FIRST COMMUNITY BANCSHARES INC /NV/
Form 10-Q
May 07, 2010

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

FORM 10-Q

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

For the quarter ended March 31, 2010

Commission file number 000-19297

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

Nevada	55-0694814
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)

P.O. Box 989	
Bluefield, Virginia	24605-0989
(Address of principal executive offices)	(Zip Code)

(276) 326-9000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

þ Yes o 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).

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

Large accelerated filer ¨ Accelerated filer þ

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 þ No

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

Class – Common Stock, $1.00 Par Value; 17,782,791 shares outstanding as of April 26, 2010

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

INDEX

PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	Consolidated Balance Sheets as of March 31, 2010 (Unaudited) and December 31,2009	3
	Consolidated Statements of Income for the Three Month Periods Ended March 31, 2010and 2009 (Unaudited)	4
	Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2010 and 2009 (Unaudited)	5
	Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended March 31, 2010 and 2009 (Unaudited)	6
	Notes to Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	35
Item 4.	Controls and Procedures	36
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	37
Item 1A.	Risk Factors	37
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	37
Item 3.	Defaults Upon Senior Securities	37
Item 4.	Reserved	38
Item 5.	Other Information	38
Item 6.	Exhibits	38
SIGNATURES		42
EXHIBIT INDEX		43

PART I. ITEM 1. Financial Statements

FIRST COMMUNITY BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Per Share Data)	March 31, 2010 (Unaudited)	December 31, 2009*
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	21,956	21,725
Net loans held for investment	1,368,918	1,372,206
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	130,017	135,049
Total Assets	$ 2,280,534	$ 2,274,878
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	71,857	68,355
Treasury stock, at cost	(9,342)	(9,891)
Accumulated other comprehensive loss	(8,491)	(13,652)
Total Stockholders' Equity	262,757	253,862
Total Liabilities and Stockholders' Equity	$ 2,280,534	$ 2,274,878

* 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
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	2,087
Net interest income after provision for loan losses	14,954	14,346
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	7,576
Income tax expense	2,182	2,346
Net income	5,278	5,230
Dividends on preferred stock	-	571
Net income available to common shareholders	$ 5,278	$ 4,659
Basic earnings per common share	$ 0.30	$ 0.40
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)

	Three Months Ended March 31,	
(In Thousands)	2010	2009
Operating activities:		
Net income	$ 5,278	$ 5,230
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,665	2,087
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	(317)
(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.

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

(Dollars in Thousands)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance January 1, 2009	$ 40,419	$ 12,051	$ 128,526	$ 107,231	$ (15,368)	$ (52,517)	$ 220,342
Cumulative effect of change in accounting principle	-	-	-	6,131	-	(6,131)	-
Comprehensive income:							
Net income	-	-	-	5,230	-	-	5,230
Other comprehensive loss — See Note 9	-	-	-	-	-	(13,855)	(13,855)
Comprehensive loss	-	-	-	11,361	-	(19,986)	(8,625)
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	$ 40,471	$ 12,051	$ 127,992	$ 129,382	$ (14,453)	$ (92,489)	$ 211,579
Balance January 1, 2010	$ -	$ 18,083	$ 190,967	$ 68,355	$ (9,891)	$ (13,652)	$ 253,862
Comprehensive income:							
Net income	-	-	-	5,278	-	-	5,278
Other comprehensive income — See Note 9	-	-	-	-	-	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	$ -	$ 18,083	$ 190,650	$ 71,857	$ (9,342)	$ (8,491)	$ 262,757

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 audited consolidated financial statements included in the Company's 2009 Annual Report on Form 10-K. 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 Annual Report on Form 10-K.

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 Annual Report on Form 10-K for December 31, 2009. 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:

	For the three months ended March 31,	
	2010	2009
(Amounts in Thousands, Except Share and Per Share Data)		
Net income available to common shareholders	$ 5,278	$ 4,659
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.

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 12 — 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. 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 3. 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:

	March 31, 2010				
(In Thousands)	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)

	December 31, 2009				
(In Thousands)	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:

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

	December 31, 2009			
(In Thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
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.

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.

	March 31, 2010					
	Less than 12 Months		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)

	December 31, 2009					
	Less than 12 Months		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:

(In Thousands)		Three Months Ended March 31, 2010
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.

Note 4. Loans

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

	March 31, 2010		December 31, 2009	
(Dollars in Thousands)	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 5. 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.

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.

	For the Three Months Ended March 31,	
	2010	2009
(In Thousands)		
Beginning balance	$ 21,725	$ 15,978
Provision for loan losses	3,665	2,087
Charge-offs	(3,732)	(1,730)
Recoveries	298	220
Ending balance	$ 21,956	$ 16,555

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 6. Deposits

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

	March 31, 2010	December 31, 2009
(In Thousands)		
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

Note 7. Borrowings

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

(In Thousands)	March 31, 2010	December 31, 2009
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:

(In Thousands)	Amount
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.

Note 8. 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.

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

Note 9. 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:

	Three Months Ended March 31,	
	2010	2009
(In Thousands)		
Net income	$ 5,278	$ 5,230
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
Cumulative effect of change in accounting principle	-	(10,051)
Unrealized gain on derivative contract	424	243
Income tax effect	(3,063)	8,858
Total other comprehensive income (loss)	5,161	(13,855)
Comprehensive income (loss)	$ 10,439	$ (8,625)

Note 10. 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 11. 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			
(In Thousands)	Community Banking	Insurance Services	Parent/ Elimination	Total
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	$ 2,254,038	$ 12,465	$ 14,031	$ 2,280,534

	For the Three Months Ended March 31, 2009			
(In Thousands)	Community Banking	Insurance Services	Parent/ Elimination	Total
Net interest income (loss)	$ 16,492	$ (18)	$ (41)	$ 16,433
Provision for loan losses	2,087	-	-	2,087
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	6,947	688	(59)	7,576
Provision for income taxes	1,932	203	211	2,346
Net income (loss)	$ 5,015	$ 485	$ (270)	$ 5,230
End of period goodwill and other intangibles	$ 78,657	$ 10,681	$ -	$ 89,338
End of period assets	$ 2,170,694	$ 11,698	$ 16,749	$ 2,199,141

Note 12. 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.

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, certain pooled trust preferred securities, and certain equity securities that are not actively traded.

Securities are classified as Level 3 within the valuation hierarchy in certain cases when there is limited activity or less transparency to the valuation inputs. These securities include pooled trust preferred securities. In the absence of observable or corroborated market data, internally developed estimates that incorporate market-based assumptions are used when such information is available. The Level 3 inputs used to value pooled trust preferred security holdings are weighted between discounted cash flow model results and actual trades of the same and similar securities in the inactive trust preferred market. The cash flow modeling uses discount rates based upon observable market expectations, known defaults and deferrals, projected future defaults and deferrals, and projected prepayments to arrive at fair value.

