

FIRST NATIONAL COMMUNITY BANCORP INC
Form 10-Q/A
December 02, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

Amendment No. 1

(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, 2010

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. 000-53869

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

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 12b-2 of the Exchange Act). Yes No

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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
(Title of Class)

16,441,319 shares
(Outstanding at November 29, 2011)

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FIRST NATIONAL COMMUNITY BANCORP, INC.

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EXPLANATORY NOTE

This Amendment No. 1 (Amendment) on Form 10-Q/A to the Quarterly Report on Form 10-Q of First National Community Bancorp, Inc. (the Company) for the quarterly period ended June 30, 2010, filed with the Securities and Exchange Commission (SEC) on August 9, 2010 (the Original Report) is being filed to revise and restate the Company s consolidated financial statements for the three and six month period ended June 30, 2010 that were filed with the Original Report to correct certain information and to address the impact of such changes on other disclosures included in the Original Report. The Company has previously advised that the financial statements for June 30, 2010 included in the Original Report should no longer be relied upon.

In particular, this Amendment:

- amends and restates in their entirety the consolidated financial statements of the Company, and the notes thereto, included in Item 1 hereof, to appropriately reflect (i) the accounting for and timing of charges related to other than temporary impairment (OTTI) of the collateralized debt obligations in the Company s securities investment portfolio, (ii) the determination of the Company s provision and allowance for loan and lease losses, (iii) the provision for off-balance sheet commitments, (iv) the accounting for deferred loan fees and costs, (v) the related effect on the Company s deferred tax assets and valuation allowance and (vi) other miscellaneous accounting issues;
- amends and revises Management s Discussion and Analysis of Financial Condition and Results of Operations to reflect the restated consolidated financial statements;
- revises the disclosures regarding, and management s assessment of, the Company s disclosure controls and procedures and internal control over financial reporting to reflect current management s determination that material weaknesses in such controls existed at June 30, 2010;
- provides additional disclosure regarding non-performing assets, including those loans extended to insiders or affiliates thereof;
- provides information relating to the Company s and Bank s regulatory orders entered into after the date of the Original Report to provide context for the amendments included in this document; and
- revises and corrects disclosure in response to comments from the SEC.

Other than as noted above, the Company is not required to and has not updated any forward-looking statements previously included in the Original Report. The Company has made no attempt in this Amendment to modify or update the disclosures presented in the Original Report other than as noted above. Other than as noted above or reflected in this Explanatory Note, this Amendment does not reflect events occurring after the filing of the Original Report except to the extent information learned after the Original Report was filed relates to periods prior to June 30, 2010. This Amendment is being filed in conjunction with amendments to the Company s annual report on Form 10-K/A for the annual period ended December 31, 2009 and to its quarterly report on Form 10-Q/A for the quarterly period ended March 31, 2010. The Company plans to file shortly its annual report on Form 10-K for the year ended December 31, 2010 and its quarterly reports on Form 10-Q for the quarterly periods ended September 30, 2010, March 31, 2010, June 30, 2011 and September 30, 2011. This Amendment should be read in conjunction with all such filings and all such filings should be read in their entirety.

As indicated above, the Company has restated its financial statements for the quarter ended June 30, 2010. The Company has also restated its financial statements for the year ended December 31, 2009 and for the quarter ended March 31, 2010. Unless otherwise indicated, the

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discussion in this Amendment gives effect to these restatements of the Company's financial statements.

In the first half of 2011, the Company received document subpoenas from the SEC. The information requested generally relates to disclosure and financial reporting by the Company and the restatement of the Company's financial statements for the year ended December 31, 2009, and the quarters ended March 31, 2010 and June 30, 2010. The Company is cooperating with the SEC in this matter.

Readers should review the risk factors described in other documents that the Company files or furnishes, from time to time, with the SEC, including Annual Reports to Shareholders, Annual Reports filed on Form 10-K, Form 10-Q and other current reports filed or furnished on Form 8-K and any amendments to such reports.

