FIRST NATIONAL COMMUNITY BANCORP INC
Form 10-Q/A
December 02, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Amendment No. 1

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended March 31, 2010

OR

o	**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	**23-2900790**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
102 E. Drinker St., Dunmore, PA	**18512**
(Address of Principal Executive Offices)	(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 x NO o

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 o NO o

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 o	Accelerated Filer x
Non-Accelerated Filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO x

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	**16,441,319 shares**
(Title of Class)	(Outstanding at November 29, 2011)

Table of Contents

FIRST NATIONAL COMMUNITY BANCORP, INC.

TABLE OF CONTENTS

Table of Contents

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 March 31, 2010, filed with the Securities and Exchange Commission (SEC) on May 10, 2010 (the Original Report) is being filed to revise and restate the Company s consolidated financial statements for the three-month period ended March 31, 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 March 31, 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 March 31, 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 March 31, 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 June 30, 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, 2011, 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 March 31, 2010. The Company has also restated its financial statements for the year ended December 31, 2009. Unless otherwise indicated, the 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)	March 31, 2010 (as restated)	December 31, 2009 (as restated)
Assets		
Cash and cash equivalents:		
Cash and due from banks	$ 19,177	$ 24,189
Federal funds sold	61,050	62,175
Total cash and cash equivalents	80,227	86,364
Securities:		
Available-for-sale, at fair value	240,092	252,946
Held-to-maturity, at cost (fair value $1,824 and $1,788)	1,922	1,899
Loans held for sale	384	442
Loans, net of allowance for loan and lease losses of $25,505 and $22,458	908,202	917,516
Bank premises and equipment	20,750	20,667
Accrued interest receivable	3,849	4,245
Intangible assets	1,780	1,794
Other assets	87,465	80,459
Total Assets	$ 1,344,671	$ 1,366,332
Liabilities		
Deposits:		
Demand	$ 79,267	$ 85,370
Interest-bearing demand	344,055	352,631
Savings	93,663	86,455
Time ($100,000 and over)	236,540	238,839
Other time	299,959	308,313
Total deposits	1,053,484	1,071,608
FHLB advances	180,177	183,830
Subordinated debentures	25,000	23,100
Junior subordinated debentures	10,310	10,310
Other debt	209	227
Accrued interest payable	2,766	3,064
Other liabilities	10,821	11,109
Total liabilities	1,282,767	1,303,248
Shareholders Equity		
Common shares ($1.25 par)		
Authorized: 50,000,000 shares as of March 31, 2010 and December 31, 2009		
Issued and outstanding: 16,299,456 shares at March 31, 2010 and 16,289,970 shares at December 31, 2009	20,374	20,362
Additional paid-in capital	61,224	61,190

Retained earnings		(6,987)		(6,162)
Accumulated other comprehensive loss		(12,707)		(12,306)
Total shareholders equity		61,904		63,084
Total Liabilities and Shareholders Equity	$	1,344,671	$	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)

For The Three Months Ended March 31, (in thousands, except share data)	2010 (as restated)	2009
Interest income		
Interest and fees on loans	$ 12,132	$ 13,358
Interest and dividends on securities:		
U.S. Treasury and government agencies	1,492	1,805
State and political subdivisions	1,400	1,220
Other securities	99	467
Total interest and dividends on securities	2,991	3,492
Interest on federal funds sold	36	
Total interest income	15,159	16,850
Interest expense		
Interest-bearing demand	1,032	725
Savings	129	120
Time ($100,000 and over)	931	1,024
Other time	1,940	2,276
Interest on FHLB Advances	1,451	1,899
Interest on subordinated debentures	539	
Interest on junior subordinated debentures	50	91
Interest on other debt		48
Total interest expense	6,072	6,183
Net interest income before provision for loan and lease losses	9,087	10,667
Provision for loan and lease losses	5,108	2,460
Net interest income after provision for loan and lease losses	3,979	8,207
Other income (loss)		
Service charges	649	687
Net gain on the sale of securities	1,196	527
Gross other-than-temporary impairment (OTTI) losses	(8,235)	
Portion of loss recognized in OCI (before taxes)	7,889	
Other-than-temporary impairment losses recognized in earnings	(346)	
Net gain on the sale of loans	248	546
Net gain on the sale of other real estate		
Net gain on the sale of other assets		
Other	834	663
Total other income	2,581	2,423
Other expenses		
Salaries and employee benefits	3,108	3,332
Occupancy expense	647	615
Equipment expense	432	455
Advertising expense	119	240
Data processing expense	487	436
FDIC assessment	469	240
Bank shares tax	255	217
Expenses of other real estate	135	
Legal expense	148	47
Other operating expenses	1,585	1,095
Total other expenses	7,385	6,677
Income (loss) before income taxes	(825)	3,953
Provision (credit) for income taxes		715
Net income (loss)	$ (825)	$ 3,238

Earnings (Loss) Per Share:				
Basic	$	(0.05)	$	0.20
Diluted	$	(0.05)	$	0.20
Cash Dividends Declared per Common Share	$		$	0.11
Weighted average number of outstanding shares:				
Basic		16,294,291		16,064,455
Diluted		16,294,291		16,106,478

