

PEOPLES BANCORP OF NORTH CAROLINA INC
Form DEF 14A
April 04, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934

Filed by the Registrant [X]

Filed by a Party other than the Registrant []

Check the appropriate box:

- | | |
|--|--|
| <input type="checkbox"/> Preliminary Proxy Statement | <input type="checkbox"/> Confidential, for Use of the Commission |
| <input checked="" type="checkbox"/> Definitive Proxy Statement | Only (as permitted by Rule 14a-6(e)(2)) |
| <input type="checkbox"/> Definitive Additional Materials | |
| <input type="checkbox"/> Soliciting Material Pursuant to §240.14a-12 | |

Peoples Bancorp of North Carolina, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if
other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

[] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- | | |
|-----|---|
| (1) | Title of each class of securities to which transaction applies: |
| (2) | Aggregate number of securities to which transaction applies: |
| (3) | Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): |

- (4) Proposed maximum aggregate value of transaction:
- (5) Total fee paid:

Fee paid previously with preliminary materials:

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:
 - (4) Date Filed:
-

PEOPLES BANCORP
OF NORTH CAROLINA, INC.

Notice of 2007 Annual Meeting,
Proxy Statement and
Annual Report

PEOPLES BANCORP OF NORTH CAROLINA, INC.

PROXY STATEMENT

Table of Contents

	<u>PAGE</u>
NOTICE OF 2007 ANNUAL MEETING OF SHAREHOLDERS.....	ii
PROXY STATEMENT	1
Security Ownership of Certain Beneficial Owners and Management	4
Section 16(a) Beneficial Ownership Reporting Compliance	7
Proposal 1 - Election of Directors	7
Our Board of Directors and Its Committees	9
Report of the Governance Committee Acting As Compensation Committee	10
Compensation Committee Interlocks and Insider Participation	10
Report of Audit Committee	10
Compensation Analysis and Discussion	11
Compensation Committee Members	12
Objectives of Our Compensation Program	12
Compensation Decision Process	12
Elements of Compensation	13
Director Compensation	15
Executive Officers	17
Management Compensation	18

Employee Agreements	21
.....	
Equity Compensation Plan Information	21
.....	
Omnibus Stock Ownership and Long Term Incentive Plan	22
.....	
Federal Income Tax Consequences	25
.....	
Incentive Compensation Plans	26
.....	
Deferred Compensation Plan	29
.....	
Supplemental Retirement Plan	30
.....	
Discretionary Bonuses and Service Awards	30
.....	
Profit Sharing Plan and 401(k) Plan	30
.....	
Indebtedness of and Transactions with Management and Directors	31
.....	
Performance	32
Graph	
Proposal 2 - Approval of an Amendment to the Company's Omnibus Stock Option and Long Term Incentive Plan	33
.....	
Proposal 3 - Ratification of Selection of Independent Auditor	33
.....	
Audit Fees	33
.....	
Audit Related Fees	33
.....	
Tax Fees	34
.....	
All Other Fees	34
.....	
Date for Receipt of Shareholder Proposals	34
.....	
Other Matters	34
.....	
Miscellaneous	35
.....	
EXHIBIT A	E-1
.....	

APPENDIX A

A-1

.....

i

PEOPLES BANCORP OF NORTH CAROLINA, INC.
Post Office Box 467
518 West C Street
Newton, North Carolina 28658-0467
(828) 464-5620

NOTICE OF 2007 ANNUAL MEETING OF SHAREHOLDERS
To Be Held on May 3, 2007

NOTICE IS HEREBY GIVEN that the 2007 Annual Meeting of Shareholders of Peoples Bancorp of North Carolina, Inc. (the "Company") will be held as follows:

Place: Catawba Country Club
1154 Country Club Road
Newton, North Carolina

Date: May 3, 2007

Time: 11:00 a.m. Eastern Time

The purposes of the Annual Meeting are:

1. To elect four persons who will serve as members of the Board of Directors until the 2010 annual meeting of shareholders or until their successors are duly elected and qualified;
2. To approve Amendment No. 1 to the Peoples Bancorp of North Carolina, Inc. Omnibus Stock Ownership and Long Term Incentive Plan which provides for the addition of 390,000 shares of authorized, but unissued, common stock of the Company to the Plan;
3. To ratify the appointment of Porter Keadle Moore, LLP ("PKM") as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2007; and
4. To consider and act on any other matters that may properly come before the Annual Meeting or any adjournment.

