Summer Infant, Inc.
Form SC 13G/A
February 14, 2012

SCHEDULE 13G

Amendment No. 1
SUMMER INFANT INC
Common Stock
Cusip #865646103

Cusip #865646103
Item 1: Reporting Person - FMR LLC
Item 4: Delaware
Item 5: 1,095,241
Item 6: 0
Item 7: 1,899,194
Item 8: 0
Item 9: 1,899,194
Item 11: 10.897%
Item 12: HC

Cusip #865646103
Item 1: Reporting Person - Edward C. Johnson 3d
Item 4: United States of America
Item 5: 0
Item 6: 0
Item 7: 1,899,194
Item 8: 0
Item 9: 1,899,194
Item 11: 10.897%
Item 12: IN

SCHEDULE 13G - TO BE INCLUDED IN
STATEMENTS
FILED PURSUANT TO RULE 13d-1(b) or 13d-2(b)

Item 1(a). Name of Issuer:

SUMMER INFANT INC

Item 1(b). Name of Issuer's Principal Executive Offices:

1275 Park East Drive
Woonsocket, Rhode Island 02895

Item 2(a). Name of Person Filing:

FMR LLC

Item 2(b). Address or Principal Business Office or, if None,
Residence:

82 Devonshire Street, Boston,

Massachusetts 02109

Item 2(c). Citizenship:

Not applicable

Item 2(d). Title of Class of Securities:

Common Stock

Item 2(e). CUSIP Number:

865646103

Item 3. This statement is filed pursuant to Rule 13d-1(b) or 13d-2(b) and the person filing, FMR LLC, is a parent holding company in accordance with Section 240.13d-1(b)(ii)(G). (Note: See Item 7).

Item 4. Ownership

(a) Amount Beneficially Owned: 1,899,194

(b) Percent of Class: 10.897%

(c) Number of shares as to which such person has:

(i) sole power to vote or to direct the vote: 1,095,241

(ii) shared power to vote or to direct the vote: 0

(iii) sole power to dispose or to direct the disposition of: 1,899,194

(iv) shared power to dispose or to direct the disposition of: 0

Item 5. Ownership of Five Percent or Less of a Class.

Not applicable.

Item 6. Ownership of More than Five Percent on Behalf of Another Person.

Various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the Common Stock of SUMMER INFANT INC. No one person's interest in the Common Stock of SUMMER INFANT INC is more than five percent of the total outstanding Common Stock.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company.

See attached Exhibit A.

Item 8. Identification and Classification of Members of the Group.

Not applicable. See attached Exhibit A.

Item 9. Notice of Dissolution of Group.

Not applicable.

Item 10. Certification.

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired in the ordinary course of business and were not acquired for the purpose of and do not have the effect of changing or influencing the control of the issuer of such securities and were not acquired in connection with or as a participant in any transaction having such purpose or effect.

Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

February 13, 2012
Date

/s/ Scott C. Goebel
Signature

Scott C. Goebel
Duly authorized under Power of Attorney
effective as of June 1, 2008 by and on behalf of FMR LLC
and its direct and indirect subsidiaries

SCHEDULE 13G - TO BE INCLUDED IN STATEMENTS
FILED PURSUANT TO RULE 13d-1(b) or 13d-2(b)

Pursuant to the instructions in Item 7 of Schedule 13G, Fidelity Management & Research Company ("Fidelity"), 82 Devonshire Street, Boston, Massachusetts 02109, a wholly-owned subsidiary of FMR LLC and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, is the beneficial owner of 807,725 shares or 4.635% of the Common Stock outstanding of SUMMER INFANT INC ("the Company") as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940.

Edward C. Johnson 3d and FMR LLC, through its control of Fidelity, and the funds each has sole power to dispose of the 807,725 shares owned by the Funds.

Members of the family of Edward C. Johnson 3d, Chairman of FMR LLC, are the predominant owners, directly or through trusts, of Series B voting common shares of FMR LLC, representing 49% of the voting power of FMR LLC.

The Johnson family group and all other Series B shareholders have entered into a shareholders' voting agreement under which all Series B voting common shares will be voted in accordance with the majority vote of Series B voting common shares. Accordingly, through their ownership of voting common shares and the execution of the shareholders' voting agreement, members of the Johnson family may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR LLC.

Neither FMR LLC nor Edward C. Johnson 3d, Chairman of FMR LLC, has the sole power to vote or direct the voting of the shares owned directly by the Fidelity Funds, which power resides with the Funds' Boards of Trustees. Fidelity carries out the voting of the shares under written guidelines established by the Funds' Boards of Trustees.

Pyramis Global Advisors, LLC ("PGALLC"), 900 Salem Street, Smithfield, Rhode Island, 02917, an indirect wholly-owned subsidiary of FMR LLC and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, is the beneficial owner of 25,000 shares or 0.143% of the outstanding Common Stock of SUMMER INFANT INC as a result of its serving as investment adviser to institutional accounts, non-U.S. mutual funds, or investment companies registered under Section 8 of the Investment Company Act of 1940 owning such shares.

Edward C. Johnson 3d and FMR LLC, through its control of PGALLC, each has sole dispositive power over 25,000 shares and sole power to vote or to direct the voting of 25,000 shares of Common Stock owned by the institutional accounts or funds advised by PGALLC as reported above.

Pyramis Global Advisors Trust Company ("PGATC"), 900 Salem Street, Smithfield, Rhode Island, 02917, an indirect wholly-owned subsidiary of FMR LLC and a bank as defined in Section 3(a)(6) of the Securities Exchange Act of 1934, is the beneficial owner of 1,066,469 shares or 6.119% of the outstanding Common Stock of the SUMMER INFANT INC as a result of its serving as investment manager of institutional accounts owning such shares.

Edward C. Johnson 3d and FMR LLC, through its control of Pyramis Global Advisors Trust Company, each has sole dispositive power over 1,066,469 shares and sole power to vote or to direct the voting of 1,066,469 shares of Common Stock owned by the institutional accounts managed by PGATC as reported above.

SCHEDULE 13G - TO BE INCLUDED IN STATEMENTS
FILED PURSUANT TO RULE 13d-1(b) or 13d-2(b)
RULE 13d-1(f)(1) AGREEMENT

The undersigned persons, on February 13, 2012, agree and consent to the joint filing on their behalf of this Schedule 13G in connection with their beneficial ownership of the Common Stock of SUMMER INFANT INC at December 31, 2011.

FMR LLC

By /s/ Scott C. Goebel
Scott C. Goebel
Duly authorized under Power of Attorney effective as of June 1, 2008, by and on behalf of FMR LLC and its direct and indirect subsidiaries

Edward C. Johnson 3d

By /s/ Scott C. Goebel
Scott C. Goebel
Duly authorized under Power of Attorney effective as of June 1, 2008, by and on behalf of Edward C. Johnson 3d

Fidelity Management & Research Company

By /s/ Scott C. Goebel
Scott C. Goebel
Senior V.P. and General Counsel

Pyramis Global Advisors Trust Company

By /s/ Ashling Kanavos
Ashling Kanavos
Duly authorized under Power of Attorney
dated April 6, 2009, by William E. Dailey
Senior Vice President
and Chief Financial Officer

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(1,156

)

Other-than temporary impairment losses

4,271

20,649

Gain on the sale of loans held for sale

(1,198

)

(1,481

)

(414

)

Loss (gain)on sale of other assets

60

(3

)

Goodwill impairment

8,134

Increase in refundable federal income taxes

(187
)
(12,222
)

Gain on the sale of other real estate owned

(403
)
(309
)
(520
)
Write-down of other real estate owned

5,906

434

Write-down of premises and equipment

1,196

Income from bank owned life insurance	(740)	(360)	(416)
Proceeds from the sale of loans held for sale	44,837	62,651	36,331
Funds used to originate loans held for sale	(46,754)	(62,259)	(36,751)
Decrease in interest receivable			

1,126

441

1,029

Decrease in prepaid expenses and other assets

(1,129

)

(6,947

)

(2,273

)

Decrease in interest payable

(117

)

(1,152

)

(2,660

)

Increase in accrued expenses and other liabilities

1,825

(606

)

2,221

Total adjustments

37,512

48,680

(4,288

)

Net Cash Provided by Operating Activities

5,792

4,364

10,795

Cash Flows from Investing Activities:

Maturities, calls and principal payments of investment securities available-for-sale	51,145	35,461	41,693
Sales of securities available for sale	36,619	37,222	65,240
Purchases of securities available-for-sale	(89,442)	(84,174)	

(82,001

)

Purchases of Federal Reserve Bank stock

(336

)

(269

)

(7

)

Redemption of the stock of the Federal Home Loan Bank of Pittsburgh

543

Net decrease /(increase) in loans to customers

111,010

(10,404

)

(60,277

)

Proceeds from the sale of indirect loans

36,501

Proceeds from the sale of other real estate owned

5,996

381

Purchases of property and equipment

(1,239

)

Proceeds from the sale of property and equipment

59

(4,377

)

(2,930

)

Net Cash Provided/(Used) by Investing Activities

150,856

(26,160

)

(38,282

)

Cash Flows from Financing Activities:

Net increase in demand deposits, money market demand, interest-bearing demand accounts, and savings accounts

7,981

63,112

22,250

Net (decrease) / increase in time deposits

(97,153

)

55,603

(14,876

)

Proceeds from issuance of subordinated debentures

1,900

23,100

Proceeds from FHLB advances

27,000

192,330

	208,651
Repayment of FHLB advances	
	(108,943)
	(227,058)
	(171,181)
Proceeds from (repayment) of other borrowed funds	
	180
	(16,103)
	(20,105)
Proceeds from issuance of common shares, net of share issuance costs	
	528
	1,650
	3,281
Proceeds from issuance of common shares - share option plans	

93

197

Dividends paid

(2,738

)

(7,294

)

Net Cash Provided/(Used) by Financing Activities

(168,507

)

89,989

20,923

Net Increase/(Decrease) in Cash and Cash Equivalents

(11,859

)

68,193

	(6,564
)	
Cash & Cash Equivalents at Beginning of Year	
	86,364
	18,171
	24,735
Cash & Cash Equivalents at End of Year	
$	74,505
$	86,364
$	18,171

Supplemental Cash Flow Information

Cash paid (received) during the period for:			
Interest paid	$ 21,985	$ 26,514	$ 35,902
Income taxes - paid/(refunds received)	(3,324)	1,864	4,463

Other transactions:

Principal balance of loans transferred to OREO		9,928
		11,717
Property transferred from OREO to premises & equipment		2,335
Receivable from sale of loans held for sale		749

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

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FIRST NATIONAL COMMUNITY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2010, 2009 and 2008 (in thousands, except share data)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Total Shareholders' Equity
Balances, January 1, 2008	15,746,250	$ 19,683	$ 56,490	$ 33,103	$ (2,190)	$ 107,086
Comprehensive Income:						
Net income for the year				15,083		15,083
Other comprehensive gain (loss) net of tax:						
Net change in unrealized gains and losses on securities available for sale (AFS) net of tax benefit of $10,103					(18,763)	
Reclassification adjustment for gains and (losses) included in net income, net of tax of $404					752	
Other comprehensive loss					(18,011)	(18,011)
Total comprehensive loss						(2,928)
Cash dividend paid, $0.46 per share				(7,294)		(7,294)
Proceeds from the issuance of common shares - Stock option plans	31,125	39	158			197
Proceeds from issuance of common shares through dividend reinvestment plan	270,553	338	2,943			3,281
Balances, December 31, 2008	16,047,928	$ 20,060	$ 59,591	$ 40,892	$ (20,201)	$ 100,342
Net loss for the year				(44,316)		(44,316)
Other comprehensive gain (loss) net of tax:						
Net change in unrealized gains and losses on securities available for sale (AFS) net of tax of $7,798					14,482	
Non-credit related losses on OTTI securities not expected to be sold, net of tax benefit of $3,858					(7,165)	
Reclassification adjustment for gains and (losses) included in net loss, net of tax of $312					578	
Other comprehensive income					7,895	7,895
Total comprehensive loss						(36,421)
Cash dividend paid, $0.17 per share				(2,738)		(2,738)
Stock based compensation - Stock Option Plans			158			158
Proceeds from the issuance of common shares - Stock option plans	15,500	19	74			93
Proceeds from issuance of common shares through dividend reinvestment plan	226,542	283	1,367			1,650
Balances, December 31, 2009	16,289,970	$ 20,362	$ 61,190	$ (6,162)	$ (12,306)	$ 63,084
Net loss for the year				(31,720)		(31,720)

Other comprehensive gain (loss) net of tax:						
Net change in unrealized gains and losses on securities available for sale (AFS) net of tax benefit of $3,988					(7,741)	
Non-credit related gains on OTTI securities not expected to be sold, net of tax of $2,037					3,954	
Reclassification adjustment for gains and (losses) included in net loss, net of tax of $2,035					3,950	
Other comprehensive income					163	163
Total comprehensive loss						(31,557)
Proceeds from issuance of common shares through dividend reinvestment plan	143,050	179	349			528
Balances, December 31, 2010	16,433,020	$ 20,541	$ 61,539	$ (37,882)	$ (12,143)	$ 32,055

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

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Notes to Consolidated Financial Statements

Note 1. Organization

First National Community Bancorp, Inc., (the Company) is a registered bank holding company under the Bank Holding Company Act of 1956. It was incorporated under the laws of the Commonwealth of Pennsylvania in 1997. It is the parent company of First National Community Bank (the Bank) and the Bank s wholly owned subsidiaries FNCB Realty Company, Inc., FNCB Realty Company I, LLC, and FNCB Realty Company II, LLC.

The Bank provides customary retail services to individuals and businesses through its twenty-one banking locations located in northeastern Pennsylvania.

