Intrepid Potash, Inc.
Form 10-Q
June 02, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2008

Commission File Number: 001-34025

INTREPID POTASH, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**26-1501877**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

700 17th Street, Suite 1700

Denver, Colorado 80202

(303) 296-3006

(Address of Principal Executive Offices, Including Zip Code)

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ¨ Yes x No

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of May 23, 2008, 74,843,124 shares of the registrant s common stock, par value of $0.001 per share, were outstanding.

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INTREPID POTASH, INC. and INTREPID MINING LLC

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INTREPID POTASH, INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except per share amounts)

	Intrepid Potash, Inc.		Intrepid Mining LLC (Predecessor)	
	March 31, 2008	**December 31, 2007**	**March 31, 2008**	**December 31, 2007**
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 1	$ 1	$ 1,791	$ 1,960
Accounts receivable:				
Trade			33,889	23,251
Other receivables			381	264
Related parties			21	248
Inventory, net			17,369	18,501
Prepaid expenses and other current assets			5,708	3,223
Total current assets	1	1	59,159	47,447
Property, plant and equipment, net			72,533	63,519
Mineral properties and development costs, net			22,841	23,255
Long-term parts inventory, net			4,930	4,634
Other assets	4		7,594	7,872
Total Assets	$ 5	$ 1	$ 167,057	$ 146,727
LIABILITIES AND STOCKHOLDERS / MEMBERS EQUITY (DEFICIT)				
Current Liabilities:				
Accounts payable	$ 11	$	$ 10,944	$ 7,998
Accrued liabilities			14,041	16,532
Current installments of long-term debt			5,000	5,005
Other current liabilities			325	781
Total current liabilities	11		30,310	30,316
Long-term debt, net of current installments			96,856	96,350
Accrued pension liability			655	646
Asset retirement obligation			7,935	7,779
Other non-current liabilities			2,853	1,239
Total liabilities	11		138,609	136,330
Commitments and Contingencies				
Stockholders / Members Equity (Deficit):				
Members equity of Intrepid Mining LLC			29,094	11,035
Accumulated other comprehensive (loss)			(646)	(638)
Common stock of Intrepid Potash, Inc., $0.001 par value; authorized 1,000 shares; issued and outstanding 1,000 shares				

Additional paid-in capital	1	1		
Retained (deficit)	(7)			
Total Stockholders / Members Equity (Deficit)	(6)	1	28,448	10,397
Total Liabilities and Stockholders /Members Equity	$ 5	$ 1	$ 167,057	$ 146,727

See accompanying notes to these consolidated financial statements.

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INTREPID POTASH, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except per share amounts)

	Intrepid Potash, Inc.	Intrepid Mining LLC (Predecessor)	
	Three Months Ended March 31, 2008	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Sales	$	$ 84,401	$ 48,164
Less: Freight costs		10,172	5,641
Warehousing and handling costs		1,800	1,019
Cost of goods sold		38,461	29,751
Gross Margin		33,968	11,753
Selling and administrative	11	4,542	2,426
Accretion of asset retirement obligation		156	145
Operating Income	(11)	29,270	9,182
Other Income (Expense)			
Interest expense		(3,085)	(2,460)
Insurance settlements in excess of property losses		6,998	17
Other expense		(128)	(359)
Income (Loss) Before Income Taxes	(11)	33,055	6,380
Income Taxes	4	4	
Net Income (Loss)	$ (7)	$ 33,059	$ 6,380
Weighted Average Shares Outstanding:			
Basic	1,000		
Diluted	1,000		
Loss Per Share:			
Basic	$ (6.56)		
Diluted	$ (6.56)		

See accompanying notes to these consolidated financial statements.

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INTREPID POTASH, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT) (UNAUDITED)

(In thousands, except share amounts)

	Shares	Common Stock	Additional Paid-in Capital	Retained (Deficit)	Total Stockholders Equity (Deficit)
Opening Balance, November 19, 2007		$	$	$	$
Issuance of common shares	1,000		1		1
Balance, December 31, 2007	1,000	$	$ 1	$	$ 1
Net income (loss)				(7)	(7)
Balance, March 31, 2008	1,000	$	$ 1	$ (7)	$ (6)

INTREPID MINING LLC AND SUBSIDIARIES (PREDECESSOR)

CONSOLIDATED STATEMENTS OF MEMBERS EQUITY (DEFICIT) AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(In thousands, except share amounts)

	Accumulated Equity (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Members Equity (Deficit)
Balance, December 31, 2006	$ (30,560)	$ (898)	$ (31,458)
Net income	29,684		29,684
Minimum pension liability adjustment		260	260
	29,684	260	
Total comprehensive income			29,944
Distribution of oil and gas assets	(938)		(938)
Capital contributions	38,782		38,782
Distributions	(26,081)		(26,081)
Repayment of Members loans	148		148
Balance, December 31, 2007	$ 11,035	$ (638)	$ 10,397
Net income	33,059		33,059
Minimum pension liability adjustment		(8)	(8)
	33,059	(8)	
Total comprehensive income			33,051
Distributions	(15,000)		(15,000)
Balance, March 31, 2008	$ 29,094	$ (646)	$ 28,448

See accompanying notes to these consolidated financial statements.

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INTREPID POTASH, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands, except per share amounts)

	Intrepid Potash, Inc.	Intrepid Mining LLC (Predecessor)	
	Three Months Ended March 31, 2008	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Cash Flows from Operating Activities:			
Reconciliation of net income (loss) to net cash provided by operating activities:			
Net income (loss)	$ (7)	$ 33,059	$ 6,380
Deferred income taxes	(4)	(4)	
Insurance reimbursements		(6,998)	(6,941)
Items not affecting cash:			
Depreciation, depletion, amortization and accretion		2,790	2,135
Loss on disposal of assets and other		35	446
Financial instruments loss (gain)		1,467	(1,318)
Bond sinking fund unrealized loss (gain)		210	(61)
Changes in operating assets and liabilities:			
Trade accounts receivable		(10,638)	(4,642)
Insurance and other receivables		110	8,056
Inventory		835	1,673
Prepaid expenses and other assets		(2,543)	(1,138)
Accounts payable and accrued liabilities	11	(948)	(1,919)
Other current liabilities		(251)	(485)
Total cash provided by operating activities		17,124	2,186
Cash Flows from Investing Activities:			
Proceeds from insurance reimbursements		6,998	6,941
Additions to property, plant, and equipment		(9,776)	(5,195)
Additions to mineral properties and development costs		(2)	
Additions to bond sinking fund		(14)	(15)
Total cash (used in) provided by investing activities		(2,794)	1,731
Cash Flows from Financing Activities:			
Proceeds from long-term debt		7,509	101,921
Repayments on long-term debt		(7,003)	(103,664)
Payments of capital leases		(5)	(14)
Distributions to members		(15,000)	(1,475)
Total cash used in financing activities		(14,499)	(3,232)
Net Change in Cash and Cash Equivalents		(169)	685
Cash and Cash Equivalents, beginning of period	1	1,960	286
Cash and Cash Equivalents, end of period	$ 1	$ 1,791	$ 971
Supplemental disclosure of cash flow information			
Cash paid during the period for:			

Interest	$	$ 1,641	$ 2,286
Income taxes	$	$	$

See accompanying notes to these consolidated financial statements.

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INTREPID POTASH, INC. and INTREPID MINING LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1 COMPANY BACKGROUND

Intrepid Mining LLC (Intrepid or the Company) and its subsidiaries produce muriate of potash (MOP, potassium chloride or potash); langbeinite; and byproducts including salt, magnesium chloride and metal recovery salts. Intrepid owns five active potash production facilities, three in New Mexico and two in Utah. Production comes from two underground mines in the Carlsbad region of New Mexico; a solar evaporation solution mine near Moab, Utah; and a solar evaporation shallow brine mine in Wendover, Utah. Intrepid has one operating segment as defined by FAS 131, the extraction and production of potash-related products and its operations are conducted entirely in the continental United States.

Note 2 INITIAL PUBLIC OFFERING OF INTREPID POTASH, INC.

On April 25, 2008, Intrepid Potash, Inc. (IPI) closed its initial public offering selling 34,500,000 shares of our common stock in our initial public offering, including 4,500,000 shares sold in connection with the underwriters exercise of their over-allotment option. IPI was incorporated in the state of Delaware on November 19, 2007, for the purpose of continuing the business of Intrepid in corporate form after the initial public offering. Prior to April 25, 2008, IPI was a consolidated subsidiary of Intrepid, the predecessor company. Beginning on April 25, 2008, Intrepid s ongoing business has been conducted by IPI and includes all operations that previously had been conducted by Intrepid. There were no material activities for IPI for the period from its inception to the date of the initial public offering.

