

FIRST COMMUNITY BANCSHARES INC /NV/

Form 10-Q/A

September 06, 2012

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q/A**

**(Amendment No. 1)**

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

**For the quarter ended June 30, 2012**

**Commission file number 000-19297**

**FIRST COMMUNITY BANCSHARES, INC.**

**(Exact name of registrant as specified in its charter)**

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(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)
P.O. Box 989 Bluefield, Virginia (Address of principal executive offices)	24605-0989 (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 such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  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; 20,008,181 shares outstanding as of August 3, 2012

## EXPLANATORY NOTE

We are filing this Amendment No. 1 on Form 10-Q/A to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (the Form 10-Q ), which was originally filed with the Securities and Exchange Commission on August 14, 2012, to amend:

Part I, Item 3, Quantitative and Qualitative Disclosures about Market Risk, to correct interest rate sensitivity in regards to the impact on net interest income.

Part II, Item 6, Exhibits, to furnishing the Interactive Data File as Exhibit 101 in accordance with Rule 405 of Regulation S-T. Exhibit 101 to this report furnishes the following items from the Form 10-Q formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets at June 30, 2012 (Unaudited), and December 31, 2011; (ii) Condensed Consolidated Statements of Income (Unaudited) for the three and six months ended June 30, 2012 and 2011; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2012 and 2011; (iv) Condensed Consolidated Statements of Stockholders' Equity (Unaudited) for the six months ended June 30, 2012 and 2011; (v) Condensed Consolidated Statements of Cash Flows (Unaudited) for the six months ended June 30, 2012 and 2011; and (vi) Notes to the Unaudited Condensed Consolidated Financial Statements. In addition to the Interactive Data File, we have updated the reference to Exhibit 3(i), the Amended and Restated Bylaws of the Company, to the Current Report on Form 8-K dated and filed on August 28, 2012.

No other changes have been made to the Form 10-Q. This Amendment does not reflect events that have occurred after the August 14, 2012 filing date of the Form 10-Q, or modify or update the disclosures presented therein, except to reflect the amendment(s) described above.

## PART I. FINANCIAL INFORMATION

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Our 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: 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.

To mitigate the effect of changes in the general level of interest rates, we manage repricing opportunities and thus, our interest rate sensitivity. We seek to control our interest rate risk exposure to insulate net interest income and net earnings from fluctuations in the general level of interest rates. To measure our 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. We use a simulation model that captures all earning assets, interest-bearing liabilities, and off-balance sheet financial instruments and combines the various factors affecting rate sensitivity into an earnings outlook and estimates of the economic value of equity for a range of assumed interest rate scenarios. 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 our 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 our strategies. However, the earnings simulation model is currently the best tool available to us and the industry for managing interest rate risk.



We have established policy limits for tolerance of interest rate risk 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 our defined policy limits.

The following table summarizes the impact of immediate and sustained rate shocks in the interest rate environment on net interest income and the economic value of equity. The model simulates plus 300 to minus 100 basis point changes from the base case rate simulation and illustrates the prospective effects of hypothetical interest rate changes over a twelve-month time period. This modeling technique, although useful, does not take into account all strategies that management might undertake in response to a sudden and sustained rate shock as depicted. Also, as market conditions vary from those assumed in the sensitivity analysis, actual results will also differ due to prepayment and refinancing levels likely deviating from those assumed, the varying impact of interest rate change caps or floors on adjustable rate assets, the potential effect of changing debt service levels on customers with adjustable rate loans, depositor early withdrawals and product preference changes, and other internal and external variables. As of June 30, 2012, the Federal Open Market Committee maintained a target range for federal funds of 0 to 25 basis points, rendering a complete downward shock of 200 basis points meaningless; accordingly, downward rate scenarios are limited to minus 100 basis points. In the downward rate shocks presented, benchmark interest rates are assumed at levels with floors near 0%.

June 30, 2012				
<i>(Amounts in thousands, except basis points)</i>	Change in		Change in	
Increase (Decrease) in Interest Rates/Basis Points	Net Interest Income	Percent Change	Economic Value of Equity	Percent Change
300	\$ 8,431	9.6	\$ 13,715	3.0
200	5,220	5.9	10,911	2.4
100	2,110	2.4	5,737	1.3
(100)	595	0.7	(15,305)	(3.3)

December 31, 2011				
<i>(Amounts in thousands, except basis points)</i>	Change in Net		Change in Economic	
Increase (Decrease) in Interest Rates/Basis Points	Interest Income	Percent Change	Value of Equity	Percent Change
300	\$ 8,881	13.0	\$ (7,278)	(2.4)
200	6,124	9.0	(1,557)	(0.5)
100	3,355	4.9	1,957	0.7
(100)	(826)	(1.2)	(19,977)	(6.7)

During the next twelve months we have more assets than liabilities projected to reprice. As a result, projected net interest income will increase as benchmark rates increase. If benchmark interest rates decrease further than current levels, projected net interest income will remaining roughly level.

