Community Bankers Trust Corp
Form 10-Q/A
March 03, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Form 10-Q/A

(Amendment No. 2)

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

For the quarterly period ended September 30, 2009

or

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

For the transition period from to

Commission File Number: 001-32590

COMMUNITY BANKERS TRUST CORPORATION

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation of organization)**	**20-2652949** **(I.R.S. Employer** **Identification No.)**
4235 Innslake Drive, Suite 200 **Glen Allen, Virginia** **(Address of principal executive offices)**	**23060** **(Zip Code)**

(804) 934-9999

(Registrant s telephone number, including area code)

not applicable

(Former name, former address and former fiscal year, if changed since last report)

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 x 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 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	x
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 x

At October 1, 2009, there were 21,468,455 shares of the Company s common stock outstanding.

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EXPLANATORY NOTE

The Registrant hereby amends its Quarterly Report on Form 10-Q for the period ended September 30, 2009 (filed on November 16, 2009 with the Securities and Exchange Commission (the Commission)), as amended by its Quarterly Report on Form 10-Q/A (Amendment No. 1) (filed on January 14, 2011 with the Commission), as set forth in this Quarterly Report on Form 10-Q/A (Amendment No. 2).

The Form 10-Q/A (Amendment No. 2) includes revisions to the financial statements, the notes thereto and financial information in the Management s Discussion and Analysis of Financial Condition and Results of Operations section. As the Company disclosed in its Quarterly Report on Form 10-Q for the period ended September 30, 2010, these revisions are based on a restatement of certain information for the period ended September 30, 2009 to reflect the appropriate accounting treatment for the assets that the Registrant acquired in its acquisition of substantially all assets, and assumption of all deposit and certain other liabilities, relating to seven former branch offices of Suburban Federal Savings Bank in Maryland, based on additional information obtained during the fourth quarter of 2009. This information, which was included in the Form 10-Q for the period ended September 30, 2010, was inadvertently not updated in the Form 10-Q/A (Amendment No. 1) for the 2009 period.

As previously disclosed, and as compared to the original Form 10-Q filing, the Form 10-Q/A includes amendments to the financial statements to reflect a modified presentation of certain line items relating to the portion of the loan portfolio that is covered under shared-loss agreements with the Federal Deposit Insurance Corporation and the Registrant s non-covered loan portfolio. This Form 10-Q/A also includes, in response to comments from the Commission, enhanced disclosure relating to goodwill and intangible assets, fair value measurements, FDIC-covered assets, asset quality and the Registrant s acquisition of substantially all assets, and assumption of all deposit and certain other liabilities, relating to the former Suburban Federal Savings Bank.

The only items that the Registrant is amending in this Form 10-Q/A are Items 1 and 2 of Part I and Item 6 of Part II, as set forth below. The disclosures that the Registrant has presented in this Form 10-Q/A are as of the date of the original filing, and the Registrant has not undertaken to update such disclosures for any subsequent events or developments.

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COMMUNITY BANKERS TRUST CORPORATION

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

COMMUNITY BANKERS TRUST CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AT SEPTEMBER 30, 2009 AND DECEMBER 31, 2008

(dollars in thousands)

	September 30, 2009 (Unaudited) (Restated)	December 31, 2008 (Audited) (Restated)
ASSETS		
Cash and due from banks	$ 13,464	$ 10,864
Interest bearing bank deposits	10,534	107,376
Federal funds sold	5,300	10,193
Total cash and cash equivalents	29,298	128,433
Securities available for sale, at fair value	171,184	193,992
Securities held to maturity, at cost (fair value of $124,865 and $94,965, respectively)	121,023	94,865
Equity securities, restricted, at cost	8,355	3,612
Total securities	300,562	292,469
Loans held for sale		200
Loans covered by FDIC shared-loss agreement (Note 9)	166,085	
Loans excluding covered loans	569,452	523,298
Total loans	735,537	523,298
Allowance for loan losses	(16,211)	(6,939)
Net loans	719,326	516,359
FDIC indemnification asset (Note 10)	83,909	
Bank premises and equipment	37,328	24,111
Other real estate owned, covered by FDIC shared-loss agreement	11,105	
Other real estate owned, non covered	1,175	223
Bank owned life insurance	6,475	6,300
FDIC receivable for expenses incurred	3,560	
Core deposit intangibles, net	17,645	17,163
Goodwill (Note 5)	13,152	37,184
Other assets	8,384	7,798
Total assets	$ 1,231,919	$ 1,030,240
LIABILITIES		
Deposits:		
Noninterest bearing	$ 64,338	$ 59,699
Interest bearing	963,191	746,649
Total deposits	1,027,529	806,348

Federal funds purchased		31		
Federal Home Loan Bank advances		37,000		37,900
Trust preferred capital notes		4,124		4,124
Other liabilities		15,826		17,465
Total liabilities	$	1,084,510	$	865,837
STOCKHOLDERS EQUITY				
Preferred stock (5,000,000 shares authorized $0.01 par value; 17,680 shares issued and outstanding)	$	17,680	$	17,680
Discount on preferred stock		(896)		(1,031)
Warrants on preferred stock		1,037		1,037
Common stock (200,000,000 shares authorized $0.01 par value; 21,468,455 shares issued and outstanding)		215		215
Additional paid in capital		143,999		146,076
Retained earnings		(16,743)		1,691
Accumulated other comprehensive income (loss)		2,117		(1,265)
Total stockholders equity	$	147,409	$	164,403
Total liabilities and stockholders equity	$	1,231,919	$	1,030,240

See accompanying notes to unaudited consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

(dollars and shares in thousands, except per share data)

(unaudited)

	For the three months ended		For the nine months ended		BOE Predecessor For the five months ended May 31, 2008 (Note 1)	TFC Predecessor For the five months ended May 31, 2008 (Note 1)
	September 30, 2009 (Restated)	September 30, 2008	September 30, 2009 (Restated)	September 30, 2008		
Interest and dividend income						
Interest and fees on non covered loans	$ 8,820	$ 8,497	$ 26,236	$ 11,201	$ 6,737	$ 6,849
Interest and fees on FDIC covered loans	4,152		11,380			
Interest on federal funds sold	10	22	36	68	18	26
Interest on deposits in other banks	60	83	262	83		
Interest and dividends on securities						
Taxable	2,081	539	7,580	1,226	465	236
Nontaxable	896	333	2,473	443	555	
Total interest income	16,019	9,474	47,967	13,021	7,775	7,111
Interest expense						
Interest on deposits	6,026	2,908	18,443	3,935	3,266	3,295
Interest on federal funds purchased	2	101	6	114	21	23
Interest on other borrowed funds	338	277	1,071	357	458	
Total interest expense	6,366	3,286	19,520	4,406	3,745	3,318
Net interest income	9,653	6,188	28,447	8,615	4,030	3,793
Provision for loan losses	5,231	1,100	11,271	1,334	200	1,348
Net interest income after provision for loan losses	4,422	5,088	17,176	7,281	3,830	2,445
Noninterest income						
Service charges on deposit accounts	674	516	1,863	696	464	342
Gain on SFSB transaction			20,255			
Gain on securities transactions, net	612		905		6	
Gain (loss) on sale of other real estate	500		563		(92)	
Other	356	238	1,337	357	476	87
Total noninterest income	2,142	754	24,923	1,053	854	429
Noninterest expense						
Salaries and employee benefits	4,840	2,375	14,294	2,949	2,493	3,708
Occupancy expenses	752	346	1,886	458	216	318
Equipment expenses	436	292	1,198	400	286	295
Legal fees	217	151	772	250	306	106

Professional fees	185	133	1,341	233	325	1,029
FDIC assessment	436	60	1,310	76	11	95
Data processing fees	743	285	2,217	389	394	1,917
Amortization of intangibles	565	406	1,675	555		
Impairment of goodwill			24,032		52	
Other operating expenses	1,765	608	5,118	1,281	799	761
Total noninterest expense	9,939	4,656	53,843	6,591	4,882	8,229
Income (loss) before income taxes	(3,375)	1,186	(11,744)	1,743	(198)	(5,355)
Income tax expense (benefit)	(1,473)	234	3,380	392	10	1,454
Net income (loss)	$ (1,902)	$ 952	$ (15,124)	$ 1,351	$ (188)	$ (3,901)
Dividends accrued on preferred stock	223		661			
Accretion of discount on preferred stock	47		135			
Net income (loss) available to common stockholders	$ (2,172)	$ 952	$ (15,920)	$ 1,351	$ (188)	$ (3,901)
Net income (loss) per share basic	$ (0.10)	$ 0.04	$ (0.74)	$ 0.09	$ (0.15)	$ (0.85)
Net income (loss) per share diluted	$ (0.10)	$ 0.04	$ (0.74)	$ 0.08	$ (0.15)	$ (0.85)
Weighted average number of shares outstanding						
basic	21,468	21,469	21,468	14,750	1,214	4,587
diluted	21,468	21,486	21,468	16,197	1,214	4,587

See accompanying notes to unaudited consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

(unaudited)

	For the nine months ended		BOE Predecessor	TFC Predecessor
			For the five months ended	For the five months ended
	September 30, 2009 (Restated)	September 30, 2008	May 31, 2008 (Note 1)	May 31, 2008 (Note 1)
Operating activities:				
Net income (loss)	$ (15,124)	$ 1,351	$ (188)	$ (3,901)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and intangibles amortization	3,130	750	335	240
Provision for loan losses	11,271	1,334	200	1,348
Amortization of premiums and accretion of discounts, net	1,141	54	36	(13)
Change in loans held for sale	200	721	(119)	
Net gain on SFSB transaction	(20,255)			
Impairment of goodwill	24,032		52	
Stock-based compensation expense				178
Net (gain) on sale of securities	(905)		(6)	
Net (gain) on sale of OREO	(563)		92	
Net loss/(gain) on sale of loans	13	(15)	(90)	
Loss on write down of LLC membership			88	
Changes in assets and liabilities:				
(Increase)/decrease in other assets	124	(3,108)	(409)	(1,285)
Increase/(decrease) in accrued expenses and other liabilities	(5,017)	(3,190)	897	2,874
Net cash provided by (used in) by operating activities	(1,683)	(2,103)	888	(559)
Investing activities:				
Proceeds from securities	147,928	65,131	2,364	12,605
Purchase of securities	(143,244)	(23,489)	(3,350)	(7,205)
Cash received from SFSB transaction	54,717	10,016		
Net increase in loans, excluding covered loans	(49,105)	(28,641)	(11,870)	(37,358)
Net decrease in loans covered by shared loss agreement	32,168			
Purchase of premises and equipment, net	(14,634)	(989)	(523)	(164)
Net cash provided by (used in) by investing activities	27,830	22,028	(13,379)	(32,122)
Financing activities:				
Net increase/ (decrease) in noninterest bearing and interest bearing demand deposits	(81,575)	(5,693)	11,789	28,536
Net increase/(decrease) in federal funds purchased	31	(1,095)	1,965	5,218
Issuance of common stock			56	
Cash paid to shareholders for converted shares		(10,843)		
Cash paid to reduce FHLB borrowings	(38,425)	20,000	900	
Cash paid to redeem shares related to asserted appraisal rights and retire warrants	(2,077)	(11)		

Cash dividends paid	(3,236)	(861)	(535)	(1,152)
Net cash (used in) provided by financing activities	(125,282)	1,497	14,175	32,602
Net (decrease) increase in cash and cash equivalents	(99,135)	21,422	1,684	(79)
Cash and cash equivalents:				
Beginning of the period	128,433	162	4,100	4,311
End of the period	$ 29,298	$ 21,584	$ 5,784	$ 4,232
Supplemental disclosures of cash flow information:				
Interest paid	$ 20,686	$ 4,689	$ 3,902	$ 3,195
Income taxes paid	296		127	
Transfers of OREO property	952	224		
Transactions related to acquisition				
Increase in assets and liabilities:				
Loans, net	$ 198,253	$ 471,864		
Other real estate owned	9,416			
Securities	4,954	71,123		
FDIC indemnification asset	84,584			
Fixed assets, net	37			
Other assets	10,332	83,769		
Deposits	302,756	491,462		
Borrowings	37,525	32,359		
Other liabilities	1,757	8,861		

See accompanying notes to unaudited consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

General

Community Bankers Trust Corporation (the Company) is a bank holding company that was incorporated under Delaware law on April 6, 2005. The Company is headquartered in Glen Allen, Virginia and is the holding company for Essex Bank (the Bank), a Virginia state bank with 25 full-service offices in Virginia, Maryland and Georgia. Bank of Essex changed its name to Essex Bank on April 20, 2009.

The Company was initially formed as a special purpose acquisition company to effect a merger, capital stock exchange, asset acquisition or other similar business combination with an operating business in the banking industry. Prior to its acquisition of two bank holding companies in 2008, the Company s activities were limited to organizational matters, completing its initial public offering and seeking and evaluating possible business combination opportunities. On May 31, 2008, the Company acquired each of TransCommunity Financial Corporation, a Virginia corporation (TFC), and BOE Financial Services of Virginia, Inc., a Virginia corporation (BOE). The Company changed its corporate name in connection with the acquisitions. On November 21, 2008, the Bank acquired certain assets and assumed all deposit liabilities relating to four former branch offices of The Community Bank (TCB), a Georgia state-chartered bank. On January 30, 2009, the Bank acquired certain assets and assumed all deposit liabilities relating to seven former branch offices of Suburban Federal Savings Bank, Crofton, Maryland (SFSB).

