FIRST COMMUNITY BANCSHARES INC /NV/
Form 10-Q
November 09, 2007

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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, 2007
Commission file number 000-19297
FIRST COMMUNITY BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Nevada	**55-0694814**
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)
P.O. Box 989 **Bluefield, Virginia**	**24605-0989**
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the to such filing requirements for the past 90 days.
þ Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.
Class Common Stock, $1.00 Par Value; 11,167,050 shares outstanding as of October 31, 2007

FIRST COMMUNITY BANCSHARES, INC.
FORM 10-Q
For the quarter ended September 30, 2007
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PART I. ITEM 1. Financial Statements

FIRST COMMUNITY BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Per Share Data)	September 30, 2007 (Unaudited)	December 31, 2006
Assets		
Cash and due from banks	$ 39,877	$ 47,909
Interest-bearing balances with banks	19,427	9,850
Total cash and cash equivalents	59,304	57,759
Securities available-for-sale (amortized cost of $681,164 at September 30, 2007; $508,423 at December 31, 2006)	671,360	508,370
Securities held-to-maturity (fair value of $12,776 at September 30, 2007; $20,350 at December 31, 2006)	12,548	20,019
Loans held for sale	2,294	781
Loans held for investment, net of unearned income	1,239,207	1,284,863
Less allowance for loan losses	13,190	14,549
Net loans held for investment	1,226,017	1,270,314
Premises and equipment	46,702	36,889
Other real estate owned	211	258
Interest receivable	13,289	12,141
Goodwill and other intangible assets	69,104	62,196
Other assets	73,817	64,971
Total Assets	$ 2,174,646	$ 2,033,698
Liabilities		
Deposits:		
Noninterest-bearing	$ 224,297	$ 244,771
Interest-bearing	1,178,740	1,150,000
Total Deposits	1,403,037	1,394,771
Interest, taxes and other liabilities	20,120	19,641
Federal funds purchased	15,600	7,700
Securities sold under agreements to repurchase	226,784	201,185
FHLB borrowings and other indebtedness	291,942	197,671
Total Liabilities	1,957,483	1,820,968
Stockholders Equity		
Preferred stock, par value undesignated; 1,000,000 shares authorized; none issued		
	11,499	11,499

Common stock, $1 par value; 25,000,000 shares authorized; 11,499,018 shares issued at September 30, 2007, and December 31, 2006, including 323,468 and 253,276 shares in treasury, respectively		
Additional paid-in capital	108,794	108,806
Retained earnings	112,911	100,117
Treasury stock, at cost	(10,051)	(7,924)
Accumulated other comprehensive (loss) income	(5,990)	232
Total Stockholders Equity	217,163	212,730
Total Liabilities and Stockholders Equity	$ 2,174,646	$ 2,033,698

See Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in Thousands, Except Per Share Data)	**2007**	**2006**	**2007**	**2006**
Interest Income				
Interest and fees on loans held for investment	$ 23,478	$ 24,578	$ 70,401	$ 73,009
Interest on securities-taxable	6,772	3,497	17,783	9,598
Interest on securities-nontaxable	2,078	1,877	6,140	5,519
Interest on deposits in banks	404	288	1,073	1,062
Total interest income	32,732	30,240	95,397	89,188
Interest Expense				
Interest on deposits	10,083	8,760	29,131	24,733
Interest on borrowings	5,506	3,724	15,094	10,461
Total interest expense	15,589	12,484	44,225	35,194
Net interest income	17,143	17,756	51,172	53,994
Provision for loan losses		579		1,798
Net interest income after provision for loan losses	17,143	17,177	51,172	52,196
Noninterest Income				
Wealth management income	908	623	2,931	2,038
Service charges on deposit accounts	3,006	2,611	8,077	7,683
Other service charges, commissions and fees	902	750	2,609	2,201
Gain (loss) on sale of securities	50	(6)	209	60
Other operating income	1,154	1,120	2,956	3,784
Total noninterest income	6,020	5,098	16,782	15,766
Noninterest Expense				
Salaries and employee benefits	6,544	6,151	19,120	20,834
Occupancy expense of bank premises	933	1,039	3,010	3,090
Furniture and equipment expense	844	871	2,447	2,579
Intangible amortization	105	88	313	322
Other operating expense	4,410	4,064	12,179	11,309
Total noninterest expense	12,836	12,213	37,069	38,134
Income before income taxes	10,327	10,062	30,885	29,828
Income tax expense	3,011	2,877	9,006	8,507
Net income	$ 7,316	$ 7,185	$ 21,879	$ 21,321
Basic earnings per common share	$ 0.65	$ 0.64	$ 1.95	$ 1.90

Diluted earnings per common share	$ 0.65	$ 0.64	$ 1.94	$ 1.89
Dividends declared per common share	$ 0.27	$ 0.26	$ 0.81	$ 0.78
Weighted average basic shares outstanding	11,179,322	11,174,479	11,232,895	11,202,631
Weighted average diluted shares outstanding	11,230,220	11,245,073	11,299,727	11,273,293

See Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
(In Thousands)	**2007**	**2006**
Operating activities:		
Net Income	$ 21,879	$ 21,321
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses		1,798
Depreciation and amortization of premises and equipment	2,362	2,564
Intangible amortization	313	322
Net investment amortization and accretion	435	602
Net gain on the sale of assets	(186)	(796)
Mortgage loans originated for sale	(34,794)	(23,204)
Proceeds from sales of mortgage loans	33,472	23,551
Gain on sales of loans	(191)	(119)
Deferred income tax expense (benefit)	552	(34)
Increase in interest receivable	(1,148)	(1,213)
Other operating activities, net	(967)	443
Net cash provided by operating activities	21,727	25,235
Investing activities:		
Proceeds from sales of securities available-for-sale	1,288	14,073
Proceeds from maturities and calls of securities available-for-sale	22,258	17,628
Proceeds from maturities and calls of securities held-to-maturity	7,437	3,974
Purchase of securities available-for-sale	(196,479)	(100,834)
Net decrease in loans held for investment	44,322	29,056
Purchase of FHLB stock	(4,077)	
Purchase of bank-owned life insurance		(25,000)
Net cash used in acquisition of GreenPoint	(5,135)	
Net cash used in branch divestiture		(13,721)
Purchase of premises and equipment	(11,981)	(4,094)
Proceeds from sale of equipment		323
Net cash used in investing activities	(142,367)	(78,595)
Financing activities:		
Net increase (decrease) in demand and savings deposits	13,283	(6,881)
Net (decrease) increase in time deposits	(5,180)	16,695
Net increase (decrease) in federal funds purchased	7,900	(67,000)
Net increase in securities sold under agreement to repurchase	25,599	48,836
Net increase in FHLB and other borrowings	93,698	68,896
Proceeds from the exercise of stock options	715	871
Excess tax benefit from stock-based compensation	290	139
Acquisition of treasury stock	(5,035)	(4,566)

Dividends paid	(9,085)	(8,735)
Net cash provided by financing activities	122,185	48,255
Increase (decrease) in cash and cash equivalents	1,545	(5,105)
Cash and cash equivalents at beginning of period	57,759	57,539
Cash and cash equivalents at end of period	$ 59,304	$ 52,434
Supplemental information Noncash items		
Transfer of loans to other real estate	$ 973	$ 883

See Notes to Consolidated Financial Statements.

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

(Dollars in Thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance January 1, 2006	$ 11,496	$ 108,573	$ 82,828	$ (7,625)	$ (771)	$ 194,501
Comprehensive income:						
Net income			21,321			21,321
Other comprehensive income, net of tax:						
Unrealized gain on securities available for sale					663	663
Less reclassification adjustment for gains realized in net income					(14)	(14)
Unrealized gain on derivative security					252	252
Comprehensive income			21,321		901	22,222
Common dividends declared			(8,735)			(8,735)
Net acquisition of 145,161 treasury shares				(4,566)		(4,566)
Acquisition of Stone Capital - 2,706 shares issued	3	85				88
Stock awards 5,132 shares issued		(42)		160		118
ESOP allocation 27,733 shares		16		867		883
Equity-based compensation expense		223				223
Tax benefit from exercise of stock options		189				189
Option exercises - 41,455 shares		(439)		1,298		859
Balance September 30, 2006	$ 11,499	$ 108,605	$ 95,414	$ (9,866)	$ 130	$ 205,782
Balance January 1, 2007	$ 11,499	$ 108,806	$ 100,117	$ (7,924)	$ 232	$ 212,730
Comprehensive income:						
Net income			21,879			21,879
Other comprehensive income, net of tax:						
Unrealized loss on securities available-for-sale					(5,834)	(5,834)

Less reclassification adjustment for gains realized in net income					(16)	(16)
Unrealized loss on derivative security					(372)	(372)
Comprehensive income			21,879		(6,222)	15,657
Common dividends declared			(9,085)			(9,085)
Acquisition of 163,500 treasury shares				(5,035)		(5,035)
Acquisition of GreenPoint Insurance - 49,088 shares issued		133		1,524		1,657
Equity-based compensation expense		121		87		208
Tax benefit from exercise of stock options		337				337
Option exercises - 41,470 shares		(603)		1,297		694
Balance September 30, 2007	$ 11,499	$ 108,794	$ 112,911	$ (10,051)	$ (5,990)	$ 217,163

See Notes to Consolidated Financial Statements.

