

FIRST COMMUNITY BANCSHARES INC /NV/
Form 10-Q
November 02, 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 September 30, 2010

Commission file number 000-19297

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

Nevada
(State or other jurisdiction of
incorporation)

55-0694814
(IRS Employer Identification No.)

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

24605-0989
(Zip Code)

(276) 326-9000
(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every

Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

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

Yes No

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

Class – Common Stock, \$1.00 Par Value; 17,834,601 shares outstanding as of October 22, 2010

FIRST COMMUNITY BANCSHARES, INC.
FORM 10-Q
For the quarter ended September 30, 2010

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PART I. ITEM 1. Financial Statements

FIRST COMMUNITY BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)	September 30, 2010 (Unaudited)	December 31, 2009
Assets		
Cash and due from banks	\$ 37,120	\$ 36,265
Federal funds sold	93,281	61,376
Interest-bearing balances with banks	1,363	3,700
Total cash and cash equivalents	131,764	101,341
Securities available-for-sale	480,587	486,057
Securities held-to-maturity	5,931	7,454
Loans held for sale	3,386	11,576
Loans held for investment, net of unearned income	1,398,251	1,393,931
Less allowance for loan losses	26,420	24,277
Net loans held for investment	1,371,831	1,369,654
Premises and equipment, net	56,042	56,946
Other real estate owned	5,501	4,578
Interest receivable	7,899	8,610
Goodwill and other intangible assets	91,165	91,061
Other assets	143,319	136,006
Total Assets	\$ 2,297,425	\$ 2,273,283
Liabilities		
Deposits:		
Noninterest-bearing	\$ 216,167	\$ 208,244
Interest-bearing	1,441,056	1,437,716
Total Deposits	1,657,223	1,645,960
Interest, taxes and other liabilities	21,377	22,498
Securities sold under agreements to repurchase	153,413	153,634
FHLB borrowings and other indebtedness	191,209	198,924
Total Liabilities	2,023,222	2,021,016
Stockholders' Equity		
Preferred stock, par value undesignated; 1,000,000 shares authorized; 0 shares issued at September 30, 2010 and December 31, 2009	-	-
Common stock, \$1 par value; 50,000,000 shares authorized; 18,082,822 shares issued at September 30, 2010, and 18,082,822 issued at December 31, 2009, and 248,221 and 317,658 shares in treasury, respectively	18,083	18,083
Additional paid-in capital	189,811	190,967
Retained earnings	78,385	66,760
Treasury stock, at cost	(7,729)	(9,891)
Accumulated other comprehensive loss	(4,347)	(13,652)
Total Stockholders' Equity	274,203	252,267
Total Liabilities and Stockholders' Equity	\$ 2,297,425	\$ 2,273,283

See Notes to Consolidated Financial Statements.

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

(Dollars In Thousands, Except Share and Per Share Data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Interest Income				
Interest and fees on loans held for investment	\$ 21,440	\$ 21,064	\$ 63,791	\$ 60,619
Interest on securities — taxable	2,895	4,562	10,411	14,903
Interest on securities — nontaxable	1,451	1,449	4,271	4,527
Interest on federal funds sold and deposits in banks	54	55	134	133
Total interest income	25,840	27,130	78,607	80,182
Interest Expense				
Interest on deposits	4,872	6,998	15,480	21,641
Interest on borrowings	2,371	2,596	7,369	8,251
Total interest expense	7,243	9,594	22,849	29,892
Net interest income	18,597	17,536	55,758	50,290
Provision for loan losses	3,810	3,819	11,071	8,519
Net interest income after provision for loan losses	14,787	13,717	44,687	41,771
Noninterest Income				
Wealth management income	909	971	2,806	3,088
Service charges on deposit accounts	3,457	3,659	9,796	10,307
Other service charges and fees	1,244	1,156	3,775	3,467
Insurance commissions	1,663	1,567	5,253	5,523
Total impairment losses on securities	-	(26,405)	(185)	(63,180)
Portion of loss recognized in other comprehensive income	-	(4,406)	-	28,384
Net impairment losses recognized in earnings	-	(30,811)	(185)	(34,796)
Net gains on sale of securities	2,574	866	4,025	2,930
Gain on acquisition	-	4,493	-	4,493
Other operating income	1,091	815	2,950	1,750
Total noninterest income (loss)	10,938	(17,284)	28,420	(3,238)
Noninterest Expense				
Salaries and employee benefits	8,753	7,860	25,209	23,131
Occupancy expense of bank premises	1,573	1,266	4,852	4,202
Furniture and equipment expense	926	928	2,748	2,758
Amortization of intangible assets	260	262	769	751
Prepayment penalties on FHLB advances	-	-	-	88
FDIC premiums and assessments	718	1,109	2,129	2,584
Merger related expenses	-	1,505	-	1,580
Other operating expense	5,199	4,838	14,392	14,011
Total noninterest expense	17,429	17,768	50,099	49,105
Income (loss) before income taxes	8,296	(21,335)	23,008	(10,572)
Income tax expense (benefit)	1,743	(9,783)	6,046	(6,617)
Net income (loss)	6,553	(11,552)	16,962	(3,955)
Dividends on preferred stock	-	1,011	-	2,160
Net income (loss) available to common shareholders	\$ 6,553	\$ (12,563)	\$ 16,962	\$ (6,115)
Basic earnings (loss) per common share				
Basic earnings (loss) per common share	\$ 0.37	\$ (0.72)	\$ 0.95	\$ (0.44)
Diluted earnings (loss) per common share				
Diluted earnings (loss) per common share	\$ 0.37	\$ (0.72)	\$ 0.95	\$ (0.44)