The Bank was established in 1926 and is headquartered in Tappahannock, Virginia. The Bank engages in a general commercial banking business and provides a wide range of financial services primarily to individuals and small businesses, including individual and commercial demand and time deposit accounts, commercial and consumer loans, travelers checks, safe deposit box facilities, investment services and fixed rate residential mortgages. Fourteen offices are located in Virginia, primarily from the Chesapeake Bay to just west of Richmond, seven are located in Maryland along the Baltimore-Washington corridor and four are located in the Atlanta, Georgia metropolitan market.

The consolidated statements presented include accounts of the Company and its wholly-owned subsidiary. All significant intercompany accounts have been eliminated. In the opinion of management, the accompanying financial statements contain all adjustments necessary to fairly present the financial position of the Company at each of September 30, 2009 and December 31, 2008. The statements should be read in conjunction with the Company s consolidated financial statements and the accompanying notes to consolidated financial statements included in the Company s Annual Report on Form 10-K/A (Amendment No. 3) for the year ended December 31, 2008. In the opinion of management, all adjustments (consisting of normal accruals) were made that are necessary to present fairly the financial position of the Company at September 30, 2009, and the results of its operations and its cash flows for the three and nine months ended September 30, 2009 and 2008.

The statements and related notes have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) are not presented pursuant to such rules and regulations, because the periods reported are not comparable.

Predecessors

From its inception until consummation of the acquisitions of TFC and BOE on May 31, 2008, the Company was a special purpose acquisition company, as described above, and had no substantial operations. Accordingly, since the Company s operating activities prior to the acquisitions were insignificant relative to those of TFC and BOE, management believes that both TFC and BOE are the Company s predecessors. Management has reached this conclusion based upon an evaluation of facts and circumstances, including the historical life of each of TFC and BOE, the historical level of operations of each of TFC and BOE, the purchase price paid for each of TFC and BOE and the fact that the consolidated Company s operations, revenues and expenses after the acquisitions are most similar in all respects to those of BOE s and TFC s historical periods. Accordingly, the historical statements of operations for the five months ended May 31, 2008 and statements of cash flows for the five months ended May 31, 2008 of each of TFC and BOE have been presented.

2. ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform to GAAP and to the general practices within the banking industry. The interim financial statements have not been audited; however, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the consolidated financial statements have been included. Operating results for the three and nine month period ended September 30, 2009, are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

During 2008, management discovered that there was an error in the fair value of stock options issued by the Company in settlement of the TFC and BOE stock options outstanding as of the respective merger dates. When correcting this valuation error, the adjustment was inadvertently recorded twice. The result was an understatement of Goodwill and Deferred Taxes Liabilities of approximately $2.9 million and $1.5 million, respectively. An adjustment has been made to correct this error and the financial statements for the year ended December 31, 2008 have been restated.

The September 30, 2009 consolidated financial statements and accompanying notes have been restated for amendments to the original estimated values related to the acquisition of the Maryland operations.

Certain reclassifications have been made to prior period balances to conform to the current period presentation.

The Company s financial statements are prepared in accordance with GAAP. The financial information contained within the statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset or relieving a liability. The Company uses historical loss factors as one factor in determining the inherent loss that may be present in its loan portfolio. Actual losses could differ significantly from the historical factors that the Company uses. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of the Company s transactions would be the same, the timing of events that would impact its transactions could change. In preparing the financial statements, the Company has evaluated events and transactions occurring subsequent to the financial statement date through the filing date of November 16, 2009 for potential recognition or disclosure.

3. RECENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board s (FASB) Accounting Standards Codification (ASC) became effective on July 1, 2009. At that date, the ASC became FASB s officially recognized source of authoritative GAAP applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related literature. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. The switch to the ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure. The adoption of FASB ASC had no impact on the Company s consolidated financial statements.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157) (*ASC 820 Fair Value Measurements and Disclosures*). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but rather, provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. The Company adopted SFAS 157 on January 1, 2008. The FASB approved a one-year deferral for the implementation of the Statement for nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The Company adopted the provisions of SFAS 157 for nonfinancial assets and liabilities as of January 1, 2009 without a material impact on the consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), *Business Combinations* (SFAS 141(R)) (*ASC 805 Business Combinations*). The Standard significantly changed the financial accounting and reporting of business combination transactions. SFAS 141(R) establishes principles for how an acquirer recognizes and measures the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for acquisition dates on or after the beginning of an entity s first year that begins after December 15, 2008. The Company adopted the provisions of SFAS 141(R) with respect to the SFSB acquisition.

In April 2009, the FASB issued FASB Staff Position (FSP) on Statement No. 141(R)-1 (FSP FAS 141(R)-1), *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (*ASC 805 Business Combinations*). FSP FAS 141(R)-1 amends and clarifies SFAS 141(R) to address application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. The FSP is effective for assets and liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company adopted the provisions of SFAS 141(R) with respect to the SFSB acquisition.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (*ASC 820 Fair Value Measurements and Disclosures*). FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased. The FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009, and shall be applied prospectively. Earlier adoption is permitted for periods ending after March 15, 2009. The Company does not expect the adoption of FSP FAS 157-4 to have a material impact on its consolidated financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (*ASC 825 Financial Instruments and ASC 270 Interim Reporting*). FSP FAS 107-1 and APB 28-1 amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. In addition, the FSP amends APB Opinion No. 28, *Interim Financial Reporting,* to require those disclosures in summarized financial information at interim reporting periods. The FSP is effective for interim periods ending after June 15, 2009, with earlier adoption permitted for periods ending after March 15, 2009. The Company does not expect the adoption of FSP FAS 107-1 and APB 28-1 to have a material impact on its consolidated financial statements.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (*ASC 320 Investments Debt and Equity Securities*). FSP FAS 115-2 and FAS 124-2 amend other-than-temporary impairment guidance for debt securities to make guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities. The FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. FSP FAS 115-2 and FAS 124-2 are effective for interim and annual periods ending after June 15, 2009, with earlier adoption permitted for periods ending after March 15, 2009. The Company does not expect the adoption of FSP FAS 115-2 and FAS 124-2 to have a material impact on its consolidated financial statements.

In April 2009, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 111 (SAB 111). SAB 111 amends and replaces SAB Topic 5.M. in the SAB Series entitled *Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities.* SAB 111 maintains the SEC Staff s previous views related to equity securities and amends Topic 5.M. to exclude debt securities from its scope. The Company does not expect the implementation of SAB 111 to have a material impact on its consolidated financial statements.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, *Subsequent Events* (*ASC 855 Subsequent Events*). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is effective for interim and annual periods ending after June 15, 2009. The Company does not expect the adoption of SFAS 165 to have a material impact on its consolidated financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140* (*ASC 860 Transfers and Servicing*). SFAS 166 provides guidance to improve the relevance, representational faithfulness, and comparability of the information that a report entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement, if any, in transferred financial assets. SFAS 166 is effective for interim and annual periods ending after November 15, 2009. The Company does not expect the adoption of SFAS 166 to have a material impact on its consolidated financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167, *Amendments to FASB Interpretation No. 46(R)* (*ASC 810 Consolidation*). SFAS 167 improves financial reporting by enterprises involved with variable interest entities. SFAS 167 is effective for interim and annual periods ending after November 15, 2009. Early adoption is prohibited. The Company does not expect the adoption of SFAS 167 to have a material impact on its consolidated financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles replacement of FASB Statement No. 162* (*ASC 105 Generally Accepted Accounting Principles*). SFAS 168 establishes the FASB Accounting Standards Codification which will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. SFAS 168 is effective immediately. The Company does not expect the adoption of SFAS 168 to have a material impact on its consolidated financial statements.

In June 2009, the FASB issued EITF Issue No. 09-1, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing* (*ASC 470 Debt*). EITF Issue No. 09-1 clarifies how an entity should account for an own-share lending arrangement that is entered into in contemplation of a convertible debt offering. EITF Issue No. 09-1 is effective for arrangements entered into on or after June 15, 2009. Early adoption is prohibited. The Company does not expect the adoption of EITF Issue No. 09-1 to have a material impact on its consolidated financial statements.

In June 2009, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 112 (SAB 112). SAB 112 revises or rescinds portions of the interpretative guidance included in the codification of SABs in order to make the interpretive guidance consistent with current U.S. GAAP. The Company does not expect the adoption of SAB 112 to have a material impact on its consolidated financial statements.

In August 2009, the FASB issued Accounting Standards Update No. 2009-05 (ASU 2009-05), *Fair Value Measurements and Disclosures (Topic 820) Measuring Liabilities at Fair Value.* ASU 2009-05 amends Subtopic 820-10, *Fair Value Measurements and Disclosures Overall,* and provides clarification for the fair value measurement of liabilities. ASU 2009-05 is effective for the first reporting period including interim period beginning after issuance. The Company does not expect the adoption of ASU 2009-05 to have a material impact on its consolidated financial statements.

In September 2009, the FASB issued Accounting Standards Update No. 2009-12 (ASU 2009-12), *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).* ASU 2009-12 provides guidance on estimating the fair value of alternative investments. ASU 2009-12 is effective for interim and annual periods ending after December 15, 2009. The Company does not expect the adoption of ASU 2009-12 to have a material impact on its consolidated financial statements.

In October 2009, the FASB issued Accounting Standards Update No. 2009-15 (ASU 2009-15), *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing.* ASU 2009-15 amends Subtopic 470-20 to expand accounting and reporting guidance for own-share lending arrangements issued in contemplation of convertible debt issuance. ASU 2009-15 is effective for fiscal years beginning on or after December 15, 2009 and interim periods within those fiscal years for arrangements outstanding as of the beginning of those fiscal years. The Company does not expect the adoption of ASU 2009-15 to have a material impact on its consolidated financial statements.

4. MERGERS AND ACQUISITIONS

Business Combinations

On May 31, 2008, the Company acquired each of TFC and BOE. The transaction with TFC was valued at $53.0 million. Total consideration paid to TFC shareholders consisted of 6,544,840 shares of the Company s common stock issued. The transaction resulted in total assets acquired at May 31, 2008 of $268.8 million, including $241.9 million of loans, and liabilities assumed were $241.7 million, including $232.1 million of deposits. The transaction with BOE was valued at $53.9 million. Total consideration paid to BOE shareholders consisted of 6,957,405 shares of the Company s common stock issued. This transaction resulted in total assets acquired at May 31, 2008 of $317.6 million, including $233.3 million of loans, and liabilities assumed were $288.0 million, including $256.4 million of deposits. Due to the mergers with each of TFC and BOE, the Company recorded approximately $37.2 million in goodwill and $15.0 million in core deposit intangibles as of May 31, 2008.

Immediately following the mergers with TFC and BOE, the Company operated TransCommunity Bank and the Bank as separate banking subsidiaries. TransCommunity Bank s offices operated under the Bank of Goochland, Bank of Powhatan, Bank of Louisa and Bank of Rockbridge division names. Effective July 31, 2008, TransCommunity Bank was consolidated into the Bank under the Bank s state charter. As a result, the Company was a one-bank holding company at the September 30, 2008 reporting date.

Acquisition of Georgia Operations

On November 21, 2008, the Bank acquired certain assets and assumed all deposit liabilities relating to four former branch offices of The Community Bank (TCB), a Georgia state-chartered bank. The transaction was consummated pursuant to a Purchase and Assumption Agreement, dated November 21, 2008, by and among the Federal Deposit Insurance Corporation (FDIC), as Receiver for The Community Bank, Bank of Essex and the FDIC. Management evaluated the applicability of Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations* , as well as EITF 98-3 *Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business* in determining the accounting for this transaction. Based upon an assessment of the transaction, management determined that there were significant limitations on the resources transferred and, therefore, concluded that the net assets acquired did not meet the definition of a Business as required by these authoritative standards. Accordingly, the transaction was accounted for as an asset purchase.

Pursuant to the terms of the Purchase and Assumption Agreement, the Bank assumed approximately $619.0 million in deposits, approximately $233.9 million of which were deemed to be core deposits, and paid the FDIC a premium of 1.36% on the core deposits amounting to approximately $3.2 million. All deposits insured prior to the closing of the transaction maintained their current insurance coverage.

The Company also acquired assets of $87.5 million as follows (dollars in thousands):

Cash and cash equivalents	$ 54,439
Investment securities	31,304
Loans and accrued interest	1,593
Other assets	135
Total assets	$ 87,471

The loans acquired were those fully secured by deposit accounts. The Bank did not purchase any additional loans as of December 31, 2008.

The Bank had 60 days to evaluate and, at its sole option, purchase any of the remaining TCB loans. As a result, the Bank purchased 175 loans totaling approximately $21 million on January 9, 2009. Also, the Bank had 90 days to evaluate and, at its sole option, purchase the premises and equipment. The Bank agreed to purchase all four former banking premises of TCB for $6.4 million on February 19, 2009.