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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 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, 2006, has been derived from the audited financial statements included in the Company s 2006 Annual Report on Form 10-K. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States 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 2006 Annual Report on Form 10-K.

A more complete and detailed description of First Community s significant accounting policies is included within Footnote 1 to the Company s Annual Report on Form 10-K for December 31, 2006. 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 one business segment, community banking.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, which seeks to reduce the diversity in practice associated with the accounting and reporting for uncertainty in income tax positions. This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The Company adopted FIN 48 on January 1, 2007, and the adoption did not have an effect on its consolidated financial statements. The Company includes interest and penalties related to income tax liabilities in income tax expense. The Company and its subsidiaries tax filings for the years ended December 31, 2003 through 2006 are currently open to audit under statutes of limitation by the Internal Revenue Service and various state tax departments.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140. SFAS 156 requires that all separately recognized servicing assets and liabilities be initially measured at fair value and permits (but does not require) subsequent measurement of servicing assets and liabilities at fair value. This statement is effective for fiscal years beginning after September 15, 2006. The adoption of this standard did not have a material effect on the financial condition, the results of operations, or liquidity of the Company.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption permitted. The Company must adopt these new requirements no later than the first quarter of 2008. The Company has not yet determined the effect of adopting SFAS 157 on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 123(R). SFAS 158 requires an employer to: (a) recognize in its statement of financial position an asset for a plan s overfunded status or a liability for a plan s underfunded status; (b) measure a plan s assets and its obligations that determine its funded status as of the end of the employer s fiscal year (with limited exceptions); and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in comprehensive

income. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the

fiscal year ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The Company does not expect the full adoption of this standard to have a significant impact on its consolidated financial statements.

In September 2006, the Emerging Issues Task Force reached a consensus regarding EITF 06-4 Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. The scope of EITF 06-4 is limited to the recognition of a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods. Therefore, this EITF would not apply to a split-dollar life insurance arrangement that provides a specified benefit to an employee that is limited to the employee s active service period with an employer. EITF 06-4 is effective for fiscal years beginning after December 15, 2007, with earlier application permitted. The Company is currently evaluating the impact of the adoption of this EITF on its consolidated financial statements.

In September 2006, the Emerging Issues Task Force reached a consensus regarding EITF 06-5 Accounting for Purchases of Life Insurance Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4. The scope of EITF 06-5 is limited to the determination of net cash surrender value of a life insurance contract in accordance with Technical Bulletin 85-4. This EITF outlines when contractual limitations of the policy should be considered when determining the net realizable value of the contract. EITF 06-5 is effective for fiscal years beginning after December 15, 2006, with earlier application permitted. The adoption of EITF 06-5 did not have a material effect on the condition, results of operations, or liquidity of the Company.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. The Statement s objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the company s choice to use fair value on its earnings. It also requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. SFAS 159 is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of Statement 157. The Company did not elect early adoption as provided for in the Statement, and is currently evaluating the impact, if any, of adopting this Statement on the consolidated financial statements.

Note 2. Mergers, Acquisitions and Branching Activity

In September 2007, the Company completed the acquisition of GreenPoint Insurance Group, Inc. (GreenPoint), a High Point, North Carolina, insurance agency. In connection with the initial payment of approximately $1.66 million, the Company issued 49,088 shares of common stock. Under the terms of the stock purchase agreement, former shareholders of GreenPoint are entitled to additional consideration aggregating up to $1.45 million in the form of cash or the Company s common stock, valued at the time of issuance, if certain future operating performance targets are met. If those operating targets are met, the value of the consideration ultimately paid will be added to the cost of the acquisition, which will increase the amount of goodwill related to the acquisition. The acquisition of GreenPoint added $7.19 million of goodwill and intangibles. The Company is in the process of identifying and valuing intangibles. The Company also assumed $5.57 million debt in connection with the acquisition, of which approximately $5.00 million was paid off at closing.

In October 2007, the Company opened a new branch location in Daniels, West Virginia. In March 2007, the Company opened two new branch locations in the Winston-Salem, North Carolina, area. The Company currently has plans to open four more branch offices during the next six months. In Richmond, Virginia, locations are planned for the Chesterfield Towne Center and on Mechanicsville Turnpike, Route 360. In West Virginia, locations are planned for Summersville and Princeton.

In December 2006, the Company completed the sale of its Rowlesburg, West Virginia, branch location. At the time of the sale, the branch had deposits and repurchase agreements totaling approximately $10.6 million and loans of approximately $2.2 million. The transaction resulted in a pre-tax gain of approximately $333 thousand.

In November 2006, the Company completed the acquisition of Investment Planning Consultants, Inc. (IPC), a registered investment advisory firm. In connection with the initial payment of approximately $1.47 million, the Company issued 39,874

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shares of common stock. Under the terms of the stock purchase agreement, former shareholders of IPC are entitled to additional consideration aggregating up to $1.43 million in the form of the Company s common stock, valued at the time of issuance, if certain future operating performance targets are met. If those operating targets are met, the value of the consideration ultimately paid will be added to the cost of the acquisition, which will increase the amount of goodwill related to the acquisition.

In June 2006, the Company sold its Drakes Branch, Virginia, location. At the time of the sale, the branch had deposits and repurchase agreements totaling approximately $16.4 million and loans of approximately $1.9 million. The transaction resulted in a pre-tax gain of approximately $702 thousand.

Note 3. Investment Securities

As of September 30, 2007, and December 31, 2006, the amortized cost and estimated fair value of available-for-sale securities are as follows:

	September 30, 2007			
(In Thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. Government agency securities	$ 136,788	$ 292	$ (428)	$ 136,652
States and political subdivisions	187,661	1,632	(2,285)	187,008
Corporate notes	164,880		(8,620)	156,260
Mortgage-backed securities	183,553	398	(2,376)	181,575
Equities	8,282	1,832	(249)	9,865
Total	$ 681,164	$ 4,154	$ (13,958)	$ 671,360

	December 31, 2006			
	Amortized Cost	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. Government agency securities	$ 117,777	$	$ (1,716)	$ 116,061
States and political subdivisions	152,189	2,379	(521)	154,047
Corporate notes	85,080	350	(397)	85,033
Mortgage-backed securities	146,444	206	(1,896)	144,754
Equities	6,933	1,615	(73)	8,475
Total	$ 508,423	$ 4,550	$ (4,603)	$ 508,370

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As of September 30, 2007, and December 31, 2006, the amortized cost and estimated fair value of held-to-maturity securities are as follows:

	September 30, 2007			
(In Thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
States and political subdivisions	$ 12,172	$ 230	$ (2)	$ 12,400
Mortgage-backed securities	1			1
Other securities	375			375
Total	$ 12,548	$ 230	$ (2)	$ 12,776

	December 31, 2006			
	Amortized Cost	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
States and political subdivisions	$ 19,638	$ 334	$ (2)	$ 19,970
Mortgage-backed securities	6			6
Other securities	375		(1)	374
Total	$ 20,019	$ 334	$ (3)	$ 20,350

The following table reflects those investments in an unrealized loss position at September 30, 2007, and December 31, 2006. There were no securities in a continuous unrealized loss position for 12 or more months which the Company does not have the ability to hold until the security matures or recovers in value.