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 Three Months Ended March 31, (in thousands)	2010 (as restated)	2009
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received	$ 14,799	$ 16,544
Fees and commissions received	1,483	1,379
Interest paid	(6,369)	(7,284)
Cash paid to suppliers and employees	(9,371)	(8,528)
Income taxes (paid)		(1,132)
NET CASH PROVIDED BY OPERATING ACTIVITIES	542	979
CASH FLOWS FROM INVESTING ACTIVITIES:		
Securities available for sale:		
Proceeds from sales	24,687	9,142
Proceeds from calls, paydowns and maturities	8,035	13,538
Purchases	(19,194)	(8,354)
Net (decrease)/increase in loans to customers	80	(19,878)
Capital expenditures	(437)	(283)
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES	13,171	(5,835)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in demand deposits, money market demand, NOW accounts and savings accounts	(7,472)	(10,764)
Net decrease in certificates of deposit	(10,653)	24,912
Proceeds from issuance of subordinated debentures	1,900	
Net decrease in borrowed funds	(3,671)	(9,050)
Proceeds from issuance of common shares, net of share issuance costs	46	889
Cash dividends paid		(1,766)
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES	(19,850)	4,221
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,137)	(635)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	86,364	18,171
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 80,227	$ 35,636
RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income (loss)	$ (825)	$ 17,536
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and accretion, net	(754)	(952)
Equity in trust	(1)	(2)
Depreciation and amortization	441	458
Provision for loan and lease losses	5,108	2,460
Provision/(benefit) for deferred taxes		(56)
Gain on sale of securities	(1,196)	(527)
Increase/(decrease) in taxes payable		(505)
Other-than-temporary impairment losses	346	
Gain on sale of loans	(248)	(546)
Increase/(decrease) in interest payable	(298)	(1,101)

Decrease in accrued expenses and other liabilities		(123)		(538)
Increase in prepaid expenses and other assets		(2,304)		(1,596)
(Increase)/decrease increase in interest receivable		396		646
Total adjustments		1,367		(2,259)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	542	$	979

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)

For the three months ended March 31, 2010 and 2009 (in thousands, except for share data)

	COMPREHENSIVE INCOME (LOSS)	COMMON SHARES SHARES	COMMON 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	$ 3,238				3,238		3,238
Other comprehensive income, net of tax:							
Unrealized loss on securities available-for-sale, net of deferred income tax benefit of $4,398	(8,169)						
Reclassification adjustment for gain or loss included in income (tax effect of $184)	343						
Total other comprehensive loss, net of tax	(7,826)					(7,826)	(7,826)
Comprehensive loss	$ (4,588)					(7,826)	(4,588)
Share-based compensation - Stock Option Plans				159			159
Issuance of common shares through dividend reinvestment		106,248	133	756			889
Cash dividends paid, $0.11 per share					(1,765)		(1,765)
Balances, March 31, 2009		16,154,176	$ 20,193	$ 60,506	$ 42,365	$ (28,027)	$ 95,037
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	$ (825)				(825)		(825)
Other comprehensive income, net of tax:							
Unrealized loss on securities available for sale net of deferred tax benefit of $10,365	(19,245)						
Noncredit related gains on securities not expected to be sold, net of deferred taxes of $9,729	18,067						
Reclassification adjustment for gain or loss included in income (tax effect of $419)	777						
Total other comprehensive loss, net of tax	(401)					(401)	(401)
Comprehensive Loss	$ (1,226)					(401)	(1,226)
Proceeds from issuance of Common Shares through dividend reinvestment		9,486	12	34			46

Balances, March 31, 2010 (as restated)	16,299,456	$	20,374	$	61,224	$	(6,987)	$	(12,707)	$	61,904

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

Table of Contents

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 March 31, 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) officially 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 June 30, 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 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 commitments. In addition, individual analyses were performed on the aforementioned commitments to borrowers

Table of Contents

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 additional impairment charges through earnings. As such, OTTI related to those impairments was reflected in the restated financial statements for the year ended December 31, 2009 in the Amended 2009 Form 10-K.

- A reduction in OTTI was recorded with respect to securities the issuers of which defaulted or deferred payments during the first quarter of 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, OTTI related to those impairments was reflected in the restated financial statements for the year ended December 31, 2009 in the Amended 2009 Form 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 table sets forth the consolidated restated financial statements for the quarterly period ended March 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 March 31, 2010:

Table of Contents

FIRST NATIONAL COMMUNITY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands)	March 31, 2010 As Reported	Adjustments Increase (Decrease)	Reclassifications Increase (Decrease)	March 31, 2010 As Restated
Assets				
Cash and cash equivalents:				
Cash and due from banks	$ 19,177	$	$	$ 19,177
Federal funds sold	61,050			61,050
Total cash and cash equivalents	80,227			80,227
Securities:				
Available-for-sale, at fair value (b) (c) (i)	246,959	(6,867)		240,092
Held-to-maturity, at cost (fair value $1,824)	1,922			1,922
Federal Reserve Bank and FHLB Stock, at cost (j)	12,069		(12,069)	
Loans held for sale (o)		384		384
Loans, net of allowance for loan and losses of $25,505 (originally reported at $23,322) (d) (e) (g) (h)	920,302	(12,100)		908,202
Accrued interest receivable (c) (p)		59	3,790	3,849
Bank premises and equipment	20,750			20,750
Intangible assets (l)	9,914	(8,134)		1,780
Other assets (j) (k) (p) (o)	83,450	(4,264)	8,279	87,465
Total Assets	$ 1,375,593	$ (30,922)	$	$ 1,344,671
Liabilities				
Deposits:				
Demand (q)	$ 79,266	$ 1	$	$ 79,267
Interest-bearing demand	344,055			344,055
Savings	93,663			93,663
Time ($100,000 and over)	236,540			236,540
Other time	299,959			299,959
Total deposits	1,053,483	1		1,053,484
Borrowed funds (m)	190,696		(190,696)	
FHLB advances (m)			180,177	180,177
Subordinated debentures	25,000			25,000
Junior subordinated debentures (m)			10,310	10,310
Other debt (m)			209	209
Accrued interest payable (r)			2,766	2,766
Other liabilities (r) (a) (n)	13,723	(1,030)	(1,872)	10,821
Total Liabilities	1,282,902	(1,029)	894	1,282,767
Shareholders Equity				
Common stock, ($1.25 par)				
Authorized 50,000,000 shares as of March 31, 2010 Issued and outstanding: 16,299,456 shares at March 31, 2010	20,374			20,374
Additional paid-in capital	61,224			61,224
Retained earnings (f)	28,813	(34,906)	(894)	(6,987)
Accumulated other comprehensive loss (i)	(17,720)	5,013		(12,707)
Total shareholders equity	92,691	(29,893)	(894)	61,904
Total Liabilities and Shareholders Equity	$ 1,375,593	$ (30,922)	$	$ 1,344,671

Table of Contents

(a) Change in reserve for off-balance sheet commitments after change in methodology.

