FIRST BANCORP /NC/
Form 10-Q
August 10, 2009

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

Commission File Number 0-15572

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

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

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

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

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

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

reporting company)

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

The number of shares of the registrant's Common Stock outstanding on July 31, 2009 was 16,664,334.

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FIRST BANCORP AND SUBSIDIARIES

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Part I. Financial Information
Item 1 - Financial Statements

First Bancorp and Subsidiaries
Consolidated Balance Sheets

($ in thousands-unaudited)	June 30, 2009	December 31, 2008 (audited)	June 30, 2008
ASSETS			
Cash & due from banks, noninterest-bearing	$47,761	88,015	32,255
Due from banks, interest-bearing	151,520	105,191	101,700
Federal funds sold	25,710	31,574	21,900
Total cash and cash equivalents	224,991	224,780	155,855
Securities available for sale (costs of $190,502, $170,920, and $158,200)	189,590	171,193	156,626
Securities held to maturity (fair values of $24,374, $15,811, and $15,218)	24,408	15,990	15,376
Presold mortgages in process of settlement	8,993	423	2,394
Loans – non-covered	2,174,422	2,211,315	2,166,840
Loans – covered by FDIC loss share agreement	527,361	–	–
Total loans	2,701,783	2,211,315	2,166,840
Less: Allowance for loan losses	(33,185)	(29,256)	(26,061)
Net loans	2,668,598	2,182,059	2,140,779
Premises and equipment	52,362	52,259	50,607
Accrued interest receivable	15,154	12,653	12,396
FDIC loss share receivable	241,369	–	–
Goodwill	65,835	65,835	65,835
Other intangible assets	5,547	1,945	2,160
Other	20,864	23,430	19,328
Total assets	$3,517,711	2,750,567	2,621,356
LIABILITIES			
Deposits: Demand - noninterest-bearing	$271,669	229,478	240,206
NOW accounts	271,991	198,775	200,355
Money market accounts	449,007	340,739	327,825
Savings accounts	145,194	125,240	136,229
Time deposits of $100,000 or more	844,626	592,192	525,241
Other time deposits	892,679	588,367	586,621
Total deposits	2,875,166	2,074,791	2,016,477
Securities sold under agreements to repurchase	62,309	61,140	41,110
Borrowings	230,099	367,275	326,006
Accrued interest payable	4,001	5,077	5,419
Other liabilities	24,503	22,416	15,667
Total liabilities	3,196,078	2,530,699	2,404,679

Commitments and contingencies	–	–	–
SHAREHOLDERS' EQUITY			
Preferred stock, no par value per share. Authorized: 5,000,000 shares			
Issued and outstanding: 65,000 shares at June 30, 2009	65,000	–	–
Discount on preferred stock	(4,190)	–	–
Common stock, no par value per share. Authorized 20,000,000 shares			
Issued and outstanding: 16,655,577, 16,573,826, and 16,488,201 shares	97,409	96,072	94,858
Common stock warrants	4,592	–	–
Retained earnings	167,424	131,952	127,042
Accumulated other comprehensive income (loss)	(8,602)	(8,156)	(5,223)
Total shareholders' equity	321,633	219,868	216,677
Total liabilities and shareholders' equity	$3,517,711	2,750,567	2,621,356

See notes to consolidated financial statements.

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First Bancorp and Subsidiaries
Consolidated Statements of Income

($ in thousands, except share data-unaudited)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
INTEREST INCOME				
Interest and fees on loans	$33,640	34,814	66,192	68,753
Interest on investment securities:				
Taxable interest income	1,682	1,882	3,462	3,639
Tax-exempt interest income	192	161	344	329
Other, principally overnight investments	66	276	105	719
Total interest income	35,580	37,133	70,103	73,440
INTEREST EXPENSE				
Savings, NOW and money market	1,986	2,424	4,121	4,750
Time deposits of $100,000 or more	4,769	5,523	9,565	11,298
Other time deposits	4,469	5,863	8,963	12,162
Other, primarily borrowings	913	1,822	1,901	3,965
Total interest expense	12,137	15,632	24,550	32,175
Net interest income	23,443	21,501	45,553	41,265
Provision for loan losses	3,926	2,059	8,411	3,592
Net interest income after provision for loan losses	19,517	19,442	37,142	37,673
NONINTEREST INCOME				
Service charges on deposit accounts	3,250	3,462	6,224	6,538
Other service charges, commissions and fees	1,205	1,068	2,326	2,255
Fees from presold mortgages	293	260	452	458
Commissions from sales of insurance and financial products	337	356	831	755
Data processing fees	36	48	65	98
Gain from acquisition	53,830	–	53,830	–
Securities gains (losses)	(56)	(16)	(119)	(16)
Other gains (losses)	(183)	(28)	(151)	257
Total noninterest income	58,712	5,150	63,458	10,345
NONINTEREST EXPENSES				
Salaries	6,646	7,124	13,113	13,843
Employee benefits	2,906	2,005	5,265	3,840
Total personnel expense	9,552	9,129	18,378	17,683
Net occupancy expense	1,125	1,043	2,213	2,011
Equipment related expenses	985	1,021	1,966	2,040
Intangibles amortization	98	123	196	202
Acquisition expenses	792	–	792	–
Other operating expenses	6,651	4,841	11,595	8,812
Total noninterest expenses	19,203	16,157	35,140	30,748