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.

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.

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:

	March 31, 2010			
	Fair Value Measurements Using			Total
(In Thousands)	Level 1	Level 2	Level 3	Fair Value
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

	December 31, 2009			
	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	Fair Value
(In Thousands)				
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

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:

(In Thousands)	Fair Value Measurements Using Significant Unobservable Inputs Available-for-Sale Securities Pooled Trust Preferred Securities	
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			
	Fair Value Measurements Using			Total
(In Thousands)	Level 1	Level 2	Level 3	Fair Value
Impaired loans	$ -	$ -	$ 10,207	$ 10,207
Other real estate owned	-	-	4,740	4,740

	December 31, 2009			
	Fair Value Measurements Using			Total
(In Thousands)	Level 1	Level 2	Level 3	Fair Value
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	
(In Thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
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	1,368,918	1,360,094	1,372,206	1,365,366
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.

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 13. 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:

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

Derivatives not designated as hedges								
IRLC's	Other assets	$	-	Other assets	$	2	Other assets	$	57
Total		$	-		$	2		$	57

- 23 -

	Liability 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 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)		Amount of Gain/(Loss)			
Derivatives Not Designated as Hedging Instruments	Location of Gain/(Loss) Recognized in Income on Derivative	Recognized in Income on Derivative Three Months Ended March 31,			
		2010		2009	
IRLC's	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.

PART I. ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Unless the context suggests otherwise, the terms "First Community", "Company", "we", "our", and "us" refer to Fi Community Bancshares, Inc. and its subsidiaries as a consolidated entity.

The following discussion and analysis is provided to address information about the Company's financial condition and results of operations. This discussion and analysis should be read in conjunction with the Company's 2009 Annual Report on Form 10-K and the other financial information included in this report.

The Company is a multi-state financial holding company headquartered in Bluefield, Virginia, with total assets of $2.28 billion at March 31, 2010. Through its community bank subsidiary, First Community Bank, N. A. (the "Bank"), the Company provides financial, trust and investment advisory services to individuals and commercial customers through more than sixty locations in Virginia, West Virginia, North Carolina, South Carolina, and Tennessee. The Company is also the parent of GreenPoint Insurance Group, Inc. ("GreenPoint"), a North Carolina-based full-service insurance agency offering commercial and personal lines. The Bank is the parent of Investment Planning Consultants, Inc. ("IPC"), a registered investment advisory firm that offers wealth management and investment advice. The Company's common stock is traded on the NASDAQ Global Select Market under the symbol, "FCBC".

FORWARD-LOOKING STATEMENTS

The Company may from time to time make written or oral "forward-looking statements", including statements contained in its filings with the SEC (including this Quarterly Report on Form 10-Q and the Exhibits hereto and thereto), in its reports to stockholders and in other communications which are made in good faith by the Company pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include, among others, statements with respect to the Company's beliefs, plans, objectives, goals, guidelines, expectations, anticipations, estimates and intentions that are subject to significant risks and uncertainties and are subject to change based on various factors (many of which are beyond the Company's control). The words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan, expressions are intended to identify forward-looking statements. We caution that the forward-looking statements are based largely on our expectations and are subject to a number of known and unknown risks and uncertainties that are subject to change based on factors which are, in many instances, beyond our control. Actual results, performance or achievements could differ materially from those contemplated, expressed, or implied by the forward-looking statements. The following factors, among others, could cause our financial performance to differ materially from that expressed in such forward-looking statements:

- The strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- Geopolitical conditions, including acts or threats of terrorism, actions taken by the United States or other governments in response to acts or threats of terrorism and/or military conflicts, which could impact business and economic conditions in the United States and abroad;
- The effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System;
- Inflation, interest rate, market and monetary fluctuations;
- The timely development of competitive new products and services and the acceptance of these products and services by new and existing customers;
- The willingness of users to substitute competitors' products and services for our products and services;
- The impact of changes in financial services policies, laws and regulations, including laws, regulations and policies concerning taxes, banking, securities and insurance, and the application thereof by regulatory bodies;

- Technological changes;
- The effect of acquisitions we may make, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions;
- The growth and profitability of noninterest or fee income being less than expected;
- Changes in the level of our non-performing assets and charge-offs;
- The effect of changes in accounting policies and practices, as may be adopted from time-to-time by bank regulatory agencies, the SEC, the Public Company Accounting Oversight Board, the FASB or other accounting standards setters;
- Possible other-than-temporary impairments of securities held by us;
- The impact of current governmental efforts to restructure the U.S. financial regulatory system;
- Changes in consumer spending and savings habits; and

- Unanticipated regulatory or judicial proceedings.

If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this Quarterly Report on Form 10-Q and other reports filed by us with the SEC. Therefore, we caution you not to place undue reliance on our forward-looking information and statements.

The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company. These factors and other risks and uncertainties are discussed in Item 1A., “Risk Factors,” in Part II of this Quarterly Report on Form 10-Q and the Company’s Annual Report on Form 10-K for the year ended December 31, 2009.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

The Company’s consolidated financial statements are prepared in accordance with GAAP and conform to general practices within the banking industry. The Company’s financial position and results of operations are affected by management’s application of accounting policies, including judgments made to arrive at the carrying value of assets and liabilities and amounts reported for revenues, expenses and related disclosures. Different assumptions in the application of these policies could result in material changes in the Company’s consolidated financial position and consolidated results of operations.

Estimates, assumptions, and judgments are necessary principally when assets and liabilities are required to be recorded at estimated fair value, when a decline in the value of an asset carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded based upon the probability of occurrence of a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by third party sources, when available. When third party information is not available, valuation adjustments are estimated by management primarily through the use of internal modeling techniques and appraisal estimates.

The Company’s accounting policies are fundamental to understanding Management’s Discussion and Analysis of Financial Condition and Results of Operation. The disclosures presented in the Notes to the Consolidated Financial Statements and in Management’s Discussion and Analysis provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the accounting for and valuation of investment securities, the determination of the allowance for loan losses, accounting for acquisitions and intangible assets, and accounting for income taxes as the four accounting areas that require the most subjective or complex judgments. The identified critical accounting policies are described in detail in the Company’s 2009 Annual Report on Form 10-K.

COMPANY OVERVIEW

The Company is a financial holding company which operates within the five-state region of Virginia, West Virginia, North Carolina, South Carolina, and Tennessee. The Company operates through the Bank, IPC, and GreenPoint to offer a wide range of financial services. The Company reported total assets of $2.28 billion at March 31, 2010.