Acquisition of Maryland Operations

On January 30, 2009, the Bank acquired certain assets and assumed all deposit liabilities relating to seven former branch offices of Suburban Federal Savings Bank, Crofton, Maryland. The transaction was consummated pursuant to a Purchase and Assumption Agreement, dated January 30, 2009, by and among the FDIC, as Receiver for SFSB, the Bank and the FDIC.

Pursuant to the terms of the Purchase and Assumption Agreement, the Bank assumed approximately $303 million in deposits, all of which were deemed to be core deposits and maintain their current insurance coverage. The Bank also acquired approximately $362 million in loans and other assets and agreed to provide loan servicing to SFSB s existing loan customers. The Bank bid a negative $45 million for the net assets acquired.

The Bank has entered into shared-loss agreements with the FDIC with respect to certain covered assets acquired. See Notes 9 and 10 for additional information related to certain assets covered under the FDIC shared-loss agreements.

In relation to this acquisition, the Company followed the acquisition method of accounting as outlined in SFAS 141(R), *Business Combinations* . Management relied on external analyses by appraisers in determining the fair value of assets acquired and liabilities assumed. The following table provides the allocation of the negative bid in the financial statements, based on those analyses (dollars in thousands):

	SFSB
Negative bid on SFSB transaction	$ 45,000
Adjustments to assets acquired and liabilities assumed:	
Fair value adjustments:	
Loans	(102,011)
Foreclosed real estate	(10,428)
FDIC indemnification	84,584
Deposits	(1,455)
Core deposit intangible	2,158
Other adjustments	(2,407)
Net assets acquired, pre-tax	20,255
Deferred tax liability	(6,886)
Net assets acquired, net of tax	$ 13,369

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Fair value of assets acquired	
Cash and cash equivalents	$ 54,717
Investment securities	4,954
Loans receivable	198,253
Foreclosed real estate	9,416
FDIC indemnification asset	84,584
Other assets	10,369
Fair value of assets acquired	$ 362,293
Fair value of liabilities assumed	
Deposits	$ 302,756
FHLB advances	37,525
Deferred taxes	6,886
Other liabilities	1,757
Fair value of liabilities assumed	$ 348,924
Net assets acquired at fair value	$ 13,369

As a result of the acquisition of the operations of SFSB, the Company recorded a one-time gain of $20.3 million in the first quarter of 2009.

The Company engaged two external firms to assess credit quality and fair market value of the loan portfolio. An external firm performed a 100% credit review on the entire portfolio and classified each of the loans into several homogenous pools of credit risk and levels of impairment. An external firm specializing in fair market valuations then used the credit review results to determine the current fair market as defined in SFAS No. 157, *Fair Value Measurements* (*ASC 820 Fair Value Measurements and Disclosures*). The fair value assessment was based on several measures, including asset quality, contractual interest rates, current market interest rates, and other underlying factors and the analysis divided the portfolio into the following segments:

Acquisition, development, and construction loans

Residential first mortgage loans

Consumer real estate loans

Commercial real estate loans

The following three general approaches were used in the valuation analyses the asset-based approach, the market approach, and the income approach.

Certificate of deposits (CDs) and the core deposit intangible (premium paid to acquire the core deposits of SFSB) were marked to market using a third-party analysis of cash flow, interest rate, maturity dates or weighted average life, balances, attrition rates, and current market rates.

The Company reviewed certain contracts between SFSB and its vendors in order to identify any efficiencies from the merger through contract cancellation. The costs of cancelling certain contracts were not material enough to change the amount of the gain recorded.

Supplemental pro forma information reflecting the revenue and earnings of the combined entity for the current reporting period as though the acquisition date for the business combination had occurred at the beginning of the annual reporting period, and similar comparative information for the prior year, has not been disclosed. Management has determined that it is impracticable to provide this information due to a lack of reliability of financial information produced by SFSB prior to the acquisition and the costs that would be incurred to reproduce the information with an appropriate level of reliability.

5. GOODWILL AND INTANGIBLE ASSETS

The Company follows SFAS 142, *Goodwill and Other Intangible Assets*, which prescribes the accounting for goodwill and intangible assets subsequent to initial recognition. Provisions within SFAS 142 discontinue any amortization of goodwill and intangible assets with indefinite lives, and require at least an annual impairment review or more often if certain impairment conditions exist. With the TFC and BOE mergers consummated May 31, 2008, there were significant amounts of goodwill and other intangible assets recorded. Goodwill was assessed for potential impairment as of May 31, 2009, the anniversary date of the mergers.

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Since the mergers in 2008, there has been further decline in economic conditions, which has significantly affected the banking sector and the Company s financial condition and results. The Company s average closing stock price during the second quarter of 2008 and 2009 was $6.64 per share and $3.67 per share, respectively, which represented a 44.73% decline. On the last business day prior to May 31, 2009, the closing stock price was $3.10 per share. The average closing stock price for the third quarter of 2009 was $3.41.

The initial step in identifying potential impairment involves comparing the current fair value of such goodwill to its recorded or carrying amount. If the carrying value exceeds such fair value, there is possible impairment. Next, a second step is performed to determine the amount of the impairment, if any. This step requires a comparison of the Company s book value to the fair value of its assets, liabilities, and intangibles. If the carrying amount of goodwill exceeds the fair value, an impairment charge must be recorded in an amount equal to the excess. Management retained a business valuation expert to assist in determining the level and extent to which goodwill was impaired. The Company determined that goodwill was impaired as of May 31, 2009, and a $24.0 million impairment charge was recorded during the second quarter of 2009. Because the acquisitions were considered tax-free exchanges, the goodwill impairment charge cannot be deducted for tax purposes, and as such, an income tax benefit cannot be recorded. Due to this tax treatment, the goodwill impairment charge will be reflected as a permanent difference in the deferred tax calculation.

In determining the goodwill impairment charge, the reporting unit was defined as Community Bankers Trust Corporation, as the Company has determined that it has no reportable segments or components of a segment, as defined in SFAS No. 142, *Goodwill and Other Intangible Assets (ASC 350 Intangibles Goodwill and Other).*

The Company used and weighted two valuation methods in determining the fair value of the reporting unit the guideline transaction method and the discounted cash flow method. The guideline transaction method uses actual change-of-control transactions involving entities similar to the reporting unit. These transactions consist of merger and acquisition transactions involving financial institutions, and the Company derived the fair value of the reporting unit based on the price/tangible book value multiples and core deposit premiums reported in these transactions. The Company used this method as it reflects the guidance in SFAS No. 142, which is consistent with SFAS No. 157, that the estimate of fair value shall be based on the best information available, including prices for similar assets and liabilities . . . .

The discounted cash flow analysis relies upon a projection of future cash flows, the present value of which represents the value of the reporting unit. Management supplied projections of the reporting unit s future balance sheets and income statements, which were used in the analysis. Under the discounted cash flow method, the value of the reporting unit is the sum of the distributable cash flows generated by the reporting unit and a terminal value in 2013 representing the value of all future cash flows. The Company used the discounted cash flow method because market participants commonly use discounted cash flow analyses in acquisitions of financial institutions, as the value of an enterprise is equal to its future cash flows. Further, SFAS No. 142 indicates that, A present value technique is often the best available technique with which to estimate the fair value of a group of net assets (such as a reporting unit) . . . .

The Company then compared the conclusion of value indicated by the preceding valuation methods to the Company s market capitalization and the valuation multiples for a group of comparable publicly traded banks to the Company.

In determining a conclusion of value for the reporting unit, the guideline transactions method received two-thirds of the total weight (split equally between the indications of value based on tangible book value and core deposits), and the discounted cash flow method received one-third of the total weighting. This weighting methodology reflects that actual transactions involving enterprises with similar characteristics to the subject reporting unit provide the most meaningful indication of value. The Company weighted the discounted cash flow method as it is commonly employed in the financial services industry and represents a value based on the future cash flows generated by the reporting unit.

The material assumptions used and the sensitivity in them for the two valuation methods used are as follows:

> The guideline transactions method derives the fair value of the reporting unit using (a) the reporting unit s tangible book value and core deposits at May 31, 2009 and (b) multiples of tangible book value and core deposits derived from marketplace transactions, as reported by SNL Financial. The multiples were derived from two groups of transactions (a) transactions announced between June 1, 2008 and May 31, 2009 involving banks located nationwide with assets greater than $250 million and (b) transactions announced between June 1, 2008 and May 31, 2009 involving banks and thrifts located in the Mid-Atlantic region. A change in the price/tangible book value multiple by 10% would affect the value by a like amount. A change in the core deposit premium by 10% would affect the value by approximately 2%.

The discounted cash flow method relies upon a projection of the reporting unit s future financial performance, including assumptions as to its future balance sheet growth, asset composition, funding mix, asset quality, capital levels, net interest income, non-interest income, non-interest expenses, loan loss provision, income taxes, and distributable cash flows. In addition, the discounted cash flow method requires a terminal value, which reflects the value of the reporting unit after the end of the finite forecast period. The terminal value is a function of the reporting unit s projected 2013 net income and tangible book value, and multiples of net income and tangible book value. The Company then discounts the projected future cash flows and terminal value to the present at a discount rate derived from marketplace assumptions as to returns demanded on equity investments.

Particularly significant assumptions in the discounted cash flow method include (a) the reporting unit s future net income and distributable cash flows, (b) the terminal multiple of earnings or tangible book value, and (c) the discount rate.

Goodwill will be next assessed for potential impairment as of December 31, 2009, as management determined that goodwill will be evaluated in the future on an annual basis coinciding with the end of the fiscal year, unless economic or other circumstances warrant evaluations at additional times.

During 2008, management discovered that there was an error in the fair value of stock options issued by the Company in settlement of the TFC and BOE stock options outstanding as of the respective merger dates. When correcting this valuation error, the adjustment was inadvertently recorded twice. The result was understatement of Goodwill and Deferred Taxes Liabilities of approximately $2.9 million and $1.5 million, respectively. An adjustment has been made to correct this error and the financial statements for the year ended December 31, 2008 have been restated.

Core deposit intangible assets are amortized over the period of expected benefit, ranging from 2.6 to 9 years. Core deposit intangibles are recognized, amortized and evaluated for impairment as required by SFAS No. 142, *Goodwill and Other Intangible Assets (ASC 350 Intangibles Goodwill and Other)*. Due to the mergers with TFC and BOE on May 31, 2008, the Company recorded approximately $15.0 million in core deposit intangible assets. Core deposit intangibles related to the Georgia and Maryland transactions equaled $3.1 million and $2.2 million, respectively, and will be amortized over approximately 9 years.

Goodwill and core deposit intangible assets are presented in the following table:

	Gross Amount Value	Accumulated Amortization	Impairment	Net Carrying Value
		(dollars in thousands)		
December 31, 2008				
Goodwill (restated)	$ 37,184			$ 37,184
Core deposit intangibles	$ 18,132	$ 969		$ 17,163
September 30, 2009				
Goodwill	$ 37,184		$ 24,032	$ 13,152
Core deposit intangibles	$ 20,290	$ 2,645		$ 17,645

6. FAIR VALUE MEASUREMENTS

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available-for-sale, trading securities and derivatives, if present, are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Fair Value Hierarchy

Under FASB ASC 820, *Fair Value Measurements and Disclosures* , the Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Investment Securities Available-for-Sale

Investment securities available-for-sale are recorded at fair value each reporting period. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security s credit rating, prepayment assumptions and other factors such as credit loss assumptions. The Company only utilizes third party vendors to provide fair value data for purposes of recording amounts related to the fair value measurements of its securities available for sale portfolio. An AICPA Statement on Auditing Standard Number 70 (SAS 70) report is obtained from the third party vendor on an annual basis. The third party vendor also utilizes a reputable pricing company for security market data. The third party vendor has controls and edits in place for month-to month market checks and zero pricing. The Company makes no adjustments to the pricing service data received for its securities available for sale.

Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 would include asset-backed securities in less liquid markets.

Loans held for sale

Loans held for sale are recorded at the lower of cost or fair value each reporting period, and are comprised of residential mortgages. These loans are held for a short period of time with the intention of being sold on the secondary market. Therefore, the fair value is determined on rates currently offered using observable market information, which does not deviate materially from the cost value. If there are any adjustments to record the loan at the lower of cost of market value, it would be reflected in the consolidated statements of income. It was determined that the cost value recorded at September 30, 2009 was similar to the fair value, and therefore no adjustment was necessary. Due to the observable market data available in pricing these loans held for sale, they were considered as Level 2.

Loans, excluding covered loans (noncovered)

Except for loans that the Company acquired in the SFSB transaction, the Company does not record unimpaired loans held for investment at fair value each reporting period. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans.

In accordance with SFAS 157, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. The Bank frequently obtains appraisals prepared by external professional appraisers for classified loans greater than $250,000 when the most recent appraisal is greater than 12 months old. The appraisal, based on the date of preparation, becomes only a part of the determination of the amount of any loan write-off, with current market conditions and the collateral s location being other determinants. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2.

