

FIRST BANCORP /NC/  
Form 10-K  
March 16, 2007

---

---

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

**FORM 10-K**

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

For the fiscal year ended December 31, 2006

Commission File Number 0-15572

**FIRST BANCORP**

(Exact Name of Registrant as Specified  
in its Charter)

North Carolina  
(State of Incorporation)

56-1421916  
(I.R.S. Employer Identification Number)

341 North Main Street, Troy, North Carolina  
(Address of Principal Executive Offices)

27371-0508  
(Zip Code)

Registrant's telephone number, including area  
code:

(910) 576-6171

Securities Registered Pursuant to Section 12(b) of the Act: None  
Securities Registered Pursuant to Section 12(g) of the Act:

COMMON STOCK, NO PAR VALUE  
(Title of each class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. " YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. " YES  NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

Edgar Filing: FIRST BANCORP /NC/ - Form 10-K

Exchange Act during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  YES  NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to the Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.  Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

The aggregate market value of the Common Stock, no par value, held by non-affiliates of the registrant, based on the closing price of the Common Stock as of June 30, 2006 as reported by The NASDAQ Global Select Market, was approximately \$248,390,000.

The number of shares of the registrant's Common Stock outstanding on February 26, 2007 was 14,362,672.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement to be filed pursuant to Regulation 14A are incorporated herein by reference into Part III.

---

---

---

**CROSS REFERENCE INDEX**

	<u>Begins on</u> <u>Page (s)</u>
<b><u>PART I</u></b>	
<u>Item 1</u>	Business 4
<u>Item 1A</u>	Risk Factors 13
<u>Item 1B</u>	Unresolved Staff Comments 15
<u>Item 2</u>	Properties 15
<u>Item 3</u>	Legal Proceedings 15
<u>Item 4</u>	Submission of Matters to a Vote of Shareholders 15
<b><u>PART II</u></b>	
<u>Item 5</u>	Market for the Registrant's Common Stock, Related Shareholder Matters, and Issuer Purchases of Equity Securities 16
<u>Item 6</u>	Selected Consolidated Financial Data 18, 49
<u>Item 7</u>	Management's Discussion and Analysis of Financial Condition and Results of Operations 18
	Critical Accounting Policies 18
	Merger and Acquisition Activity 21
	Overview Comparison of 2006 to 2005 22
	Overview Comparison of 2005 to 2004 24
	Statistical Information
	Net Interest Income 26, 50
	Provision for Loan Losses 28, 56
	Noninterest Income 28, 51
	Noninterest Expenses 30, 51
	Income Taxes 31, 52
	Stock-Based Compensation 31
	Distribution of Assets and Liabilities 34, 52
	Securities 35, 52
	Loans 36, 54
	Nonperforming Assets 37, 55
	Allowance for Loan Losses and Loan Loss Experience 39, 55
	Deposits and Securities Sold Under Agreements to Repurchase 40, 56
	Borrowings 41
	Liquidity, Commitments, and Contingencies 42, 58
	Off-Balance Sheet Arrangements and Derivative Financial Instruments 43
	Interest Rate Risk (Including Quantitative and Qualitative Disclosures About Market Risk) 44, 59
	Return on Assets and Equity 46, 59
	Capital Resources and Shareholders' Equity 46, 60
	Inflation 47
	Current Accounting and Regulatory Matters 48
<u>Item 7A</u>	Quantitative and Qualitative Disclosures About Market Risk 48
<u>Forward-Looking Statements</u>	48
<u>Item 8</u>	Financial Statements and Supplementary Data:
	Consolidated Balance Sheets as of December 31, 2006 and 2005 62



Index

	<u>Begins on</u> <u>Page (s)</u>
Consolidated Statements of Comprehensive Income for each of the years in the three-year period ended December 31, 2006	64
Consolidated Statements of Shareholders' Equity for each of the years in the three-year period ended December 31, 2006	65
Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2006	66
Notes to Consolidated Financial Statements	67
Report of Independent Registered Public Accounting Firm (Current Firm)	102
Report of Independent Registered Public Accounting Firm (Predecessor Firm)	104
Selected Consolidated Financial Data	49
Quarterly Financial Summary	61
<u>Item 9</u> Changes in and Disagreements with Accountants on Accounting and Financial Disclosures	105
<u>Item 9A</u> Controls and Procedures	105
<u>Item 9B</u> Other Information	106
 <u>PART III</u>	
<u>Item 10</u> Directors, Executive Officers and Corporate Governance	107*
<u>Item 11</u> Executive Compensation	107*
<u>Item 12</u> Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters	107*
<u>Item 13</u> Certain Relationships and Related Transactions, and Director Independence	108*
<u>Item 14</u> Principal Accountant Fees and Services	108*
 <u>PART IV</u>	
<u>Item 15</u> Exhibits and Financial Statement Schedules	108
 <u>SIGNATURES</u>	 111

\*Information called for by Part III (Items 10 through 14) is incorporated herein by reference to the Registrant's definitive Proxy Statement for the 2007 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission.