The Company funds its lending activities primarily through the retail deposit operations of its branch banking network. Retail and wholesale repurchase agreements and borrowings from the Federal Home Loan Bank ("FHLB") provide additional funding as needed. The Company invests its funds primarily in loans to retail and commercial customers. In addition to loans, the Company invests a portion of its funds in various debt securities, including those of United States agencies, state and political subdivisions, and certain corporate notes and debt instruments. The Company also maintains overnight interest-bearing balances with the FHLB and correspondent banks. The difference between interest earned on assets and interest paid on liabilities is the Company's primary source of earnings. Net interest income is supplemented by fees for services, commissions on sales, and various deposit service charges.

The Company also conducts asset management activities through the Bank's Trust and Financial Services Division ("Trust Division") and its registered investment advisory firm, IPC. The Bank's Trust Division and IPC manage assets with an aggregate market value of $831 million as of March 31, 2010. These assets are not assets of the Company, but are managed under various fee-based arrangements as fiduciary or agent.

RECENT MARKET DEVELOPMENTS

The global and U.S. economies have experienced significantly reduced business activity as a result of recessionary economic conditions and disruptions in the financial system. Dramatic declines in home prices and increasing foreclosures and unemployment have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps, other derivative securities, and to loan portfolios, have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. In recent months, positive economic developments have been reported; however, further adverse effects could have an adverse impact on the Company and its business.

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.

RESULTS OF OPERATIONS

Overview

The Company experienced the following developments in the first quarter of 2010:

- For the first quarter of 2010, net income increased $619 thousand from the comparable period in 2009.
- Net interest margin, on a tax-equivalent basis, increased 29 basis points to 4.02% for the three months ended March 31, 2010, as compared to the three month period ended March 31, 2009.
- Net interest income increased $2.19 million, or 13.30%, from the first quarter of 2009.
- Tangible book value per common share increased to $9.67, up $0.51 from the quarter ended December 31, 2009.
- The allowance for loan losses as a percentage of total loans increased to 1.58% in the first quarter of 2010, as compared to 1.30% in the first quarter of 2009.
- Average shareholders' equity increased $39.36 million, or 17.92%, from first quarter 2009, primarily due to the sale of 5.29 million shares of common stock in June 2009, which generated net proceeds of approximately $61.67 million.

Net income for the three months ended March 31, 2010, was $5.28 million, or $0.30 per diluted common share, compared with net income of $4.66 million, or $0.40 per diluted common share, for the three months ended March 31, 2009, an increase of $619 thousand. Net income available to common stockholders for the three month period ended March 31, 2009 was impacted by the required payment of dividends on preferred stock totaling $571 thousand. On July 8, 2009, the Company repurchased and retired the $41.5 million of Series A perpetual preferred stock from the Treasury.

Net Interest Income — Quarterly Comparison (See Table I)

Net interest income, the largest contributor to earnings, was $18.62 million for the three months ended March 31, 2010, compared with $16.43 million for the corresponding period in 2009, an increase of $2.19 million, or 13.30%. Tax-equivalent net interest income totaled $19.43 million for the three months ended March 31, 2010, an

increase of $2.08 million, or 12.01%, from $17.35 million for the first quarter of 2009. The increase in tax-equivalent net interest income was due primarily to increases in total earning assets, largely from the TriStone acquisition, and decreases in deposit and borrowing costs.

Compared with the first quarter of 2009, average earning assets increased $72.93 million while interest-bearing liabilities increased $49.00 million. The changes include the impact of the July 2009 TriStone acquisition. The yield on average earning assets decreased 30 basis points to 5.67% from 5.97% between the three months ended March 31, 2010 and 2009, respectively. Total cost of interest-bearing liabilities decreased 62 basis points between the first quarters of 2009 and 2010, which resulted in a net interest rate spread that was 32 basis points higher, at 3.85%, for the first quarter of 2010 compared with 3.53% for the same period last year. The Company's tax-equivalent net interest margin of 4.02% for the three months ended March 31, 2010 increased 29 basis points from 3.73% for the same period of 2009.

The yield on loans decreased 6 basis points to 6.22% from 6.28% for the three months ended March 31, 2010 and 2009, respectively. The effect of the extended low interest rate environment in the United States was offset by the addition of TriStone, which resulted in a net increase of $1.40 million, or 7.00%, in tax-equivalent loan interest income for the first quarter of 2010 compared with the first quarter of 2009.

During the three months ended March 31, 2010, the tax-equivalent yield on available-for-sale securities decreased 106 basis points to 4.92%, while the average balance decreased by $32.18 million, or 6.27%, compared with the same period in 2009. The decline in average balance was due largely to declines in the fair value of available-for-sale securities. The average balance of the held-to-maturity securities portfolio continued to decline as securities matured or were called and were not replaced.

Average interest-bearing balances with banks were $76.59 million during the first quarter of 2010, and the yield was 0.24%. Interest-bearing balances with banks are comprised largely of excess liquidity bearing overnight market rates. The Company maintained a strong liquidity position in the first quarter.

Compared with the same period in 2009, the average balances of interest-bearing demand deposits increased $46.27 million, or 24.32%, while the average rate paid during the first quarter of 2010 increased by 17 basis points. During the three months ended March 31, 2010, the average balances of savings deposits increased $100.47 million, or 32.15%, while the average rate paid decreased three basis points compared to the same period in 2009. Average time deposits decreased $66.18 million, or 7.71%, while the average rate paid on time deposits decreased 94 basis points from 3.23% in the first quarter of 2009 to 2.29% in the first quarter of 2010. The level of average noninterest-bearing demand deposits decreased $246 thousand, or 0.12%, to $199.07 million during the quarter ended March 31, 2010, compared with the corresponding period of the prior year. The overall increase in the level of average deposits reflects the addition of TriStone.

Retail repurchase agreements, which consist of collateralized retail deposits and commercial treasury accounts, decreased $14.49 million, or 13.61%, to $91.98 million for the first quarter of 2010, while the rate decreased 27 basis points to 1.22% during the same period. The decrease in average balance can be largely attributed to the customers converting retail repurchase agreements to certificates of deposit and businesses using cash during more difficult economic times. There were no federal funds purchased on average during the first quarters of 2010 and 2009. Wholesale repurchase agreements remained unchanged at $50.00 million, while the rate decreased 38 basis points between the two periods due to structure within those borrowings. The average balance of FHLB borrowings and other long-term debt decreased by $17.07 million, or 7.91%, in the first quarter of 2010 to $198.74 million, while the rate paid on those borrowings decreased 11 basis points.