	September 30, 2007					
	Less than 12 Months		**12 Months or longer**		**Total**	
Description of Securities *(In Thousands)*	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U. S. Government agency securities	$	$	$ 29,926	$ (428)	$ 29,926	$ (428)
States and political subdivisions	62,279	(1,721)	34,524	(566)	96,803	(2,287)
Corporate Notes	126,259	(8,479)	10,375	(141)	136,634	(8,620)
Mortgage-backed securities	97,006	(1,333)	50,849	(1,043)	147,855	(2,376)
Equity securities	1,551	(198)	1,632	(51)	3,183	(249)
Total	$ 287,095	$ (11,731)	$ 127,306	$ (2,229)	$ 414,401	$ (13,960)

	December 31, 2006					
	Less than 12 Months		**12 Months or longer**		**Total**	
Description of Securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U. S. Government agency securities	$ 60,416	$ (517)	$ 55,645	$ (1,199)	$ 116,061	$ (1,716)
States and political subdivisions	10,732	(34)	36,797	(489)	47,529	(523)

Corporate Notes	28,339	(213)	27,698	(185)	56,037	(398)
Mortgage-backed securities	50,093	(223)	66,620	(1,673)	116,713	(1,896)
Equity securities	2,186	(70)	32	(3)	2,218	(73)
Total	$ 151,766	$ (1,057)	$ 186,792	$ (3,549)	$ 338,558	$ (4,606)

At September 30, 2007, the combined depreciation in value of the 276 individual security holdings in an unrealized loss position was 2.04% of the combined reported value of the aggregate securities portfolio. Management does not believe any individual unrealized loss as of September 30, 2007, represents other-than-temporary impairment. The Company has the intent and ability to hold these securities until such time as the value recovers or the securities mature. Furthermore, the

Company believes the declines in value are attributable to changes in market interest rates and not the credit quality of the issuer.

Note 4. Loans

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

	September 30, 2007		December 31, 2006	
(Dollars in Thousands)	**Amount**	**Percent**	**Amount**	**Percent**
Loans held for investment:				
Commercial and agricultural	$ 94,168	7.60%	$ 106,645	8.30%
Commercial real estate	396,147	31.97%	421,067	32.77%
Residential real estate	500,760	40.41%	506,370	39.41%
Construction	167,089	13.48%	158,566	12.34%
Consumer	77,724	6.27%	88,666	6.90%
Other	3,319	0.27%	3,549	0.28%
Total	$ 1,239,207	100.00%	$ 1,284,863	100.00%
Loans held for sale	$ 2,294		$ 781	

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. These instruments involve, to varying degrees, elements of credit and interest rate risk beyond the amount recognized on the balance sheet. The contractual amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. The Company s exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit and financial guarantees written is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon extension of credit is based on management s credit evaluation of the counterparties. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Standby letters of credit and written financial guarantees are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. To the extent deemed necessary, collateral of varying types and amounts is held to secure customer performance under certain of those letters of credit outstanding.

Financial instruments whose contract amounts represent credit risk at September 30, 2007, are commitments to extend credit (including availability of lines of credit) of $222.12 million and standby letters of credit and financial guarantees written of $3.23 million. Additionally, the Company had gross notional amount of outstanding commitments to lend related to secondary market mortgage loans of $8.10 million at September 30, 2007.

Note 5. Allowance for Loan Losses

The allowance for loan losses is maintained at a level sufficient to absorb probable loan losses inherent in the loan portfolio. The allowance is increased by charges to earnings in the form of provision for loan losses and recoveries of

prior loan charge-offs, and decreased by loans charged off. The provision is calculated to bring the allowance to a level which, according to a systematic process of measurement, reflects the amount management estimates is needed to absorb probable losses within the portfolio.

Management performs periodic assessments to determine the appropriate level of allowance. Differences between actual loan loss experience and estimates are reflected through adjustments that are made by either increasing or decreasing the loss provision based upon current measurement criteria. Commercial, consumer and mortgage loan portfolios are evaluated

separately for purposes of determining the allowance. The specific components of the allowance include allocations to individual commercial credits and allocations to the remaining non-homogeneous and homogeneous pools of loans. Management s allocations are based on judgment of qualitative and quantitative factors about both macro and micro economic conditions reflected within the portfolio of loans and the economy as a whole. Factors considered in this evaluation include, but are not necessarily limited to, probable losses from loan and other credit arrangements, general economic conditions, changes in credit concentrations or pledged collateral, historical loan loss experience, and trends in portfolio volume, maturities, composition, delinquencies, and non-accruals. While management has allocated the allowance for loan losses to various portfolio segments, the entire allowance is available for use against any type of loan loss deemed appropriate by management.

The following table details the Company s allowance for loan loss activity for the three- and nine-month periods ended September 30, 2007 and 2006.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(In Thousands)	**2007**	**2006**	**2007**	**2006**
Beginning balance	$ 13,934	$ 14,710	$ 14,549	$ 14,736
Provision for loan losses		579		1,798
Charge-offs	(1,009)	(832)	(2,813)	(2,936)
Recoveries	265	489	1,454	1,348
Ending balance	$ 13,190	$ 14,946	$ 13,190	$ 14,946

Note 6. Deposits

The following is a summary of interest-bearing deposits by type as of September 30, 2007, and December 31, 2006.

(In Thousands)	**September 30, 2007**	**December 31, 2006**
Interest-bearing demand deposits	$ 143,719	$ 140,578
Savings deposits	348,457	317,678
Certificates of deposit	686,564	691,744
Total	$ 1,178,740	$ 1,150,000

Note 7. Borrowings

The following schedule details the Company s Federal Home Loan Bank (FHLB) borrowings and other indebtedness at September 30, 2007, and December 31, 2006.

(In thousands)	**September 30, 2007**	**December 31, 2006**
FHLB borrowings	$ 275,905	$ 182,207
Subordinated debt	15,464	15,464
Other long-term debt	573	
Total	$ 291,942	$ 197,671

FHLB borrowings include $275.00 million in convertible and callable advances and $905 thousand of noncallable term advances from the FHLB at September 30, 2007. The weighted average interest rates of advances are 4.46% and 4.64% at September 30, 2007, and December 31, 2006, respectively.

The Company has entered into a derivative interest rate swap instrument where it receives LIBOR-based variable interest payments and pays fixed interest payments. The notional amount of the derivative swap is $50 million and effectively fixes a portion of the FHLB borrowings at approximately 4.34%. After considering the effect of the interest rate swap, the effective weighted average interest rate of all FHLB borrowings is 4.35% at September 30, 2007. The fair value of the interest rate swap was $(180) thousand at September 30, 2007.

At September 30, 2007, the FHLB advances have maturities between three and fourteen years. The scheduled maturities of the advances are as follows:

(In Thousands)	**Amount**
2007	$
2008	
2009	
2010	25,000
2011	
2012 and thereafter	250,905
Total	$ 275,905

The callable advances may be redeemed at quarterly intervals after various lockout periods. These call options may substantially shorten the lives of these instruments. If these advances are called, the debt may be paid in full, converted to another FHLB credit product, or converted to a fixed or adjustable rate advance. Prepayment of the advances may result in substantial penalties based upon the differential between contractual note rates and current advance rates for similar maturities. Advances from the FHLB are secured by stock in the FHLB of Atlanta, qualifying first mortgage loans, mortgage-backed securities, and certain other securities.

Also included in borrowings is $15.46 million of junior subordinated debentures (the Debentures) issued by the Company in October 2003 to an unconsolidated trust subsidiary, FCBI Capital Trust (the Trust), with an interest rate of three-month LIBOR plus 2.95%. The Trust was able to purchase the Debentures through the issuance of trust preferred securities which had substantially identical terms as the Debentures. The Debentures mature on October 8, 2033, and are callable beginning October 8, 2008. The net proceeds from the offering were contributed as capital to the Company s subsidiary bank to support further growth.

The Company has committed to irrevocably and unconditionally guarantee the following payments or distributions with respect to the preferred securities to the holders thereof to the extent that the Trust has not made such payments or distributions: (i) accrued and unpaid distributions, (ii) the redemption price, and (iii) upon a dissolution or termination of the trust, the lesser of the liquidation amount and all accrued and unpaid distributions and the amount of assets of the trust remaining available for distribution, in each case to the extent the Trust has funds available.

Note 8. Comprehensive Income

Comprehensive income is the total of net income and other comprehensive income. The following table summarizes the components of comprehensive income.

	For the Three Months Ended September 30,		**For the Nine Months Ended September 30,**	
(In Thousands)	**2007**	**2006**	**2007**	**2006**
Net income	$ 7,316	$ 7,185	$ 21,879	$ 21,321
Other comprehensive income Unrealized (loss) gain on securities available-for-sale	(2,055)	6,673	(9,723)	1,087
Reclassification adjustment for losses (gains) realized in net income	52	4	(27)	(23)
Unrealized (loss) gain on derivative securities	(1,095)	(1,090)	(620)	413
Income tax effect	1,239	(2,220)	4,148	(576)
Total other comprehensive (loss) income	(1,859)	3,367	(6,222)	901
Comprehensive income	$ 5,457	$ 10,552	$ 15,657	$ 22,222

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Note 9. Commitments and Contingencies

In the normal course of business, the Company is a defendant in various legal actions and asserted claims. While the Company and its legal counsel are unable to assess the ultimate outcome of each of these matters with certainty, the resolution of these actions, singly or in the aggregate, should not have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

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

The following discussion and analysis is provided to address information about First Community Bancshares, Inc. s (the Company) financial condition and results of operations. This discussion and analysis should be read in conjunction with the Company s 2006 Annual Report on Form 10-K and the other financial information included in this report.