The Board of Directors has established March 9, 2007 as the record date for the determination of shareholders entitled to notice of and to vote at the Annual Meeting. If an insufficient number of shares is present in person or by proxy to constitute a quorum at the time of the Annual Meeting, the Annual Meeting may be adjourned in order to permit further solicitation of proxies by the Company.

A form of proxy is enclosed to enable you to vote your shares at the Annual Meeting. You are urged, regardless of the number of shares you hold, to complete, sign, date and return the proxy promptly. A return envelope, which requires no postage if mailed in the United States, is enclosed for your convenience.

By Order of the Board
of Directors,

/s/ Tony W. Wolfe
Tony W. Wolfe
President and Chief
Executive Officer

Newton, North Carolina
April 4, 2007

ii



PEOPLES BANCORP OF NORTH CAROLINA, INC.

PROXY STATEMENT

**Annual Meeting of Shareholders
To Be Held On May 3, 2007**

This Proxy Statement is being mailed to our shareholders on or about April 4, 2007 for solicitation of proxies by the Board of Directors of Peoples Bancorp of North Carolina, Inc. Our principal executive offices are located at 518 West C Street, Newton, North Carolina 28658. Our telephone number is (828) 464-5620.

In this Proxy Statement, the terms “we,” “us,” “our” and the “Company” refer to Peoples Bancorp of North Carolina, Inc. The term “Bank” means Peoples Bank, our wholly-owned, North Carolina-chartered bank subsidiary. The terms “you” and “your” refer to the shareholders of the Company.

INFORMATION ABOUT THE ANNUAL MEETING

Your vote is very important. For this reason, our Board is requesting that you allow your common stock to be represented at the 2007 annual meeting of shareholders by the proxies named on the enclosed proxy card.

When is the annual meeting? May 3, 2007 at 11 a.m., Eastern Time.

Where will the annual meeting be held? At the Catawba Country Club, 1154 Country Club Road, Newton, North Carolina.

What items will be voted on at the annual meeting?

1. ELECTION OF DIRECTORS. To elect four directors to serve until the 2010 annual meeting of shareholders;
2. APPROVAL OF AMENDMENT NO. 1 TO THE COMPANY'S OMNIBUS STOCK OWNERSHIP AND LONG TERM INCENTIVE PLAN. To approve Amendment No. 1 to the Company's Omnibus Stock Ownership and Long Term Incentive Plan which provides for the addition of 390,000 authorized, but unissued, shares of the Company's common stock to the Plan.
3. RATIFICATION OF REGISTERED PUBLIC

ACCOUNTING FIRM. To ratify the appointment of PKM as the Company's independent registered public accounting firm for fiscal year 2007; and

4. OTHER BUSINESS. To consider any other business as may properly come before the annual meeting or any adjournment.

Who can vote?

Only holders of record of our common stock at the close of business on March 9, 2007 (the "Record Date") will be entitled to notice of and to vote at the annual meeting and any

adjournment of the annual meeting. On the Record Date, there were 3,834,175 shares of our common stock outstanding and entitled to vote and 689 shareholders of record.

How do I vote by proxy?

shares by marking, signing and dating the enclosed proxy card and returning it postage-paid envelope. If you return your signed proxy card before the annual meeting, the proxies will vote your shares as you direct. The Board of Directors has appointed shareholders who cannot attend the Annual Meeting in person.

You may vote your shares in the enclosed meeting, the proxies to represent

For the election of directors, you may vote for (1) all of the nominees, (2) none of the nominees, or (3) all of the nominees except those you designate. For each other item of business, you may vote "FOR" or "AGAINST" or you may "ABSTAIN" from voting. If a nominee for election as a director becomes unavailable for election at any time at or before the annual meeting, the proxies will vote your shares for a substitute nominee.

If you return your signed proxy card but do not specify how you want to vote your shares, the proxies will vote them "FOR" the election of all of our nominees for directors and "FOR" all other proposals presented in this Proxy Statement in accordance with Board of Directors recommendations.

If your shares are held in the name of a broker or other nominee (*i.e.*, held in "street name"), you will need to obtain a proxy instruction form from the broker holding your shares and return the form as directed by your broker.