Table I

AVERAGE BALANCE SHEETS AND NET INTEREST INCOME ANALYSIS

(Dollars in Thousands)	Three Months Ended March 31, 2010 Average Balance	Interest (1)	Yield/ Rate (1)	Three Months Ended March 31, 2009 Average Balance	Interest (1)	Yield/ Rate (1)
ASSETS						
Earning assets						
Loans (2)	$ 1,395,669	$ 21,398	6.22%	$ 1,292,179	$ 19,997	6.28%
Securities available-for- sale	481,116	5,833	4.92%	513,300	7,571	5.98%
Securities held-to-maturity	7,139	148	8.41%	8,473	172	8.23%
Interest bearing deposits	76,587	46	0.24%	73,628	39	0.21%
Total earning assets	1,960,511	27,425	5.67%	1,887,580	27,779	5.97%
Other assets	284,870			290,182		
TOTAL ASSETS	$ 2,245,381			$ 2,177,762		
LIABILITIES						
Interest-bearing deposits						
Demand deposits	$ 236,484	$ 200	0.34%	$ 190,215	$ 79	0.17%
Savings deposits	413,037	831	0.82%	312,563	656	0.85%
Time deposits	791,838	4,471	2.29%	858,020	6,832	3.23%
Total interest bearing deposits	1,441,359	5,502	1.55%	1,360,798	7,567	2.26%
Borrowings						
Retail repurchase agreements	91,976	276	1.22%	106,469	390	1.49%
Wholesale repurchase agreements	50,000	463	3.76%	50,000	510	4.14%
FHLB borrowings and other indebtedness	198,744	1,752	3.58%	215,813	1,963	3.69%
Total borrowings	340,720	2,491	2.97%	372,282	2,863	3.12%
Total interest bearing liabilities	1,782,079	7,993	1.82%	1,733,080	10,430	2.44%
Noninterest bearing demand deposits	199,065			199,311		
Other liabilities	5,223			25,718		
Stockholders' equity	259,014			219,653		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,245,381			$ 2,177,762		
Net interest income, tax equivalent		$ 19,432			$ 17,349	
Net interest rate spread (3)			3.85%			3.53%
Net interest margin (4)			4.02%			3.73%

(1) Fully taxable equivalent ("FTE") at the rate of 35%. The FTE basis adjusts for the tax benefits of income on certain tax-exempt loans and investments using the federal statutory rate of 35% for each period presented. The Company believes this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.

(2) Non-accrual loans are included in average balances outstanding but with no related interest income during the period of non-accrual.
(3) Represents the difference between the yield on earning assets and cost of funds.
(4) Represents tax equivalent net interest income divided by average interest-earning assets.

The following table summarizes the changes in tax-equivalent interest earned and paid detailing the amounts attributable to (i) changes in volume (change in the average volume times the prior year's average rate), (ii) changes in rate (changes in the average rate times the prior year's average volume), and (iii) changes in rate/volume (change in the average column times the change in average rate)

	Three Months Ended March 31, 2010 Compared to 2009 $ Increase/(Decrease) due to			
(In Thousands)	Volume	Rate	Rate/ Volume	Total
Interest Earned On:				
Loans (1)	$ 1,602	$ (186)	$ (15)	$ 1,401
Securities available-for-sale (1)	(475)	(1,348)	85	(1,738)
Securities held-to-maturity (1)	(27)	4	(1)	(24)
Interest bearing deposits with other banks	2	5	-	7
Total interest earning assets	1,102	(1,525)	69	(354)
Interest Paid On:				
Demand deposits	19	82	20	121
Savings deposits	211	(27)	(9)	175
Time deposits	(527)	(1,987)	153	(2,361)
Retail repurchase agreements	(53)	(71)	10	(114)
Wholesale repurchase agreement	-	(47)	0	(47)
FHLB borrowings and other long-term debt	(155)	(61)	5	(211)
Total interest bearing liabilities	(505)	(2,111)	179	(2,437)
Change in net interest income, tax-equivalent	$ 1,607	$ 586	$ (110)	$ 2,083

(1) Fully taxable equivalent using a rate of 35%.

Provision and Allowance for Loan Losses

During the last three years, there has been significant turmoil in the commercial and residential real estate markets, resulting in significant declines in valuations in the real estate markets. Decreases in real estate values adversely affect the value of property used as collateral for loans, including loans originated by the Company. In addition, adverse changes in the economy, particularly continued high rates of unemployment may have a negative effect on the ability of the Company's borrowers to make timely loan payments, which would have an adverse impact on the Company's earnings. A further increase in loan delinquencies could adversely impact loan loss experience, causing potential increases in the provision and allowance for loan losses.

The Company's allowance for loan losses was $21.96 million at March 31, 2010, $21.73 million at December 31, 2009 and $16.56 million at March 31, 2009. The Company's allowance for loan loss activity for the three-month periods ended March 31, 2010 and 2009 is as follows:

(In Thousands)	For the Three Months Ended March 31, 2010	2009
Allowance for loan losses		
Beginning balance	$ 21,725	$ 15,978
Provision for loan losses	3,665	2,087
Charge-offs	(3,732)	(1,730)
Recoveries	298	220
Net charge-offs	(3,434)	(1,510)
Ending balance	$ 21,956	$ 16,555

The total allowance for loan losses to loans held for investment ratio was 1.58% at March 31, 2010, compared with 1.56% at December 31, 2009, and 1.30% at March 31, 2009. Management considers the allowance to be adequate based upon its analysis of the portfolio as of March 31, 2010. Management believes that it uses relevant information available to make determinations about the allowance. If circumstances differ substantially from the assumptions used in making determinations, adjustments to the allowance may be necessary and results of operations could be affected. Because events affecting borrowers and collateral charge-offs cannot be predicted with certainty, there can be no assurance that increases to the allowance will not be necessary should the quality of any loans deteriorate.

During the first quarter of 2010, the Company incurred net charge-offs of $3.43 million compared with $1.51 million in the respective period of 2009. Annualized net charge-offs for the first quarter were 1.00% of average loan balances. The Company made provisions for loan losses of $3.67 million for the first quarter compared to $2.09 million in the respective period of 2009. Provisions for loan losses covered 106.73% of net charge-offs for the three month period ended March 31, 2010. The increase in loan loss provision is primarily attributable to rising loss factors as net charge-offs were higher than in 2009, reflective of increases in unemployment and the general impact of recessionary conditions and stress in the residential real estate market. Qualitative risk factors were also higher, reflective of the higher risk of inherent loan losses due to rising unemployment, recessionary pressures, and devaluation of various categories of collateral, including residential and commercial real estate.

Total delinquent loans as of March 31, 2010, measured 2.35% of total loans and were comprised of loans 30-89 days delinquent of 1.09% of total loans and loans in non-accrual status of 1.26% of total loans. Total delinquency has remained relatively steady since December 31, 2009. Non-performing loans, comprised entirely of non-accrual loans as the Company does not have any loans that are 90 days past due and still accruing, as a percentage of total loans remained in a fairly tight range as they have measured 1.26%, 1.26%, and 0.88% of total loans as of March 31, 2010, December 31, 2009 and September 30, 2009, respectively.

