

FIRST NATIONAL COMMUNITY BANCORP INC
Form 10-Q
November 09, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from _____ to _____

Commission File No. 333-24121

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 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

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Non-Accelerated Filer

Smaller reporting company

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

Yes No

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

Common Stock, \$1.25 par value	16,248,570 shares
(Title of Class)	(Outstanding at November 6, 2009)

Table of Contents

FIRST NATIONAL COMMUNITY BANCORP, INC.

INDEX

PART I		Page No.
FINANCIAL INFORMATION		
Item 1.	<p>Consolidated Financial Statements.</p> <p><u>Consolidated Statements of Financial Condition</u> September 30, 2009 (unaudited) and December 31, 2008</p> <p><u>Consolidated Statements of Income</u> Three Months Ended September 30, 2009 and September 30, 2008 (unaudited)</p> <p>Nine Months Ended September 30, 2009 and September 30, 2008 (unaudited)</p> <p><u>Consolidated Statements of Cash Flows</u> Nine Months Ended September 30, 2009 and September 30, 2008 (unaudited)</p> <p><u>Consolidated Statements of Changes in Stockholders' Equity</u> Nine Months Ended September 30, 2009 (unaudited)</p> <p><u>Notes to Consolidated Financial Statements</u></p>	<p>1</p> <p>2</p> <p>3</p> <p>5</p> <p>7</p>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	9
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk.</u>	27
Item 4.	<u>Controls and Procedures.</u>	27
PART II		
OTHER INFORMATION		27
Item 1.	<u>Legal Proceedings.</u>	
Item 1A.	<u>Risk Factors.</u>	
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>	
Item 3.	<u>Defaults Upon Senior Securities.</u>	
Item 4.	<u>Submission of Matters to a Vote of Security Holders.</u>	
Item 5.	<u>Other Information.</u>	
Item 6.	<u>Exhibits.</u>	
	<u>Signatures</u>	30

Table of Contents

FIRST NATIONAL COMMUNITY BANCORP, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	September 30, 2009 (UNAUDITED)	December 31, 2008 (AUDITED)
	(dollars in thousands, except share data)	
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	\$21,418	\$ 18,171
Federal funds sold	74,975	0
Total cash and cash equivalents	96,393	18,171
Securities:		
Available-for-sale, at fair value	248,573	245,900
Held-to-maturity, at cost (fair value \$1,931 on September 30, 2009 and \$1,774 on December 31, 2008)	1,876	1,808
Federal Reserve Bank and FHLB stock, at cost	11,514	11,087
Net loans	945,502	956,674
Bank premises and equipment	17,992	17,785
Intangible Assets	9,953	9,781
Other assets	54,095	52,553
Total Assets	\$1,385,898	\$ 1,313,759
LIABILITIES		
Deposits:		
Demand – non-interest bearing	\$79,335	\$ 79,760
Interest bearing demand	351,613	302,058
Savings	85,764	79,526
Time (\$100,000 and over)	255,577	191,052
Other time	282,933	300,496
Total deposits	1,055,222	952,892
Borrowed funds	207,701	245,197
Subordinated debentures	11,000	0
Other liabilities	9,188	15,328
Total Liabilities	\$1,283,111	\$ 1,213,417
SHAREHOLDERS' EQUITY		
Common Stock, \$1.25 par value, Authorized: 50,000,000 shares		
Issued and outstanding:		
16,248,570 shares at September 30, 2009 and 16,047,928 shares at December 31, 2008	\$ 20,311	\$ 20,060
Additional Paid-in Capital	61,028	59,591
Retained Earnings	33,317	40,892
Accumulated Other Comprehensive Income (Loss)	(11,869)	(20,201)
Total shareholders' equity	\$102,787	\$ 100,342
Total Liabilities and Shareholders' Equity	\$1,385,898	\$ 1,313,759

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

See notes to financial statements

(1)

