				
Due within one year	$ –	–	627	637
Due after one year but within five years	35,145	35,424	1,576	1,653
Due after five years but within ten years	–	–	21,418	22,563
Due after ten years	10,197	10,073	33,972	35,007
Mortgage-backed securities	109,809	113,134	–	–
Total debt securities	155,151	158,631	57,593	59,860
Equity securities	12,903	13,213	–	–

Total securities	$ 168,054	171,844	57,593	59,860

At June 30, 2011 and December 31, 2010, investment securities with book values of $105,816,000 and $75,654,000, respectively, were pledged as collateral for public and private deposits and securities sold under agreements to repurchase.

There were $2,510,000 in sales of securities during the six months ended June 30, 2011, which resulted in a net gain of $8,000. There were no securities sales during the first six months of 2010. During the six months ended

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June 30, 2011, the Company recorded a net loss of $5,000 related to write-downs of the Company's equity portfolio and recorded a net gain of $71,000 related to the call of several securities. During the six months ended June 30, 2010, the Company recorded a gain of $24,000 related to the call of several municipal securities.

Note 8 – Loans and Asset Quality Information

The loans and foreclosed real estate that were acquired in FDIC-assisted transactions are covered by loss share agreements between the FDIC and First Bank, which afford First Bank significant loss protection. (See the Company's 2010 Annual Report on Form 10-K for more information regarding the Cooperative Bank transaction and Note 4 above for the more information regarding The Bank of Asheville transaction.) Because of the loss protection provided by the FDIC, the risk of the Cooperative Bank and The Bank of Asheville loans and foreclosed real estate are significantly different from those assets not covered under the loss share agreements. Accordingly, the Company presents separately loans subject to the loss share agreements as "covered loans" in the information below and loans that are not subject to the loss share agreements as "non-covered loans."

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

($ in thousands)	June 30, 2011			December 31, 2010			June 30, 2010		
	Amount	Percentage		Amount	Percentage		Amount	Percentage	
All loans (non-covered and covered):									
Commercial, financial, and agricultural	$158,303	6	%	155,016	6	%	162,645	6	%
Real estate – construction, land development & other land loans	386,354	16	%	437,700	18	%	501,323	20	%
Real estate – mortgage – residential (1-4 family) first mortgages	803,209	33	%	802,658	33	%	817,167	32	%
Real estate – mortgage – home equity loans / lines of credit	266,995	11	%	263,529	11	%	265,443	11	%
Real estate – mortgage – commercial and other	745,858	31	%	710,337	29	%	722,988	28	%
Installment loans to individuals	80,423	3	%	83,919	3	%	84,319	3	%
Subtotal	2,441,142	100	%	2,453,159	100	%	2,553,885	100	%
Unamortized net deferred loan costs	1,298			973			691		
Total loans	$2,442,440			2,454,132			2,554,576		

As of June 30, 2011, December 31, 2010 and June 30, 2010, net loans include unamortized premiums of $1,182,000, $687,000, and $785,000, respectively, related to acquired loans.

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

($ in thousands)	June 30, 2011 Amount	Percentage	December 31, 2010 Amount	Percentage	June 30, 2010 Amount	Percentage
Non-covered loans:						
Commercial, financial, and agricultural	$145,811	7 %	150,545	7 %	157,751	7 %
Real estate – construction, land development & other land loans	306,140	15 %	344,939	17 %	377,939	18 %
Real estate – mortgage – residential (1-4 family) first mortgages	631,640	31 %	622,353	30 %	603,051	29 %
Real estate – mortgage – home equity loans / lines of credit	241,973	12 %	246,418	12 %	244,822	12 %
Real estate – mortgage – commercial and other	635,103	31 %	636,197	30 %	633,711	30 %
Installment loans to individuals	78,749	4 %	81,579	4 %	81,134	4 %
Subtotal	2,039,416	100 %	2,082,031	100 %	2,098,408	100 %
Unamortized net deferred loan costs	1,298		973		691	
Total non-covered loans	$2,040,714		2,083,004		2,099,099	