The primary composition of non-performing loans is 32.20% residential real estate; 22.66% construction, land development, and vacant land; and 20.43% owner occupied commercial real estate. Approximately $4.87 million, or 27.85%, of non-performing loans is attributed to the TriStone loan portfolio that was acquired during the third quarter of 2009.

Noninterest Income

Noninterest income consists of all revenues that are not included in interest and fee income related to earning assets. Total noninterest income for the first quarter of 2010 was $8.58 million compared with noninterest income of $8.42 million in the same period of 2009, an increase of $161 thousand. Exclusive of the impact of other-than-temporary impairment (“OTTI”) charges and gains on the sale of securities, noninterest income for the quarter ended March 31, 2010, increased $113 thousand, or 1.38%, compared to the same period in 2009. Wealth management revenues decreased $99 thousand, or 10.06%, to $885 thousand for the three months ended March 31,

2010, compared with the same period in 2009. Service charges on deposit accounts decreased $165 thousand, or 5.23%, to $2.99 million for the three months ended March 31, 2010, compared with the same period in 2009. Management attributes the decrease to be due to lower overall consumer spending, leading to lower levels of certain activity charges. Other service charges and fees increased $103 thousand, or 8.74%, to $1.28 million for the three months ended March 31, 2010, compared with the same period in 2009. Insurance commissions for the first quarter of 2010 were $2.20 million, a decrease of $116 thousand, or 5.01%, from 2009. Other operating income was $969 thousand for the three months ended March 31, 2010, an increase of $390 thousand, or 67.36%, compared with the same period in 2009. The increase is primarily attributed to the higher volumes of loans sold in the secondary mortgage market and a small litigation settlement. At March 31, 2010, the Company recognized no other-than-temporary impairments on securities compared to $209 thousand in 2009. During the first quarter of 2010, securities gains of $250 thousand were realized compared with a gain of $411 thousand in the comparable period in 2009.

Noninterest Expense

Noninterest expense totaled $16.07 million for the quarter ended March 31, 2010, an increase of $885 thousand, or 5.83%, from the same period in 2009. Salaries and employee benefits for the first quarter of 2010 increased $103 thousand, or 1.31%, compared to the same period in 2009. TriStone branches accounted for an increase in salaries and employee benefits of $326 thousand. The remainder of the Company showed an overall decrease in salaries and benefits of $223 thousand. Occupancy and furniture and equipment expenses increased $106 thousand between the comparable periods. Other operating expense totaled $4.53 million for the first quarter of 2010, an increase of $187 thousand, or 4.30%, from $4.35 million for the first quarter of 2009.

During 2009, the FDIC announced increases in deposit insurance premiums, levied special assessments, and shifted to a three-year prepaid collection versus payment in arrears. Deposit insurance premiums and assessments were $701 thousand for the three-month period ended March 31, 2010. The Company expects the remainder of the quarterly premium accruals for 2010 to approximate $2.25 million.

Income Tax Expense

Income tax expense is comprised of federal and state current and deferred income taxes on pre-tax earnings of the Company. Income taxes as a percentage of pre-tax income may vary significantly from statutory rates due to items of income and expense which are excluded, by law, from the calculation of taxable income. These items are commonly referred to as permanent differences. The most significant permanent differences for the Company include income on state and municipal securities which are exempt from federal income tax, certain dividend payments which are deductible by the Company, and the increases in the cash surrender values of life insurance policies.

For the first quarter of 2010, income taxes were $2.18 million compared with $2.35 million for the first quarter of 2009. For the quarters ended March 31, 2010 and 2009, the effective tax expense rates were 29.25% and 30.97%, respectively.

FINANCIAL CONDITION

Total assets at March 31, 2010, increased slightly by $5.66 million, or 0.25%, to $2.28 billion from December 31, 2009. Deposits grew by $9.65 million which was offset by a $9.25 million drop in repurchase agreements. An $8.90 million increase in equity led by retained earnings and OCI on securities valuation led to the increase in total assets for the quarter.

Securities

Available-for-sale securities were $524.30 million at March 31, 2010, compared with $486.06 million at December 31, 2009, an increase of $38.24 million, or 7.87%. The market value of securities available-for-sale as a percentage of amortized cost improved from 96.34% at December 31, 2009, to 98.01% at March 31, 2010, reflecting improved pricing on certain issues. Held-to-maturity securities declined to $7.16 million at March 31, 2010, compared with $7.45 million at December 31, 2009.

For a more detailed discussion of activities regarding investment securities, please see Note 3 to the Consolidated Financial Statements.

Loan Portfolio

Loans Held for Sale

The $1.49 million balance of loans held for sale at March 31, 2010, represents mortgage loans that are sold to investors on a best efforts basis. Accordingly, the Company does not retain the interest rate risk involved in the commitment. The gross notional amount of outstanding commitments to originate mortgage loans for customers at March 31, 2010, was $2.97 million on 25 loans.

Loans Held for Investment

Total loans held for investment were $1.39 billion at March 31, 2010, representing a decrease of $3.06 million from December 31, 2009 and an increase of $114.08 million from March 31, 2009. The increase over the comparable quarter of 2009 is due primarily to the acquisition of TriStone in the third quarter of 2009. The average loan to deposit ratio was 85.08% for the first quarter of 2010, compared with 85.13% for the fourth quarter of 2009 and 82.83% for the first quarter of 2009. Year-to-date average loans of $1.40 billion increased $103.49 million when compared to 2009 average loans of $1.29 billion.

The held for investment loan portfolio continues to be diversified among loan types and industry segments. The following table presents the various loan categories and changes in composition as of March 31, 2010, December 31, 2009, and March 31, 2009.

	March 31, 2010		December 31, 2009		March 31, 2009	
(Dollars in Thousands)	Amount	Percent	Amount	Percent	Amount	Percent
Loans Held for Investment						
Commercial, financial and agricultural	$ 102,022	7.34%	$ 96,366	6.91%	$ 81,880	6.41%
Real estate — commercial	461,542	33.18%	450,611	32.33%	405,549	31.76%
Real estate — residential	647,921	46.59%	657,367	47.16%	597,372	46.79%
Real estate — construction (1)	113,139	8.13%	124,896	8.96%	124,320	9.74%
Consumer	60,632	4.36%	60,090	4.31%	62,353	4.88%
Other	5,618	0.40%	4,601	0.33%	5,316	0.42%
Total	$ 1,390,874	100.00%	$ 1,393,931	100.00%	$ 1,276,790	100.00%
Loans Held for Sale	$ 1,494		$ 11,576		$ 1,445	

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

Non-Performing Assets

Non-performing assets include loans on non-accrual status, loans contractually past due 90 days or more and still accruing interest, and other real estate owned ("OREO"). Non-performing assets were $22.22 million at March 31, 2010, $22.11 million at December 31, 2009, and $13.74 million at March 31, 2009. The percentage of non-performing assets to total loans and OREO was 1.59% at March 31, 2010, 1.58% at December 31, 2009, and 1.09% at March 31, 2009.