Table of Contents**PART I Financial Information****Item 1 Financial Statements****FIRST NATIONAL COMMUNITY BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (unaudited)**

(in thousands, except for share data)	June 30, 2010 (as restated) (Unaudited)	December 31, 2009 (as restated)
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$ 21,795	\$ 24,189
Federal funds sold	60,925	62,175
Total cash and cash equivalents	82,720	86,364
Securities:		
Available-for-sale, at fair value	253,006	252,946
Held-to-maturity, at cost (fair value \$1,869 and \$1,788)	1,946	1,899
Loans held for sale	119	
Loans, net of allowance for loan and lease losses of \$27,378 and \$22,458	862,327	917,516
Bank premises and equipment	20,619	20,667
Accrued interest receivable	3,907	4,245
Intangible assets	1,731	1,794
Other assets	79,830	80,901
Total Assets	\$ 1,306,205	\$ 1,366,332
Liabilities		
Deposits:		
Demand	\$ 75,745	\$ 85,370
Interest-bearing demand	340,516	352,631
Savings	95,682	86,455
Time (\$100,000 and over)	227,300	238,839
Other time	282,539	308,313
Total deposits	1,021,782	1,071,608
FHLB advances	175,576	183,830
Subordinated debentures	25,000	23,100
Junior subordinated debentures	10,310	10,310
Other debt	206	227
Accrued interest payable	2,704	3,064
Other liabilities	10,385	11,109
Total liabilities	1,245,963	1,303,248
Shareholders Equity		
Common shares (\$1.25 par)		
Authorized: 50,000,000 shares as of June 30, 2010 and December 31, 2009		
Issued and outstanding: 16,315,605 shares at June 30, 2010 and 16,289,970 shares at December 31, 2009	20,395	20,362
Additional paid-in capital	61,271	61,190
Retained earnings	(12,182)	(6,162)
Accumulated other comprehensive loss	(9,242)	(12,306)

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Total shareholders equity		60,242		63,084
Total Liabilities and Shareholders Equity	\$	1,306,205	\$	1,366,332

The accompanying notes to consolidated financial statements are an integral part of these statements.

Table of Contents**FIRST NATIONAL COMMUNITY BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)**

	Three Months ended June 30,		Six Months ended June 30,	
	2010 (as restated)	2009	2010 (as restated)	2009
	(dollars in thousands, except share data)			
Interest income				
Interest and fees on loans	\$ 11,486	\$ 13,039	\$ 23,618	26,397
Interest and dividends on securities:				
U.S. Treasury and government agencies	1,305	1,614	2,797	3,419
State and political subdivisions	1,391	1,253	2,791	2,473
Other securities	176	423	275	890
Total interest and dividends on securities	2,872	3,290	5,863	6,782
Interest on federal funds sold	31	13	67	13
Total interest income	14,389	16,342	29,548	33,192
Interest expense				
Interest-bearing demand	863	814	1,895	1,539
Savings	128	142	257	262
Time (\$100,000 and over)	881	1,211	1,812	2,235
Other time	1,794	2,155	3,734	4,431
Interest on FHLB Advances	1,347	1,762	2,798	3,661
Interest on subordinated debentures	569		1,108	
Interest on junior subordinated debentures	51	75	101	166
Interest on other debt		4		52
Total interest expense	5,633	6,163	11,705	12,346
Net interest income before provision for loan and lease losses	8,756	10,179	17,843	20,846
Provision for loan and lease losses	4,574	7,250	9,682	9,710
Net interest income after provision for loan and lease losses	4,182	2,929	8,161	11,136
Other income (loss)				
Service charges	647	722	1,296	1,410
Net gain (loss) on the sale of securities	(21)	298	1,175	825
Gross other-than-temporary impairment (OTTI) losses	(10,265)	(11,722)	(11,173)	(11,722)
Portion of loss recognized in OCI (before taxes)	7,709	11,340	8,271	11,340
Net impairment losses recognized in earnings	(2,556)	(382)	(2,902)	(382)
Net gain on the sale of loans	155	462	403	1,007
Net loss on the sale of other real estate	48		48	
Net gain on the sale of other assets	28		28	
Other	827	584	1,661	1,247
Total other income	(872)	1,684	1,709	4,107
Other expenses				
Salaries and employee benefits	3,229	2,984	6,337	6,316
Occupancy expense	517	544	1,164	1,159
Equipment expense	454	467	886	922
Advertising expense	214	240	333	480
Data processing expense	495	430	982	866
FDIC assessment	502	1,192	971	1,432
Bank shares tax	255	215	510	432
Expenses of other real estate	1,224	42	1,359	42
Legal expense	133	123	281	170

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Other operating expenses	1,482	1,106	3,067	2,201
Total other expenses	8,505	7,343	15,890	14,020
Income (loss) before income taxes	(5,195)	(2,730)	(6,020)	1,223
Provision (credit) for income taxes		(514)		201
Net income (loss)	(5,195)	(2,216)	(6,020)	1,022
Earnings (Loss) Per Share				
Basic	\$ (0.32)	\$ (0.14)	\$ (0.37)	\$ 0.06
Diluted	\$ (0.32)	\$ (0.14)	\$ (0.37)	\$ 0.06
Cash Dividends Declared per Common Share	\$	\$ 0.02	\$	\$ 0.13
Weighted average number of outstanding shares				
Basic	16,306,670	16,158,640	16,300,515	16,111,808
Diluted	16,306,670	16,158,640	16,300,515	16,155,745

The accompanying notes to consolidated financial statements are an integral part of these statements.

