FIRST BANCORP /NC/
Form 10-Q
May 10, 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 quarterly period ended March 31, 2010

Commission File Number 0-15572

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

North Carolina (State or Other Jurisdiction of Incorporation or Organization)	56-1421916 (I.R.S. Employer Identification Number)
341 North Main Street, Troy, North Carolina (Address of Principal Executive Offices)	27371-0508 (Zip Code)

(Registrant's telephone number, including area code) (910) 576-6171

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

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

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

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

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

The number of shares of the registrant's Common Stock outstanding on April 30, 2010 was 16,741,255.

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FIRST BANCORP AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS

Part I of this report contains statements that could be deemed forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act, which statements are inherently subject to risks and uncertainties. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often characterized by the use of qualifying words (and their derivatives) such as “expect,” “believe,” “estimate,” “plan,” “project,” or other statements concerning our opinions or judgment about future events. Factors that could influence the accuracy of such forward-looking statements include, but are not limited to, the financial success or changing strategies of our customers, our level of success in integrating acquisitions, actions of government regulators, the level of market interest rates, and general economic conditions. For additional information that could affect the matters discussed in this paragraph, see the “Risk Factors” section of our 2009 Annual Report on Form 10-K.

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Part I. Financial Information
Item 1 - Financial Statements

First Bancorp and Subsidiaries
Consolidated Balance Sheets

($ in thousands-unaudited)	March 31, 2010	December 31, 2009 (audited)	March 31, 2009
ASSETS			
Cash and due from banks, noninterest-bearing	$51,827	60,071	62,760
Due from banks, interest-bearing	200,343	283,175	113,493
Federal funds sold	2,948	7,626	13,277
Total cash and cash equivalents	255,118	350,872	189,530
Securities available for sale	169,887	179,755	168,593
Securities held to maturity (fair values of $44,074, $34,947, and $15,512)	43,206	34,413	15,600
Presold mortgages in process of settlement	1,494	3,967	5,014
Loans – non-covered	2,117,873	2,132,843	2,187,466
Loans – covered by FDIC loss share agreement	488,259	520,022	–
Total loans	2,606,132	2,652,865	2,187,466
Less: Allowance for loan losses	(39,690)	(37,343)	(31,912)
Net loans	2,566,442	2,615,522	2,155,554
Premises and equipment	54,009	54,159	52,097
Accrued interest receivable	14,122	14,783	12,118
FDIC loss share receivable	117,003	143,221	–
Goodwill	65,835	65,835	65,835
Other intangible assets	5,182	5,113	1,847
Other	100,890	77,716	25,362
Total assets	$3,393,188	3,545,356	2,691,550
LIABILITIES			
Deposits: Demand - noninterest-bearing	$282,298	272,422	231,263
NOW accounts	313,975	362,366	209,985
Money market accounts	537,296	496,940	381,362
Savings accounts	155,603	149,338	128,914
Time deposits of $100,000 or more	833,537	816,540	603,187
Other time deposits	747,843	835,502	584,408
Total deposits	2,870,552	2,933,108	2,139,119
Securities sold under agreements to repurchase	67,394	64,058	59,293
Borrowings	76,695	176,811	182,159
Accrued interest payable	2,935	3,054	4,324
Other liabilities	29,983	25,942	21,213
Total liabilities	3,047,559	3,202,973	2,406,108

Commitments and contingencies			
SHAREHOLDERS’ EQUITY			
Preferred stock, no par value per share. Authorized: 5,000,000 shares			
Issued and outstanding: 65,000 shares at March 31, 2010 and 2009	65,000	65,000	65,000
Discount on preferred stock	(3,575)	(3,789)	(4,391)
Common stock, no par value per share. Authorized: 20,000,000 shares			
Issued and outstanding: 16,739,005, 16,722,423, and 16,620,896 shares	98,440	98,099	96,687
Common stock warrants	4,592	4,592	4,592
Retained earnings	184,982	182,908	133,762
Accumulated other comprehensive income (loss)	(3,810)	(4,427)	(10,208)
Total shareholders’ equity	345,629	342,383	285,442
Total liabilities and shareholders’ equity	$3,393,188	3,545,356	2,691,550

