

FIRST NATIONAL COMMUNITY BANCORP INC
Form 10-Q
August 07, 2009
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 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 No.

333-24121

FIRST NATIONAL COMMUNITY BANCORP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania

(State or Other Jurisdiction)

23-2900790

(I.R.S. Employer

of Incorporation or Organization)

Identification No.)

102 E. Drinker St., Dunmore, PA

(Address of Principal Executive Offices)

18512

(Zip Code)

Registrant's telephone number, including area code (570) 346-7667

(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 ☒

NO ☐

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES ☐ NO ☐

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

Large Accelerated Filer ☐ Accelerated Filer ☒
Non-Accelerated Filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b-2 of the Exchange Act).

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

Common Stock, \$1.25 par value

16,182,563 shares

(Title of Class)

(Outstanding at August 4, 2009)

FIRST NATIONAL COMMUNITY BANCORP, INC.

INDEX

PART I	Page
FINANCIAL INFORMATION	<u>No.</u>
Item 1. Consolidated Financial Statements. Consolidated Statements of Financial Condition	
June 30, 2009 (unaudited) and December 31, 2008 Consolidated Statements of Income	1
Three Months Ended June 30, 2009 and June 30, 2008 (unaudited)	
Six Months Ended June 30, 2009 and June 30, 2008 (unaudited) Consolidated Statements of Cash Flows	2
Six Months Ended June 30, 2009 and June 30, 2008 (unaudited) Consolidated Statements of Changes in Stockholders' Equity	3
Six Months Ended June 30, 2009 (unaudited)	5
Notes to Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.	9
Item 3. Quantitative and Qualitative Disclosures about Market Risk.	22
Item 4. Controls and Procedures.	22
PART II	
OTHER INFORMATION	22
Item 1. Legal Proceedings.	
Item 1A. Risk Factors.	
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.	
Item 3. Defaults Upon Senior Securities.	
Item 4. Submission of Matters to a Vote of Security Holders.	
Item 5. Other Information.	
Item 6. Exhibits.	

Signatures

24

(ii)

FIRST NATIONAL COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in thousands)

	June 30, 2009 (UNAUDITED)	December 31, 2008 (AUDITED)
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	\$ 23,234	\$ 18,171
Federal funds sold	36,600	0
Total cash and cash equivalents	59,834	18,171
Securities:		
Available-for-sale, at fair value	223,671	245,900
Held-to-maturity, at cost (fair value \$1,837 on June 30, 2009 and \$1,774 on December 31, 2008)		
	1,853	1,808
Federal Reserve Bank and FHLB stock, at cost	11,515	11,087
Net loans	950,206	956,674
Bank premises and equipment	17,459	17,785
Intangible Assets	9,901	9,781
Other assets	53,777	52,553
Total Assets	\$1,328,216	\$1,313,759

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Deposits:

Demand – non-interest bearing	\$ 78,670	\$ 79,760
Interest bearing demand	296,894	302,058
Savings	81,217	79,526
Time (\$100,000 and over)	267,550	191,052
Other time	270,603	300,496
Total deposits	994,934	952,892
Borrowed funds	220,811	245,197
Other liabilities	12,307	15,328
Total Liabilities	\$1,228,052	\$1,213,417

Shareholders' equity:

Common Stock, \$1.25 par value,

Authorized: 50,000,000 shares

Issued and outstanding:

16,179,563 shares at June 30, 2009 and

16,047,928 shares at December 31, 2008

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	\$ 20,224	\$ 20,060
Additional Paid-in Capital	60,692	59,591
Retained Earnings	39,827	40,892
Accumulated Other Comprehensive Income (Loss)	(20,579)	(20,201)
Total shareholders' equity	\$ 100,164	\$ 100,342
Total Liabilities and Shareholders' Equity	\$1,328,216	\$1,313,759

Note: The balance sheet at December 31, 2008 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

See notes to financial statements

(1)

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FIRST NATIONAL COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Dollars in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Interest Income:				
Loans	\$ 13,039	\$ 14,538	\$ 26,397	\$ 30,029
Investments	3,290	3,544	6,782	7,453
Federal Funds Sold	13	5	13	5
Total interest income	16,342	18,087	33,192	37,487
Interest Expense:				
Deposits	4,322	6,038	8,467	12,899
Borrowed Funds	1,841	2,267	3,879	4,967
Total interest expense	6,163	8,305	12,346	17,866
Net Interest Income before Loan Loss Provision	10,179	9,782	20,846	19,621
Provision for credit losses	7,250	550	9,710	850
Net interest income	2,929	9,232	11,136	18,771
Other Income:				
Service charges	722	791	1,410	1,520
Other Income	584	654	1,247	1,281
Gain / (Loss) on sale of:				
Loans	462	94	1,007	300
Securities	(84)	68	443	713
Other Real Estate	0	0	0	0
Total other income	1,684	1,607	4,107	3,814
Other expenses:				
Salaries & benefits	2,984	3,134	6,316	6,223
Occupancy & equipment	1,011	993	2,081	2,004
Advertising expense	240	240	480	480
Data processing expense	430	417	866	835
FDIC assessment	1,192	95	1,432	361
Bank shares tax	215	170	432	327
Other	1,271	1,317	2,413	2,267
Total other expenses	7,343	6,366	14,020	12,497
Income before income taxes	(2,730)	4,473	1,223	10,088
Income tax expense	(514)	964	201	2,388
NET INCOME (LOSS)	\$ (2,216)	\$ 3,509	\$ 1,022	\$ 7,700
Basic earnings (loss) per share	\$ (0.14)	\$ 0.22	\$ 0.06	\$ 0.49
Diluted earnings (loss) per share	\$ (0.14)	\$ 0.22	\$ 0.06	\$ 0.48
Weighted average number of basic shares	16,158,640	15,827,339	16,111,808	15,793,330
Weighted average number of diluted shares	16,158,640	16,167,453	16,508,354	16,140,183

See notes to financial statements

(2)

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FIRST NATIONAL COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2009 AND 2008

(UNAUDITED)