### Impact of Inflation and Changing Prices

The consolidated financial statements and notes thereto presented herein have been prepared in accordance with GAAP, which requires the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The primary effect of inflation on our operations is reflected in increased operating costs. In management's opinion, interest rates have a greater impact on our consolidated performance than do the effects of general levels of inflation. Interest rates do not necessarily fluctuate in the same direction or to the same extent as the price of goods and services.

**PART II. OTHER INFORMATION**

**ITEM 6. Exhibits**

- (a) Exhibits and index required

**Exhibit**

<b>No.</b>	<b>Exhibit</b>
3(i)	Articles of Incorporation of First Community Bancshares, Inc., as amended (1)
3(ii)	Amended and Restated Bylaws of First Community Bancshares, Inc. (2)
4.1	Specimen stock certificate of First Community Bancshares, Inc. (3)
4.2	Indenture Agreement dated September 25, 2003. (4)
4.3	Declaration of Trust of FCBI Capital Trust dated September 25, 2003, as amended and restated. (5)
4.4	Preferred Securities Guarantee Agreement dated September 25, 2003. (6)
4.5	Certificate of Designation of 6.00% Series A Noncumulative Convertible Preferred Stock. (7)
10.1**	First Community Bancshares, Inc. 1999 Stock Option Agreement (8) and Plan. (9)
10.1.1**	First Community Bancshares, Inc. 1999 Stock Option Plan, Amendment One. (10)
10.2**	First Community Bancshares, Inc. 2001 Nonqualified Director Stock Option Plan. (11)
10.3**	Employment Agreement between First Community Bancshares, Inc. and John M. Mendez dated December 16, 2008, as amended and restated (21) and Waiver Agreement. (29)
10.4**	First Community Bancshares, Inc. and Affiliates Executive Retention Plan (12) and Amendment #1. (13)
10.5**	First Community Bancshares, Inc. Split Dollar Plan and Agreement. (14)
10.6**	First Community Bancshares, Inc. Supplemental Directors Retirement Plan, as amended and restated. (15)
10.7**	First Community Bancshares, Inc. Wrap Plan, as amended and restated. (16)
10.8**	Employment Agreement between First Community Bank and Marshall E. McCall dated March 1, 2012. (31)
10.9**	Form of Indemnification Agreement between First Community Bancshares, Inc., its Directors, and Certain Executive Officers. (17)
10.10**	Form of Indemnification Agreement between First Community Bank, its Directors, and Certain Executive Officers. (17)
10.12**	First Community Bancshares, Inc. 2004 Omnibus Stock Option Plan (18) and Stock Award Agreement. (19)
10.14**	First Community Bancshares, Inc. Directors Deferred Compensation Plan, as amended and restated. (20)
10.19**	Employment Agreement between First Community Bancshares, Inc. and David D. Brown dated December 16, 2008. (22)
10.20**	Employment Agreement between First Community Bancshares, Inc. and Robert L. Buzzo dated December 16, 2008, as amended and restated. (23)
10.21**	Employment Agreement between First Community Bancshares, Inc. and E. Stephen Lilly dated December 16, 2008, as amended and restated. (24)
10.22**	Employment Agreement between First Community Bank and Gary R. Mills dated December 16, 2008. (25)
10.23**	Employment Agreement between First Community Bank and Martyn A. Pell dated December 16, 2008. (26)
10.24**	Employment Agreement between First Community Bank and Robert L. Schumacher dated December 16, 2008. (27)

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- 10.25\*\* Employment Agreement between First Community Bank and Simpson O. Brown dated July 31, 2009. (28)
- 10.26\*\* Employment Agreement between First Community Bank and Mark R. Evans dated July 31, 2009. (28)
- 11 Statement Regarding Computation of Earnings per Share. (30)
- 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 Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS\*\*\* XBRL Instance Document #
- 101.SCH\*\*\* XBRL Taxonomy Extension Schema Document #
- 101.CAL\*\*\* XBRL Taxonomy Extension Calculation Linkbase Document #
- 101.LAB\*\*\* XBRL Taxonomy Extension Label Linkbase Document #
- 101.PRE\*\*\* XBRL Taxonomy Extension Presentation Linkbase Document #
- 101.DEF\*\*\* XBRL Taxonomy Extension Definition Linkbase Document #

In accordance with Rule 406T of SEC Regulation S-T, the XBRL related documents in Exhibit 101 to this Amendment No. 1 on Form 10-Q/A for the quarterly period ended June 30, 2012, are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these Sections.

\* Incorporated herewith.

\*\* Indicates a management contract or compensation plan.

\*\*\* Submitted electronically herewith.