The Company is a multi-state financial holding company headquartered in Bluefield, Virginia, with total assets of $2.17 billion at September 30, 2007. Through its community bank subsidiary, First Community Bank, N. A. (the Bank), the Company provides financial, trust and investment advisory services to individuals and commercial customers through over fifty locations in the four states of Virginia, West Virginia, North Carolina and Tennessee. The Company is also the parent of GreenPoint Insurance Group, Inc., a North Carolina-based full-service insurance agency offering commercial and personal lines (GreenPoint). The Bank is the parent of Investment Planning Consultants, Inc., a SEC-registered investment advisory firm that offers wealth management and investment advice (IPC). The Company s common stock is traded on the NASDAQ Global Select Market under the symbol FCBC .

FORWARD LOOKING STATEMENTS

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

These forward-looking statements include, among others, statements with respect to the Company s beliefs, plans, objectives, goals, guidelines, expectations, anticipations, estimates and intentions that are subject to significant risks and uncertainties and are subject to change based on various factors (many of which are beyond the Company s control). The words may , could , should , would , believe , anticipate , estimate , expect , intend , plan expressions are intended to identify forward-looking statements. The following factors, among others, could cause the Company s financial performance to differ materially from that expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System; inflation, interest rate, market and monetary fluctuations; the timely development of competitive new products and services of the Company and the acceptance of these products and services by new and existing customers; the willingness of customers to substitute competitors products and services for the Company s products and services and vice versa; the impact of changes in financial services laws and regulations (including laws concerning taxes, banking, securities and insurance); technological changes; the effect of acquisitions, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions; the growth and profitability of the Company s non-interest or fee income being less than expected; unanticipated regulatory or judicial proceedings; changes in consumer spending and saving habits; and the success of the Company at managing the risks involved in the foregoing.

The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company. These factors are described in greater detail in Item 1A. Risk Factors of the Company s 2006 Annual Report on Form 10-K.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

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

Estimates, assumptions, and judgments are necessary principally when assets and liabilities are required to be recorded at estimated fair value, when a decline in the value of an asset carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be

recorded based upon the probability of occurrence of a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by third party sources, when available. When third party information

is not available, valuation adjustments are estimated by management primarily through the use of internal modeling techniques and appraisal estimates.

The Company s accounting policies are fundamental to understanding Management s Discussion and Analysis of Financial Condition and Results of Operation. The disclosures presented in the Notes to the Consolidated Financial Statements and in Management s Discussion and Analysis provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for loan losses, accounting for acquisitions and intangible assets, and accounting for income taxes as the accounting areas that require the most subjective or complex judgments. The identified critical accounting policies are described in detail in the Company s 2006 Annual Report on Form 10-K. There have been no material changes in the Company s critical accounting policies since December 31, 2006.

COMPANY OVERVIEW

The Company is a full service commercial financial holding company which operates within the four-state region of Virginia, West Virginia, North Carolina, and Tennessee. The Company operates through the Bank, IPC, and GreenPoint, and offers a wide range of financial services. The Company reported total assets of $2.17 billion at September 30, 2007.

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

The Company also conducts asset management activities through its Trust and Financial Services Division and its registered investment advisory firm, IPC. These two divisions manage assets with a market value of $844 million. These assets are not assets of the Company, but are managed under various fee-based arrangements as fiduciary or agent.

MERGERS, ACQUISITIONS AND BRANCHING ACTIVITY

In September 2007, the Company acquired GreenPoint, a High Point, North Carolina, insurance agency. As of September 30, 2007, GreenPoint had annualized commission revenues of approximately $4.60 million. In connection with the initial payment of approximately $1.66 million, the Company issued 49,088 shares of common stock. Under the terms of the stock purchase agreement, former shareholders of GreenPoint are entitled to additional consideration aggregating up to $1.45 million in the form of cash or the Company s common stock, valued at the time of issuance, if certain future operating performance targets are met. If those operating targets are met, the value of the consideration ultimately paid will be added to the cost of the acquisition, which will increase the amount of goodwill related to the acquisition. The acquisition of GreenPoint added $7.19 million of goodwill and intangibles. The Company is in the process of identifying and valuing intangibles. The Company also assumed $5.57 million debt in connection with the acquisition, of which approximately $5.00 million was paid off at closing.

In October 2007, the Company opened a new branch location in Daniels, West Virginia. In March 2007, the Company opened two new branch locations in the Winston-Salem, North Carolina, area. The Company currently has plans to open four more branch offices during the next six months. In Richmond, Virginia, locations are planned for the Chesterfield Towne Center and on Mechanicsville Turnpike, Route 360. In West Virginia, locations are planned for Summersville and Princeton.

In December 2006, the Company completed the sale of its Rowlesburg, West Virginia, branch location. At the time of the sale, the branch had deposits and repurchase agreements totaling approximately $10.6 million and loans of approximately $2.2 million. The transaction resulted in a pre-tax gain of approximately $333 thousand.

In November 2006, the Company completed the acquisition of IPC, a registered investment advisory firm. In connection with the initial payment of approximately $1.47 million, the Company issued 39,874 shares of common

stock. Under the terms of the stock purchase agreement, former shareholders of IPC are entitled to additional consideration aggregating up to $1.43 million in

the form of the Company s common stock, valued at the time of issuance, if certain future operating performance targets are met. If those operating targets are met, the value of the consideration ultimately paid will be added to the cost of the acquisition, which will increase the amount of goodwill related to the acquisition.

In June 2006, the Company sold its Drakes Branch, Virginia, branch office. At the time of the sale, the branch had deposits and repurchase agreements totaling approximately $16.4 million and loans of approximately $1.9 million. The transaction resulted in a gain of approximately $702 thousand. The sale of this and the previously referenced Rowlesburg branch were designed to enhance the efficiency of the Company s branch network.

RESULTS OF OPERATIONS

Overview

Net income for the three months ended September 30, 2007, was $7.32 million, or $0.65 per basic and diluted share, compared with $7.19 million or $0.64 per basic and diluted share for the three months ended September 30, 2006, an improvement of $131 thousand, or 1.82%. Return on average assets was 1.34% for the three months ended September 30, 2007, compared with 1.45% for the same period in 2006. Return on average equity for the three months ended September 30, 2007, was 13.31% compared with 14.05% for the three months ended September 30, 2006.

Net income for the nine months ended September 30, 2007, was $21.88 million, or $1.95 per basic and $1.94 per diluted share, compared with $21.32 million or $1.90 per basic and $1.89 per diluted share for the nine months ended September 30, 2006, an improvement of $558 thousand, or 2.62%. Return on average assets was 1.38% for the nine months ended September 30, 2007, compared with 1.45% for the same period in 2006. Return on average equity for the nine months ended September 30, 2007, was 13.40%, compared with 14.29% for the nine months ended September 30, 2006.

Net Interest Income Quarterly Comparison (See Table I)

Net interest income, the largest contributor to earnings, was $17.14 million for the three months ended September 30, 2007, compared with $17.76 million for the corresponding period in 2006, a decrease of $613 thousand, or 3.45%. Tax-equivalent net interest income totaled $18.28 million for the three months ended September 30, 2007, a decrease of $494 thousand from $18.78 million for the third quarter of 2006. The net decrease was due mostly to increases in rates paid on interest-bearing liabilities which outpaced increases in the rates earned on loans and securities.

Compared with the third quarter of 2006, average earning assets increased $184.58 million while interest-bearing liabilities increased $194.93 million. The yield on average earning assets decreased by 13 basis points to 6.86% from 6.99%. Total cost of interest-bearing liabilities increased 34 basis points between the third quarters of 2006 and 2007, which resulted in a net interest rate spread that was 47 basis points lower at 3.23% compared with 3.70% for the same period last year. The Company s tax-equivalent net interest margin of 3.70% for the three months ended September 30, 2007, decreased 50 basis points from 4.20% for the same period of 2006.

The rate earned on loans increased one basis point to 7.48% from 7.47%. The effect of the September 18, 2007, 50 basis point cut in the target federal funds rate by the Federal Open Market Committee and the associated decline in the prime rate was late enough to not have a material effect on loan yields in the third quarter. Declines in the average portfolio balances contributed largely to a net $1.09 million decrease in tax-equivalent loan interest income compared with the third quarter of 2006.