	June 30, 2009 (Dollars in thousands)	June 30, 2008
INCREASE (DECREASE) IN CASH EQUIVALENTS:		
Cash Flows From Operating Activities:		
Interest Received	\$ 32,195	\$ 37,139
Fees & Commissions Received	2,719	2,833
Interest Paid	(13,414)	(19,620)
Income Taxes Paid	(1,861)	(2,152)
Cash Paid to Suppliers & Employees	(16,000)	(11,792)
Net Cash Provided by Operating Activities	\$ 3,639	\$ 6,407
Cash Flows from Investing Activities:		
Securities available for sale:		
Proceeds from Sales prior to maturity	\$ 12,378	\$ 51,580
Proceeds from Calls prior to maturity	22,531	26,235
Purchases	(11,371)	(52,468)
Net Increase in Loans to Customers	(1,754)	(42,224)
Capital Expenditures	(434)	(2,202)
Net Cash Provided/(Used) by Investing Activities	\$ 21,350	\$(19,079)
Cash Flows from Financing Activities:		
Net Decrease in Demand Deposits, Money Market Demand, NOW Accounts, and Savings Accounts		
	\$(4,562)	\$(5,545)
Net Increase/(Decrease) in Certificates of Deposit	46,603	(20,259)
Net Increase/(Decrease) in Borrowed Funds	(24,386)	43,382
Net Proceeds from Issuance of Common Stock Through Dividend Reinvestment		
	1,106	1,382
Net Proceeds from Issuance of Common Stock – Stock Option Plans		
	0	153
Dividends Paid	(2,087)	(3,473)
Net Cash Provided/(Used) by Financing Activities	\$ 16,674	\$ 15,640
Net Increase/(Decrease) in Cash and Cash Equivalents	\$ 41,663	\$ 2,968
Cash & Cash Equivalents at Beginning of Year	\$ 18,171	\$ 24,735
CASH & CASH EQUIVALENTS AT END OF PERIOD	\$ 59,834	\$ 27,703

(Continued)

(3)

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FIRST NATIONAL COMMUNITY BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOW (CONTINUED)
SIX MONTHS ENDED JUNE 30, 2009 AND 2008

(UNAUDITED)

	2009	2008
	(Dollars in thousands)	
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Income	\$ 1,022	\$7,700
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Amortization (Accretion), Net	(1,921)	(1,757)
Equity in trust	(3)	(5)
Depreciation and Amortization	907	889
Provision for Probable Credit Losses	9,710	850
Provision for Deferred Taxes	(112)	(105)
Gain on Sale of Loans	(1,007)	(300)
Gain on Sale of Investment Securities	(443)	(713)
Increase/(Decrease) in Taxes Payable	(1,692)	(404)
Decrease in Interest Receivable	924	1,408
Decrease in Interest Payable	(1,068)	(1,755)
Increase in Prepaid Expenses and Other Assets	(2,576)	(607)
Increase/(Decrease) in Accrued Expenses and Other Liabilities	(102)	1,206
Total Adjustments	\$ 2,617	\$(1,293)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 3,639	\$6,407

See notes to financial statements

(4)

FIRST NATIONAL COMMUNITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN
STOCKHOLDERS' EQUITY

For The Six Months Ended June 30, 2009

(RESTATED)

(In thousands, except share data)

(UNAUDITED)

	COMP-REHEN-SIVE				ACCUM-		
	INCOME		ADD'L		ULATED OTHER		
		COMMON STOCK	PAID-IN	RETAINED	INCOME/	TOTAL	
		SHARES	AMOUNT	CAPITAL	EARNINGS	(LOSS)	
BALANCES, DECEMBER 31, 2008		16,047,928	\$20,060	\$59,591	\$40,892	\$(20,201)	\$100,342
Comprehensive Income:							
Net income for the period	1,022				1,022		1,022
Other comprehensive income, net of tax:							
Unrealized loss on securities available-for-sale, net of deferred income tax benefit of \$358	(666)						
Reclassification adjustment for gain or loss included in income, net of deferred income taxes of \$155							
Total other comprehensive income/(loss), net of tax	288						
Comprehensive Income/(Loss)	(378)					(378)	(378)
Stock Options Awarded	644			159			159
Issuance of Common Stock through Dividend Reinvestment		131,635	164	942			1,106
Cash dividends paid, \$0.13 per share					(2,087)		(2,087)

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BALANCES, JUNE 30, 2009	16,179,563	\$20,224	\$60,692	\$39,827	\$(20,579)	\$100,164
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See notes to financial statements

(5)

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FIRST NATIONAL COMMUNITY BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) The accounting and financial reporting policies of First National Community Bancorp, Inc. and its subsidiary conform to U.S. generally accepted accounting principles and to general practice within the banking industry. The consolidated statements of First National Community Bancorp, Inc. and its subsidiary, First National Community Bank (Bank) including its subsidiary, FNCB Realty, Inc. (collectively, Company) were compiled in accordance with the accounting policies set forth in note 1 of Notes to Consolidated Financial Statements in the Company's 2008 Annual Report to Shareholders. All material intercompany accounts and transactions have been eliminated in consolidation. The accompanying interim financial statements are unaudited. In management's opinion, the consolidated financial statements reflect a fair presentation of the consolidated financial position of the Company and subsidiary, and the results of its operations and its cash flows for the interim periods presented, in conformity with U.S. generally accepted accounting principles. Also in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the Company's financial position, results of operations and cash flows at June 30, 2009 and for all periods presented have been made.

These interim financial statements should be read in conjunction with the audited financial statements and footnote disclosures in the Company's Annual Report to Shareholders for the fiscal year ended December 31, 2008.

(2) Basic earnings per share have been computed by dividing net income (the numerator) by the weighted average number of common shares (the denominator) for the period. Such shares amounted to 16,111,808 and 15,793,330 for the periods ending June 30, 2009 and 2008, respectively.

Diluted earnings per share have been computed by dividing net income (the numerator) by the weighted average number of common shares and options outstanding (the denominator) for the period. Such shares amounted to 16,508,354 and 16,140,183 for the periods ending June 30, 2009 and 2008, respectively.

(3) During the first quarter of calendar 2003, the Company adopted the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, for stock-based employee compensation, effective as of January 1, 2003. Under the prospective method of adoption selected by the Company, stock-based compensation cost will be recognized using the fair value method for all awards granted, modified or settled on or after that effective date.

A summary of the status of the Corporation's stock option plans is presented below:

	Six months ended June 30,			
	2009		2008	
		Weighted		Weighted
		Average		Average
		Exercise		Exercise
	Shares	Price	Shares	Price
Outstanding at the beginning of the period	325,134	\$12.36	360,694	\$11.93
Granted	74,600	10.81	0	
Exercised	0		(25,750)	5.93
Forfeited	(3,061)	18.80	(2,061)	19.72
Outstanding at the end of the period	396,673	12.02	332,883	12.34
Options exercisable at June 30,	322,073	12.30	332,883	12.34

Weighted average fair value of options granted
during the period

2.13

(6)

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Information pertaining to options outstanding at June 30, 2009 is as follows:

		Options Outstanding		Options Exercisable	
		Weighted		Weighted	
		Average	Weighted		Weighted
		Remaining	Average		Average
		Contractual	Exercise		Exercise
Range of Exercise Price	Number	Life	Price	Number	Price
	Outstanding			Exercisable	
\$5.19-\$23.13	396,673	5.8 years	\$12.02	322,073	\$12.30

(4) Investment Securities: During the second quarter of 2009, First National Community Bancorp, Inc. adopted FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairment" which requires that credit related other-than-temporary impairment on debt securities be recognized in earnings while noncredit related other-than-temporary impairment on debt securities not expected to be sold be recognized in other comprehensive income ("OCI"). As a result, in the second quarter of 2009 we recorded a \$382,000 other-than-temporary charge. This charge includes \$242,000 in credit related other-than-temporary impairment on a trust preferred collateralized debt obligation and \$140,000 recorded on a private label mortgage-backed security. All of the securities for which other-than-temporary impairment was recorded were classified as available for sale securities. Additionally, \$3.3 million in noncredit related other-than-temporary impairment was recorded in OCI on the two securities which were classified as impaired.