Table of Contents**FIRST NATIONAL COMMUNITY BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

For The Six Months Ended June 30, (in thousands)

2010
(as restated)**2009****INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:****CASH FLOWS FROM OPERATING ACTIVITIES:**

Interest received	\$	28,483	\$	32,195
Fees and commissions received		2,955		2,719
Interest paid		(12,065)		(13,414)
Cash paid to suppliers and employees		(14,027)		(16,000)
Income taxes (paid)/refunded		2,866		(1,861)
NET CASH PROVIDED BY OPERATING ACTIVITIES		8,212		3,639

CASH FLOWS FROM INVESTING ACTIVITIES:

Securities available for sale:				
Proceeds from sales		25,548		12,378
Proceeds from calls, paydowns and maturities		17,502		22,531
Purchases		(39,105)		(11,371)
Net (decrease)/increase in loans to customers		40,916		(1,754)
Capital expenditures		(628)		(434)
NET CASH PROVIDED BY INVESTING ACTIVITIES		44,233		21,350

CASH FLOWS FROM FINANCING ACTIVITIES:

Net decrease in demand deposits, money market demand, NOW accounts and savings accounts		(12,514)		(4,562)
Net decrease in certificates of deposit		(37,313)		46,603
Proceeds from issuance of subordinated debentures		1,900		
Net decrease in borrowed funds		(8,274)		(24,386)
Proceeds from issuance of common shares, net of share issuance costs		112		1,106
Cash dividends paid				(2,087)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		(56,089)		16,674

NET DECREASE IN CASH AND CASH EQUIVALENTS

(3,644) 41,663

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD

86,364 18,171

CASH AND CASH EQUIVALENTS AT END OF PERIOD

\$ 82,720 \$ 59,834

RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Net income (loss)	\$	(6,020)	\$	1,022
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization and accretion, net		(1,402)		(1,921)
Equity in trust		(2)		(3)
Depreciation and amortization		881		907
Provision for loan and lease loss		9,682		9,710
Provision for off balance sheet		30		
Provision/(benefit) for deferred taxes		2,137		(112)
Gain on sale of loan		(402)		(1,007)
Gain on sale of securities		(1,175)		(825)

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Loss on sale of other assets	820	
Impairment losses on investment securities	2,902	382
Increase/(decrease) in taxes payable		(1,692)
Decrease in interest receivable	339	924
Increase/(decrease) in interest payable	(360)	(1,068)
Increase in prepaid expenses and other assets	1,310	(2,576)
Decrease in accrued expenses and other liabilities	(528)	(102)
Total adjustments	14,232	2,617
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 8,212	\$ 3,639

The accompanying notes to consolidated financial statements are an integral part of these statements.

Table of Contents**FIRST NATIONAL COMMUNITY BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)**

	COMPREHENSIVE INCOME (LOSS)	COMMON SHARES SHARES	AMOUNT	ADD L PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)	TOTAL
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 tax benefit of \$358	(666)						
Reclassification adjustment for gain or loss included in income (tax effect of \$155)	288						
Total other comprehensive loss, net of tax	(378)					(378)	(378)
Comprehensive income	\$ 644					(378)	644
Share-based compensation - Stock Option Plans							
				159			159
Issuance of common shares through dividend reinvestment							
		131,635	164	942			1,106
Cash dividends paid, \$0.11 per share							
					(2,087)		(2,087)
Balances, June 30, 2009		16,179,563	\$ 20,224	\$ 60,692	\$ 39,827	\$ (20,579)	\$ 100,164
Balances, December 31, 2009 (as restated)							
		16,289,970	\$ 20,362	\$ 61,190	\$ (6,162)	\$ (12,306)	\$ 63,084
Comprehensive income:							
Net income for the period	\$ (6,020)				(6,020)		(6,020)
Other comprehensive income, net of tax:							
Unrealized gain on securities available for sale net of deferred taxes of \$10,886	20,220						
Noncredit related losses on securities not expected to be sold, net of deferred tax benefit of \$9,649	(17,920)						
Reclassification adjustment for gain or loss included in income (tax effect of \$411)	764						
Total other comprehensive income, net of tax	3,064					3,064	3,064
Comprehensive (Loss)	\$ (2,956)					3,064	(2,956)
Proceeds from issuance of Common Shares through dividend reinvestment							
		25,635	33	81			114
Balances, June 30, 2010 (as restated)		16,315,605	\$ 20,395	\$ 61,271	\$ (12,182)	\$ (9,242)	\$ 60,242