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 March 31, 2010	2009
INTEREST INCOME		
Interest and fees on loans	$38,218	32,552
Interest on investment securities:		
Taxable interest income	1,530	1,780
Tax-exempt interest income	354	152
Other, principally overnight investments	207	39
Total interest income	40,309	34,523
INTEREST EXPENSE		
Savings, NOW and money market	1,864	2,135
Time deposits of $100,000 or more	3,472	4,796
Other time deposits	3,224	4,494
Securities sold under agreements to repurchase	114	196
Borrowings	458	792
Total interest expense	9,132	12,413
Net interest income	31,177	22,110
Provision for loan losses	7,623	4,485
Net interest income after provision for loan losses	23,554	17,625
NONINTEREST INCOME		
Service charges on deposit accounts	3,465	2,974
Other service charges, commissions and fees	1,345	1,121
Fees from presold mortgages	372	159
Commissions from sales of insurance and financial products	422	494
Data processing fees	32	29
Securities gains (losses)	9	(63)
Other gains	49	32
Total noninterest income	5,694	4,746
NONINTEREST EXPENSES		
Salaries	8,616	6,467
Employee benefits	2,484	2,359
Total personnel expense	11,100	8,826
Net occupancy expense	1,888	1,088
Equipment related expenses	1,139	981
Intangibles amortization	215	98
Other operating expenses	7,938	4,944
Total noninterest expenses	22,280	15,937
Income before income taxes	6,968	6,434

Income taxes	2,530	2,353
Net income	4,438	4,081
Preferred stock dividends and accretion	(1,027)	(941)
Net income available to common shareholders	$3,411	3,140
Earnings per common share:		
Basic	$0.20	0.19
Diluted	0.20	0.19
Dividends declared per common share	$0.08	0.08
Weighted average common shares outstanding:		
Basic	16,732,518	16,608,625
Diluted	16,763,110	16,617,732

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 March 31, 2010	2009
Net income	$4,438	4,081
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period, pretax	895	(3,639)
Tax (expense) benefit	(349)	1,419
Reclassification to realized (gains) losses	(9)	63
Tax expense (benefit)	4	(25)
Postretirement Plans:		
Amortization of unrecognized net actuarial loss	117	205
Tax expense	(46)	(80)
Amortization of prior service cost and transition obligation	9	9
Tax expense	(4)	(4)
Other comprehensive income (loss)	617	(2,052)
Comprehensive income	$5,055	2,029

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, 2009	$		16,574	$96,072		131,952	(8,156)	219,868
Net income						4,081		4,081
Preferred stock issued	65,000	(4,592)						60,408
Common stock warrants issued					4,592			4,592
Common stock issued under stock option plans			17	140				140
Common stock issued into dividend reinvestment plan			30	412				412
Cash dividends declared ($0.08 per common share)						(1,330)		(1,330)
Preferred dividends						(740)		(740)
Accretion of preferred stock discount		201				(201)		–
Tax benefit realized from exercise of nonqualified stock options				63				63
Other comprehensive income							(2,052)	(2,052)
Balances, March 31, 2009	$65,000	(4,391)	16,621	$96,687	4,592	133,762	(10,208)	285,442
Balances, January 1, 2010	$65,000	(3,789)	16,722	$98,099	4,592	182,908	(4,427)	342,383
Net income						4,438		4,438
Common stock issued under stock option plans			2	16				16
Common stock issued into dividend reinvestment plan			15	226				226
Cash dividends declared ($0.08 per common share)						(1,337)		(1,337)
Preferred dividends						(813)		(813)
Accretion of preferred stock discount		214				(214)		–
Stock-based compensation			–	99				99
Other comprehensive income							617	617
Balances, March 31, 2010	$65,000	(3,575)	16,739	$98,440	4,592	184,982	(3,810)	345,629

See notes to consolidated financial statements.

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First Bancorp and Subsidiaries
Consolidated Statements of Cash Flows