We review our investment portfolio on a quarterly basis for indications of impairment. This review includes analyzing the length of time and the extent to which the fair value has been lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer and the intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in the market. We evaluate our intent and ability to hold debt securities based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy and interest rate risk position. In addition, the risk of future other-than-temporary impairment may be influenced by additional bank failures, prolonged recession in the U.S. economy, changes in real estate values, interest deferrals, and whether the federal government provides assistance to financial institutions. Our pooled trust preferred collateralized debt obligations are beneficial interests in securitized financial assets within the scope of EITF 99-20, and are therefore evaluated for other-than-temporary impairment using management's best estimate of future cash flows. If these estimated cash flows determine that it is probable an adverse change in cash flows has occurred, then other-than-temporary impairment would be recognized in accordance with FSP FAS 115-2 and FAS 124-2. There is a risk that this quarterly review could result in First Nation Community Bancorp, Inc. recording other-than-temporary impairment charges in the future.

At June 30, 2009, 42% of the total unrealized losses were comprised of fixed income securities issued by U.S. Government agencies, U.S. Government-sponsored enterprises and investment grade municipalities. Corporate fixed income comprised 2% of the total unrealized losses, while pooled trust preferred collateralized debt obligations accounted for 56%.

As of June 30, 2009, the amortized cost of our pooled trust preferred collateralized debt obligations totaled \$34.4 million with an estimated fair value of \$16.5 million. One of our pooled securities is a senior tranche and the remainder are mezzanine tranches. During 2009, all of the pooled issues were downgraded by Moody's Investor Services. At the time of initial issue, no more than 5% of any pooled security consisted of a security issued by any one institution.

Lack of liquidity in the market for trust preferred collateralized debt obligations, credit rating downgrades and market uncertainties related to the financial industry are factors contributing to the temporary impairment on these securities.

On a quarterly basis we evaluate our debt securities for other-than-temporary impairment. In the second quarter of 2009, \$242,000 in other-than-temporary impairment charges were recognized on our pooled trust preferred collateralized debt obligations. When evaluating these investments we determine a credit related portion and a noncredit related portion of other-than-temporary impairment. The credit related portion is recognized in earnings and represents the expected shortfall in future cash flows. The noncredit related portion is recognized in other comprehensive income and represents the difference between the fair value of the security and the amount of credit related impairment. A discounted cash flow analysis provides the best estimate of credit related other-than-temporary impairment for these securities.

(7)

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Our pooled trust preferred collateralized debt obligations are measured for other-than-temporary impairment within the scope of EITF 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to be Held by a Transferor in Securitized Financial Assets," and FSP EITF 99-20-1, "Amendments to the Impairment Guidance of EITF Issue No. 99-20," by determining whether it is probable that an adverse change in estimated cash flows has occurred. Determining whether there has been an adverse change in estimated cash flows from the cash flows previously projected involves comparing the present value of remaining cash flows previously projected against the present value of the cash flows estimated at June 30, 2009. We consider the discounted cash flow analysis to be our primary evidence when determining whether credit related other-than-temporary impairment exists.

(5) FHLB Stock: As a member of the Federal Home Loan Bank of Pittsburgh ("FHLB"), First National Community Bank is required to purchase and hold stock in the FHLB to satisfy membership and borrowing requirements. This stock is restricted in that it can only be sold to the FHLB or to another member institution, and all sales of FHLB stock must be at par. As a result of these restrictions, FHLB stock is unlike other investment securities insofar as there is no trading market for FHLB stock and the transfer price is determined by FHLB membership rules and not by market participants. As of June 30, 2009 and December 31, 2008, our FHLB stock totaled \$10.9 and \$10.4 million, respectively.

In December 2008, the FHLB voluntarily suspended dividend payments on its stock, as well as the repurchase of excess stock from members. The FHLB cited a significant reduction in the level of core earnings resulting from lower short-term interest rates, the increased cost of liquidity, and constrained access to the debt markets at attractive rates and maturities as the main reasons for the decision to suspend dividends and the repurchase of excess capital stock. The FHLB last paid a dividend in the third quarter of 2008.

FHLB stock is held as a long-term investment and its value is determined based on the ultimate recoverability of the par value. First National Community Bancorp, Inc. evaluates impairment quarterly. The decision of whether impairment exists is a matter of judgment that reflects our view of the FHLB's long-term performance, which includes factors such as the following:

- its operating performance
- the severity and duration of declines in the fair value of its net assets related to its capital stock amount;
- its commitment to make payments required by law or regulation and the level of such payments in relation to its operating performance;
- the impact of legislative and regulatory changes on the FHLB, and accordingly, on the members of FHLB; and
- its liquidity and funding position.

After evaluating all of these considerations, First National Community Bancorp, Inc. concluded that the par value of its investment in FHLB stock will be recovered. Accordingly, no impairment charge was recorded on these securities for the three months ended June 30, 2009. Our evaluation of the factors described above in future periods could result in the recognition of impairment charges on FHLB stock.

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ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

This quarterly report may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Actual results and trends could differ materially from those set forth in such statements due to various factors. Such factors include the possibility that anticipated cost savings may not be realized, estimated synergies may not occur, increased demand or prices for the company's financial services and products may not occur, changing economic and competitive conditions, technological developments and other risks and uncertainties. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, the following:

- ineffectiveness of their business strategy due to changes in current or future market conditions;
- the effects of competition, and of changes in laws and regulations on competition, including industry consolidation and development of competing financial products and services;
- interest rate movements;
- difficulties in integrating distinct business operations, including information technology difficulties; disruptions making it more difficult to maintain relationships with customers and employees, and challenges in establishing and maintaining operations in new markets;
- volatilities or significant deterioration in the securities markets; and
- deteriorating economic conditions;
- our analyses of these risks and forces could be incorrect and/or that the strategies developed to address them could be unsuccessful.

When we use words such as “believes”, “expects”, “anticipates”, or similar expressions, we are making forward-looking statements. The company undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date of this report.

The consolidated financial information of First National Community Bancorp, Inc. (the “company”) provides a comparison of the performance of the company for the periods ended June 30, 2009 and 2008. The financial information presented should be read in conjunction with the consolidated financial statements and accompanying notes appearing elsewhere in this report.