FNCB Realty Company, Inc., FNCB Realty Company I, LLC, and FNCB Realty Company II, LLC were formed to hold real estate and/or operate businesses acquired in exchange for debt settlement or foreclosure.

During December 2006 the Bank created First National Community Statutory Trust I (Issuing Trust) which is wholly owned by the Company. The trust purpose is to provide an additional funding source for the Company through the issuance of pooled trust preferred securities.

The Company has adopted Accounting Standards Codification 810-10, for the issuing trust. Accordingly, this trust has not been consolidated with the accounts of the Company, because the Company is not the primary beneficiary of the trust.

Note 2. Summary of Significant Accounting Policies

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.

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 statement of financial condition 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), securities valuations, the evaluation of deferred income taxes and goodwill, and the impairment of securities. The current economic environment has increased the degree of uncertainty inherent in these material estimates.

Cash Equivalents

For purposes of reporting cash flows, cash equivalents include cash on hand, amounts due from banks and federal funds sold. Generally, federal funds are purchased and sold for one day periods.

Securities

We classify investment securities as either held to maturity or available for sale at the time of purchase. Investment securities that are classified as held-to-maturity are carried at amortized cost when management has the positive intent and ability to hold them to maturity. Investment securities that are classified as available-for-sale are carried at fair value with unrealized gains and losses recognized as a component of shareholders equity in accumulated other comprehensive income. Gains and losses on sales of investment securities are recognized using the specific identification method on a trade date basis. Interest income on investments includes amortization of purchase premiums and discounts. Realized gains and losses are derived based on the amortized cost of the security sold.

Quarterly, the Company evaluates its investment securities classified as held to maturity or available for sale for other-than-temporary-impairment (OTTI). Unrealized losses on securities are considered to be other-than-temporarily impaired when the Company believes the security s impairment is due to factors that could include the issuer s inability to pay interest or dividends, the issuer s

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potential for default, and/or other factors. Based on current authoritative guidance, 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 (such as market risk). In assessing the level of OTTI attributable to credit loss, the Company compares the present value of cash flows expected to be collected with the amortized cost basis of the security. The portion of the total OTTI related to credit loss is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as estimated based on cash flow projections discounted at the applicable original yield of the security, and 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.

For equity securities, the entire decline in the value that is considered other-than-temporary is recognized in earnings.

Investments in the Federal Reserve Bank and Federal Home Loan Bank stock have limited marketability, are carried at cost and are evaluated for impairment based on the Company s determination of the ultimate recoverability of the par value of the stock. The investment in the Federal Reserve Bank stock is included in other assets.

Loans and Loan Fees

Loans receivable, other than loans held for sale, are stated at face value, net of unamortized loan fees and costs and the allowance for loan and lease losses. Interest income on all loans is recognized using the effective interest method. Loan origination and commitment fees, as well as certain direct loan origination costs, are deferred and the net amount is amortized as an adjustment of the related loan s yield. The Bank is generally amortizing these amounts over the life of the related loans except for residential mortgage loans, where the timing and amount of prepayments can be reasonably estimated. For these mortgage loans, the net deferred fees or costs are amortized over an estimated average life of five years. Amortization of deferred loan fees or costs is discontinued when a loan is placed on non-accrual status.

Loans are placed on nonaccrual status when a loan is specifically determined to be impaired or when management believes that the collection of interest or principal is doubtful. This is generally when a default of interest or principal has existed for 90 days or more, unless such loan is fully secured and in the process of collection, or when management becomes aware of facts or circumstances that the loan would default before 90 days. The Company determines delinquency status based on the number of days since the date of the borrower s last required contractual loan payment. When the interest accrual is discontinued, all unpaid interest is reversed and charged back against interest income. Any cash payments received are applied, first to the outstanding loan amounts, then to the recovery of any charged-off loan amounts. Any excess is treated as a recovery of lost interest. Loans are returned to accrual status if principal and interest payments are brought current for six consecutive months and future payments are reasonably assured.

Troubled Debt Restructurings

Loans to borrowers that are experiencing financial difficulty that are modified and result in the Company granting concessions to the borrower are classified as troubled debt restructurings (TDRs) and are considered to be impaired. Concessions granted under a troubled debt restructuring generally involve a reduction of the rate, an extension of a loan s stated maturity date, or payment modifications. Nonaccrual troubled debt restructurings are returned to accrual status if principal and interest payments, under the modified terms, are brought current for six consecutive months and future payments are reasonably assured.

The Bank was not committed to lend additional funds to any of the loans classified as troubled debt restructurings as of December 31, 2010.

Loan Impairment

A loan is considered impaired when it is probable that the Bank will be unable to collect all amounts due (including principal and interest) according to the contractual terms of the note and loan agreement. For purposes of the Company s analysis, loans which are identified as TDRs or are non-accrual and substandard or doubtful loans are considered impaired. Impaired loans are analyzed individually for the amount of impairment. The Company generally utilizes the fair value of collateral method for collateral dependent loans, which make up the majority of the Company s impaired loans. A loan is considered to be collateral dependent when repayment of the loan is anticipated to come from the liquidation of the collateral held. For loans that are secured by real estate,

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external appraisals are obtained annually, or more frequently as warranted, to ascertain a fair value so that the impairment analysis can be updated. Should a current appraisal not be available at the time of impairment analysis, other sources of valuation such as current letters of intent, broker price opinions or executed agreements of sale may be used. For non-collateral dependent loans, the Company measures impairment based on the present value of expected future cash flows, net of disposal costs, discounted at the loan s original effective interest rate.

Generally all loans with balances of $100 thousand or less are considered smaller homogeneous pools and not individually evaluated for impairment. However, individual loans with balances of $100 thousand or less are individually evaluated for impairment if that loan is part of a larger impaired loan relationship that is greater than $100 thousand.

Impaired loans or portions thereof are charged-off upon determination that all or a portion of any loan balance is uncollectible and exceeds the fair value of the collateral. A loan is considered uncollectible when the borrower is delinquent in principal or interest repayment and it is unlikely that the borrower will have the ability to pay the debt in a timely manner, collateral value is insufficient to cover the outstanding indebtedness and the guarantors (if applicable) do not provide adequate support for the loan.

Allowance for Loan and Lease Losses

The ALLL is established as losses are estimated to have occurred through a provision for loan losses charged to earnings and is maintained at a level that management considers adequate to absorb losses in the loan portfolio. Loans are charged against the ALLL when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the ALLL.

The ALLL represents management s estimate of probable loan losses inherent in the loan portfolio. Determining the amount of the ALLL is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience and qualitative factors, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. Various banking regulators, as an integral part of their examinations of the Company, also review the ALLL. Such regulators may require, based on their judgments about information available to them at the time of their examination, that certain loan balances be charged off or require that adjustments be made to the ALLL. Additionally, the ALLL is determined, in part, by the composition and size of the loan portfolio.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For such loans an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers all other loans and is based on historical loss experience adjusted by qualitative factors. The Company changed its policy for determining the ALLL effective for 2009. 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 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 because of higher historical loss experience resulting from the increased loan charge-offs of impaired loans.

When establishing the ALLL, management categorizes loans into segments generally based on the nature of the collateral and basis of repayment. These risk characteristics of the Company s loan segments are as follows:

<u>Construction, Land Acquisition and Development Loans</u> - These loans are secured by real estate for the purpose of constructing one-to-four family homes. The Bank also offers interim construction financing for the purpose of constructing residential developments and various commercial properties including shopping centers, office complexes and single purpose owner occupied structures and for land acquisition. The Bank s construction program offers either short term interest only loans that require the borrower to pay interest only during the construction phase with a balloon payment of the principal outstanding at the end of the construction period or interest only during construction with a conversion to amortizing principal and interest when the construction is complete. Loans for undeveloped real estate are subject to a loan-to-value ratio not to exceed 65%. Construction loans are treated similarly to the developed real estate loans and are generally subject to an 80% loan to value ratio based upon an as-completed appraised value. Construction loans generally yield a higher interest rate than other mortgage loans but also carry more risk. If a construction loan defaults, the Bank would have to take control of the property, obtain title to it and categorize it as Other Real Estate Owned (OREO). The Bank will either find another contractor to complete the project, which may be at a higher cost, or seek to sell the property.

<u>Commercial Real Estate Loans</u> These loans represent the largest portion of the Bank s total loan portfolio and loans in this portfolio generally have larger loan balances. The commercial real estate mortgage loan portfolio is secured by a broad range of real estate,

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including but not limited to, office complexes, shopping centers, hotels, warehouses, gas stations/ convenience markets, residential care facilities, nursing care facilities, restaurants and multifamily housing. The Bank s commercial real estate portfolio consists of owner occupied properties and non-owner occupied properties and includes the personal guarantees of the principals where deemed necessary. The Bank offers various rates and terms for commercial mortgage loans secured by real estate. The interest rates associated with these types of loans are primarily priced as adjustable rate loans that adjust every three or five years or floating rate loans that adjust to a spread over the National Prime Rate (NPR) index. Loan pricing for most floating rate commercial mortgage loans generally has a minimum interest rate. The terms for commercial real estate loans typically do not exceed 20 years. Commercial real estate mortgage loans are originated under a comprehensive lending policy. In particular, these types of loans are subject to specific loan to value guidelines prior to the time of closing. The policy limits for developed real estate loans are subject to a maximum loan-to-value ratio of 80%. Commercial mortgage loans must also meet specific criteria that include the capacity, capital, credit worthiness and cash flow of the borrower and the project being financed. In order to make a decision on whether or not to make a commercial mortgage loan, the borrower(s) and guarantor(s) must provide the Bank with historical and current financial data. The Bank performs a review of the cash flow analysis of the borrower(s), guarantor(s) and the project. The Bank also considers the borrower s expertise, credit history, net worth and the value of the underlying property. The Bank generally requires that borrowers for loans secured by real estate have a debt service coverage ratio of at least 1.20 times.

Commercial and Industrial Loans - The Bank offers commercial loans to individuals and businesses located in its primary market area. The commercial loan portfolio includes lines of credit, dealer floor plan lines, equipment loans, vehicle loans, improvement loans and term loans. These loans are primarily secured by vehicles, machinery and equipment, inventory, accounts receivable, marketable securities, deposit accounts and real estate. The Bank offers various rates and terms for commercial loans. These loans also require the personal guarantee of the principals where deemed necessary. Most lines of credit are primarily issued for one year time periods and are renewable annually thereafter at the discretion of the Bank. Most other commercial loans range in terms from one year to seven years. The interest rates associated with these types of loans are primarily underwritten as fixed rate loans based upon the term of the loan or floating rate loans that adjust to a spread over the NPR index. Loan pricing for most floating rate commercial loans generally have a minimum interest rate floor. The interest rate for most lines of credit is issued on a floating rate basis. Finally, loans secured by deposit accounts are primarily underwritten at a spread over the interest rate of the deposit instrument used as collateral for the loan.

State and Political Subdivision Loans - The Bank originates loans to state and political subdivisions, primarily to municipalities in the Bank s market area.

Residential Real Estate Loans - The Bank offers fixed and variable rate one-to-four-family residential loans. Residential first lien mortgages are generally subject to an 80% loan to value ratio based on the appraised value of the property. The Bank will generally require the mortgagee to purchase Private Mortgage Insurance (PMI) if the amount of the loan exceeds the 80% loan to value ratio. The interest rates for the variable rate loans are adjusted to a percentage above the one year treasury rate. The Bank may sell loans and retain servicing when warranted by market conditions. The Bank also offers a rate lock to customers that allows the borrowers to lock in their interest rates at the time of application as well as at time of commitment. Residential mortgage loans are generally smaller in size and are considered homogeneous as they exhibit similar characteristics.

Consumer Loans - Include both secured and unsecured installment loans, personal lines of credit and overdraft protection

loans. The Bank is also in the business of underwriting indirect auto loans which are originated through various auto dealers in northeastern Pennsylvania and dealer floor plan loans. The Bank offers home equity loans and home equity lines of credit with a maximum combined loan-to-value ratio of 90% based on the appraised value of the property. Home equity loans have fixed rates of interest and are for terms up to 15 years. Home equity lines of credit have adjustable interest rates and are based upon the prime interest rate. Consumer loans are generally smaller in size and exhibit homogeneous characteristics.

Reserve for Unfunded Commitments

The liability for unfunded commitments provides for probable losses inherent in lending related commitments, including unused construction loan commitments to extend credit and letters of credit.

Mortgage Banking Activities

Mortgage loans originated by the Bank and intended for sale are carried at the lower of aggregate cost or fair value determined on an individual loan basis. Net unrealized losses are recorded as a valuation allowance and charged to earnings. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold and include the value assigned to the rights to service the loan. Gains on the sales of loans for the years ended December 31, 2010, 2009 and 2008 were $1.2 million, $1.5 million and $414 thousand, respectively. Loans held for sale are generally sold with loan servicing rights

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retained by the Company. At December 31, 2010 and 2009, loans held for sale amounted to $3.6 million and $442 thousand, respectively, and were included as a separate line item on the accompanying consolidated statement of financial condition.

Servicing

Servicing assets are reported in other assets and amortized in proportion to and over the period during which estimated servicing income will be received. Servicing loans for others consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors, and processing foreclosures. Loan servicing income is recorded when earned and represents servicing fees from investors and certain charges collected from borrowers, such as late payment fees. The Company has fiduciary responsibility for related escrow and custodial funds.

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For sales of mortgage loans originated by the Bank, a portion of the cost of originating the loan is allocated to the servicing retained right based on fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternately, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are amortized into interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Bank later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income. Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company   put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the transferor does not maintain effective control over the transferred assets through either (a) an agreement that both entitles and obligates the transferor to repurchase or redeem the assets before maturity or (b) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call.