The accompanying notes to consolidated financial statements are an integral part of these statements.

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FIRST NATIONAL COMMUNITY BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Notes to Consolidated Financial Statements

Note 1. Basis of Presentation

The consolidated financial statements of the Company include the accounts of its bank subsidiary, First National Community Bank and its wholly-owned subsidiaries. All inter-company transactions and balances have been eliminated. The accounting and reporting policies of the Company conform to U.S. Generally Accepted Accounting Principles (GAAP) and general practices within the financial services industry. Certain prior period amounts have been reclassified to conform to the current presentation. In accordance with current accounting guidance, the Company has evaluated subsequent events for potential recognition and/or disclosure in the consolidated financial statements and accompanying notes included thereto through the date the financial statements were filed. In the opinion of management, all adjustments necessary to a fair statement of the results for the quarterly period ended June 30, 2010 have been included.

In preparing the consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheets and results of operations for the periods indicated. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to change are the allowance for loan and lease losses (ALLL), security valuations, the evaluation of deferred income taxes, and the evaluation of intangibles (which includes core deposits and loan servicing rights) and investment securities for impairment. The current economic environment has increased the degree of uncertainty inherent in these material estimates.

On July 1, 2009, the Accounting Standards Codification (ASC) became the Financial Accounting Standards Board's (the FASB) official recognized source of authoritative U.S. GAAP applicable to all public and non-public non-governmental entities, superseding all existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related literature. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative guidance for SEC registrants. All other accounting literature is considered non-authoritative. The issuance of the ASC affects the way companies refer to U.S. GAAP in financial statements and other disclosures. See the New Authoritative Accounting Guidance section below for a description of recent accounting pronouncements including the dates of adoption and the effect on the results of operations and financial condition.

Certain reclassifications have been made to the prior year's consolidated financial statements that conform to the current year's presentation. Such reclassifications had no impact on net income.

These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's December 31, 2009 audited financial statements filed on Form 10-K/A and the Company's March 31, 2010 unaudited financial statements filed on Form 10-Q/A. Additionally, the Company plans to file shortly its annual report on Form 10-K for the year ended December 31, 2010 and its

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quarterly reports on Form 10-Q for the quarterly periods ended September 30, 2010, March 31, 2011, June 30, 2011 and September 30, 2011. This Amendment should also be read in conjunction with all such filings and all such filings should be read in their entirety.

Note 2. Restatement of Consolidated Financial Statements

The Company concluded that it would revise its financial statements to properly account for its ALLL, the provision for off-balance sheet commitments, OTTI of the Company's securities portfolio, deferred loan fees and costs, goodwill impairment charge and the accounting for the deferred tax asset.

The Company has revised its financial statements from those included in the Original Report as follows:

- Impaired loans, previously reflected as an increase to the specific component of the ALLL, have been charged off and the reserve reduced, resulting in a reduction in the loan balance and an increase to the provision for loan and lease losses. The general reserve component of the ALLL, previously based on one aggregated pool of unimpaired loans, was increased after assigning these loans to one of the three pools of Pass, Special Mention or Accruing and Substandard and applying historical loss factors and varied qualitative factor basis point allocations based on the risk profile in each pool to determine the appropriate reserve related to those loans. The general reserve component of the ALLL also increased based on higher historical loss experience resulting from the increased loan charge offs for impaired loans.
- The reserve for off-balance sheet commitments was previously calculated using all commitments and assumed that these commitments would be fully funded. This methodology was revised to provide a reserve on letters of credit and construction

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commitments. In addition, individual analyses were performed on the aforementioned commitments to borrowers considered to be impaired. Based on these changes, the reserve for off-balance sheet commitments was reduced.