Background

The company is a Pennsylvania Corporation, incorporated in 1997 and is registered as a financial holding company under the Bank Holding Company Act of 1956, as amended. The company became an active bank holding company on July 1, 1998 when it assumed ownership of First National Community Bank (the “bank”). On November 2, 2000, the Federal Reserve Bank of Philadelphia approved the company's application to change its status to a financial holding company as a complement to the company's strategic objective which includes expansion into financial services activities. The bank is a wholly-owned subsidiary of the company.

The company's primary activity consists of owning and operating the bank, which provides the customary retail and commercial banking services to individuals and businesses. The bank provides practically all of the company's earnings as a result of its banking services. As of June 30, 2009, the company had 20 full-service branch banking offices in its principal market area in Lackawanna, Luzerne, Wayne and Monroe Counties, Pennsylvania. At June 30, 2009, the company had 285 full-time equivalent employees.

The bank was established as a national banking association in 1910 as "The First National Bank of Dunmore." Based upon shareholder approval received at a Special Shareholders' Meeting held October 27, 1987, the bank changed its name to "First National Community Bank" effective March 1, 1988. The bank's operations are conducted from offices located in Lackawanna, Luzerne, Wayne and Monroe Counties, Pennsylvania:

(9)

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<u>Office</u>	<u>Date Opened</u>
Main	October 1910
Scranton	September 1980
Dickson City	December 1984
Keyser Village	April 2008 (formerly Fashion Mall; July 1988)
Wilkes-Barre	July 1993
Pittston Plaza	April 1995
Kingston	August 1996
Exeter	November 1998
Daleville	April 2000
Plains	June 2000
Back Mountain	October 2000
Clarks Green	October 2001
Hanover Township	January 2002
Nanticoke	April 2002
Hazleton	October 2003
Route 315	February 2004
Honesdale	November 2006
Stroudsburg	May 2007
Honesdale Route 6	October 2007
Marshalls Creek	May 2008

The bank provides the usual commercial banking services to individuals and businesses, including a wide variety of loan, deposit instruments and investment options. As a result of the bank's partnership with FNCB Investment Services, our customers are able to access alternative products such as mutual funds, bonds, equities and annuities directly from our FNCB Investment Services representatives.

During 1996, FNCB Realty Inc. was formed as a wholly owned subsidiary of the Bank to manage, operate and liquidate properties acquired through foreclosure.

Summary:

Net income for the six months ended June 30, 2009 amounted to \$1,022,000, a decrease of \$6,678,000 or 87% compared to the same period of the previous year. The decrease is primarily due to an \$8.9 million increase in the provision for credit losses caused by deteriorating economic conditions which was partially offset by a \$1,225,000 improvement in net interest income before the provision for credit losses which reflects the benefits derived from balance sheet growth and the repricing of interest-sensitive assets and liabilities. Other income increased \$293,000 due to gains on the sale of loans offset by a decrease in gains on security sales of \$270,000. Other expenses increased \$1,523,000 over the same period of last year due primarily to an increase in Salaries & Benefits of \$93,000, an increase in FDIC insurance of \$1,071,000 and an increase in other operating expenses of \$146,000.

Net loss for the three months ended June 30, 2009 amounted to \$2,216,000, a decrease of \$5,725,000 compared to the same period of the previous year, as over \$7 million was utilized to fund the reserve for credit losses. Net interest income before the provision for credit losses increased \$397,000, or 4% over the same period of the previous year. Other income for the quarter increased \$77,000, or 5%, while other expenses increased \$977,000, or 15% due to an increase in FDIC insurance premiums of \$1,097,000..

(10)

RESULTS OF OPERATIONSNet Interest Income:

The company's primary source of revenue is net interest income which totaled \$20,846,000 and \$19,621,000 (before the provision for credit losses) during the first six months of 2009 and 2008, respectively. The year to date net interest margin (tax equivalent) increased seventeen basis points to 3.65% in 2009 compared to 2008 comprised of an eighty-one basis point decrease in the yield earned on earning assets which was offset by a one hundred thirteen basis point decrease in the cost of interest-bearing liabilities. Excluding investment leveraging transactions, the 2009 margin would be 3.77% which is twelve basis points higher than the 3.65% recorded during the first six months of last year.

Earning assets increased \$2 million to \$1.240 billion during the first six months of 2009 and total 93.4% of total assets, a slight decrease from the 94.2% at year-end.

Yield/Cost Analysis

The following tables set forth certain information relating to the company's Statement of Financial Condition and reflect the weighted average yield on assets and weighted average costs of liabilities for the periods indicated. Such yields and costs are derived by dividing the annualized income or expense by the weighted average balance of assets or liabilities, respectively, for the periods shown:

	Six months ended June 30, 2009		
	Average		Yield/
	Balance	Interest	Cost
	(Dollars in thousands)		
Assets:			
Interest-earning assets:			
Loans (taxable)	\$900,371	\$25,220	5.59%
Loans (tax-free) (1)	51,616	1,177	6.98
Investment securities (taxable)	169,440	4,309	5.08
Investment securities (tax-free)(1)	109,608	2,473	6.94
Time deposits with banks and federal funds sold			
	11,603	13	0.22
Total interest-earning assets	1,242,638	33,192	5.65%
Non-interest earning assets	84,089		
Total Assets	\$1,326,727		
Liabilities and Shareholders' Equity:			
Interest-bearing liabilities:			
Deposits	\$886,983	\$ 8,467	1.92%
Borrowed funds	248,029	3,879	3.11
Total interest-bearing liabilities	1,135,012	12,346	2.18%
Other liabilities and shareholders' equity			
	191,715		
Total Liabilities and Shareholders' Equity			

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\$1,326,727

Net interest income/rate spread	\$20,846	3.46%
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Net yield on average interest-earning assets

3.65%

Interest-earning assets as a percentage of
interest-bearing liabilities

109%

(1) Yields on tax-exempt loans and investment securities have been computed on a tax equivalent basis.

(11)

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	Six months ended June 30, 2008		
	Average		Yield/
	Balance	Interest	Cost
	(Dollars in thousands)		
Assets:			
Interest-earning assets:			
Loans (taxable)	\$870,022	\$28,925	6.60%
Loans (tax-free) (1)	46,811	1,104	7.07
Investment securities (taxable)	200,025	5,731	5.72
Investment securities (tax-free)(1)	81,287	1,722	6.52
Time deposits with banks and federal funds sold			
	472	5	2.13
Total interest-earning assets	1,198,617	37,487	6.46%
Non-interest earning assets	87,479		
Total Assets	\$1,286,096		
Liabilities and Shareholders' Equity:			
Interest-bearing liabilities:			
Deposits	\$846,569	\$12,899	3.06%
Borrowed funds	235,343	4,967	4.18
Total interest-bearing liabilities	1,081,912	17,866	3.31%
Other liabilities and shareholders' equity			
	204,184		
Total Liabilities and Shareholders' Equity			
	\$1,286,096		
Net interest income/rate spread		\$19,621	3.15%
Net yield on average interest-earning assets			
			3.48%
Interest-earning assets as a percentage of interest-bearing liabilities			
			111%

(1) Yields on tax-exempt loans and investment securities have been computed on a tax equivalent basis.