- # Attached as Exhibit 101 to Amendment No. 1 on Form 10-Q/A for the quarterly period ended June 30, 2012, of First Community Bancshares, Inc. are the following documents formatted in XBRL (eXtensive Business Reporting Language): (i) Condensed Consolidated Balance Sheets at June 30, 2012 (Unaudited), and December 31, 2011; (ii) Condensed Consolidated Statements of Income (Unaudited) for the three and six months ended June 30, 2012 and 2011; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2012 and 2011; (iv) Condensed Consolidated Statements of Stockholders' Equity (Unaudited) for the six months ended June 30, 2012 and 2011; (v) Condensed Consolidated Statements of Cash Flows (Unaudited) for the six months ended June 30, 2012 and 2011; and (vi) Notes to the Unaudited Condensed Consolidated Financial Statements.
- (1) Incorporated by reference from Exhibit 3(i) of the Quarterly Report on Form 10-Q for the period ended June 30, 2010, filed on August 16, 2010.
  - (2) Incorporated by reference from Exhibit 3.1 of the Current Report on Form 8-K dated and filed on August 28, 2012.
  - (3) Incorporated by reference from Exhibit 4.1 of the Annual Report on Form 10-K for the period ended December 31, 2002, filed on March 25, 2003, amended on March 31, 2003.
  - (4) Incorporated by reference from Exhibit 4.2 of the Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed on November 10, 2003.
  - (5) Incorporated by reference from Exhibit 4.3 of the Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed on November 10, 2003.
  - (6) Incorporated by reference from Exhibit 4.4 of the Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed on November 10, 2003.
  - (7) Incorporated by reference from Exhibit 4.1 of the Current Report on Form 8-K dated May 20, 2011, filed on May 23, 2011.
  - (8) Incorporated by reference from Exhibit 10.5 of the Quarterly Report on Form 10-Q for the period ended June 30, 2002, filed on August 14, 2002.
  - (9) Incorporated by reference from Exhibit 10.1 of the Annual Report on Form 10-K for the period ended December 31, 1999, filed on March 30, 2000, amended on April 13, 2000.
  - (10) Incorporated by reference from Exhibit 10.1.1 of the Quarterly Report on Form 10-Q for the period ended March 31, 2004, filed on May 7, 2004.
  - (11) Incorporated by reference from Exhibit 10.4 of the Quarterly Report on Form 10-Q for the period ended June 30, 2002, filed on August 14, 2002.
  - (12) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated December 30, 2008, filed on January 5, 2009.
  - (13) Incorporated by reference from Exhibit 10.3 of the Current Report on Form 8-K dated December 16, 2010, filed on December 17, 2010.
  - (14) Incorporated by reference from Exhibit 10.5 of the Annual Report on Form 10-K for the period ended December 31, 1999, filed on March 30, 2000, amended on April 13, 2000.
  - (15) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated December 16, 2010, filed on December 17, 2010.
  - (16) Incorporated by reference from Exhibit 99.1 of the Current Report on Form 8-K dated August 22, 2006, filed on August 23, 2006.
  - (17) Form of indemnification agreement entered into by the Company and First Community Bank 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, amended on May 19, 2004.
  - (18) Incorporated by reference from the 2004 First Community Bancshares, Inc. Definitive Proxy Statement filed on March 15, 2004.
  - (19) Incorporated by reference from Exhibit 10.13 of the Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed on August 6, 2004.
  - (20) Incorporated by reference from Exhibit 99.2 of the Current Report on Form 8-K dated August 22, 2006, filed on August 23, 2006.
  - (21) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated and filed on December 16, 2008.
  - (22) Incorporated by reference from Exhibit 10.2 of the Current Report on Form 8-K dated and filed on December 16, 2008.
  - (23) Incorporated by reference from Exhibit 10.1 of the Current Report on Form 8-K dated and filed on July 6, 2009.
  - (24) Incorporated by reference from Exhibit 10.2 of the Current Report on Form 8-K dated and filed on July 6, 2009.
  - (25) Incorporated by reference from Exhibit 10.3 of the Current Report on Form 8-K dated and filed on July 6, 2009.
  - (26) Incorporated by reference from Exhibit 10.4 of the Current Report on Form 8-K dated and filed on July 6, 2009.



- (27) Incorporated by reference from Exhibit 10.5 of the Current Report on Form 8-K dated and filed on July 6, 2009.
- (28) Incorporated by reference from Exhibit 2.1 of the Current Report on Form 8-K dated April 2, 2009, filed on April 3, 2009.
- (29) Incorporated by reference from Exhibit 10.2 of the Current Report on Form 8-K dated December 16, 2010, filed on December 17, 2010.
- (30) Incorporated by reference from Note 2 of the Notes to Condensed Consolidated Financial Statements included herein.
- (31) Incorporated by reference from Exhibit 2.1 of the Current Report on Form 8-K dated and filed on March 1, 2012.

**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: September 6, 2012

/s/ John M. Mendez  
John M. Mendez

President & Chief Executive Officer

(Principal Executive Officer)

/s/ David D. Brown  
David D. Brown

Chief Financial Officer

(Principal Accounting Officer)

**EXHIBIT INDEX**

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31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document