(b) Adjustment for OTTI recorded on available-for-sale securities.

(c) Reversal of interest capitalized for payments in kind.

(d) Allowance for impaired loan and lease losses booked after change in methodology.

(e) Additional charge-offs recorded on loans.

(f) 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.

(g) To record loan fees and costs in accordance with ASC 310 *Receivables*.

(h) Amortization of loan fees and costs in accordance with ASC 310 *Receivables*.

(i) Reversal of Other Comprehensive Income for those securities where additional OTTI was recognized.

(j) Reclassification of FHLB and FRB stock from Securities to Other Assets.

(k) Record benefit for income taxes.

(l) Adjust for the write down of goodwill recorded for the restatement of 2009 results.

(m) Reclassification of FHLB advances, junior subordinated debentures and other debt from borrowed funds.

(n) Adjustment to accrued expenses.

(o) Reclassification of loans held for sale from other assets to properly present loans held for sale.

(p) Reclassification of accrued interest receivable from other assets.

(q) Adjustment for rounding.

(r) Reclassification of accrued interest payable from other liabilities.

The following is a summary of the adjustments to our previously issued consolidated statements of operations for the three months ended March 31, 2010:

Table of Contents

FIRST NATIONAL COMMUNITY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

For the three months ended March 31, 2010 (in thousands)	**March 31, 2010 As reported**	**Three months ended Adjustments**	**Reclassifications**	**March 31, 2010 As restated**
Interest income				
Interest and fees on loans (g) (h)	$ 12,188	$ (56)	$	$ 12,132
Interest and dividends on securities:				
U.S. Treasury and government agencies	1,492			1,492
State and political subdivisions	1,400			1,400
Other securities (q)	181	(82)		99
Total interest and dividends on securities	3,073	(82)		2,991
Interest on federal funds sold	36			36
Total interest income	15,297	(138)		15,159
Interest expense				
Deposits:				
Interest-bearing demand	1,032			1,032
Savings	129			129
Time ($100,000 and over)	931			931
Other time	1,940			1,940
Total deposits	4,032			4,032
Borrowed funds interest expense (l)	1,501		(1,501)	
Interest on FHLB Advances (l)			1,451	1,451
Interest on subordinated debentures	539			539
Interest on junior subordinated debentures (l)			50	50
Interest on other debt (l)				
Total interest expense	6,072			6,072
Net interest income before provision for credit losses	9,225	(138)		9,087
Provision for loan and lease losses (d)	2,802	2,306		5,108
Net interest income after provision for loan and lease losses	6,423	(2,444)		3,979
Other income				
Service charges (e)	650	(1)		649
Net gain on the sale of securities	1,196			1,196
Gross other-than-temporary impairment (OTTI) losses (b)	(31,428)	(23,193)		(8,235)
Portion of loss recognized in other comprehensive income (before taxes) (b)	30,513	(22,624)		7,889
Net impairment losses recognized in earnings (b)	(915)	(569)		(346)
Net gain on the sale of loans (c)	273	(25)		248
Other (f)	658		176	834
Total other income	1,862	(595)	176	2,581
Other expenses				
Salaries and employee benefits (f) (g)	3,120	(142)	130	3,108
Occupancy expense (i) (n)	1,067	12	(432)	647
Equipment expense (i)			432	432
Advertising expense (m)	225	(106)		119
Data processing expense	487			487
FDIC Assessment	469			469
Bank shares tax	255			255
Expense of other real estate (n)	120	15		135
Provision for off-balance sheet commitments (a) (p)	(1,031)		1,031	
Legal expense (k)			26	26
Other operating expenses (o) (p) (k)	1,670	1,094	(1,057)	1,707

Total other expenses	6,382	873	130	7,385
Income (loss) before income taxes	1,903	(1,834)	(894)	(825)
Provision (credit) for income taxes (j)	(56)	56		
Net income (loss)	$ 1,959	$ (1,890)	$ (894)	$ (825)
Loss Per Share:				
Basic	$ 0.12	$ (0.12)	$ (0.05)	$ (0.05)
Diluted	$ 0.12	$ (0.12)	$ (0.05)	$ (0.05)
Weighted Average Number of Shares Outstanding				
Basic	16,294,291			16,294,291
Diluted	16,658,009	(363,718)		16,294,291

(a) Change in reserve for off-balance sheet commitments after change in methodology.

(b) Adjustment to reduce OTTI recorded on available-for-sale securities as losses recorded in the 1st quarter of 2010 were pushed back to 12/31/09 as part of the adjustments related to the restatement of the 2009 10K.

(c) Adjustment to reverse the gain booked on Loans, held for sale.

Table of Contents

(d) Provision for loan and lease losses adjusted after change in methodology.

(e) Adjustment for rounding.

(f) Reclassification of Bank Owned Life Insurance Income from expense to income.

(g) To record loan fees and costs in accordance with ASC 310 *Receivables*.

(h) Amortization of loan fees and costs in accordance with ASC 310 *Receivables*.

(i) Reclassification of Equipment expense from being included in Occupancy expense.

(j) Reverse income tax benefit.

(k) Reclassification of Legal expense from being included in Other operating expenses.

(l) Reclassification of interest on borrowed funds to interest on FHLB advances, interest on junior subordinated debentures and interest on other debt.

(m) To adjust and reduce expense related to an over accrual.

(n) To adjust and increase expense related to an under accrual.

(o) Reclassification of mortgage servicing rights amortization expense from being netted against loan servicing fee income.

