

FIRST COMMUNITY BANCSHARES INC /NV/

Form DEF 14A

March 22, 2005

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**SCHEDULE 14A
(RULE 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Section 240.14a-11c or Section 240.14a-12

FIRST COMMUNITY BANCSHARES, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
 - (2) Aggregate number of securities to which transaction applies:
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
 - (4) Proposed maximum aggregate value of transaction:
 - (5) Total fee paid:
- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
 - (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:
 - (4) Date Filed:

First Community Bancshares, Inc.
One Community Place
Bluefield, Virginia 24605-0989
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**Notice of 2005
Annual Meeting of Stockholders**

To the Stockholders of First Community Bancshares, Inc.:

The ANNUAL MEETING of Stockholders of First Community Bancshares, Inc. will be held at Fincastle Country Club, Bluefield, Virginia, at 3:00 p.m. local time on Tuesday April 26, 2005, for the purpose of considering and voting upon the following items as more fully discussed herein.

1. The election of directors to serve as members of the Board of Directors, Class of 2008.
2. Amend the Articles of Incorporation of the Company to increase the authorized common stock.
3. The ratification of the selection of Ernst & Young LLP, as independent Registered Public Accounting Firm for the year ending December 31, 2005; and
transacting such other business as may properly come before the meeting, or any adjournment thereof. Only stockholders of record at the close of business on March 8, 2005 are entitled to notice of and to vote at such meeting or at any adjournment thereof.

By Order of the Board of Directors

Robert L. Buzzo

Robert L. Buzzo, Secretary

IMPORTANT

YOU MAY VOTE BY THE FOLLOWING METHODS:

1. By telephone: (888) 216-1279; or
 2. On the internet at www.proxyvotenow.com/fcb until 3:00 a.m. eastern daylight time on April 26, 2005; or
 3. Complete, sign and return the enclosed proxy as promptly as possible whether or not you plan to attend the meeting. An addressed return envelope is enclosed for your convenience. **YOU MAY REVOKE YOUR PROXY AT ANY TIME PRIOR TO THE TIME IT IS VOTED.**
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PROXY STATEMENT
Annual Meeting of Stockholders
To Be Held on Tuesday, April 26, 2005

The Board of Directors of First Community Bancshares, Inc. (the Corporation) solicits the enclosed proxy for use at the Annual Meeting of Stockholders of the Corporation (the Annual Meeting), which will be held on Tuesday, April 26, 2005 at 3:00 p.m. local time at Fincastle Country Club, Bluefield, Virginia, and at any adjournment thereof.

The expenses of the solicitation of the proxies for the Annual Meeting, including the cost of preparing, assembling and mailing the notice, proxy statement and return envelopes, the handling and tabulation of proxies received, and charges of brokerage houses and other institutions, nominees or fiduciaries for forwarding such documents to beneficial owners, will be paid by the Corporation. In addition to the mailing of the proxy material, solicitation may be made in person, by telephone or by other means by officers, directors or regular employees of the Corporation.

This Proxy Statement and the proxies solicited hereby are being first sent or delivered to stockholders of the Corporation on or about March 22, 2005.

Voting

Shares of common stock (par value \$1 per share) (Common Stock) represented by proxies in the accompanying form, which are properly executed and returned to the Corporation, will be voted at the Annual Meeting in accordance with the stockholder's instructions contained therein. In the absence of contrary instructions, shares represented by such proxies will be voted FOR the election of the nominees as described herein under Election of Directors, FOR the proposed amendment to the Articles of Incorporation and FOR ratification of the selection of Ernst & Young LLP as the independent Registered Public Accounting Firm for the year ended December 31, 2005.

Any stockholder has the power to revoke his proxy at any time before it is voted. A proxy may be revoked at any time prior to its exercise by the filing of written notice of revocation with the secretary of the Corporation, by delivering to the Corporation a duly executed proxy bearing a later date, or by attending the Annual Meeting and voting in person. However, if you are a stockholder whose shares are not registered in your own name, you will need additional documentation from your record holder to vote personally at the Annual Meeting.

The Board of Directors has fixed March 8, 2005 as the record date for stockholders entitled to notice of and to vote at the Annual Meeting. Shares of Common Stock outstanding on the record date are entitled to be voted at the Annual Meeting and the holders of record will have one vote for each share so held in the matters to be voted upon by the stockholders. Shareholders of the Corporation do not have cumulative voting rights.

The presence in person or by proxy of a majority of the shares of the Common Stock entitled to vote is necessary to constitute a quorum at the Annual Meeting. Directors are elected by a plurality of the votes cast with a quorum present. The three persons who receive the greatest number of votes of the holders of Common Stock represented in person or by proxy at the Annual Meeting will be elected directors of the Corporation. The proposal to amend the Articles of Incorporation requires the affirmative vote of the holders of a majority of the outstanding common stock entitled to vote. The proposal to ratify the appointment of the independent Registered Public Accounting Firm requires that the number of votes cast in favor of the proposal exceed the number of votes cast against it. Abstentions are considered in determining the presence of a quorum but will not affect the vote required for the election of directors, the amendment to the Articles of Incorporation or the ratification of the independent Registered Public Accounting Firm. All of the proposals for consideration at the Annual Meeting are considered discretionary items upon which brokerage firms may vote in their discretion on behalf of their clients if such clients have not furnished voting instructions.