Other Real Estate Owned (OREO   )

Other real estate owned (OREO) consists of property acquired by foreclosure or deed in-lieu of foreclosure that is held for sale and is initially recorded at fair value less cost to sell at the date of foreclosure, which establishes a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. At the date OREO is acquired, any write down to fair value less estimated selling costs is charged to the ALLL. This determination is made on an individual asset basis. Fair value is determined through external appraisals, current letters of intent, broker price opinions or executed agreements of sale. Costs relating to the development and improvement of the OREO properties may be capitalized; holding period costs and subsequent changes to the valuation allowance are charged to expense.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Routine maintenance and repair expenditures are expensed as incurred while significant expenditures for improvements are capitalized. Depreciation expense is determined on the straight-line method over the following ranges of useful lives:

Buildings and improvements	10 to 40 years
Furniture, fixtures and equipment	3 to 15 years
Leasehold improvements	5 to 30 years

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Goodwill and Intangible Assets

In connection with the purchase of the Honesdale branch completed in 2006, the Company acquired intangible assets of $9.8 million. Of that amount, $1.7 million results from a core deposit premium subject to periodic amortization over the useful life of 10 years. Goodwill of $8.1 million, which was not subject to amortization, arose in connection with the acquisition. 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 (the Measurement Date). The analysis included a combination of a market approach based analysis of comparable transactions, change of control premiums paid, a discounted cash flow analysis of the potential dividends of the Company and the assessment of the fair value of the Company s statement of financial condition as of the Measurement Date. As a result of the analysis, the $8.1 million was written off as of December 31, 2009. The Company did not record any goodwill in 2010.

Intangible assets subject to amortization represent the core deposit premium paid in connection with the Bank s Honesdale branch acquisition during November 2006. Amortization expense associated with this intangible asset is being recorded using the straight-line method over their estimated useful life of 10 years. Intangible assets subject to amortization are reviewed by management at least annually for potential impairment and whenever events or circumstances indicate that carrying amounts may not be recoverable.

Income Taxes

The Bank recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that all or some portion of the deferred tax assets will not be realized.

The Company files a consolidated Federal income tax return. Under tax sharing agreements, each subsidiary provides for and settles income taxes with the Company as if it would have filed on a separate return basis.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more-likely-than-not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company had no liabilities for uncertain tax positions at December 31, 2010 and 2009.

Interest and penalties related to income taxes, if any, are presented within non-interest expense.

Earnings per Share

For the Company, the numerator of both the basic and diluted earnings per common share is net income available to common shareholders. The weighted average number of common shares outstanding used in the denominator for basic earnings per common share is increased to determine the denominator used for diluted earnings per common share by the effect of potentially dilutive common stock equivalents utilizing the treasury stock method. For the Company, common share equivalents are outstanding stock options to purchase the Company s common shares.

Stock-Based Compensation

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. All options are charged against income at their fair value. The entire expense of the award is recognized over the vesting period.

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Bank-Owned Life Insurance

Bank-owned life insurance (BOLI) represents the cash surrender value of life insurance policies on certain current and former directors and officers of the Company. The Company purchased the insurance as a future source of funding for the Company s liabilities, including the payment of employee benefits such as health care. BOLI is carried in the consolidated statements of financial position at its cash surrender value. Increases in the cash value of the policies, as well as proceeds received, are recorded in other non-interest income, and are not subject to income taxes. Under some of these policies, the beneficiaries receive a portion of the death benefit. The net present value of the future death benefits scheduled to be paid to the beneficiaries was $89 thousand and $86 thousand as of December 31, 2010 and 2009, respectively, and is reflected in Other Liabilities on the consolidated statements of financial condition.

The accounting treatment for these policies, which was issued under ASC Topic 715, Compensation Retirement Benefits was effective for fiscal years beginning after December 15, 2007. As permitted by ASC Topic 715, the Company recognized this change in accounting principle as of January 1, 2008, through a cumulative-effect charge to retained earnings totaling $56 thousand.

Fair Value Measurement

The Company uses fair value measurements to record fair value adjustments to certain financial assets and liabilities and to determine fair value disclosures. Securities available-for-sale are recorded at their estimated fair value on a recurring basis. Additionally, from time to time, the Company may be required to recognize adjustments to other assets at fair value on a nonrecurring basis, such as impaired loans, other securities and OREO.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities: it is not a forced transaction.

ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a three-level hierarchy for disclosure of fair value measurement and provides disclosure requirements about fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

The three levels of the fair value hierarchy are:

- Level 1 valuation is based upon unadjusted quoted market prices for identical instruments traded in active markets.

- Level 2 valuation is based upon quoted market prices for similar instruments traded in active markets, quoted market prices for identical or similar instruments traded in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by market data.

- Level 3 valuation is derived from other valuation methodologies including discounted cash flow models and similar techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in determining fair value.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income (loss). Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the shareholders equity section of the statement of financial condition, such items, along with a net income (loss), are components of comprehensive income (loss).

New Authoritative Accounting Guidance

Accounting Standards Update (ASU) No. 2009-16, Transfers and Servicing (Topic 860) Accounting for Transfers of Financial

Assets, (i) enhances reporting about transfers of financial assets, including securitizations, where companies have continuing exposure to the risks related to transferred financial assets, (ii) eliminates the concept of a qualifying special-purpose entity and changes the requirements for derecognizing financial assets, and (iii) requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The new guidance under Accounting Standards Codification (ASC) Topic 860 was effective on January 1, 2010. This pronouncement did not have a significant effect on the Company s consolidated financial statements.

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ASU No. 2009-17, Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, amends prior guidance 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. ASU No. 2009-17 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 provisions of ASU No. 2009-17 became effective on January 1, 2010 and did not have a significant effect on the Company s consolidated financial statements.

ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures About Fair Value Measurements, requires new disclosures and clarifies certain existing disclosure requirements about fair value measurement. Specifically, the update requires an entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for such transfers. A reporting entity is required to present separately information about purchases, sales, issuances, and settlements in the reconciliation of fair value measurements using Level 3 inputs. In addition, the update clarifies the following requirements of the existing disclosures: (i) for the purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets; and (ii) a reporting entity is required to include disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. The amendments were effective for interim and annual reporting periods beginning after December 15, 2009, except for the separate disclosures of purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

ASU No. 2010-28 under ASC 350 details when to perform Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts. Under Topic 350 on goodwill and other intangible assets, testing for goodwill impairment is a two-step test. When a goodwill impairment test is performed (either on an annual or interim basis), an entity must assess whether the carrying amount of a reporting unit exceeds its fair value (Step 1). If it does, an entity must perform an additional test to determine whether goodwill has been impaired and to calculate the amount of that impairment (Step 2). The amendments in this update modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010, and did not have an effect on the Company s consolidated financial statements upon adoption.

ASU No. 2010-20, Receivables (Topic 310) - Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses , requires significant new disclosures about the credit quality of financing receivables and the allowance for credit losses. The objective of these disclosures is to improve financial statement users understanding of (i) the nature of an entity s credit risk associated with its financing receivables and (ii) the entity s assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. The disclosures should be presented at the level of disaggregation that management uses when assessing and monitoring the portfolio s risk and performance. The required disclosures include, among other things, a roll forward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU No. 2010-20 disclosures related to period-end information (e.g., credit-quality information and the ending financing receivables balance segregated by impairment method) were required in all interim and annual reporting periods ending on or after December 15, 2010. Disclosures of activity that occurs during a reporting period (e.g., the roll forward of the allowance for credit losses by portfolio segment) will be required in interim or annual periods beginning on or after December 15, 2010. Comparative disclosures for reporting periods ending after initial adoption are required. Since the provisions of ASU 2010-20 are only disclosure related, our adoption of this guidance did not have an impact on our consolidated financial statements. We adopted these requirements and have provided the applicable disclosures.

ASU No. 2011-01, Receivables (Topic 310) - Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20, was issued in January 2011 and postpones the effective date of the disclosures about troubled debt restructurings. The new effective

date for disclosures about troubled debt restructurings will be aligned with the finalization of the effective date of the exposure drafts Clarifications to Accounting for Troubled Debt Restructurings by Creditors, which is proposed for interim and annual periods ending on or after June 15, 2011.

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Standards to be Adopted In Future Periods

In April 2011, the FASB issued ASU 2011-02, - "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring" (ASU 2011-02), an update to ASC Topic 310- Receivables. ASU 2011-02 provides guidance in evaluating whether a restructuring constitutes a troubled debt restructuring. In order to meet the requirements for a troubled debt restructuring, a creditor must separately conclude that both the restructuring constitutes a concession and the debtor is experiencing financial difficulties. The amendments clarify the guidance on a creditor's evaluation of whether it has granted a concession and also clarify the guidance on a creditor's evaluation of whether a debtor is experiencing financial difficulties. ASU 2011-02 is effective for the first interim or annual period beginning on or after June 15, 2011 and should be applied retrospectively to the beginning of the annual period of adoption. The adoption of ASU 2011-02 is not expected to have a material impact on the Company's financial condition, results of operations or cash flows.

In May 2011, the FASB issued ASU 2011-04, - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards", an update to ASC Topic 820 - Fair Value Measurement. ASU 2011-04 results in common fair value measurement and disclosure requirements in US GAAP and IFRS. The amendments in ASU 2011-04 include clarifications about the application of existing fair value measurement requirements and changes to principles for measuring fair value. ASU 2011-04 also requires additional disclosures about fair value measurements. ASU 2011-04 is required to be applied prospectively and is effective for interim and annual periods beginning after December 15, 2011. The Company is currently evaluating the impact of adoption of ASU 2011-04 on the Company's financial condition, results of operations and cash flows.

In June 2011, the FASB issued ASU 2011-05, - Presentation of Comprehensive Income" (ASU 2011-05), an update to ASC Topic 220 - Comprehensive Income. ASU 2011-05 was issued to improve the comparability, consistency and transparency of financial reporting. The amendment provides the entity an option to present the total of comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments do not change the items that must be reported in other comprehensive income. ASU 2011-05 is required to be applied retrospectively and is effective for interim and annual periods beginning after December 15, 2011. ASU 2011-05 is an update only for presentation and as such will not impact the Company's financial position, results of operations or cash flows.

ASU No. 2011-11 - Balance Sheet (Topic 210) , - Disclosures about Offsetting Assets and Liabilities . The objective of this Update is to provide enhanced disclosures that will enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on an entity s financial position. This includes the effect or potential effect of rights of setoff associated with an entity s recognized assets and recognized liabilities within the scope of this Update. The amendments require enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented.

Reclassification of Prior Year Financial Statements

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 loss.

During the year ended December 31, 2010, the Company changed its method of presenting the statement of cash flows for operating activities from the direct method (which showed principal components of operating cash receipts and payments) to the indirect method (which adjusts net income to remove the effects of noncash operating transactions). This change has been applied retroactively to the December 31, 2009 and 2008 statements of cash flows.

Note 3. RESTRICTED CASH BALANCES

The Bank is required to maintain certain average reserve balances as established by the Federal Reserve Bank. The amount of those reserve balances for the reserve computation period which included December 31, 2010 and 2009 was $1.3 million and $1.2 million, respectively, which amount was satisfied through the restriction of vault cash.

In addition, the Bank maintains compensating balances at correspondent banks, most of which are not required, but are used to offset specific charges for services. At December 31, 2010 and 2009 the amount of these balances was $782 thousand and $750 thousand respectively.

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Note 4. SECURITIES

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

Available-for-sale securities:

December 31, 2010 (in thousands)		Amortized Cost		Gross Unrealized Holding Gains		Gross Unrealized Holding Losses		Fair Value
Obligations of U.S. government agencies	$	8,068	$	239	$		$	8,307
Obligations of state and political subdivisions		121,157		723		10,527		111,353
Collateralized mortgage obligations								
Government sponsored agency		77,172		1,057		413		77,816
Residential mortgage-backed securities								
Government sponsored agency		49,450		557		887		49,120
Pooled Trust Preferred Senior Class		3,863				2,441		1,422
Pooled Trust Preferred Mezzanine Class		8,250				6,603		1,647
Corporate debt securities		500				105		395
Equity securities		1,010		2				1,012
Total available-for-sale securities	$	269,470	$	2,578	$	20,976	$	251,072

December 31, 2009 (in thousands)		Amortized Cost		Gross Unrealized Holding Gains		Gross Unrealized Holding Losses		Fair Value
Obligations ofU.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:								
Government sponsored agency		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 available-for-sale securities	$	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 December 31, 2010 and 2009 are as follows:

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Held-to-maturity securities (in thousands):

December 31, 2010 (in thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Obligations of state and political subdivisions	$ 1,994	$	$ 137	$ 1,857

December 31, 2009 (in thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Obligations of state and political subdivisions	$ 1,899	$	$ 111	$ 1,788

At December 31, 2010 and 2009, securities with a carrying amount of $220.4 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 December 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. Because mortgage-backed securities are not due at a single maturity date, they are not included in the maturity categories in the following maturity summary.

	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	2,565	2,576		
After Five Years through Ten Years	7,243	7,204	1,585	1,480
After Ten Years	132,030	113,344	409	377
Collateralized mortgage obligations	77,172	77,816		
Mortgage-backed securities	49,450	49,120		
Total	$ 268,460	$ 250,060	$ 1,994	$ 1,857

Gross proceeds from the sale of securities for the years ended December 31, 2010, 2009 and 2008 were $36.6 million, $37.2 million and $65.2 million, respectively, with the gross realized gains being $1.2 million, $1.4 million and $1.2 million, respectively, and gross realized losses being $2.9 million, $486 thousand and $54 thousand, respectively.