($ in thousands-unaudited)	Three Months Ended March 31, 2010	2009
Cash Flows From Operating Activities		
Net income	$4,438	4,081
Reconciliation of net income to net cash provided by operating activities:		
Provision for loan losses	7,623	4,485
Net security premium amortization	472	76
Net purchase accounting adjustments	(2,735)	(267)
Loss (gain) on securities available for sale	(9)	63
Other gains	(49)	(32)
Increase in net deferred loan costs	(123)	(74)
Depreciation of premises and equipment	984	863
Stock-based compensation expense	99	–
Amortization of intangible assets	215	98
Origination of presold mortgages in process of settlement	(17,134)	(15,135)
Proceeds from sales of presold mortgages in process of settlement	19,607	10,544
Decrease in accrued interest receivable	661	535
Decrease (increase) in other assets	1,692	(57)
Decrease in accrued interest payable	(119)	(753)
Increase in other liabilities	5,264	415
Net cash provided by operating activities	20,886	4,842
Cash Flows From Investing Activities		
Purchases of securities available for sale	(16,282)	(46,319)
Purchases of securities held to maturity	(9,935)	(513)
Proceeds from maturities/issuer calls of securities available for sale	26,598	45,217
Proceeds from maturities/issuer calls of securities held to maturity	1,117	890
Net decrease in loans	18,878	20,352
Proceeds from FDIC loss share agreements	20,914	–
Proceeds from sales of foreclosed real estate	3,016	1,163
Purchases of premises and equipment	(834)	(704)
Net cash paid for acquisition	(170)	–
Net cash provided by investing activities	43,302	20,086
Cash Flows From Financing Activities		
Net increase (decrease) in deposits and repurchase agreements	(58,036)	62,681
Repayments of borrowings, net	(100,000)	(185,000)
Cash dividends paid – common stock	(1,335)	(3,149)
Cash dividends paid – preferred stock	(813)	(325)
Proceeds from issuance of preferred stock and common stock warrants	–	65,000
Proceeds from issuance of common stock	242	552
Tax benefit realized from exercise of nonqualified stock options	–	63
Net cash used by financing activities	(159,942)	(60,178)
Decrease in cash and cash equivalents	(95,754)	(35,250)

Cash and cash equivalents, beginning of period	350,872	224,780
Cash and cash equivalents, end of period	$255,118	189,530
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$9,251	13,166
Income taxes	77	370
Non-cash transactions:		
Unrealized (loss) gain on securities available for sale, net of taxes	541	(2,182)
Foreclosed loans transferred to other real estate	29,441	1,693

See notes to consolidated financial statements.

First Bancorp and Subsidiaries
Notes to Consolidated Financial Statements

(unaudited) For the Periods Ended March 31, 2010 and 2009

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 March 31, 2010 and 2009 and the consolidated results of operations and consolidated cash flows for the periods ended March 31, 2010 and 2009. All such adjustments were of a normal, recurring nature. Reference is made to the 2009 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 March 31, 2010 and 2009 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated all subsequent events through the date the financial statements were issued.

Note 2 – Accounting Policies

Note 1 to the 2009 Annual Report on Form 10-K filed with the SEC contains a description of the accounting policies followed by the Company and discussion of recent accounting pronouncements. The following paragraphs update that information as necessary.

In June 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2009-16, which removes the concept of a special purpose entity (SPE) from Accounting Standards Codification (ASC) 860, "Transfers and Servicing." The guidance limits the circumstances in which a financial asset should be derecognized when the transferor has not transferred the entire financial asset by taking into consideration the transferor's continuing involvement. The standard requires that a transferor recognize and initially measure at fair value all assets obtained (including a transferor's beneficial interest) and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. The concept of a qualifying SPE is no longer applicable. The guidance was effective for all interim and annual periods beginning after November 15, 2009. The adoption of this guidance on January 1, 2010 did not have a material impact on the Company's consolidated statements.

In January 2010, the FASB issued ASU 2010-06, which is intended to improve disclosures about fair value measurements. The guidance requires entities to disclose significant transfers in and out of fair value hierarchy levels, and the reasons for the transfers, and to present information about purchases, sales, issuances and settlements separately in the reconciliation of fair value measurements using significant unobservable inputs (Level 3). Additionally, the guidance clarifies that a reporting entity should provide fair value measurements for each class of assets and liabilities and disclose the inputs and valuation techniques used for fair value measurements using significant other observable inputs (Level 2) and significant unobservable inputs (Level 3). The Company has applied the new disclosure requirements as of January 1, 2010, except for the disclosures about purchases, sales, issuances and settlements in the Level 3 reconciliation, which will be effective for interim and annual periods beginning after December 15, 2010. The adoption of this guidance has not had and is not expected to have a material impact on the Company's consolidated financial statements.

In February 2010, the FASB issued ASU 2010-09 which amended the subsequent events pronouncement issued in May 2009. The amendment removed the requirement to disclose the date through which subsequent events have been evaluated. This pronouncement became effective immediately upon issuance and is to be applied prospectively. The adoption of this pronouncement did not have a material impact on the Company's consolidated financial statements.

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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 March 31, 2009 have been reclassified to conform to the presentation for March 31, 2010. These reclassifications had no effect on net income or shareholders' equity for the periods presented, nor did they materially impact trends in financial information.