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As of the close of business on March 8, 2005, the outstanding shares of the Corporation consisted of 11,258,748 shares of Common Stock.

1. ELECTION OF DIRECTORS

The Corporation's Board of Directors is comprised of nine directors, including eight non-employee directors, divided into three classes with staggered terms. All directors are elected for three-year terms. All directors have been determined to be independent by the Board of Directors except for Mr. William P. Stafford and Mr. William P. Stafford, II, who are deemed not independent due to their family relationship to a service provider to the corporation, and Mr. John M. Mendez, who is employed by the Corporation as President and Chief Executive Officer.

The nominees for the Board of Directors to serve until the Annual Meeting of Stockholders in 2008 are set forth below. All nominees are currently serving on the Corporation's Board of Directors. In the event any nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee who shall be designated by the present Board of Directors to fill the vacancy. In the event that additional persons are nominated for election as directors, the proxy holders intend to vote all proxies received by them for the nominees listed below. All nominees named herein have consented to be named and to serve as directors if elected.

No director or executive officer of the Corporation is related to any other director or executive officer of the Corporation by blood, or marriage or adoption, except for Mr. Stafford who is the father of Mr. Stafford, II.

| <i>Name</i> | <i>Age</i> | <i>Principal Occupation and Employment Last Five Years; Principal Directorships</i> | <i>Director of Corporation Since</i> | <i>Class of Directors</i> |
|-----------------------------|------------|---|--|-----------------------------------|
| Robert E. Perkinson, Jr. | 57 | Mayor of City of Bluefield, WV; Past Vice President-Operations, MAPCO Coal, Inc., Permac, Inc., Race Fork Coal Company, South Atlantic Coal, Inc., (all coal mining operations); Director, First Community Bank, N. A.; Chairman of Audit Committee and Chairman of Bank Loan Committee | 1994 | 2008 |
| William P. Stafford | 71 | President, Princeton Machinery Service, Inc. (a machinery manufacturing and repair company); Chairman of the H. P. & Anne S. Hunnicutt Foundation; Chairman of the Board of the Corporation; Director, First Community Bank, N. A.; Chairman of Executive Committee and Member of the Bank Loan Committee | 1989 | 2008 |
| Harold V. Groome, Jr. | 60 | Chairman, Groome Transportation, Inc.; Chairman, Groome Transportation of Georgia, Inc.; (a provider of personal and business transportation services); Director, First Community Bank, N. A. Member of the Bank Trust Committee | 2003 | 2008 |

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE NOMINEES FOR DIRECTOR.

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The following persons will continue to serve as members of the Board of Directors until the Annual Meeting of Stockholders in the year of the expiration of their designated terms. The name, age, principal occupation and certain biographical information for each continuing director are presented below:

| <i>Name</i> | <i>Age</i> | <i>Principal Occupation and Employment Last Five Years; Principal Directorships</i> | <i>Director of Corporation Since</i> | <i>Class of Directors</i> |
|-------------------------|------------|--|--|-----------------------------------|
| I. Norris Kantor | 75 | Of Counsel, Katz, Kantor & Perkins Attorneys-at-Law; Director of Mercer Realty, Inc., a Real Estate Management Company; Director, First Community Bank, N. A.; Member of Bank Loan and Trust Committees | 1989 | 2006 |
| A. A. Modena | 76 | Retired Executive Vice President and Secretary of the Corporation; Director, First Community Bank, N. A.; Member of Executive Committee, Chairman of Nominating Committee and Chairman of Bank Trust Committee; Director of Stone Capital Management, Inc.; Former President of the Flat Top National Bank of Bluefield and Executive Vice-President of its Trust and Financial Services Division. | 1989 | 2006 |
| William P. Stafford, II | 41 | Attorney, Brewster, Morhous, Cameron, Mullins, Caruth, Moore, Kersey & Stafford, PLLC; Director, First Community Bank, N. A.; Member of the Executive Committee and the Bank Trust Committee | 1994 | 2006 |
| Allen T. Hamner | 63 | Professor of Chemistry, West Virginia Wesleyan College; Director, First Community Bank, N. A.; Member of Audit, Nominating and Executive Committees | 1993 | 2007 |
| B. W. Harvey | 73 | Retired Former President, Highlands Real Estate Management, Inc. (a Corporation which provides commercial property leasing services); Director and Chairman First Community Bank, N. A.; Financial Expert on Audit Committee, Member of the Executive Committee, Member of the Bank Loan and Nominating Committees | 1989 | 2007 |
| John M. Mendez | 50 | President and Chief Executive Officer of the Corporation; Director, Executive Vice President, First Community Bank, N. A.; Past Vice President, Chief Financial Officer & Secretary of the Corporation; Past Senior Vice President Finance & Chief | 1994 | 2007 |