All 34,500,000 shares of our common stock sold in the offering were sold at the initial public offering price of $32.00 per share, for an aggregate offering price of $1.104 billion. We received aggregate net proceeds of approximately $1.033 billion, after deducting underwriting discounts, commissions and other transaction costs of approximately $71 million. Pursuant to an Exchange Agreement dated April 21, 2008, by and between IPI and Intrepid, IPI paid approximately $757.4 million of the net proceeds of the offering to Intrepid (together with 40,339,000 shares of our common stock) in exchange for all of Intrepid s assets other than cash. In connection with the exercise of the underwriters option to purchase additional shares, IPI also paid a dividend to Intrepid of approximately $135.4 million, which we refer to herein as the formation distribution. Upon the closing of our initial public offering, IPI replaced Intrepid as the borrower under the senior credit facility. Intrepid repaid $18.9 million of the principal amount outstanding under the senior credit facility, plus fees and accrued interest, and IPI repaid the remaining $86.9 million of principal outstanding, plus fees and accrued interest, using net proceeds from the offering. The remaining approximately $52.7 million of net proceeds from the offering will be used by IPI to fund production expansions and other growth opportunities and for general corporate purposes. Intrepid was dissolved on April 25, 2008. On that date, all of Intrepid s liabilities were provided for and Intrepid s remaining cash of approximately $882.8 million and 40,340,000 shares of IPI common stock owned by Intrepid were distributed pro rata to Intrepid s members.

The transfer of the nonmonetary assets from Intrepid will be accounted for at historical cost because the members of Intrepid received common stock of IPI in connection with its initial public offering in exchange for a controlling interest in Intrepid Potash.

Note 3 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and Regulation S-X of the Securities and Exchange Commission. They do not include all information and notes required by GAAP for complete financial statements. The accompanying unaudited consolidated financial statements reflect all adjustments, which are normal and recurring in nature, and which, in the opinion of management, are necessary for a fair presentation of the financial position as of March 31, 2008, and results of operations for the three month periods ended March 31, 2008 and 2007. These unaudited consolidated financial statements and related notes should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2007.

Intrepid is considered the predecessor entity to IPI. IPI is presented separately within these financial statements, and is also included in the consolidated financial statements of Intrepid. There were no material activities for IPI for the first quarter ended March 31, 2008, and IPI did not exist until November, 2007, therefore all discussion is relating to the activities of Intrepid, referred to herein as Intrepid or the Company unless otherwise specified.

Note 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation The consolidated financial statements of Intrepid include the accounts of Intrepid Mining LLC and its wholly owned subsidiaries: IPI, Intrepid Potash Moab, LLC (Moab), Intrepid Potash New Mexico, LLC (NM), HB Potash, LLC (HB), Intrepid Potash Wendover, LLC (Wendover), Moab Pipeline LLC and Intrepid Aviation LLC. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Intrepid bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results may differ significantly from these estimates under different assumptions or conditions.

Significant estimates with regard to Intrepid s consolidated financial statements include the estimate of proved and probable mineral reserve volumes, useful lives of plant assets and the related present value of estimated future net cash flows. There are numerous uncertainties inherent in estimating quantities of proved and probable reserves, projecting future rates of production, and the timing of development expenditures. Future mineral prices may vary significantly from the prices in effect at the time the estimates are made as may estimates of future operating costs. The estimate of proven and probable mineral reserve volumes, useful lives of plant assets and the related present value of estimated future net cash flows can affect depletion, the net carrying value of Intrepid s mineral properties, and the useful lives of related property, plant and equipment and consequently, depreciation expenses.

Revenue Recognition Revenue is recognized when evidence of an arrangement exists, risks and rewards of ownership have been transferred to customers, which is when title passes, selling price is fixed and determinable and collection is reasonably assured. Title passes at the shipping point, which can vary. The shipping point may be the plant, a distribution warehouse, or a port. Title transfers for some shipments into Mexico at the border crossing which is the port of exit. Prices are set at the time of or prior to shipment. Intrepid uses few sales contracts, so prices are based on Intrepid s current published prices or upon negotiated short-term purchase orders from customers. Sales are final with customers not having any right of return.

Sales are reported on a gross basis. Intrepid quotes prices to customers both on a delivered basis and on the basis of pick-up at Intrepid s plants and warehouses. Intrepid incurs and bills for freight, packaging, and certain other distribution costs only on the portion of its sales for which it is responsible as customers often arrange for and pay for these costs.

Byproduct credits When byproduct inventories are sold, the Company records these sales of byproducts as a credit to Cost of Goods Sold .

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Fair Value of Financial Instruments Intrepid s financial instruments include cash and cash equivalents, restricted cash, accounts receivable and accounts payable which are carried at cost and approximate fair value due to the short-term nature of these instruments. The revolving credit facility s recorded value approximates its fair value as it bears interest at a floating rate. Intrepid s interest rate and natural gas swaps are recorded at fair value using established counterparty evaluations that are subjected to our review. Since considerable judgment is required to develop estimates of fair value, the estimates provided are not necessarily indicative of the amounts the Company could realize upon the sale or refinancing of such instruments. (See Note 11 regarding derivatives.)

Inventory and Long-Term Parts Inventory Inventory consists of product and byproduct stocks, which are ready for delivery to market, mined ore, MOP in evaporation ponds and parts and supplies inventory. Product and byproduct inventory cost is determined using the lower of weighted average cost or estimated net realizable value. Product inventory costs include direct costs, operational overhead, depreciation, depletion, amortization, and equipment lease costs applicable to the production process. Direct costs and operational overhead include labor.

Parts inventory, including critical spares, that is not expected to be utilized within a period of one year is classified as non-current. Parts and supply inventory cost is determined using the lower of average acquisition cost or estimated replacement cost.

Intrepid conducts detailed reviews related to the net realizable value of inventory, giving consideration to quality, slow-moving items, obsolescence, excessive levels and other factors. Parts inventories not having turned-over in more than a year, excluding parts classified as critical spares, are reviewed for obsolescence and included in the determination of an allowance for obsolescence.

Property, Plant, and Equipment Costs of property, plant, and equipment are capitalized when the asset is estimated to have a future economic benefit and a useful and economic life of over one year. Property, plant, and equipment are stated at historical cost or at the allocated values determined upon acquisition of the business entities. Property, plant, and equipment are depreciated under the straight-line method using estimated useful lives. No depreciation is taken on construction in progress until the asset is placed in service. Gains and losses are recorded upon retirement, sale, or disposal of assets. Maintenance and repair costs are expensed as incurred.

Mineral Properties and Development Costs Mineral properties and development costs, which we refer to collectively as mineral properties, include acquisition costs, the cost of drilling wells and the cost of other development work. Depletion of mineral properties is provided using the units-of-production method over the estimated life of the relevant ore body. The lives of reserves used for accounting purposes are shorter than current reserve life determinations prepared by us and reviewed and independently determined by mine consultants, due to uncertainties inherent in long-term estimates and in order to correlate to estimated building and plant lives of 25 years or less, where appropriate. Certain development costs are depleted over the life of the proven and probable reserves or the life of the facility. Reserve studies and mine plans are updated periodically, and the remaining net balance of the mineral properties is depleted over the updated estimated life. Possible impairment is also considered. Our proven and probable reserves are based on extensive drilling, sampling, mine modeling and mineral recovery from which economic feasibility has been determined. The price sensitivity of reserves depends upon several factors including ore grade, ore thickness and ore mineral composition. The reserves are estimated based on information available at the time the reserves are calculated. Recovery rates vary depending on the mineral properties of each deposit and the production process used. The reserve estimate utilizes the average recovery rate for the deposit, which takes into account the processing methods scheduled to be used. The cutoff grade, or lowest grade of mineralized material considered economic to process, varies with material type, mineral recoveries and operating costs. Proven and probable reserves are based on estimates, and no assurance can be given that the indicated levels of recovery of potash and langbeinite will be realized or that production costs and estimated future development costs will not exceed the net realizable value of the products. Short tons of potash and langbeinite in the proven and probable reserves are expressed in terms of expected finished short tons of product to be realized net of estimated losses. Reserve estimates may require revision based on actual production experience. Market price fluctuations of potash or langbeinite, as well as increased production costs or reduced recovery rates, could render proven and probable reserves containing relatively lower grades of mineralization uneconomic to exploit and might result in a reduction of reserves. In addition, the provisions of our mineral leases are subject to periodic readjustment, including royalties payable, by the state and federal government, which could impact the economics of our reserve estimates. Significant changes in the estimated reserves could have a material impact on our results of operations and financial position.

Asset Retirement Obligation Reclamation costs are allocated to expense over the life of the related assets and are periodically adjusted to reflect changes in the estimates of either the timing or amount of the reclamation and abandonment costs.

Annual Maintenance Each operation typically shuts-down annually for maintenance. The NM operations typically shut-down for ten to fourteen days. Generally the Moab and Wendover operations cease harvesting potash from our solar ponds during one or more summer months to make the most of the evaporation season. During these summer shut-downs, annual maintenance is performed. Intrepid expenses the cost of the maintenance performed during the shut-downs when it occurs.

Income Taxes As a limited liability company, Intrepid does not pay federal and state income taxes, except for the Texas franchise tax which is based on gross margin. The taxable income or loss of Intrepid will be included in the state and federal tax returns of the members. IPI is a subchapter C corporation and therefore is subject to federal and state income taxes. The income tax basis of the assets transferred to IPI pursuant to the exchange agreement plus the formation distribution will, in the aggregate, equal Intrepid s existing tax basis in the assets, increased by the amount of taxable gain recognized by Intrepid generally, the amount of cash received by Intrepid pursuant to the exchange agreement plus the amount of the formation distribution. We expect to allocate the increase in tax basis to our property, plant and equipment and our mineral leasehold interests. As to the allocation to the mineral leasehold interests, we anticipate that percentage depletion with respect to our mineral leasehold interests will exceed cost depletion in each taxable year. Consequently, we do not expect the increased tax basis to result in any increase in federal cost recovery deductions with respect to our mineral leasehold interests.