(p) Reclassification of provision for off balance sheet commitments to other operating expenses.

(q) Reversal of accrued interest on Pooled Trust Preferred Securities.

Note 3. New Authoritative Accounting Guidance

On January 1, 2010, the Company adopted the provisions of the Accounting Standards Codification (ASC) Topic 860-10-50, *Transfers and Servicing- Overall-Disclosures* as updated by Accounting Standards Update (ASU) 2009-16*, Accounting for Transfers of Financial Assets*. The standard enhances the reporting for transfers of financial assets, including securitization transactions. It also requires companies to report where they have continuing exposure to the risks related to transferred financial assets and eliminates the concept of a qualifying special-purpose entity. In addition, it changes the requirements for derecognizing financial assets and requires additional disclosures about all continuing involvements with transferred financial assets, including information about gains and losses resulting from transfers during the period. This standard also requires additional year-end and interim disclosures. The standard must be applied to transfers that occurred before and after its effective date. The adoption of ASC Topic 860-10-50 had no impact on the Company s financial statements.

On January 1, 2010, the Company adopted ASC topic 810-10-50, *Consolidation-Overall-Disclosures* as amended by ASU 2009-17, *Consolidation Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance. This standard also requires additional disclosures about the reporting entity s involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its effect on the entity s financial statements. The standard also requires additional year-end and interim disclosures. In February 2010, ASU 2010-10, *Consolidation: Amendments for Certain Investment Funds* was issued which provides an indefinite deferral of ASC topic 810-10 for certain entities. Entities that meet the criteria for deferral of consolidation guidance are still required to provide disclosures required by the topic. The update also clarifies how a related party s interests in an entity should be considered when evaluating the criteria for determining whether a decision maker or service provider fee represents a variable interest. It clarifies that a quantitative calculation should not be the only basis for evaluating whether a decision maker s or service provider s fee is a variable interest. The adoption of ASC Topic 810-10-50 had no impact on the Company s financial statements.

In January 2010, a clarification ASU 2010-06, *Fair Value and Disclosures, Improving Disclosures about Fair Value Measurements* was issued for ASC topic 820-10-50, *Fair Value Measurements and Disclosures*. The amendments in ASU 2010-06 require companies to provide a separate disclosure for transfers in and out of Levels 1 and 2, including a description of the reasons for the transfer. The amendments also require companies to report activity in Level 3 fair value measurements on a gross basis, including information about purchases, sales, issuances and settlements. The amendments also clarify existing disclosures related to disaggregated reporting, model inputs and valuation techniques. The new disclosures are effective for the first quarter of 2010, except for the gross reporting of Level 3 activity, which is effective beginning the first quarter of 2011. These amendments resulted in additional disclosures in our interim and annual reports. The applicable new disclosures have been included in Note 8.

Note 4. Regulatory Matters

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on the Company s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices must be met. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Table of Contents

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined).

Currently, the Company s and the Bank s actual capital positions and ratios as of March 31, 2010 and December 31, 2009 are presented in the following table :

CAPITAL ANALYSIS

(in thousands)

	March 31, 2010 (as restated)	December 31, 2009 (as restated)
COMPANY		
Tier I Capital:		
Total Tier I Capital	$ 84,435	$ 84,365
Tier II Capital:		
Subordinated notes	$ 25,000	23,100
Allowable portion of allowance for loan and lease losses	14,342	14,594
Total Tier II Capital	$ 39,342	37,694
Total Risk-Based Capital	$ 123,777	122,059
Total Risk-Weighted Assets	$ 1,134,722	$ 1,158,157
BANK		
Tier I Capital:		
Total Tier I Capital	$ 105,036	$ 103,453
Tier II Capital:		
Allowable portion of allowance for loan and lease losses	14,438	14,590
Total Tier II Capital	14,438	14,590
Total Risk-Based Capital	$ 119,374	$ 118,043
Total Risk-Weighted Assets	$ 1,134,376	$ 1,157,823

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2010: (as restated)						
Total Capital (to Risk Weighted Assets)						
Company	$ 123,777	10.91%	$ >90,778	>8.00%	N/A	N/A
Bank	$ 119,374	10.52%	$ >90,750	>8.00%	$ >113,438	>10.00%
Tier I Capital (to Risk Weighted Assets)						

Company	$	84,435	7.44%	$	>45,389	>4.00%		N/A	N/A
Bank	$	105,036	9.26%	$	>45,375	>4.00%	$	>68,063	>6.00%
Tier I Capital (to Average Assets)									
Company	$	84,435	6.19%	$	>54,576	>4.00%		N/A	N/A
Bank	$	105,036	7.68%	$	>54,704	>4.00%	$	>68,379	>5.00%

Table of Contents

	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio		Amount	Ratio		Amount	Ratio
As of December 31, 2009 (as restated)								
Total Capital (to Risk Weighted Assets)								
Company	$ 122,059	10.54%	$	>92,653	>8.00%		N/A	N/A
Bank	$ 118,043	10.20%	$	>92,626	>8.00%	$	>115,782	>10.00%
Tier I Capital (to Risk Weighted Assets)								
Company	$ 84,365	7.28%	$	>46,326	>4.00%		N/A	N/A
Bank	$ 103,453	8.94%	$	46,313	>4.00%	$	>69,469	>6.00%
Tier I Capital (to Average Assets)								
Company	$ 84,365	5.94%	$	>56,853	>4.00%		N/A	N/A
Bank	$ 103,453	7.28%	$	>56,853	>4.00%	$	>71,067	>5.00%

The Bank is under a Consent Order (the Order) from the Office of the Comptroller of the Currency (OCC) dated September 1, 2010. The material provisions of the Order are as follows:

(i) By October 31, 2010, the Board of Directors of the Bank (the Board) is required to adopt and implement a three-year strategic plan which must be submitted to the OCC for review and prior determination of no supervisory objection; the strategic plan must establish objectives for the Bank s overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, capital adequacy, reduction in the volume of nonperforming assets, product line development, and market segments that the Bank intends to promote or develop, and is to include strategies to achieve those objectives; if the strategic plan involves the sale or merger of the Bank, it must address the timeline and steps to be followed to provide for a definitive agreement within 90 days after the receipt of a determination of no supervisory objection;

(ii) by October 31, 2010, the Board is required to adopt and implement a three year capital plan, which must be submitted to the OCC for review and prior determination of no supervisory objection;

(iii) by November 30, 2010, the Bank is required to achieve and thereafter maintain a total risk-based capital equal to at least 13% of risk-weighted assets and a tier 1 capital equal to at least 9% of adjusted total assets;

(iv) the Bank may not pay any dividend or capital distribution unless it is in compliance with the higher capital requirements required by the Order, the Capital Plan, applicable legal requirements and, then only after receiving a determination of no supervisory objection from the OCC;

(v) by November 15, 2010, the Committee must review the Board and the Board s committee structure; by November 30, 2010, the Board must prepare or cause to be prepared an assessment of the capabilities of the Bank s executive officers to perform their past and current duties, including those required to respond to the most recent examination report, and to perform annual performance appraisals of each officer;

(vi) by October 31, 2010, the Board must adopt, implement and thereafter ensure compliance with a comprehensive conflict of interest policy applicable to the Bank s and the Company s directors, executive officers, principal shareholders and their affiliates and such person s immediate family members and their related interests, employees, and by November 30, 2010, conduct a review of existing relationships with such persons to identify those, if any, not in compliance with the policy; and review all subsequent proposed transactions with such persons or modifications of transactions;

(vii) by October 31, 2010, the Board must develop, implement and ensure adherence to policies and procedures for Bank Secrecy Act (BSA) compliance; and account opening and monitoring procedures compliance;

Table of Contents

(viii) by October 31, 2010, the Board shall ensure the BSA audit function is supported by an adequately staffed department or third party firm; adopt implement and ensure compliance with an independent BSA audit; and assess the capabilities of the BSA officer and supporting staff to perform present and anticipated duties;

(ix) by October 31, 2010, the Board is required to adopt, implement and ensure adherence to a written credit policy, including specified features, to improve the Bank s loan portfolio management;

(x) the Board is required to take certain actions to resolve certain credit and collateral exceptions;

(xi) by October 31, 2010, the Board is required to establish an effective, independent and ongoing loan review system to review, at least quarterly, the Bank s loan and lease portfolios to assure the timely identification and categorization of problem credits; by October 31, 2010, to adopt and adhere to a program for the maintenance of an adequate allowance for loan and lease losses (ALLL), and to review the adequacy of the Bank s ALLL at least quarterly;

(xii) by October 31, 2010, the Board must adopt and the Bank implement and adhere to a program to protect the Bank s interest in criticized assets; and the Bank may only extend additional credit (including renewals) to a borrower whose loans are criticized under specified circumstances;

(xiii) by October 31, 2010, the Board must adopt and ensure adherence to action plans for each piece of other real estate owned;

(xiv) by November 30, 2010, the Board is required to develop, implement and ensure adherence to a policy for effective monitoring and management of concentrations of credit;

(xv) by October 31, 2010, the Board must revise and implement the Bank s other-than-temporary impairment policy;

(xvi) by October 31, 2010, the Board must take action to maintain adequate sources of stable funding and liquidity and a contingency funding plan; by October 31, 2010, the Board is required to adopt, implement and ensure compliance with an independent, internal audit program; and

(xvii) take actions to correct cited violations of law; and adopt procedures to prevent future violations and address compliance management.

Federal Reserve Agreement On November 24, 2010, the Company entered into a written Agreement (the Agreement) with the Federal Reserve Bank of Philadelphia (the Reserve Bank). The Agreement requires the Company to undertake certain actions within designated timeframes, and to operate in compliance with the provisions thereof during its term. The material provisions of the Agreement include the following:

(i) the Company s Board must take appropriate steps to fully utilize the Company s financial and managerial resources to serve as a source of strength to the Bank, including taking steps to ensure that the Bank complies with its Consent Order entered into with the OCC;

(ii) the Company may not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director of the Division of Banking Supervision and Regulation (the Director) of the FRB;

(iii) the Company may not take dividends or other payments representing a reduction of the Bank s capital without the prior written approval of the Reserve Bank;

(iv) the Company and its nonbank subsidiary may not make any payment of interest, principal or other amounts on the Company s subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank and the Director;

(v) the Company may not make any payment of interest, principal or other amounts on debt owed to insiders of the Company without the prior written approval of the Reserve Bank and Director;

(vi) the Company and its nonbank subsidiary may not incur, increase or guarantee any debt without the prior written approval of the Reserve Bank;

(vii) the Company may not purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank;

Table of Contents

(viii) the Company must submit to the Reserve Bank, by January 23, 2011, an acceptable written plan to maintain sufficient capital at the Company on a consolidated basis. Thereafter, the Company must notify the Reserve Bank within 45 days of the end of any quarter in which the Company s capital ratios fall below the approved capital plan s minimum ratios, and submit an acceptable written plan to increase the Company s capital ratios above the capital plan s minimums;

(ix) the Company must immediately take all actions necessary to ensure that: (1) each regulatory report accurately reflects the Company s condition on the date for which it is filed and all material transactions between the Company and its subsidiaries; (2) each such report is prepared in accordance with its instructions; and (3) all records indicating how the report was prepared are maintained for supervisory review;

(x) the Company must submit to the Reserve Bank, by January 23, 2011, acceptable written procedures to strengthen and maintain internal controls to ensure all required regulatory reports and notices filed with the Board of Governors are accurate and filed in accordance with the instructions for preparation;

(xi) the Company must submit to the Reserve Bank, by January 8, 2011, a cash flow projection for 2011, reflecting the Company s planned sources and uses of cash, and submit a cash flow projection for each subsequent calendar year at least one month prior to the beginning of such year;