- OTTI with respect to our PreTSLs, previously calculated assuming that 50% of issuers who deferred would recover within two years and in reliance on one expected default rate for all issuers and on fair market value data obtained from two outside service providers, including a third party that had sold the Company the PreTSLs included in the securities portfolio, was recalculated using cash flow models assuming specific deferred issuers of securities default immediately, using default rates specific to each bank issuer based on an analysis of its financial trends, and employing certain assumptions in determining the fair value of the securities. The change in methodology resulted in an additional impairment charge through earnings for the six months ending June 30, 2010.
- The Company also reduced OTTI by \$4.9 million on PreTSL and PLCMO securities, the issuers of which defaulted or deferred payments between January 1, 2010 and June 30, 2010, after the Company reviewed its subsequent events analysis and determined that these events reflected issuer credit impairments that existed as of the fourth quarter of 2009. As such, those charges were reflected in the restated financial statements for the year ended December 31, 2009 in the Amended 2009 For 10-K.
- Additional loan fees and costs were capitalized and amortized after the Company determined that it had not capitalized a sufficient portion of loan fees and costs and had not done so consistently by loan type.
- In response to the significant loss reported by the Company in 2009 and the reduction in the market capitalization of the Company's common shares, the Company's goodwill was evaluated for impairment as of December 31, 2009 and, as a result of the analysis, \$8.1 million of goodwill that arose in connection with the Company's acquisition of its Honesdale, PA branch was charged off as of December 31, 2009.
- Recorded adjustments to the income tax benefit and the deferred tax asset and related reserve to reflect the changes to the financial statements.

The following tables set forth the consolidated restated financial statements for the quarterly period ended June 30, 2010 previously filed in its Original Report.

The following is a summary of the adjustments to the Company's previously filed consolidated balance sheets as of June 30, 2010:

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FIRST NATIONAL COMMUNITY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands)	June 30, 2010 As Reported	Adjustments Increase (Decrease)	Reclassifications Increase (Decrease)	June 30, 2010 As Restated
Assets				
Cash and cash equivalents:				
Cash and due from banks	\$ 21,795			\$ 21,795
Federal funds sold	60,925			60,925
Total cash and cash equivalents	82,720			82,720
Securities:				
Available-for-sale, at fair value (b) (c) (h)	260,266	\$ (7,260)		253,006
Held-to-maturity, at cost (fair value \$1,869 on June 30, 2010 and \$1,788 on December 31, 2009) (q)	1,945	1		1,946
Federal Reserve Bank and FHLB Stock, at cost (i)	12,115		\$ (12,115)	
Loans held for sale (r)		119		119
Loans, net of allowance for loan and lease losses of \$27,378 and \$22,458 (d) (e) (g) (f)	874,103	(11,776)		862,327
Accrued interest receivable (c) (n)		148	3,759	3,907
Bank premises and equipment (q)	20,620	(1)		20,619
Intangible assets (k)	9,865	(8,134)		1,731
Other assets (i) (j) (n)	77,904	(6,430)	8,356	79,830
Total Assets	\$ 1,339,538	\$ (33,333)	\$	\$ 1,306,205
Liabilities				
Deposits:				
Demand (q)	\$ 75,743	\$ 2		\$ 75,745
Interest-bearing demand (q)	340,515	1		340,516
Savings	95,682			95,682
Time (\$100,000 and over) (q)	227,302	(2)		227,300
Other time (q)	282,537	2		282,539
Total deposits	1,021,779	3		1,021,782
Borrowed funds (l)	186,093		(186,093)	
FHLB advances (l)			175,576	175,576
Subordinated debentures	25,000			25,000
Junior subordinated debentures (l)			10,310	10,310
Other debt (l) (q)		(1)	207	206
Accrued interest payable (o)			2,704	2,704
Other liabilities (o) (m) (a)	13,175	(86)	(2,704)	10,385
Total Liabilities	1,246,047	(84)		1,245,963
Shareholders Equity				
Common stock, (\$1.25 par)				
Authorized 50,000,000 shares as of June 30, 2010				
Issued and outstanding 16,315,605 shares at June 30, 2010 and 16,289,970 shares at December 31, 2009				
	20,395			20,395
Additional paid-in capital (q)	61,270	1		61,271
Retained earnings (p)	27,063	(39,245)		(12,182)
Accumulated other comprehensive loss (h)	(15,237)	5,995		(9,242)
Total Shareholders Equity	93,491	(33,249)		60,242
Total Liabilities and Shareholders Equity	\$ 1,339,538	\$ (33,333)	\$	\$ 1,306,205