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The table below indicates the length of time that individual securities held-to-maturity and available-for-sale have been in a continuous unrealized loss position at December 31, 2010 (in thousands):

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Obligations of U.S. government agencies	$	$	$	$	$	$
Obligations of state and political subdivisions	56,751	3,199	23,425	7,465	80,176	10,664
Collateralized mortgage obligations:						
Government sponsored agency	19,763	413			19,763	413
Residential mortgage-backed securities:						
Government sponsored agency	32,957	887			32,957	887
Pooled Trust Preferred Senior Class			1,422	2,441	1,422	2,441
Pooled Trust Preferred Mezzanine Class			1,647	6,603	1,647	6,603
Corporate debt securities			395	105	395	105
Total	$ 109,471	$ 4,499	$ 26,889	$ 16,614	$ 136,360	$ 21,113

The table below indicates the length of time individual securities held-to-maturity and available-for-sale have been in a continuous unrealized loss position at December 31, 2009 (in thousands):

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Obligations of U.S. government agencies	$ 12,527	$ 215	$ 9,588	$ 1,508	$ 22,115	$ 1,723
Obligations of state and political subdivisions	32,054	1,385	16,904	4,699	48,958	6,084
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:						
Government sponsored agency	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
Total	$ 79,899	$ 2,001	$ 44,249	$ 21,960	$ 124,148	$ 23,961

At December 31, 2010, excluding pooled trust preferred securities (PreTSLs), 219 of the Company s debt securities holdings having unrealized losses have depreciated 8.30% from their amortized cost basis. These securities are guaranteed by either the U.S. Government, government sponsored agencies, other governments or corporations and are considered investment grade. Sixty six (66%) percent of the Company s investment in obligations of state and political subdivisions 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 required 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 December 31, 2010.

At December 31, 2010, seven of the Company s PreTSLs having realized cumulative OTTI losses of $22.6 million and unrealized losses of $9.0 million have depreciated 75.01% and 91.68% from their current amortized cost and face values, respectively.

On a quarterly basis, the Company evaluates its investment securities for OTTI. Unrealized losses on securities are considered to be other-than-temporarily-impaired when the Company believes the security s impairment is due to factors that could include the issuer s inability to pay interest or dividends, its potential for default, and/or other factors. Based on current authoritative guidance, 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 (such as market risk). In assessing the level of OTTI attributable to credit loss, the Company compares the present value of cash flows expected to be collected with the amortized cost basis of the security. As discussed previously, the portion of the total OTTI related to credit loss is recognized in

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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, management 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, that the Company does not intend to sell, or will not be required to sell, the primary consideration in determining whether impairment is other-than-temporary is whether or not the Company expects to receive all contractual cash flows.

Based on the Company s evaluation at December 31, 2010, the Company has determined that the decreases in estimated fair value of the securities it holds in its portfolio are temporary with the exception of seven PreTSLs. The Company s estimate of projected discounted cash flows it expects to receive was less than the securities carrying value resulting in a credit-related impairment charge to earnings for the year ending December 31, 2010 of $4.3 million. The $4.3 million consisted of $4.2 million and $0.1 million in credit-related impairments on its PreTSLs and PLCMOs, respectively. The Company sold its entire holding in PLCMOs during the third quarter of 2010 to better manage and improve credit risk in its investment portfolio. The Company recorded a $2.9 million loss on the sale of its PLCMOs.

OTTI of Pooled Trust Preferred Collateralized Debt Obligations:

As of December 31, 2010, the book value of the Company s PreTSLs totaled $12.1 million with an estimated fair value of $3.1 million and is comprised of seven securities each of which is collateralized by debt issued by bank holding companies and insurance companies. The Company holds one senior tranche and six mezzanine tranches and the mezzanine tranches all possess credit ratings below investment grade. During 2010, all of the pooled issues were downgraded further by either Moody s or Fitch rating services. At the time of initial issue, no more than 5% of any pooled security consisted of a security issued by any one institution. As of December 31, 2010, six of these securities had no excess subordination and one had excess subordination equal to 7.69% of the current performing collateral. Excess subordination is the amount by which the underlying performing collateral exceeds the outstanding bonds in the current class plus all senior classes. It can also be referred to as credit enhancement. As deferrals and defaults of underlying issuers occur, the excess subordination is reduced or eliminated, increasing the risk of the security experiencing principal or interest shortfalls. Conversely, subordination can be increased as collateral transitions from non-performing to performing. The coverage ratio, or overcollateralization, of a specific security measures the rate of performing collateral to a given class of notes. It is calculated by dividing the performing collateral in a transaction by the current balance of the class of notes plus all

classes senior to that class.

The following table presents information about the Company s collateral and subordination for its PreTSLs as of December 31, 2010:

Security	Performing Collateral	Bonds Outstanding (in thousands)	Excess (Insufficient) Collateral	Coverage Ratio	Excess Subordination	Current Number of Performing Issuers	Actual Deferrals / Defaults as a % of Current Collateral	Expected Future Default Rate
PreTSL VIII	$ 233,300	$ 391,931	$ (158,631)	59.53%	N/A	22	44.80%	2.75%
PreTSL IX	313,520	335,473	(21,953)	93.46%	N/A	36	30.30%	1.75%
PreTSL X	260,780	350,223	(89,443)	74.46%	N/A	35	45.50%	2.40%
PreTSL XI	410,965	462,923	(51,958)	88.78%	N/A	46	30.20%	2.45%
PreTSL XIX	529,581	546,245	(16,664)	96.95%	N/A	53	24.30%	2.06%
PreTSL XXVI	679,200	630,711	48,489	107.69%	7.69%	54	29.60%	1.68%
PreTSL XXVIII	275,850	306,565	(30,715)	89.98%	N/A	43	23.60%	2.08%

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The following list details information for each of the Company s PreTSLs as of December 31, 2010 (in thousands):

Security	Class	Book Value	Fair Value	Unrealized Gain (Loss)	Moody s / Fitch Ratings	Credit Impairment this period	Credit Impairment Cumulative
PreTSL VIII	Mezzanine	$ 36	$ 7	$ (29)	C / C	$ 44	$ 2,964
PreTSL IX	Mezzanine	1,320	419	(901)	Ca / C		1,680
PreTSL X	Mezzanine	212	8	(204)	C / C	142	2,787
PreTSL XI	Mezzanine	1,574	268	(1,306)	Ca / C	640	3,426
PreTSL XIX	Mezzanine	4,712	941	(3,771)	Ca / CC	1,399	2,463
PreTSL XXVI	Senior	3,863	1,422	(2,441)	B1 / CCC		251
PreTSL XXVIII	Mezzanine	396	4	(392)	C / C	1,984	9,027
Total		$ 12,113	$ 3,069	$ (9,044)		$ 4,209	$ 22,598

The Company s PreTSLs are measured for OTTI within the scope of ASC Topic 325 by determining whether an adverse change in estimated cash flows has occurred. The Company uses a third-party service provider to perform this analysis. Determining whether there has been an adverse change in estimated cash flows from the cash flows previously projected involves comparing the present value of remaining cash flows previously projected against the present value of the cash flows estimated at December 31, 2010. The Company considers the discounted cash flow analysis to be our primary evidence when determining whether credit related OTTI exists.

Results of a discounted cash flow test are significantly affected by variables such as the estimate of the probability of default, discount rates, prepayment rates and the creditworthiness of the underlying issuers. The following provides additional information for each of these variables:

- Probability of Default - An issuer level approach is used to analyze each security and default and recovery assumptions are based on the credit quality of the underlying issuers (generally, bank holding companies or insurance companies). Each bank issuer is evaluated based upon an examination of the trends in its earnings, net interest margin, operating efficiency, liquidity, capital position, level of nonperforming loans to total loans, apparent sufficiency of loan loss reserves, Texas ratio and whether the bank received TARP monies. From this information, each issuer bank that is currently performing is assigned a category of Good, Average, Weak, or Troubled. Default rates are then assigned based upon the historical performance of each category. Additionally, because the information available to the Company regarding the underlying insurance company issuers is more limited than for bank issuers, rather than performing an analysis of each issuer s results and assigning insurance company issuers to these same categories, the Company uses the Moody s one year long-term default rate assumption for insurance companies. The historical default rates used in this analysis are:

	Default Rate			
Category	Year 1	Year 2	Year 3	Thereafter
Good	0.50%	0.60%	0.60%	0.40%
Average	1.80%	2.30%	2.30%	1.50%
Insurance	1.00%	1.20%	1.20%	0.80%
Weak	5.80%	7.20%	7.20%	4.80%
Troubled	9.70%	12.20%	12.20%	8.10%

Each issuer in the collateral pool is assigned a probability of default for each year until maturity. Banks currently in default or deferring interest payments thus far are assumed to default immediately. A zero percent projected recovery rate is applied to defaults and deferrals. The probability of default is updated quarterly based upon changes in the creditworthiness of each underlying issuer. Timing of defaults and deferrals has a substantial impact on each valuation. As a result of this analysis, each issuer is assigned an expected default rate specific to that issuer.

- Estimates of Future Cash Flows - While understanding the composition and characteristics of each bank issuer is important in evaluating the security, certain issuers have a disproportionate impact (both positive and negative) based upon other attributes, such as the interest rate payable by each issuer. Each credit is assessed independently, and the timing and nature of each issuer s performance is assessed. Once assessed, the expected performance of each issuer is applied to a structural cash flow model. Due to the complexity

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of these transactions, the expected performance of each unique issuer requires an adherence to the governing documents of the securitization to derive a cash flow. A model produced by a third party is utilized to assist in determining cash flows. Utilization of third party cash flow modeling to derive cash flows from assumptions is a market convention for these types of securities.

- Discount Rate - The Company is discounting projected cash flows based upon its discount margin defined at the time of purchase, which constitutes a spread over 3-month LIBOR plus credit premium, consistent with our pre-purchase yield.

- Prepayment Rate - Lack of liquidity in the market for PreTSL securities, credit rating downgrades and market uncertainties related to the financial industry are factors contributing to the impairment on these securities. During the early years of PreTSL securities, prepayments were common as issuers were able to refinance into lower cost borrowings. Since the middle of 2007, however, this option has all but disappeared and the Company is operating in an environment which makes early redemption of these instruments unlikely. Accordingly, the Company has assumed zero prepayments when modeling the cash flows of these securities. The Company will reevaluate its prepayment assumptions from time to time as appropriate. The Company performed a sensitivity analysis using 1% and 3% prepayment assumptions. As a result of this analysis, the Company determined that employing a 1% and a 3% prepayment assumption rather than assuming zero prepayments would have resulted in an additional credit loss of approximately $0.8 million and $1.0 million, respectively, to the $4.3 million impairment charge taken during 2010. Credit losses would increase as a result of an increase in the prepayment assumption because prepayments reduce the amount of excess subordination that would be available to absorb expected losses.

- Credit Analysis A quarterly credit evaluation is performed for each of the securities. While the underlying core component of these securities are the credit characteristics of the underlying issuers , typically banks, other characteristics of the securities and issuers are evaluated and stressed to determine cash flow. These include but are not limited to the interest rate payable by each issuer, certain derivative contracts, default timing, and interest rate volatility. Issuer level credit analysis considers all evidence available to us and includes the nature of the issuer s business, its years of operating history, corporate structure, loan composition, loan concentrations, deposit mix, asset growth rates, geographic footprint and local environment. Depending upon the security, and its place in the capital structure, certain analytical assumptions are isolated with greater scrutiny. The core analysis for each specific issuer focuses on profitability, return on assets, shareholders equity, net interest margin, credit quality ratios, operating efficiency, capital adequacy and liquidity.

The Company has evaluated its PreTSLs considering all available evidence, including information received after the statement of financial condition date but before the filing date, and determined that the estimated projected cash flows are less than the securities carrying value, resulting in impairment charges to earnings for the years ended December 31, 2010 and 2009 of $4.2 million and $18.4 million, respectively. Prior to the sale of the Company s PLCMOs during 2010, impairment charges were recorded for the years ended 2010 and 2009 in the amount of $0.1 million and $2.2 million, respectively for these securities. The total impairment charges for 2010, 2009 and 2008 amounted to $4.3 million, $20.6 million and $0, respectively.

The table below provides a cumulative roll forward of credit losses recognized (dollars in thousands):

Rollforward of Cumulative Credit Loss

	2010	2009	2008
Beginning Balance January 1	$ 20,649	$	$
Credit losses on debt securities for which OTTI was not previously recognized		20,649	
Additional credit losses on debt securities for which OTTI was previously recognized	4,271		
Less: Sale of PLCMOs for which OTTI was previously recognized	(2,322)		
Ending Balance, December 31	$ 22,598	$ 20,649	$

Investments in FHLB and FRB stock, which have limited marketability, are carried at cost and totaled $11.6 million and $11.8 million at December 31, 2010 and 2009, respectively. Management noted no indicators of impairment for the FHLB of Pittsburgh during 2010.

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Note 5. LOANS

Loans receivable, net, consists of the following at December 31, 2010 and 2009 (in thousands):

	2010	2009
Residential real estate	$ 87,925	$ 98,517
Commercial real estate	256,327	321,326
Construction land acquisition and development	77,395	98,383
Commercial and industrial	197,697	219,889
Consumer	110,853	164,670
State and political subdivisions	27,739	36,780
Total loans, gross	757,936	939,565
Unearned discount	(225)	(298)
Net deferred loan fees and costs	677	707
Allowance for loan and lease losses	(22,575)	(22,458)
Loans, net	$ 735,813	$ 917,516

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. See Note 14 to these consolidated financial statements for more information about related party transactions. Also, refer to Note 15 to these consolidated statements for information about credit concentrations in the Company s loan portfolio.