As of March 31, 2008, IPI has a long-term deferred tax asset related to the net operating loss generated in the first quarter of 2008. This net operating loss is expected to be fully realizable by IPI following the initial public offering as taxable income is generated.

Discontinued Operations In 2006, all of the operating properties of Intrepid Oil and Gas LLC (IOG) were sold. Initial drilling costs for a well-in-progress and certain unproved oil and gas rights were retained by IOG until January 1, 2007 when the remaining IOG assets, $0.9 million, were distributed to the members.

Redemption of Equity Interest On December 28, 2006, the members of Intrepid agreed to redeem the membership interest of Long Canyon, LLC, at the time representing 42.5 percent of the membership interests of Intrepid, for a total redemption cost of $100 million, which included a $95 million note paid in March 2007. The $100 million cost to redeem Long Canyon, LLC as well as costs of the redemption transaction were treated as distributions to Long Canyon, LLC resulting in Intrepid having a members deficit as of the opening of 2007.

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Note 5 INVENTORY AND LONG-TERM PARTS INVENTORY

The following summarizes Intrepid s inventory, recorded at the lower of weighted average cost or estimated net realizable value, as of March 31, 2008, and December 31, 2007:

	March 31, 2008	December 31, 2007
	(In thousands)	
Product inventory	$ 6,281	$ 8,614
In-process mineral inventory	4,113	2,806
Current parts inventory	6,975	7,081
Total current inventory	17,369	18,501
Long-term parts inventory	4,930	4,634
Total inventory	$ 22,299	$ 23,135

Parts inventories are shown net of obsolescence reserves of $463,000 and $492,000 as of March 31, 2008, and December 31, 2007, respectively. No obsolescence or other reserves were deemed necessary for product or in-process mineral inventory.

Note 6 PROPERTY, PLANT, EQUIPMENT AND MINERAL PROPERTIES

Property, plant and equipment and Mineral properties and development costs were comprised of the following:

	March 31, 2008	December 31, 2007	Ranges of useful lives (years): Lower limit	Upper limit
	(in thousands)			
Buildings and plant	$ 18,951	$ 18,949	5	25
Machinery and equipment	42,411	42,034	3	25
Vehicles	4,564	4,261	3	7
Office and other equipment	213	213	3	7
Computers	607	593	2	5
Software	1,428	1,430	3	3
Leasehold improvements	122	128	1.5	10
Ponds and land improvements	2,910	2,821	5	25
Construction in progress	21,719	11,391		
Land	427	427		
Accumulated depreciation	(20,819)	(18,728)		
	$ 72,533	$ 63,519		
Mineral properties and development costs	$ 28,312	$ 28,309	21	22
Accumulated depletion	(5,471)	(5,054)		
	$ 22,841	$ 23,255		
Water rights in Other Assets	$ 2,670	$ 2,670	18	18
Accumulated depletion	(66)	(53)		

	$ 2,604	$ 2,617

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Mineral properties and development costs include the inactive HB mine with costs of approximately $1.7 million and $1.5 million at March 31, 2008, and December 31, 2007. Pending reopening as a solution mine, no depletion is currently being recognized on this property. Intrepid incurred the following costs for depreciation, depletion, amortization and accretion, which included costs capitalized into inventory, for the three months ended March 31, 2008 and 2007.

	For the Three Months Ended	
	March 31, 2008	March 31, 2007
	(In thousands)	
Depreciation	$ 2,124	$ 1,582
Depletion	430	357
Amortization	80	51
Accretion	156	145
Total incurred	$ 2,790	$ 2,135

Note 7 MEMBERSHIP INTERESTS AND RELATED PARTIES

The members of Intrepid as of March 31, 2008, were Intrepid Production Corp. (IPC), whose sole shareholder is Robert P. Jornayvaz III (Jornayvaz), Harvey Operating and Production Company (HOPCO), whose sole shareholder is Hugh E. Harvey, Jr. (Harvey), and Potash Acquisition, LLC (PAL), controlled by Platte River Ventures Investors I, LLC. In June of 2007, a 20 percent membership interest was sold to PAL, a then unrelated party, for a gross price of $39 million.

At March 31, 2008 and December 31, 2007, related parties accounts receivable balances were approximately $21,000 and $248,000, respectively, and consisted of advances to IOG, members, and employees. The receivable from IOG was repaid in April, 2008, prior to the initial public offering. Non-business expenses initially paid by Intrepid and recognized as a receivable from Jornayvaz and Harvey were approximately $7,000 and $31,000 for the three months ended March 31, 2008, and 2007, respectively. Related party receivable balances were collected subsequent to quarter-end and prior to the initial public offering.

Under Intrepid s policy, Jornayvaz and Harvey are allowed to use Intrepid s plane for non-business purposes. This use of the aircraft has been treated as compensation to them at the federal income tax standard rate for such travel. Additionally, members may use the plane under dry-leases and reimburse Intrepid the lesser of the actual cost or the maximum amount chargeable under Federal Aviation Regulation 91-501(d). The amounts recognized as compensation and the reimbursements for the use by members are recorded as offsets to the operating expenses of the plane. Personal use of the airplane is calculated based on occupied seat-miles, rather than flight miles. Flight segments may have passengers for both personal and business purposes. Each seat occupied for personal use is multiplied by the flight-segment miles to calculate the percentage of flight time reported as personal use. Non-business use of the plane treated as compensation was approximately $27,000 and $28,000 for the three months ended March 31, 2008 and 2007, respectively. Additionally estimated plane expenses incurred in excess of the federal rates used to determine compensation were approximately $104,000 and $124,000 for the three months ended March 31, 2008 and 2007, respectively.

In the three months ended March 31, 2008, Pat Avery, President and Chief Operating Officer, and Pat Quinn, Interim Chief Financial Officer, were allowed to use the plane for personal purposes, such use being determined based on occupied seat-miles at the federal income tax standard rate. Combined compensation income to Mr. Avery and Mr. Quinn of $5,800 was reported for this use.

Effective January 1, 2007, the members decided to distribute their remaining interests in IOG. The amount of the equity distribution was approximately $938,000. While IOG continued as a related party, this distribution effectively separated IOG from Intrepid. In 2007, Intrepid funded net expenses of approximately $216,000 for IOG, which same amount was due from IOG at December 31, 2007, and is included in the related parties accounts receivable disclosed above. This $216,000 was repaid to Intrepid in the first quarter of 2008.

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Intrepid s former interim Chief Financial Officer, who resigned in April 2008, is the primary owner of a firm of certified public accountants, Quinn & Associates, P.C. (Q&A) that provides accounting, consulting, and tax services to Intrepid. Q&A billed Intrepid based on actual hours incurred and at standard hourly rates. Q&A billings to Intrepid aggregated $179,000 and $142,000 for the three months ended March 31, 2008 and 2007, respectively.

Note 8 NOTES PAYABLE AND LONG-TERM DEBT

The following summarizes Intrepid s long-term debt at March 31, 2008, and December 31, 2007:

	March 31, 2008	December 31, 2007
	(In thousands)	
Credit Agreement	$ 101,856	$ 101,350
Other		5
Total	101,856	101,355
Less current installments	(5,000)	(5,005)
Long-term debt	$ 96,856	$ 96,350

In conjunction with the initial public offering described previously, all of the balances outstanding under the Company s credit agreement were repaid on April 25, 2008 with cash generated from the closing of the initial public offering. The classification of the debt as of March 31, 2008 was current only for the required $5.0 million term loan repayments and otherwise was long-term as there were no additional required repayments due as of or subsequent to March 31, 2008. Additionally, as a result of this subsequent repayment, the term loan has been canceled and IPI now has a $125 million revolving credit facility that has a term through March 9, 2012, of which $124.8 million is available for use at March 31, 2008. Prior to the repayment of the term loan, the $50 million term loan required a principal repayment of $1.25 million each quarter beginning June 29, 2007. The net balance of the original bank costs that had been capitalized associated with the term loan of $456,000 was expensed in April 2008. As of March 31, 2008, the Company had $160,000 of letters of credit issued, which reduces the amounts available for borrowing, and is reflected in the amount available for borrowing above.

In conjunction with the closing of the initial public offering, the Company entered into the Fourth Amendment of the Third Amended and Restated Credit Agreement. This amendment replaced Intrepid with IPI, removed IOG from the agreement, and amended the distribution language to provide that IPI may make a distribution at a time when the cash flow leverage ratio (as defined) of IPI shall not be greater than 2.5:1.0 immediately before and immediately after the distribution.

The Third Amended and Restated Credit Agreement was entered into on March 9, 2007. Intrepid and US Bank National Association (the Bank) entered into a new credit agreement in part to retire the Note to Long Canyon, LLC, to fund capital projects, and to meet working capital requirements. The current credit agreement, as amended is a syndicated facility led by US Bank National Association (the Bank) as the agent bank which provides a total revolving credit facility of $125 million. The lenders have a security interest in substantially all of the assets of Intrepid. Obligations are cross-collateralized between all of Intrepid s legal entities, parent and subsidiaries.