Income before income taxes	59,026	8,435	65,460	17,270
Income taxes	23,008	3,157	25,361	6,463
Net income	36,018	5,278	40,099	10,807
Preferred stock dividends and accretion	1,022	–	1,963	–
Net income available to common shareholders	$34,996	5,278	38,136	10,807
Earnings per common share:				
Basic	$2.10	0.32	2.29	0.70
Diluted	2.10	0.32	2.29	0.70
Dividends declared per common share	$0.08	0.19	0.16	0.38
Weighted average common shares outstanding:				
Basic	16,636,769	16,470,975	16,622,697	15,425,787
Diluted	16,672,989	16,535,358	16,658,917	15,497,429

See notes to consolidated financial statements.

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First Bancorp and Subsidiaries
Consolidated Statements of Comprehensive Income

($ in thousands-unaudited)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net income	$36,018	5,278	40,099	10,807
Other comprehensive income (loss):				
Unrealized gains (losses) on securities available for sale:				
Unrealized holding gains (losses) arising during the period, pretax	2,335	(3,206)	(1,304)	(1,676)
Tax benefit (expense)	(911)	1,250	509	654
Reclassification to realized (gains) losses	56	16	119	16
Tax expense (benefit)	(22)	(6)	(46)	(6)
Postretirement Plans:				
Amortization of unrecognized net actuarial loss	205	93	410	186
Tax expense	(65)	(36)	(145)	(73)
Amortization of prior service cost and transition obligation	9	9	18	18
Tax expense	(3)	(4)	(7)	(8)
Other comprehensive income (loss)	1,604	(1,884)	(446)	(889)
Comprehensive income	$37,622	3,394	39,653	9,918

See notes to consolidated financial statements.

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First Bancorp and Subsidiaries
Consolidated Statements of Shareholders' Equity

(In thousands, except per share - unaudited)	Preferred Stock	Preferred Stock Discount	Common Stock Shares	Common Stock Amount	Common Stock Warrants	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Share-holders' Equity
Balances, January 1, 2008			14,378	$56,302		122,102	(4,334)	174,070
Net income						10,807		10,807
Cash dividends declared ($0.38 per common share)						(5,867)		(5,867)
Common stock issued under stock option plans			28	376				376
Common stock issued into dividend reinvestment plan			23	415				415
Common stock issued in acquisition			2,059	37,592				37,592
Tax benefit realized from exercise of nonqualified stock options				28				28
Stock-based compensation				145				145
Other comprehensive income							(889)	(889)
Balances, June 30, 2008			16,488	$94,858		127,042	(5,223)	216,677
Balances, January 1, 2009	$		16,574	$96,072		131,952	(8,156)	219,868
Net income						40,099		40,099
Preferred stock issued	65,000	(4,592)						60,408
Common stock warrants issued					4,592			4,592
Common stock issued under stock option plans			33	303				303

Common stock issued into dividend reinvestment plan			49	650				650
Cash dividends declared ($0.16 per common share)						(2,664)		(2,664)
Preferred dividends accrued						(1,561)		(1,561)
Accretion of preferred stock discount		402				(402)		
Tax benefit realized from exercise of nonqualified stock options				73				73
Stock-based compensation				311				311
Other comprehensive income							(446)	(446)
Balances, June 30, 2009	$65,000	(4,190)	16,656	$97,409	4,592	167,424	(8,602)	321,633

See notes to consolidated financial statements.