The Company originates one-to-four family mortgage loans for sale in the secondary market. During the year ended December 31, 2010, the Company sold $43.9 million of one-to-four family mortgages. The Company retains servicing rights on these mortgages.

During the year ended December 31, 2010, the Company sold $36.7 million in loans from its Indirect Auto Loan Portfolio. The Company retained the servicing rights to these loans.

The Company had $3.6 million and $442 thousand in loans held-for-sale at December 31, 2010 and 2009, respectively. All loans held for sale are one-to-four family residential mortgage loans.

The Company does not have any lending programs commonly referred to as subprime lending. Subprime lending generally targets borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios.

The Company provides for loan losses based on the consistent application of its documented ALLL methodology. Loan losses are charged to the ALLL and recoveries are credited to it. Additions to the ALLL are provided by charges against income based on various factors which, in our judgment, deserve current recognition of estimated probable losses. Loan losses are charged-off in the period the loans, or portion thereof, are

deemed uncollectible. Generally, the Company will record a loan charge-off (including a partial charge-off) to reduce a loan to the estimated recoverable amount based on our methodology detailed below. The Company regularly reviews the loan portfolio and makes adjustments for loan losses in order to maintain the ALLL in accordance with U.S. GAAP. The ALLL consists primarily of the following two components:

(1) Specific allowances are established for impaired loans (defined by the Company as all loans with an outstanding balance greater than $100 thousand rated doubtful or substandard and on non-accrual status and all TDRs). The amount of impairment provided for as an allowance is represented by the deficiency, if any, between the carrying value of the loan and either (a) the present value of expected future cash flows discounted at the loan s effective interest rate, (b) the loan s observable market price, or (c) the fair value of the underlying collateral, less estimated costs to sell, for collateral dependent loans. Impaired loans that have no impairment losses are not considered for general valuation allowances described below. If the Company determines that collection of the impairment amount is remote, the Company will record a charge-off.

(2) General allowances are established for loan losses on a portfolio basis for loans that do not meet the definition of impaired. The Company divides its portfolio into loan segments, with loans exhibiting similar characteristics. These segments are further disaggregated into classes. Loans rated special mention or substandard and accruing which are embedded in these loan segments are then separated from these loan segments. These loans are then subject to an analysis placing increased emphasis

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on the credit risk associated with these loans. The Company applies an estimated loss rate to each loan group. The loss rates applied are primarily based on the Company s own historical loss experience based on the loss rate for each group of loans with similar risk characteristics in its portfolio. In addition management evaluates and applies certain qualitative or environmental factors that are likely to cause estimated credit losses associated with the Company s existing portfolio that may differ from historical experience, which are discussed below. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions. Actual loan losses may be significantly more than the ALLL that is established, which could have a material negative effect on the Company s financial results.

In underwriting a loan secured by real property (unless exempt based on legal requirements), the Company requires an appraisal of the property by an independent licensed appraiser approved by the Company s board of directors. The appraisal is either reviewed internally or by an independent third party hired by the Company. Generally, management obtains updated appraisals when a loan is deemed impaired. These appraisals may be more limited than those prepared for the underwriting of a new loan. In addition, when the Company acquires OREO upon foreclosure, it generally obtains a current appraisal to substantiate the net carrying value of the asset.

Management makes adjustments for loan losses based on its evaluation of several qualitative and environmental factors, including but not limited to:

- Changes in national, local, and business economic conditions and developments, including the condition of various market segments;
- Changes in the nature and volume of the Company s loan portfolio;
- Changes in the Company s lending policies and procedures, including underwriting standards, collection, charge-off and recovery practices and results;
- Changes in the experience, ability and depth of the Company s lending management and staff;
- Changes in the quality of the Company s loan review system and the degree of oversight by the Company s Board of Directors;
- Changes in the trend of the volume and severity of past due and classified loans, including trends in the volume of non-accrual loans, troubled debt restructurings and other loan modifications;
- The existence and effect of any concentrations of credit and changes in the level of such concentrations;
- The effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the Company s current loan portfolio; and
- Analysis of its customers credit quality.

The Company evaluates the ALLL based on the combined total of the impaired and general components. Generally, when the loan portfolio increases, absent other factors, our ALLL methodology results in a higher dollar amount of estimated probable losses. Conversely, when the loan portfolio decreases, absent other factors, our ALLL methodology results in a lower dollar amount of estimated probable losses.

Each quarter the Company evaluates the ALLL and adjusts the ALLL as appropriate through a provision for loan losses. While the Company uses the best information available to make evaluations, future adjustments to the ALLL may be necessary if conditions differ substantially from the information used in making the evaluations. In addition, as an integral part of its examination process, the Office of the Comptroller of the Currency (OCC) periodically reviews the Company s ALLL. The OCC may require the Company to adjust the ALLL based on its analysis of information available to it at the time of its examination.

A summary of changes in the ALLL for the years ended December 31, 2010, 2009, and 2008 follows (in thousands):

	2010	2009	2008
Balance, beginning of year	$ 22,458	$ 8,254	$ 7,569
Recoveries credited to allowance	858	132	208
Provision for loan and lease losses	25,041	42,089	1,804
Losses charged to allowance	(25,782)	(28,017)	(1,327)
Balance, end of year	$ 22,575	$ 22,458	$ 8,254

The following table sets forth activity in the ALLL, by loan type, for the year ended December 31, 2010. The following table also details the amount of gross loans receivable that are evaluated individually, and collectively, for impairment, and the related portion of ALLL that is allocated to each loan portfolio segment (in thousands):

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	Real Estate			Commercial & Industrial		Consumer			
	Residential Real Esate	**Commercial Real Estate**	**Construction, Land Acquisition & Development**	**Solid Waste Landfills**	**Other**	**Indirect Auto**	**Installment/ HELOC**	**State and Political Subdivisions**	**Total**
Allowance for loan losses:									
Beginning Balance, December 31, 2009	$ 696	$ 8,397	$ 6,285	$	$ 4,507	$ 938	$ 1,069	$ 566	$ 22,458
Charge-offs	(221)	(5,049)	(12,893)		(6,883)	(507)	(229)		(25,782)
Recoveries	32	152	303		151	189	31		858
Provisions	1,669	6,140	10,475	11	7,064	(23)	(295)		25,041
Ending Balance, December 31, 2010	$ 2,176	$ 9,640	$ 4,170	$ 11	$ 4,839	$ 597	$ 576	$ 566	$ 22,575
Ending balance, December 31, 2010: individually evaluated for impairment	$ 785	372	310		339				$ 1,806
Ending balance, December 31, 2010: collectively evaluated for impairment	$ 1,391	$ 9,268	$ 3,860	$ 11	$ 4,500	$ 597	$ 576	$ 566	$ 20,769
Loans receivable:									
Ending balance, December 31, 2010	$ 87,925	$ 256,327	$ 77,395	$ 52,270	$ 145,427	$ 63,509	$ 47,344	$ 27,739	$ 757,936
Ending balance, December 31, 2010: individually evaluated for impairment	$ 2,926	9,477	11,365		6,029		132		$ 29,929
Ending balance, December 31, 2010: collectively evaluated for impairment	$ 84,999	$ 246,850	$ 66,030	$ 52,270	$ 139,398	$ 63,509	$ 47,212	$ 27,739	$ 728,007

Credit Quality Indicators Commercial Loans

The Company continuously monitors the credit quality of its commercial loan receivables. Credit quality is monitored by reviewing certain credit quality indicators. Management has determined that internally assigned credit risk ratings by loan type are the key credit quality indicators that best help management monitor the credit quality of the Company s loan receivables.

The Bank s commercial loan classification and credit grading processes are part of the lending, underwriting, and credit administration functions to ensure an ongoing assessment of credit quality. Accurate and timely loan classification or credit grading is a critical component of loan portfolio management. Loan officers are required to review their loan portfolio risk ratings regularly for accuracy. The loan review function uses the same risk rating system in the loan review process. This allows an independent third party to assess the quality of the portfolio and compare the accuracy of ratings with the loan officer s and management s assessment.

A formal loan classification and credit grading system reflects the risk of default and credit losses. A written description of the risk ratings is maintained that includes a discussion of the factors used to assign appropriate classifications of credit grades to loans. The process identifies groups of loans that warrant the special attention of management. The risk grade groupings provide a mechanism to identify risk within the loan portfolio and provide management and the Board with periodic reports by risk category. The credit risk ratings play an important role in the establishment and evaluation of the provision for loan and lease losses and the ALLL. After determining the historical loss factor which is adjusted for qualitative and environmental factors for each portfolio segment, the portfolio segment balances that have been collectively evaluated for impairment are multiplied by the general reserve loss factor for the respective portfolio segments in order to determine the general reserve. Loans that have an internal credit rating of special mention or substandard follow the same process, however the qualitative and environmental factors are further adjusted for the increased risk.

The Company utilizes a loan rating system that that assigns a degree of risk to commercial loans based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The Company analyzes these non-homogeneous loans individually grading the loans as to credit risk and probability of collection for each type of class. Commercial loans include commercial indirect auto loans which are not individually risk rated, and Construction, Land Acquisition and Development Loans include residential construction loans which are also not individually risk rated. These loans are monitored on a pool basis due to their homogeneous nature as described in Credit Quality Indicators Other Loans below. The grading system contains the following basic risk categories:

1. Minimal Risk

2. Above Average Credit Quality

3. Average Risk

4. Acceptable Risk

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5. Pass - Watch

6. Special Mention

7. Substandard - Accruing

8. Substandard - Non-Accrual

9. Doubtful

10. Loss

This analysis is performed on a quarterly basis using the following definitions for risk ratings:

Pass - Assets rated 1 through 5 are considered pass ratings. These assets show no current or potential problems and are considered fully collectible. All such loans are considered collectively for ALLL calculation purposes.

Special Mention Assets classified as special mention assets do not currently expose the Company to a sufficient degree of risk to warrant an adverse classification but do possess credit deficiencies or potential weaknesses deserving close attention. Special Mention assets have a potential weakness or pose an unwarranted financial risk which, if not corrected, could weaken the asset and increase risk in the future.

Substandard - Assets classified as substandard have well defined weaknesses based on objective evidence, and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful - Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable based on current circumstances.

Loss - Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted.

The following table details the recorded investment in loans receivable by the aforementioned class of loan and credit quality indicator at December 31, 2010 (in thousands):

Real Estate			Commercial & Industrial			
Residential Real Estate	**Commercial Real Estate**	**Construction, Land Acquisition & Development**	**Solid Waste Landfills**	**Other**	**State and Political Subdivisions**	**Total**

Internal Risk Rating							
Pass	$ 24,854	$ 200,847	$ 46,657	$ 52,270	$ 123,848	$ 17,481	$ 465,957
Special Mention	1,633	24,355	14,001		6,061	10,258	56,308
Substandard	1,308	29,200	10,199		7,951		48,658
Doubtful		1,925	2,611				4,536
Loss							
Total Loans Recievable	$ 27,795	$ 256,327	$ 73,468	$ 52,270	$ 137,860	$ 27,739	$ 575,459

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Credit Quality Indicators   Other Loans

Residential, consumer and commercial and consumer indirect auto loans are monitored on a pool basis due to their homogeneous nature. Loans that are delinquent 90 days or more are placed on non-accrual status. The Company utilizes accruing vs. non-accruing status as the credit quality indicator for these loan pools. The following table presents the recorded investment in residential, consumer and indirect auto loans based on payment activity as of December 31, 2010 (in thousands):

	Accruing Loans	Non-accruing Loans	Total
Construction, Land Acquisition & Development - Residential	$ 3,927	$	$ 3,927
Residential Real Estate	57,665	2,465	60,130
Indirect Auto - Consumer	63,493	16	63,509
Indirect Auto - Commercial	7,445		7,445
Installment/HELOC	47,245	221	47,466
Total	$ 179,775	$ 2,702	$ 182,477

Included in loans receivable are loans for which the accrual of interest income has been discontinued due to deterioration in the financial condition of the borrowers. The recorded investment of these nonaccrual loans was $28.3 million and $25.9 million at December 31, 2010 and 2009, respectively. Generally, loans are placed on non-accruing status when they become 90 days or more delinquent, and remain on non-accrual status until they are brought current, have six months of performance under the loan terms, and factors indicating reasonable doubt about the timely collection of payments no longer exists. Therefore, loans may be current in accordance with their loan terms, or may be less than 90 days delinquent and still be on a non-accruing status. Loans past due ninety days or more and still accruing interest were $99 thousand and $117 thousand at December 31, 2010 and 2009, respectively, and consisted of loans that are well secured and in the process of renewal.

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The following table sets forth the detail, and payment status, of past due and non-accrual loans at December 31, 2010 (in thousands):

	Performing (Accruing) Loans				
	0-29 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	>/= 90 Days Past Due	Total Performing Loans
Real Estate					
Residential Real Estate	$ 83,371	$ 1,095	$ 465	$	$ 84,931
Commercial Real Estate	247,217	949	85		248,251
Construction, Land Acquisition & Development	65,785	285	231	99	66,400
Total Real Estate	396,373	2,329	781	99	399,582
Commercial and Industrial					
Solid Waste Landfills	52,270				52,270
Other	138,743	567	153		139,463
Total Commercial and Industrial	191,013	567	153		191,733
Consumer					
Indirect Auto	62,269	959	264		63,492
Installment/HELOC	47,000	112	11		47,123
Total Consumer	109,269	1,071	275		110,615
State and Political Subdivisions	27,739				27,739
Totals	$ 724,394	$ 3,967	$ 1,209	$ 99	$ 729,669

	Non-Performing Loans				
	0-29 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	>/= 90 Days Past Due	Total Non-accrual Loans
Real Estate					
Residential Real Estate	$ 1,256	$ 327	$ 240	$ 1,171	$ 2,994
Commercial Real Estate	3,173		200	4,703	8,076
Construction, Land Acquisition & Development				10,995	10,995
Total Real Estate	4,429	327	440	16,869	22,065
Commercial and Industrial					
Solid Waste Landfills					
Other	5,319			645	5,964
Total Commercial and Industrial	5,319			645	5,964
Consumer					
Indirect Auto			12	5	17
Installment/HELOC			31	190	221
Total Consumer			43	195	238
State and Political Subdivisions					
Total Non-accruing loans	$ 9,748	$ 327	$ 483	$ 17,709	$ 28,267
Total loans receivable	$ 734,142	$ 4,294	$ 1,692	$ 17,808	$ 757,936

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The total recorded investment in impaired loans, which consists of nonaccrual loans greater than $100,000 and performing TDRs, amounted to $29.9 million and $36.6 million at December 31, 2010 and 2009, respectively. The related allowance on impaired loans was $1.8 million and $4.0 million as of December 31, 2010 and 2009, respectively.