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Cash dividends per common share	\$ 0.10	\$ 0.10	\$ 0.30	\$ 0.30
Weighted average basic shares outstanding	17,808,348	17,427,434	17,787,233	13,918,599
Weighted average diluted shares outstanding	17,832,882	17,427,434	17,812,895	13,918,599

See Notes to Consolidated Financial Statements.

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

(Dollars In Thousands)	Nine Months Ended September 30,	
	2010	2009
Operating activities:		
Net income (loss)	\$ 16,962	\$ (3,955)
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	11,071	8,519
Depreciation and amortization of premises and equipment	3,050	2,986
Intangible amortization	769	751
Net investment amortization and accretion	542	1,024
Net gain on the sale of assets	(3,746)	(3,008)
Net gain on acquisitions	-	(4,493)
Mortgage loans originated for sale	(28,101)	(26,147)
Proceeds from sales of mortgage loans	36,856	25,538
Gain on sales of loans	(565)	(59)
Equity-based compensation expense	51	105
Deferred income tax benefit	(1,965)	(17,925)
Decrease in interest receivable	711	1,635
Net impairment losses recognized in earnings	185	34,796
Other operating activities, net	12,912	3,551
Net cash provided by operating activities	48,732	23,318
Investing activities:		
Proceeds from sales of securities available-for-sale	142,998	126,632
Proceeds from maturities and calls of securities available-for-sale	66,227	50,334
Proceeds from maturities and calls of securities held-to-maturity	1,544	1,238
Purchase of securities available-for-sale	(208,720)	(218,388)
Net (increase) decrease in loans held for investment	(14,401)	19,559
Proceeds from the (investment in) redemption of FHLB stock	(982)	351
Cash (invested in) provided by acquisitions, net	(667)	21,299
Proceeds from sales of equipment	37	218
Purchase of premises and equipment	(2,374)	(3,909)
Net cash used in investing activities	(16,338)	(2,666)
Financing activities:		
Net increase in demand and savings deposits	91,223	15,645
Net (decrease) increase in time deposits	(79,960)	357
Net decrease in securities sold under agreement to repurchase	(221)	(18,872)
Net decrease in FHLB and other borrowings	(7,715)	(25,122)
FHLB debt prepayment fees	-	(88)
Net proceeds from the issuance of common stock	-	61,668
Redemption of preferred stock	-	(41,500)
Proceeds from the exercise of stock options	30	20
Excess tax benefit from stock-based compensation	9	2
Acquisition of treasury stock	-	(13)
Preferred dividends paid	-	(1,079)
Common dividends paid	(5,337)	(2,852)

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Net cash used in financing activities	(1,971)	(11,834)
Increase in cash and cash equivalents	30,423	8,818
Cash and cash equivalents at beginning of period	101,341	46,439
Cash and cash equivalents at end of period	\$ 131,764	\$ 55,257
Supplemental information — noncash items		
Transfer of loans to other real estate	\$ 5,807	\$ 5,404
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)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
(Dollars in Thousands)							
Balance January 1, 2009	\$ 40,419	\$ 12,051	\$ 128,526	\$ 106,104	\$ (15,368)	\$ (52,517)	\$ 219,215
Cumulative effect of change in accounting principle	-	-	-	6,131	-	(6,131)	-
Comprehensive income:							
Net loss	-	-	-	(3,955)	-	-	(3,955)
Other comprehensive income — see note 9	-	-	-	-	-	23,150	23,150
Comprehensive income	-	-	-	2,176	-	17,019	19,195
Preferred dividend, net	1,081	-	(37)	(2,160)	-	-	(1,116)
Common dividends declared	-	-	-	(4,616)	-	-	(4,616)
Redemption of preferred stock	(41,500)	-	-	-	-	-	(41,500)
Acquisition of treasury shares — 1,000 shares	-	-	-	-	(13)	-	(13)
Acquisition of TriStone Community Bank — 741,588 shares issued	-	742	9,386	-	-	-	10,128
Issuance of vested shares — 700 shares	-	-	(22)	-	22	-	-
Equity-based compensation expense	-	-	105	-	-	-	105
Common stock issuance — 5,290,000 shares issued	-	5,290	56,378	-	-	-	61,668
Retirement plan contribution — 79,591 shares issued	-	-	(1,495)	-	2,527	-	1,032
Option exercises — 2,000 shares	-	-	(42)	-	64	-	22
Balance September 30, 2009	\$ -	\$ 18,083	\$ 192,799	\$ 101,504	\$ (12,768)	\$ (35,498)	\$ 264,120
Balance January 1, 2010	\$ -	\$ 18,083	\$ 190,967	\$ 66,760	\$ (9,891)	\$ (13,652)	\$ 252,267
Comprehensive income:							
Net income	-	-	-	16,962	-	-	16,962
Other comprehensive income — see note 9	-	-	-	-	-	9,305	9,305
Comprehensive income	-	-	-	16,962	-	9,305	26,267
Common dividends declared and paid	-	-	-	(5,337)	-	-	(5,337)