The Bank may also identify collateral deterioration based on current market sales data, including price and absorption, as well as input from real estate sales professionals and developers, county or city tax assessments, market data and on-site inspections by Bank personnel. Internally prepared estimates generally result from current market data and actual sales data related to the Bank s collateral or where the collateral is located. When management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3. In instances where an appraisal received subsequent to an internally prepared estimate reflects a higher collateral value, management does not revise the carrying amount.

Reviews of classified loans are performed by management on a quarterly basis. At September 30, 2009, substantially all of the impaired loans were evaluated based on the fair value of the collateral.

Loans covered by FDIC shared-loss agreement (covered)

Fair values for loans were based on a discounted cash flow methodology that considered various factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing. Loans were pooled together according to similar characteristics and were treated in the aggregate when applying various valuation techniques. The discount rate used for loans are based on the rates used at acquisition (which were based on market rates for new originations of comparable loans) and have been adjusted since acquisition based on how changes in expected cash flows have changed future accretable yield. The discount rate does not include a factor for credit losses as that has been included in the estimated cash flows.

Other real estate owned (non covered)

Other real estate owned (OREO), including foreclosed assets, is adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, OREO is carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management s estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the OREO as a nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

Other real estate owned, covered by FDIC shared-loss agreement

Other real estate owned (OREO), covered by FDIC shared-loss agreement (covered) is adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, it is carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management s estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the OREO as a nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

FDIC indemnification asset

These loss sharing assets are measured separately from the related covered assets as they not contractually embedded in the assets and are not transferable with the assets should the Company choose to dispose of them. Fair value was estimated using projected cash flows related to the loss sharing agreements based on the expected reimbursements for losses and the applicable loss sharing percentages. These expected reimbursements do not include reimbursable amounts related to future covered expenditures. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss haring reimbursement from the FDIC.

Goodwill

See Note 5 for a description of valuation methodologies for goodwill.

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Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis.

		September 30, 2009		
	Total	Level 1	Level 2	Level 3
		(dollars in thousands)		
Investment securities available-for-sale:				
U.S. Treasury issue and U.S. government agencies	$ 16,103	$	$ 16,103	$
State, county, and municipal	94,034		94,034	
Corporates and other bonds	2,834		2,834	
Mortgage backed securities	56,857		56,857	
Financial stocks	1,356	1,356		
Total securities available-for-sale	171,184	1,356	169,828	
Loans covered by FDIC shared-loss agreement	166,085			166,085
FDIC indemnification asset	83,909			83,909
Total assets at fair value	$ 421,178	$ 1,356	$ 169,828	$ 249,994
Total liabilities at fair value	$	$	$	$

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These assets include assets that are measured at the lower of cost value or market value that were recognized at fair value below cost at the end of the period. The table below presents the recorded amount of assets and liabilities measured at fair value on a nonrecurring basis.

		September 30, 2009		
	Total	Level 1	Level 2	Level 3
		(dollars in thousands)		
Loans impaired loans with a valuation allowance	$ 26,776	$	$ 24,202	$ 2,574
Other real estate owned (OREO), covered by FDIC shared-loss agreement	11,105		2,620	8,485
Other real estate owned (OREO), non covered	1,175		1,175	
Goodwill	13,152			13,152
Total assets at fair value	$ 52,208	$	$ 27,997	$ 24,211
Total liabilities at fair value	$	$	$	$

The Company had no Level 1 assets measured at fair value on a nonrecurring basis at September 30, 2009.

ASC 820, *Fair Value Measurements and Disclosures* , requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis.

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Corporation s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. ASC 820 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Corporation.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Short-Term Investments

For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities

For securities held for investment purposes, fair values are based on quoted market prices or dealer quotes.

Restricted Securities

The carrying value of restricted securities approximates their fair value based on the redemption provisions of the respective entity.

Loans Receivable

For certain homogeneous categories of loans, such as some residential mortgages, and other consumer loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposit Liabilities

The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Long-Term Borrowings

The fair values of the Corporation s long-term borrowings are estimated using discounted cash flow analyses based on the Corporation s current incremental borrowing rates for similar types of borrowing arrangements.

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Off-Balance Sheet Financial Instruments

The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

The fair value of stand-by letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

At September 30, 2009, the fair values of loan commitments and stand-by letters of credit were deemed to be immaterial.

The fair values and carrying values are as follows:

	September 30, 2009	
(dollars in thousands)	Carrying Value	Fair Value
Financial assets:		
Cash and cash equivalents	$ 29,298	$ 29,315
Securities available for sale	171,184	171,184
Securities held to maturity	121,023	124,883
Equity securities	8,355	8,355
Loans, non covered, net	553,241	546,242
Loans covered by FDIC shared-loss agreement	166,085	166,085
FDIC indemnification asset	83,909	83,909
Accrued interest receivable	5,401	5,401
Financial liabilities:		
Deposits	1,027,529	1,033,024
Borrowings	41,155	46,035
Accrued interest payable	3,159	3,159

The Corporation assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Corporation s financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Corporation. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Corporation s overall interest rate risk.

7. SECURITIES

Amortized costs and fair values of securities available for sale at September 30, 2009 were as follows:

	Amortized	Gross Unrealized		
(dollars in thousands)	Cost	Gains	Losses	Fair Value
U.S. Treasury issue and other U.S. Government agencies	$ 15,589	$ 514	$	$ 16,103
State, county and municipal	90,976	3,275	(217)	94,034
Corporates and other bonds	2,761	73		2,834
Mortgage backed securities	55,392	1,469	(4)	56,857
Other securities	1,293	165	(102)	1,356
Total securities available for sale	$ 166,011	$ 5,496	$ (323)	$ 171,184

The fair value and gross unrealized losses for securities available for sale, totaled by the length of time that individual securities have been in a continuous gross unrealized loss position, at September 30, 2009 were as follows:

(dollars in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State, county and municipal	$ 2,075	$ (193)	$ 2,204	$ (24)	$ 4,279	$ (217)
Mortgage backed securities	710	(4)			710	(4)
Other securities	1,092	(96)	12	(6)	1,104	(102)
Total securities available for sale	$ 3,877	$ (293)	$ 2,216	$ (30)	$ 6,093	$ (323)

At September 30, 2009, there were $2.2 million of securities available for sale that were in a continuous loss position for more than twelve months with unrealized losses of $30,000 and consisted primarily of municipal obligations. Management continually monitors the fair value and credit quality of the Company s investment portfolio. Furthermore, a third party vendor prepares a report for other than temporarily impaired evaluations. Management reviews this report monthly, and there were no investments considered other than temporarily impaired at September 30, 2009.

Amortized costs and fair values of securities held to maturity at September 30, 2009 were as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury issue and other U.S. Government agencies	$ 748	$	$ (1)	$ 747
State, county and municipal	13,104	859		13,963
Corporates and other bonds	1,030	26		1,056
Mortgage backed securities	106,141	3,078	(102)	109,117
Total securities held to maturity	$ 121,023	$ 3,963	$ (103)	$ 124,883

The fair value and gross unrealized losses for securities held to maturity, totaled by the length of time that individual securities have been in a continuous gross unrealized loss position, at September 30, 2009 were as follows:

(dollars in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury issue and other U.S. Government agencies	$ 748	$ (1)	$	$	$ 748	$ (1)
Mortgage backed securities	10,501	(102)			10,501	(102)
Total securities held to maturity	$ 11,249	$ (103)	$	$	$ 11,249	$ (103)

Management continually monitors the fair value and credit quality of the Company s investment portfolio. At September 30, 2009, all impairments of securities held to maturity are considered temporary as the unrealized losses are related to market risk and not credit risk. The Company does not intend to sell the securities and it is not likely that the company will be required to sell the security before recovery of its amortized cost. Issuers of the securities held to maturity and available for sale are of suitable credit quality and all of the securities are of investment grade.

The Company s investment in Federal Home Loan Bank (FHLB) stock totaled $3.6 million at September 30, 2009. FHLB stock is restricted since it is not actively traded on an exchange, and is owned solely by the FHLB and its member institutions. The Company records FHLB stock on a cost basis. When evaluating FHLB stock for impairment, its value is based on recovery of the par value rather than by recognizing temporary decline in value. While the FHLB temporarily suspended dividend payments on its stock and repurchases of excess capital stock during 2009, it declared an annualized dividend rate of 0.41% for the third quarter of 2009, which is scheduled for payment in November 2009.

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8. LOANS EXCLUDING COVERED LOANS

The Company s loan portfolio, segregated by loans covered by the FDIC shared-loss agreement (Covered Loans) and loans not covered by this agreement (Non-covered Loans), at September 30, 2009 and December 31, 2008, was comprised of the following (dollars in thousands):

	September 30, 2009		December 31, 2008	
	Non-covered loans		Total Loans	
Open End 1-4 Family Loans	$ 31,008	5.44%	$ 30,323	5.80%
1-4 Family First Liens	107,882	18.94%	99,284	18.98%
Total residential 1-4 family	138,890	24.38%	129,607	24.78%
Owner occupied nonfarm nonresidential	81,810	14.36%	63,218	12.09%
Non owner occupied nonfarm nonresidential	105,182	18.47%	93,872	17.95%
Total commercial	186,992	32.83%	157,090	30.03%
1-4 Family Construction	28,811	5.06%	36,277	6.93%
Other construction and land development	111,708	19.61%	103,238	19.74%
Total construction	140,519	24.67%	139,515	26.67%
Second mortgages	14,124	2.48%	15,599	2.98%
Multifamily	10,757	1.89%	9,370	1.79%
Agriculture	3,907	0.69%	5,143	0.98%
Total real estate loans	**495,189**	**86.94%**	**456,324**	**87.23%**
Agriculture loans	1,407	0.25%	988	0.19%
Commercial and industrial loans	45,348	7.96%	44,332	8.48%
Total commercial loans	**46,755**	**8.21%**	**45,320**	**8.67%**
Total revolving credit and other consumer	**15,927**	**2.79%**	**14,457**	**2.76%**
All other loans	**11,706**	**2.06%**	**7,005**	**1.34%**
Gross loans	**569,577**	**100.00%**	**523,106**	**100.00%**
Unearned income on loans	**(785)**		**(780)**	
Merger related fair value adjustment	**660**		**972**	
Total non-covered loans	**$ 569,452**		**$ 523,298**	

The following is a summary of information for impaired and nonaccrual loans at September 30, 2009, excluding FDIC covered assets (dollars in thousands):

Amount

Impaired loans without a valuation allowance	$ 27,728
Impaired loans with a valuation allowance	26,776
Total impaired loans	$ 54,504
Valuation allowance related to impaired loans	$ 9,454
Total nonaccrual loans	$ 20,572
Total loans 90 days or more past due and still accruing	$ 1,462
Average investment in impaired loans during the nine months ending September 30, 2009	$ 43,001
Interest income recognized on impaired loans	$ 919
Interest income recognized on a cash basis on impaired loans	$ 919

See *Management s Discussion and Analysis of Financial Condition and Results of Operations Asset Quality* for additional information regarding impaired loans.

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9. COVERED ASSETS

The Company is applying the provisions of FASB ASC 310 to all loans acquired in the SFSB acquisition (the covered loans).

The following table reflects the contractual cash flows, cash flows expected at acquisition, and fair value of loans as of the acquisition date. These amounts were determined based upon the estimated remaining life of the covered loans, which includes the effects of prepayments.

(In Thousands)	Total Loans
Contractually required principal and interest at acquisition	$ 431,081
Nonaccretable difference (expected losses of $99,648 and foregone interest of $72,157)	171,805
Cash flows expected to be collected at acquisition	$ 259,276
Accretable yield (interest component of expected cash flows)	61,023
Basis in acquired loans at acquisition	$ 198,253

As of January 1, 2009 there were no covered loans. As of September 30, 2009, the outstanding balance of the covered loans accounted for under FASB ASC 31-30 is $262,379. The carrying amount as of September 30, 2009 is comprised of the following.

	September 30, 2009	
(Dollars in Thousands)	Covered Loans	
Open End 1-4 Family Loans	$ 8,131	4.90%
1-4 Family First Liens	117,472	70.73%
Total residential 1-4 family	125,603	75.63%
Owner occupied nonfarm nonresidential		0.00%
Non owner occupied nonfarm nonresidential	6,566	3.95%
Total commercial	6,566	3.95%
1-4 Family Construction	7,309	4.40%
Other construction and land dev.	17,178	10.34%
Total construction	24,487	14.74%
Second mortgages	8,957	5.40%
Multifamily		0.00%
Agriculture	240	0.14%
Total real estate loans	**165,853**	**99.86%**
Agriculture loans		0.00%
Commercial and industrial loans		0.00%
Total commercial loans		**0.00%**

Total revolving credit and other consumer	**232**	**0.14%**
Total covered loans	**$ 166,085**	**100.00%**

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The change in the accretable yield balance since January 1, 2009 is as follows:

		Accretable Yield
Balance at January 1, 2009	$	
Additions		61,023
Less Accretion		(11,380)
Reclassification from (to) Nonaccretable Yield		
Balance at September 30, 2009	$	49,643

These loans are not classified as nonperforming assets at September 30, 2009 as the loans are accounted for on a pooled basis and the pools are considered to be performing. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all purchased loans. There was no allowance for loan losses recorded on covered loans at December 31, 2009.