Capitalized interest for the three months ended March 31, 2008 and 2007 was $41,000 and $9,000, respectively. The weighted average interest rate effective for the three months ended March 31, 2008 and 2007, was 6.3 percent and 7.5 percent, respectively, excluding the impact of derivatives, reflecting market conditions and Intrepid s use of debt with variable rates. Inclusive of the impact of derivatives, the effective average interest rate for the three months ended March 31, 2008 and 2007 was 11.9 percent and 7.6 percent, respectively, reflecting changes in the market value of underlying interest rate swaps.

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Note 9 ASSET RETIREMENT OBLIGATION

The Company recognizes an estimated liability for future costs associated with the abandonment of its mining properties. A liability for the fair value of an asset retirement obligation and a corresponding increase to the carrying value of the related long-lived asset are recorded as the mining operations occur or the assets are acquired.

The Company s estimated asset retirement obligation is based on estimated cost to abandon the mining operations, the economic life of the properties, and federal and state regulatory requirements. The liability is discounted using credit-adjusted risk-free rate estimates at the time the liability is incurred or revised. The credit-adjusted risk-free rates used to discount the Company s abandonment liabilities range from 6.9 percent to 8.5 percent. Revisions to the liability occur due to changes in estimated abandonment costs or economic lives, or if federal or state regulators enact new requirements regarding the abandonment of mines.

Following is a table of the changes to Intrepid s asset retirement obligations for the three months ended March 31, 2008 and 2007.

	March 31, 2008	March 31, 2007
	(In thousands)	
Asset retirement obligation beginning of period	$ 7,779	$ 7,203
Changes in estimated obligations		

&le="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; MARGIN-RIGHT: 0pt" align="left">Pension Benefits- Profit Sharing Plan

We currently provide retirement plans to our employees to provide long term financial security. The retirement plans are designed to assist our employees in providing for their own financial security in a manner that recognizes individual needs and preferences. The bank has adopted a Profit Sharing Plan and 401(k) plan whereby any employee who has attained the age of twenty-one is eligible to participate on the earlier of the first day of the seventh month or the first day of the plan year coinciding with or following the date on which he or she has met the eligibility requirements. By virtue of being employees, Named Executive Officers are eligible to participate in the plans once
they have met the eligibility requirements. The amount of money which the bank contributes to the Profit Sharing and 401(k) plan is not taken into account when determining the amounts of other forms of compensation.

Deferred Compensation

The Named Executive Officers are eligible to participate in the Officers' Deferred Compensation Plan which allows Named Executive Officers who have been employed by the bank for ten or more years to defer up to twenty-five percent of their compensation, including base salary and cash bonuses. All other Named Executive Officers may defer up to fifteen percent of their compensation. The interest earned on the deferrals is tied to the one-year Treasury Bill. The deferred compensation plan is designed to account for some of the limitations with traditional pension plans and is designed to provide a long-term incentive to remain in the employ of the bank.

Internal Revenue Code Limits on the Deductibility of Compensation

Section 162(m) of the Internal Revenue Code of 1986, as amended, generally denies publicly-held corporations a federal income tax deduction for compensation exceeding $1,000,000 paid to the Chief Executive Officer or any of the four other highest paid executive officers, excluding performance-based compensation. The Stock Option Incentive Plan has been designed and will be administered in a manner that will enable the company to deduct compensation attributable to options and without regard to such deduction limitation.

The Role of the Executive Officers in Setting Compensation

The Compensation Committee delegates to the President and Chief Executive Officer the responsibility of conducting annual reviews for the other executive officers. The President and Chief Executive Officer proposes increases based on his subjective analysis of the individual's contribution to the Company's strategic goals and objectives. In determining whether strategic goals have been achieved, the President and Chief Executive Officer considers numerous factors, including the following: the Company's performance as measured by earnings, return on assets, return on equity, asset and liability quality, and audit findings.

Although the President and Chief Executive Officer measures the performance and increases in compensation in light of these factors, no direct correlation exists between any specific criterion and the employees' compensation. The President and Chief Executive Officer makes a subjective determination after review of all relevant information, including the above.

The President and Chief Executive Officer does not set or participate in the determination process of his annual base salary.

The full board of directors advises the President and Chief Executive Officer on compensation matters, determines the compensation of the President and Chief Executive Officer, reviews and takes action on the recommendation of the President and Chief Executive Officer as to the appropriate compensation of other officers and key personnel and approves the grants of bonuses to officers and key personnel.

Independent Consultant

The Senior Management Committee engages L.R. Webber Associates, Inc., a Pennsylvania based Human Resources and Compensation firm, to provide the committee with an annual salary and benefits survey. The survey was utilized to review the current salary ranges. The committee chose this firm because it is within our market area and the surveys conducted provide information by region and asset size. L.R. Webber's sole role and specific contribution to the determination of compensation is providing the survey.

Benchmarking

The survey provided by L.R. Webber Associates benchmarked salary and benefits from Pennsylvania financial institutions who participated in the survey. Survey results are reported by bank asset size and geographic region. Specific salary levels are not provided; only salary ranges are provided. The Board of Directors also considers salary levels for comparable positions in industries other than the financial services industry. The Board of Directors does not specifically benchmark salary to any specific company.

Triggering Events in Contracts

The triggering events contained in the long term incentive plan and officer's deferred compensation plan are disability, involuntary termination, retirement and death. The Board of Directors believes that the triggering events are in these agreements are appropriate in that they provided benefits to the executive or his family when they are most needed. The contracts are designed to give the executive the security of knowing that if his employment is terminated in one of those scenarios the executive could receive some form of compensation.

Material Differences in Named Executive Officers' Compensation

The Named Executive Officers receive base salaries commensurate with their positions and responsibilities. In determining the appropriate types and amounts of compensation for the Chief Executive Officer each year, the Board of Directors evaluates both corporate and individual performance. The corporate factors include the financial performance of the company, including return on stockholders' equity, return on assets, asset quality and trends in the foregoing measures, the performance of the company's stock price, comparative results achieved by the company's peer group institutions, and progress in realizing the company's long-term business plan. The individual factors include initiation and implementation of successful business strategies, formation of an effective management team and various personal qualities, including leadership.
In determining the appropriate types and amounts of compensation for the Named Executive Officers, excluding the Chief Executive Officer, the Board of Directors takes into consideration the officer's experience, expected personal performance and salary levels for comparable positions.

First Quarter 2010

On January 5, 2010, the Bank entered into an agreement with Millward Consulting to, among other items, review the Bank's current compensation practices and related issues, recommend salary survey benchmarks in conjunction with relevant benchmark classifications, complete internal salary relationship analysis including the development of appropriate internal guidelines, systematically access each classification in relation to comparable classifications with other financial institutions, provide written documentation of assessment methodology and assessment for each job classification, develop externally competitive and internally equitable salary recommendations for each job classification included in the study, and recommend the vertical salary relationship differentials between salary ranges. The consultant reports directly to the board of directors.

Compensation Committee Report

The Board of Directors which functions as the Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management, and based on the review and discussions, the

Board of Directors has directed that the Compensation Discussion and Analysis be included in the company's proxy statement.

BOARD OF DIRECTORS

Dominick L. DeNaples, Vice Chairman	Louis A. DeNaples, Jr.
Michael J. Cestone, Jr.	Joseph J. Gentile
Joseph Coccia	John P. Moses
William P. Conaboy	

Board of Directors Interlocks and Insider Participation

During 2009, J. David Lombardi, former President and Chief Executive Officer of the company and the bank, was a member of both Boards of Directors. Mr. Lombardi made recommendations to the Board of Directors regarding employee compensation. Mr. Lombardi did not participate in conducting his own review. The entire Board of Directors votes to establish and approve compensation.

Board Leadership Structure

We separate the roles of CEO and Chairman of the Board in recognition of the differences between the two roles. The CEO is responsible for setting the strategic direction for the Company and the day to day leadership and performance of the Company, while the Chairman of the Board provides guidance to the CEO and sets the agenda for Board meetings and presides over meetings of the full Board.

The Board's Role in Risk Oversight

The Board's role in the Company's risk oversight process includes receiving regular reports from members of senior management on areas of material risk to the Company, including operational, financial, legal and regulatory, and strategic and reputational risks. The full Board (or the appropriate Committee in the case of risks that are under the purview of a particular Committee) receives these reports from the appropriate "risk owner" within the organization to enable it to understand our risk identification, risk management and risk mitigation strategies. When a Committee receives the report, the Chairman of the relevant Committee reports on the discussion to the full Board during the Committee reports portion of the next Board meeting. This enables to the Board and its Committees to coordinate the risk oversight role, particularly with respect to risk interrelationships. As part of its charter, the Audit Committee discusses our policies with respect to risk assessment and risk management.

Diversity

The Board does not have a formal policy with respect to diversity; however, they believe that it is essential that the Board members represent diverse viewpoints. In considering candidates for the Board, the Board considers the entirety of each candidate's credentials in the context of these standards.

Director Qualifications

The following paragraphs provide information regarding each nominee's specific experience, qualifications, attributes and skills that led our Board to the conclusion that he should serve as a director, we also believe that all of our director nominees have a reputation for integrity, honesty and adherence to high ethical standards.