The following schedule details non-performing assets by category at the close of each of the quarters ended March 31, 2010 and 2009, and December 31, 2009.

(Dollars in Thousands)	March 31, 2010	December 31, 2009	March 31, 2009
Non-accrual loans	$ 17,477	$ 17,527	$ 10,628
Loans 90 days or more past due and still accruing interest	-	-	-
Total non-performing loans	17,477	17,527	10,628
Other real estate owned	4,740	4,578	3,114
Total non-performing assets	$ 22,217	$ 22,105	$ 13,742
Non-performing loans as a percentage of total loans	1.26%	1.26%	0.84%
Non-performing assets as a percentage of total loans and other real estate owned	1.59%	1.58%	1.09%
Allowance for loan losses as a percentage of non-performing loans	125.6%	124.0%	155.8%
Restructured loans performing in accordance with modified terms	$ 3,091	$ 3,565	$ 614

Ongoing activity within the classification and categories of non-performing loans includes collections on delinquencies, foreclosures and movements into or out of the non-performing classification as a result of changing customer business conditions. There were no loans 90 days past due and still accruing at March 31, 2010, December 31, 2009, and March 31, 2009. OREO was $4.74 million at March 31, 2010, an increase of $162 thousand from December 31, 2009, and is carried at the lesser of estimated net realizable value or cost. OREO increased from December 31, 2009, as non-performing loans were converted to foreclosed real estate. At March 31, 2010, OREO consisted of 53 properties with an average value of $146 thousand and an average age of 7 months. During the three months ended March 31, 2010, net losses on the sale of OREO totaled $268 thousand.

Deposits and Other Borrowings

Total deposits increased by $9.65 million, or 0.59%, during the first three months of 2010. Noninterest-bearing demand deposits decreased $2.43 million to $205.81 million at March 31, 2010, compared with $208.24 million at December 31, 2009. Interest-bearing demand deposits increased $14.61 million to $246.51 million at March 31, 2010 from December 31, 2009. Savings increased $46.50 million, or 12.19%, and time deposits decreased $49.02 million, or 5.95%, during the first three months of 2010.

Securities sold under repurchase agreements decreased $9.25 million, or 6.02%, in the first three months of 2010 to $144.38 million. There were no federal funds purchased outstanding at March 31, 2010, as the Company maintained strong liquidity and overnight funds sold throughout the first quarter of 2010.

Stockholders’ Equity

Total stockholders’ equity increased $8.90 million, or 3.50%, from $253.86 million at December 31, 2009, to $262.76 million at March 31, 2010. Changes in equity were the result of net income of $5.28 million, common dividends paid of $1.78 million, and other comprehensive income of $10.44 million.

Risk-Based Capital

Risk-based capital guidelines promulgated by federal banking agencies weight balance sheet assets and off-balance sheet commitments based on inherent risks associated with the respective asset types. At March 31, 2010, the Company's total capital to risk-weighted assets ratio was 14.03% compared with 13.90% at December 31, 2009. The Company's Tier 1 capital to risk-weighted assets ratio was 12.77% at March 31, 2010, compared with 12.65% at December 31, 2009. The Company's Tier 1 capital to average assets (leverage) ratio at March 31, 2010, was 8.99% compared with 8.58% at December 31, 2009. All of the Company's regulatory capital ratios exceed the current "well-capitalized" levels.

PART I. ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Liquidity and Capital Resources

At March 31, 2010, the Company maintained liquidity in the form of cash and cash equivalent balances of $87.71 million, unpledged securities available-for-sale of $188.86 million, and total FHLB credit availability of approximately $220.27 million. Cash and cash equivalents as well as advances from the FHLB are immediately available for satisfaction of deposit withdrawals, customer credit needs and operations of the Company. Investment securities available-for-sale represent a secondary level of liquidity available for conversion to liquid funds in the event of extraordinary needs. The Company also maintains approved lines of credit with correspondent banks as backup liquidity sources.

The Company is a holding company, which is a separate legal entity from the Bank, and at March 31, 2010, maintained cash balances of $8.93 million. As a result of investment securities impairments recognized in 2008 and 2009, the Bank is currently restricted from paying dividends to the Parent Company. The Company believes the cash reserves and investments it holds provide adequate working capital to meet its obligations for the next 12 months and through the projected period of dividend restrictions.

The Company maintains a liquidity policy as a means to manage liquidity and the associated risk. The policy includes a Liquidity Contingency Plan (the “Liquidity Plan”) that is designed as a tool for the Company to detect liquidity issues promptly in order to protect depositors, creditors and shareholders. The Liquidity Plan includes monitoring various internal and external indicators such as changes in core deposits and changes in market conditions. It provides for timely responses to a wide variety of funding scenarios ranging from changes in loan demand to a decline in the Company’s quarterly earnings to a decline in the market price of the Company’s stock. The Liquidity Plan calls for specific responses designed to meet a wide range of liquidity needs based upon assessments on a recurring basis by the Company and its Board of Directors.

Interest Rate Risk and Asset/Liability Management

The Company’s profitability is dependent to a large extent upon its net interest income, which is the difference between its interest income on interest-earning assets, such as loans and securities, and its interest expense on interest-bearing liabilities, such as deposits and borrowings. The Company, like other financial institutions, is subject to interest rate risk to the degree that interest-earning assets reprice differently than interest-bearing liabilities. The Company manages its mix of assets and liabilities with the goals of limiting its exposure to interest rate risk, ensuring adequate liquidity, and coordinating its sources and uses of funds while maintaining an acceptable level of net interest income given the current interest rate environment.

The Company’s primary component of operational revenue, net interest income, is subject to variation as a result of changes in interest rate environments in conjunction with unbalanced repricing opportunities on earning assets and interest-bearing liabilities. Interest rate risk has four primary components: repricing risk, basis risk, yield curve risk and option risk. Repricing risk occurs when earning assets and paying liabilities reprice at differing times as interest rates change. Basis risk occurs when the underlying rates on the assets and liabilities the institution holds change at different levels or in varying degrees. Yield curve risk is the risk of adverse consequences as a result of unequal changes in the spread between two or more rates for different maturities for the same instrument. Lastly, option risk is due to embedded options, often put or call options, given or sold to holders of financial instruments.