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First Bancorp and Subsidiaries
Consolidated Statements of Cash Flows

($ in thousands-unaudited)	Six Months Ended June 30, 2009	2008
Cash Flows From Operating Activities		
Net income	$40,099	10,807
Reconciliation of net income to net cash provided by operating activities:		
Provision for loan losses	8,411	3,592
Net security premium amortization (discount accretion)	408	(134)
Net purchase accounting adjustments - discount accretion	(334)	(366)
Loss on sale of securities available for sale	119	16
Other gains, primarily the acquisition gain	(53,679)	(257)
Increase in net deferred loan costs	(121)	(87)
Depreciation of premises and equipment	1,753	1,724
Stock-based compensation expense	311	145
Amortization of intangible assets	196	202
Deferred income tax expense (benefit)	15,616	(733)
Origination of presold mortgages in process of settlement	(36,040)	(35,402)
Proceeds from sales of presold mortgages in process of settlement	30,719	34,675
Decrease in accrued interest receivable	725	1,546
Decrease in other assets	1,489	1,181
Decrease in accrued interest payable	(2,759)	(894)
Increase (decrease) in other liabilities	3,387	(1,705)
Net cash provided by operating activities	10,300	14,310
Cash Flows From Investing Activities		
Purchases of securities available for sale	(63,514)	(85,996)
Purchases of securities held to maturity	(9,720)	(545)
Proceeds from maturities/issuer calls of securities available for sale	83,471	77,459
Proceeds from maturities/issuer calls of securities held to maturity	1,270	2,157
Proceeds from sales of securities available for sale	–	499
Net decrease (increase) in loans	32,663	(91,581)
Proceeds from sales of foreclosed real estate	1,992	1,857
Purchases of premises and equipment	(1,631)	(1,987)
Net cash received in acquisition	91,696	2,461
Net cash provided (used) by investing activities	136,227	(95,676)
Cash Flows From Financing Activities		
Net increase in deposits and repurchase agreements	89,683	32,203
Proceeds from (repayments of) borrowings, net	(296,409)	43,064
Cash dividends paid	(5,616)	(5,465)
Proceeds from issuance of preferred stock and common stock warrants	65,000	–
Proceeds from issuance of common stock	953	791
Tax benefit from exercise of nonqualified stock options	73	28
Net cash provided (used) by financing activities	(146,316)	70,621
Increase (decrease) in cash and cash equivalents	211	(10,745)

Cash and cash equivalents, beginning of period	224,780	166,600
Cash and cash equivalents, end of period	$224,991	155,855
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$27,309	32,766
Income taxes	6,136	7,231
Non-cash transactions:		
Unrealized loss on securities available for sale, net of taxes	(723)	(1,174)
Foreclosed loans transferred to other real estate	3,193	1,683

See notes to consolidated financial statements.

First Bancorp and Subsidiaries
Notes to Consolidated Financial Statements

(unaudited) For the Periods Ended June 30, 2009 and 2008

Note 1 – Basis of Presentation

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the consolidated financial position of the Company as of June 30, 2009 and 2008 and the consolidated results of operations and consolidated cash flows for the periods ended June 30, 2009 and 2008. All such adjustments were of a normal, recurring nature. Reference is made to the 2008 Annual Report on Form 10-K filed with the SEC for a discussion of accounting policies and other relevant information with respect to the financial statements. The results of operations for the periods ended June 30, 2009 and 2008 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated all subsequent events through August 10, 2009, the date the financial statements were issued.

Note 2 – Accounting Policies

Note 1 to the 2008 Annual Report on Form 10-K filed with the SEC contains a description of the accounting policies followed by the Company and a discussion of recent accounting pronouncements. The following paragraphs update that information as necessary.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements" (Statement 157). Statement 157 provides enhanced guidance for using fair value to measure assets and liabilities. The standard also requires expanded disclosures about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. As it relates to financial assets and liabilities, Statement 157 became effective for the Company as of January 1, 2008. For nonfinancial assets and liabilities, Statement 157 became effective for the Company on January 1, 2009. The Company's adoption of Statement 157 on January 1, 2008 and January 1, 2009 had no impact on the Company's financial statements. See Note 13 for the disclosures required by Statement 157.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" (Statement 141(R)) which replaces Statement 141, "Business Combinations." Statement 141(R) retains the fundamental requirement in Statement 141 that the acquisition method of accounting (formerly referred to as purchase method) be used for all business combinations and that an acquirer be identified for each business combination. Statement 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as of the date that the acquirer achieves control. Statement 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values. This Statement requires the acquirer to recognize acquisition-related costs and restructuring costs separately from the business combination as period expense. The Company adopted this statement on January 1, 2009 and applied its provisions to the assets acquired and liabilities assumed related to Cooperative Bank – see Note 4 for additional discussion.