Table of Contents**Executive Officers who are not Directors**

The name, age, principal occupation and certain biographical information for each continuing officer are presented below:

| <i>Name</i> | <i>Age</i> | <i>Principal Occupation and Employment Last Five Years; Principal Title</i> | <i>Officer of Corporation Since</i> |
|----------------------|------------|---|---|
| Robert L. Buzzo | 54 | President of First Community Bank, N. A.; Vice President and Secretary of the Corporation; past Chief Executive Officer of First Community Bank Bluefield, a division of First Community Bank, N. A. | 2000 |
| E. Stephen Lilly | 46 | Chief Operating Officer of the Corporation; Senior Vice President and Chief Operating Officer of First Community Bank, N. A.; past Vice President-Operations of First Community Bank, N.A. | 2000 |
| Robert L. Schumacher | 53 | Chief Financial Officer of the Corporation; Senior Vice President-Finance and Secretary of First Community Bank, N. A.; Past Senior Vice President-Finance of the Corporation; Past Senior Vice President and Senior Trust Officer of First Community Bank, N. A. | 2000 |

Compensation of Directors

During 2004, non-employee members of the Board of Directors received a retainer fee of \$700 per month. During 2004, Audit Committee members received a retainer fee of \$1,000 per quarter. Members of the Corporation's Executive Committee also receive a fee of \$250 per meeting unless held in conjunction with monthly board meetings in which case no committee fee is paid. Directors of the Corporation may also be reimbursed for travel or other expenses incurred for attendance at Board or committee meetings. Directors who are employees of the Corporation receive no compensation for service on the Board or its committees.

In addition, non-employee directors of the Corporation participate in the 2001 Directors' Stock Option Plan (the Directors' Option Plan). The Directors' Option Plan was implemented to facilitate and encourage investment in the Corporation's future growth and continued success. No grants were made under the Directors' Option Plan in fiscal 2004. In fiscal 2001, non-employee directors were granted options to purchase 45,000 shares of Common Stock. Considering 10% stock dividends distributed in both 2002 and 2003, as well as certain option exercises, the outstanding options exercisable at December 31, 2004 by non-employee directors were 28,840 shares. The exercise price of each option is the market value of a share of Common Stock on the date of grant adjusted for the aforementioned stock dividends. The options are fully vested and must be exercised within 10 years of grant or two years following the director's retirement, whichever occurs first.

Meeting Attendance

The Board of Directors held twelve meetings during 2004. All directors and those nominees, who are currently directors, attended at least 75% of all meetings of the Board and any committee of which they were members. Directors are encouraged to attend annual meetings of the Corporation's stockholders. All of the members of the Board of Directors attended last year's Annual Meeting.

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Board Committees

Audit Committee

The Board of Directors of the Corporation has an Audit Committee consisting of Chairman Perkinson and Messrs. Hamner and Harvey, all non-employee members of the Board. Each Audit Committee member is independent under the Nasdaq Stock Market listing standards as well as the Sarbanes-Oxley Act of 2002. The Audit Committee of the Board of Directors, which operates under a Board approved charter, held fourteen meetings during 2004, reviews and acts on reports to the Board with respect to various auditing and accounting matters, the scope of the audit procedures and the results thereof, the internal accounting and control systems of the Corporation, the nature of service performed for the Corporation by and the fees to be paid to the Independent Registered Public Accounting Firm, the performance of the Corporation's Independent Registered Public Accounting Firm and internal auditors and the accounting practices of the Corporation. In 2003, the Board of Directors designated Mr. Harvey as the Audit Committee's Financial Expert, based upon his qualifications and experience. The Audit Committee is responsible for the appointment of the Independent Registered Public Accounting Firm, subject to stockholders' ratification. The 2004 Report of the Audit Committee is presented on page 11 of this Proxy Statement.

Compensation Committee

The Board of Directors assumed the duties of the former Compensation Committee on June 15, 2004. The independent members of the Board are responsible for the review and consideration of the form and amount of compensation and contractual employment terms of the President and Chief Executive Officer of the Corporation, the review of compensation of other executive officers and the review of stock-based compensation plans and various non-qualified compensation and retirement programs maintained by the Corporation. These compensation related responsibilities are now under the purview of the independent members of the Board of Directors. The 2004 Report of the Independent Members of the Board of Directors regarding compensation matters is presented on page 9 and 10 of this Proxy Statement.

Executive Committee

The Board of Directors of the Corporation has an Executive Committee consisting of Chairman Stafford and Messrs. Hamner, Harvey, Mendez, Modena, and Stafford, II. The Executive Committee held one meeting during 2004. The Executive Committee is empowered to act on behalf of the Board on most corporate matters not involving business combinations.