In order to mitigate the effect of changes in the general level of interest rates, the Company manages repricing opportunities and thus, its interest rate sensitivity. The Company seeks to control its interest rate risk exposure to insulate net interest income and net earnings from fluctuations in the general level of interest rates. To measure its

exposure to interest rate risk, quarterly simulations of net interest income are performed using financial models that project net interest income through a range of possible interest rate environments including rising, declining, most likely and flat rate scenarios. The simulation model used by the Company captures all earning assets, interest-bearing liabilities and off-balance sheet financial instruments and combines the various factors affecting rate sensitivity into an earnings outlook. The results of these simulations indicate the existence and severity of interest rate risk in each of those rate environments based upon the current balance sheet position, assumptions as to changes in the volume and mix of interest-earning assets and interest-paying liabilities and the Company’s estimate of yields to be attained in those future rate environments and rates that will be paid on various deposit instruments and borrowings. These assumptions are inherently uncertain and, as a result, the model cannot precisely predict the impact of fluctuations in interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude, and frequency of interest rate changes, as well as changes in market conditions and the Company’s strategies. However, the earnings simulation model is currently the best tool available to the Company for managing interest rate risk.

Specific strategies for management of interest rate risk have included shortening the amortized maturity of new fixed-rate loans, increasing the volume of adjustable-rate loans to reduce the average maturity of the Company's interest-earning assets, and monitoring the term and structure of liabilities to maintain a balanced mix of maturity and repricing structures to mitigate potential exposure. At March 31, 2010, net interest income modeling shows the Company to be in a slightly liability sensitive position.

The Company has established policy limits for tolerance of interest rate risk that allow for no more than a 10% reduction in projected net interest income for the next twelve months based on a comparison of net interest income simulations in various interest rate scenarios. In addition, the policy addresses exposure limits to changes in the economic value of equity according to predefined policy guidelines. The most recent simulation indicates that current exposure to interest rate risk is within the Company's defined policy limits.

The following table summarizes the projected impact on the next twelve months' net interest income and the economic value of equity as of March 31, 2010, and December 31, 2009, of immediate and sustained rate shocks in the interest rate environments of plus and minus 100 and 200 basis points from the base simulation, assuming no remedial measures are affected. As of March 31, 2010, the Federal Open Market Committee maintains a target range for federal funds of 0 to 25 basis points, rendering a complete downward shock of 200 basis points unrealistic and not meaningful. In the downward rate shocks presented, benchmark interest rates are dropped with floors near 0%.

The economic value of equity is a measure which reflects the impact of changing rates on the underlying values of the Company's assets and liabilities in various rate scenarios. The scenarios illustrate the potential estimated impact of instantaneous rate shocks on the underlying value of equity. The economic value of equity is based on the present value of all the future cash flows under the different rate scenarios.

Rate Sensitivity Analysis

	March 31, 2010			
(Dollars in Thousands) Increase (Decrease) in Interest Rates (Basis Points)	Change in Net Interest Income	% Change	Change in Econcomic Value of Equity	% Change
200	$ (632)	(0.9)	$ (9,561)	(3.4)
100	(468)	(0.6)	(2,351)	(0.8)
(100)	1,951	2.6	(16,067)	(5.7)

	December 31, 2009			
(Dollars in Thousands) Increase (Decrease) in Interest Rates (Basis Points)	Change in Net Interest Income	% Change	Change in Econcomic Value of Equity	% Change
200	$ (1,405)	(1.9)	$ (18,634)	(6.9)
100	(866)	(1.2)	(7,715)	(2.9)
(100)	2,117	2.9	16,087	5.9

PART I. ITEM 4. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer ("CEO") along with the Company's Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures pursuant to the Securities Exchange Act of 1934 ("Exchange Act") Rule 13a-15(b). Based on that evaluation, the Company's CEO along with the Company's CFO concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.

The Company's management, including the CEO and CFO, does not expect that the Company's disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls.

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal controls over financial reporting during the quarter ended March 31, 2010, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

The Company is currently a defendant in various legal actions and asserted claims in the normal course of business. Although the Company and legal counsel are unable to assess the ultimate outcome of each of these matters with certainty, they are of the belief that the resolution of these actions should not have a material adverse affect on the financial position, results of operations, or cash flows of the Company.

ITEM 1A. Risk Factors

There were no material changes to the risk factors as presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not Applicable

(b) Not Applicable

(c) Issuer Purchases of Equity Securities

The following table provides information with respect to purchases made by or on behalf of the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of the Company's Common Stock during the first quarter of 2010.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Maximum Number of Shares That May Yet be Purchased Under the Plan (1)
January 1-31, 2010	-	$ -	-	782,342
February 1-28, 2010	-	-	-	782,342

March 1-31, 2010	-	-	-	799,969
Total	-	$ -	-	

(1) The Company's stock repurchase plan, as amended, allows the purchase and retention of up to 1,100,000 shares. The plan has no expiration date, remains open and no plans have expired during the reporting period covered by this table. No determination has been made to terminate the plan or to cease making purchases. The Company held 300,031 shares in treasury at March 31, 2010.

ITEM 3. Defaults Upon Senior Securities

Not Applicable

- 37 -

ITEM 4. Reserved

ITEM 5. Other Information

Not Applicable

ITEM 6. Exhibits

(a) Exhibits

Exhibit No.	Exhibit
2.1	Reserved.
2.2	Reserved.
3(i)	Articles of Incorporation of First Community Bancshares, Inc., as amended. (1)
3(ii)	Certificate of Designation Series A Preferred Stock. (22)
3(iii)	Bylaws of First Community Bancshares, Inc., as amended. (17)
4.1	Specimen stock certificate of First Community Bancshares, Inc. (3)
4.2	Indenture Agreement dated September 25, 2003. (11)
4.3	Amended and Restated Declaration of Trust of FCBI Capital Trust dated September 25, 2003. (11)
4.4	Preferred Securities Guarantee Agreement dated September 25, 2003. (11)
4.5	Reserved.
4.6	Warrant to purchase 176,546 shares of Common Stock of First Community Bancshares, Inc. (22)
4.7	Form of Indenture for Senior Debt Securities (27)
4.8	Form of Indenture for Subordinated Debt Securities (28)
10.1**	First Community Bancshares, Inc. 1999 Stock Option Contracts (2) and Plan. (4)
10.1.1**	Amendment to First Community Bancshares, Inc. 1999 Stock Option Plan. (11)
10.2**	First Community Bancshares, Inc. 2001 Non-Qualified Directors Stock Option Plan. (5)
10.3**	Employment Agreement dated December 16, 2008, between First Community Bancshares, Inc. and John M. Mendez. (6)
10.4**	First Community Bancshares, Inc. 2000 Executive Retention Plan, as amended. (24)
10.5**	First Community Bancshares, Inc. Split Dollar Plan and Agreement. (2)
10.6**	First Community Bancshares, Inc. 2001 Directors Supplemental Retirement Plan. (2)
10.6.1**	First Community Bancshares, Inc. 2001 Directors Supplemental Retirement Plan. Second Amendment (B.W. Harvey, Sr. – October 19, 2004). (14)
10.7**	First Community Bancshares, Inc. Wrap Plan. (7)
10.8	Reserved.
10.9	Form of Indemnification Agreement between First Community Bancshares, Inc., its Directors and Certain Executive Officers. (9)
10.10	Form of Indemnification Agreement between First Community Bank, N. A, its Directors and Certain Executive Officers. (9)
10.11	Reserved.
10.12**	First Community Bancshares, Inc. 2004 Omnibus Stock Option Plan (10) and Award Agreement. (13)
10.13	Reserved.
10.14**	First Community Bancshares, Inc. Directors Deferred Compensation Plan. (7)
10.15**	First Community Bancshares, Inc. Deferred Compensation and Supplemental Bonus Plan For Key Employees. (15)
10.16**	Employment Agreement dated November 30, 2006, between First Community Bank, N. A. and Ronald L. Campbell. (19)
10.17**	Employment Agreement dated September 28, 2007, between GreenPoint Insurance Group, Inc. and Shawn C. Cummings. (20)
10.18	Securities Purchase Agreement by and between the United States Department of the Treasury and First Community Bancshares, Inc. dated November 21, 2008. (22)
10.19**	Employment Agreement dated December 16, 2008, between First Community Bancshares, Inc. and David D. Brown. (23)
10.20**	Employment Agreement dated December 16, 2008, between First Community Bancshares, Inc. and Robert L. Buzzo. (26)