The largest contributors to the increase in the tax-equivalent interest income in 2007 were the increases in both average balance and rate earned on the securities portfolio. During the three months ended September 30, 2007, the tax-equivalent yield on available-for-sale securities increased 19 basis points to 5.79%, while the average balance increased by $242.92 million. The average tax-equivalent yield increased due to the addition of higher rate securities and the reduction of lower rate securities. As net payoffs in the loan portfolio are realized, the Company has been reinvesting those funds in securities. The average balance of the held-to-maturity securities portfolio continued to decline as securities matured or were called and were not replaced.

Compared with the third quarter of 2006, average interest-bearing balances with banks increased to $33.54 million during the third quarter of 2007, as the yield increased 15 basis points to 4.78%. Interest-bearing balances with banks is made up largely of excess liquidity bearing overnight market rates and a small portfolio of certificates of deposit. The rate earned on overnight balances has risen along with increases in short-term benchmark interest rates. The balance has increased as the Company experienced higher levels of liquidity during the third quarter.

Compared with the same period in 2006, the average balances of interest-bearing demand and savings deposits increased $1.29 million and $8.26 million, respectively, for the three months ended September 30, 2007. The average rate paid on interest-bearing demand deposits decreased by one basis point, while the average rate paid on savings increased 31 basis points. Average time deposits increased $23.18 million while the average rate paid increased 43 basis points from 4.04% in 2006 to 4.47% in 2007. Retail repurchase agreements, which consist of collateralized retail deposits and commercial treasury accounts, increased $24.95 million to $173.63 million, while the rate increased 12 basis points to 3.46%. The level of average non-interest-bearing demand deposits decreased $11.08 million to $229.45 million during the quarter ended September 30, 2007, compared with the corresponding period of the prior year.

The changes in average deposits between the two quarters include the effect of the previously disclosed sale of the Company s Rowlesburg, West Virginia, branch office. The average deposit balances held by that branch in the third quarter of 2006 totaled $10.71 million.

Compared with the same period in 2006, average federal funds purchased decreased $1.30 million to $751 thousand during the third quarter of 2007. Wholesale repurchase agreements increased $48.91 million, as the Company added approximately $50.00 million of wholesale repurchase agreements funding in the latter part of 2006. The average balance of FHLB borrowings and other long-term debt increased by $91.30 million in 2007 to $291.39 million, while the rate paid on those borrowings decreased 19 basis points. The Company borrowed an additional $100 million in FHLB advances early in the second quarter of 2007 that have a weighted-average cost of 4.18%.

Net Interest Income Year-to-Date Comparison (See Table II)

Net interest income was $51.17 million for the nine months ended September 30, 2007, compared with $53.99 million for the corresponding period in 2006, a decrease of $2.82 million, or 5.23%. Tax-equivalent net interest income totaled $54.53 million for the nine months ended September 30, 2007, a decrease of $2.47 million from $57.00 million for the first nine months of 2006. The net decrease was due mostly to increases in rates paid on interest-bearing liabilities which outpaced increases in the rates earned on loans and securities.

Compared with the first nine months of 2006, average earning assets increased $123.49 million while interest-bearing liabilities increased $128.01 million. The yield on average earning assets increased one basis point to 6.91% from 6.90%. Total cost of interest-bearing liabilities increased 49 basis points during the first nine months of 2007, which resulted in a net interest rate spread that was 48 basis points lower at 3.32% compared with 3.80% for the same period last year. The Company s tax-equivalent net interest margin of 3.81% for the nine months ended September 30, 2007, decreased 45 basis points from 4.26% for the same period of 2006.

The rate earned on loans increased to 7.50% from 7.38%, which is attributable to the general rise in market rates of interest since the beginning of 2006. Declines in the average portfolio balances contributed largely to a net $2.59 million decrease in tax-equivalent loan interest income compared with the first nine months of 2006.

The largest contributors to the increase in the tax-equivalent interest income in 2007 were the increases in both average balance and rate earned on the securities portfolio. During the nine months ended September 30, 2007, the tax-equivalent yield on available-for-sale securities increased 30 basis points to 5.76%, while the average balance increased by $198.82 million. The average tax-equivalent yield increased due to the addition of higher rate securities and the reduction of lower rate securities. As net payoffs in the loan portfolio are realized, the Company has been reinvesting those funds in securities. The average balance of the held-to-maturity securities portfolio continued to decline as securities matured or were called and were not replaced.

Compared with the first nine months of 2006, average interest-bearing balances with banks decreased to $29.73 million during the first nine months of 2007, as the yield increased 34 basis points to 4.83%. Interest-bearing balances with banks is made up largely of excess liquidity bearing overnight market rates and a small portfolio of certificates of deposit. The rate earned on those balances has risen along with increases in short-term benchmark interest rates. The balance has decreased as the Company has invested in higher yielding securities.

Compared with the same period in 2006, the average balances of interest-bearing demand and savings deposits decreased $42 thousand and $20.81 million, respectively, for the nine months ended September 30, 2007. The average rate paid on interest-bearing demand deposits increased by one basis point, while the average rate paid on savings increased 27 basis points. Average time deposits increased $21.83 million while the average rate paid increased 65

basis points from 3.79% in 2006 to 4.44% in 2007. Retail repurchase agreements, which consist of collateralized retail deposits and commercial treasury accounts, increased $30.54 million to $167.15 million, while the rate increased 36 basis points to 3.55%. The level of

average non-interest-bearing demand deposits decreased slightly to $231.19 million during the nine months ended September 30, 2007, compared with the corresponding period of the prior year.

The changes in average deposits between the two periods include the effect of the previously disclosed sale of the Company s Drakes Branch, Virginia, and Rowlesburg, West Virginia, branch offices. The average deposit and repurchase agreement balances held by those two branches in the first nine months of 2006 totaled $21.38 million.

Compared with the same period in 2006, average federal funds purchased increased $2.72 million to $5.45 million during the first nine months of 2007, while the average rate increased 28 basis points. Wholesale repurchase agreements increased $49.63 million, as the Company added approximately $50.00 million of wholesale repurchase agreement funding in the latter part of 2006. The average balance of FHLB borrowings and other long-term debt increased by $45.99 million in 2007 to $247.43 million, while the rate paid on those borrowings increased four basis points. The Company borrowed an additional $100 million in FHLB advances early in the second quarter that have a weighted-average cost of 4.18%.

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Table I

AVERAGE BALANCE SHEETS AND NET INTEREST INCOME ANALYSIS

	Three Months Ended September 30, 2007			**Three Months Ended September 30, 2006**		
	Average Balance	**Interest (1)**	**Yield/ Rate (1)**	**Average Balance**	**Interest (1)**	**Yield/ Rate (1)**
	(Dollars in Thousands)					
ASSETS						
Loans: (2)						
Taxable	$ 1,243,913	$ 23,448	7.48%	$ 1,304,500	$ 24,562	7.47%
Tax-exempt	2,617	49	7.43%	1,339	24	7.11%
Total	1,246,530	23,497	7.48%	1,305,839	24,586	7.47%
Securities available for sale:						
Taxable	480,767	6,766	5.58%	269,061	3,490	5.15%
Tax-exempt	185,432	2,949	6.31%	154,221	2,482	6.39%
Total	666,199	9,715	5.79%	423,282	5,972	5.60%
Securities held to maturity:						
Taxable	377	6	6.31%	385	6	6.18%
Tax-exempt	12,214	248	8.06%	20,013	406	8.05%
Total	12,591	254	8.00%	20,398	412	8.01%
Interest-bearing deposits	33,538	404	4.78%	24,758	289	4.63%
Total Earning Assets	1,958,858	33,870	6.86%	1,774,277	31,259	6.99%
Other assets	212,178			195,726		
TOTAL ASSETS	$ 2,171,036			$ 1,970,003		
LIABILITIES						
Interest-bearing deposits:						
Demand deposits	$ 145,324	$ 119	0.32%	$ 144,034	$ 120	0.33%
Savings deposits	344,866	2,088	2.40%	336,611	1,773	2.09%
Time deposits	698,280	7,876	4.47%	675,098	6,867	4.04%
Total interest-bearing deposits	1,188,470	10,083	3.37%	1,155,743	8,760	3.01%
Borrowings:						
Federal funds purchased	751	10	5.28%	2,050	14	2.71%
Retail repurchase agreements	173,630	1,516	3.46%	148,676	1,250	3.34%
Wholesale repurchase agreements	50,000	556	4.41%	1,087	12	4.38%
	291,394	3,424	4.66%	200,096	2,448	4.85%

FHLB borrowings and other long-term debt						
Total borrowings	515,775	5,506	4.24%	351,909	3,724	4.20%
Total interest-bearing liabilities	1,704,245	15,589	3.63%	1,507,652	12,484	3.29%
Non-interestbearing demand deposits	229,452			240,528		
Other liabilities	19,290			18,901		
Stockholders Equity	218,049			202,922		
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 2,171,036			$ 1,970,003		
Net Interest Income, Tax Equivalent		$ 18,281			$ 18,775	
Net Interest Rate Spread (3)			3.23%			3.70%
Net Interest Margin (4)			3.70%			4.20%

(1) Fully Taxable Equivalent (FTE) at the rate of 35%. The FTE basis adjusts for the tax benefits of income on certain tax-exempt loans and investments using the federal statutory rate of 35% for each period presented. The Company believes this measure to be the preferred industry measurement of net interest income and

provides relevant comparison between taxable and non-taxable amounts.