The carrying amount of the covered loans at June 30, 2011 consisted of impaired and nonimpaired purchased loans, as follows:

($ in thousands)	Impaired Purchased Loans – Carrying Value	Impaired Purchased Loans – Unpaid Principal Balance	Nonimpaired Purchased Loans – Carrying Value	Nonimpaired Purchased Loans - Unpaid Principal Balance	Total Covered Loans – Carrying Value	Total Covered Loans – Unpaid Principal Balance
Covered loans:						
Commercial, financial, and agricultural	$138	705	12,273	19,597	12,411	20,302
Real estate – construction, land development & other land loans	5,611	19,574	74,627	122,557	80,238	142,131
Real estate – mortgage – residential (1-4 family) first mortgages	1,383	2,962	172,352	205,147	173,735	208,109
Real estate – mortgage – home equity loans / lines of credit	276	962	22,272	29,175	22,548	30,137
Real estate – mortgage – commercial and	6,129	11,418	104,910	139,207	111,039	150,625

other						
Installment loans to individuals	–	8	1,755	1,937	1,755	1,945
Total	$13,537	35,629	388,189	517,620	401,726	553,249

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The carrying amount of the covered loans at December 31, 2010 consisted of impaired and nonimpaired purchased loans, as follows:

($ in thousands)	Impaired Purchased Loans – Carrying Value	Impaired Purchased Loans – Unpaid Principal Balance	Nonimpaired Purchased Loans – Carrying Value	Nonimpaired Purchased Loans - Unpaid Principal Balance	Total Covered Loans – Carrying Value	Total Covered Loans – Unpaid Principal Balance
Covered loans:						
Commercial, financial, and agricultural	$–	–	4,471	5,272	4,471	5,272
Real estate – construction, land development & other land loans	1,898	3,328	90,863	147,615	92,761	150,943
Real estate – mortgage – residential (1-4 family) first mortgages	–	–	180,305	212,826	180,305	212,826
Real estate – mortgage – home equity loans / lines of credit	–	–	17,111	20,332	17,111	20,332
Real estate – mortgage – commercial and other	2,709	3,594	71,431	93,490	74,140	97,084
Installment loans to individuals	–	–	2,340	2,595	2,340	2,595
Total	$4,607	6,922	366,521	482,130	371,128	489,052

The following table presents information regarding covered purchased nonimpaired loans since December 31, 2009. The amounts include principal only and do not reflect accrued interest as of the date of the acquisition or beyond.

($ in thousands)		
Carrying amount of nonimpaired covered loans at December 31, 2009	$	485,572
Principal repayments		(43,801)
Transfers to foreclosed real estate		(75,121)
Loan charge-offs		(7,736)
Accretion of loan discount		7,607
Carrying amount of nonimpaired covered loans at December 31, 2010		366,521
Additions due to acquisition of The Bank of Asheville (at fair value)		84,623
Principal repayments		(25,742)
Transfers to foreclosed real estate		(33,286)
Loan charge-offs		(10,456)
Accretion of loan discount		6,529
Carrying amount of nonimpaired covered loans at June 30, 2011	$	388,189

As reflected in the table above, the Company accreted $6,529,000 of the loan discount on purchased nonimpaired loans into interest income during the first six months of 2011.

The following table presents information regarding all purchased impaired loans since December 31, 2009, substantially all of which are covered loans. The Company has applied the cost recovery method to all purchased impaired loans at their respective acquisition dates due to the uncertainty as to the timing of expected cash flows, as reflected in the following table.