In April 2008, the FASB issued FASB Staff Position (FSP) No. 142-3, "Determination of the Useful Life of Intangible Assets" (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." The intent of FSP 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R), "Business Combinations," and other U.S. generally accepted accounting principles. FSP 142-3 is effective for financial statements issued for fiscal years beginning after

December 15, 2008 and interim periods within those fiscal years, and early adoption was prohibited. Accordingly, FSP 142-3 became effective for the Company on January 1, 2009. The adoption of FSP 142-3 did not have a material impact on the Company's financial position, results of operations or cash flows.

On April 9, 2009, the FASB issued three staff positions related to fair value which are discussed in the following three paragraphs below. Each of the positions became effective as of and for the periods ended June 30, 2009.

FSP SFAS 115-2 and SFAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," ("FSP SFAS 115-2 and SFAS 124-2") categorizes losses on debt securities available-for-sale or held-to-maturity determined by management to be other-than-temporarily impaired as losses due to credit issues and losses related to all other factors. Other-than-temporary impairment (OTTI) exists when it is more likely than not that the security will mature or be sold before its amortized cost basis can be recovered. An OTTI related to credit losses should be recognized through earnings. An OTTI related to other factors should be recognized in other comprehensive income. The FSP does not amend existing recognition and measurement guidance related to OTTI impairments of equity securities. Annual disclosures required in SFAS 115 and FSP SFAS 115-1 and SFAS 124-1 are also required for interim periods (including the aging of securities with unrealized losses). Other than the required disclosures that are presented in Note 7, the adoption of this position did not impact the Company, but its provisions could impact the Company in future periods.

FSP SFAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly" recognizes that quoted prices may not be determinative of fair value when the volume and level of trading activity has significantly decreased. The evaluation of certain factors may necessitate that fair value be determined using a different valuation technique. Fair value should be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction, not a forced liquidation or distressed sale. If a transaction is considered to not be orderly, little, if any, weight should be placed on the transaction price. If there is not sufficient information to conclude as to whether or not the transaction is orderly, the transaction price should be considered when estimating fair value. An entity's intention to hold an asset or liability is not relevant in determining fair value. Quoted prices provided by pricing services may still be used when estimating fair value in accordance with SFAS 157; however, the entity should evaluate whether the quoted prices are based on current information and orderly transactions. Inputs and valuation techniques are required to be disclosed in addition to any changes in valuation techniques. The Company applied the provisions of this position in determining the fair market value of loans assumed in the Cooperative Bank acquisition – see Note 4 for additional discussion.

FSP SFAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" requires disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements and also requires those disclosures in summarized financial information at interim reporting periods. A publicly traded company includes any company whose securities trade in a public market on either a stock exchange or in the over-the-counter market, or any company that is a conduit bond obligor. Additionally, when a company makes a filing with a regulatory agency in preparation for sale of its securities in a public market, it is considered a publicly traded company for this purpose. The Company has presented the fair value disclosures required by this position in Note 13.

In May 2009, the FASB issued Statement No. 165 "Subsequent Events." The statement sets forth guidance concerning the recognition or disclosure of events or transactions that occur subsequent to the balance sheet date but prior to the release of the financial statements. The statement also defines "available to be issued" financial statements as financial statements that have received all the required approvals from management and other constituents. The statement sets forth that management of a public company must evaluate subsequent events for recognition and/or disclosure through the date of issuance, whereas private companies need only evaluate subsequent events through the date the financial statements became available to be issued. The statement also delineates between and defines the recognition and disclosure requirements for Recognized Subsequent Events and Non-Recognized Subsequent Events. Recognized Subsequent Events provide additional evidence about conditions