LOUIS A. DENAPLES, age 69, Chairman of the Board of Directors; Director since 1998 (Bank Director since 1972)
While not currently actively serving as a director, Mr. Louis DeNaples' extensive business knowledge, community and charitable involvement and association with the company and bank for over 38 years qualifies him to be a director of the company.

DOMINICK L. DENAPLES, age 72, Vice Chairman of the Board of Directors; Director since 1998 (Bank Director since 1987)
Mr. Dominick DeNaples' extensive business background, years of community and charitable involvement and service as a director of the company and bank for over 23 years qualifies him to serve as a director of the company.

MICHAEL J. CESTONE, JR, age 78, Director since 1998 (Bank Director since 1969)
Mr. Cestone's understanding of land development and the building industry, community involvement and service as a director of the company and bank for over 4l years qualifies him to serve as a director of the company.

JOSEPH COCCIA, age 55, Director since 1998 (Bank Director since 1998)
Mr. Coccia's strong business background and knowledge of the automobile industry, broad community involvement and service as a director of the company and bank for over 12 years qualifies him to serve as a director of the company.

WILLIAM P. CONABOY, age 51, Director since 1998 (Bank Director since 1998)
Atty. Conaboy's strong regulatory, government, healthcare, corporate and legal background, community and charitable involvement and service as a director of the company and bank for over 12 years qualifies him to serve as a director of the company.

DR. LOUIS A. DENAPLES, JR., age 42, Director since 2008 (Bank Director since 2008)
Dr. DeNaples' understanding of the medical industry and considerable community and charitable involvement and service as a director of the company and bank for the past 2 years qualifies him to serve as a director of the company.

JOSEPH J. GENTILE, age 79, Director since 1998 (Bank Director since 1989)
Mr. Gentile's strong business background, understanding of the local business and social community, community and charitable involvement and service as a director of the company and bank for over 2l years qualifies him to serve as a director of the company.

JOHN P. MOSES, age 63, Director since 1999 (Bank Director since 1999)
Atty. Moses' extensive corporate and legal background, his knowledge of the medical industry, community and charitable involvement and service as a director of the company and bank for over 11 years qualifies him to serve as a director of the company.

EXECUTIVE COMPENSATION

During the beginning of 2010, the board of directors engaged an independent consultant to conduct an in-depth risk assessment of the bank’s compensation program. The board concluded that the program is balanced, does not motivate imprudent risk taking, and is not reasonably likely to have a material adverse effect on the bank.

Shown below is information concerning the annual compensation for services in all capacities to the company and the bank for the fiscal years ended December 31, 2009, 2008, and 2007 of those persons who were, at December 31, 2009,

- the Principal Executive Officer;
- the Principal Financial Officer; and
- the three other most highly compensated executive officers of the company, to the extent such persons’ total compensation exceeded $100,000.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($) (1)	Stock Awards ($)	Option Awards ($) (2)	Non-equity incentive plan compensation ($)	Change in pension value and non-qualified deferred compensation earnings ($) (3)	All Other Compensation ($) (4)	Total ($)
J. David Lombardi, Former President and Principal Executive Officer of the Company and the Bank	2009	$320,000	$ 0	$0	$ 0	$0	$141,658	$ 69,119	$530,777
	2008	320,000(5)	420,000(6)	0	17,466	0	119,186	113,228(7)	989,880
	2007	310,000(8)	420,000(9)	0	26,199	0	92,986	112,464(10)	961,649
Gerard A. Champi, Interim President and Chief Executive Officer of the Company and the Bank	2009	184,500	0	0	0	0	11,735	19,385	215,620
	2008	184,500	137,500(11)	0	11,928	0	9,874	30,602	374,404
	2007	150,125	137,500(12)	0	17,892	0	7,413	29,653	342,583
Thomas P. Tulaney, Senior Executive Vice President of the Bank	2009	184,500	0	0	0	0	19,183	25,029	228,712
	2008	184,500	137,500(13)	0	11,928	0	16,140	41,446	391,514
	2007	150,125	137,500(14)	0	17,892	0	12,658	41,634	359,809
William S. Lance, Former Principal Financial Officer of the Company and the Bank, Treasurer of the Company and Executive Vice President of the Bank	2009	121,250	0	0	0	0	15,672	12,358	149,280
	2008	121,250(15)	55,000	0	11,928	0	13,186	25,676	227,040
	2007	107,500(16)	55,000(17)	0	17,892	0	10,758	22,316	213,466
Stephen J. Kavulich,	2009	116,500(18)	0	0	0	0	15,116	9,901	141,517
	2008	116,500(19)	55,000(20)	0	11,928	0	12,328	18,989	214,745

Former Vice President of the Bank	2007	102,750(21)	55,000(22)	0	17,892	0	9,202	18,002	202,846

(1) Cash bonuses are awarded at the conclusion of a fiscal year based upon the Board of Directors' subjective assessment of the company's performance as compared to both budget and prior fiscal year performance, and the individual contributions of the officers involved.

(2) The amounts listed represent stock options granted to the persons listed in the form of qualified incentive stock options which were granted at the fair market value on the date of grant. The amount shown represents the cost to the company.

(3) The amounts listed represent interest earned on the balances in the Named Executive Officers non-qualified deferred compensation plan accounts which exceeds 120% of the applicable federal long-term rate.

(4) All other compensation;

- For Mr. Lombardi, 2009 includes $13,081 contributed by the bank pursuant to the bank's 401(k) Profit Sharing Plan for 2009. Also included in Mr. Lombardi's total are director's fees of $30,000, premiums paid to purchase additional life insurance in the amount of $15,000, country club dues in the amount of $6,816, an auto allowance of $2,768 and premiums paid to purchase split-dollar life insurance and disability income insurance in the amounts of $260 and $1,194, respectively.

- For Mr. Lombardi, 2008 includes $24,588 contributed by the bank pursuant to the bank's 401(k) Profit Sharing Plan for 2008. Also included in Mr. Lombardi's total are director's fees of $30,000, a director's bonus of $25,000, premiums paid to purchase additional life insurance in the amount of $15,000, country club dues in the amount of $14,448, an auto allowance of $2,767 and premiums paid to purchase split-dollar life insurance and disability income insurance in the amounts of $231 and $1,194, respectively.

- For Mr. Lombardi, 2007 includes $24,954 contributed by the bank pursuant to the bank's 401(k) Profit Sharing Plan for 2007. Also included in Mr. Lombardi's total are director's fees of $30,000, a director's bonus of $25,000, premiums paid to purchase additional life insurance in the amount of $15,000, country club dues in the amount of $13,544, an auto allowance of $2,166 and premiums paid to purchase split-dollar life insurance and disability income insurance in the amounts of $606 and $1,194, respectively.

- For Mr. Champi, 2009 includes a $13,081 contribution to the bank's 401(k) Profit Sharing Plan, country club dues in the amount of $3,360, an auto allowance of $2,487 and premiums paid to purchase split-dollar life insurance and disability income insurance in the amounts of $86 and $371, respectively.

- For Mr. Champi, 2008 includes a $24,588 contribution to the bank's 401(k) Profit Sharing Plan, country club dues in the amount of $3,360, an auto allowance of $2,203 and premiums paid to purchase split-dollar life insurance and disability income insurance in the amounts of $80 and $371, respectively.

- For Mr. Champi, 2007 includes a $24,954 contribution to the bank's 401(k) Profit Sharing Plan, country club dues in the amount of $3,230, an auto allowance of $915 and premiums paid to purchase split-dollar life insurance and disability income insurance in the amounts of $183 and $371, respectively.

- For Mr. Tulaney, 2009 includes $13,081 contributed to the bank's 401(k) Profit Sharing Plan, country club dues in the amount of $9,226, an auto allowance of $2,188 and premiums paid to purchase split-dollar life insurance and disability income insurance in the amounts of $99 and $435, respectively.

- For Mr. Tulaney, 2008 includes $24,588 contributed to the bank's 401(k) Profit Sharing Plan, country club dues in the amount of $14,125, an auto allowance of $2,207 and premiums paid to purchase split-dollar life insurance and disability income insurance in the amounts of $91 and $435, respectively.

- For Mr. Tulaney, 2007 includes $24,954 contributed to the bank's 401(k) Profit Sharing Plan, country club dues in the amount of $15,180, an auto allowance of $852 and premiums paid to purchase split-dollar life insurance and disability income insurance in the amounts of $213 and $435, respectively.

- For Mr. Lance, 2009 includes $9,515 contributed to the bank's 401(k) Profit Sharing Plan, country club dues in the amount of $2,466 and premiums paid to purchase split-dollar life insurance and disability income insurance in the amounts of $99 and $278, respectively.

- For Mr. Lance, 2008 includes $18,590 contributed to the bank's 401(k) Profit Sharing Plan, country club dues in the amount of $6,717 and premiums paid to purchase split-dollar life insurance and disability income insurance in the amounts of $91 and $278, respectively.

- For Mr. Lance, 2007 includes $17,145 contributed to the bank's 401(k) Profit Sharing Plan, country club dues in the amount of $4,680 and premiums paid to purchase split-dollar life insurance and disability income insurance in the amounts of $213 and $278, respectively.

- For Mr. Kavulich, 2009 includes $8,945 contributed to the bank's 401(k) Profit Sharing Plan and premiums paid to purchase split-dollar life insurance and disability income insurance in the amounts of $346 and $610, respectively.