We are not aware of any other matters to be brought before the annual meeting. If matters other than those discussed above are properly brought before the annual meeting, the proxies may vote your shares in accordance with their best judgment.

How do I change or revoke my proxy?

at any time before it is voted at the annual meeting in any of delivering a written notice of revocation to the Secretary of the Company; another properly signed proxy card to the Secretary of the Company with a more first proxy card; or (3) by attending the annual meeting and voting in deliver your written notice or superseding proxy to the Secretary of the principal executive offices listed above.

You can change or revoke your proxy three ways: (1) by (2) by delivering recent date than your person. You should Company at our

How many votes can I cast?

share held as of the Record Date on each nominee for matter presented for a vote at the annual meeting. You may not vote your the election of directors.

You are entitled to one vote for each election and each other shares cumulatively in

How many votes are required to approve

at the annual meeting, each director nominee will be elected by a plurality

the proposals?

person or by proxy. If you withhold your vote on a nominee, your shares will

having voted for that nominee.

If a quorum is present

of the votes cast in

not be counted as

Option and Long
a majority of the

The proposal to approve Amendment No. 1 to the Company's Omnibus Stock
Term Incentive Plan will be approved by the affirmative vote of the holders of
shares present, or represented by proxy, at the Annual Meeting.

registered public
votes cast in

The proposal to ratify the appointment of the Company's independent
accounting firm for 2007 will be approved if the votes cast in favor exceed the
opposition.

require the affirmative
proxy at the annual

Any other matters properly coming before the annual meeting for a vote will
vote of the holders of a majority of the shares represented in person or by
meeting and entitled to vote on that matter.

proposal, therefore,
ratification of our

Abstentions and broker non-votes are not treated as votes cast on any
neither will have an effect on the vote for the election of any director or the
independent registered public accounting firm.

because the broker
instructions from the

A broker non-vote occurs when a broker does not vote on a particular matter
does not have discretionary authority on that matter and has not received
owner of the shares.

or to approve
further

In the event there are insufficient votes present at the annual meeting for a quorum
or ratify any proposal, the annual meeting may be adjourned in order to permit the
solicitation of proxies.

**What constitutes a "quorum" for
outstanding shares of our common stock entitled to vote at the annual meeting,
the annual meeting?**

represented by proxy, constitutes a quorum (a quorum is necessary to
annual meeting). Your shares will be considered part of the quorum if you

Abstentions, broker non-votes and votes withheld from any director

shares present at the annual meeting for purposes of determining a quorum.

A majority of the
present in person or
conduct business at the
have voted by proxy.
nominee count as

Who pays for the solicitation of proxies?
preparing, printing and mailing materials in connection with this

We will pay the cost of

In addition to solicitation by mail, our officers, directors and regular those of the Bank, may make solicitations personally, by telephone or otherwise without additional compensation for doing so. We reserve the right to engage a proxy solicitation firm to assist in the solicitation of proxies for the annual meeting. We will, upon request, reimburse brokerage firms, banks and others for their reasonable out-of-pocket expenses in forwarding proxy materials to beneficial owners of stock or otherwise in connection with this solicitation of proxies.

When are proposals for the 2008

for inclusion in the proxy materials solicited by the Board of Directors for annual meeting due?

To be considered either the 2008 annual

meeting, proposals must be received by the Secretary of the Company at our principal executive offices at 518 West C Street, Newton, North Carolina 28658 (or at P.O. Box 467, Newton, North Carolina 28658-0467) no later than December 6, 2007. To be included in the proxy materials, a proposal must comply with our Bylaws, Rule 14a-8 and all other applicable provisions of Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any proposal not intended to be included in the proxy statement for the 2008 annual meeting, but intended to be presented at that annual meeting, must be received by us at our principal executive offices listed above no later than February 19, 2008.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The Securities and Exchange Act of 1934 (the "Exchange Act"), requires that any person who acquires the beneficial ownership of more than five percent of the Company's common stock notify the Securities and Exchange Commission (the ASEC@) and the Company. Following is certain information, as of the March 9, 2007, regarding those persons or groups who held of record, or who are known to the Company to own beneficially, more than five percent of the outstanding common stock.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership¹	Percent of Class²
Christine S. Abernethy P.O. Box 820 Newton, NC 28658	427,605 ³	11.15%
Banc Funds Company, LLC 208 South LaSalle Street Suite 1680 Chicago, IL 60604	235,504	6.14%
Tontine Partners, LP 55 Railroad Avenue, 3 rd Floor Greenwich, CT 06830-6378	346,272	9.03%

¹ Unless otherwise noted, all shares are owned directly of record by the named individuals, by their spouses and minor children, or by other entities controlled by the named individuals. Voting and investment power is not shared unless otherwise indicated.