(12)

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Rate Volume Analysis

The table below sets forth certain information regarding the changes in the components of net interest income for the periods indicated. For each category of interest earning asset and interest bearing liability, information is provided on changes attributed to: (1) changes in rate (change in rate multiplied by current volume); (2) changes in volume (change in volume multiplied by old rate); (3) the total. The net change attributable to the combined impact of volume and rate has been allocated proportionately to the change due to volume and the change due to rate (in thousands).

	Period Ended June 30,		
	2009 vs 2008		
	Increase (Decrease)		
	Due to Rate	Volume	Total
Loans (taxable)	\$(5,335)	\$ 1,629	\$(3,706)
Loans (tax-free)	(30)	104	74
Investment securities (taxable)	(469)	(953)	(1,422)
Investment securities (tax-free)	107	644	751
Time deposits with banks and federal funds sold	(111)	119	8
Total interest income	\$(5,838)	\$ 1,543	\$(4,295)
Deposits	\$(4,988)	\$ 556	\$(4,432)
Borrowed funds	(1,356)	268	(1,088)
Total interest expense	\$(6,344)	\$ 824	\$(5,520)
Net change in net interest income	\$ 506	\$ 719	\$ 1,225

	Period Ended June 30,		
	2008 vs 2007		
	Increase (Decrease)		
	Due to Rate	Volume	Total
Loans (taxable)	\$(4,300)	\$1,401	\$(2,899)
Loans (tax-free)	(40)	318	278
Investment securities (taxable)	379	282	661
Investment securities (tax-free)	(157)	51	(106)
Time deposits with banks and federal funds sold	(7)	(7)	(14)
Total interest income	\$(4,125)	\$2,045	\$(2,080)
Deposits	\$(3,353)	\$(159)	\$(3,512)
Borrowed funds	(954)	1,877	923
Total interest expense	\$(4,307)	\$1,718	\$(2,589)
Net change in net interest income	\$ 182	\$ 327	\$ 509

(13)

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Other Income and Expenses:

Other income in the first half of 2009 increased \$293,000 in comparison to the same period of 2008. Service charges and fees decreased \$144,000 compared to the prior period. Income from service charges on deposits decreased \$110,000, or 7%, in comparison to the same period of last year. Other fee income decreased \$34,000, or 3%. Net gains from asset sales increased \$437,000 comprised of a \$707,000 increase in gains on residential mortgage loans to reduce the risk to rising rates and a \$270,000 decrease in security gains as securities were sold to restructure the portfolio and to generate liquidity to meet loan demand.

Other expenses increased \$1,523,000 or 12% for the period ended June 30, 2009 compared to the same six month period of the previous year. Salaries and Benefits costs added \$93,000 in comparison to the first six months of 2008 due to additional staff and merit increases. Occupancy and equipment costs increased \$77,000, or 4%, data processing expenses increased \$31,000, or 4%, FDIC insurance expense increased \$1,071,000, or 297%, due to increased premiums, bank shares tax expense increased \$105,000, or 32%, and other operating expenses increased \$146,000, or 6%.

On a quarterly basis, other income for the second quarter of 2009 increased \$77,000 in comparison to the same quarter of 2008. Service charges and fees decreased \$139,000, or 10% when compared to the prior period. Net gains from asset sales increased \$216,000 when compared to the second quarter of 2008.

Other expenses for the second quarter of 2009 increased \$977,000, or 15% in comparison to the same period of 2008 primarily due to an increase in FDIC insurance premiums of \$1,097,000.

Other Comprehensive Income:

The Company's other comprehensive income includes unrealized holding gains (losses) on securities which it has classified as available-for-sale in accordance with FASB 115, "Accounting for Certain Investments in Debt and Equity Securities."

Provision for Income Taxes:

The provision for income taxes is calculated based on annualized taxable income. The provision for income taxes differs from the amount of income tax determined applying the applicable U.S. statutory federal income tax rate to pre-tax income from continuing operations as a result of the following differences:

	2009	2008
Provision at statutory rate	\$416	\$3,430
Add (Deduct):		
Tax effect of non-taxable interest income	(1,241)	(961)
Tax effect of other tax free income	(152)	(180)
Non-deductible interest expense	118	131
Tax benefit from stock options exercised	0	(42)
Deferred tax benefits	(14)	(13)
Other timing differences	1,049	0
Other items, net	25	23
Income tax expense	\$ 201	\$2,388

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Federal Deposit Insurance Corporation ("FDIC") Activity:

The Federal Deposit Insurance Reform Act of 2005 ("the Act") amended regulations to create a new risk differentiation system, to establish a new base assessment rate schedule, and to set assessment rates effective January 1, 2007. Also, eligible insured depository institutions shared in a one-time assessment credit, which was approximately \$445,000 for the bank. The bank used \$385,000 of this credit for the year ended December 31, 2007, and the remaining \$60,000 for the year ended December 31, 2008.

On February 27, 2009, The Board of Directors of the FDIC voted to amend the restoration plan for the Deposit Insurance Fund ("DIF"). Under the current restoration plan, the FDIC Board set a rate schedule to raise the DIF reserve ratio to 1.15 percent within seven years. The amended restoration plan was accompanied by a final rule that sets assessment rates and makes adjustments that improve how the assessment system differentiates for risk.

(14)

Currently, most banks are in the best risk category and pay anywhere from 12 cents per \$100 of deposits to 14 cents per \$100 for insurance. Under the final rule, banks in this category will pay initial base rates ranging from 12 cents per \$100 to 16 cents per \$100 on an annual basis, beginning on April 1, 2009. Changes to the assessment system include higher rates for institutions that rely significantly on secured liabilities, which may increase the FDIC's loss in the event of failure without providing additional assessment revenue. Under the final rule, assessments will be higher for institutions that rely significantly on brokered deposits but, for well-managed and well-capitalized institutions, only when accompanied by rapid asset growth. Brokered deposits combined with rapid asset growth have played a role in a number of costly failures, including recent failures. The final rule also would provide incentives in the form of a reduction in assessment rates for institutions to hold long-term unsecured debt and, for smaller institutions, high levels of Tier 1 capital.

The FDIC Board also adopted the final rule imposing a 5 basis point emergency special assessment on the industry on June 30, 2009. The assessment is to be collected on September 30, 2009. For the bank, based upon our deposit levels at June 30, 2009, the additional amount of 2009 FDIC insurance expense related to this special assessment was \$603,000. This adjustment was recognized during the second quarter of 2009. In addition, if after June 30, 2009 but before January 1, 2010, the reserve ratio of the DIF is estimated to fall to a level that adversely affects public confidence to a level close to zero, the FDIC may impose an additional special assessment of 5 basis points.