- For Mr. Kavulich, 2008 includes $18,060 contributed to the bank's 401(k) Profit Sharing Plan and premiums paid to purchase split-dollar life insurance and disability income insurance in the amounts of $319 and $610, respectively.

- For Mr. Kavulich, 2007 includes $16,596 contributed to the bank's 401(k) Profit Sharing Plan and premiums paid to purchase split-dollar life insurance and disability income insurance in the amounts of $796 and $610, respectively.

(5) In 2008, Mr. Lombardi deferred $80,000, or 25%, of his salary to the bank's non-qualified deferred compensation plan.

(6) In 2008, Mr. Lombardi deferred $105,000, or 25%, of his officer bonus to the bank's non-qualified deferred compensation plan.

(7) In 2008, Mr. Lombardi deferred $15,000, or 50%, of his board fees and $12,500, or 50% of his board bonus, to the bank's non-qualified deferred compensation plan.

(8) In 2007, Mr. Lombardi deferred $77,500, or 25%, of his salary to the bank's non- qualified deferred compensation plan.

(9) In 2007, Mr. Lombardi deferred $105,000, or 25%, of his officer bonus to the bank's non-qualified deferred compensation plan.

(10) In 2007 Mr. Lombardi deferred $15,000, or 50%, of his board fees and $12,500, or 50%, of his board bonus, to the bank's non-qualified deferred compensation plan.

(11) In 2008, Mr. Champi deferred $27,500, or 20%, of his bonus to the bank's non-qualified deferred compensation plan.

(12) In 2007, Mr. Champi deferred $34,375, or 25%, of his bonus to the bank's non-qualified deferred compensation plan.

(13) In 2008, Mr. Tulaney deferred $27,500, or 20%, of his bonus to the bank's non-qualified deferred compensation plan.

(14) In 2007, Mr. Tulaney deferred $68,750, or 50%, of his bonus to the bank's non-qualified deferred compensation plan.

(15) In 2008, Mr. Lance deferred $9,700, or 8%, of his salary to the bank's non-qualified deferred compensation plan.

(16) In 2007, Mr. Lance deferred $7,525, or 7%, of his salary to the bank's non-qualified deferred compensation plan.

(17) In 2007, Mr. Lance deferred $27,500, or 50%, of his bonus to the bank's non-qualified deferred compensation plan.

(18) In 2009, Mr. Kavulich deferred $11,650, or 10%, of his salary to the bank's non-qualified deferred compensation plan.

(19) In 2008, Mr. Kavulich deferred $8,155, or 7%, of his salary to the bank's non-qualified deferred compensation plan.

(20) In 2008, Mr. Kavulich deferred $27,500, or 50%, of his bonus to the bank's non-qualified deferred compensation plan.

(21) In 2007, Mr. Kavulich deferred $6,165, or 6%, of his salary to the bank's non-qualified deferred compensation plan.

(22)

In 2007, Mr. Kavulich deferred $24,750, or 45%, of his bonus to the bank's non-qualified deferred compensation plan.

Note: Not included in the above compensation totals are premiums paid for the named executive officers for family health and vision coverage under the same plan available to all eligible full-time employees as follows:

Mr. Lombardi	$114
Mr. Tulaney	$6,908
Mr. Champi	$6,908
Mr. Lance	$114
Mr. Kavulich	$6,908

Option Grants in 2009

No options were awarded in 2009.

EQUITY COMPENSATION PLAN INFORMATION

Equity Awards Outstanding

The following table reflects the number of stock options held by the Named Executive Officers as of December 31, 2009, including the exercise price and the expiration date of the option terms.

Outstanding Equity Awards at Fiscal Year-End

Name	Option Awards: Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable	Equity incentive plan awards: number of securities underlying unexercised earned options (#)	Option exercise price ($)	Option expiration date
J. David Lombardi, Former President and Principal Executive Officer of the Company and the Bank	8,250			$10.01	11/26/13
	2,887			16.71	11/24/14
	3,437			19.31	11/23/15
	3,437			23.13	11/29/16
	5,125			16.90	11/13/17
	8,200			10.81	01/05/19
	31,336 (1)	0	--		
Gerard A. Champi, Interim President and Chief Executive Officer of the Company and the Bank	11,000			5.81	08/28/12
	5,500			10.01	11/26/13
	1,925			16.71	11/24/14
	2,337			19.31	11/23/15
	2,337			23.13	11/29/16
	3,500			16.90	11/13/17
	5,600			10.81	01/05/19
	32,199 (2)	0	--		
Thomas P. Tulaney, Senior Executive Vice President of the Bank	5,500			10.01	11/26/13
	1,925			16.71	11/24/14
	2,337			19.31	11/23/15
	2,337			23.13	11/29/16
	3,500			16.90	11/13/17
	5,600			10.81	01/05/19
	21,199 (3)	0	--		
William S. Lance, Former Principal Financial Officer of the Company and the Bank, Treasurer of the Company and Executive Vice President of the Bank	3,750			5.81	08/28/12
	5,500			10.01	11/26/13
	1,925			16.71	11/24/14
	2,337			19.31	11/23/15
	2,337			23.13	11/29/16
	3,500			16.90	11/13/17
	5,600			10.81	01/05/19
	24,949 (4)	0	--		
Stephen J. Kavulich, Former Vice President of the Bank	8,937			5.19	08/30/10
	11,000			6.10	08/22/11
	11,000			5.81	08/28/12
	5,500			10.01	11/26/13

1,925				16.71	11/24/14
2,337				19.31	11/23/15
2,337				23.13	11/29/16
3,500				16.90	11/13/17
5,600				10.81	01/05/19
52,136 (5)	0	--			

(1) Includes 31,336 options with a weighted average exercise price of $14.42 per share.

(2) Includes 32,199 options with a weighted average exercise price of $11.49 per share.

(3) Includes 21,199 options with a weighted average exercise price of $14.44 per share.

(4) Includes 24,949 options with a weighted average exercise price of $13.14 per share.

(5) Includes 52,136 options with a weighted average exercise price of $9.27 per share.

Stock Options Exercised in 2009

The following table reflects the number of stock options exercised by the Named Executive Officers in 2009 and the total gain realized upon exercise.

Option Exercises and Stock Vested for the Fiscal Year

	Option Awards	
Name	Number of shares acquired on exercise (#)	Value realized on exercise ($)
J. David Lombardi , Former President and Principal Executive Officer of the Company and the Bank	---	---
Gerard A. Champi, Interim President and Chief Executive Officer of the Company and the Bank	---	---
Thomas P. Tulaney, Senior Executive Vice President of the Bank	---	---
William S. Lance, Former Principal Financial Officer of the Company and the Bank, Treasurer of the Company and Executive Vice President of the Bank	2,500 (1)	$5,375
Stephen J. Kavulich, Former Vice President of the Bank	---	---

Note: All options have been restated to reflect the retroactive effect of the 100% stock dividends paid January 31, 2003 and September 30, 2004, the 10% stock dividend paid March 31, 2006 and the 25% stock dividend paid December 27, 2007.

(1) On August 10, 2009, Mr. Lance exercised 2,500 options from an August 22, 2001 award of 11,000 options at a spread of $2.15 per share.

The following table summarizes our equity compensation plan information as of December 31, 2009. Information is included for both equity compensation plans approved by First National Community Bancorp, Inc. shareholders and equity compensation plans not approved by First National Community Bancorp, Inc. shareholders.

Plan Category	Number of shares to be issued upon exercise of outstanding options, warrants and rights (1) (2) (a)	Weighted-average exercise price of outstanding options, warrants and rights (1) (2) (b)	Number of shares available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (2) (c)
Equity compensation plans approved by First National Community Bancorp, Inc. shareholders	366,248	$12.18	868,235
Equity compensation plans not approved by First National Community Bancorp, Inc. shareholders	0	0	0
Totals	366,248	$12.18	868,235

(1) The number of shares to be issued upon exercise of outstanding options and the weighted average exercise price includes any options which will become exercisable within sixty (60) days after December 31, 2009.

(2) The company's equity compensation plans include the 2000 Independent Directors Stock Option Plan and the 2000 Employee Stock Incentive Plan which were approved by shareholders on May 16, 2001. All share and per share information has been restated to reflect the retroactive effect of the 25% stock dividend paid December 27, 2007.

Deferred Compensation Plan Information

The following table provides information as of December 31, 2009 for the Named Executive Officers regarding their participation in the Officers' Deferred Compensation Plan.

Nonqualified Deferred Compensation at and for the Fiscal Year

Name	Executive contributions in last FY ($)	Registrant contributions in last FY ($)	Aggregate earnings in last FY ($)	Aggregate withdrawals/ distributions ($)	Aggregate balance at last FYE ($)
J. David Lombardi , Former President and Principal Executive Officer of the Company and the Bank	$0	$0	$320,331	$0	$3,879,570
Gerard A. Champi, Interim President and Chief Executive Officer of the Company and the Bank	0	0	26,537	0	321,390
Thomas P. Tulaney, Senior Executive Vice President of the Bank	0	0	43,378	0	525,357
William S. Lance, Former Principal Financial Officer of the Company and the Bank, Treasurer of the Company and Executive Vice President of the Bank	0	0	35,438	0	429,199
Stephen J. Kavulich, Former Vice President of the Bank	11,650(1)	0	34,183	0	413,992

(1) This amount is included in the salary column of the Summary Compensation Table.