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that existed as of the balance sheet date and will be recognized in the entity's financial statements. Non-Recognized Subsequent Events provide evidence about conditions that did not exist as of the balance sheet date and if material will warrant disclosure of the nature of the subsequent event and the financial impact. Statement No. 165 requires disclosure of the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or available to be issued. This statement is effective for interim and annual reporting periods ending after June 15, 2009, and the Company has made the required disclosures in Note 1. The adoption of this guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In June 2009, the FASB issued Statement No. 166, "Accounting for the Transfer of Financial Assets and Amendment of FASB Statement No. 140 Instruments." Under FASB's Codification at ASC 105-10-65-1-d, SFAS No. 166 will remain authoritative until integrated into the FASB Codification. The statement removes the concept of a special purpose entity (SPE) from Statement 140 and removes the exception of applying FASB Interpretation 46 "Variable Interest Entities," to Variable Interest Entities that are SPEs. It limits the circumstances in which a transferor derecognizes a financial asset. The statement amends the requirements for the transfer of a financial asset to meet the requirements for "sale" accounting. The statement is effective for all interim and annual periods beginning after November 15, 2009. The Company does not expect the adoption to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In June 2009, the FASB issued Statement No. 167, "Amendments to FASB Interpretation No. 46(R)." This Statement amends Interpretation 46(R) to require an enterprise to perform an analysis to determine whether the enterprise's variable interest give it a controlling financial interest in the variable interest entity. The statement is effective for all interim and annual periods beginning after November 15, 2009. The Company does not expect the adoption to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

On July 1, 2009, the FASB's Generally Accepted Accounting Principles (GAAP) Codification became effective as the sole authoritative source of US GAAP. This codification was issued under FASB Statement No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162." This Codification reorganizes current GAAP for non-governmental entities into a topical index to facilitate accounting research and to provide users additional assurance that they have referenced all related literature pertaining to a given topic. Existing GAAP prior to the Codification was not altered in compilation of the GAAP Codification. The GAAP Codification encompasses all FASB Statements of Financial Accounting Standards, Emerging Issues Task Force statements, FASB Staff Positions, FASB Interpretations, FASB Derivative Implementation Guides, American Institute of Certified Public Accountants Statement of Positions, Accounting Principles Board Opinions and Accounting Research Bulletins along with the remaining body of GAAP effective as of June 30, 2009. Financial Statements issued for all interim and annual periods ending after September 15, 2009 will need to reference accounting guidance embodied in the Codification as opposed to referencing the prior authoritative pronouncements. Accounting literature included in the codification is referenced by Topic, Subtopic, Section and Paragraph.

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

Note 3 – Reclassifications

Certain amounts reported in the period ended June 30, 2008 have been reclassified to conform to the presentation for June 30, 2009. These reclassifications had no effect on net income or shareholders' equity for the periods presented, nor did they materially impact trends in financial information.

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Note 4 – Acquisition of Cooperative Bank

On June 19, 2009, the Company announced that First Bank, its banking subsidiary, had entered into a purchase and assumption agreement with the Federal Deposit Insurance Corporation (FDIC), as receiver for Cooperative Bank (sometimes referred to as "Cooperative"), Wilmington, North Carolina. Earlier that day, the North Carolina Commissioner of Banks issued an order requiring the closure of Cooperative Bank and appointing the FDIC as receiver. According to the terms of the agreement, First Bank acquired all deposits (except certain brokered deposits) and borrowings, and substantially all of the assets of Cooperative Bank and its subsidiary, Lumina Mortgage. All deposits were assumed by First Bank with no losses to any depositor.

Cooperative Bank operated through twenty-one branches in North Carolina and three branches in South Carolina with assets totaling approximately $959 million and approximately 200 employees.

The loans and foreclosed real estate purchased are covered by two loss share agreements between the FDIC and First Bank, which affords First Bank significant loss protection. Under the loss share agreements, the FDIC will cover 80% of covered loan and foreclosed real estate losses up to $303 million and 95% of losses in excess of that amount. The term for loss sharing on residential real estate loans is ten years, while the term for loss sharing on non-residential real estate loans is five years in respect to losses and eight years in respect to loss recoveries. The reimbursable losses from the FDIC are based on the book value of the relevant loan as determined by the FDIC at the date of the transaction. New loans made after that date are not covered by the shared-loss agreements.

First Bank received a $123 million discount on the assets acquired and paid no deposit premium. The acquisition was accounted for under the purchase method of accounting in accordance with Statement 141(R). The statement of net assets acquired as of June 19, 2009 and the resulting gain are presented in the following table. The purchased assets and assumed liabilities were recorded at their respective acquisition date fair values, and identifiable intangible assets were recorded at fair value. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as information relative to closing date fair values becomes available. The Company has recorded an estimated receivable from the FDIC in the amount of $241.4 million, which represents the fair value of the FDIC's portion of the losses that are expected to be incurred and reimbursed to the Company.