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($ in thousands)

Purchased Impaired Loans	Contractual Principal Receivable	Fair Market Value Adjustment – Write Down (Nonaccretable Difference)	Carrying Amount
Balance at December 31, 2009	$ 39,293	3,242	36,051
Change due to payments received	(685)	2	(687)
Transfer to foreclosed real estate	(27,569)	(225)	(27,344)
Change due to loan charge-off	(3,149)	(625)	(2,524)
Other	190	(65)	255
Balance at December 31, 2010	$ 8,080	2,329	5,751
Additions due to acquisition of The Bank of Asheville	38,452	20,807	17,645
Change due to payments received	(691)	(260)	(431)
Transfer to foreclosed real estate	(7,401)	(1,223)	(6,178)
Change due to loan charge-off	(1,874)	372	(2,246)
Other	670	440	230
Balance at June 30, 2011	$ 37,236	22,465	14,771

Each of the purchased impaired loans is on nonaccrual status and considered to be impaired. Because of the uncertainty of the expected cash flows, the Company is accounting for each purchased impaired loan under the cost recovery method, in which all cash payments are applied to principal. Thus, there is no accretable yield associated with the above loans. During the first six months of 2010, the Company received $67,000 in payments that exceeded the initial carrying amount of the purchased impaired loans. These payments were recorded as interest income. There were no such amounts recorded in 2011.

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

ASSET QUALITY DATA ($ in thousands)	June 30, 2011	December 31, 2010	June 30, 2010
Non-covered nonperforming assets			
Nonaccrual loans	$ 71,570	62,326	73,152
Restructured loans – accruing	16,893	33,677	20,392
Accruing loans > 90 days past due	-	-	-
Total non-covered nonperforming loans	88,463	96,003	93,544
Other real estate	31,849	21,081	14,690
Total non-covered nonperforming assets	$ 120,312	117,084	108,234
Covered nonperforming assets			
Nonaccrual loans (1)	$ 37,057	58,466	98,669
Restructured loans – accruing	24,325	14,359	8,450
Accruing loans > 90 days past due	-	-	-
Total covered nonperforming loans	61,382	72,825	107,119
Other real estate	102,883	94,891	80,074
Total covered nonperforming assets	$ 164,265	167,716	187,193
Total nonperforming assets	$ 284,577	284,800	295,427

(1) At June 30, 2011, December 31, 2010, and June 30, 2010, the contractual balance of the nonaccrual loans covered by FDIC loss share agreements was $69.4 million, $86.2 million, and $146.5 million, respectively.

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The following table presents information related to the Company's impaired loans.

($ in thousands)	As of /for the six months ended June 30, 2011	As of /for the year ended December 31, 2010	As of /for the six months ended June 30, 2010
Impaired loans at period end			
Non-covered	$ 88,463	96,003	93,544
Covered	61,382	72,825	107,119
Total impaired loans at period end	$ 149,845	168,828	200,663
Average amount of impaired loans for period			
Non-covered	$ 91,187	89,751	79,913
Covered	69,102	95,373	106,096
Average amount of impaired loans for period – total	$ 160,289	185,124	186,009
Allowance for loan losses related to impaired loans at period end			
Non-covered	$ 6,019	7,613	12,060
Covered	4,727	11,155	–
Allowance for loan losses related to impaired loans - total	$ 10,746	18,768	12,060
Amount of impaired loans with no related allowance at period end			
Non-covered	$ 31,514	42,874	26,092
Covered	49,755	49,991	107,119
Total impaired loans with no related allowance at period end	$ 81,269	92,865	133,211

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

The remaining tables in this note present information derived from the Company's allowance for loan loss model. Relevant accounting guidance requires certain disclosures to be disaggregated based on how the Company develops its allowance for loan losses and manages its credit exposure. This model combines loan types in a different manner than the tables previously presented.

The following table presents the Company's nonaccrual loans as of June 30, 2011.

($ in thousands)	Non-covered	Covered	Total
Commercial, financial, and agricultural:			
Commercial – unsecured	$ 301	178	479
Commercial – secured	2,015	107	2,122
Secured by inventory and accounts receivable	113	43	156
Real estate – construction, land development & other land loans	29,541	15,055	44,596
Real estate – residential, farmland and multi-family	22,642	12,296	34,938
Real estate – home equity lines of credit	2,548	1,013	3,561

Real estate – commercial	11,666	8,355	20,021
Consumer	2,744	10	2,754
Total	$ 71,570	37,057	108,627

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The following table presents the Company’s nonaccrual loans as of December 31, 2010.