² Based upon a total of 3,834,175 shares of common stock outstanding as of the Record Date.

³ Carolina Glove Company, Inc. owns 71,736 shares of common stock. These shares are included in the calculation of Ms. Abernethy's total beneficial ownership interest. Ms. Abernethy owns approximately 50% of the stock of

Carolina Glove Company, Inc. The business is operated by a family committee. Ms. Abernethy has no active day-to-day participation in the business affairs of Carolina Glove Company, Inc.

Set forth below is certain information, as of the Record Date, regarding those shares of common stock owned beneficially by each of the persons who currently serves as a member of the Board of Directors, is a nominee for election to the Board at the annual meeting, or is a named executive officer of the Company. Also shown is the number of shares of common stock owned by the directors and executive officers of the Company as a group.

<u>Name and Address</u>	<u>Amount and Nature of Beneficial Ownership¹</u>	<u>Percentage of Class²</u>
James S. Abernethy Post Office Box 327 Newton, NC 28658	116,522 ³	2.97%
Robert C. Abernethy Post Office Box 366 Newton, NC 28658	137,759 ⁴	3.51%
Joseph F. Beaman, Jr. Post Office Box 467 Newton, NC 28658	24,007 ⁵	*
William D. Cable Post Office Box 467 Newton, NC 28658	19,429 ⁶	*
Douglas S. Howard P. O. Box 587 Denver, NC 28037	6,136 ⁷	*
A. Joseph Lampron Post Office Box 467 Newton, NC 28658	12,922 ⁸	*
John W. Lineberger, Jr. 6154 Vesuvius Furnace Road Iron Station, NC 28080	1,669	*
Gary E. Matthews 210 First Avenue South Conover, NC 28613	12,178	*
Billy L. Price, Jr., M.D. 540 11th Ave. Place NW Hickory, NC 28601	772	*
Larry E. Robinson Post Office Box 723	29,868 ⁹	*

Newton, NC 28658

Lance A. Sellers	18,268 ¹⁰	*
------------------	----------------------	---

Post Office Box 467

Newton, NC 28658

William Gregory Terry	4,632 ¹¹	*
-----------------------	---------------------	---

706 South College Ave

Newton, NC 28658

5

<u>Name and Address</u>	<u>Amount and Nature of Beneficial Ownership¹</u>	<u>Percentage of Class²</u>
Dan Ray Timmerman, Sr. Post Office Box 1148 Conover, NC 28613	37,776 ¹²	*
Tony W. Wolfe Post Office Box 467 Newton, NC 28658	36,047 ¹³	*
Benjamin I. Zachary Post Office Box 277 Taylorsville, NC 28681	50,064 ¹⁴	1.28%
All current directors and nominees and executive officers as a group (15 people)	465,356 15,16	11.86%

*Does not exceed one percent of the common stock outstanding.

¹Unless otherwise noted, all shares are owned directly of record by the named individuals, by their spouses and minor children, or by other entities controlled by the named individuals. Voting and investment power is not shared unless otherwise indicated.

²Based upon a total of 3,834,175 shares of common stock outstanding as of the Record Date and 90,828 stock options exercisable within 60 days with respect to the designated recipient(s).

³Includes 42,692 shares of common stock owned by Alexander Railroad Company. Mr. J. Abernethy is Vice President, Secretary and Chairman of the Board of Directors of Alexander Railroad Company.

⁴Includes 3,312 shares of common stock owned by Mr. R. Abernethy's spouse, for which Mr. R. Abernethy disclaims beneficial ownership.

⁵Includes 20,441 shares of common stock in which Mr. Beaman has the right to acquire beneficial interest within 60 days by the exercise of stock options granted under the Omnibus Stock Ownership and Long Term Incentive Plan.