An acquisition gain totaling $53.8 million resulted from the acquisition and is included as a component of noninterest income on the statement of income. The amount of the gain is equal to the amount by which the fair value of assets purchased exceeded the fair value of liabilities assumed.

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($ in thousands)	As Recorded by Cooperative Bank	Fair Value Adjustments		As Recorded by First Bancorp
Assets				
Cash and cash equivalents	$66,096	–		66,096
Securities	40,189	–		40,189
Presold mortgages	3,249	–		3,249
Loans	828,958	(298,175)	(a)	530,783
Core deposit intangible	–	3,798	(b)	3,798
FDIC loss share receivable	–	241,369	(c)	241,369
Foreclosed properties	15,993	(3,534)	(d)	12,459
Other assets	4,178	(137)	(e)	4,041
Total	958,663	(56,679)		901,984
Liabilities				
Deposits	$706,139	5,922	(f)	712,061
Borrowings	153,056	6,409	(g)	159,465
Other	2,227	160	(e)	2,387
Total	861,422	12,491		873,913
Excess of assets received over liabilities	97,241	(69,170)		28,071
Less: Asset discount	(123,000)			
Cash received from FDIC at closing	25,759			25,759
Total gain recorded				$53,830

Explanation of Fair Value Adjustments

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

(b) This fair value adjustment represents the value of the core deposit base assumed in the acquisition based on a study performed by an independent consulting firm. This amount was recorded by the Company as an identifiable intangible asset and will be amortized as an expense on a straight-line basis over the average life of the core deposit base, which is estimated to be 8 years.

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

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

(e) This is immaterial adjustments made to acquired assets and assumed liabilities to reflect fair value.

(f) This fair value adjustment was recorded because the weighted average interest rate of Cooperative's time deposits exceeded the cost of similar wholesale funding at the time of the acquisition. This amount will be amortized to reduce interest expense on a declining basis over the average life of the portfolio of approximately 15 months.

(g) This fair value adjustment was recorded because the interest rates of Cooperative's fixed rate borrowings exceeded current interest rates on similar borrowings. This amount was realized shortly after the

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acquisition by prepaying the borrowings at a premium and thus there will be no future amortization related to this adjustment.

The operating results of First Bancorp for the period ended June 30, 2009 include the operating results of the acquired assets and assumed liabilities for the 11 days subsequent to the acquisition date of June 19, 2009 and were not material to the three or six month periods ended June 30, 2009. Due primarily to the significant amount of fair value adjustments and the FDIC loss sharing agreements now in place, historical results of Cooperative are not believed to be relevant to the Company's results, and thus no pro forma information is presented.

Note 5 – Equity-Based Compensation Plans

At June 30, 2009, the Company had the following equity-based compensation plans: the First Bancorp 2007 Equity Plan, the First Bancorp 2004 Stock Option Plan, the First Bancorp 1994 Stock Option Plan, and three plans that were assumed from acquired entities. The Company's shareholders approved all equity-based compensation plans, except for those assumed from acquired companies. The First Bancorp 2007 Equity Plan became effective upon the approval of shareholders on May 2, 2007. As of June 30, 2009, the First Bancorp 2007 Equity Plan was the only plan that had shares available for future grants.

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

Prior to the June 17, 2008 grant, stock option grants to employees generally had five-year vesting schedules (20% vesting each year) and had been irregular, generally falling into three categories - 1) to attract and retain new employees, 2) to recognize changes in responsibilities of existing employees, and 3) to periodically reward exemplary performance. Compensation expense associated with these types of grants is recorded pro-ratably over the vesting period. As it relates to directors, the Company has historically granted 2,250 vested stock options to each of the Company's non-employee directors in June of each year, and expects to continue doing so for the foreseeable future. Compensation expense associated with these director grants is recognized on the date of grant since there are no vesting conditions.