($ in thousands)	Non-covered	Covered	Total
Commercial, financial, and agricultural:			
Commercial – unsecured	$ 64	160	224
Commercial – secured	1,566	3	1,569
Secured by inventory and accounts receivable	802	–	802
Real estate – construction, land development & other land loans	22,654	30,847	53,501
Real estate – residential, farmland and multi-family	27,055	19,716	46,771
Real estate – home equity lines of credit	2,201	685	2,886
Real estate – commercial	7,461	7,039	14,500
Consumer	523	16	539
Total	$ 62,326	58,466	120,792

The following table presents an analysis of the payment status of the Company’s loans as of June 30, 2011.

($ in thousands)	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual Loans	Current	Total Loans Receivable
Non-covered loans					
Commercial, financial, and agricultural:					
Commercial - unsecured	$31	41	301	38,341	38,714
Commercial - secured	965	602	2,015	101,814	105,396
Secured by inventory and accounts receivable	–	–	113	20,868	20,981
Real estate – construction, land development & other land loans	1,638	310	29,541	235,857	267,346
Real estate – residential, farmland, and multi-family	7,127	3,396	22,642	741,283	774,448
Real estate – home equity lines of credit	1,773	191	2,548	209,408	213,920
Real estate - commercial	1,935	867	11,666	544,411	558,879
Consumer	687	269	2,744	56,032	59,732
Total non-covered	$14,156	5,676	71,570	1,948,014	2,039,416
Unamortized net deferred loan costs					1,298
Total non-covered loans					$2,040,714
Covered loans	$5,287	5,303	37,057	354,079	401,726
Total loans	$19,443	10,979	108,627	2,302,093	2,442,440

The Company had no non-covered or covered loans that were past due greater than 90 days and accruing interest at June 30, 2011.

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The following table presents an analysis of the payment status of the Company’s loans as of December 31, 2010.

($ in thousands)	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual Loans	Current	Total Loans Receivable
Non-covered loans					
Commercial, financial, and agricultural:					
Commercial - unsecured	$225	92	64	41,564	41,945
Commercial - secured	1,165	195	1,566	102,657	105,583
Secured by inventory and accounts receivable	100	–	802	21,369	22,271
Real estate – construction, land development & other land loans	2,951	7,022	22,654	270,892	303,519
Real estate – residential, farmland, and multi-family	10,290	2,942	27,055	726,456	766,743
Real estate – home equity lines of credit	496	253	2,201	213,984	216,934
Real estate - commercial	2,581	1,193	7,461	552,020	563,255
Consumer	595	297	523	60,366	61,781
Total non-covered	$18,403	11,994	62,326	1,989,308	2,082,031
Unamortized net deferred loan costs					973
Total non-covered loans					$2,083,004
Total covered loans	$6,713	4,127	58,466	301,822	371,128
Total loans	$25,116	16,121	120,792	2,291,130	2,454,132

The Company had no non-covered or covered loans that were past due greater than 90 days and accruing interest at December 31, 2010.

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The following table presents the activity in the allowance for loan losses for non-covered loans for the three and six months ended June 30, 2011.