10.21**	Employment Agreement dated December 16, 2008, between First Community Bancshares, Inc. and E. Stephen Lilly. (26)
10.22**	Employment Agreement dated December 16, 2008, between First Community Bank, N. A. and Gary R. Mills. (26)
10.23**	Employment Agreement dated December 16, 2008, between First Community Bank, N. A. and Martyn A. Pell. (26)
10.24**	Employment Agreement dated December 16, 2008, between First Community Bank, N. A. and Robert. L. Schumacher. (26)
10.25**	Employment Agreement dated July 31, 2009, between First Community Bank, N. A. and Simpson O. Brown. (25)

10.25**	Employment Agreement dated July 31, 2009, between First Community Bank, N. A. and Mark R. Evans. (25)
11	Statement regarding computation of earnings per share. (16)
12	Computation of Ratios. (27)
21	Subsidiaries of Registrant – Reference is made to “Item 1. Business” for the required information.
23.1	Consent of Dixon Hughes PLLC, Independent Registered Public Accounting Firm for First Community Bancshares, Inc. (27)
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32*	Certification of Chief Executive Officer and Chief Financial Officer Section 1350. (27)

---

* Furnished herewith.

** Indicates a management contract or compensation plan.

(1) Incorporated by reference from the Quarterly Report on Form 10-Q for the period ended June 30, 2005, filed on August 5, 2005, and as amended on Form 8-K filed on April 27, 2010.

(2) Incorporated by reference from the Quarterly Report on Form 10-Q for the period ended June 30, 2002, filed on August 14, 2002.

(3) Incorporated by reference from the Annual Report on Form 10-K for the period ended December 31, 2002, filed on March 25, 2003, as amended on March 31, 2003.

(4) Incorporated by reference from the Annual Report on Form 10-K for the period ended December 31, 1999, filed on March 30, 2000, as amended April 13, 2000.

(5) The option agreements entered into pursuant to the 1999 Stock Option Plan and the 2001 Non-Qualified Directors Stock Option Plan are incorporated by reference from the Quarterly Report on Form 10-Q for the period ended June 30, 2002, filed on August 14, 2002.

(6) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated and filed December 16, 2008. The Registrant has entered into substantially identical agreements with Robert L. Buzzo and E. Stephen Lilly, with the only differences being with respect to title and salary.

(7) Incorporated by reference from the Current Report on Form 8-K dated August 22, 2006, and filed August 23, 2006.

(8) Reserved.

(9) Form of indemnification agreement entered into by the Company and by First Community Bank, N. A. with their respective directors and certain officers of each including, for the Registrant and Bank: John M. Mendez, Robert L. Schumacher, Robert L. Buzzo, E. Stephen Lilly, David D. Brown, and Gary R. Mills. Incorporated by reference from the Annual Report on Form 10-K for the period ended December 31, 2003, filed on March 15, 2004, and amended on May 19, 2004.

(10) Incorporated by reference from the 2004 First Community Bancshares, Inc. Definitive Proxy filed on March 15, 2004.

(11) Incorporated by reference from the Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed on November 10, 2003.

(12) Incorporated by reference from the Quarterly Report on Form 10-Q for the period ended March 31, 2004, filed on May 7, 2004.

(13) Incorporated by reference from the Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed on August 6, 2004.

(14) Incorporated by reference from the Annual Report on Form 10-K for the period ended December 31, 2004, and filed on March 16, 2005. Amendments in substantially similar form were executed for Directors Clark, Kantor, Hamner, Modena, Perkinson, Stafford, and Stafford II.

(15) Incorporated by reference from the Current Report on Form 8-K dated October 24, 2006, and filed October 25, 2006.

(16) Incorporated by reference from Footnote 1 of the Notes to Consolidated Financial Statements included herein.
(17) Incorporated by reference from Exhibit 3.1 of the Current Report on Form 8-K dated February 14, 2008, filed on February 20, 2008.
(18) Reserved
(19) Incorporated by reference from Exhibit 2.1 of the Form S-3 registration statement, File No. 333-142558, filed May 2, 2007.
(20) Incorporated by reference from the Annual Report on Form 10-K for the period ended December 31, 2007, filed on March 13, 2008.
(21) Reserved.
(22) Incorporated by reference from the Current Report on Form 8-K dated November 21, 2008, and filed November 24, 2008.

(23) Incorporated by reference from Exhibit 10.2 of the Current Report on Form 8-K dated and filed December 16, 2008.
(24) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated December 30, 2008, and filed January 5, 2009.
(25) Incorporated by reference from Exhibit 2.2 of the Current Report on Form 8-K dated April 2, 2009 and filed April 3, 2009.
(26) Incorporated by reference from the Current Report on Form 8-K dated and filed July 6, 2009.
(27) Incorporated by reference from Exhibit 4.4 of Form S-3 registration statement, File No. 333-165965, filed April 8, 2010.
(28) Incorporated by reference from Exhibit 4.5 of the Form S-3 registration statement, File No. 333-165965, filed April 8, 2010.

SIGNATURES

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

First Community Bancshares, Inc.

DATE: May 7, 2010

/s/ John M. Mendez
John M. Mendez
President & Chief Executive Officer
(Principal Executive Officer)

/s/ David D. Brown
David D. Brown
Chief Financial Officer
(Principal Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Exhibit
31.1	Certification as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer.
31.2	Certification as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer.
32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer and Chief Financial Officer.