Securities:

Carrying amounts and approximate fair value of investment securities are summarized as follows (in thousands):

	June 30, 2009		December 31, 2008	
	Carrying	Fair	Carrying	Fair
	Amount	Value	Amount	Value
U.S. Treasury securities and obligations of U.S. government agencies	\$13,263	\$13,263	\$ 32,233	\$ 32,233
Obligations of state & political subdivisions				
	108,372	108,356	101,451	101,417
Collateralized mortgage obligations	55,416	55,416	61,063	61,063
Mortgage-backed securities	26,575	26,575	30,061	30,061
Corporate debt securities	20,902	20,902	21,926	21,926
Equity securities and mutual funds	996	996	974	974
Total	\$225,524	\$225,508	\$247,708	\$247,674

(15)

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The following summarizes the amortized cost, approximate fair value, gross unrealized holding gains, and gross unrealized holding losses at June 30, 2009 of the company's Investment Securities classified as available-for-sale (in thousands):

	June 30, 2009			
		Gross	Gross	
		Unrealized	Unrealized	
	Amortized	Holding	Holding	Fair
	Cost	Gains	Losses	Value
U.S. Treasury securities and obligations of U.S. government agencies:				
	\$ 15,665	\$ 115	\$ 2,517	\$ 13,263
Obligations of state and political subdivisions:				
	111,586	1,282	6,349	106,519
Collateralized mortgage obligations:				
	62,299	1,250	8,133	55,416
Mortgage-backed securities:	25,335	1,240	0	26,575
Corporate debt securities:	39,436	0	18,534	20,902
Equity securities and mutual funds:				
	1,010	0	14	996
Total	\$255,331	\$3,887	\$35,547	\$223,671

The following summarizes the amortized cost, approximate fair value, gross unrealized holding gains, and gross unrealized holding losses at June 30, 2009 of the company's Investment Securities classified as held-to-maturity (dollars in thousands):

	June 30, 2009			
		Gross	Gross	
		Unrealized	Unrealized	
	Amortized	Holding	Holding	Fair
	Cost	Gains	Losses	Value
Obligations of state and political subdivisions:				
	\$ 1,853	\$ 0	\$ 16	\$ 1,837
Total	\$ 1,853	\$ 0	\$ 16	\$ 1,837

The following table shows the amortized cost and approximate fair value of the company's debt securities at June 30, 2009 using contractual maturities. Expected maturities will differ from contractual maturity because issuers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands).

	Available- for sale		Held-to-maturity	
	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value
Amounts maturing in:				
One year or less	\$ 1,005	\$ 1,009	\$ 0	\$ 0
After one year through five years	2,887	2,549	0	0
After five years through ten years	9,805	9,688	0	0
After ten years	152,990	127,438	1,853	1,837
Collateralized mortgage obligations	62,299	55,416	0	0
Mortgage-backed securities	25,335	26,575	0	0
Total	\$254,321	\$222,675	\$1,853	\$1,837

(16)

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Gross proceeds from the sale of investment securities for the periods ended June 30, 2009 and 2008 were \$12,378,431 and \$51,579,535 respectively with the gross realized gains being \$824,744 and \$766,353 respectively, and gross realized losses being \$382,140 and \$53,562 respectively.

At June 30, 2009 and 2008, investment securities with a carrying amount of \$164,780,179 and \$183,869,720 respectively, were pledged as collateral to secure public deposits and for other purposes.

Loans:

The following table sets forth detailed information concerning the composition of the company's loan portfolio as of the dates specified (in thousands):

	June 30, 2009		December 31, 2008	
	Amount	%	Amount	%
Real estate loans, secured by residential properties	\$193,545	20.1	\$169,358	17.5
Real estate loans, secured by nonfarm, nonresidential properties				
	376,411	39.2	420,983	43.6
Commercial & industrial loans	220,457	23.0	221,026	22.9
Loans to individuals for household, family and other personal expenditures				
	134,411	14.0	119,501	12.4
Loans to state and political subdivisions	35,108	3.7	34,027	3.5
All other loans, including overdrafts	234	0.0	413	0.1
Total Gross Loans	\$960,166	100.0	\$965,308	100.0
Less: Allow. for Credit Losses	(9,622)		(8,254)	
Less: Unearned Discount	(338)		(380)	
Net Loans	\$950,206		\$956,674	

The following table sets forth certain information with respect to the company's allowance for credit losses and charge-offs (in thousands)

	Six months Ended	Year to date Ended
	June 30, 2009	December 31, 2008
Balance, January 1	\$9,150	\$7,569
Recoveries Credited	87	208
Losses Charged	(8,429)	(1,327)
Provision for Credit Losses	9,710	2,700
Balance at End of Period	\$10,518	\$9,150

Allocated as:

Allowance for off-balance sheet commitments	\$ 896	\$ 896
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Allowance for credit losses	9,622	8,254
Balance at End of Period	\$10,518	\$9,150

(17)

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The following table presents information about the company's non-performing assets for the periods indicated (in thousands):

	June 30, 2009	December 31, 2008
Nonaccrual loans:		
Impaired	\$25,462	\$22,087
Other	1,234	176
Loans past due 90 days or more and still accruing	1,394	1,151
Total non-performing loans	28,090	23,414
Other Real Estate Owned	2,390	2,308
Total non-performing assets	\$30,480	\$25,722
Non-performing loans as a percentage of gross loans	3.2%	2.4%
Non-performing assets as a percentage of total assets	2.3%	2.0%

Non-performing assets are comprised of non-accrual loans and loans past due 90 days or more and still accruing, and other real estate owned. Loans are placed in nonaccrual status when management believes that the collection of interest or principal is doubtful, or generally when a default of interest or principal has existed for 90 days or more, unless such loan is fully secured and in the process of collection. When interest accrual is discontinued, interest credited to income in the current year is reversed and interest accrued in prior years is charged against the allowance for credit losses. Any payments received are applied, first to the outstanding loan amounts, then to the recovery of any charged-off loan amounts. Any excess is treated as a recovery of lost interest. Nonaccrual loans at June 30, 2009 were comprised of seventeen credits totaling \$26.7 million. Declining real estate values are placing significant pressure on the collateral requirements, and management projects that losses on these credits could approximate \$5 million if conditions do not improve.

Provision for Credit Losses:

The provision for credit losses varies from year to year based on management's evaluation of the adequacy of the allowance for credit losses in relation to the risks inherent in the loan portfolio. In its evaluation, management considers credit quality, changes in loan volume, composition of the loan portfolio, past experience, delinquency trends, and the economic condition. Consideration is also given to examinations performed by regulatory authorities and the company's independent accountants. A monthly provision of \$120,000 was credited to the allowance during the first three months of 2009 plus a special insertion of \$2.1 million as a result of deficient collateral valuation on one credit which was received in April, 2009.