Note 4 – Equity-Based Compensation Plans

At March 31, 2010, the Company had the following equity-based compensation plans: the First Bancorp 2007 Equity Plan, the First Bancorp 2004 Stock Option Plan, the First Bancorp 1994 Stock Option Plan, and one plan that was assumed from an acquired entity. The Company's shareholders approved all equity-based compensation plans, except for those assumed from acquired companies. The First Bancorp 2007 Equity Plan became effective upon the approval of shareholders on May 2, 2007. As of March 31, 2010, the First Bancorp 2007 Equity Plan was the only plan that had shares available for future grants.

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

Prior to the June 17, 2008 grant, stock option grants to employees generally had five-year vesting schedules (20% vesting each year) and had been irregular, usually falling into three categories - 1) to attract and retain new employees, 2) to recognize changes in responsibilities of existing employees, and 3) to periodically reward exemplary performance. Compensation expense associated with these types of grants is recorded pro-ratably over the vesting period. As it relates to directors, the Company has historically granted 2,250 vested stock options to each of the Company's non-employee directors in June of each year. 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 have both performance conditions (earnings per share (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 number of options and performance units that could have vested if the Company were to achieve specified maximum goals for EPS during the three annual performance periods ending on December 31, 2008, 2009, and 2010. Up to one-third of the total number of options and performance units granted are subject to vesting annually as of December 31 of each year beginning in 2010, if (1) the Company achieves specific EPS goals during the corresponding performance period and (2) the executive or key employee continues employment for a period of two years beyond the corresponding performance period. Compensation expense for this grant is recorded over the various service periods based on the estimated number of options and performance units that are probable to vest. If the awards do not vest, no compensation cost is recognized and any previously recognized compensation cost will be reversed. The Company did not achieve the minimum EPS performance goal for 2008, and thus one-third of the above grant was permanently forfeited. As a result of a significant acquisition gain realized in June 2009 related to a failed bank acquisition, the Company achieved the EPS goal for 2009 and recorded compensation expense of $300,000 in 2009. Assuming no forfeitures, the Company will record compensation expense of approximately $300,000 in both 2010 and 2011 as a result of the vesting of the 2009 performance period awards. 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.

The December 11, 2009 grant of 29,267 long-term restricted shares of common stock to senior executives vests in accordance with the minimum rules for long-term equity grants for companies participating in the U.S. Treasury’s Troubled Asset Relief Program (TARP). These rules require that the vesting of the stock be tied to repayment of the financial assistance. For each 25% of total financial assistance repaid, 25% of the total long-term restricted stock may become transferrable. The total compensation expense associated with this grant was $398,000 and is being initially amortized over a four year period, with approximately $25,000 being expensed in each quarter of 2010-2013. See Note 13 for further information related to the Company’s participation in the TARP.

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 March 31, 2010, there were 742,145 options outstanding related to the three First Bancorp plans, with exercise prices ranging from $10.50 to $22.12. At March 31, 2010, there were 864,941 shares remaining available for grant under the First Bancorp 2007 Equity Plan. The Company also has a stock option plan as a result of a corporate acquisition. At March 31, 2010, there were 9,288 stock options outstanding in connection with the acquired plan, with option prices ranging from $10.66 to $15.22.

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

The Company measures the fair value of each option award on the date of grant using the Black-Scholes option-pricing model. The Company determines the assumptions used in the Black-Scholes option pricing model as follows: the risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant; the dividend yield is based on the Company’s dividend yield at the time of the grant (subject to adjustment if the dividend yield on the grant date is not expected to approximate the dividend yield over the expected life of the option); the volatility factor is based on the historical volatility of the Company’s stock (subject to adjustment if 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.

There were no option grants during the first quarters of 2010 or 2009.

The Company recorded stock-based compensation expense of $99,000 for the three-month period ended March 31, 2010 and recorded no stock-based compensation expense for the same period in 2009. All of the 2010 expense is classified as “personnel expense” on the Consolidated Statements of Income with approximately $74,000 relating to the June 17, 2008 grants to 19 senior officers and $25,000 relating to the vesting of the restricted stock awards granted in December 2009. 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 $39,000 in income tax benefits in the income statement related to stock-based compensation for the three-month period ended March 31, 2010 and none in the three month period ended March 31, 2009.

At March 31, 2010, 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 2.5 years, with $18,000 being expensed in 2010, $6,000 being expensed in each of 2011 and 2012, and $1,000 being expensed in 2013. At March 31, 2010, the Company had $1.4 million in

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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 the 2009 performance awards will ultimately vest, and therefore, the Company will record $75,000 in each quarter 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. The Company has elected to recognize compensation expense for awards with graded vesting schedules on a straight-line basis over the requisite service period for the entire award. Compensation expense is based on the estimated number of stock options and awards that will ultimately vest. Over the past five years, there have only been minimal amounts of forfeitures or expirations, and therefore the Company assumes that all options granted without performance conditions will become vested.