($ in thousands)	Commercial, Financial, And Agricultural	Real Estate – Construction, Land Development, & Other Land Loans	Real Estate – Residential, Farmland, and Multi-family	Real Estate – Home Equity Lines of Credit	Real Estate – Commercial And Other	Consumer	Unallo -cated	Total
As of and for the three months ended June 30, 2011								
Beginning balance	$ 4,142	10,203	12,463	3,359	3,359	2,223	24	35,773
Charge-offs	(740)	(5,589)	(2,248)	(141)	(313)	(157)	(121)	(9,309)
Recoveries	28	219	61	37	–	20	29	394
Provisions	475	6,957	1,808	(1,406)	(187)	(126)	86	7,607
Ending balance	$ 3,905	11,790	12,084	1,849	2,859	1,960	18	34,465
As of and for the six months ended June 30, 2011								
Beginning balance	$ 4,731	12,520	11,283	3,634	3,972	1,961	174	38,275
Charge-offs	(1,896)	(9,582)	(5,596)	(764)	(1,380)	(360)	(236)	(19,814)
Recoveries	36	251	293	43	28	103	73	827
Provisions	1,034	8,601	6,104	(1,064)	239	256	7	15,177
Ending balance	$ 3,905	11,790	12,084	1,849	2,859	1,960	18	34,465
Ending balances as of June 30, 2011: Allowance for loan losses								
Individually evaluated for impairment	$ 50	1,221	235	–	340	–	–	1,846
Collectively evaluated for impairment	$ 3,855	10,569	11,849	1,849	2,519	1,960	18	32,619
Loans acquired with deteriorated credit quality	$ –	–	–	–	–	–	–	–
Loans receivable as of June 30, 2011:								
Ending balance–total	$ 165,091	267,346	774,448	213,920	558,879	59,732	–	2,039,416

Ending balances as of June 30, 2011: Loans

Individually evaluated for impairment	$ 2,049	47,181	7,656	531	34,198	20	–	91,635
Collectively evaluated for impairment	$ 163,042	220,165	766,792	213,389	524,681	59,712	–	1,947,781
Loans acquired with deteriorated credit quality	$ –	1,234	–	–	–	–	–	1,234

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The following table presents the activity in the allowance for loan losses for non-covered loans for the year ended December 31, 2010.

($ in thousands)	Commercial, Financial, And Agricultural	Real Estate – Construction, Land Development, & Other Land Loans	Real Estate – Residential, Farmland, and Multi-family	Real Estate – Home Equity Lines of Credit	Real Estate – Commercial and Other	Consumer	Unallo -cated	Total
As of and for the year ended December 31, 2010								
Beginning balance	$ 4,992	9,286	10,779	3,228	6,839	1,610	609	37,343
Charge-offs	(4,691)	(15,721)	(6,962)	(2,490)	(2,354)	(1,587)	–	(33,805)
Recoveries	145	130	548	59	38	171	–	1,091
Provisions	4,285	18,825	6,918	2,837	(551)	1,767	(435)	33,646
Ending balance	$ 4,731	12,520	11,283	3,634	3,972	1,961	174	38,275
Ending balances as of December 31, 2010: Allowance for loan losses								
Individually evaluated for impairment	$ 867	3,740	1,070	269	611	–	–	6,557
Collectively evaluated for impairment	$ 3,864	8,780	10,213	3,365	3,361	1,961	174	31,718
Loans acquired with deteriorated credit quality	$ –	–	–	–	–	–	–	–
Loans receivable as of December 31, 2010:								
Ending balance – total	$ 169,799	303,519	766,743	216,934	563,255	61,781	–	2,082,031
Ending balances as of December 31, 2010: Loans								
Individually evaluated for impairment	$ 3,487	64,549	15,786	1,223	25,213	28	–	110,286
Collectively evaluated for impairment	$ 166,312	238,970	750,957	215,711	538,042	61,753	–	1,971,745

Loans acquired with deteriorated credit quality	$ –	1,144	–	–	–	–	–	1,144

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The following table presents the activity in the allowance for loan losses for covered loans for the three and six months ended June 30, 2011.