The following table provides an analysis of our impaired loans as of December 31, 2010 (in thousands):

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	Recorded Investment	Unpaid Principal Balance	Related Allowance
With No Allowance Recorded:			
Residential Real Estate	$ 1,530	$ 1,780	$
Commercial Real Estate	4,839	5,693	
Construction, Land Acquisition & Development	7,936	19,921	
Commercial and Industrial			
Solid Waste Landfills			
Other	5,368	5,368	
Total Commercial and Industrial	5,368	5,368	
Consumer			
Indirect Auto			
Installment/HELOC	132	134	
Total Consumer	132	134	
State and Political Subdivisions			
Total With No Allowance Recorded	**$ 19,805**	**$ 32,896**	**$**
With a Related Allowance Recorded:			
Residential Real Estate	$ 1,396	$ 1,455	$ 785
Commercial Real Estate	4,638	12,115	372
Construction, Land Acquisition & Development	3,429	5,077	310
Commercial and Industrial			
Solid Waste Landfills			
Other	661	932	339
Total Commercial and Industrial	661	932	339
Consumer			
Indirect Auto			
Installment/HELOC			
Total Consumer			
State and Political Subdivisions			
Total with Related Allowance	**$ 10,124**	**$ 19,579**	**$ 1,806**

				Average Balance	Interest Income (2)
Total					
Residential Real Estate	$ 2,926	$ 3,235	$ 785	$ 2,491	$ 13
Commercial Real Estate	9,477	17,808	372	13,456	393
Construction, Land Acquisition & Development	11,365	24,998	310	21,707	53
Commercial and Industrial					
Solid Waste Landfills					
Other	6,029	6,300	339	4,081	160
Total Commercial and Industrial	6,029	6,300	339	4,081	160
Consumer					
Indirect Auto				85	

Installment/HELOC	132	134		280	
Total Consumer	132	134		365	
State and Political Subdivisions				1,105	
Total	**$ 29,929**	**$ 52,475**	**$ 1,806**	**$ 43,205**	**$ 619**
Total Impaired Loans (1)					

(1) Nonaccrual loans with outstanding balances of less than $100 thousand are not considered for individual impairment evaluation and are accordingly not included in the table above. However, these loans are evaluated collectively as homogenous pools in the general allowance calculation under ASC Topic 310. Total non-accrual loans with individual balances of less than $100 thousand equaled $838 thousand at December 31, 2010.

(2) Interest income represents income recognized on performing TDRs

Included in total impaired loans are performing TDRs of $2.5 million and $10.7 million as of December 31, 2010 and 2009, respectively. The Bank was not committed to lend additional funds to loans classified as a troubled debt restructuring as of December 31, 2010.

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Individually impaired loans at December 31, 2009 were as follows (in thousands):

		2009
Loans with no allocated allowance for loan and lease losses	$	11,348
Loans with allocated allowance for loan and lease losses	$	25,260
Total balance of loans considered impaired	$	36,608

The average recorded balance of impaired loans for the years ended December 31, 2009, and 2008 was $49.4 million, and $885 thousand, respectively.

The additional interest income that would have been earned on nonaccrual and restructured loans for the years ended December 31, 2010, 2009, and 2008 in accordance with their original terms approximated $2.9 million, $2.8 million, and $1.1 million, respectively. Interest income recognized on impaired loans for the years ended December 31, 2010, 2009, and 2008 approximated $619 thousand, $976 thousand and $0, respectively.

Note 6. OTHER REAL ESTATE OWNED

The following schedule reflects the components of OREO (in thousands):

	As of December 31,			
		2010		2009
Land/Lots		8,357		5,887
Commercial Real Estate		1,086		4,852
Residential Real Estate		190		445
Total	$	9,633	$	11,184

The following schedule reflects the roll forward of OREO (in thousands):

	Years Ended December 31,					
		2010		2009		2008
Balance, beginning of year	$	11,184	$	2,308	$	2,588
Additions		9,928		11,717		
Write-downs		(5,906)		(434)		
Carrying value of OREO sold		(5,573)		(72)		(280)
Transfer to bank premises				(2,335)		
Balance, end of year	$	9,633	$	11,184	$	2,308

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The following table details the components of net expense (income) of OREO for the years ended December 31 (in thousands):

	2010	2009	2008
Insurance	$ 72	$ 5	
Legal fees	138	53	
Maintenance	273		
Losses from the operation of foreclosed properties	685	7	
Professional Fees	25	6	
Real estate taxes	385	595	
Utilities	25	15	
Impairment charges	5,906	434	
Other	12	135	(4)
Total	$ 7,521	$ 1,250	$ (4)

Note 7. BANK PREMISES AND EQUIPMENT

Bank premises and equipment are summarized as follows (in thousands):

	December 31,	
	2010	2009
Land	$ 6,770	$ 6,966
Buildings and improvements	10,519	11,065
Furniture, fixtures and equipment	11,191	10,828
Leasehold improvements	5,071	4,892
Total	$ 33,551	$ 33,751
Less accumulated depreciation	14,241	13,084
Net	$ 19,310	$ 20,667

Depreciation and amortization expense amounted to $1.4 million, $1.5 million and $1.6 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Note 8. SERVICING

The Company originates one-to-four-family residential loans that it sells in the secondary market, and the Company retains the servicing of those loans. The Company also performs servicing for a pool of automobile loans sold in 2010. Loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid balances of mortgage and other loans serviced for others were $193.9 million, $147.6 million and $120.6 million at December 31, 2010, 2009 and 2008, respectively.

The one- to four-family residential mortgage real estate loans were underwritten to Freddie Mac guidelines and were subsequently assigned and delivered to Freddie Mac. At December 31, 2010, substantially all of the loans serviced for others were performing in accordance with their contractual terms.

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The following summarizes the activity pertaining to mortgage servicing rights for the years ended December 31, 2010 and 2009 (in thousands):

	2010		2009	
Balance, beginning of year	$	666	$	355
Mortgage servicing rights capitalized		281		463
Mortgage servicing rights amortized		(196)		(152)
Provision for loss in fair value				
Balance, end of year	$	751	$	666

The fair value of all servicing assets was $1.3 million at December 31, 2010. Fair value has been determined using discount rates ranging from 3.41% to 8.40% and prepayment speeds ranging from 273% to 550% PSA, depending upon the stratification of the specific right. Based upon this fair value, management has determined that no valuation allowance associated with these mortgage servicing rights is necessary at December 31, 2010.

Note 9. GOODWILL AND INTANGIBLES

In connection with the purchase of the Honesdale branch completed in 2006, the Company acquired intangible assets of $9.8 million. Of that amount $1.7 million results from a core deposit premium subject to periodic amortization over the useful life of 10 years. Goodwill of $8.1 million, which is not subject to amortization, arose in connection with the acquisition. 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 (the Measurement Date). The analysis included a combination of a market approach based analysis of comparable transactions, change of control premiums paid, a discounted cash flow analysis of the potential dividends of the Company and the assessment of the fair value of the Company s statement of financial condition as of the measurement date. As a result of the analysis, the $8.1 million was charged off as of December 31, 2009.

A summary of core deposit intangible assets as of December 31 (in thousands):

	2010		2009	
Core deposit intangibles				
Gross carrying amount	$	1,650	$	1,650
Less: accumulated amortization		687		522
Net carrying amount	$	963	$	1,128

Amortization expense on core deposit intangible assets totaled $165 thousand for 2010, 2009, and 2008 respectively.

Amortization expense on core deposit intangible assets with definite useful lives is expected to total $165 thousand for 2011, $165 thousand for 2012, $165 thousand for 2013, $165 thousand for 2014, $165 thousand for 2015 and $138 thousand thereafter.

Note 10. DEPOSITS

Deposits are as follows as of December 31, 2010 and 2009 (in thousands):

	2010	2009
Demand	$ 93,215	$ 85,370
Interest-bearing demand	349,185	352,631
Savings	90,037	86,455
Time ($100,000 and over)	189,526	238,839
Other time	260,473	308,313
Total	$ 982,436	$ 1,071,608

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The Company had brokered deposits (classified as time and other time in the above table) of $53.2 million and $86.6 million, at December 31, 2010 and 2009, respectively.

At December 31, 2010 time deposits including certificates of deposit and Individual Retirement Accounts have the scheduled maturities as follows (in thousands):

	Time Deposits $100,000 and Over	Other Time Deposits	Total
2011	$ 155,651	$ 157,428	$ 313,079
2012	19,298	42,866	62,164
2013	2,139	22,905	25,044
2014	2,615	8,354	10,969
2015	6,461	16,498	22,959
2016 and Thereafter	3,362	12,422	15,784
Total	$ 189,526	$ 260,473	$ 449,999

Investment securities with a carrying value of $147.4 million and $124.7 million at December 31, 2010 and 2009, respectively, were pledged to collateralize certain deposits.

Note 11. BORROWED FUNDS

Borrowed funds at December 31, 2010 and 2009 include the following (in thousands):

	2010	2009
Treasury tax and loan demand note	$ 407	$ 227
FHLB advances	101,887	183,830
Junior subordinated debentures	10,310	10,310
Subordinated debentures	25,000	23,100
Total	$ 137,604	$ 217,467

The Company also utilizes short-term Federal funds purchased which represent overnight borrowings providing for the short-term funding requirements of the Bank and generally mature within one business day of the transaction. During 2010, the average outstanding balance on these credit lines amounted to $82 thousand and the weighted average rate paid in 2010 was 1.10%. Federal Reserve Discount Window borrowings also represent overnight funding to meet the short-term liquidity requirements of the Bank and are fully collateralized with investment securities. The Company did not borrow any Federal Reserve Discount Window funds during the year ended December 31, 2010.

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The following table presents borrowed funds at their maturity dates (in thousands):

	December 31, 2010		
		Amount	Weighted Average Interest Rate
Within one year	$	33,440	4.99%
After one year but within two years		16,397	4.13%
After two years but within three years		35,917	3.00%
After three years but within four years		5,000	3.47%
After four years but within five years		11,115	5.50%
After five years		35,735	6.21%
Total	$	137,604	4.67%

The FHLB of Pittsburgh borrowings of $101.9 million are all fixed rate advances, of which $11.0 million are maturing in less than 30 days and the remaining maturing in more than 90 days. All advances are collateralized either under a blanket pledge agreement for commercial real estate loans, one-to-four family mortgage loans, or mortgage-backed securities. In addition, the Company is required to purchase FHLB stock based upon the amount of advances outstanding. The Company was in compliance with this requirement having a stock investment in FHLB of Pittsburgh of $10.3 million at December 31, 2010. Investment securities with a carrying value of $65.3 million and $53.6 million, and loans of $196.2 million and $50.2, at December 31, 2010 and 2009, respectively, were pledged to collateralize FHLB advances. The substantial increase in pledged loans was primarily a result of the FHLB requiring the Bank to be fully collateralized on its outstanding borrowings as a result of the change in the Bank s risk profile.

At December 31, 2010, the Company had available from the FHLB of Pittsburgh an open line of credit for $36.4 million. The line of credit may bear interest at either a fixed rate or a variable rate, such rate being set at the time of the funding request.

The maximum amount of borrowings outstanding at any month end during the years ended December 31, 2010 and 2009 were $182.9 million and $263.0 million, respectively.

On December 14, 2006, First National Community Statutory Trust I (the Trust), a trust formed under Delaware law, that is an unconsolidated subsidiary of the Company, issued $10.0 million of trust preferred securities (the Trust Securities) at a variable interest rate of 7.02%, with a scheduled maturity of December 15, 2036. The Company owns all of the ownership interest in the Trust. The proceeds from the issue were invested in $10.3 million, 7.02% Junior Subordinated Debentures (the Debentures) issued by the Company. The interest rate on the Trust Securities and the Debentures resets quarterly at a spread of 1.67% above the current 3-month Libor rate. The average interest rate paid on the Debentures was 2.01% in 2010, 2.69% in 2009, and 4.97% in 2008. The Debentures are unsecured and rank subordinate and junior in right to all indebtedness, liabilities and obligations of the Company. The Debentures represent the sole assets of the Trust. Interest on the Trust Securities is deferrable until a period of twenty consecutive quarters has elapsed. The Company has the option, subject to required regulatory approval of the Federal Reserve, to prepay the trust securities beginning December 15, 2011. The Company has, under the terms of the Debentures and the related Indenture, as well as, the other operative corporate documents, agreed to irrevocably and unconditionally guarantee the Trust s obligations under the Debentures. At December 31, 2010 and 2009, accrued and unpaid interest associated with the junior subordinated debentures amounted to $61 thousand and $9 thousand, respectively.