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- (a) Change in reserve for off-balance sheet commitments after change in methodology.
- (b) Additional OTTI recorded on available-for-sale securities.
- (c) Reversal of interest capitalized for payments in-kind.
- (d) Allowance for impaired loan and lease losses recorded after change in methodology.
- (e) Additional charge-offs recorded on loans.
- (f) To record loan fees and costs in accordance with ASC 310 *Receivables*.
- (g) Amortization of loan fees and costs in accordance with ASC 310 *Receivables*.
- (h) Reversal of Other Comprehensive Income for those securities where additional OTTI was recognized.
- (i) Reclassification of FHLB and FRB stock from Securities to Other Assets.
- (j) Record benefit for income taxes.
- (k) Adjust for the write-down of goodwill recorded in the restatement of 2009 results.
- (l) Reclassification of FHLB advances, junior subordinated debentures and other debt from borrowed funds.
- (m) Adjustment to accrued expenses.
- (n) Reclassification of accrued interest receivable from other assets.
- (o) Reclassification of accrued interest payable from other liabilities.
- (p) Reduction in retained earnings as a result of the net loss in the restated 2009 results as well as various adjustment entries booked as a result of the prior year and current quarter restatements.
- (q) Adjustment for rounding.
- (r) Reclassification of loans held for sale from other assets to properly present loans held for sale.

The following is a summary of the adjustments to our previously issued consolidated statements of operations for the three and six months ended June 30, 2010:

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FIRST NATIONAL COMMUNITY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

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	June 30, 2010 As Reported	Three months Ended		June 30, 2010 (As Restated)
		Adjustments Increase/(Decrease)	Reclassifications Increase/(Decrease)	
		(dollars in thousands, except share data)		
Interest Income				
Interest and fees on loans (g) (h)	\$ 11,542	\$ (56)		\$ 11,486
Interest and dividends on securities:				
US Treasury and government agencies	1,305			1,305
State and political subdivisions	1,391			1,391
Other securities (p)	180	(4)		176
Total interest and dividends on securities	2,876	(4)		2,872
Interest on federal funds sold	31			31
Total interest income	14,449	(60)		14,389
Interest Expense				
Interest bearing demand	863			863
Savings	128			128
Time (\$100,000 and over)	881			881
Other time	1,794			1,794
Total deposits	3,666			3,666
Borrowed funds interest expense (l)	1,400		(1,400)	
Interest on FHLB advances (l)			1,347	1,347
Interest on subordinated debentures (e)	568		1	569
Interest on junior subordinated debentures (l)			51	51
Interest on other debt (l)				
Total interest expense	5,634		(1)	5,633
Net interest income before provision for loan and lease losses	8,815	(60)	1	8,756
Provision for loan and lease losses (d)	4,960	(386)		4,574
Net interest income (loss) after provision for loan and lease losses	3,855	326	1	4,182
Other income				
Service charges (e)	646	1		647
Net gain on the sale of securities	(21)			(21)
Gross other-than-temporary impairment (OTTI) losses (b)	(3,611)	(6,654)		(10,265)
Portion of loss recognized in OCI (before taxes) (b)	2,924	4,785		7,709
Net impairment losses recognized in earnings (b)	(687)	(1,869)		(2,556)
Net gain on the sale of loans (c) (q)	159	24	(28)	155
Net gain on the sale of other real estate (r)	(848)		896	48
Net gain on the sale of other assets (q)			28	28
Other (n) (f)	655	47	125	827
Total other income	(96)	(1,797)	1,021	(872)
Other expenses				
Salaries and employee benefits (f) (g)	3,283	(179)	125	3,229
Occupancy expense (i) (m)	1,013	(42)	(454)	517
Equipment expense (i)			454	454
Advertising expense (m)	225	(11)		214
Data processing expense (e)	496	(1)		495
FDIC assessment	502			502
Bank shares tax	255			255
	343	(15)	896	1,224

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Expense of other real estate owned

(r) (m)

Legal expenses (k) (m)		(40)		173		133
Provision for off-balance sheet commitments (a)		(322)		322		
Other operating expenses (n) (o) (e) (k)		1,654		1		(173)
Total other expenses		7,449		35		1,021
Income (loss) before income taxes		(3,690)		(1,506)		(5,195)
Provision (credit) for income taxes (j)		(1,941)		1,941		
Net (loss)	\$	(1,749)	\$	(3,447)	\$	(5,195)

LOSS PER SHARE:

Basic	\$	(0.11)	\$	(0.21)
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