Nominating Committee

The Board of Directors established a Nominating Committee in 2003. The Nominating Committee assumed certain responsibilities formerly delegated to the Executive Committee. The Nominating Committee is comprised of Directors Harvey, Hamner and Modena, all independent directors. The committee operates under a Board approved charter which outlines responsibilities including the review of the composition and qualifications of the Board of Directors, periodic evaluation of the Board and its effectiveness, review of Board membership needs, search, screening and evaluation of director nominees and the evaluation of and response to shareholder proposals regarding board composition and membership when and if presented to the Corporation. A copy of the Nominating Committee Charter was attached as Appendix A to the Corporation's 2004 Annual Meeting Proxy Statement, which was filed with the Securities and Exchange Commission on March 15, 2004.

Nominations to the Board of Directors by stockholders to be considered at the 2005 annual meeting of stockholders shall be made in writing and shall be delivered or mailed to the Corporate Secretary not less than thirty days prior to

the 2005 annual meeting. However, in the event that less than thirty days notice of the 2005 annual meeting is given to stockholders, such notice of nomination shall be mailed or delivered to the Corporate Secretary no later than the close of business on the seventh day following the day on which the notice of the meeting was mailed. The notice must set forth the candidate's name,

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age, business address, residence address, principal occupation or employment, the number of shares beneficially owned by the candidate, qualifications for Board membership and information that would be required to solicit a proxy under federal securities law. In addition, the notice must include the nominating shareholder's name, address, the number of shares beneficially owned and the period they have been held.

The Nominating Committee will consider shareholder recommendations for board candidates when the recommendations are properly submitted. Any shareholder recommendations for candidates to be nominated for board service, which are submitted under the criteria summarized above should be addressed to:

Corporate Secretary
First Community Bancshares, Inc.
P.O. Box 989
Bluefield, Virginia 24605-0989

In evaluating and determining whether to recommend a candidate for nomination to a position on the Corporation's Board, the Nominating Committee will consider criteria as established by the Nominating Committee and used to determine a candidate's suitability for board service, which criteria include at a minimum, high professional ethics and values, relevant experience and a commitment to enhancing shareholder value. In evaluating candidates for nomination, the Nominating Committee utilizes a variety of methods. The Corporation regularly assesses the size of the Board, whether any vacancies are expected due to retirement or otherwise, and the need for particular expertise on the Board. Candidates may come to the attention of the Nominating Committee from current Board members, shareholders, professional search firms, officers or other persons. The Nominating Committee will review all candidates in the same manner regardless of the source of the recommendation.

Transactions with Directors and Officers

Some of the directors and officers of the Corporation and members of their immediate families are at present, as in the past, customers of the Corporation's subsidiary bank, and have had and expect to have transactions with the bank. In addition, some of the directors and officers of the Corporation are, as in the past, also officers of or partners in entities that are customers of the bank and have had and expect to have transactions with the bank. Such transactions were made in the ordinary course of business, were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and did not involve more than normal risk of collectibility or present other unfavorable features.

One of the directors, Mr. Stafford, II, is a practicing attorney with Brewster, Morhous, Cameron, Mullins, Caruth, Moore, Kersey & Stafford, PLLC, a Bluefield, West Virginia law firm which provides general legal services to the Corporation. The Corporation paid that firm \$46,007 for these professional services in 2004.

In 2004, the Corporation constructed a bank facility in Princeton, WV at an estimated cost of approximately \$1.8 million and the general contractor for this project was Fredeking Stafford Construction Company, Inc. The majority owner of Fredeking Stafford Construction Company, Inc. is the son of Mr. Stafford and the brother of Mr. Stafford, II. During 2004, Fredeking Stafford Construction Company, Inc. received approximately \$851,000 for its general contracting services rendered in regard to construction of this bank facility and provided other general contracting services to the Corporation during 2004, for which the Corporation paid \$29,000. Contracts for the largest of these services were awarded through a competitive bidding process.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities and Exchange Act of 1934 (the Exchange Act) requires the Corporation s officers, directors and persons who own more than 10% of the Corporation s capital stock (collectively, Reporting Persons) to file

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reports of ownership and changes in ownership with the Securities and Exchange Commission and the National Association of Securities Dealers, Inc. The Reporting Persons are required by regulation to furnish the Corporation with copies of all forms they file pursuant to Section 16(a) of the Exchange Act.

Based solely on review of the copies of such forms furnished to the Corporation, or written representations from its officers and directors, the Corporation believes that during, and with respect to, fiscal 2004, the Corporation's officers and directors complied in all respects with the reporting requirements promulgated under Section 16(a) of the Exchange Act except for Dr. Allen Hamner who filed a late Form 4 in connection with the purchase of 96 shares of common stock of the Corporation.