Index

**PART I**

**Item 1. Business**

**General Description**

**The Company**

First Bancorp (the “Company”) is a bank holding company. The principal activity of the Company is the ownership and operation of First Bank (the “Bank”), a state-chartered bank with its main office in Troy, North Carolina. The Company also owns and operates two nonbank subsidiaries: Montgomery Data Services, Inc. (“Montgomery Data”), a data processing company, and First Bancorp Financial Services, Inc. (“First Bancorp Financial”), which owns and operates various real estate. Each of these subsidiaries is fully consolidated for financial reporting purposes. The Company is also the parent to four statutory business trusts created under the laws of the State of Delaware, which have issued a total of \$67.0 million in trust preferred debt securities. Under current accounting requirements, these four statutory business trusts are not consolidated for financial reporting purposes - see discussion of FIN 46 in Note 1(t) to the consolidated financial statements under Item 8 below.

The Company was incorporated in North Carolina on December 8, 1983, as Montgomery Bancorp, for the purpose of acquiring 100% of the outstanding common stock of the Bank through a stock-for-stock exchange. On December 31, 1986, the Company changed its name to First Bancorp to conform its name to the name of the Bank, which had changed its name from Bank of Montgomery to First Bank in 1985.

The Bank was organized in 1934 and began banking operations in 1935 as the Bank of Montgomery, named for the county in which it operated. As of December 31, 2006, the Bank operated in a 26-county area centered in Troy, North Carolina. Troy, population 3,500, is located in the center of Montgomery County, approximately 60 miles east of Charlotte, 50 miles south of Greensboro, and 80 miles southwest of Raleigh. The Bank conducts business from 68 branches located within a 120-mile radius of Troy, covering principally a geographical area from Latta, South Carolina to the southeast, to Wilmington, North Carolina to the east, to Radford, Virginia to the north, to Wytheville, Virginia to the northwest, and to Harmony, North Carolina to the west. The Bank also has a loan production office in Blacksburg, which is located in southwestern Virginia and represents the Bank’s furthest location to the north of Troy. Of the Bank’s 68 branches, 61 are in North Carolina, with three branches in South Carolina and four branches in Virginia (where the Bank operates under the name “First Bank of Virginia”). Ranked by assets, the Bank was the<sup>47</sup> largest bank headquartered in North Carolina as of December 31, 2006.

As of December 31, 2006, the Bank had one wholly owned subsidiary, First Bank Insurance Services, Inc. (“First Bank Insurance”). First Bank Insurance was acquired as an active insurance agency in 1994 in connection with the Company’s acquisition of a bank that had an insurance subsidiary. On December 29, 1995, the insurance agency operations of First Bank Insurance were divested. From December 1995 until October 1999, First Bank Insurance was inactive. In October 1999, First Bank Insurance began operations again as a provider of non-FDIC insured investments and insurance products. Currently, First Bank Insurance’s primary business activity is the placement of property and casualty insurance coverage.

The Company’s principal executive offices are located at 341 North Main Street, Troy, North Carolina 27371-0508, and its telephone number is (910) 576-6171. Unless the context requires otherwise, references to the “Company” in this annual report on Form 10-K shall mean collectively First Bancorp and its consolidated subsidiaries.

**General Business**

The Bank engages in a full range of banking activities, providing such services as checking, savings, NOW and

4

---

Index

money market accounts and other time deposits of various types including certificates of deposits (CDs) and individual retirement accounts (IRAs); loans for business, agriculture, real estate, personal uses, home improvement and automobiles; credit cards; debit cards; letters of credit; safe deposit box rentals; bank money orders; and electronic funds transfer services, including wire transfers, automated teller machines, and bank-by-phone capabilities. In December 2004, the Bank also began offering its internet banking product, with on-line bill pay and cash management features. In 2005, the Bank began offering repurchase agreements (also called securities sold under agreement to repurchase), which are similar to interest-bearing deposits and allows the Bank to pay interest to business customers without statutory limitations on the number of withdrawals that these customers can make. Because the majority of the Bank's customers are individuals and small to medium-sized businesses located in the counties it serves, management does not believe that the loss of a single customer or group of customers would have a material adverse impact on the Bank. There are no seasonal factors that tend to have any material effect on the Bank's business, and the Bank does not rely on foreign sources of funds or income. Because the Bank operates primarily within the central Piedmont region of North Carolina, the economic conditions within that area could have a material impact on the Company. See additional discussion below in the section entitled "Territory Served and Competition."