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Issuance of vested shares — 800 shares	-	-	(25)	-	25	-	-
Equity-based compensation expense	-	-	51	-	-	-	51
Retirement plan contribution — 66,006 shares issued	-	-	(1,130)	-	2,055	-	925
Option exercises — 2,631 shares	-	-	(52)	-	82	-	30
Balance September 30, 2010	\$	-	\$ 18,083	\$ 189,811	\$ 78,385	\$ (7,729)	\$ (4,347) \$ 274,203

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, as amended (the “2009 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 Form 10-K.

A more complete and detailed description of First Community’s significant accounting policies is included within Note 1 of Item 8, “Financial Statements and Supplementary Data” in the Company’s 2009 Form 10-K. 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 September 30,		For the Nine Months ended September 30,	
	2010	2009	2010	2009
(In Thousands, Except Share and Per Share Data)				
Net income (loss) available to common shareholders	\$ 6,553	\$ (12,563)	\$ 16,962	\$ (6,115)
Weighted average shares outstanding	17,808,348	17,427,434	17,787,233	13,918,599
Dilutive shares for stock options	11,630	-	12,758	-
Contingently issuable shares	12,904	-	12,904	-
Weighted average dilutive shares outstanding	17,832,882	17,427,434	17,812,895	13,918,599

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Basic earnings (loss) per share	\$	0.37	\$	(0.72)	\$	0.95	\$	(0.44)
Diluted earnings (loss) per share	\$	0.37	\$	(0.72)	\$	0.95	\$	(0.44)

For the three- and nine-month periods ended September 30, 2010, options and warrants to purchase 491,189 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 562,337 and 541,292 shares, respectively, of common stock were excluded from the three- and nine-month periods ended September 30, 2009, computations of diluted earnings per common share because their effect would be anti-dilutive.

Recent Accounting Pronouncements

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 roll forward 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. Other than the additional disclosures, the adoption of the new guidance had no significant impact on the Company's financial statements.

FASB ASC Topic 310, Receivables. New authoritative accounting guidance under ASC Topic 310 amends prior guidance to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables by providing additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. The new authoritative guidance is effective for interim and annual reporting periods ending on or after December 15, 2010, for public entities. The Company is in the process of assessing the impact the new authoritative guidance will have on its financial statements and related disclosures.

Note 2. Mergers, Acquisitions, and Branching Activity

In July 2010, GreenPoint Insurance Group, Inc. ("GreenPoint"), the Company's wholly-owned insurance subsidiary, acquired Murphy Insurance Agency, based in Princeton, West Virginia, issuing cash consideration of approximately \$190 thousand. Acquisition terms call for additional cash consideration if certain operating performance targets are met. The Company has recorded the fair value of the expected additional cash consideration as \$477 thousand in long-term debt. If those targets are not met, the value of the consideration ultimately paid will decrease the liability and will be recognized as a gain in the period in which the targets are not met. Goodwill and other intangibles associated with the acquisition total approximately \$667 thousand.

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 0.5262 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 September 30, 2010, and December 31, 2009, the amortized cost and estimated fair value of available-for-sale securities were as follows:

	September 30, 2010				OTTI in AOCI*
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	
(In Thousands)					
U.S. Government agency securities	\$ 10,000	\$ 38	\$ -	\$ 10,038	\$ -
States and political subdivisions	152,249	6,272	(741)	157,780	-
Trust preferred securities:					
Single issue	52,924	-	(11,469)	41,455	-
Pooled	1,514	4,023	-	5,537	-
Total trust preferred securities	54,438	4,023	(11,469)	46,992	-
FDIC-backed securities	25,318	465	-	25,783	-