(xii) the Company must comply with: (1) the notice provisions of Section 32 of the FDI Act and Subpart H of Regulation Y in appointing any new director or senior executive officer or changing the duties of any senior executive officer; and (2) the restrictions on indemnification and severance payments of Section 18(k) of the FDI Act and Part 359 of the FDIC s regulations; and

(xiii) the Board must submit written progress reports within 30 days of the end of each calendar quarter;

Since entering into the Order and the Agreement, the Company has incurred expenses in an effort to comply with the terms of these agreements. In particular, the Company has incurred expenses in connection with developing and implementing policies and procedures and hiring additional personnel as required by the Order and the Agreement. During 2010 and the first nine months of 2011, the Company incurred approximately $1.4 million and $851 thousand, respectively, of expenses related to entering into and complying with these regulatory agreements, consisting primarily of professional and consulting fees. In addition, the Order and the Agreement place restrictions on the Company s ability to borrow funds and to pay interest and dividends to its security holders. In the future, the Company expects to continue to experience increased costs related to compliance with these regulatory agreements, primarily as a result of increased head count and also expects to face certain restrictions on its operations for as long as it continues to operate under the Order and the Agreement. The Company expects, however, that future compliance expenses will decrease significantly from the 2010 and 2011 levels, because the majority of the expenses incurred to date are related to development and implementation of processes and policies that, once those policies and processes are finalized and implemented, are not expected to recur.

The Order and the Agreement have not and are not expected to have an impact on the Company s ability to attract and maintain deposits or the Company s cost of funds. In order to meet the increased capital requirements imposed under the Order and the Agreement, however, unless the Company is able to raise additional capital, the Company could be limited in the aggregate amount of loans it can have outstanding, which may constrain loan growth. While it is not anticipated that the Order and the Agreement will have an immediate impact on the Company s net interest margin, the overall cost of compliance with the Order and the Agreement will continue to impact profitability at least through the end of 2012.

Note 5. Loans

Major classifications of loans are summarized as follows (in thousands):

	March 31, 2010 (as restated)	December 31, 2009 (as restated)
Residential real estate	$ 142,146	$ 137,520
Commercial real estate	309,252	317,408
Commercial and industrial loans	221,558	220,849
Construction Loans	89,855	98,383
Installment loans	123,131	128,392
Other loans	47,330	37,013
Gross loans	933,272	939,565
Less: Allowance for loan and lease losses	(25,505)	(22,458)
Unearned discount	(279)	(298)
Plus: Loan fees	714	707
Net loans	$ 908,202	$ 917,516

Changes in the allowance for loan and lease losses were as follows (in thousands):

	Three months ended March 31	
	2010 (as restated)	2009
Balance, beginning of year	$ 22,458	$ 9,150
Recoveries credited to allowance	60	44
Provision for loan and lease losses	5,108	2,460
Total	27,626	11,654
Losses charged to allowance	(2,121)	(376)
Balance, end of period	$ 25,505	$ 11,278

Non-performing loans consist of nonaccrual loans and loans past due 90 days or more and still accruing. At March 31, 2010 and

Table of Contents

December 31, 2009 the loans on nonaccrual totaled $29.5 million and $25.9 million, respectively. OREO is included in other assets and totaled $15.1 million and $11.2 million at March 31, 2010 and December 31, 2009, respectively. The total recorded investment in loans past due ninety days or more and still accruing interest amounted to $1 thousand and $117 thousand at March 31, 2010 and December 31, 2009, respectively. At March 31, 2010, OREO consisted of sixteen properties with six of the properties comprising $14.5 million or 96% of the balance. Troubled debt restructurings were all performing in accordance with the restructured agreements as of March 31, 2010. The total recorded investment in impaired loans, amounted to $44.9 million and $36.6 million at March 31, 2010 and December 31, 2009, respectively.

The additional interest income that would have been earned on nonaccrual and restructured loans outstanding at March 31, 2010 and March 31, 2009 in accordance with their original terms approximated $613 thousand and $611 thousand, respectively. There was no interest income recognized on non-performing loans for cash payments received during the three months ended March 31, 2010 and March 31, 2009.

The following schedule reflects various non-performing lending categories as of the dates noted (in thousands):

		March 31, 2010 (as restated)		December 31, 2009 (as restated)
Nonaccrual loans	$	29,465	$	25,865
Loans past due 90 days or more and still accruing		1		117
Total Non-Performing Loans		29,466	$	25,982
Other Real Estate Owned		15,100		11,184
Total Non-Performing Assets	$	44,566	$	37,166
Performing TDRs	$	15,435	$	10,743
ALLL related to impaired loans	$	7,587	$	3,982

		March 31, 2010 (as restated)		December 31, 2009 (as restated)
Loans with no allocated allowance for loan and lease losses	$	11,955	$	11,348
Loans with allocated allowance for loan and lease losses		32,945		25,260
Total balance of loan considered impaired	$	44,900	$	36,608

The average balance of impaired loans was $39.8 million and $49.4 million for the three months ended March 31, 2010 and twelve months ended December 31, 2009, respectively. The Company recorded $192 thousand and $188 thousand of interest income on impaired loans for the three months ended March 31, 2010 and 2009, respectively.

The Company attempts to limit its exposure to concentrations of credit risk by diversifying its loan portfolio and closely monitoring any concentrations of credit risk. The commercial real estate and commercial construction portfolios comprise $396.2 million or 43.6% of net loans at March 31, 2010. In addition, the Company had commercial real estate and commercial construction loans of $46.0 million or 5.0% of net loans to customers outside Pennsylvania. Geographic concentrations exist because the Company provides a full range of banking services, including commercial, consumer and mortgage loans to individuals and corporate customers in its market areas in Pennsylvania. Management believes underwriting guidelines and ongoing review by loan review mitigates these risks.