Compensation of Directors

Director Compensation

Name	Fees earned or paid in cash ($)	Stock awards ($)	Option awards ($)	Non-equity incentive plan compensation ($)	Change in pension value and non-qualified deferred compensation earnings ($)	All other compensation ($)	Total ($)
Michael G. Cestone	$15,000	$0	$0	$0	$2,147 (1)	$0	$17,147
Michael J. Cestone, Jr.	30,000	0	0	0	0	10,000 (2)	40,000
Michael T. Conahan	1,250	0	0	0	6,301 (3)	0	7,551
Louis A. DeNaples	0	0	0	0	0	0	0
Joseph O. Haggerty	10,000	0	0	0	0	0	10,000
John P. Moses	30,000 (4)	0	0	0	13,118 (5)	0	43,118
Joseph Coccia, William P. Conaboy, Dominick L. DeNaples, Louis A. DeNaples, Jr., Joseph J. Gentile	30,000	0	0	0	0	0	30,000 (6)

Directors received no remuneration for attendance at the company's board meetings. All members of the bank's Board of Directors receive an annual retainer of $30,000, payable at a rate of $2,500 per month, for each month or portion thereof that the director serves. The aggregate amount of fees paid in 2009 was $266,250. In 2009, Michael J. Cestone, Jr. was compensated $10,000 for special services (Secretary of the Bank) rendered to the bank. Members of the bank's Senior Loan Committee do not receive a fee for attendance at Senior Loan Committee meetings. Members of the Audit Committee of both the company and the bank do not receive remuneration for attending Audit Committee meetings. Member of the Stock Option Administration Committee do not receive remuneration for serving on the Stock Option Administration Committee.

(1) Represents the amount of interest earned in 2009 on Mr. Cestone's balance in the bank's non-qualified deferred compensation plan which exceeds 120% of the applicable federal long-term rate.

(2) Includes $10,000 for services provided as Secretary of the Board of the Bank.

(3) Represents the amount of interest earned in 2009 on Mr. Conahan's balance in the bank's non-qualified deferred compensation plan which exceeds 120% of the applicable federal long-term rate.

(4) Mr. Moses deferred $15,000, or 50%, of his board fees to the bank's non-qualified deferred compensation plan.

(5) Represents the amount of interest earned in 2009 on Mr. Moses' balance in the bank's non-qualified deferred compensation plan which exceeds 120% of the applicable federal long-term rate.

(6) Compensation for Messrs. Joseph Coccia, William P. Conaboy, Dominick L. DeNaples, Louis A. DeNaples, Jr., and Joseph J. Gentile was identical in 2009.

Note: J. David Lombardi also serves as a director of the company and the bank. All fees received by Mr. Lombardi for board service are included on the Summary Compensation Table presented on Page 22.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE-IN-CONTROL

Directors' and Officers' Deferred Compensation Plan

The Named Executive Officers are vested in their account balance in the deferred compensation plan. Upon termination of employment, the Named Executive Officers will receive payments beginning on the first business day of the month following the Named Executive Officer's normal retirement date. The Named Executive Officer may receive benefits earlier in the event of a disability or death.

Disability Plan and Benefits

In the event of the death or disability of a Named Executive Officer, in addition to the benefits listed in the charts below, each Named Executive Officer will receive benefits under the company's retirement plans, disability plan or payments under the company's life insurance plan, as appropriate.

J. David Lombardi

The following table shows the potential payments upon termination or change of control of the company. The chart assumes the triggering events took place on December 31, 2009.

Executive Benefits and Payments Upon Separation	Voluntary Termination	Early Retirement	Normal Retirement	Involuntary Not For Cause Termination	For Cause Termination	Involuntary for Good Reason Termination (Change in Control)	Disability	Death
Long term incentive plan(1)	$0	$0	$0	$0	$0	$0	$0	$0
Officer's Deferred Compensation Plan(2)	$3,879,570	$3,879,570	$3,879,570	$3,879,570	$3,879,570	$3,879,570	$3,879,570	$3,879,570

On February 26, 2010, Mr. Lombardi notified the board of directors that he was resigning due to health reasons. Under the Officer's Deferred Compensation Plan, Mr. Lombardi will receive $3,879,570 starting six months after his date of termination in accordance with Section 409A of the Internal Revenue Code.

Thomas P. Tulaney

The following table shows the potential payments upon termination or change of control of the company. The chart assumes the triggering events took place on December 31, 2009.

Executive Benefits and Payments Upon Separation	Voluntary Termination	Early Retirement	Normal Retirement	Involuntary Not For Cause Termination	For Cause Termination	Involuntary for Good Reason Termination (Change in Control)	Disability	Death
Long term incentive plan(1)	$0	$0	$0	$0	$0	$0	$0	$0
Officer's Deferred Compensation Plan(2)	$525,357	$525,357	$525,357	$525,357	$525,357	$525,357	$525,357	$525,357

Gerard A. Champi

The following table shows the potential payments upon termination or change of control of the company. The chart assumes the triggering events took place on December 31, 2009.

Executive Benefits and Payments Upon Separation	Voluntary Termination	Early Retirement	Normal Retirement	Involuntary Not For Cause Termination	For Cause Termination	Involuntary for Good Reason Termination (Change in Control)	Disability	Death
Long term incentive plan(1)	$2,200	$2,200	$2,200	$2,200	$2,200	$2,200	$2,200	$2,200
Officer's Deferred Compensation Plan(2)	$321,390	$321,390	$321,390	$321,390	$321,390	$321,390	$321,390	$321,390

William S. Lance

The following table shows the potential payments upon termination or change of control of the company. The chart assumes the triggering events took place on December 31, 2009.

Executive Benefits and Payments Upon Separation	Voluntary Termination	Early Retirement	Normal Retirement	Involuntary Not For Cause Termination	For Cause Termination	Involuntary for Good Reason Termination (Change in Control)	Disability	Death
Long term incentive plan(1)	$750	$750	$750	$750	$750	$750	$750	$750
Officer's Deferred Compensation Plan(2)	$429,199	$429,199	$429,199	$429,199	$429,199	$429,199	$429,199	$429,199

On February 11, 2010, Mr. Lance notified the board of directors that he was resigning. Under the Officer's Deferred Compensation Plan, Mr. Lance will receive $429,199 plus accrued interest starting the month after he reaches the age of 60 in accordance with Section 409A of the Internal Revenue Code.

Stephen J. Kavulich

The following table shows the potential payments upon termination or change of control of the company. The chart assumes the triggering events took place on December 31, 2009.

Executive Benefits and	Voluntary Termination	Early Retirement	Normal Retirement	Involuntary Not For	For Cause Termination	Involuntary for Good	Disability	Death

Payments Upon Separation				Cause Termination		Reason Termination (Change in Control)		
Long term incentive plan(1)	$9,528	$9,528	$9,528	$9,528	$9,528	$9,528	$9,528	$9,528
Officer's Deferred Compensation Plan(2)	$413,992	$413,992	$413,992	$413,992	$413,992	$413,992	$413,992	$413,992

On March 18, 2010, Mr. Kavulich notified the bank that he was resigning. Under the Officer's Deferred Compensation Plan, Mr. Kavulich will receive $413,992 on April 1, 2010 in accordance with Section 409A of the Internal Revenue Code.

(1) Represents the unrealized gain on stock options outstanding at December 31, 2009 at the closing market price of $6.01 per share.
(2) Represents the balance in the Named Executive Officer's account as of December 31, 2009.

STOCK PERFORMANCE GRAPH AND TABLE

The following graph and table compare the cumulative total shareholder return on the company's common stock during the period December 31, 2004, through and including December 31, 2009, with

- the cumulative total return for all stocks traded on the NASDAQ Composite index,
- the cumulative total return on the SNL Securities Corporate Performance Index for banks with assets between $1 billion and $5 billion

The comparison assumes $100 was invested on December 31, 2004, in the company's common stock and in each of the stated indices and assumes further the reinvestment of dividends into the applicable securities. The shareholder return shown on the graph and table on page 35 is not necessarily indicative of future performance.

First National Community Bancorp, Inc.

Total Return Performance

	Period Ending					
INDEX	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09
First National Community Bancorp, Inc.	100.00	108.57	131.46	110.20	65.16	36.87
NASDAQ Composite Index	100.00	101.37	111.03	121.92	72.49	104.31
SNL $1B-$5B Bank Index	100.00	98.29	113.74	82.85	68.72	49.26

(*) Source: SNL Financial LC, Charlottesville, VA © 2010

(**) SNL Securities is a research and publishing firm specializing in the collection and dissemination of data on the banking, thrift and financial services industries.