The Registrant recorded a provision for loan losses of \$7.25 million for the second quarter of 2009, compared to a provision of \$550,000 in the second quarter of 2008. The expected increase in the provision for loan losses is a result of a variety of factors including current economic conditions, as well as an increase in non-performing assets and net charge-offs primarily in the commercial real estate portfolio.

The ratio of the loan loss reserve to total loans at June 30, 2009 and 2008 was 1.00% and 0.72%, respectively.

Asset/Liability Management, Interest Rate Sensitivity and Inflation

The major objectives of the company's asset and liability management are to (1) manage exposure to changes in the interest rate environment to achieve a neutral interest sensitivity position within reasonable ranges, (2) ensure adequate liquidity and funding, (3) maintain a strong capital base, and (4) maximize net interest income opportunities. The bank manages these objectives through its Senior Management and Asset and Liability Management Committees. Members of the committees meet regularly to develop balance sheet strategies affecting the future level of net interest income, liquidity and capital. Items that are considered in asset and liability management include balance sheet forecasts, the economic environment, the anticipated direction of interest rates and the bank's earnings sensitivity to changes in these rates.

(18)

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The company analyzes its interest sensitivity position to manage the risk associated with interest rate movements through the use of gap analysis and simulation modeling. Because of the limitations of the gap reports, the bank uses simulation modeling to project future net interest income streams incorporating the current "gap" position, the forecasted balance sheet mix, and the anticipated spread relationships between market rates and bank products under a variety of interest rate scenarios.

Economic conditions affect financial institutions, as they do other businesses, in a number of ways. Rising inflation affects all businesses through increased operating costs but affects banks primarily through the manner in which they manage their interest sensitive assets and liabilities in a rising rate environment. Economic recession can also have a material effect on financial institutions as the assets and liabilities affected by a decrease in interest rates must be managed in a way that will maximize the largest component of a bank's income, that being net interest income. Recessionary periods may also tend to decrease borrowing needs and increase the uncertainty inherent in the borrowers' ability to pay previously advanced loans. Additionally, reinvestment of investment portfolio maturities can pose a problem as attractive rates are not as available. Management closely monitors the interest rate risk of the balance sheet and the credit risk inherent in the loan portfolio in order to minimize the effects of fluctuations caused by changes in general economic conditions.

Liquidity

The term liquidity refers to the ability of the company to generate sufficient amounts of cash to meet its cash-flow needs. Liquidity is required to fulfill the borrowing needs of the bank's credit customers and the withdrawal and maturity requirements of its deposit customers, as well as to meet other financial commitments.

The short-term liquidity position of the company is strong as evidenced by \$59,834,000 in cash and cash equivalents. A secondary source of liquidity is provided by the investment portfolio with \$22 million or 8% of the portfolio maturing or expected to provide cash flow within one year through maturities, projected calls or principal reductions.

The company's focus is on retail deposits as a source of funds, although short-term needs can be funded with municipal deposits. The bank has the ability to sell Federal funds to invest excess cash; however, the bank can also borrow in the Federal Funds market to meet temporary liquidity needs. Other sources of potential liquidity include Federal Home Loan Bank advances, the Federal Reserve Discount Window, CDARS deposits and the Brokered CD market.

Capital Management

A strong capital base is essential to the continued growth and profitability of the company and in that regard the maintenance of appropriate levels of capital is a management priority. The company's principal capital planning goals are to provide an adequate return to shareholders while retaining a sufficient base from which to provide for future growth, while at the same time complying with all regulatory standards. As more fully described in Note 15 to the year end audited financial statements, regulatory authorities have prescribed specified minimum capital ratios as guidelines for determining capital adequacy to help insure the safety and soundness of financial institutions.

Total stockholders' equity decreased \$178,000 during the first six months of 2009 comprised of a decrease in retained earnings in the amount of \$1,065,000 after paying cash dividends, \$1,106,000 from stock issued through Dividend Reinvestment, Stock Options awarded of \$159,000 and a \$378,000 decrease in other comprehensive income. Management believes that the \$32 million unrealized loss recorded as of June 30, 2009 represents "distressed" pricing levels and is a temporary event. During the second quarter of 2009, the company recognized a \$382,000 impairment charge on investment securities due to an Other-Than-Temporary-Impairment (OTTI). In accordance with FASB 157, only the credit component of the impairment is recognized through earnings while the remaining decrease in the estimated fair value of the security is recognized in other comprehensive income. During the same period of 2008, total stockholders' equity decreased \$1,391,000, or 1%, comprised of an increase in retained earnings of \$4,171,000, after paying cash dividends, \$1,535,000 from stock issued through Dividend Reinvestment and Stock Option Plans and a \$7,097,000 decrease in other comprehensive income. The total dividend payout during the first six months of 2009 and 2008 represents \$.13 per share and \$.22 per share, respectively. Excluding the impact due to securities valuation, increases in core equity amounted to \$200,000 and \$5,706,000, respectively.

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The Board of Governors of the Federal Reserve System and other various regulatory agencies have specified guidelines for purposes of evaluating a bank's capital adequacy. Currently, banks must maintain a leverage ratio of core capital to total assets at a prescribed level, namely 3%. In addition, bank regulators have issued risk-based capital guidelines. Under such guidelines, minimum ratios of core capital and total qualifying capital as a percentage of risk-weighted assets and certain off-balance sheet items of 4% and 8% are required. As of June 30, 2009, the bank met all capital requirements.

	First National		First National	
	Community Bank		Community Bancorp, Inc.	
	Amount	Ratio	Amount	Ratio
Actual:				
Total Capital (to Risk Weighted Assets)	\$132,369	10.89%	\$132,522	10.90%
Tier I Capital (to Risk Weighted Assets)	\$121,852	10.03%	\$122,005	10.04%
Tier I Capital (to Average Assets)	\$121,852	9.10%	\$122,005	9.11%
For Capital Adequacy Purposes:				
Total Capital (to Risk Weighted Assets)	≥\$97,230	≥8.00%	≥\$97,257	≥8.00%
Tier I Capital (to Risk Weighted Assets)	≥\$48,615	≥4.00%	≥\$48,628	≥4.00%
Tier I Capital (to Average Assets)	≥\$53,553	≥4.00%	≥\$53,599	≥4.00%
To Be Well Capitalized Under Prompt Corrective				
Action Provisions:				
Total Capital (to Risk Weighted Assets)	≥\$121,537	≥10.00%	≥\$121,571	≥10.00%
Tier I Capital (to Risk Weighted Assets)	≥\$72,922	≥6.00%	≥\$72,943	≥6.00%
Tier I Capital (to Average Assets)	≥\$66,941	≥5.00%	≥\$66,998	≥5.00%

Disclosures about Fair Value of Financial Instruments:

Current accounting pronouncements require quarterly disclosure of estimated fair value of on-and off-balance sheet financial instruments beginning with the period ending after June 15, 2009.