The Company has granted loans, letters of credit and lines of credit to certain executive officers and directors of the Company as well as to certain related parties of executive officers and directors. These loans, letters of credit and lines of credit were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and, when made, did not involve more than normal risk of collectability. See Note 11 for more information on related party transactions.

Note 6. Other Real Estate Owned

OREO totaled $15.1 million as of March 31, 2010, which is an increase of $3.9 million, from $11.2 million as of December 31, 2009. As of March 31, 2010, OREO consists of sixteen properties compared to fourteen properties as of December 31, 2009. Six of the properties held in OREO as of March 31, 2010 represent approximately 96% of the total.

Table of Contents

The following schedule reflects a breakdown of OREO for the periods reviewed.

	March 31, 2010 (as restated)	December 31, 2009
Land/Lots	$ 9,746	$ 5,887
Commercial Real Estate	4,908	4,852
Residential Real Estate	446	445
Total	$ 15,100	$ 11,184

The Company foreclosed on two properties during the three months ended March 31, 2010, one of which comprised substantially all of the $3.9 million increase in OREO (the other property comprised $56 thousand of the increase). In connection with the transfer to OREO, the Company charged-off $96 thousand of the loan balances against the ALLL to bring the properties down to their carrying value of $3.9 million.

The expenses related to maintaining OREO amounted to $135 thousand for the three months ended March 31, 2010 compared to no expense for the same period in 2009.

Note 7. Securities

Securities have been classified in the consolidated financial statements according to management s intent. The amortized cost, gross unrealized gains or losses and the fair value of the Company s securities available for sale are as follows:

Available-for-sale securities (in thousands):

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
March 31, 2010 (as restated)				
U.S. Treasury securities and obligations of U.S. government agencies	$ 30,860	$ 180	$ 1,474	$ 29,566
Obligations of state and political subdivisions	120,760	2,129	6,245	116,644
Collateralized mortgage obligations:				
Government sponsored agency	57,433	712	281	57,864
Private label	15,691	41	2,727	13,005
Residential mortgage-backed securities	17,370	542	74	17,838
Pooled Trust Preferred Senior Class	3,852		2,414	1,438
Pooled Trust Preferred Mezzanine Class	12,165		9,824	2,341
Corporate debt securities	500		120	380
Equity securities	1,010	6		1,016
Total securities available for sale	$ 259,641	$ 3,610	$ 23,159	$ 240,092

19

Table of Contents

		Amortized cost		Gross unrealized holding gains		Gross unrealized holding losses		Fair value
December 31, 2009 (as restated)								
U.S. Treasury securities and obligations of U.S. government agencies	$	28,734	$	78	$	1,723	$	27,089
Obligations of state and political subdivisions		122,052		2,591		5,973		118,670
Collateralized mortgage obligations:								
Government sponsored agency		52,968		897		370		53,495
Private label		24,154		17		3,112		21,059
Residential mortgage-backed securities		26,152		1,321		31		27,442
Pooled Trust Preferred Senior Class		3,848				2,457		1,391
Pooled Trust Preferred Mezzanine Class		12,459				10,040		2,419
Corporate debt securities		500				144		356
Equity securities		1,010		15				1,025
Total securities available for sale	$	271,877	$	4,919	$	23,850	$	252,946

The amortized cost, gross unrealized gains or losses and the fair value of the Company s securities held- to- maturity at March 31, 2010 and December 31, 2009 are as follows:

Held-to-maturity securities (in thousands):

		Amortized cost		Gross Unrealized Holding Gains		Gross unrealized holding losses		Fair value
March 31, 2010								
Obligations of state and political subdivisions	$	1,922	$	0	$	98	$	1,824
December 31, 2009								
Obligations of state and political subdivisions	$	1,899	$	0	$	111	$	1,788

At March 31, 2010 and December 31, 2009, securities with a carrying amount of $224.1 million and $187.9 million, respectively, were pledged as collateral to secure public deposits and for other purposes.

The following table shows the approximate fair value of the Company s debt securities (in thousands) at March 31, 2010 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.

Table of Contents

	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Amounts maturing in:				
One Year or Less	$	$	$	$
One Year through Five Years	2,951	2,960		
After Five Years through Ten Years	6,490	6,520	464	442
After Ten Years	158,696	140,888	1,458	1,382
Collateralized mortgage obligations	73,124	70,869		
Mortgage-backed securities	17,370	17,839		
Total	$ 258,631	$ 239,076	$ 1,922	$ 1,824

Gross proceeds from the sale of securities for the three months ended March 31, 2010 and 2009 were $26.5 million and $24.7 million, respectively, with the gross realized gains being $1.2 million and $0.5 million, respectively, and gross realized losses being $0 and $3 thousand, respectively.

The table below indicates the length of time that individual securities available for sale have been in a continuous unrealized loss position at March 31, 2010 (as restated):

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. government agencies	$ 3,962	$ 4	$ 9,793	$ 1,470	$ 13,755	$ 1,474
Obligations of state and political subdivisions	29,728	1,299	18,786	4,946	$ 48,514	6,245
Collateralized mortgage obligations:						
Government sponsored agency	34,185	281			34,185	281
Private label			12,145	2,727	12,145	2,727
Residential mortgage-backed securities	5,593	74			5,593	74
Pooled Trust Preferred Senior Class			1,438	2,414	1,438	2,414
Pooled Trust Preferred Mezzanine Class			2,341	9,824	2,341	9,824
Corporate debt securities			380	120	380	120
Equity securities						
	$ 73,468	$ 1,658	$ 44,883	$ 21,501	$ 118,351	$ 23,159

The table below indicates the length of time individual securities available for sale have been in a continuous unrealized loss position at December 31, 2009 (as restated):