The June 17, 2008 grant of a combination of performance units and stock options has both performance conditions (earnings per share, or EPS, targets) and service conditions that must be met in order to vest. The 262,599 stock options and 81,337 performance units represent the maximum amount of options and performance units that could vest if the Company were to achieve specified maximum goals for earnings per share during the three annual performance periods ending on December 31, 2008, 2009, and 2010. Up to one-third of the total number of options and performance units granted will vest annually as of December 31 of each year beginning in 2010, if (1) the Company achieves specific EPS goals during the corresponding performance period and (2) the executive or key employee continues employment for a period of two years beyond the corresponding performance period. Compensation expense for this grant will be recorded over the various service periods based on the estimated number of options and performance units that are probable to vest. If the awards do not vest, no compensation cost will be recognized and any previously recognized compensation cost will be reversed. The Company did not achieve the minimum earnings per share performance goal for 2008, and thus one-third of the above grant has been permanently forfeited. During June 2009, as a result of the significant gain realized related to the Cooperative Bank acquisition (see Note 4), the Company determined that it was probable that the EPS goal for

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2009 would be met. Accordingly, the Company recorded compensation expense of $149,000 in June 2009 and expects to record compensation expense of approximately $75,000 on a quarterly basis through the vesting period of December 31, 2011. The Company does not believe that the EPS goals for 2010 will be met, and thus no compensation expense has been recorded related to that performance period.

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

At June 30, 2009, there were 774,245 options outstanding related to the three First Bancorp plans with exercise prices ranging from $9.75 to $22.12. At June 30, 2009, there were 864,941 shares remaining available for grant under the 2007 Equity Plan. The Company also has three stock option plans as a result of assuming plans of acquired companies. At June 30, 2009, there were 17,690 stock options outstanding in connection with these plans, with option prices ranging from $10.66 to $15.22.

The Company issues new shares when options are exercised.

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

The Company's only option grants for the six months ended June 30, 2009 were grants of 27,000 options to non-employee directors on June 1, 2009 (2,250 options per director). The per share weighted-average fair value of these was $6.06 on the date of the grant using the following assumptions:

	Six months ended June 30, 2009
Expected dividend yield	2.23%
Risk-free interest rate	3.28%
Expected life	7 years
Expected volatility	46.32%

During the six months ended June 30, 2008, the Company made the following grants - 1) 5,000 incentive stock options to a key employee on April 1, 2008, 2) 29,250 stock options to non-employee directors on June 1, 2008 (2,250 options per director), and 4) 262,599 stock options and 81,338 performance units to 19 executive officers and certain key employees on June 17, 2008. The per share weighted-average fair value for the stock option grants listed above was $5.09 on the date of the grant using the following weighted average assumptions:

	Six months ended June 30, 2008
Expected dividend yield	4.58%
Risk-free interest rate	4.17%

Expected life	9.7 years
Expected volatility	34.65%

For the three month periods ended June 30, 2009 and 2008, the Company recorded stock-based compensation expense of $311,000 and $142,000, respectively. For the six month periods ended June 30, 2008 and 2007, the Company recorded stock-based compensation expense of $311,000 and $145,000, respectively. Of the $311,000 in expense that was recorded in the three and six month periods ended June 30, 2009, approximately $149,000

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related to the June 17, 2008 grants to 19 officers and is classified as "personnel expense" on the Consolidated Statements of Income, while $162,000 relates to the June 1, 2009 director grants and is classified as "other operating expenses." Substantially all of the expense recorded in the three and six month periods ended June 30, 2008 relates to the June 1, 2008 director grants and is classified as "other operating expenses." Stock-based compensation expense is reflected as an adjustment to cash flows from operating activities on the Company's Consolidated Statement of Cash Flows. The Company recognized income tax benefits in the income statement related to stock-based compensation of $121,000 and $53,000 for the three month periods ended June 30, 2009 and 2008, respectively. The Company recognized income tax benefits in the income statement related to stock-based compensation in the same amounts of $121,000 and $56,000 for the six month periods ended June 30, 2009 and 2008, respectively

At June 30, 2009, the Company had $31,000 of unrecognized compensation costs related to unvested stock options that have vesting requirements based solely on service conditions. The cost is expected to be amortized over a weighted-average life of 3.2 years, with $9,000 being expensed in each of 2009 and 2010, $6,000 being expensed in each of 2011 and 2012, and $1,000 being expensed in 2013. At June 30, 2009, the Company had $1.6 million in unrecognized compensation expense associated with the June 17, 2008 award grant that has both performance conditions and service conditions. Based on the performance conditions, the Company believes that only $747,000 of this amount will ultimately vest, with approximately $150,000 to be recognized as expense in the second half of 2009 and approximately $300,000 to be recorded as expense in each of 2010 and 2011.

As noted above, certain of the Company's stock option grants contain terms that provide for a graded vesting schedule whereby portions of the award vest in increments over the requisite service period. As provided for under Statement 123(R), the Company has elected to recognize compensation expense for awards with graded vesting schedules on a straight-line basis over the requisite service period for the entire award. Statement 123(R) requires companies to recognize compensation expense based on the estimated number of stock options and awards that will ultimately vest. Over the past five years, there have been only minimal amounts of forfeitures and expirations, and therefore the Company assumes that all options granted without performance conditions will become vested.