Table of Contents

FIRST NATIONAL COMMUNITY BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
	(dollars in thousands, except share data)			
Interest Income:				
Loans	\$ 12,589	\$ 14,436	\$ 38,986	\$ 44,465
Investments	3,193	3,696	9,975	11,149
Federal Funds Sold	31	7	44	12
Total interest income	15,813	18,139	49,005	55,626
Interest Expense:				
Deposits	4,450	5,626	12,917	18,525
Subordinated debt	65	0	65	0
Borrowed Funds	1,750	2,379	5,629	7,346
Total interest expense	6,265	8,005	18,611	25,871
Net Interest Income before Loan Loss Provision	9,548	10,134	30,394	29,755
Provision for credit losses	11,050	300	20,760	1,150
Net interest income (loss)	(1,502)	9,834	9,634	28,605
Other Income:				
Gain on impaired securities	4,912	0	3,939	0
Noncredit related losses on securities not expected to be sold (recognized in other comprehensive income)	(7,311)	0	(6,720)	0
Net impairment losses	(2,399)	0	(2,781)	0
Service charges	744	812	2,154	2,332
Other Income	691	633	1,938	1,914
Gain / (Loss) on sale of:				
Loans	280	80	1,287	380
Securities	(30)	312	795	1,025
Other Real Estate	73	488	73	488
Total other income (loss)	(641)	2,325	3,466	6,139
Other expenses:				
Salaries & benefits	3,104	3,236	9,420	9,459
Occupancy & equipment	1,040	1,009	3,121	3,013
Advertising expense	180	240	660	720
Data processing expense	433	400	1,299	1,235
FDIC assessment	604	223	2,036	484
Bank shares tax	214	158	646	485
Expense of ORE	774	0	812	0
Other	1,695	1,145	4,070	3,512
Total other expenses	8,044	6,411	22,064	18,908
Income (Loss) before income taxes	(10,187)	5,748	(8,964)	15,836
Income tax expense (benefit)	(4,003)	1,421	(3,802)	3,809
NET INCOME (LOSS)	\$(6,184)	\$4,327	\$(5,162)	\$12,027
Basic earnings (loss) per share				
Basic earnings (loss) per share	\$(0.38)	\$0.27	\$(0.32)	\$0.76
Diluted earnings (loss) per share				
Diluted earnings (loss) per share	\$(0.37)	\$0.27	\$(0.31)	\$0.74

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Weighted average number of basic shares	16,197,941	15,888,360	16,140,834	15,825,238
Weighted average number of diluted shares	16,585,125	16,218,396	16,534,226	16,166,444

See notes to financial statements

(2)

Table of Contents

FIRST NATIONAL COMMUNITY BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Nine Months Ended September 30, 2009 2008 (dollars in thousands)	
INCREASE (DECREASE) IN CASH EQUIVALENTS:		
Cash Flows From Operating Activities:		
Interest Received	\$46,782	\$54,236
Fees & Commissions Received	4,191	4,295
Interest Paid	(19,424)	(28,327)
Income Taxes Paid	(1,861)	(3,151)
Cash Paid to Suppliers & Employees	(22,212)	(17,559)
Net Cash Provided by Operating Activities	\$7,476	\$9,494
Cash Flows from Investing Activities:		
Securities available for sale:		
Proceeds from Maturities	\$500	\$0
Proceeds from Sales prior to maturity	24,117	65,240
Proceeds from Calls prior to maturity	28,615	30,817
Purchases	(42,695)	(58,386)
Net Increase in Loans to Customers	(13,405)	(54,224)
Capital Expenditures	(1,336)	(2,526)
Net Cash Provided/(Used) by Investing Activities	\$(4,204)	\$(19,079)
Cash Flows from Financing Activities:		
Net Increase in Demand Deposits, Money Market Demand, NOW Accounts, and Savings Accounts		
	\$55,369	\$37,914
Net Increase/(Decrease) in Certificates of Deposit	46,961	(27,251)
Proceeds from issuance of Subordinated Debentures	11,000	0
Net Decrease in Borrowed Funds	(37,496)	(3,111)
Net Proceeds from Issuance of Common Stock Through Dividend Reinvestment	1,437	2,275
Net Proceeds from Issuance of Common Stock – Stock Option Plans	92	197
Dividends Paid	(2,413)	(5,220)
Net Cash Provided/(Used) by Financing Activities	\$74,950	\$4,804
Net Increase/(Decrease) in Cash and Cash Equivalents	\$78,222	\$(4,781)
Cash & Cash Equivalents at Beginning of Year	\$18,171	\$24,735
CASH & CASH EQUIVALENTS AT END OF PERIOD	\$96,393	\$19,954

(Continued)
(3)

Table of ContentsFIRST NATIONAL COMMUNITY BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOW (CONTINUED)
(UNAUDITED)

	For the Nine Months Ended September 30, 2009 2008 (dollars in thousands)	
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Income	\$(5,162)	\$12,027
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Amortization (Accretion), Net	(2,872)	(2,741)
Equity in trust	(4)	(8)
Depreciation and Amortization	1,356	1,353
Provision for Probable Credit Losses	20,760	1,150
Provision for Deferred Taxes	(168)	(161)
Gain on Sale of Loans	(1,287)	(380)
Gain on Sale of Investment Securities	(795)	(1,025)
Impairment losses on Investment Securities	2,781	0
Gain on Sale of Other Real Estate	(73)	(488)
Increase/(Decrease) in Taxes Payable	(5,638)	73
Decrease in Interest Receivable	649	1,351
Decrease in Interest Payable	(813)	(2,455)
Increase in Prepaid Expenses and Other Assets	(1,728)	(1,209)
Increase in Accrued Expenses and Other Liabilities	470	2,007
Total Adjustments	\$12,638	\$(2,533)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$7,476	\$9,494

See notes to financial statements

(4)

Table of Contents

FIRST NATIONAL COMMUNITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN
STOCKHOLDERS' EQUITY
For The Nine Months Ended September 30, 2009
(In thousands, except share data)
(UNAUDITED)