10. SHARED-LOSS AGREEMENTS AND FDIC INDEMNIFICATION ASSET

On January 30, 2009, the Company entered into a purchase and assumption agreement with shared-loss with the FDIC to assume all of the deposits and acquire certain assets of Suburban Federal Savings Bank. Under the shared-loss agreements, the FDIC will reimburse the Bank for 80% of losses arising from covered loans and foreclosed real estate assets, on the first $118 million of such covered loans and foreclosed real estate assets, and for 95% of losses on covered loans and foreclosed real estate assets thereafter. Under the shared-loss agreements, a loss on a covered loan or foreclosed real estate is defined generally as a realized loss incurred through a permitted disposition, foreclosure, short-sale or restructuring of the covered loan or foreclosed real estate. The reimbursements for losses on single family one-to-four residential mortgage loans are to be made monthly until the end of the month in which the tenth anniversary of the closing of the transaction occurs, and the reimbursements for losses on other covered assets are to be made quarterly until the end of the quarter in which the eighth anniversary of the closing of the transaction occurs. The shared-loss agreements provide for indemnification from the first dollar of losses without any threshold requirement. The reimbursable losses from the FDIC are based on the book value of the relevant loan as determined by the FDIC at the date of the transaction, January 30, 2009. New loans made after that date are not covered by the shared-loss agreements. The fair value of this loss sharing agreement is detailed below.

The Company is accounting for the shared-loss agreements as an indemnification asset pursuant to the guidance in FASB ASC 805 *Business Combinations*. The FDIC indemnification asset is measured separately from the covered loans and other real estate owned assets because it is not contractually embedded in the covered loan and other real estate owned assets and is not transferable should the Company choose to dispose of them. Fair value was estimated using projected cash flows available for loss sharing based on the credit adjustments estimated for each loan pool and OREO and the loss sharing percentages outlined in the Purchase and Assumption Agreements with the FDIC. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC.

Because the acquired loans are subject to a FDIC loss sharing agreement and a corresponding Indemnification Asset exists to represent the value of expected payments from the FDIC, increases and decreases in loan accretable yield due to loss expectations will also have an impact to the accretable yield for the FDIC indemnification asset. Improvement in loss expectations will typically increase loan accretable yield and decrease the yield on the FDIC indemnification asset, and in some instances, result in an amortizable premium on the FDIC indemnification asset. Increases in loss expectations will typically be recognized as impairment in the current period through allowance for loan losses while resulting in additional non-interest income for the amount of the increase in the FDIC indemnification asset.

The following tables present the balances of the FDIC indemnification asset related to the Suburban Federal Savings Bank transaction at January 30, 2009 (the transaction date) and September 30, 2009:

(In Thousands)	January 30, 2009
Anticipated realizable loss	$ 108,756
Assumed loss sharing recovery percentage	approximately 80%
Estimated loss sharing value	86,988
Premium (discount)	(2,404)
FDIC indemnification asset	$ 84,584

	September 30, 2009
Anticipated realizable loss remaining	107,289
Assumed loss sharing recovery percentage	approximately 80%
Estimated loss sharing value	85,831
Premium (discount)	(1,922)
FDIC indemnification asset	$ 83,909

11. ALLOWANCE FOR LOAN LOSSES

Activity in the allowance for loan losses, for the three and nine months ended September 30, 2009; the four months ended September 30, 2008 and the five months ended May 31, 2008 Predecessor period was comprised of the following:

(dollars in thousands)	Three months ended September 30, 2009	Nine Months ended September 30, 2009	Four Months ended September 30, 2008	BOE Predecessor Five Months ended May 31, 2008	TFC Predecessor Five Months ended May 31, 2008
Beginning allowance	$ 12,185	$ 6,939	$ 5,305	$ 2,595	$ 3,036
Provision for loan losses	5,231	11,271	1,334	200	1,348
Recoveries of loans charged off	224	306	36	25	
Loans charged off	(1,429)	(2,305)	(128)	(91)	(958)
Allowance at end of period	$ 16,211	$ 16,211	$ 6,547	$ 2,729	$ 3,426

For information reported for September 30, 2008, the figures presented are solely for the months of June 2008 through September 2008, as the Company did not have banking operations prior to its merger with each of TFC and BOE at May 31, 2008 and, as such, did not have an allowance for loan losses. Predecessor periods for the five months ended May 31, 2008 are shown above.

At September 30, 2009, total impaired loans equaled $54.5 million, excluding FDIC covered assets. As required by the fair value accounting rules for the SFSB transaction in the first quarter of 2009, no allowance for loan losses was recorded on loans acquired since the loans were recorded at fair value and adjusted for expected credit losses, less amounts to be reimbursed by the FDIC. For additional information regarding the accounting entries, see the Company s Current Report on Form 8-K/A (Amendment No. 1) filed on April 17, 2009, under Note 2 Description of the Pro Forma Purchase Accounting Adjustments.

Significant provisions were made to the loan loss reserve during the nine months ended September 30, 2009, as economic conditions deteriorated. In addition, net-charge off activity increased as certain loans were deemed uncollectible.

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The following table presents charge-offs and recoveries by loan category for the three and nine months ended September 30, 2009, the four months ended September 30, 2008, and for Predecessor companies for the five months ended May 31, 2008.

										BOE Predecessor			**TFC Predecessor**		
							For the four months			**For the five months**			**For the five months**		
	For the three months ended			**For the nine months ended**			**ended**			**ended**			**ended**		
	September 30, 2009			**September 30, 2009**			**September 30, 2008**			**May 31, 2008**			**May 31, 2008**		
(dollars in thousands)	**Charge-offs**	**Recoveries**	**Net Charge-offs**	**Charge-offs**	**Recoveries**	**Net Charge-offs**	**Charge-offs**	**Recoveries**	**Net Charge-offs**	**Charge-offs**	**Recoveries**	**Net Charge-offs**	**Charge-offs**	**Recoveries**	**Net Charge-offs**
Open End 1-4 Family loans	$	$	$	$ 168	$	$ 168	$	$	$	$	$	$	$	$	$
1-4 Family First Liens				108		108									
Total residential 1-4 family				276		276									
Owner occupied nonfarm nonresidential	814		814	814		814									
Non owner occupied nonfarm nonresidential															
Total commercial	814		814	814		814									
1-4 Family Construction		183	(183)	61	199	(138)									
Other construction and land development	583		583	591		591							70		70
Total construction	583	183	400	652		453							70		70
Second mortgages				34		34									
Multifamily															
Agriculture				13		13									
Total real estate loans	**1,397**	**183**	**1,214**	**1,789**	**199**	**1,590**							**70**		**70**

Agriculture loans															
Commercial and industrial loans		17	(17)	318	20	298					5	(5)	835		835
Total commercial loans		**17**	**(17)**	**318**	**20**	**298**					**5**	**(5)**	**835**		**835**
Total revolving credit and other consumer	**4**	**11**	**(7)**	**170**	**74**	**96**	**128**	**36**	**92**	**91**	**20**	**71**	**53**		**53**
All other loans	28	13	15	28	13	15									
Total non-covered loans	**$ 1,429**	**$ 224**	**$ 1,205**	**$ 2,305**	**$ 306**	**$ 1,999**	**$ 128**	**$ 36**	**$ 92**	**$ 91**	**$ 25**	**$ 66**	**$ 958**	**$**	**$ 958**

12. DEPOSITS

The following table provides interest-bearing deposit information by category for the dates indicated:

Balance by deposit type	September 30, 2009	December 31, 2008
	(dollars in thousands)	
NOW	$ 88,045	$ 76,575
MMDA	110,353	55,200
Savings	58,495	34,688
Time deposits less than $100,000	450,273	303,424
Time deposits greater than $100,000	256,025	276,762
Total interest-bearing deposits	$ 963,191	$ 746,649

13. (LOSS) EARNINGS PER SHARE

Basic (loss) earnings per share (EPS) is computed by dividing net income or loss available to common stockholders by the weighted average number of shares outstanding during the period. Diluted EPS is computed using the weighted average number of common shares outstanding during the period, including the effect of all potentially dilutive potential common shares outstanding attributable to stock instruments.

(dollars and shares in thousands, except per share data)	(Loss)/ Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
For the Three Months ended September 30, 2009			
Basic EPS	$ (2,172)	21,468	$ (0.10)
Effect of dilutive stock awards and options			
Diluted EPS	$ (2,172)	21,468	$ (0.10)
For the Three Months ended September 30, 2008			
Basic EPS	$ 952	21,469	$ 0.04
Effect of dilutive stock awards and options		17	
Diluted EPS	$ 952	21,486	$ 0.04
For the Nine Months ended September 30, 2009			
Basic EPS	$ (15,920)	21,468	$ (0.87)
Effect of dilutive stock awards and options			
Diluted EPS	$ (15,920)	21,468	$ (0.87)
For the Nine Months ended September 30, 2008			
Basic EPS	$ 1,351	14,750	$ 0.09
Effect of dilutive stock awards and options		1,447	(0.01)
Diluted EPS	$ 1,351	16,197	$ 0.08

There were 5,249,256 shares in the Company available through options and warrants that were considered anti-dilutive at September 30, 2009.

BOE Predecessor (Dollars and shares in thousands, except per share data)	(Loss) Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
For the five months ended May 31, 2008			
Basic EPS	$ (188)	1,214	$ (0.15)
Effect of dilutive stock awards			
Diluted EPS	$ (188)	1,214	$ (0.15)

TFC Predecessor (Dollars and shares in thousands, except per share data)	(Loss) Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
For the five months ended May 31, 2008			
Basic EPS	$ (3,901)	4,587	$ (0.85)
Effect of dilutive stock awards			
Diluted EPS	$ (3,901)	4,587	$ (0.85)

14. DEFINED BENEFIT PLAN

The Company adopted the Bank noncontributory, defined benefit pension plan for all full-time, pre-merger Bank employees over 21 years of age at May 31, 2008. Benefits are generally based upon years of service and the employees compensation. The Company funds pension costs in accordance with the funding provisions of the Employee Retirement Income Security Act.

Components of Net Periodic Benefit Cost:

	Nine Months Ended September 30, 2009 (In thousands)	Nine Months Ended September 30, 2008 (In thousands)	BOE Predecessor Five Months Ended May 31, 2008	TFC Predecessor Five Months Ended May 31, 2008
Service cost	$ 276	$ 164	$ 155	Not applicable
Interest cost	243	135	128	
Expected return on plan assets	(159)	(140)	(133)	
Amortization of prior service cost	3	2	2	
Amortization of net obligation at transition	(3)	(2)	(2)	
Amortization of net loss	66	8	7	
Net periodic benefit cost	$ 426	$ 166	$ 157	

At September 30, 2009, employer contributions totaled $264,000 for the plan year. The Company is currently analyzing the Defined Benefit Plan as well as other alternatives, such as enhancing its Defined Contribution Plan (401(k)). The plan was frozen to new entrants prior to BOE s merger with the Company.

15. SUBSEQUENT EVENTS

On October 29, 2009, the Company s Board of Directors declared a quarterly dividend of $0.04 per share with respect to the Company s outstanding common stock. The dividend will be payable on November 20, 2009, to stockholders of record at the close of business on November 13, 2009.

Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations.***

The following discussion and analysis of the financial condition at September 30, 2009 and results of operations of the Company for the three and nine months ended September 30, 2009 should be read in conjunction with the Company s consolidated financial statements and the accompanying notes to consolidated financial statements included in this report and in the Company s Annual Report on Form 10-K/A (Amendment No. 3) for the year ended December 31, 2008.

Overview

Community Bankers Trust Corporation (the Company) is a bank holding company that was incorporated under Delaware law on April 6, 2005. The Company is headquartered in Glen Allen, Virginia and is the holding company for Essex Bank, a Virginia state bank with 25 full-service offices in Virginia, Maryland and Georgia.

The Bank was established in 1926 and is headquartered in Tappahannock, Virginia. The Bank engages in a general commercial banking business and provides a wide range of financial services primarily to individuals and small businesses, including individual and commercial demand and time deposit accounts, commercial and consumer loans, travelers checks, safe deposit box facilities, investment services and fixed rate residential mortgages. Fourteen branches are located in Virginia, primarily from the Chesapeake Bay to just west of Richmond, seven are located in Maryland along the Baltimore-Washington corridor and four are located in the Atlanta, Georgia metropolitan market. The Bank also operates two loan production offices, one in Fairfax, Virginia, and one in Cumming, Georgia.

The Company generates a significant amount of its income from the net interest income earned by the Bank. Net interest income is the difference between interest income and interest expense. Interest income depends on the amount of interest-earning assets outstanding during the period and the interest rates earned thereon. The Company s cost of funds is a function of the average amount of interest-bearing deposits and borrowed money outstanding during the period and the interest rates paid thereon. The quality of the assets further influences the amount of interest income lost on non-accrual loans and the amount of additions to the allowance for loan losses. Additionally, the Bank earns non-interest income from service charges on deposit accounts and other fee or commission-based services and products. Other sources of non-interest income can include gains or losses on securities transactions, gains from loans sales, transactions involving bank-owned property, and income from Bank Owned Life Insurance (BOLI) policies. The Company s income is offset by non-interest expense, which consists of goodwill impairment and other charges, salaries and benefits, occupancy and equipment costs, professional fees, and other operational expenses. The provision for loan losses and income taxes materially affect income.