Beneficial Ownership of Common Stock by Certain Beneficial Owners and Management

The following table sets forth as of March 8, 2005, certain information as to the Common Stock beneficially owned by (i) each person or entity, including any group as that term is used in Section 13(d)(3) of the Exchange Act, who or which was known to the Corporation to be the beneficial owner of more than 5% of the issued and outstanding Common Stock, (ii) certain directors and executive officers of the Corporation and its major subsidiaries and (iii) all directors and executive officers of the Corporation and its major subsidiaries, as a group. Except as otherwise indicated, the persons named in the table below have sole voting and investment power with respect to the Common Stock shown as beneficially owned by them.

| Name and address of Beneficial Owner or Number of Persons in Group | Amount and Nature of Beneficial Ownership as of March 8, 2004 | Percent of Common Stock |
|---|---|-------------------------|
| The H. P. & Anne S. Hunnicutt Foundation (1) P.O. Box 309, Princeton, WV 24740 | 1,222,100 | 10.64 % |
| The Company's Directors and Officers: | | |
| Robert L. Buzzo (2) | 33,732 | * |
| Harold V. Groome, Jr. (12) | 30,005 | * |
| Allen T. Hamner (3)(4) | 15,095 | * |
| B. W. Harvey (3)(5) | 20,539 | * |
| I. Norris Kantor (13)(6) | 32,863 | * |
| E. Stephen Lilly (7) | 28,558 | * |
| John M. Mendez (8) | 59,386 | * |
| A. A. Modena (3) | 31,518 | * |
| Robert E. Perkinson, Jr. (3)(9) | 77,170 | * |
| Robert L. Schumacher (10) | 36,905 | * |
| William P. Stafford (11) | 239,014 | 2.12 % |
| William P. Stafford, II | 153,775 | 1.37 % |
| All Directors and Executive Officers as a Group (Twelve Persons) | 758,560 | 6.61 % |

* Represents less than 1% of the outstanding shares.

- (1) Information obtained from a Schedule 13G dated March 17, 2003. The H. P. and Anne S. Hunnicutt Foundation (Foundation) is a private, tax-exempt charitable foundation under Section 501(c)(3) of the Internal Revenue Code.

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The Foundation was created by the family of two directors, William P. Stafford and William P. Stafford, II. Neither director exercises voting or dispositive power over the shares held by the Foundation.

- (2) Includes 13,993 shares allocated to Mr. Buzzo's Employee Stock Ownership and Savings Plan (ESOP) account. Also includes 19,458 shares issuable upon exercise of currently exercisable options granted under the 1999 Stock Option Plan.
- (3) Includes 6,050 shares issuable upon exercise of currently exercisable options granted under the Directors Option Plan.
- (4) Includes 4,712 shares held by Mr. Hamner's wife.
- (5) Includes 1,495 shares held by Mr. Harvey's wife.
- (6) Includes 1,403 shares held by Mr. Kantor's wife.
- (7) Includes 3,344 shares allocated to Mr. Lilly's ESOP account. Also includes 21,578 shares issuable upon exercise of currently exercisable options granted under the 1999 Stock Option Plan.
- (8) Includes 17,756 shares allocated to Mr. Mendez's ESOP account. Also includes 34,266 shares issuable upon exercise of currently exercisable options granted under the 1999 Stock Option Plan.
- (9) Includes 21,120 shares held by the Robert E. Perkinson, Sr. Trust, 5,138 shares held by the Robert E. Perkinson, Jr. Trust in which Mr. Perkinson is deemed to share beneficial ownership and 5,171 shares held as agent for Mr. Perkinson's wife. Mr. Perkinson is co-trustee of the Robert E. Perkinson, Sr. Trust and holds a remainder interest therein with two of his siblings, and he is co-trustee and sole beneficiary of the Robert E. Perkinson, Jr. Trust.
- (10) Includes 12,499 shares allocated to Mr. Schumacher's ESOP account. Also includes 17,211 shares issuable upon exercise of currently exercisable options granted under the 1999 Stock Option Plan.
- (11) Includes 35,561 shares held by Stafford Farms LLC as to which Mr. Stafford is deemed to share beneficial ownership. Also includes 162,632 shares held jointly by Mr. Stafford and his wife, and 1,901 shares held by Mr. Stafford's wife.
- (12) Includes 7,746 shares issuable upon exercise of currently exercisable options granted under The Commonwealth Bank Option Plan.
- (13) Includes 4,640 shares issuable upon exercise of currently exercisable options granted under the Directors Option Plan.

Report on Executive Compensation

The Independent Members of the Board of Directors establish and manage employment terms and the form and levels of compensation paid to the President and Chief Executive Officer (CEO). These Independent Members also periodically review the compensation of other executive officers named in the Summary Compensation Table subject to primary salary administration for these officers by the CEO.

Other responsibilities of the Independent Members of the Board include the development of proposed contractual terms of employment and establishment of a framework for a competitive compensation package for the CEO and

long-term compensation programs for all executive officers that adequately reward performance and provide incentives for retention. In carrying out its responsibilities, the Independent Members of the Board considers: i) the need to retain competent and effective management personnel; ii) competitive terms and levels of compensation relative to other companies of comparable size and operation within the commercial banking industry; iii) past performance of the CEO as measured against

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predetermined goals and objectives; iv) comparative performance of the CEO as benchmarked against peer groups of comparable commercial banks; and v) the achievement of overall corporate goals.