	COMP-REHEN-SIVE INCOME	COMMON SHARES	STOCK 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 loss for the period	(5,162)				(5,162)		(5,162)
Other comprehensive income, net of tax:							
Unrealized gain on securities available-for-sale	12,184						
Noncredit related losses on securities not expected to be sold	(4,369)						
Reclassification adjustment for gain or loss included in income	517						
Total other comprehensive income, net of tax	8,332					8,332	8,332
Comprehensive Income	3,170						
Issuance of Common Stock –Stock Options Plans		15,500	19	232			251
Issuance of Common Stock through Dividend Reinvestment		185,142	232	1,205			1,437

Cash dividends paid, \$0.15 per share					(2,413)		(2,413)
BALANCES, SEPTEMBER 30, 2009	16,248,570	\$20,311	\$61,028	\$33,317	\$	(11,869)	\$102,787

See notes to financial statements
(5)

Table of Contents

FIRST NATIONAL COMMUNITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN
STOCKHOLDERS' EQUITY
For The Nine Months Ended September 30, 2008
(In thousands, except share data)
(UNAUDITED)

	COMP-REHEN-SIVE INCOME	COMMON SHARES	STOCK AMOUNT	ADD'L PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME/ (LOSS)	TOTAL
BALANCES, DECEMBER 31, 2007		15,746,250	\$ 19,683	\$ 56,490	\$ 33,159	\$ (2,190)	\$ 107,142
Comprehensive Income:							
Net income for the period	12,027				12,027		12,027
Other comprehensive income, net of tax:							
Unrealized loss on securities available-for-sale, net of deferred income tax benefit of \$10,114	(18,783)						
Reclassification adjustment for gain or loss included in income, net of deferred income taxes of \$359	666						
Total other comprehensive loss, net of tax	(18,117)					(18,117)	(18,117)
Comprehensive Loss	(6,090)						
Issuance of Common Stock - Stock Options Awarded		26,314	39	158			197
Issuance of Common Stock through Dividend Reinvestment		183,232	223	2,052			2,275
					(56)		(56)

Prior period
adjustment

Cash dividends
paid, \$0.33 per
share

(5,220)

(5,220)

BALANCES,
SEPTEMBER 30,
2008

15,955,796 \$19,945 \$58,700 \$39,910 \$ (20,307) \$98,248

See notes to financial statements
(6)

Table of Contents

FIRST NATIONAL COMMUNITY BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

(2) The following table identifies the related tax effects allocated to each component of other comprehensive income in the Consolidated Statements of Changes in Stockholders' Equity:

	September 30, 2009			September 30, 2008		
	Pre-tax Amount	Tax (Expense) Benefit	(dollars in thousands) Net of Tax Amount	Pre-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Unrealized gains (losses) on securities:						
Unrealized holding gains (losses) arising during the period	\$18,744	\$(6,560)	\$12,184	\$(28,897)	\$10,114	\$(18,783)
Noncredit related losses on securities not expected to be sold	(6,720)	2,351	(4,369)	0	0	0
Less: reclassification adjustment for gain or loss realized in net income	795	(278)	517	1,025	(359)	666
Net unrealized gains (losses)	\$12,819	\$(4,487)	\$8,332	\$27,872	\$9,755	\$(18,117)
Other comprehensive income (loss)	\$12,819	\$(4,487)	\$8,332	\$27,872	\$9,755	\$(18,117)

(3) Basic earnings per share have been computed by dividing net income (the numerator) by the weighted average number of common shares (the denominator) for the period. Such shares amounted to 16,140,834 and 15,825,238 for the periods ending September 30, 2009 and 2008, respectively.

Diluted earnings per share have been computed by dividing net income (the numerator) by the weighted average number of common shares and options outstanding (the denominator) for the period. Such shares amounted to 16,534,226 and 16,166,444 for the periods ending September 30, 2009 and 2008, respectively.

(4) On August 30, 2000, the Corporation's board of directors adopted an Employee Stock Incentive Plan in which options may be granted to key officers and other employees of the Corporation. The aggregate number of shares which may be issued upon exercise of the options under the plan cannot exceed 1,100,000 shares. Options and rights granted under the plan become exercisable six months after the date the options are awarded and expire ten years after the award date.

The board of directors also adopted on August 30, 2000, the Independent Directors Stock Option Plan for members of the corporation's board of directors who are not officers or employees of the corporation or its subsidiaries. The aggregate number of shares issuable under the plan cannot exceed 550,000 shares and are exercisable six months from the date the awards are granted and expire three years after the award date.

(7)

Table of Contents

In accordance with current accounting guidance, all options granted have been charged against income at their fair value. Awards granted under the plans vest immediately and the entire expense of the award is recognized in the year of grant.

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

	Nine months ended September 30,			
	2009		2008	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at the beginning of the period	325,134	\$12.36	360,694	\$11.93
Granted	74,600	10.81	0	
Exercised	(15,500)	5.97	(31,125)	6.31