Caution About Forward-Looking Statements

The Company makes certain forward-looking statements in this Form 10-Q that are subject to risks and uncertainties. These forward-looking statements include statements regarding our profitability, liquidity, allowance for loan losses, interest rate sensitivity, market risk, growth strategy, and financial and other goals. These forward-looking statements are generally identified by phrases such as the Company expects, the Company believes or words of similar import.

These forward-looking statements are subject to significant uncertainties because they are based upon or are affected by factors, including, without limitation, the effects of and changes in the following:

general economic and market conditions, either nationally or locally;

the interest rate environment;

competitive pressures among banks and financial institutions or from companies outside the banking industry;

real estate values;

the quality or composition of the Company s loan or investment portfolios;

the demand for deposit, loan, and investment products and other financial services;

the demand, development and acceptance of new products and services;

the timing of future reimbursements from the FDIC to the Company under the shared-loss agreements;

consumer profiles and spending and savings habits;

the securities and credit markets;

the integration of banking and other internal operations, and associated costs

management s evaluation of goodwill and other assets on a periodic basis, and any resulting impairment charges, under applicable accounting standards;

the soundness of other financial institutions with which the Company does business;

inflation;

technology; and

legislative and regulatory requirements.

These factors and additional risks and uncertainties are described in the Risk Factors discussion in Part II, Item 1A, of this report.

Although the Company believes that its expectations with respect to the forward-looking statements are based upon reliable assumptions within the bounds of its knowledge of its business and operations, there can be no assurance that actual results, performance or achievements of the Company will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements.

Critical Accounting Policies

The following is a summary of the Company s critical accounting policies that are highly dependent on estimates, assumptions and judgments.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses (ALLL) is maintained at a level that is appropriate to cover estimated credit losses on individually evaluated loans determined to be impaired, as well as estimated credit losses inherent in the remainder of the loan and lease portfolio. Since arriving at an appropriate ALLL involves a high degree of management judgment, an ongoing quarterly analysis to develop a range of estimated losses is utilized. In accordance with accounting principles generally accepted in the United States, best estimates within the range of potential credit loss to determine the appropriate ALLL is utilized. Credit losses are charged and recoveries are credited to the ALLL.

The Company utilizes an internal risk rating system for its loans. Those larger credits that exhibit probable or well defined credit weaknesses are subject to individual review. The borrower s cash flow, adequacy of collateral coverage, and other options available to the Company, including legal remedies, are evaluated. The review of individual loans includes those loans that are impaired as defined by SFAS 114, *Accounting by Creditors for Impairment of a Loan*. Collectability of both principal and interest when assessing the need for loss provision is considered. Historical loss rates are applied to other loans not subject to specific allocations. The loss rates are determined from historical net charge offs experienced by the Bank.

Historical loss rates for commercial and retail loans are adjusted for significant factors that, in management s judgment, reflect the impact of any current conditions on loss recognition. Factors that are considered include delinquency trends, current economic conditions and trends, strength of supervision and administration of the loan portfolio, levels of underperforming loans, level of recoveries to prior year s charge offs, trend in loan losses, industry concentrations and their relative strengths, amount of unsecured loans and underwriting exceptions. These factors are reviewed quarterly and a weighted score is assigned depending on the level and extent of the risk. The total of each of these weighted factors is then applied against the applicable portion of the portfolio and the ALLL is adjusted to ensure an appropriate level.

The Company s financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). The financial information contained within the statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset or relieving a liability. The Company uses historical loss factors as one factor in determining the inherent loss that may be present in its loan portfolio. Actual losses could differ significantly from the historical factors that the Company uses. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of the Company s transactions would be the same, the timing of events that would impact its transactions could change.

Loans Acquired in a Transfer

The Company s acquired loans from the SFSB acquisition (the covered loans), subject to FASB ASC Topic 805, *Business Combinations* (formerly SFAS 141(R)), are recorded at fair value and no separate valuation allowance is recorded at the date of acquisition. FASB ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (formerly SOP 03-3) applies to loans acquired with evidence of deterioration of credit quality since origination acquired by completion of transfer for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. The Company is applying the provisions of FASB ASC 310-30 to all loans acquired in the Suburban Federal Savings Bank acquisition, not just the loans acquired with evidence of deterioration of credit quality since origination acquired by completion of transfer for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. The Company has grouped loans together based on common risk characteristics including product type, delinquency status and loan documentation requirements among others.

The Company makes an estimate of the total cash flows it expects to collect from a pool of loans, which includes undiscounted expected principal and interest. The excess of that amount over the fair value of the pool is referred to as accretable yield. Accretable yield is recognized as interest income on a constant yield basis over the life of the pool. The Company also determines each pool s contractual principal and contractual interest payments. The excess of that amount over the total cash flows it expects to collect from the pool is referred to as nonaccretable difference, which is not accreted into income. Judgmental prepayment assumptions are applied to both contractually required payments and cash flows expected to be collected at acquisition. Over the life of the loan or pool, the Company continues to estimate cash flows expected to be collected. Subsequent increases in expected or actual cash flows are first used to reverse any existing valuation allowance for that loan or pool. Any remaining increase in cash flows expected to be collected is recognized as an adjustment to the accretable yield with the amount of periodic accretion adjusted over the remaining life of the pool. Subsequent decreases in cash flows expected to be collected over the life of the pool are recognized as impairment in the current period through allowance for loan loss.

Income Taxes

The Company follows tax guidance, including the Financial Accounting Standards Board s (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes- an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes* (SFAS 109). In determining the appropriate level of income taxes to be recorded each reporting, management assesses the potential tax effects and records those amounts in both current and deferred tax accounts, whether may be an asset or liability. In addition, an income tax expense or benefit is determined, which is recorded on the consolidated income statement.

Goodwill and Other Intangible Assets

The Company adopted SFAS 142, *Goodwill and Other Intangible Assets*. Accordingly, goodwill is no longer subject to amortization over its estimated useful life, but is subject to at least an annual assessment for impairment by applying a fair value-based test. As a result of the mergers with each of TFC and BOE at May 31, 2008, goodwill was initially recorded for $39.5 million. Subsequently, adjustments were recorded to properly reflect goodwill on the financial statements. The Company assessed goodwill for impairment as of the one year anniversary date of the mergers, at May 31, 2009.

During 2008, management discovered that there was an error in the fair value of stock options issued by the Company in settlement of the TFC and BOE stock options outstanding as of the respective merger dates. When correcting this valuation error, the adjustment was inadvertently recorded twice. The result was an understatement of Goodwill and Deferred Taxes Liabilities of approximately $2.9 million and $1.5 million, respectively. An adjustment has been made to correct this error and the financial statements for the year ended December 31, 2008 have been restated.

The initial step in identifying potential impairment involves comparing the current fair value of such goodwill to its recorded or carrying amount. If the carrying value exceeds such fair value, there is possible impairment. Next, a second step is performed to determine the amount of the impairment, if any. This requires a comparison of the Company s book value to the fair value of its assets, liabilities, and intangibles. If the carrying amount of goodwill exceeds the fair value, an impairment charge must be recorded in an amount equal to the excess. The Company determined that goodwill was impaired as of May 31, 2009, and a $24.0 million impairment charge was recorded during the second quarter of 2009. The goodwill impairment charge was due to an overall decline in general economic conditions, rapid change in the market valuations of financial institutions and the discount that shares of the Company s common stock have traded to their tangible book value for an extended period of time.

Additionally, under SFAS 142, acquired intangible assets (such as core deposit intangibles) are separately recognized if the benefit of the assets can be sold, transferred, licensed, rented, or exchanged, and amortized over their useful lives. Branch acquisition transactions were outside the scope of SFAS 142 and, accordingly, intangible assets related to such transactions continued to amortize upon the adoption of SFAS 142. The costs of purchased deposit relationships and other intangible assets, based on independent valuation by a qualified third party, are being amortized over their estimated lives. Core deposit intangible amortization expense charged to operations was $565,000 and $1.7 million for the three and six months ended September 30, 2009, respectively. The Company did not record any goodwill or other intangible prior to the TFC and BOE mergers. As a result of the TCB and SFSB transactions, core deposit intangibles were recorded of $3.2 million and $2.2 million, respectively. Also related to the SFSB transaction during the first quarter of 2009 was a gain of $16.2 million ($10.7 million, net of taxes), which was recorded as a one-time gain within the income statement.

Financial Condition

At September 30, 2009, the Company had total assets of $1.232 billion, an increase of $201.7 million or 19.58% from December 31, 2008. Total loans, excluding FDIC covered assets, equaled $569.5 million at September 30, 2009, increasing $46.2 million, or 8.82% from December 31, 2008. Securities totaled $300.6 million and increased $8.1 million, or 2.77% during the first nine months of 2009. The Company had federal funds sold of $5.3 million at September 30, 2009, versus $10.2 million at year-end 2008, a decrease of $4.9 million or 48.00%. The shift in the earning asset mix as evidenced above is the direct result of management s intention of replacing relatively lower yielding overnight funds with higher yielding assets of loans and securities.

The increase in the total asset size of the Company was primarily due to the SFSB transaction in Maryland. At September 30, 2009, FDIC covered loans equaled $166.1 million, FDIC covered other real estate owned equaled $11.1 million, the FDIC indemnification asset was $83.9 million and the FDIC receivable equaled $3.6 million. Securities from SFSB were incorporated into the Company s securities portfolio at fair value at the effective time of the transaction, and are not considered covered assets under the terms of the FDIC shared-loss agreements.

The Company is required to account for the effect of market changes in the value of securities available-for-sale (AFS) under SFAS 115. The market value of the September 30, 2009 AFS portfolio was $171.2 million at September 30, 2009, and the net unrealized gain on the AFS portfolio was $3.9 million, net of taxes, and included as part of the Company s accumulated other comprehensive income of $2.1 million. Since December 31, 2008, the AFS portfolio shifted from a net unrealized loss of $700,000 to a net unrealized gain of $5.2 million, exclusive of taxes over the first nine months of 2009. The Company deems the investment portfolio as a viable source of liquidity given the dollar volume of securities designated available for sale.

Total deposits at September 30, 2009 were $1.028 billion, which increased $221.2 million or 27.43% from December 31, 2008. Deposit growth was attributed to the SFSB transaction, which was concentrated in certificates of deposit. At September 30, 2009, total deposits in our Maryland branches aggregated $279.3 million of which $208.8 million were time deposits. Interest-bearing deposits increased $216.5 million from December 31, 2008 to September 30, 2009. Noninterest-bearing deposits, in the form of demand deposit accounts, were $64.3 million at September 30, 2009, an increase of $4.6 million since December 31, 2008. The Company s total loans-to-deposits ratio, excluding FDIC covered loans, was 55.42% at September 30, 2009 and 64.90% at December 31, 2008.

Stockholders equity at September 30, 2009 was $147.4 million and represented 11.96% of total assets. Stockholders equity was $164.4 million, or 15.97% of total assets at December 31, 2008.

Results of Operations

Net Income

For the three months ended September 30, 2009, net loss before dividends and accretion on preferred stock was $1.9 million, compared with net income of $952,000 for the same period in 2008. Net loss available to common stockholders was $2.2 million, which represented $0.10 per share on a fully diluted basis, versus net income available to common stockholders of $952,000, or $0.04 per share on a fully diluted basis for the same period in 2008. The loss incurred during the third quarter of 2009 was primarily the result of a $5.2 million provision for loan losses, compared to $1.1 million in provisions during the same period in 2008.

For the nine months ended September 30, 2009, net loss before dividends and accretion on preferred stock was $15.1 million, compared with net income $1.4 million for the same period in 2008. Net loss available to common stockholders was $15.9 million, which represented $0.74 per share on a fully diluted basis, versus net income available to common stockholders of $1.4 million, or $0.08 per share on a fully diluted basis for the same period in 2008. Net loss for the nine months ended September 30, 2009, was driven by the goodwill impairment charge of $24.0 million and loan loss provisions of $11.3 million. While the $20.3 million gain recorded on the SFSB transaction in the first quarter partially offset these large expenses, the goodwill impairment charge does not reduce taxable income and permit an income tax benefit.

Net Interest Income

The Company s results of operations are significantly affected by its ability to manage effectively the interest rate sensitivity and maturity of its interest-earning assets and interest-bearing liabilities. At September 30, 2009, the Company s interest-earning assets exceeded its interest-bearing liabilities by approximately $47.6 million, compared with a $144.7 million excess at December 31, 2008.

Net interest income was $9.7 million for the three months ended September 30, 2009, compared with $6.2 million for the same period in 2008. For the three months ended September 30, 2009, the net interest margin was 3.78% compared to 4.26% for the same period in 2008. For the three months ended September 30, 2009, the net interest spread was 3.67% versus 3.70% for the same period in 2008. The decline in the margin compared with the same period in 2008 was driven by several factors. First, loan rates declined in the fourth quarter of 2008 due to a prime rate drop. There was also a large influx of deposits related to TCB transaction in the fourth quarter of 2008 which were subsequently invested in securities versus higher yielding loans. In addition, the SFSB transaction resulted in further margin compression during 2009 as the Bank inherited a large volume of FDIC covered non-accruing loans that are included in the margin calculation.