Table of Contents

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. government agencies	$ 12,527	$ 215	$ 9,588	$ 1,508	$ 22,115	$ 1,723
Obligations of state and political subdivisions	30,266	1,274	16,904	4,699	47,170	5,973
Collateralized mortgage obligations:						
Government sponsored agency	31,733	370			31,733	370
Private label			13,591	3,112	13,591	3,112
Residential mortgage-backed securities	3,585	31			3,585	31
Pooled trust preferred senior class			1,391	2,457	1,391	2,457
Pooled trust preferred mezzanine class			2,419	10,040	2,419	10,040
Corporate debt securities			356	144	356	144
Equity securities						
	$ 78,111	$ 1,890	$ 44,249	$ 21,960	$ 122,360	$ 23,850

At March 31, 2010, the Company s investment portfolio was comprised of U.S. Government agency securities, tax-exempt obligations of states and political subdivisions, government sponsored agency obligations, private label collateralized mortgage obligations (PLCMOs), residential mortgage-backed securities, pooled trust preferred collateralized debt obligations securities (PreTSLs), and corporate debt securities.

At March 31, 2010, excluding PLCMOs and PreTSLs, 159 of the Company s debt securities holdings having unrealized losses have depreciated 7.41% from their amortized cost basis. These securities are guaranteed by either the U.S. Government, government sponsored agencies, other governments or corporations. Sixty-six percent (66%) of such securities are also guaranteed by underlying insurance which further secures the safety of principal. These unrealized losses relate principally to current interest rates for similar types of securities. The Company does not intend to sell these securities and does not anticipate that it will be necessary to sell these securities before the full recovery of principal and interest due, which may be at maturity. Therefore, the Company did not consider the carrying value of these securities to be other-than-temporarily impaired at March 31, 2010.

At March 31, 2010, eight of the Company s PLCMOs having realized OTTI losses of $2.3 million and unrealized losses of $2.7 million have depreciated 37.20% from their amortized cost basis.

At March 31, 2010, seven of the Company s PreTSLs having realized OTTI losses of $18.7 million and unrealized losses of $12.2 million have depreciated 89.11% from their amortized cost basis.

Under ASC Topic 320, Investments Debt and Equity Securities, If management has no intent to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost, then other-than-temporary declines in the fair value of the debt security that are related to credit losses must be recognized in earnings as realized losses and those declines that are related to other factors are recognized in other comprehensive income. Numerous factors, including lack of liquidity for re-sales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate, adverse actions by regulators, or unanticipated changes in the competitive environment could have a negative effect on our investment portfolio and may result in OTTI on the Company s investment securities in future periods.

On a quarterly basis, the Company evaluates its investment securities for OTTI. Unrealized losses on securities are considered to be OTTI when the Company believes the security s impairment is due to factors that could include the security issuer s inability to pay interest or dividends, the security issuer s potential for default, and/or other factors., When a held to maturity or available for sale debt security is assessed for OTTI, the Company must first consider (a) whether management intends to sell the security, and (b) whether it is more likely than not that the Company will be required to sell the security prior to recovery of its amortized cost basis. If one of these circumstances applies to a security, an OTTI loss is recognized in the statement of operations equal to the full amount of the decline in fair value below amortized cost. If neither of these circumstances applies to a security, but the Company does not expect to recover the entire amortized cost basis, an OTTI loss has occurred that must be separated into two categories: (a) the amount related to credit loss, and (b) the amount related to other factors. In assessing the level of OTTI attributable to credit loss, the Company

Table of Contents

compares the present value of cash flows expected to be collected with the amortized cost basis of the security. As discussed above, the portion of the total OTTI related to credit loss is recognized in earnings, while the amount related to other factors is recognized in other comprehensive income. The total OTTI loss is presented in the statement of operations, less the portion recognized in other comprehensive income. When a debt security becomes other than temporarily impaired, its amortized cost basis is reduced to reflect the portion of the total impairment related to credit loss.

To determine whether a security s impairment is other-than-temporary, the Company considers factors that include:

- the causes of the decline in fair value, such as credit problems, interest rate fluctuations, or market volatility;
- the severity and duration of the decline;
- the Company s ability and intent to hold equity security investments until they recover in value, as well as the likelihood of such a recovery in the near term;
- the Company s intent to sell security investments, or if it is more likely than not that the Company will be required to sell such securities before recovery of their individual amortized cost basis less any current period credit loss.

For debt securities, the primary consideration in determining whether impairment is other-than-temporary is whether or not it is probable that current or future contractual cash flows have or may be impaired.

Based on the Company s evaluation at March 31, 2010, the Company has determined that the decreases in estimated fair value are temporary with the exception of eight PLCMOs and seven PreTSLs. The Company s discounted estimate of projected cash flows it expects to receive was less than the securities carrying value resulting in a credit-related impairment charge to earnings for the three months ended March 31, 2010 of $346 thousand.

OTTI of Private Label CMOs:

The following PLCMOs held as of March 31, 2010 (in thousands as restated) were determined to be credit impaired either in the current or previous year resulting in a charge to earnings.

Description	Book Value	Fair Value	Unrealized gain/loss	S&P credit rating	Collateral type	Credit Impairment this period	Cumulative Credit Impairment
RAST 2006-A10 A5	$ 970	$ 671	$ (299)	CC	ALT-A30	$ 5	$ 283
RAST 2006-A8 2A2	831	784	$ (47)	CC	ALT-A30	7	421
CWALT 2007-7T2 A12	1,877	1,624	$ (253)	CC	ALT-A30		282
RALI 2006-QS 16 A10	911	735	$ (176)	CC	ALT-A30	2	356

RALI 2006-QS4 A2		1,411	903	$ (508)	CC	ALT-A30	6	384
HALO 2007-1 3A6		1,413	624	$ (789)	CCC	WH-30		79
WMALT 2006-2 2CB		820	860	$ 40	CCC	ALT-A30	33	467
PRIME 2006-1 1A1		1,920	1,627	$ (293)	CC	WH-30		41
Total	$	10,153	7,828	(2,325)				