The following table presents information regarding the activity for the first three months of 2010 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, 2009	753,116	$ 17.73		
Granted	–	–		
Exercised	(1,667)	9.75		$ 6,168
Forfeited	–	–		
Expired	–	–		
Outstanding at March 31, 2010	751,449	$ 17.74	4.8	$ 63,657
Exercisable at March 31, 2010	571,865	$ 18.09	3.8	$ 63,657

The Company received $16,000 and $140,000 as a result of stock option exercises during the three months ended March 31, 2010 and 2009, respectively. The Company recorded no tax benefits from the exercise of nonqualified stock options during the three months ended March 31, 2010 compared to $63,000 in the first quarter of 2009.

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. Also, as discussed above, the Company granted 29,267 long-term restricted shares of common stock to certain senior executives on December 11, 2009.

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The following table presents information regarding the activity during 2010 related to the Company's outstanding performance units and restricted stock:

	Nonvested Performance Units		Long-Term Restricted Stock	
Three months ended March 31, 2010	Number of Units	Weighted-Average Grant-Date Fair Value	Number of Units	Weighted-Average Grant-Date Fair Value
Nonvested at the beginning of the period	54,225	$ 16.53	29,267	$ 13.59
Granted during the period	–	–	–	–
Vested during the period	–	–	–	–
Forfeited or expired during the period	–	–	–	–
Nonvested at end of period	54,225	$ 16.53	29,267	$ 13.59

Note 5 – 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 and the warrant issued to the U.S. Treasury in connection with the Company's participation in the Treasury's Capital Purchase Program – see Note 13 for additional information. 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 March 31,					
	2010			2009		
($ 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	$3,411	16,732,518	$0.20	$3,140	16,608,625	$0.19
Effect of Dilutive Securities	-	30,592		-	9,107	
Diluted EPS per common share	$3,411	16,763,110	$0.20	$3,140	16,617,732	$0.19

For the three months ended March 31, 2010 and 2009, there were 704,002 and 704,018 options, respectively, that were antidilutive because the exercise price exceeded the average market price for the period. In addition, the warrant issued to the U.S. Treasury (see Note 13) was anti-dilutive for the three months ended March 31, 2010 and 2009. Antidilutive options and warrants have been omitted from the calculation of diluted earnings per share for the respective period.

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Note 6 – Securities

The book values and approximate fair values of investment securities at March 31, 2010 and December 31, 2009 are summarized as follows:

	March 31, 2010				December 31, 2009			
($ in thousands)	Amortized Cost	Fair Value	Unrealized Gains	Unrealized (Losses)	Amortized Cost	Fair Value	Unrealized Gains	Unrealized (Losses)
Securities available for sale:								
Government-sponsored enterprise securities	$26,554	26,828	274	–	36,106	36,518	412	
Mortgage-backed securities	108,229	110,961	2,785	(53)	109,430	111,797	2,423	(56)
Corporate bonds	15,765	15,069	1	(697)	15,769	14,436		(1,333)
Equity securities	16,618	17,029	440	(29)	16,618	17,004	417	(31)
Total available for sale	$167,166	169,887	3,500	(779)	177,923	179,755	3,252	(1,420)
Securities held to maturity:								
State and local governments	$43,190	44,058	950	(82)	34,394	34,928	612	(78)
Other	16	16	–	–	19	19		
Total held to maturity	$43,206	44,074	950	(82)	34,413	34,947	612	(78)

Included in mortgage-backed securities at March 31, 2010 were collateralized mortgage obligations with an amortized cost of $4,818,000 and a fair value of $4,995,000. Included in mortgage-backed securities at December 31, 2009 were collateralized mortgage obligations with an amortized cost of $5,413,000 and a fair value of $5,601,000.

The Company owned Federal Home Loan Bank stock with a cost and fair value of $16,519,000 at March 31, 2010 and December 31, 2009, which is included in equity securities above and serves as part of the collateral for the Company's line of credit with the Federal Home Loan Bank. The investment in this stock is a requirement for membership in the Federal Home Loan Bank system.

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

($ in thousands)	Securities in an Unrealized Loss Position for Less than 12 Months		Securities in an Unrealized Loss Position for More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprise securities	$–	–	–	–	–	–
Mortgage-backed securities	18,184	53	–	–	18,184	53
Corporate bonds	–	–	14,610	697	14,610	697
Equity securities	15	6	24	23	39	29

State and local governments	8,464	82