With the acquisitions of TFC and BOE in May 2008, fair market value adjustments were recorded for assets and liabilities, including interest bearing loans and interest bearing deposits. However, the amortization of the fair value adjustments for those deposits significantly reduced interest expense during the third quarter of 2008, far in excess of reductions in interest income associated with the amortization of the fair value adjustments for loans. As a result, the net interest margin for the third quarter of 2008 was more positively influenced when compared with the third quarter of 2009.

For the nine months ended September 30, 2009, net interest income aggregated $28.4 million, which generated a net interest margin of 3.64%. The net interest spread for the nine months ended September 30, 2009 equaled 3.50%. A net interest margin analysis is not provided for the nine months ended September 30, 2008, since there were no banking operations for the Company for the first five months of 2008.

Components used in determining the net interest spread and the net interest margin, including yields on assets and costs of funds by category, are depicted in the following table:

COMMUNITY BANKERS TRUST CORPORATION

NET INTEREST MARGIN ANALYSIS

AVERAGE BALANCE SHEETS

	Three months ended September 30					
	2009			2008		
	Average Balance Sheet	**Interest Income/ Expense**	**Average Rates Earned/Paid**	**Average Balance Sheet**	**Interest Income/ Expense**	**Average Rates Earned/Paid**
ASSETS:						
FDIC covered loans, including fees	$ 172,050	$ 4,152	9.65%	$ 496,803	$ 8,497	6.84%
Loans non covered, including fees	559,547	8,820	6.31%			
Total loans	731,597	12,972	7.09%	496,803	8,497	6.84%
Interest bearing bank balances	11,061	60	2.17%	9,384	83	3.54%
Federal funds sold	20,905	10	0.19%	5,034	22	1.75%
Investments (taxable)	216,277	2,081	3.85%	50,809	539	4.24%
Investments (tax exempt)[(1)]	91,927	1,358	5.91%	35,068	505	5.76%
Total earning assets	1,071,767	16,481	6.15%	597,098	9,646	6.46%
Allowance for loan losses	(13,290)			(5,380)		
Non-earning assets	193,267			90,098		
Total assets	$ 1,251,744			$ 681,816		

				$	$ 46,867	
Receivables, net	74,397	36,496	70,094		(18)	180,969
Inventories	66,111	42,540	49,676			158,327
Prepaid expenses	3,008	1,690	2,945			7,643
Refundable and deferred income taxes	8,931	3,406	2,169			14,506
Total current assets	169,322	86,030	152,978		(18)	408,312
Property, plant and equipment, at cost	325,620	66,218	97,822			489,660
Less accumulated depreciation and amortization	208,862	23,207	62,915			294,984
Net property, plant and equipment	116,758	43,011	34,907			194,676
Goodwill	20,370	73,375	12,950			106,695
Other intangible assets	778	56,498	2,864			60,140
Investment in subsidiaries and intercompany accounts	319,473	41,560	(10,471)		(350,562)	
Other assets	31,305		1,514		(600)	32,219
Total assets	$ 658,006	$ 300,474	$ 194,742		$ (351,180)	$ 802,042
LIABILITIES AND SHAREHOLDERS						

EQUITY					
Current liabilities:					
Current installments of long-term debt	$ 11,624	$ 26	$ 1,933	$	$ 13,583
Notes payable to banks			4,918		4,918
Accounts payable	38,109	11,281	41,284		90,674
Accrued expenses	42,608	7,357	17,922	(18)	67,869
Dividends payable	2,107				2,107
Total current liabilities	94,448	18,664	66,057	(18)	179,151
Deferred income taxes	18,224	22,066	2,909		43,199
Long-term debt, excluding current installments	217,592	68	1,697	(600)	218,757
Other noncurrent liabilities	23,807		1,082		24,889
Minority interest in consolidated subsidiaries			7,371		7,371
Shareholders equity:					
Common stock of $1 par value	27,900	14,249	10,343	(24,592)	27,900
Additional paid-in capital		159,082	71,885	(230,967)	
Retained earnings	329,764	86,345	35,919	(95,003)	357,025
Accumulated other comprehensive income			(2,521)		(2,521)
Treasury stock	(50,067)				(50,067)
Unearned restricted stock	(3,662)				(3,662)
Total shareholders equity	303,935	259,676	115,626	(350,562)	328,675
Total liabilities and shareholders equity	$ 658,006	$ 300,474	$ 194,742	$ (351,180)	$ 802,042

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands)
(Unaudited)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Thirteen Weeks Ended April 1, 2006

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Cash flows from operations:					
Net earnings	$ 13,205	$ 2,257	$ 3,862	$ (6,239)	$ 13,085
Adjustments to reconcile net earnings to net cash flows from operations:					
Depreciation and amortization	5,216	2,441	1,744		9,401
(Gain) / loss on sale of property, plant and equipment	470		(16)		454
Equity in (earnings) / losses of nonconsolidated subsidiaries	80	(96)	(29)		(45)
Minority interest			169		169
Deferred income taxes	(3,464)	51	184		(3,229)
Other adjustments	79		140		219
Changes in assets and liabilities:					
Receivables	(11,642)	1,034	(2,315)	10	(12,913)
Inventories	(11,951)	(317)	(1,525)	123	(13,670)
Prepaid expenses	(789)	12	(2,337)		(3,114)
Accounts payable	5,503	703	238		6,444
Accrued expenses	(3,544)	(1,833)	147	(8)	(5,238)
Other noncurrent liabilities	(98)		(62)		(160)
Income taxes payable	5,272		(64)		5,208
Net cash flows from operations	(1,663)	4,252	136	(6,114)	(3,389)
Cash flows from investing activities:					
Purchase of property, plant and equipment	(2,286)	(691)	(3,699)		(6,676)
Proceeds from sale of property, plant and equipment	766		71		837
Dividends to minority interest			(166)		(166)
Other, net	(4,337)	(4,376)	2,759	6,114	160
Net cash flows from investing activities	(5,857)	(5,067)	(1,035)	6,114	(5,845)
Cash flows from financing activities:					
Net repayments under short-term agreements			(692)		(692)
Proceeds from long-term borrowings			226		226
Principal payments on long-term obligations	(3,149)	(6)	(2)		(3,157)
Dividends paid	(2,107)				(2,107)
Proceeds from exercises under stock plans	6,902				6,902
Excess tax benefits from stock option exercises	3,159				3,159
Purchase of common treasury shares	(6,622)				(6,622)
Net cash flows from financing activities	(1,817)	(6)	(468)		(2,291)
Effect of exchange rate changes on cash and cash equivalents			663		663
Net change in cash and cash equivalents	(9,337)	(821)	(704)		(10,862)
Cash and cash equivalents beginning of year	16,875	1,898	28,094		46,867
Cash and cash equivalents end of year	$ 7,538	$ 1,077	$ 27,390	$	$ 36,005

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands)
(Unaudited)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Thirteen Weeks Ended March 26, 2005

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Cash flows from operations:					
Net earnings	$ 6,383	$ 105	$ 2,351	$ (2,029)	$ 6,810
Adjustments to reconcile net earnings to net cash flows from operations:					
Depreciation and amortization	5,367	2,613	1,771		9,751
(Gain) / loss on sale of property, plant and equipment	4	(5)	(49)		(50)
Equity in (earnings) / losses of nonconsolidated subsidiaries	(16)		82		66
Minority interest			349		349
Deferred income taxes	1,888	(91)	(265)		1,532
Other adjustments	(247)		(437)		(684)
Changes in assets and liabilities:					
Receivables	2,301	4,439	7,256		13,996
Inventories	17,962	(2,410)	(6,306)	(425)	8,821
Prepaid expenses	(1,067)	73	(2,510)		(3,504)
Accounts payable	483	(2,514)	2,645		614
Accrued expenses	(5,040)	(1,146)	(933)	(24)	(7,143)
Other noncurrent liabilities	845		(17)		828
Income taxes payable	2,334		86		2,420
Net cash flows from operations	31,197	1,064	4,023	(2,478)	33,806
Cash flows from investing activities:					
Purchase of property, plant and equipment	(2,042)	(801)	(1,202)		(4,045)
Proceeds from sale of property, plant and equipment	2	7	367		376
Proceeds from minority interests			(90)		(90)
Other, net	(1,254)	(2,424)	1,762	2,478	562
Net cash flows from investing activities	(3,294)	(3,218)	837	2,478	(3,197)
Cash flows from financing activities:					
Net repayments under short-term agreements			(2,845)		(2,845)
Principal payments on long-term obligations	(21,257)	(7)	(652)		(21,916)
Dividends paid	(1,932)				(1,932)
Proceeds from exercises under stock plans	3,861				3,861
Purchase of common treasury shares:					
Stock plan exercises	(218)				(218)
Net cash flows from financing activities	(19,546)	(7)	(3,497)		(23,050)
Effect of exchange rate changes on cash and cash equivalents			(738)		(738)
Net change in cash and cash equivalents	8,357	(2,161)	625		6,821
Cash and cash equivalents beginning of year	966	3,694	25,550		30,210
Cash and cash equivalents end of year	$ 9,323	$ 1,533	$ 26,175	$	$ 37,031

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

PART 1. FINANCIAL INFORMATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Management s discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward looking statements are based on assumptions that management has made in light of experience in the industries in which the Company operates, as well as management s perceptions of historical trends, current conditions, expected future developments and other factors believed to be appropriate under the circumstances. These statements are not guarantees of performance or results. They involve risks, uncertainties (some of which are beyond the Company s control) and assumptions. Management believes that these forward-looking statements are based on reasonable assumptions. Many factors could affect the Company s actual financial results and cause them to differ materially from those anticipated in the forward-looking statements. These factors include, among other things, risk factors described from time to time in the Company s reports to the Securities and Exchange Commission, as well as future economic and market circumstances, industry conditions, company performance and financial results, operating efficiencies, availability and price of raw materials, availability and market acceptance of new products, product pricing, domestic and international competitive environments, and actions and policy changes of domestic and foreign governments.

This discussion should be read in conjunction with the financial statements and the notes thereto, and the management s discussion and analysis, included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005. We report our businesses as five reportable segments. See Note 7 to the Condensed Consolidated Financial Statements.

Dollars in thousands, except per share amounts

	Thirteen Weeks Ended April 1, 2006	 March 26, 2005	 % Incr. (Decr)
Consolidated			
Net sales	$ 303,625	$ 265,741	14.3 %
Gross profit	75,693	61,661	22.8 %
as a percent of sales	*24.9 %*	*23.2 %*	
SG&A expense	52,116	45,554	14.4 %
as a percent of sales	*17.2 %*	*17.1 %*	
Operating income	23,577	16,107	46.4 %
as a percent of sales	*7.8 %*	*6.1 %*	
Net interest expense	3,595	4,590	-21.7 %
Effective tax rate	36.7 %	36.4 %	
Net earnings	13,085	6,810	92.1 %
Earnings per share diluted	$ 0.52	$ 0.27	92.6 %
Engineered Support Structures segment			
Net sales	108,201	99,770	8.4 %
Gross profit	27,487	24,720	11.2 %
SG&A expense	20,483	19,096	7.3 %
Operating income	7,004	5,624	24.5 %
Utility Support Structures segment			
Net sales	65,339	58,516	11.7 %
Gross profit	15,683	11,139	40.8 %
SG&A expense	7,724	6,751	14.4 %
Operating income	7,959	4,388	81.4 %
Coatings segment			
Net sales.	20,481	15,382	33.1 %
Gross profit	4,874	3,013	61.8 %
SG&A expense	2,494	2,247	11.0 %
Operating income	2,380	766	210.7 %
Irrigation segment			
Net sales	86,859	69,939	24.2 %
Gross profit	21,258	16,770	26.8 %
SG&A expense	9,981	9,550	4.5 %
Operating income	11,277	7,220	56.2 %
Tubing segment			
Net sales	19,395	18,257	6.2 %
Gross profit	5,141	4,894	5.0 %
SG&A expense	1,518	1,635	-7.2 %
Operating income	3,623	3,259	11.2 %
Other			
Net sales	3,350	3,877	-13.6 %
Gross profit	1,181	1,127	4.8 %
SG&A expense	1,840	1,886	-2.4 %
Operating loss	(659)	(759)	13.2 %
Net Corporate expense			
Gross profit	69	(2)	NM
SG&A expense	8,076	4,389	84.0 %
Operating loss	(8,007)	(4,391)	-82.4 %

NM = Not meaningful

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands)
(Unaudited)

Overview

The sales increase in the first quarter of fiscal 2006, as compared with 2005, was mainly due to improved sales volumes in all reportable segments. Gross profit as a percent of sales improved in the first quarter of 2006 over the same period in 2005 as a result of theses higher sales volumes, which allowed us to achieve greater factory utilization and improved leverage of our fixed factory expenses. Selling, general and administrative (SG&A) spending increased mainly as a result of higher employee incentives related to improved operating performance (approximately $3.3 million), increased compensation costs (approximately $1.0 million), higher sales commissions associated with the increased sales volumes (approximately $0.6 million) and expense related to stock options (approximately $0.3 million) that is required to be recorded under the provisions of SFAS 123(R), which we adopted during the first quarter of 2006. All reportable segments contributed to the improved operating income in 2006, as compared with 2005.