Beginning in 1999, First Bank Insurance began offering non-FDIC insured investment and insurance products, including mutual funds, annuities, long-term care insurance, life insurance, and company retirement plans, as well as financial planning services (the "investments division"). In May 2001, First Bank Insurance added to its product line when it acquired two insurance agencies that specialized in the placement of property and casualty insurance. In October 2003, the "investments division" of First Bank Insurance became a part the Bank. The primary activity of First Bank Insurance is now the placement of property and casualty insurance products.

Montgomery Data's primary business is to provide electronic data processing services for the Bank. Ownership and operation of Montgomery Data allows the Company to do all of its electronic data processing without paying fees for such services to an independent provider. Maintaining its own data processing system also allows the Company to adapt the system to its individual needs and to the services and products it offers. Although not a significant source of income, Montgomery Data has historically made its excess data processing capabilities available to area financial institutions for a fee. For the years ended December 31, 2006, 2005 and 2004, external customers provided gross revenues of \$162,000, \$279,000 and \$416,000, respectively. During 2005, two of the five customers terminated their services with Montgomery Data and switched to another provider. During 2006, one other customer terminated its service, which left Montgomery Data with two outside customers as of December 31, 2006. Montgomery Data intends to continue to market its services to area banks, but does not currently have any near-term prospects for additional business.

First Bancorp Financial was organized under the name of First Recovery in September of 1988 for the purpose of providing a back-up data processing site for Montgomery Data and other financial and non-financial clients. First Recovery's back-up data processing operations were divested in 1994. First Bancorp Financial now periodically purchases parcels of real estate from the Bank that were acquired through foreclosure or from branch closings. First Bancorp Financial actively pursues the sale of these properties.

First Bancorp Capital Trust I was organized in October 2002 for the purpose of issuing \$20.6 million in debt securities. These borrowings are due on November 7, 2032 and are structured as trust preferred capital securities, which qualify as capital for regulatory capital adequacy requirements. These debt securities are callable by the Company at par on any quarterly interest payment date beginning on November 7, 2007. The interest rate on these debt securities adjusts on a quarterly basis at a rate of three-month LIBOR plus 3.45%. This rate may not exceed 12.50% through November 2007.

First Bancorp Capital Trust II and First Bancorp Capital Trust III were organized in December 2003 for the purpose of issuing \$20.6 million in debt securities (\$10.3 million were issued from each trust). These borrowings are due on



December 19, 2033 and are also structured as trust preferred capital securities in order to qualify as

5

---

Index

regulatory capital. These debt securities are callable by the Company at par on any quarterly interest payment date beginning on January 23, 2009. The interest rate on these debt securities adjusts on a quarterly basis at a weighted average rate of three-month LIBOR plus 2.70%.

First Bancorp Capital Trust IV was organized in April 2006 for the purpose of issuing \$25.8 million in debt securities. These borrowings are due on June 15, 2036 and are structured as trust preferred capital securities, which qualify as capital for regulatory capital adequacy requirements. These debt securities are callable by the Company at par on any quarterly interest payment date beginning on June 15, 2011. The interest rate on these debt securities adjusts on a quarterly basis at a rate of three-month LIBOR plus 1.39%.

**Territory Served and Competition**

The Company's headquarters are located in Troy, Montgomery County, North Carolina. The Company serves primarily the south central area of the Piedmont region of North Carolina. The following table presents, for each county where the Company operates, the number of bank branches operated by the Company within the county at December 31, 2006, the approximate amount of deposits with the Company in the county as of December 31, 2006, the Company's approximate market share at June 30, 2006, and the number of bank competitors located in the county at June 30, 2006.

County	No. of Branches	Deposits (in millions)	Market Share	Number of Competitors
Anson, NC	1	\$ 12	4.5%	4
Brunswick, NC	2	4	-	10
Cabarrus, NC	2	31	1.9%	11
Chatham, NC	2	48	9.7%	9
Davidson, NC	3	115	6.2%	10
Dillon, SC	3	68	25.5%	2
Duplin, NC	3	64	11.8%	7
Guilford, NC	1	47	0.4%	25
Harnett, NC	3	110	11.8%	7
Iredell, NC	2	27	1.1%	