The Company has applied ASC 810 to its investment in the Issuer Trust, and as such, it has reflected this investment on a deconsolidated basis. As a result, the junior subordinated debentures issued by the Issuer Trust, totaling $10.3 million has been reflected in Borrowed Funds in the consolidated statements of financial condition at December 31, 2010 and 2009 under the caption Junior Subordinated Debentures . The Company records interest expense on the corresponding debentures in its consolidated statement of operations. The Company also records its common stock investment issued by First National Community Statutory Trust I in Other Assets in its consolidated statements of financial condition at December 31, 2010 and 2009.

On September 1, 2009, the Company offered only to Accredited Investors up to $25.0 million principal amount of unsecured Subordinated Notes Due September 1, 2019 at a fixed interest rate of 9% per annum (the Notes) in denominations of $100 thousand and integral multiples of $100 thousand in excess thereof. The Notes mature on September 1, 2019. For the first five years from issuance, the Company will pay interest only on the Notes. Commencing September 1, 2015, the Company is required to pay interest and a portion of the principal calculated to return the entire principal amount of the Notes at maturity subject to deferral. Payments of

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interest is payable to registered holders of the Notes (the Noteholders) quarterly on the first of every third month, subject to deferral. Payments of principal will be payable to the Noteholders annually beginning on September 1, 2015. Of the $25.0 million offered, the principal balance outstanding for these notes was $25.0 million and $23.1 million at December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, accrued and unpaid interest associated with the Notes amounted to $762 thousand and $175 thousand, respectively.

Pursuant to the November 24, 2010 written Agreement (the Agreement) with the Federal Reserve Bank of Philadelphia (the Reserve Bank), 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. See Note 17 to these consolidated financial statements Regulatory Matters .

The Company is currently deferring interest payments on the Company s Debentures and Notes. The last payment made on the Debentures was the payment due on September 14, 2010 and the last payment made on the Notes was the payment due on September 1, 2010.

Note 12. BENEFIT PLANS

The Bank has a defined contribution profit sharing plan which covers all eligible employees. The Bank s contribution to the plan is determined at management s discretion at the end of each year and funded. Contributions to the plan in 2010, 2009 and 2008 amounted to $0, $375 thousand and $750 thousand, respectively.

The Bank has an unfunded non-qualified deferred compensation plan covering all eligible Bank officers and directors as defined by the plan. This plan permits eligible participants to elect to defer a portion of their compensation. At December 31, 2010 and 2009, elective deferred compensation and accrued earnings aggregating $7.3 and $7.6 million, respectively, is included in other liabilities in the accompanying statement of financial condition. The Company had not funded the deferred compensation plans as of December 31, 2010 or 2009.

Note 13. INCOME TAXES

The provision (benefit) for income taxes included in the statement of operations is comprised of the following components (in thousands):

		2010		2009		2008
Current	$	(3,512)	$	(10,214)	$	5,057
Deferred		3,512		1,620		(453)
Total	$		$	(8,594)	$	4,604

The provision (benefit) for income taxes differs from the amount of income tax determined by applying the applicable U.S. Statutory Federal Income Tax Rate (34% for 2010 and 35% for 2009 and 2008) to pre-tax income or loss as a result of the following differences (in thousands):

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	2010	2009	2008
Provision/(benefit) at statutory tax rates	$ (10,785)	$ (18,519)	$ 6,890
Add (deduct):			
Tax effects of non-taxable income	(2,704)	(2,644)	(2,108)
Non-deductible interest expense	170	234	264
Stock options exercised		(11)	(51)
Bank owned life insurance	(252)	(309)	
Stock option compensation		285	
Change in valuation allowance	13,165	12,112	
Other Items Net	406	258	(391)
Provision/(benefit) for income taxes	$	$ (8,594)	$ 4,604

The components of the net deferred tax asset, included in other assets, at December 31 are as follows (in thousands):

	2010	2009
Allowance for loan and lease losses	$ 8,076	$ 8,413
Deferred compensation	2,470	2,643
Unrealized holding losses on securities available-for-sale	6,255	6,626
Other-than-temporary impairment	1,567	1,889
Other real estate owned valuation	1,608	152
Deferred intangible assets	1,944	2,300
AMT tax credits	2,215	663
Fixed asset valuation	407	
Charitable contribution carryover	154	81
Accrued rent expense	208	
Net operating loss carryover	6,994	
Gross deferred tax assets	31,898	22,767
Deferred loan origination fees	(131)	(266)
Depreciation	(235)	(251)
Gross deferred tax liabilities	(366)	(517)
Net deferred asset before valuation allowance	31,532	22,250
Valuation allowance	(25,277)	(12,112)
Net deferred tax assets	$ 6,255	$ 10,138

At December 31, 2010 and 2009, the Company had recognized $12.4 and $12.2 million of refundable federal income taxes associated with its net operating losses incurred in 2010 and 2009.

As of December 31, 2010 and 2009, the Company has established a valuation allowance of $25.3 million and $12.1 million, respectively, related to deferred tax assets that would be realizable based only on future taxable income. At December 31, 2010 and 2009, no valuation allowance was recorded for the deferred tax assets related to the unrealized holding losses on securities available-for-sale because the Company has the intent and ability to hold these securities until recovery of the unrealized losses, which may be at maturity. In addition, at December 31, 2009, there was no valuation allowance recorded for $3.5 million of deferred tax assets which are expected to be realized through the Company s ability to obtain refunds of income taxes previously paid. The Company will continue to monitor the realizability of its deferred tax assets and may make changes to the valuation allowance recorded as circumstances change.

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As of December 31, 2010, the Company had $20.6 million of Net Operating Loss carryovers resulting in gross deferred tax assets of $7.0 million. These carryovers will expire after December 31, 2030 if not utilized. As of December 31, 2010, the Company also had $452 thousand of charitable contribution carryovers resulting in gross deferred tax assets of $154 thousand. These carryovers will expire after December 31, 2014 if not utilized. In addition, the Company had alternative minimum tax credit carryovers of $2.2 million as of December 31, 2010 that have an indefinite life.

Note 14. RELATED PARTY TRANSACTIONS

The Company and the Bank have engaged in and intend to continue to engage in banking and financial transactions in the conduct of its business with directors and executive officers of the Company and the Bank and their related parties.

The Bank has granted loans, letters of credit and lines of credit to directors, executive officers and their related parties. The following table summarizes the changes in the total amounts of such outstanding loans, advances under lines of credit as well as repayments during the years ended December 31, 2010 and 2009.

	2010 (in thousands)	**2009 (in thousands)**
Outstanding at beginning of the year	$ 102,705	$ 88,898
New loans and advances	88,713	90,949
Repayments	(83,644)	(73,938)
Charge-offs	(7,861)	(211)
Other *	(7,696)	(2,993)
Outstanding at end of year	$ 92,217	$ 102,705

*Other represents loans to related parties that ceased being related parties during the year.

At December 31, 2010, loans in the amount of $5.2 million, net of charge-offs, made to former directors, executive officers and their related parties were not performing in accordance with the terms of the loan agreements. These loans were guaranteed by an individual who resigned from the Company s Board of Directors in 2010. Also, as of December 31, 2010, additional loans in the amount of $789 thousand to directors, executive officers and their related parties were categorized as criticized loans within the Bank s risk rating system, meaning they are considered to present a higher risk of collection than other loans.

Included in related party loans is a $5.1 million, total aggregate amount outstanding under a, commercial line of credit (line) to a company owned by a director. The Company also sold a participation interest in this line to the same director in the amount of $4 million. The Bank receives a 25 basis point annual servicing fee from this director on the participation balance.

Deposits from directors, executive officers and their related parties held by the Bank at December 31, 2010, 2009, and 2008 amounted to $131.6 million, $136.5 million, and $123.3 million, respectively. Interest paid on the deposits amounted to $862 thousand, $1.2 million, and $2.5

million for the years ended December 31, 2010, 2009, 2008, respectively.

In the course of its operations, the Company acquires goods and services from and transacts business with various companies of related parties. The Company recorded payments for these services of $1.1 million, $0.7 million, and $1.6 million in 2010, 2009, and 2008, respectively.

Subordinated notes held by officers and directors and/or their related parties totaled $11 million as of both December 31, 2010, and 2009. Interest paid to directors on these notes totaled $685 thousand and $259 thousand for the years ended December 31, 2010, and 2009, respectively. Interest accrued and unpaid on these notes totaled $305 thousand at December 31, 2010.

The Company leases its Honesdale Route 6 branch location from a related party. Total lease payments were $9 thousand for each of the years ended December 31, 2010, 2009, and 2008.

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Note 15. COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS

Leases

At December 31, 2010, the Company was obligated under certain non-cancelable leases with initial or remaining terms of one year or more. Minimum future obligations under non-cancelable leases in effect at December 31, 2010 are as follows (in thousands):

	Facilities	Equipment	Total
2011	$ 558	$ 100	$ 658
2012	532	70	602
2013	565	56	621
2014	373	30	403
2015	81	17	98
2016 and thereafter	136		136
Total	$ 2,245	$ 273	$ 2,518

Total rental expense under leases amounted to $618 thousand, $614 thousand and $608 thousand in 2010, 2009 and 2008, respectively.

Financial Instruments with off-balance sheet commitments

The Bank is a party to financial instruments with off-balance sheet commitment in the normal course of business to meet the financing needs of its customers. Such financial instruments include commitments to extend credit and standby letters of credit which involve varying degrees of credit, interest rate or liquidity risk in excess of the amount recognized in the balance sheet. The Bank s exposure to credit loss from nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments.

Financial instruments whose contract amounts represent credit risk at December 31 are as follows (in thousands):

	2010	2009
Commitments to extend credit	$ 125,981	$ 158,125
Standby letters of credit	57,629	67,678

Commitments to extend credit are agreements to lend to customers in accordance with contractual provisions. These commitments usually are for specific periods or contain termination clauses and may require the payment of a fee. The total amounts of unused commitments do not necessarily represent future cash requirements, in that commitments often expire without being drawn upon.

Letters of credit and financial guarantees are agreements whereby the Company guarantees the performance of a customer to a third party. Collateral may be required to support letters of credit in accordance with management s evaluation of the creditworthiness of each customer. The credit exposure assumed in issuing letters of credit is essentially equal to that in other lending activities.

Federal Home Loan Bank Mortgage Partnership Finance Program

Under a secondary market loan servicing program with the FHLB, the Company, in exchange for a monthly fee, provides a credit enhancement guarantee to the FHLB for foreclosure losses in excess of 1% of original loan principal sold to the FHLB. At December 31, 2010, the Company serviced payments on $23.4 million of first lien residential loan principal under these terms for the FHLB. At December 31, 2010, the maximum obligation for such guarantees by the Company would be approximately $1.5 million if total foreclosure losses on the entire pool of loans exceed approximately $61 thousand. Management believes the likelihood of a reimbursement for loss payable to the FHLB beyond the monthly credit enhancement fee is remote.

Concentrations of Credit Risk

Cash Concentrations: The Bank maintains cash balances at several correspondent banks. The aggregate cash balances represent federal funds sold of $0 and $62 million; and due from bank accounts in excess of the limit covered by the Federal Deposit Insurance Corporation amounting to $0 as of December 31, 2010 and 2009.

Loan Concentrations: 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 $333.7 million, or 44.0% of gross loans at December 31, 2010. The Company had commercial real estate and commercial construction loans of $40.3 million, or 5.3%, of net loans to customers outside of Pennsylvania. Geographic concentrations exist because the Company provides its services in its primary market area of Pennsylvania and conducts limited activities outside of that area.

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At December 31, 2010 and 2009, the Bank s loan portfolio (in thousands) was concentrated in loans in the following industries. Approximately ninety seven percent of loans included in the Solid Waste Landfills are fully secured by cash collateral on deposit at the Bank.

	December 31, 2010		December 31, 2009	
	Amount	% of Gross Loans	Amount	% of Gross Loans
Land subdivision	$ 29,518	3.89%	$ 54,649	5.82%
Shopping centers/complexes	26,298	3.47%	32,376	3.45%
Gas stations	18,289	2.41%	22,606	2.41%
Office complexes/units	16,842	2.22%	25,352	2.70%
Solid waste landfills	52,270	6.90%	43,297	4.61%

Other

The Company is also a party to routine litigation involving various aspects of its business, and is party to a trademark infringement claim, none of which, in the opinion of management and its legal counsel, is expected to have a material adverse impact on the consolidated financial condition, results of operations or liquidity of the Company.

Note 16. STOCK OPTION PLANS

On August 30, 2000, the Company s Board adopted the 2000 Employee Stock Incentive Plan (the Stock Incentive Plan) in which options may be granted to key officers and other employees of the Company. 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 Stock Incentive Plan become exercisable six months after the date the options are awarded and expire ten years after the award date. Upon exercise, the shares are issued from the Company s authorized but unissued stock. The Stock Incentive Plan expired on August 30, 2010, therefore no further grants will be made under the plan.

The Board also adopted on August 30, 2000, the 2000 Independent Directors Stock Option Plan (the Directors Stock Plan) for directors who are not officers or employees of the Company. The aggregate number of shares issuable under the Directors Stock 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. Upon exercise, the shares are issued from the Company s authorized but unissued shares. Directors Stock Plan expired on August 30, 2010, therefore no further grants will be made under the plan.

Compensation expense related to options under both the Stock Incentive Plan and the Directors Stock Plan in 2010, 2009 and 2008 was $0, $0 and $159 thousand, respectively.