The following table presents information regarding the activity for the first six months of 2009 related to all of the Company's stock options outstanding:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Contractual Term (years)	Aggregate Intrinsic Value
Balance at December 31, 2008	828,876	17.21		
Granted	27,000	14.35		
Exercised	(63,941)	13.53		$ 194,399
Forfeited	–	–		
Expired	–	–		
Outstanding at June 30, 2009	791,935	$ 17.41	5.3	$ 0

Exercisable at June 30, 2009	611,851	$	17.63	4.3	$ 0

The Company received $303,000 and $376,000 as a result of stock option exercises during the six months ended June 30, 2009 and 2008, respectively. The Company recorded $73,000 and $28,000 in associated tax benefits from the exercise of nonqualified stock options during the six months ended June 30, 2009 and 2008, respectively.

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As discussed above, the Company granted 81,337 performance units to 19 senior officers on June 17, 2008. Each performance unit represents the right to acquire one share of the Company's common stock upon satisfaction of the vesting conditions (discussed above). The fair market value of the Company's common stock on the grant date was $16.53 per share. One-third of this grant was forfeited on December 31, 2008 because the Company failed to meet the minimum performance goal required for vesting. The following table presents information regarding the activity during 2009 related to the Company's performance units outstanding:

	Nonvested Performance Units	
Six months ended June 30, 2009	Number of Units	Weighted-Average Grant-Date Fair Value
Nonvested at the beginning of the period	54,225	$ 16.53
Granted during the period	–	–
Vested during the period	–	–
Forfeited or expired during the period	–	–
Nonvested at the end of the period	54,225	$ 16.53

Note 6 – Earnings Per Common Share

Basic earnings per common share were computed by dividing net income available to common shareholders by the weighted average common shares outstanding. Diluted earnings per common share includes the potentially dilutive effects of the Company's equity plan. The following is a reconciliation of the numerators and denominators used in computing basic and diluted earnings per common share:

	For the Three Months Ended June 30,					
		2009			2008	
($ in thousands except per share amounts)	Income (Numer-ator)	Shares (Denom-inator)	Per Share Amount	Income (Numer-ator)	Shares (Denom-inator)	Per Share Amount
Basic EPS						
Net income available to common shareholders	$34,996	16,636,769	$2.10	$5,278	16,470,975	$0.32
Effect of Dilutive Securities	-	36,220		-	64,383	
Diluted EPS per common share	$34,996	16,672,989	$2.10	$5,278	16,535,358	$0.32

	For the Six Months Ended June 30,					
		2009			2008	
	Income	Shares	Per Share	Income	Shares	Per Share

($ in thousands except per share amounts)	(Numerator)	(Denominator)	Amount	(Numerator)	(Denominator)	Amount
Basic EPS						
Net income available to common shareholders	$38,136	16,622,697	$2.29	$10,807	15,425,787	$0.70
Effect of Dilutive Securities	-	36,220		-	71,642	
Diluted EPS per common share	$38,136	16,658,917	$2.29	$10,807	15,497,429	$0.70

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For both the three and six month periods ended June 30, 2009, there were 731,018 options that were antidilutive because the exercise price exceeded the average market price for the period. For both the three and six month periods ended June 30, 2008, there were 265,730 options that were antidilutive because the exercise price exceeded the average market price for the period. Antidilutive options have been omitted from the calculation of diluted earnings per share for the respective periods.

Note 7. Securities

The book values and approximate fair values of investment securities at June 30, 2009 and December 31, 2008 are summarized as follows:

	June 30, 2009				December 31, 2008			
	Amortized	Fair	Unrealized		Amortized	Fair	Unrealized	
(In thousands)	Cost	Value	Gains	(Losses)	Cost	Value	Gains	(Losses)
Securities available for sale:								
Government-sponsored enterprise securities	$62,394	63,110	731	(15)	88,951	90,424	1,473	
Mortgage-backed securities	95,676	96,460	1,072	(288)	46,340	46,962	779	(157)
Corporate bonds	15,778	13,057		(2,721)	18,885	16,848	380	(2,417)
Equity securities	16,654	16,963	335	(26)	16,744	16,959	280	(65)
Total available for sale								