(2) Non-accrual loans are included in average balances outstanding but with no related interest income during the period of non-accrual.

(3) Represents the difference between the yield on earning assets and cost of funds.

(4) Represents tax equivalent net interest income divided by average interest-earning assets.

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Table II

AVERAGE BALANCE SHEETS AND NET INTEREST INCOME ANALYSIS

	Nine Months Ended September 30, 2007			Nine Months Ended September 30, 2006		
	Average Balance	**Interest(1)**	**Yield/ Rate(1)**	**Average Balance**	**Interest(1)**	**Yield/ Rate(1)**
	(Dollars in Thousands)					
ASSETS						
Loans: (2)						
Taxable	$ 1,253,069	$ 70,325	7.50%	$ 1,321,656	$ 72,953	7.38%
Tax-exempt	2,140	120	7.50%	1,466	85	7.75%
Total	1,255,209	70,445	7.50%	1,323,122	73,038	7.38%
Securities available for sale:						
Taxable	430,792	17,765	5.51%	259,540	9,581	4.94%
Tax-exempt	178,980	8,502	6.35%	151,417	7,208	6.36%
Total	609,772	26,267	5.76%	410,957	16,789	5.46%
Securities held to maturity:						
Taxable	379	18	6.35%	388	17	5.86%
Tax-exempt	15,792	947	8.02%	21,289	1,283	8.06%
Total	16,171	965	7.98%	21,677	1,300	8.02%
Interest-bearing deposits	29,726	1,073	4.83%	31,637	1,063	4.49%
Total Earning Assets	1,910,878	98,750	6.91%	1,787,393	92,190	6.90%
Other assets	203,831			184,092		
TOTAL ASSETS	$ 2,114,709			$ 1,971,485		
LIABILITIES						
Interest-bearing liabilities:						
Demand deposits	$ 146,283	$ 349	0.32%	$ 146,325	$ 338	0.31%
Savings deposits	329,854	5,537	2.24%	350,662	5,166	1.97%
Time deposits	700,006	23,245	4.44%	678,178	19,229	3.79%
Total interest-bearng deposits	1,176,143	29,131	3.31%	1,175,165	24,733	2.81%
Borrowings:						
Federal funds purchased	5,447	229	5.62%	2,731	109	5.34%
Retail repurchase agreements	167,154	4,441	3.55%	136,619	3,257	3.19%
Wholesale repurchase agreements	50,000	1,651	4.41%	366	12	4.38%
FHLB borrowings and other long-term debt	247,428	8,773	4.74%	201,437	7,083	4.70%

Total borrowings	470,029	15,094	4.29%	341,153	10,461	4.10%
Total interest-bearing liabilities	1,646,172	44,225	3.59%	1,516,318	35,194	3.10%
Non-interestbearing demand deposits	231,187			237,517		
Other liabilities	19,064			18,175		
Stockholders Equity	218,286			199,475		
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 2,114,709			$ 1,971,485		
Net Interest Income, Tax Equivalent		$ 54,525			$ 56,996	
Net Interest Rate Spread (3)			3.32%			3.80%
Net Interest Margin (4)			3.81%			4.26%

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

between taxable and non-taxable amounts.

(2) Non-accrual loans are included in average balances outstanding but with no related interest income during the period of non-accrual.

(3) Represents the difference between the yield on earning assets and cost of funds.

(4) Represents tax equivalent net interest income divided by average interest-earning assets.

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The following table summarizes the changes in tax-equivalent interest earned and paid resulting from changes in the volume of earning assets and paying liabilities and changes in their interest rates. The changes in interest due to both rate and volume have been allocated to the volume and rate columns in proportion to dollar amounts.

	Three Months Ended September 30, 2007 Compared to 2006 $ Increase/(Decrease) due to			Nine Months Ended September 30, 2007 Compared to 2006 $ Increase/(Decrease) due to		
(In Thousands)	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest Earned On:						
Loans (1)	$ (1,118)	$ 29	$ (1,089)	$ (3,747)	$ 1,154	$ (2,593)
Securities available for sale (1)	3,248	495	3,743	7,634	1,844	9,478
Securities held to maturity (1)	(158)		(158)	(332)	(3)	(335)
Interest-bearing deposits with other banks	102	13	115	(64)	74	10
Total interest-earning assets	2,074	537	2,611	3,491	3,069	6,560
Interest Paid On:						
Demand deposits	1	(2)	(1)		11	11
Savings deposits	43	272	315	(307)	678	371
Time deposits	236	773	1,009	619	3,397	4,016
Fed funds purchased	(9)	5	(4)	108	12	120
Retail repurchase agreements	210	56	266	675	509	1,184
Wholesale repurchase agreements	540	4	544	1,627	12	1,639
FHLB borrowings and other long-term debt	1,117	(141)	976	1,617	73	1,690
Total interest-bearing liabilities	2,138	967	3,105	4,339	4,692	9,031
Change in net interest income, tax-equivalent	$ (64)	$ (430)	$ (494)	$ (848)	$ (1,623)	$ (2,471)

Provision and Allowance for Loan Losses

The allowance for loan losses was $13.19 million at September 30, 2007, $14.55 million at December 31, 2006 and $14.95 million at September 30, 2006. The Company s allowance for loan loss activity for the three- and nine-month periods ended September 30, 2007 and 2006, is as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(In Thousands)	**2007**	**2006**	**2007**	**2006**
Allowance for loan losses				
Beginning balance	$ 13,934	$ 14,710	$ 14,549	$ 14,736
Provision for loan losses		579		1,798

Charge-offs	(1,009)	(832)	(2,813)	(2,936)
Recoveries	265	489	1,454	1,348
Net charge-offs	(744)	(343)	(1,359)	(1,588)
Ending balance	$ 13,190	$ 14,946	$ 13,190	$ 14,946

The total allowance for loan losses to loans held for investment ratio was 1.06% at September 30, 2007, compared with 1.13% at December 31, 2006, and 1.15% at September 30, 2006. Management considers the allowance adequate based upon its analysis of the portfolio as of September 30, 2007. However, no assurances can be made that future adjustments to the allowance for loan losses will not be necessary as a result of increases in non-performing loans and other factors.

Throughout the first three quarters of 2007, the Company had excellent experience with charge-offs and recoveries with net charge-offs of $744 thousand and $1.36 million for the third quarter and year-to-date periods, respectively. The lower year-to-date net charge-offs and improving credit quality metrics led the Company to make no provision for loan losses for the first nine months of 2007.

Non-interest Income

Non-interest income consists of all revenues which are not included in interest and fee income related to earning assets. Non-interest income for the third quarter of 2007 was $6.02 million compared with $5.10 million in the same period of 2006, an increase of $922 thousand, or 18.09%. Wealth management revenues increased $285 thousand to $908 thousand, reflective of the additional revenues generated by the IPC acquisition. Service charges on deposit accounts increased $395 thousand, or 15.13%, to $3.01 million. Other service charges, commissions, and fees increased $152 thousand, or 20.27%. Other operating income was relatively even at $1.15 million, an increase of $34 thousand compared with 2006.

Non-interest income for the first nine months of 2007 was $16.78 million compared with $15.77 million in 2006, an increase of $1.02 million, 6.44%. Wealth management revenues increased $893 thousand to $2.93 million, also reflective of the addition of IPC. In the first nine months of 2007, service charges on deposit accounts increased $394 thousand, or 5.13%, to $8.08 million. Other service charges, commissions, and fees increased $408 thousand, or 18.54%. Other operating income was $2.96 million, a decrease of $828 thousand compared with 2006. The first nine months of 2006 included a $702 thousand gain on the sale of the Drakes Branch, Virginia, banking office and a $676 thousand partial recovery from a fraud claim that is more than a decade old.