In accordance with current accounting guidance, all options are 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.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model average assumptions:

	Year Ended December 31,		
	2010	**2009**	**2008**
Dividend yield		3.87%	
Expected life		10 years	
Expected volatility		27.8%	
Risk-free interest rate		2.99%	

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

	2010			2009			2008		
	Shares	Weighted Average Exercise Price		Shares	Weighted Average Exercise Price		Shares	Weighted Average Exercise Price	
Outstanding at the beginning of the year	366,248	$	12.18	325,134	$	12.36	360,694	$	11.93
Granted				74,600		10.81			
Exercised				(15,500)		5.97	(31,125)		6.31
Forfeited	(143,632)		11.55	(17,986)		15.21	(4,435)		19.55
Outstanding at the end of the year	222,616	$	12.58	366,248	$	12.18	325,134	$	12.36
Options exercisable at year end	222,616	$	12.58	366,248	$	12.18	325,134	$	12.36
Weighted average fair value of options granted during the year		$			$	2.13		$	
Stock-Based Compensation Expense		$			$			$	158,898

The total intrinsic values of options exercised during the years ended December 31, 2010, 2009 and 2008 were $0 thousand, $34 thousand and $275 thousand, respectively. As of December 31, 2010, there was no unrecognized compensation expense. Cash received from stock options exercised during the years ended December 31, 2010, 2009 and 2008 was $0, $93 thousand and $197 thousand, respectively.

Information pertaining to options outstanding at December 31, 2010 is as follows:

	Options Outstanding				Options Exercisable		
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price		Number Exercisable	Weighted Average Exercise Price	
$ 5.19-$23.13	222,616	4.7 years	$	12.58	222,616	$	12.58

As of December 31, 2010, there was no aggregate intrinsic value of options outstanding.

Note 17. REGULATORY MATTERS

The Bank is under a Consent Order (the Order) from the Office of the Comptroller of the Currency (OCC) dated September 1, 2010. The Company is also subject to a written Agreement (the Agreement) with the Federal Reserve Bank of Philadelphia (the Reserve Bank) dated November 24, 2010.

OCC Consent Order. The Bank, pursuant to a Stipulation and Consent to the Issuance of a Consent Order dated September 1, 2010 without admitting or denying any wrongdoing, consented and agreed to the issuance of the Order by the OCC, the Bank s primary regulator. The Order requires the Bank to undertake certain actions within designated timeframes, and to operate in compliance with the provisions thereof during its term. The Order is based on the results of an examination of the Bank as of March 31, 2009. Since the examination, management has engaged in discussions with the OCC and has taken steps to improve the condition, policies and procedures of the Bank. Compliance with the Order is monitored by a committee (the Committee) of at least three directors, none of whom is an employee or controlling shareholder of the Bank or its affiliates or a family member of any such person. The Committee is required to submit written progress reports on a monthly basis and the Agreement requires the Bank to make periodic reports and filings with the OCC. The members of the Committee are John P. Moses, Joseph Coccia, Joseph J. Gentile and Thomas J. Melone. 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

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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;

(viii) by October 31, 2010, the Board must 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 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.

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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 Federal Reserve Board;

(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;

(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.

Banking regulations also limit the amount of dividends that may be paid without prior approval of the Bank s regulatory agency. At December 31, 2010, the Company and the Bank are restricted from paying any dividends, without regulatory approval.

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.

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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).

In accordance with the Order, 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. As of December 31, 2010, the Bank did not meet these requirements. The minimum capital requirements under the Order take precedence over the standard regulatory capital adequacy definitions described in the tables below. The Company s and the Bank s actual capital positions and ratios as of December 31, 2010, 2009 and 2008 are presented in the following table:

CAPITAL ANALYSIS

(in thousands)

	December 31, 2010	December 31, 2009	December 31, 2008
Company			
Tier I Capital:			
Total Tier I Capital	$ 53,297	$ 84,365	$ 117,285
Tier II Capital:			
Subordinated notes	25,000	23,100	
Allowable portion of ALLL	11,201	14,594	9,150
Total Tier II Capital	36,201	37,694	9,150
Total Risk-Based Capital	$ 89,498	$ 122,059	$ 126,435
Total Risk Weighted Assets	$ 883,887	$ 1,158,157	$ 1,130,824
Bank			
Tier I Capital:			
Total Tier I Capital	$ 75,659	$ 103,453	$ 117,069
Tier II Capital:			
Allowable portion of allowance for loan losses	11,197	14,590	9,150
Total Tier II Capital	11,197	14,590	9,150
Total Risk-Based Capital	$ 86,856	$ 118,043	$ 126,219
Total Risk Weighted Assets	$ 883,535	$ 1,157,823	$ 1,130,490

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As of December 31, 2010	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk Weighted Assets)						
Company	$ 89,499	10.13%	$ >70,711	>8.00%	N/A	N/A
Bank	$ 86,856	9.83%	$ >70,683	>8.00%	$ >88,500	>10.00%
Tier I Capital (to Risk Weighted Assets)						
Company	$ 53,297	6.03%	$ >35,535	>4.00%	N/A	N/A
Bank	$ 75,659	8.56%	$ >35,341	>4.00%	$ >53,100	>6.00%
Tier I Capital (to Average Assets)						
Company	$ 53,297	4.27%	$ >49,964	>4.00%	N/A	N/A
Bank	$ 75,659	6.06%	$ >49,950	>4.00%	$ >62,511	>5.00%

As of December 31, 2009 :	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
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%

Note 18. FAIR VALUE MEASUREMENTS

In determining fair value, the Company uses various valuation approaches, including market, income and cost approaches. ASC Topic 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability, which are developed based on market data obtained from sources independent of the Company. Unobservable inputs reflects the Company s assumptions about the assumptions the market participants would use in pricing an asset or liability, which are developed based on the best information available in the circumstances.

The fair value hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The fair value hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 valuation is based upon unadjusted quoted market prices for identical instruments traded in active markets.

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- Level 2 valuation is based upon quoted market prices for similar instruments traded in active markets, quoted market prices for identical or similar instruments traded in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by market data.

- Level 3 valuation is derived from other valuation methodologies including discounted cash flow models and similar techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in determining fair value.

An asset or liability s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

A description of the valuation methodologies used for assets recorded at fair value, and for estimating fair value for financial instruments not recorded at fair value, is set forth below.

Cash, Short-term Investments, Accrued Interest Receivable and Accrued Interest Payable

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities

The estimated fair values of available for sale equity securities are determined by obtaining quoted prices on nationally recognized exchanges (Level 1 inputs). The estimated fair values for the Company s investments in obligations of U.S. government agencies, obligations of state and political subdivisions, government sponsored agency collateralized mortgage obligations, private label collateralized mortgage obligations, government sponsored agency residential mortgage backed securities, and corporate debt securities are obtained by the Company from a nationally-recognized pricing service. This pricing service develops estimated fair values by analyzing like securities and applying available market information through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing (Level 2 inputs), to prepare valuations. Matrix pricing is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities relationship to other benchmark quoted securities. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things and are based on market data obtained from sources independent from the Company. The Level 2 investments in the Company s portfolio are priced using those inputs that, based on the analysis prepared by the pricing service, reflect the assumptions that market participants would use to price the assets. The Company has determined that the Level 2 designation is appropriate for these securities because, as with most fixed-income securities, those in the Company s portfolio are not exchange-traded, and such non-exchange-traded fixed income securities are typically priced by correlation to observed market data. The Company has reviewed the pricing service s methodology to confirm its understanding that such methodology results in a valuation based on quoted market prices for similar instruments traded in active markets, quoted markets for identical or similar instruments traded in markets that are not active and model-based valuation techniques for which the significant assumptions can be corroborated by market data as appropriate to a Level 2 designation.

For those securities for which the inputs used by an independent pricing service were derived from unobservable market information, the Company evaluated the appropriateness and quality of each price. In accordance with the Company s adoption of the new authoritative accounting guidance under ASC Topic 820, the Company reviewed the volume and level of activity for all classes of securities and attempted to identify transactions which may not be orderly or reflective of a significant level of activity and volume. For securities meeting these criteria, the quoted prices received from either market participants or an independent pricing service may be adjusted, as necessary, to estimate fair value (fair values based on Level 3 inputs). If applicable, the adjustment to fair value was derived based on present value cash flow model projections prepared by the Company or obtained from third party providers utilizing assumptions similar to those incorporated by market participants. The estimated fair value of the PreTSLs in the Company s securities portfolio are obtained from a third-party service provider that prepared the valuation using a discounted cash flow approach with inputs derived from unobservable market information (Level 3 inputs). The valuation of PreTSLs is further described below and in Note 4 of these consolidated financial statements.

As of December 31, 2010, the Company owned PreTSLs having a book value of $12.1 million. The market for these securities at December 31, 2010 is not active and markets for similar securities are also not active. PreTSLs were historically priced using Level 2 inputs. However, the decline in the level of observable inputs and market activity in this class of investments by the measurement date has been significant and resulted in unreliable external pricing. Broker pricing and bid/ask spreads, when available, vary widely. The once active market has become comparatively inactive. As such, the valuation of these investments is now determined using Level 3 inputs. The Company obtained the valuations from a third-party service provider that prepared the valuations using a discounted cash

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flows approach. The Company takes measures to validate the service provider s analysis and is actively involved in the valuation process, including reviewing and verifying the assumptions used in the valuation calculations. The difference between the discounted cash flow calculations for the purpose of estimating OTTI credit losses, described in Note 4, and the calculation used for fair value of the Company s PreTSL securities relates only to the discount rate used.

Results of a discounted cash flow test are significantly affected by variables such as the estimate of the probability of default, estimates of future cash flows, discount rates, prepayment rates and the creditworthiness of the underlying issuers. Refer to the discussion of these variables in Note 4. The Company considers these inputs to be unobservable Level 3 inputs because they are based on the Company s estimates about the assumptions market participants would use in pricing this type of asset and developed based on the best information available in the circumstances rather than on observable inputs. The Company continues to monitor the market for PreTSLs to assess the market activity and the availability of observable inputs and will continue to apply these controls and procedures to the valuations received from its third party service provider for the period it continues to use an outside valuation service. As it relates to fair value measurements, once each issuer is categorized and the forecasted default rates have been applied, the expected cash flows are modeled using the variables described above. The Company then applies a 15% discount rate to PreTSL XIX and PreTSL XXVI and a 20% discount rate for the remaining PreTSLs to the expected cash flows to estimate fair value.

As of December 31, 2010, the Company owned a security issued by a state and political subdivision having a book value of $2.2 million that was downgraded by several nationally recognized credit rating agencies. As a result of the downgrade, the market for this security at December 31, 2010 is no longer active. The security was historically priced using Level 2 inputs. The credit downgrade has resulted in decline in the level of significant other observable inputs for this investment security at the measurement date. Broker pricing and bid/ask spreads are very limited, the weaker credit rating has resulted in additional price discounts and the absence of a CUSIP limits the amount of information that is available about this security. As such, the valuation of this investment is now determined using Level 3 inputs. The Company obtained a bid indication from a third party municipal trading desk to determine its fair value.

Loans

For non-impaired loans and non-collateral dependent impaired loans, fair values are estimated by discounting the projected future cash flows using market discount rates that reflect the credit, liquidity, and interest rate risk inherent in the loan. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. The estimated fair value of collateral dependent impaired loans is based on the appraised loan value or other reasonable offers less estimated costs to sell. The Company does not record loans at fair value on a recurring basis. However from time to time, a loan is considered impaired and an allowance for credit losses is established. The specific reserves for collateral dependent impaired loans are based on the fair value of the collateral less estimated costs to sell. The fair value of the collateral is generally based on appraisals. In some cases, adjustments are made to the appraised values due to various factors including age of the appraisal, age of comparables included in the appraisal, and known changes in the market and in the collateral. When significant adjustments are based on unobservable inputs, the resulting fair value measurement is categorized as a Level 3 measurement. See also, Note 2 Summary of Significant Accounting Policies Loan Impairment and Note 5 Loans.

Loans Held For Sale

Fair values of mortgage loans held for sale are based on commitments on hand from investors or prevailing market prices.

Mortgage Servicing Rights

The fair value of mortgage servicing rights is estimated using a discounted cash flow model that applies current estimated prepayments derived from the mortgage-backed securities market and utilizes a current market discount rate for observable credit spreads. The Bank does not record mortgage servicing rights at fair value on a recurring basis.

Federal Home Loan Bank (FHLB   ) and Federal Reserve Bank (FRB   ) Stock

Ownership in equity securities of FHLB of Pittsburgh and the FRB is restricted and there is no established market for their resale. The carrying amount is a reasonable estimate of fair value.

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Deposits

The fair value of demand deposits, savings deposits, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated based on discounted cash flows using the rates currently offered for deposits of similar remaining maturities.

Borrowed funds

The Bank uses discounted cash flows using rates currently available for debt with similar terms and remaining maturities are used to estimate fair value.

Commitments to extend credit and standby letters of credit

The fair value of commitments to extend credit and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of off-balance- sheet commitments is insignificant and therefore not included in the table for non-recurring assets and liabilities.

Assets Measured on a Recurring Basis

The following tables detail the financial asset amounts that are carried at fair value and measured at fair value on a recurring basis at December 31, 2010 and 2009, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value (dollars in thousands):

Fair Value Measurements at December 31, 2010

	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities:				
Obligations of U.S. Government Agencies	$ 8,307	$	$ 8,307	$
Obligations of political and state subdivisions	111,353		109,108	2,245
Government sponsored agency CMOs	77,816		77,816	

Residential mortgage-backed securities:				
Government sponsored agency	49,120		49,120	
Pooled trust preferred senior class	1,422			1,422
Pooled trust preferred mezzanine class	1,647			1,647
Corporate debt securities	395		395	
Equity securities	1,012	1,012		
Total securities available-for-sale	$ 251,072	$ 1,012	$ 244,746	$ 5,314

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Fair Value Measurements at December 31, 2009

	Quoted prices in active markets for identical	Significant Other Observable Inputs	Significant Unobservable Inputs