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:

Cash and short-term investments include cash on hand, amounts due from banks, and federal funds sold. For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities:

For securities held for investment purposes, the fair values have been individually determined based on currently quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans:

The fair value of loans has been estimated by discounting the future cash flows using the current rates which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits:

The fair value of demand deposits, savings deposits, 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.

(20)

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Borrowed funds:

Rates currently available to the bank for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

Commitments to extend credit and standby letters of credit:

The fair value of commitments 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 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.

The estimated fair values of the company's financial instruments (in thousands) are as follows:

	June 30, 2009	
	Carrying	Fair
	<u>Value</u>	<u>Value</u>
FINANCIAL ASSETS		
Cash and short term investments	\$ 23,234	\$ 23,234
Securities	237,039	237,023
Gross Loans	959,828	968,312
FINANCIAL LIABILITIES		
Deposits	\$994,934	\$997,447
Borrowed funds	220,811	223,359
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS		
Commitments to extend credit and standby letters of credit \$0		\$427
	December 31, 2008	
	Carrying	Fair
	<u>Value</u>	<u>Value</u>
FINANCIAL ASSETS		
Cash and short term investments	\$ 18,171	\$ 18,171
Securities	258,795	258,761
Gross Loans	964,928	1,002,111
FINANCIAL LIABILITIES		
Deposits	\$952,892	\$957,367
Borrowed funds	245,197	247,924
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS		
Commitments to extend credit and standby letters of credit \$0		\$568

(21)

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ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no material change in the company's exposure to market risk during the first six months of 2009. For discussion of the company's exposure to market risk, refer to Item 7A, Quantitative and Qualitative Disclosure about Market Risk, contained in the company's Annual Report incorporated by reference in Form 10-K for the year ended December 31, 2008.

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 along with the company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as such term is defined under Rule 13a – 15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon that evaluation, the company's Chief Executive Officer along with the company's Chief Financial Officer concluded that the company's disclosure controls and procedures are effective in timely alerting them to material information relating to the company (including its consolidated subsidiaries) required to be included in the company's periodic SEC filings.

There were no changes in our internal control over financial reporting that occurred during the period covered by this quarterly report that have materially affected, or are, reasonably likely to materially affect, the company's internal controls over financial reporting.

PART II Other Information

Item 1 - Legal Proceedings.

The bank is not involved in any material pending legal proceedings, other than routine litigation incidental to the business. In addition, no material proceedings are pending or are known to be threatened or contemplated against the corporation or its subsidiaries by government authorities.

Item 1A. – Risk Factors.

In addition to the Risk Factors previously disclosed in the Company's Form 10-K for the year ending December 31, 2008:

The Corporation may need or be compelled to raise additional capital in the future, but that capital may not be available when it is needed and on terms favorable to current shareholders.

Federal banking regulators require the Corporation and Bank to maintain adequate levels of capital to support their operations. These capital levels are determined and dictated by law, regulation and banking regulatory agencies. In addition, capital levels are also determined by the Corporation's management and board of directors based on capital levels that they believe are necessary to support the Corporation's business operations. The Corporation is evaluating its present and future capital requirements and needs and is also analyzing capital raising alternatives and options. Even if the Corporation succeeds in meeting the current regulatory capital requirements, the Corporation may need to raise additional capital in the near future to support possible loan losses during future periods or to meet future regulatory capital requirements.

Further, the Corporation's regulators may require it to increase its capital levels. If the Corporation raises capital through the issuance of additional shares of its common stock or other securities, it would likely dilute the ownership interests of current investors and would likely

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dilute the per share book value and earnings per share of its common stock. Furthermore, it may have an adverse impact on the Corporation's stock price. New investors may also have rights, preferences, and privileges senior to the Corporation's current shareholders, which may adversely impact its current shareholders. The Corporation's ability to raise additional capital will depend on conditions in the capital markets at that time, which are outside its control, and on its financial performance. Accordingly, the

Corporation cannot assure you of its ability to raise additional capital on terms and time frames acceptable to it or to raise additional capital at all. If the Corporation cannot raise additional capital in sufficient amounts when needed, its

(22)

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ability to comply with regulatory capital requirements could be materially impaired. Additionally, the inability to raise capital in sufficient amounts may adversely affect the Corporation's operations, financial condition, and results of operations.

If we conclude that the decline in value of any of our investment securities is other than temporary, we are required to write down the value of that security through a charge to earnings.

We review our investment securities portfolio at each quarter-end reporting period to determine whether the fair value is below the current carrying value. When the fair value of any of our investment securities has declined below its carrying value, we are required to assess whether the decline is other than temporary. If we conclude that the decline is other than temporary, we are required to write down the value of that security through a charge to earnings. As of June 30, 2009, our investment portfolio included seven pooled trust preferred securities with an amortized cost of \$34,377,000 million and an estimated fair value of \$16,533,000 million. Changes in the expected cash flows of these securities and/or prolonged price declines have resulted and may result in our concluding in future periods that there is additional impairment of these securities that is other than temporary, which would require a charge to earnings to write down these securities to their fair value. Due to the complexity of the calculations and assumptions used in determining whether an asset, such as pooled trust preferred securities, is impaired, the impairment disclosed may not accurately reflect the actual impairment in the future.

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

None

Item 3 - Defaults upon Senior Securities.

None

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

The 2009 Annual Meeting of Shareholders of First National Community Bancorp, Inc. was held on May 20, 2009 at the company's Exeter Office, 1625 Wyoming Avenue, Exeter, Pennsylvania.

The following matters were voted upon at the Annual Meeting of Shareholders:

1. The election of three Class B Directors to serve for a three year term.

The following Class B Directors were elected to serve until 2012:

	Votes For	Votes Against
Michael G. Cestone	13,305,417	744,978
J. David Lombardi	13,552,673	497,722
Louis A. DeNaples, Jr.	13,626,200	424,194

2. A proposal to ratify the Audit Committee's selection of Demetrius & Company, L.L.C., Certified Public Accountants of Wayne, New Jersey as the auditors of the company for the year ending December 31, 2009.

	Votes For	Votes Against
Auditors	13,985,882	52,671

Item 5 - Other Information.

None

Item 6 – Exhibits.

Exhibit 31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
Exhibit 31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
Exhibit 32.1	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act
Exhibit 32.2	Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act

(23)

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: FIRST NATIONAL COMMUNITY BANCORP, INC

Date: August 7, 2009

By: /s/ J. David Lombardi
J. David Lombardi, President/

Chief Executive Officer

Date: August 7, 2009

By: /s/ William Lance
William Lance, Treasurer

Principal Financial Officer and

Principal Accounting Officer

(24)