The Committee establishes current compensation based primarily on review of competitive salary practices by similarly sized banking organizations locally and nationally giving appropriate weight to regional differences in cost of living and contrasting relative performance of the Corporation and the designated peer group. In performing this analysis, the Independent Members of the Board utilized the Sheshunoff Executive Compensation Survey and the 2004 SNL Executive Compensation Review as well as compensation data from other specifically identified banking peers.

In review of cash compensation of the CEO for the 2004 fiscal year, the committee awarded a merit increase which resulted in a total increase in base compensation from \$274,900 to \$325,000 annually. This salary adjustment was effective January 1, 2004.

In 2004 there were no recommended changes in the employment contract of the CEO. The CEO employment contract is for a three year term and renews annually. The contract provides for salary continuation for a period of 35 months in the event of termination within three years of a change in control of ownership. The contract also provides for salary continuation for a period of 30 months in the event of termination without cause, absent a change in control of ownership

For 2004 the Committee recommended to the Board of Directors a tiered incentive compensation strategy for the CEO based upon the Corporation's ability to meet specific financial benchmarks. The actual bonus payment to the CEO in the first quarter of 2004 was \$100,000.

This report shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 (the Securities Act) or the Exchange Act, unless the Corporation specifically incorporates this report by reference and shall not otherwise be deemed filed under the Securities Act or the Exchange Act.

Harold V. Groome, Jr.
Allen T. Hamner
B. W. Harvey
I. Norris Kantor
A. A. Modena
Robert E. Perkinson, Jr.

Compensation Committee Interlocks and Insider Participation

No independent member of the Board of Directors is an officer or employee of the Corporation and no such member or executive officer of the Corporation has a relationship that would constitute an interlocking relationship with executive officers or directors of another public company.

Report of the Audit Committee

The Audit Committee of the Board is responsible for providing independent, objective oversight of the Corporation's accounting functions, financial reporting process and internal controls. The Audit Committee operates under a written charter, approved by the Corporation's Board of Directors that complies with the Sarbanes-Oxley Act of 2002.

The responsibilities of the Audit Committee include the appointment of an Independent Registered Public Accounting Firm to be engaged as the Corporation's independent auditors for the purpose of performing an audit of the Corporation's financial statements and expressing an opinion as to the conformity of such financial statements with accounting principles generally accepted within the United States and expressing an opinion on management's assessment of

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the effectiveness of the Corporation's internal control over financial reporting. Additionally, and as appropriate, the Audit Committee reviews, evaluates, discusses, and consults with management, internal audit personnel and the Independent Registered Public Accounting Firm regarding the following:

the plan for, and Independent Registered Public Accounting firm report on, each audit of the Corporation's financial statements

the Corporation's financial disclosure documents, including all financial statements and reports sent to shareholders

changes in the Corporation's accounting practices, principles, controls or methodologies, or in its financial statements

significant developments in accounting rules

the effectiveness of the Corporation's internal accounting controls, and accounting, financial and auditing personnel

the establishment and maintenance of an environment at the Corporation that promotes ethical behavior

The Audit Committee Charter incorporates standards set forth in Securities and Exchange Commission regulations and the listing standards of the National Association of Securities Dealers. After appropriate review and discussion, the Audit Committee determined that the Committee fulfilled its responsibilities under the Audit Committee Charter in 2004.

The Audit Committee is responsible for recommending to the Board that the Corporation's financial statements be included in its annual report. The Committee held fourteen meetings during the fiscal year 2004 and took a number of steps in making the independent registered public accounting firm recommendation. First, the Audit Committee discussed with its Independent Registered Public Accounting Firm those matters the firm communicated to and discussed with the Audit Committee under applicable auditing standards, including information regarding the scope and results of the audit. These communications and discussions are intended to assist the Audit Committee in overseeing the financial reporting and disclosure process. Second, the Audit Committee discussed the Independent Registered Public Accounting firm's independence with that firm and received a letter from the registered public accounting firm concerning independence as required under applicable independence standards for auditors of public companies. This discussion and disclosure informed the Audit Committee of the Independent Registered Public Accounting Firm's independence, and assisted the Audit Committee in evaluating such independence. Finally, the Audit Committee reviewed and discussed, with the Corporation management and the Independent Registered Public Accounting Firm, the Corporation's audited consolidated balance sheet at December 31, 2004 and consolidated statement of income, cash flows and stockholders' equity for the year then ended. Based on discussions with the Independent Registered Public Accounting Firm concerning the audit, the independence discussions, and the financial statement review, and such other matters deemed relevant and appropriate by the Audit Committee, the Audit Committee recommended to the Board (and the Board approved) that these financial statements be included in the Corporation's 2004 Annual Report to Shareholders and incorporated by reference in its Annual Report on Form 10-K filed with the Securities and Exchange Commission.