⁶Includes 14,489 shares of common stock in which Mr. Cable has the right to acquire beneficial interest within 60 days by the exercise of stock options granted under the Omnibus Stock Ownership and Long Term Incentive Plan.

⁷Includes 1,100 shares of common stock owned by Mr. Howard's mother over which Mr. Howard holds a power of attorney. Includes 550 shares of common stock owned by Howard Ventures, Inc. Mr. Howard is Vice President of Howard Ventures, Inc.

Edgar Filing: PEOPLES BANCORP OF NORTH CAROLINA INC - Form DEF 14A

Includes 12,267 shares of common stock in which Mr. Lampron has the right to acquire beneficial interest within 60 days by the exercise of stock options granted under the Omnibus Stock Ownership and Long Term Incentive Plan.

⁹Includes 4,557 shares of common stock owned by Mr. Robinson's spouse, for which Mr. Robinson disclaims beneficial ownership.

¹⁰Includes 17,556 shares of common stock in which Mr. Sellers has the right to acquire beneficial interest within 60 days by the exercise of stock options granted under the Omnibus Stock Ownership and Long Term Incentive Plan.

¹¹Includes 1,100 shares of common stock owned by Drum Funeral Home, LLC. Mr. Terry is Executive Vice-President of Drum Funeral Home, LLC.

¹²Includes 1,815 shares of common stock owned by Timmerman Manufacturing, Inc. Mr. Timmerman is President and a Director of Timmerman Manufacturing, Inc.

¹³Includes 26,075 shares of common stock in which Mr. Wolfe has the right to acquire beneficial interest within 60 days by the exercise of stock options granted under the Omnibus Stock Ownership and Long Term Incentive Plan.

¹⁴Includes 42,692 shares of common stock owned by Alexander Railroad Company. Mr. Zachary is President, Treasurer, General Manager and a Director of Alexander Railroad Company.

¹⁵The 42,692 shares owned by Alexander Railroad Company and attributed to Mr. J. Abernethy and Mr. Zachary are only included once in calculating this total.

¹⁶Includes 90,828 shares of common stock in which the executive officers, as a group, have the right to acquire beneficial interest within 60 days by the exercise of stock options granted under the Omnibus Stock Ownership and Long Term Incentive Plan.

Directors James S. Abernethy and Robert C. Abernethy are brothers and are sons of Christine S. Abernethy, who owns in excess of 10% of the common stock.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's executive officers and directors, and persons who own more than ten percent of the common stock, to file reports of ownership and changes in ownership with the SEC. Executive officers, directors and greater than ten percent beneficial owners are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on a review of the copies of such forms furnished to the Company and written representations from the Company's executive officers and directors, the Company believes that during the fiscal year ended December 31, 2006, its executive officers and directors and greater than ten percent beneficial owners complied with all applicable Section 16(a) filing requirements.

PROPOSAL 1

ELECTION OF DIRECTORS

Our Board of Directors has set its number at ten members. Our Bylaws provide that in order to be eligible for consideration at Annual Meeting of Shareholders, all nominations of directors, other than those made by the Nominating Committee or the Board of Directors, must be in writing and must be delivered to the Secretary of the Company not less than 50 days nor more than 90 days prior to the meeting at which such nominations will be made; provided, however, that if less than 60 days' notice of the meeting is given to the shareholders, such nominations must be delivered to the Secretary of the Company not later than the close of business on the tenth day following the day on which the notice of meeting was mailed.

The following table provides information about the four nominees for election to the Board of Directors, as well as the six continuing directors. **THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" ALL OF THE NOMINEES NAMED BELOW FOR ELECTION AS DIRECTORS.**

<u>Name</u>	<u>Age on December 31, 2006</u>	<u>Principal Occupation During Last Five Years</u>	<u>Director Since</u>	<u>Term Expires</u>
-------------	---	--	---------------------------	-------------------------

John W. Lineberger, Jr.	56	President, Lincoln Bonded Warehouse Company (commercial warehousing facility)	2004	2007
Gary E. Matthews	51	President and Director, Matthews Construction Company, Inc.	2001	2007

7

<u>Name</u>	<u>Age on December 31, 2006</u>	<u>Principal Occupation During Last Five Years</u>	<u>Director Since</u>	<u>Term Expires</u>
Dan Ray Timmerman, Sr.	59	President/CEO, Timmerman Manufacturing, Inc. (wrought iron furniture, railings and gates manufacturer)	1995	2007
Benjamin I. Zachary	50	President, Treasurer, General Manager and Director of Alexander Railroad Company	1995	2007

The following table gives information about our directors continuing in office.