During the third quarter and first nine months of 2007, securities gains of $50 thousand and $209 thousand, respectively, were realized, compared with a loss of $6 thousand and a gain of $60 thousand in the respective comparable periods in 2006.

Non-interest Expense

Non-interest expense totaled $12.84 million for the quarter ended September 30, 2007, an increase of $623 thousand, or 5.10%, from the same period in 2006. Salaries and benefits for the current quarter increased $393 thousand compared to 2006. Within that increase, actual wages increased only $88 thousand, or 1.61%, from 2006. Increases in executive retirement plan accruals, incentive compensation accruals, and commissions expense made up the remainder of the increase. Other non-interest expense total $4.41 million for the third quarter of 2007, an increase of $346 thousand, or 8.51%, from $4.06 million for the third quarter of 2006. The increase between comparable periods is due mostly to increases in legal expense and new account promotions. Occupancy and furniture and fixtures expenses remained relatively stable between the comparable periods.

Year-to-date non-interest expense totaled $37.07 million compared with $38.13 million for the same period in 2006, a decrease of $1.07 million, or 2.79%. The decrease is the result of the Company s measures to control costs and capture efficiencies available from recent acquisitions and changes in the Company s organization structure. Those cost control efforts began in earnest in the second quarter of 2006 and focused on consolidation of backroom operations and a reduction of branch staffing levels. The results of those cost control measures are decreases in year-to-date salaries and benefits of $1.71 million, or 8.23%, from the comparable prior year period. Occupancy and furniture and fixtures expenses, as well as intangible amortization, remained relatively stable between the comparable periods. Other operating expenses increased $870 thousand, or 7.69%, between the comparable periods, and include the aforementioned increases in legal and new account promotion expenses as well as certain consulting expenses associated with changes in the Company s retail operations.

Income Tax Expense

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

For the third quarter of 2007, income taxes were $3.01 million compared with $2.88 million for the third quarter of 2006. For the quarters ended September 30, 2007 and 2006, the effective tax rates were 29.16% and 28.59%, respectively. For the first nine months of 2007, income taxes were $9.01 million compared with $8.51 million for the first nine months of 2006.

For the nine-month periods ended September 30, 2007 and 2006, the effective tax rates were 29.16% and 28.52%, respectively. The effective tax rate was higher during the first nine months of 2007 due mostly to lower levels of available tax credits than in the comparable period of 2006.

FINANCIAL CONDITION

Total assets at September 30, 2007, increased $140.95 million to $2.17 billion from December 31, 2006, an annualized growth rate of 9.27%. The growth reflects deposit growth, capitalized earnings, and additional borrowings, which were deployed in various fixed income investments.

Securities

Available-for-sale securities were $671.36 million at September 30, 2007, compared with $508.37 million at December 31, 2006, an increase of $162.99 million. The Company has continued to reinvest net paydowns from the loan portfolio through the purchase of state and federal securities, various mortgage-backed securities, and single-issue and pooled trust preferred securities.

Held-to-maturity securities declined to $12.55 million at September 30, 2007, reflective of continuing paydowns, maturities, and calls within the portfolio. The market value of investment securities held-to-maturity was 101.82% and 101.65% of book value at September 30, 2007, and December 31, 2006, respectively.

The Company s available-for-sale securities portfolio is reported at fair value. The fair value of most securities is determined based on quoted market prices. If quoted market prices are not available, fair value is determined based on quoted prices of similar instruments. Available-for-sale and held-to-maturity securities are reviewed quarterly for other-than-temporary impairment. This review includes an analysis of the facts and circumstances of each individual investment such as the length of time the fair value has been below cost, the expectation for that security s performance, the creditworthiness of the issuer and the Company s intent and ability to hold the security to recovery or maturity. Management does not believe any unrealized loss, individually or in the aggregate, as of September 30, 2007, represents other-than-temporary impairment. The Company has the intent and ability to hold these securities until such time as the value recovers or the securities mature. Furthermore, the Company believes the decrease in value is attributable to changes in market interest rates and not the credit quality of the issuer.

Loan Portfolio

Loans Held for Sale: The $2.29 million balance of loans held for sale at September 30, 2007, represents mortgage loans that are sold to investors on a best efforts basis. Accordingly, the Company does not retain the interest rate risk involved in the commitment. The gross notional amount of outstanding commitments at September 30, 2007, was $8.10 million on 61 loans.

Loans Held for Investment: Total loans held for investment were $1.24 billion at September 30, 2007, declines of $45.66 million and $60.01 million from December 31 and September 30, 2006, respectively. The average loan to deposit ratio decreased to 87.91% for the third quarter of 2007, compared with 92.97% for the fourth quarter of 2006 and 93.52% for the third quarter of 2006. The 2007 year-to-date average loans of $1.26 billion decreased $67.91 million when compared with the average for the first nine months of 2006 of $1.32 billion.

Over the course of the last three years, the Company has taken aggressive measures to tighten its commercial underwriting standards. The more stringent underwriting has led to excellent credit quality, but coupled with the loss of commercial loan officers has resulted in the decreases in the loan portfolio. The Company also continues to realize net payoffs in the area consumer finance, as it competes with credit card lenders.

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The held for investment loan portfolio continues to be diversified among loan types and industry segments. The following table presents the various loan categories and changes in composition as of September 30, 2007, December 31, 2006, and September 30, 2006.

	September 30, 2007		December 31, 2006		September 30, 2006	
(Dollars in Thousands)	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Loans Held for Investment						
Commercial and agricultural	$ 94,168	7.60%	$ 106,645	8.30%	$ 105,624	8.13%
Commercial real estate	396,147	31.97%	421,067	32.77%	425,622	32.76%
Residential real estate	500,760	40.41%	506,370	39.41%	509,940	39.25%
Construction	167,089	13.48%	158,566	12.34%	160,840	12.38%
Consumer	77,724	6.27%	88,666	6.90%	95,000	7.31%
Other	3,319	0.27%	3,549	0.28%	2,194	0.17%
Total	$ 1,239,207	100.00%	$ 1,284,863	100.00%	$ 1,299,220	100.00%
Loans Held for Sale	$ 2,294		$ 781		$ 1,046	

Non-Performing Assets

Non-performing assets include loans on non-accrual status, loans contractually past due 90 days or more and still accruing interest, and other real estate owned (OREO). Non-performing assets were $3.08 million at September 30, 2007, $4.07 million at December 31, 2006, and $4.41 million at September 30, 2006. The percentage of non-performing assets to total loans and OREO was 0.25% at September 30, 2007, 0.32% at December 31, 2006, and 0.34% at September 30, 2006.

The following schedule details non-performing assets by category at the close of each of the quarters ended September 30, 2007 and 2006, and December 31, 2006.

(In Thousands)	**September 30, 2007**	**December 31, 2006**	**September 30, 2006**
Non-accrual	$ 2,869	$ 3,813	$ 3,657
Ninety days past due and accruing			
Other real estate owned	211	258	753
Total non-performing assets	$ 3,080	$ 4,071	$ 4,410
Restructured loans performing in accordance with modified terms	$ 253	$ 272	$ 281

At September 30, 2007, non-accrual loans decreased $944 thousand from December 31, 2006, and decreased $788 thousand from September 30, 2006. Ongoing activity within the classification and categories of non-performing loans continues to include collections on delinquencies, foreclosures and movements into or out of the non-performing classification as a result of changing customer business conditions. OREO was $211 thousand at September 30, 2007, and is carried at the lesser of estimated net realizable value or cost.

Deposits and Other Borrowings

Total deposits increased by $8.27 million during the first nine months of 2007. Non interest-bearing demand deposits decreased by $20.47 million and interest-bearing demand deposits increased $3.14 million. Savings increased $30.78 million and time deposits decreased $5.18 million.

Securities sold under repurchase agreements increased $25.60 million in the first nine months of 2007 to $226.78 million. There were $15.60 million of federal funds purchased outstanding at September 30, 2007.

The Company borrowed an additional $100.00 million in FHLB advances during the second quarter. The weighted-average interest rate of the 10-year callable advances is 4.18%. The advances effectively refinanced and lowered the borrowing cost

of the federal funds purchased position of $45.00 million at March 31, 2007. The remaining funds were invested in securities and deposited in bank accounts bearing interest rates approximating the target federal funds rate.

Stockholders Equity

Total stockholders equity increased $4.43 million from December 31, 2006, as the Company continued to balance capital adequacy and returns to stockholders. The increase in equity was due mainly to net earnings of $21.88 million, less dividends paid to stockholders of $9.09 million, net increases of $2.13 million in treasury stock, and other comprehensive loss of $6.22 million.