This report shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, unless the Corporation specifically incorporates this report by reference, and shall not otherwise be deemed filed under the Securities Act or the Exchange Act.

Robert E. Perkinson, Jr., Audit Committee Chair

Allen T. Hamner, Audit Committee Member

B. W. Harvey, Audit Committee Member

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The following Summary Compensation Table sets forth information concerning compensation for services in all capacities awarded to, earned by, or paid to the Corporation's President and Chief Executive Officer and to other executive officers of the Corporation whose salary and bonus exceeded \$100,000 during the year ended December 31, 2004.

| Name of Individual/ Capacities Served | Year | Salary | Bonus | Other Annual Compensation (1) | Long-Term Compensation | | All Other Compensation (2) |
|---|------|------------|------------|--|---------------------------|-----------------|----------------------------------|
| | | | | | Awards Securities | Payouts | |
| | | | | | Underlying Options | LTIP Payouts | |
| John M. Mendez President & Chief Executive Officer of the Corporation; Executive Vice President of First Community Bank, N. A. | 2004 | \$ 305,000 | \$ 100,000 | \$ | | \$ | 101,356 |
| | 2003 | \$ 266,902 | \$ 125,000 | \$ | 14,108 | \$ | 104,498 |
| | 2002 | \$ 228,184 | \$ 36,000 | \$ | 14,108 | \$ | 51,430 |
| Robert L. Buzzo Vice President and Secretary of the Corporation; President of First Community Bank, N. A.; Chief Executive Officer of the Bluefield Division of First Community Bank, N. A. | 2004 | \$ 159,000 | \$ 30,000 | \$ | | \$ | 62,716 |
| | 2003 | \$ 149,200 | \$ 20,000 | \$ | 7,565 | \$ | 58,854 |
| | 2002 | \$ 135,678 | \$ 11,221 | \$ | 7,565 | \$ | 38,533 |
| E. Stephen Lilly Chief Operating Officer of the Corporation; Senior Vice President & Chief Operating Officer of First Community Bank, N. A. | 2004 | \$ 170,800 | \$ 50,000 | \$ | | \$ | 59,229 |
| | 2003 | \$ 162,200 | \$ 25,000 | \$ | 7,550 | \$ | 53,823 |
| | 2002 | \$ 138,669 | \$ 14,632 | \$ | 7,550 | \$ | 33,970 |
| Robert L. Schumacher Chief Financial Officer of the Corporation; Senior Vice President- Finance and Secretary of First Community Bank, | 2004 | \$ 128,063 | \$ 35,000 | \$ | | \$ | 36,288 |
| | 2003 | \$ 124,000 | \$ 20,000 | \$ | 9,266 | \$ | 32,057 |
| | 2002 | \$ 104,391 | \$ 10,827 | \$ | 9,266 | \$ | 27,002 |

N. A.

- (1) The Corporation provides perquisites to the named officers, comprised of dues for country club membership and the personal use of Corporation vehicles or a vehicle allowance. The value of such benefits do not exceed the lesser of \$50,000 or 10% of salary and bonus for any of the named officers.
- (2) Includes \$12,300, \$8,885, \$9,600 and \$7,569 in 401(k) matching contributions for Messrs. Mendez, Buzzo, Lilly and Schumacher, respectively, for 2004. Includes \$9,225, \$9,225, \$9,225 and \$8,019 in ESOP contributions for Messrs. Mendez, Buzzo, Lilly and Schumacher, respectively, for 2004. Includes \$13,000, \$8,885, \$9,600 and \$7,569 in 401(k) deferrals for Messrs. Mendez, Buzzo, Lilly and Schumacher, respectively, for 2004. Includes \$7,000, \$12,115, \$9,600 and \$7,569 in Wrap Plan deferrals for Messrs. Mendez, Buzzo, Lilly and Schumacher, respectively, for 2004. Includes \$17,600, \$3,941, \$6,375 and \$3,123 in Wrap Plan contributions for Messrs. Mendez, Buzzo, Lilly and Schumacher, respectively, for 2004. Includes \$42,231, \$19,666, \$14,829 and \$2,440 in benefit accrual vesting of Executive Supplemental Retirement and Retention program benefits for Messrs. Mendez, Buzzo, Lilly and Schumacher, respectively, for 2004.