<u>Name</u>	<u>Age on December 31, 2006</u>	<u>Principal Occupation During Last Five Years</u>	<u>Director Since</u>	<u>Term Expires</u>
Douglas S. Howard	47	Vice President, Howard Ventures, Inc. ; Secretary/Treasurer, Denver Equipment of Charlotte, Inc.	2004	2008
Billy L. Price, Jr., M D	50	Practicing Internist and Partner in Catawba Valley Internal Medicine, P.A. ; Clinical Instructor, Wake Forest University School of Medicine	2004	2008
Robert C. Abernethy	56	President, Secretary and Treasurer, Carolina Glove Company, Inc. (glove manufacturer); Secretary and Assistant Treasurer, Midstate Contractors, Inc. (paving company)	1976	2009

James S. Abernethy	52	Vice President, Carolina Glove Company, Inc. (glove manufacturer); President and Assistant Secretary, Midstate Contractors, Inc. (paving company); Vice President, Secretary and Chairman of the Board of Directors, Alexander Railroad Company	1992	2009
Larry E. Robinson	61	President and Chief Executive Officer, The Blue Ridge Distributing Company, Inc. (beer and wine distributor); Partner and Vice President, United Beverages of North Carolina, LLC (beer distributor)	1993	2009
William Gregory Terry	39	Executive Vice President, Drum & Willis-Reynolds Funeral Homes and Crematory	2004	2009

We have no reason to believe that any of the nominees for election will be unable or will decline to serve if elected. In the event of death or disqualification of any nominee or the refusal or inability of any nominee to serve as a director, however, the proxies will vote for the election of another person as they determine in their discretion or may allow the vacancy to remain open until filled by the Board. In no circumstance will any proxy be voted for more than two nominees who are not named in this proxy statement. Properly executed and returned proxies, unless

revoked, will be voted as directed by you or, in the absence of direction, will be voted in favor of the election of the recommended nominees. An affirmative vote of a plurality of votes cast at the annual meeting is necessary to elect a nominee as a director.

OUR BOARD OF DIRECTORS AND ITS COMMITTEES

How often did our Board of Directors meet during 2006?

Our Board held 17 meetings during 2006. All incumbent directors attended more than 75% of the total number of meetings of the Board and its committees on which they served during the year.

What committees does our Board have?

During 2006, our Board had three standing committees, the Audit Committee, the Governance Committee, which served the role of the compensation committee, and the Executive Committee. The voting members of these Committees are appointed by the Board annually from among its members. Certain of our executive officers also serve as non-voting, advisory members of these committees. In January 2007, the Board established a fourth standing committee, the Compensation Committee.

Governance Committee. The Governance Committee is comprised entirely of independent Directors, as defined in Rule 4200(a)(15) of the NASDAQ's listing standards. During fiscal year 2006 the following persons served on the Committee: Directors R. Abernethy, J. Abernethy, Lineberger, Robinson, Terry, Timmerman and Zachary. The Governance Committee is responsible for developing and maintaining the corporate governance policy, as well as acting as the nominating committee for the Board. The Governance Committee also served as the compensation committee for the Company in 2006 and prior years.

The Governance Committee, serving as the nominating committee of the Board of Directors, interviews candidates for membership to the Board of Directors, recommends candidates to the full Board, slates candidates for Director and shareholder votes, and fills any vacancies on the Board of Directors which occur between shareholder meetings. The Governance Committee's identification of candidates for Director typically results from the business interactions of the members of the Governance Committee or from recommendations received by the committee from other Directors or from Company management. The Governance Committee currently has no written policy with regard to the consideration of director candidates recommended by security holders. If a security holder recommends a director candidate to the Governance Committee, however, the Governance Committee will consider the candidate and apply the same considerations that it would to its own candidates. The recommendation of a candidate by a security holder should be made in writing, addressed to the attention of the Governance Committee at the Company's corporate headquarters. The recommendation should include a description of the candidate's background, his or her contact information, and any other information the security holder considers useful and appropriate for the Governance Committee's consideration of the candidate. The criteria which have been established by the Governance Committee as bearing on the consideration of a candidate's qualification to serve as a Director include the following: the candidate's ethics, integrity, involvement in the community, success in business, relationship with the Bank, investment in the Company, place of residence (i.e., proximity to the Bank's market area), and financial expertise.