Interest expense decreased in the first quarter of 2006 as compared with 2005, primarily due to lower average borrowing levels this year. Average borrowing levels in the first quarter of 2006 were approximately $77 million lower than the first quarter of 2005, which resulted from operating cash inflows throughout 2005 that were used to pay down our interest-bearing debt. Miscellaneous income was higher in 2006 as compared with 2005, due to a $1.1 million settlement associated with a retirement plan of a former subsidiary in the first quarter of 2006. Our cash flows used by operations were $3.4 million in the first quarter of 2006, as compared with $33.8 million provided by operations in the first quarter of 2005. The lower operating cash flows in the first quarter of 2006 resulted from increased working capital required by the increased sales activity in the first quarter of 2006.

Engineered Support Structures (ESS) segment

The improvement in ESS segment sales in the first quarter of 2006, as compared with 2005, was mainly due to stronger sales in Europe and China. In North America, lighting and traffic structure sales were comparable to 2005 levels. In the third quarter of 2005, U.S. highway legislation was enacted after legislative delays and temporary funding extensions over approximately two years. In the first nine months of 2005, sales orders for our lighting and traffic products related to projects funded by the highway bill were slightly lower than historical levels, as we believe that customers delayed highway project decisions until legislation was enacted. While North American sales shipments in the first quarter of 2006 were essentially flat with 2005 levels, our sales orders and sales backlogs increased over 2005 levels. Commercial lighting sales volumes in 2006 were also comparable to 2005 levels. In Europe, lighting sales were higher than 2005, mainly due to new tramway products developed for European market, improved market penetration in certain geographic areas and some improvement in economic conditions in our main market areas.

Sales of Specialty Structures products increased as compared with 2005. In North America, market conditions for sales of structures and components for the wireless communication market were slightly better in the first quarter of 2006, as compared with the first quarter of 2005, especially in component parts. Sign structure sales increased by $1.4 million over 2005 levels, mainly due to generally favorable winter weather conditions in the first quarter of this year, which enhanced shipping schedules. Sales of wireless communication poles in China improved in the first quarter of 2006 as compared with a relatively weak first quarter of 2005.

The increase in the profitability of the ESS segment for the thirteen weeks ended April 1, 2006 as compared with the same period in 2005 was related to the sales growth Europe and China. For the segment, the main reasons for the increase in SG&A expense in the first quarter of 2006 as compared with 2005 were increased commissions related to higher sales volumes (approximately $0.5 million), increased international management expenses (approximately $0.4 million) and start-up expenses related to our new plant in China (approximately $0.3 million). This plant is essentially complete and will begin commercial shipments in the second quarter of 2006.

Utility Support Structures segment

In the Utility Support Structures segment, the sales increase in the first quarter of 2006 as compared with the first quarter of 2005 was due to improved demand for steel and concrete electrical transmission, substation and distribution pole structures. Throughout 2005 and into 2006, our order rates for structures from utility companies and independent power producers were relatively strong and built our backlog to over $80 million and positioned us for improved shipment levels in the first quarter of 2006. The improved earnings for this segment as compared with 2005 relate to the improved sales levels and enhanced factory performance resulting from higher sales and production levels. The increase in SG&A spending was related primarily to increased compensation and incentive costs related to higher business activity levels (approximately $0.6 million) ..

Coatings segment

First quarter 2006 sales in the Coatings segment were well above 2005 levels, due to increased demand for galvanizing services and higher sales prices associated with higher zinc costs. In our galvanizing operations, the sales volume increase of nearly 19% over 2005 volumes was mainly due to generally stronger industrial economic conditions in our market areas, a continuation of conditions that existed in the latter part of 2005. While we raised our sales prices to recover our increased cost of zinc, market prices for zinc rose substantially in the first quarter, which hampered our ability to fully recover these cost increases. The increase in operating income in the first quarter of 2006, as compared with the first quarter of 2005, resulted from higher production levels and improved factory utilization. The increase in SG&A spending in the first quarter of 2006, as compared with the first quarter of 2005 was primarily related to higher employee incentives associated with improved operating income.

Irrigation segment

The sales increase in the Irrigation segment for the first quarter of 2006, as compared with the same period in 2005 was predominantly due to higher sales volumes. In North America, we believe generally dry weather conditions in much of the U.S. contributed to improved demand for irrigation machines and related service parts. Irrigation machines damaged in winter storms also contributed to the growth in the sales of service parts and replacement machines. International sales in the first quarter of 2005 were up approximately $5 million as compared with the first quarter of 2005, predominantly due to sales in newly-developed international markets. Operating income for the thirteen weeks ended April 1, 2006 increased substantially as compared with the same period in 2005 was due to improved sales volumes, and improved factory utilization. The positive impact on operating income related to improved factory operations in light of the higher sales and production levels was approximately $0.4 million, as compared with the same period in 2005.

Tubing segment

The increase in Tubing sales for the first quarter of 2006 as compared with last year was due to improved demand for tubing products, offset somewhat by lower sales prices associated with generally lower steel costs than in 2005. The increase in the first quarter of 2006 operating income as compared with the first quarter of 2005 was mainly due to the stronger sales volumes and slightly lower SG&A spending in light of the higher sales volumes.

Other

This includes our industrial fastener business, our machine tool accessories operation in France and the development costs associated with our wind energy structure initiative. The main reason for the improvement in operating income this year was lower spending related to wind energy.

Net corporate expense

The increase in net corporate expenses in the first quarter of 2006 as compared with the first quarter of 2005, related to increased employee incentives due to improved earnings this year (approximately $2.2 million), increased compensation costs partly associated with finance and audit activities ($0.6 million) and approximately $0.4 million in expense incurred related to the termination of our synthetic lease on the corporate headquarters building and release of the related residual value guarantee.

Liquidity and Capital Resources

Cash Flows

Working Capital and Operating Cash Flows Net working capital was $241.3 million at April 1, 2006, as compared with $229.2 million at December 31, 2005. The ratio of current assets to current liabilities was 2.28:1 at April 1, 2006, the same as of December 31, 2005. Operating cash flow was a net outflow of $3.4 million for the thirteen week period ended April 1, 2006, as compared with a net inflow of $33.8 million for the same period in 2005. The main reasons for the lower operating cash flows of 2006, as compared with 2005, were increased receivables and inventories resulting from higher sales volumes this year. In the first quarter of 2005, inventories decreased from December 2004 levels, as we reduced our steel inventories that increased throughout most of 2004 due to rapidly rising prices and availability concerns. In 2006, higher sales backlogs, mainly in the ESS and Utility Support Structures segments, resulted in higher inventory levels to support these sales commitments.

Investing Cash Flows Capital spending during the thirteen weeks ended April 1, 2006 was $6.7 million, as compared with $4.0 million for the same period in 2005. Our capital spending for the 2006 fiscal year is expected to be between $25 million and $30 million.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands)
(Unaudited)

Financing Cash Flows Our total interest-bearing debt decreased from $237.3 million as of December 31, 2005 to $233.6 million as of April 1, 2006. The decrease in borrowings was related to normal scheduled debt repayments.

Sources of Financing and Capital

We have historically funded our growth, capital spending and acquisitions through a combination of operating cash flows and debt financing. We have an internal long-term objective to maintain long-term debt as a percent of capital at or below 40%. At April 1, 2006, our long-term debt to invested capital ratio was 35.1%, as compared with 36.2% at December 31, 2005. Our internal objective of 40% is exceeded from time to time in order to take advantage of opportunities to grow and improve our businesses, such as the Newmark, Whatley and Sigma acquisitions that were completed in 2004. Subject to our level of acquisition activity and steel and zinc industry operating conditions (which could affect the levels of inventory we need to fulfill customer commitments), we plan to maintain this ratio below 40% in 2006.

Our debt financing at April 1, 2006 consisted primarily of long-term debt. We also maintain certain short-term bank lines of credit totaling $19.9 million, $17.6 million which was unused at April 1, 2006. Our long-term debt principally consists of:

- $150 million of senior subordinated notes that bear interest at 6.875% per annum and are due in May 2014. We may repurchase the notes starting in May 2009 at specified prepayment premiums. These notes are guaranteed by certain of our U.S. subsidiaries.

- $150 million revolving credit agreement that accrues interest at our option at (a) the higher of the prime lending rate and the Federal Funds rate plus 50 basis points or (b) an interest rate spread over the LIBOR of 62.5 to 137.5 basis points (inclusive of facility fees), depending on our ratio of debt to earnings before taxes, interest, depreciation and amortization (EBITDA).). In addition, this agreement provides that another $50 million may be added to the total credit agreement at our request at any time prior to May 31, 2007, subject to the group of banks increasing their current commitment. At April 1, 2006, we had no outstanding balance under the revolving credit agreement. The revolving credit agreement has a termination date of May 4, 2009 and contains certain financial covenants that limit our additional borrowing capability under the agreement. At April 1, 2006, we had the ability to borrow an additional $145 million under this facility.

- Term loan with a group of banks that accrues interest at our option at (a) the higher of the prime lending rate and the Federal Funds rate plus 50 basis points or (b) LIBOR plus a spread of 62.5 to 137.5 basis points, depending on our debt to EBITDA ratio and had an outstanding balance of $55.1 million at April 1, 2006. This loan requires quarterly principal payments through 2009. The annualized principal payments beginning in 2006 in millions are: $7.4, $10.4, $19.4, and $17.9. The effective interest rate on this loan was 5.625% per annum at April 1, 2006.

Under these debt agreements, we are obligated by covenants that require us to maintain certain coverage ratios and may limit us with respect to certain business activities. At April 1, 2006 we were in compliance with all covenants related to these debt agreements.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands)
(Unaudited)

FINANCIAL OBLIGATIONS AND FINANCIAL COMMITMENTS

There have been no material changes to our financial obligations and financial commitments as described on page 34 in our Form 10-K for the year ended December 31, 2005.

Off Balance Sheet Arrangements

There have been no changes in our off balance sheet arrangements as described on pages 35-36 in our Form 10-K for the fiscal year ended December 31, 2005. On March 1, 2006, our corporate headquarters building complex was sold to a third party. As a result of the sale, our residual value guarantee to the former owner of the building complex was terminated.

Critical Accounting Policies

There have been no changes in the Company s critical accounting policies during the quarter ended April 1, 2006 other than our adoption of SFAS 123(R) related to the accounting for stock options. These policies are described on pages 37-40 in our Form 10-K for fiscal year ended December 31, 2005.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

There are no material changes in the company s market risk during the quarter ended April 1, 2006. For additional information, refer to the section Risk Management on pages 36-37 in our Form 10-K for the fiscal year ended December 31, 2005.

Item 4. Controls and Procedures

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 and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company s disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports the Company files or submits under the Securities Exchange Act of 1934 is (1) accumulated and communicated to management, including the Company s Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures and (2) recorded, processed, summarized and reported, within the time periods specified in the Commission s rules and forms. There have been no significant changes in the Company s internal controls over financial reporting during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, such internal controls.

PART II. OTHER INFORMATION

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

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price paid per share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2006 to January 28, 2006				
January 29, 2006 to March 4, 2006	6,206	35.93		
March 5, 2006 to April 1, 2006	157,370	41.00	0	0
Total	163,576	40.80	0	0

During the first quarter, the only shares reflected above were those delivered to the Company by employees as part of stock option exercises, either to cover the purchase price of the option or the related taxes payable by the employee as part of the option exercise. The price paid per share was the market price at the date of exercise.

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

Valmont s annual meeting of stockholders was held on April 24, 2006. The stockholders elected four directors to serve three-year terms, approved the Valmont Executive Incentive Plan and ratified the appointment of Deloitte & Touche LLP to audit the Company s financial statements for fiscal 2006. For the annual meeting there were 24,814,399 shares outstanding and eligible to vote of which 22,986,457 were present at the meeting in person or by proxy. The tabulation for each matter voted upon at the meeting was as follows:

Election of Directors:

	For	Withheld
Glen A. Barton	22,807,845	178,612
Daniel P. Neary	22,814,773	171,684
Charles D. Peebler, Jr.	22,817,623	168,834
Kenneth E. Stinson	22,740,915	245,542

Proposal to approve the Valmont Executive Incentive Plan:

For	22,366,929
Against	591,578
Abstain	27,950

Proposal to ratify the appointment of Deloitte & Touche LLP as independent auditors for fiscal 2006:

For	22,508,085
Against	405,618
Abstain	72,754

Item 6. Exhibits

(a) Exhibits

Exhibit No.	Description
31.1	Section 302 Certificate of Chief Executive Officer
31.2	Section 302 Certificate of Chief Financial Officer
32.1	Section 906 Certifications of Chief Executive Officer and Chief Financial Officer

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 and by the undersigned hereunto duly authorized.

Valmont Industries, INC.
(Registrant)

/s/ TERRY J. McCLAIN
Terry J. McClain
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Dated this 28th day of April, 2006.