The Company repurchased 108,300 shares in the third quarter of 2007 and a total of 163,500 shares since December 31, 2006. The share repurchases are part of an overall treasury share repurchase plan. The Company has availability under the plan to purchase approximately 226,532 additional shares.

Risk-based capital guidelines and the leverage ratio measure capital adequacy of banking institutions. Risk-based capital guidelines weight balance sheet assets and off-balance sheet commitments based on inherent risks associated with the respective asset types. At September 30, 2007, the Company s total capital to risk-weighted assets ratio was 12.01% versus 12.69% at December 31, 2006. The Company s Tier 1 capital to risk-weighted assets ratio was 11.37% at September 30, 2007, compared with 11.60% at December 31, 2006. The Company s Tier 1 leverage ratio at September 30, 2007, was 8.02% compared with 8.50% at December 31, 2006. All of the Company s regulatory capital ratios exceed the current well-capitalized levels prescribed for banks.

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

Liquidity and Capital Resources

At September 30, 2007, the Company maintained a significant level of liquidity in the form of cash and cash equivalent balances of $59.30 million, investment securities available-for-sale of $671.36 million, and FHLB credit availability of approximately $143.41 million. Cash and cash equivalents as well as advances from the FHLB are immediately available for satisfaction of deposit withdrawals, customer credit needs and operations of the Company. Investment securities available-for-sale represent a secondary level of liquidity available for conversion to liquid funds in the event of extraordinary needs. The Company also maintains approved lines of credit with correspondent banks as backup liquidity sources.

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

Interest Rate Risk and Asset/Liability Management

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

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

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

Specific strategies for management of interest rate risk have included shortening the amortized maturity of new fixed-rate loans, increasing the volume of adjustable-rate loans to reduce the average maturity of the Company s interest-earning assets and monitoring the term structure of liabilities to maintain a balanced mix of maturity and repricing structures to mitigate the potential exposure. Based upon the latest simulation, the Company believes that it has shifted more towards a liability

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sensitive position. Absent adequate management, liability sensitive positions can negatively impact net interest income in a rising rate environment, or alternatively, positively impact net interest income in a declining rate environment.

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

The following table summarizes the projected impact on the next twelve months net interest income and the economic value of equity as of September 30, 2007, and December 31, 2006, of immediate and sustained rate shocks in the interest rate environments of plus and minus 100 and 200 basis points from the base simulation, assuming no remedial measures are effected.

Rate Sensitivity Analysis

(Dollars in Thousands)	September 30, 2007			
Increase (Decrease) in Interest Rates (Basis Points)	**Change in Net Interest Income**	**% Change**	**Change in Econcomic Value of Equity**	**% Change**
200	$(5,833)	(7.8)	$ (40,051)	(12.4)
100	(2,929)	(3.9)	(23,000)	(7.1)
(100)	1,410	1.9	(3,027)	(0.9)
(200)	1,372	1.8	(17,264)	(5.4)

	December 31, 2006			
Increase (Decrease) in Interest Rates (Basis Points)	**Change in Net Interest Income**	**% Change**	**Change in Econcomic Value of Equity**	**% Change**
200	$(2,006)	(2.8)	$ (16,229)	(5.4)
100	(958)	(1.3)	(7,453)	(2.5)
(100)	(1,024)	(1.4)	(4,301)	(1.4)
(200)	(1,614)	(2.3)	(18,278)	(6.1)

When comparing the impact of the rate shock analysis between September 30, 2007, and December 31, 2006, the changes in net interest income reflect measures taken to position the balance sheet in a more liability sensitive position.

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

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PART I. ITEM 4. Controls and Procedures

Disclosure Controls and Procedures

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

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

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company s internal controls over financial reporting during the quarter ended September 30, 2007, that have materially affected, or are reasonably likely to materially affect, the Company s internal controls over financial reporting. For management s assessment over financial reporting, refer to the Company s Annual Report on Form 10-K, Management s Assessment of Internal Control Over Financial Reporting.

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PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 1A. Risk Factors

There were no material changes to the risk factors as presented in the Company s annual report on Form 10-K for the year ended December 31, 2006.

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

(a) Not Applicable

(b) Not Applicable

(c) Issuer Purchases of Equity Securities

The following table sets forth open market purchases by the Company of its equity securities during the three months ended September 30, 2007.

	Total # of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares That May Yet be Purchased Under the Plan
July 1-31, 2007	27,500	$ 29.60	27,500	258,244
August 1-31, 2007	48,300	29.45	48,300	209,944
September 1-30, 2007	32,500	32.90	32,500	226,532
Total	108,300	$ 30.52	108,300	

The Company s stock repurchase plan, as amended, allows the purchase and retention of up to 550,000 shares. The plan has no expiration date and remains open. The Company held 323,468 shares in treasury at September 30, 2007.

ITEM 3. Defaults Upon Senior Securities

Not Applicable

ITEM 4. Submission of Matters to a Vote of Security Holders

Not Applicable

ITEM 5. Other Information

Not Applicable

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Item 6. Exhibits

(a) Exhibits

Exhibit No.	Exhibit
3(i)	Articles of Incorporation of First Community Bancshares, Inc., as amended. (1)
3(ii)	Bylaws of First Community Bancshares, Inc., as amended. (17)
4.1	Specimen stock certificate of First Community Bancshares, Inc. (3)
4.2	Indenture Agreement dated September 25, 2003. (11)
4.3	Amended and Restated Declaration of Trust of FCBI Capital Trust dated September 25, 2003. (11)
4.4	Preferred Securities Guarantee Agreement dated September 25, 2003. (11)
10.1	First Community Bancshares, Inc. 1999 Stock Option Contracts (2) and Plan. (4)
10.1.1	Amendment to First Community Bancshares, Inc. 1999 Stock Option Plan. (11)
10.2	First Community Bancshares, Inc. 2001 Non-Qualified Directors Stock Option Plan. (5)
10.3	Employment Agreement dated January 1, 2000 and amended October 17, 2000, between First Community Bancshares, Inc. and John M. Mendez. (2) (6)
10.4	First Community Bancshares, Inc. 2000 Executive Retention Plan, as amended. (4)
10.5	First Community Bancshares, Inc. Split Dollar Plan and Agreement. (4)
10.6	First Community Bancshares, Inc. 2001 Directors Supplemental Retirement Plan. (2)
10.6.1	First Community Bancshares, Inc. 2001 Directors Supplemental Retirement Plan. Second Amendment (B.W. Harvey, Sr. October 19, 2004). (14)
10.7	First Community Bancshares, Inc. Wrap Plan. (7)
10.8	Reserved.
10.9	Form of Indemnification Agreement between First Community Bancshares, its Directors and Certain Executive Officers. (9)
10.10	Form of Indemnification Agreement between First Community Bank, N. A, its Directors and Certain Executive Officers. (9)
10.11	Reserved.
10.12	First Community Bancshares, Inc. 2004 Omnibus Stock Option Plan (10) and Award Agreement. (13)

10.13	Reserved.
10.14	First Community Bancshares, Inc. Directors Deferred Compensation Plan. (7)
10.15	First Community Bancshares, Inc. Deferred Compensation and Supplemental Bonus Plan For Key Employees. (15)
31.1	Rule 13a-14(a)/a5d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/a5d-14(a) Certification of Chief Financial Officer
32	Certification of Chief Executive Officer and Chief Financial Officer Section 1350.

(1) Incorporated by reference from the Quarterly Report on Form 10-Q for the period ended March 31, 2007, filed on May 10, 2007.

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

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

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

(5) The option agreements entered into

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

(6) First Community Bancshares, Inc. has entered into substantially identical agreements with Robert L. Buzzo and E. Stephen Lilly, with the only differences being with respect to title, salary and the use of a vehicle.

(7) Incorporated by reference from Item 1.01 of the Current Report on Form 8-K dated August 22, 2006, and filed August 23, 2006.

(8) Reserved.

(9) Form of indemnification agreement entered into by

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

(10) Incorporated by reference from the 2004 First Community Bancshares, Inc. Definitive Proxy filed on March 19, 2004.

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

2003.

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

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

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

(15) Incorporated by reference from Item 1.01 of the Current Report on Form 8-K dated October 24,

2006, and filed October 25, 2006.

(16) Reserved.

(17) Incorporated by reference from the Quarterly Report on Form 10-Q for the period ended September 30, 2006, filed on November 8, 2006.

(18) Reserved.

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SIGNATURES

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

First Community Bancshares, Inc.
DATE: November 9, 2007

/s/ John M. Mendez

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

DATE: November 9, 2007

/s/ David D. Brown

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

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Index to Exhibits

Exhibit No.	Exhibit
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	Certification of Chief Executive and Chief Financial Officer pursuant to 18 USC Section 1350