The Governance Committee met five times during fiscal year 2006.

A copy of the Company's Governance Committee Charter, which contains the Company's and the Bank's compensation policies and nomination policies, is reviewed annually and amended as needed, by the Committee and is available on the Company's website (www.peoplesbanknc.com).

**REPORT OF THE GOVERNANCE COMMITTEE
ACTING AS A COMPENSATION COMMITTEE**

The Company did not have a Compensation Committee in 2006. Review of the Bank's salary programs and recommendations to the Company's and the Bank's board of directors regarding compensation of the executive officers were duties of the Company's and the Bank's Governance Committee in fiscal year 2006. The Company's Board of Directors ultimately determines such compensation.

The Board of Directors has reviewed and discussed the Compensation and Analysis presented by the Governance Committee with management of the Company. Based on these reviews and discussions, the Board of Directors recommends including the Compensation and Disclosure Analysis in the Company's Proxy Statement and Annual Report on Form 10-K.

Robert C. Abernethy	John W. Lineberger, Jr.
Larry E. Robinson	James S. Abernethy
William G. Terry	Dan Ray Timmerman, Sr.
Benjamin I. Zachary	

Compensation Committee Interlocks and Insider Participation

No member of the Governance Committee (acting as the compensation committee) is now, or formerly was, an officer or employee of the Company or the Bank. None of the named executive officers serves as a member or the board of directors of another entity whose executive officers or directors serves on the Company's Board of Directors.

Executive Committee. The Executive Committee performs duties as assigned by the full Board of Directors. Actions taken by the Executive Committee must be approved by the full Board. The Executive Committee consists of Directors R. Abernethy, J. Abernethy, Lineberger, Matthews and Howard, as well as Mr. Wolfe, the President and Chief Executive Officer of the Company. It meets on an "as needed" basis.

Audit Committee. The Company has a separately designated standing audit committee which was established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Committee has a written charter which is reviewed annually, and amended as needed, by the Committee. A copy of the Audit Committee Charter is available on the Bank's website (www.peoplesbanknc.com) under Investor Relations. The Audit Committee consists of Directors R. Abernethy, Howard, Matthews, Price, Robinson, Timmerman and Zachary. The Board of Directors has determined that these members are independent as that term is defined in Rule 4200(a)(15) of the NASDAQ's listing standards.

The Board of Directors of the Company has determined that each member of the Audit Committee named above qualifies as an "audit committee financial expert" based on each of the member's educational background and business experience.

The Audit Committee meets at least quarterly and, among other responsibilities, oversees (i) the independent auditing of the Company; (ii) the system of internal controls that management has established; and (iii) the quarterly and annual financial information to be provided to shareholders and the Securities and Exchange Commission. The Audit Committee met nine times during the fiscal year ended December 31, 2006.

REPORT OF AUDIT COMMITTEE

The Audit Committee has reviewed and discussed the audited financial statements with management of the Company and has discussed with the independent auditors the matters required to be discussed by SAS 61 as amended (AICPA, Professional Standards, Vol. 1 AV section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. In addition, the Committee has received the written disclosures and the letter from

the independent accountants required by Independence Standards Board Standard No. 1 as adopted by the Public Company Accounting Oversight Board in Rule 3600T, and has discussed with the independent accountant the independent accountant's independence. Based upon these reviews and discussions, the Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Robert C. Abernethy	Douglas S. Howard
------------------------	----------------------

Larry E. Robinson	Dan Ray Timmerman, Sr.
----------------------	---------------------------

Gary E. Matthews	Dr. Billy L. Price, Jr.
---------------------	----------------------------

Benjamin
I. Zachary

How can you communicate with the Board or its members?

We do not have formal procedures for shareholder communication with our Board. In general, our directors and officers are easily accessible by telephone, postal mail or e-mail. Any matter intended for your Board, or any individual director, can be directed to Tony Wolfe, our President and Chief Executive Officer or Joe Lampron, our Chief Financial Officer, at our principal executive offices