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Stock Options

In 1999, the Corporation instituted a Stock Option Plan (the Plan) to encourage and facilitate investment in the Common Stock of the Corporation by key executives and to assist in the long-term retention of service by those executives. The Plan covers key executives as determined by the Corporation's Board of Directors from time to time. Options under the Plan were granted in the form of non-statutory stock options with the aggregate number of shares of common stock available for grant under the Plan set at 332,750 shares. Total options granted under the Plan at December 31, 2004 represent the right to acquire an aggregate of 288,199 shares. Under the Plan, an optionee is deemed to have been granted options in five annual installments on January 1 of each year beginning January 1, 1999 through January 1, 2003. All stock options granted pursuant to the Plan vest ratably on the first through the seventh anniversary dates of the deemed grant date. The option price of each stock option is equal to the fair market value of the Corporation's Common Stock on the date of each deemed grant during the five-year grant period. Vested stock options granted pursuant to the Plan are exercisable for a period of five years after the date of the grantee's retirement (provided retirement occurs at or after age 62), disability, or death. If employment is terminated other than by retirement at or after age 62, disability, or death, vested options must be exercised within 90 days after the effective date of termination. Any option not exercised within such period will be deemed cancelled.

In the event of a change of control or upon dissolution of the Corporation, the stock options granted under the Plan continue to vest and are exercisable in accordance with the terms of the original grant. Change of control provisions further provide that any optionee who is terminated without cause by the Corporation, its successor or affiliate during the 12 months preceding, or at any time following a change of control, and any participant who remains employed by the Corporation or any affiliate during the 90-day period following a change of control and thereafter resigns, shall continue to receive grants on the deemed grant dates and vest as if the optionee continued to be employed, and optionee, or his estate, shall be entitled to exercise such options within five years after death or attainment of age 62, whichever first occurs.

In addition, the 2003 acquisition of The Commonwealth Bank added additional stock options on 120,155 shares (124,380 shares adjusted by the merger conversion factor of .9015 and the 10% stock dividend in 2003). These options included awards to employees and directors and were issued by The Commonwealth Bank in 12 grants beginning in 1994 and ending in 2002 with adjusted exercise prices ranging from \$4.75 to \$17.40. These options are fully vested and are exercisable for up to ten years following the grant date. At December 31, 2004, 42,836 options shares were outstanding and exercisable under the former Commonwealth Plan.

There were no options granted to the Executive Officers in 2004.

Table of Contents**Option Exercises in Last Fiscal Year**

The following table sets forth certain information concerning exercises of stock options by the executive officers listed in the Summary Compensation Table during the fiscal year ended December 31, 2004 and options held at December 31, 2004.

Option Exercises in Last Fiscal Year

| Name | Shares Acquired on Exercise | Value Realized (1) | Number of Securities Underlying Unexercised | | Value of Unexercised In-the-Money | |
|----------------------|--------------------------------------|--------------------------|---|--------------------------------------|--|--|
| | | | Options at Year End Exercisable | Options at Year End Unexercisable | Options at Year End (2) Exercisable | Options at Year End (2) Unexercisable |
| John M. Mendez | 6,048 | 80,378 | 34,266 | 30,226 | \$ 540,889 | \$ 409,554 |
| Robert L. Buzzo | 2,162 | 46,554 | 19,458 | 16,208 | \$ 314,027 | \$ 219,617 |
| E. Stephen Lilly | | | 21,578 | 16,173 | \$ 361,197 | \$ 219,128 |
| Robert L. Schumacher | 9,268 | 144,832 | 17,211 | 19,851 | \$ 248,950 | \$ 268,964 |

(1) Represents the market value per share of Common Stock at date of exercise, minus the exercise price per share of the options exercised times the number of shares of Common Stock represented by such options.

(2) Represents the market value per share of Common Stock at fiscal year-end based on the December 31, 2004 closing price of \$36.08, minus the exercise price per share of the options outstanding times the number of shares of Common Stock represented by such outstanding options.

Wrap Plan

The Corporation maintains a non-qualified Supplemental 401(k) Plan (Wrap Plan) for the purpose of providing deferred compensation which cannot be accumulated under the Qualified ESOP/401(k) Combined Plan provisions above because of deferral and covered compensation limitations on tax-qualified pension plan benefits. The Corporation makes a non-qualified matching credit on employee contributions at the rate established in the 401(k) Plan (100% in 2004) of up to 6% of compensation deferred and also makes contributions in lieu of Qualified ESOP contributions for compensation in excess of the \$205,000 compensation limit. Contributions under the Wrap Plan in 2004 for the covered persons are included in the Summary Compensation Table and are as follows: Mendez \$17,600; Buzzo \$3,941; Lilly \$6,375; and Schumacher \$3,123.

Executive Retention Plan

In 1999, the Corporation established an Executive Retention Plan for key members of senior management, including the individuals named in the Summary Compensation Table. This Plan provides for a benefit at normal retirement (age 62) targeted at 15% of final compensation projected at an assumed 3% salary progression rate. Benefits under the Executive Retention Plan become payable at Normal Retirement age 62 or at Early Retirement Age 60. Actual benefits payable under the Executive Retention Plan are dependent on an indexed retirement benefit

formula that accrues benefits equal to the aggregate after-tax income of associated life insurance contracts less the Corporation's tax-effected cost of funds for that plan

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year. Benefits under the Executive Retention Plan are dependent on the performance of the insurance contracts and are not guaranteed by the Corporation.

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