($ in thousands)	Covered Loans
As of and for the three months ended June 30, 2011	
Beginning balance	$ 7,002
Charge-offs	(4,789)
Recoveries	–
Provisions	3,327
Ending balance	$ 5,540
As of and for the six months ended June 30, 2011	
Beginning balance	$ 11,155
Charge-offs	(12,715)
Recoveries	–
Provisions	7,100
Ending balance	$ 5,540
Ending balances as of June 30, 2011: Allowance for loan losses	
Individually evaluated for impairment	$ 5,540
Collectively evaluated for impairment	–
Loans acquired with deteriorated credit quality	–
Loans receivable as of June 30, 2011:	
Ending balance – total	$ 401,726
Ending balances as of June 30, 2011: Loans	
Individually evaluated for impairment	$ 37,149
Collectively evaluated for impairment	364,577
Loans acquired with deteriorated credit quality	13,538

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The following table presents the activity in the allowance for loan losses for covered loans for the year ended December 31, 2010.

($ in thousands)	Covered Loans	
As of and for the year ended December 31, 2010		
Beginning balance	$	–
Charge-offs		(9,761)
Recoveries		–
Provisions		20,916
Ending balance	$	11,155
Ending balances as of December 31, 2010: Allowance for loan losses		
Individually evaluated for impairment	$	11,155
Collectively evaluated for impairment		–
Loans acquired with deteriorated credit quality		–
Loans receivable as of December 31, 2010:		
Ending balance – total	$	371,128
Ending balances as of December 31, 2010: Loans		
Individually evaluated for impairment	$	72,690
Collectively evaluated for impairment		298,438
Loans acquired with deteriorated credit quality		4,607

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The following table presents the Company's impaired loans as of June 30, 2011.

($ in thousands)		Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Non-covered loans:					
With no related allowance recorded:					
Commercial, financial, and agricultural:					
Commercial - unsecured	$	–	–	–	–
Commercial - secured		749	1,103	–	653
Secured by inventory and accounts receivable		47	597	–	177
Real estate – construction, land development & other land loans		15,245	19,680	–	20,079
Real estate – residential, farmland, and multi-family		3,468	4,256	–	5,387
Real estate – home equity lines of credit		–	250	–	101
Real estate – commercial		11,990	12,808	–	11,771
Consumer		15	40	–	18
Total non-covered impaired loans with no allowance	$	31,514	38,734	–	38,186
Total covered impaired loans with no allowance	$	49,755	87,707	–	52,510
Total impaired loans with no allowance recorded	$	81,269	126,441	–	90,696
Non-covered loans:					
With an allowance recorded:					
Commercial, financial, and agricultural:					
Commercial - unsecured	$	301	301	55	197
Commercial - secured		1,266	1,269	228	1,097
Secured by inventory and accounts receivable		66	468	50	369
Real estate – construction, land development & other land loans		20,381	29,882	2,904	17,696
Real estate – residential, farmland, and multi-family		21,303	22,458	1,820	22,209
Real estate – home equity lines of credit		2,548	2,567	103	2,276

Real estate – commercial		8,356	8,792	356	7,059
Consumer		2,728	2,746	503	2,098
Total non-covered impaired loans with allowance	$	56,949	68,483	6,019	53,001
Total covered impaired loans with allowance	$	11,628	16,568	4,727	16,592
Total impaired loans with an allowance recorded	$	68,577	85,051	10,746	69,593

Interest income recorded on non-covered and covered impaired loans during the three and six months ended June 30, 2011 is considered insignificant.

The related allowance listed above includes both reserves on loans specifically reviewed for impairment and general reserves on impaired loans that were not specifically reviewed for impairment.

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The following table presents the Company's impaired loans as of December 31, 2010.

($ in thousands)		Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Non-covered loans:					
With no related allowance recorded:					
Commercial, financial, and agricultural:					
Commercial - unsecured	$	–	–	–	138
Commercial - secured		902	967	–	758
Secured by inventory and accounts receivable		240	650	–	186
Real estate – construction, land development & other land loans		22,026	26,012	–	15,639
Real estate – residential, farmland, and multi-family		8,269	9,447	–	7,437
Real estate – home equity lines of credit		302	502	–	381
Real estate – commercial		11,115	11,321	–	7,284
Consumer		20	40	–	46
Total non-covered impaired loans with no allowance	$	42,874	48,939	–	31,869
Total covered impaired loans with no allowance	$	49,991	77,321	–	83,955