Assumes a $100 investment on December 31, 2004 and reinvestment of all dividends.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The company and the bank have engaged in and intend to continue to engage in banking and financial transactions in the ordinary course of business with directors and officers of the company and the bank and their affiliates on comparable terms and with similar interest rates as those prevailing from time to time for other bank customers. All banking transactions involving directors and executive officers are reviewed to ensure compliance with Regulation O - Loans to Executive Officers, Directors and Principal Shareholders of Member Banks. The responsibility for monitoring compliance with Regulation O rests with the Loan Administration/Compliance Division and Internal Auditor as stated in the bank's Loan Policy. Additionally, the Board of Directors of the Bank assumes ultimate responsibility for the lending activities of the Bank. There have been no transactions originated during 2009 which were required to be reported under this item where such policy and procedures were not followed. Total loans outstanding from the bank at December 31, 2009, to the company's officers and directors as a group and members of their immediate families and companies in which they had an ownership interest of 10% or more were $87,456,000, or 73%, of the bank's total equity capital. Except for those transactions listed below, loans to these persons were made in the ordinary course of business, were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons not related to the Company or Bank, and did not involve more than the normal risk of collection or present other unfavorable features.

Director and nominee, William P. Conaboy is a 6.25% owner of Commonwealth Financial Systems, Inc. ("Commonwealth") and 100% guarantor of two loans issued to Commonwealth; a line of credit in the amount of $1.0 million and a Pennsylvania Department of Community and Economic Development Machinery and Equipment Loan Fund bridge loan ("MELF Loan") in the amount of $1.5 million.
The total outstanding debt as of February 28, 2010 for the line of credit was $989,649.67, which was also the largest amount outstanding during the last fiscal year. Since January 1, 2009, Commonwealth paid $228,468.15 in principal, of which all has been redrawn under the terms of the line of credit. Commonwealth paid $43,745.38 in interest during 2009 and $12,370.62 in interest through February 28, 2010. The interest rate on the line of credit is equal to the National Prime rate plus 0.50% with a floor of 5.00%. The current rate on the loan is 5.00%. The line of credit is secured by a lien against Commonwealth's machinery, equipment, furniture, inventory and accounts receivable. Recently, the Board of Directors of First National Community Bank approved a request to extend the maturity date of this loan to December 31, 2010.
The total outstanding debt as of February 28, 2010 for the MELF loan was $901,293.05, which was also the largest amount outstanding during the last fiscal year. Commonwealth paid $19,086.01 in interest during 2009 and $11,266.17 in interest through February 28, 2010. The interest rate on the MLEF loan is equal to the National Prime rate plus 0.50% with a floor of 5.00%. The current rate on the MELF loan is 5.00%. The MELF loan secured by a lien against Commonwealth's machinery, equipment, furniture, inventory and accounts receivable. It is anticipated that the MELF bridge loan will be paid in full from proceeds from a loan from the Pennsylvania Department of Community and Economic Development Machinery and Equipment Loan Fund. This loan should be paid off by May 31, 2010. Recently, the Board of Directors of First National Community Bank approved a request to extend the maturity date of this loan to May 31, 2010.

Director and nominee, William P. Conaboy is a 6.25% owner of Ring the Bell II, LLC ("Ring the Bell") and 100% guarantor of two term loans issued to Ring the Bell in the amount of $6,650,768 and $5,243,490.
The total outstanding debt as of February 28, 2010 for the $6.6 million term note was $5,849,401.24. The largest amount outstanding during the last fiscal year was $6,614,020.59. Since January 1, 2009, Ring the Bell paid $734,933.50 of principal during 2009 and $66,433.42 through February 28, 2010. Ring the Bell paid $455,814.07 in interest during 2009 and $115,189.66 in interest through February 28, 2010. The interest rate on the term loan is 7.75%. The loan secured by a lien against Ring the Bell's purchased debt portfolios and accounts receivable.
The total outstanding debt as of February 28, 2010 for the $5.2 million term note was $3,497,969.67. The largest amount outstanding during the last fiscal year was $5,243,490.40. Since January 1, 2009, Ring the Bell paid $1,646,258.27 of principal during 2009 and $99,262.46 through February 28, 2010. Ring the Bell paid $328,741.73 in interest during 2009 and $25,737.54 in interest through February 28, 2010. The interest rate on the term loan is 8.25%. The loan secured by a lien against Ring the Bell's purchased debt portfolios and accounts receivable. In August 2009, the Board of Directors of First National Community Bank approved a request to lower the monthly payment due under this note to $125,000 through February 2010. In February 2010, the Board approved a request to extend the $125,000 payment until December 31, 2010.

Directors and nominees, Louis A. DeNaples, Dominick L. DeNaples, Joseph Coccia, and Joseph Gentile purchased subordinated notes ("Notes") from the company in a private placement offering. Messrs. DeNaples each purchased $3.5 million of Notes, Mr. Coccia purchased $2 million of Notes, and Mr. Gentile purchased $1 million of Notes. All such purchased amounts remain outstanding as of February 28, 2010 and were the largest amount outstanding during the last fiscal year. Since January 1, 2009, the

Company has paid $393,750 of interest. No principal has been paid on the Notes in 2009 and principal payments do not begin until September 1, 2015. The interest rate on the Notes is 9%.

PRINCIPAL OFFICERS OF THE COMPANY

The following table sets forth, as of the date of this proxy statement, selected information about the principal officers of the company, each of whom is elected by the Board of Directors and each of whom holds office at the Board's discretion.

Name	Office and Position with the Company	Held Since	Number of Shares Beneficially Owned (1)	Age as of March 31, 2010
Gerard A. Champi	Interim President and Chief Executive Officer	2010	39,986	49
Michael J. Cestone, Jr.	Secretary	1998	206,716	78

(1) All shares are owned individually or jointly with a spouse unless otherwise indicated.
For additional details on the shares beneficially owned, see "Beneficial Ownership by Directors, Principal Officers and Nominees" on page 5.

PRINCIPAL OFFICERS OF THE BANK

The following table sets forth, as of December 31, 2009, selected information about the principal officers of the bank, each of whom is elected by the Board of Directors and each of whom holds office at the Board's discretion.

Name	Office and Position with the Bank	Held Since	Employee Since	Beneficially Owned (1)	Age as of March 31, 2010
Gerard A. Champi (2)	Interim President and Chief Executive Officer	2010	1991	39,986	49
Thomas P. Tulaney (3)(4)	Senior Executive Vice President	2008	1994	48,212	50
Robert J. Mancuso (5)(6)	First Senior Vice President and Cashier	2008	1980	98,192	52
James M. Bone (7)(8)	First Senior Vice President	2008	1986	22,007	48
Linda A. D'Amario (9)	Interim Principal Financial Officer	2010	1988	15,812	49

(1) All shares are owned individually or jointly with a spouse unless otherwise indicated.
For additional details on the shares beneficially owned, see "Beneficial Ownership by Directors, Principal Officers and Nominees" on page 5.

(2) Includes 32,199 exercisable stock options and 1,735 shares as custodian for his minor children.

(3) Mr. Tulaney is the Corporate Sales Division Manager.

(4) Includes 21,199 exercisable stock options and 26,686 shares held in street name.

(5) Mr. Mancuso is the Facilities and Human Resources Division Manager.

(6) Includes 21,550 exercisable stock options.

(7) Mr. Bone is the Administrative Services Division Manager.

(8) Includes 15,300 exercisable stock options.

(9) Includes 7,411 exercisable stock options.

PROPOSAL 3:

RATIFICATION OF INDEPENDENT AUDITORS

On January 4, 2010, the Audit Committee selected Demetrius & Company, L.L.C., Certified Public Accountants, as the principal independent auditor of the company for the year 2010, a capacity in which it has served since 1997.

Although shareholder approval of the selection of the independent auditor is not required by law, the company has determined that it is desirable to request the ratification of the shareholders of the Audit Committee's appointment of Demetrius & Company, L.L.C. as the company's independent auditor for the year ending December 31, 2010. In the event the shareholders fail to ratify the appointment, the Audit Committee will reconsider this appointment and make such determination as would be in the company's and its shareholders' best interests. Even if the appointment is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent auditor at any time during the year if the Audit Committee determines that such a change would be in the company's and its shareholders' best interests.

Representatives of Demetrius & Company, L.L.C. are expected to be present at the Annual Meeting of Shareholders. The representatives may, if they wish, make a statement and, it is expected, will be available to respond to appropriate questions.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSAL 3

PROPOSAL 4:

AMENDMENT TO ARTICLES OF INCORPORATION

The company is seeking to amend the Article 5 of its articles of incorporation to authorize the issuance of 20,000,000 shares of preferred stock, par value $1.25 per share. On February 26, 2010, the Board of Directors of the company approved and adopted a resolution to amend the articles of incorporation authorizing the issuance of preferred stock and a resolution to submit the amendment to the shareholders of the company to approve and adopt the amendment with the recommendation of the Board of Directors. If shareholders approve and adopt this amendment, the company will file with the Pennsylvania Department of State Articles of Amendment, to be effective upon filing, amending its articles of incorporation to authorize preferred stock consisting of up to 20,000,000 shares, $1.25 par value per share. The full text of the proposed amendment is attached as Appendix A, which is incorporated by reference in its entirety into this section of the 2010 proxy statement.

Purpose of Preferred Stock

The Board of Directors believes that the amendment to the articles of incorporation is advisable and in the best interests of the company and its shareholders for several reasons. First, the authorization of preferred stock will supplement our authorized common stock by creating an undesignated class of preferred stock to increase our flexibility in structuring future capital-raising transactions, acquisitions, joint ventures, and strategic alliances. Also, preferred stock may be useful in connection with stock dividends or equity compensation plans. Furthermore, having the authority to issue preferred stock will enable us to issue equity securities with terms tailored to specific purposes and to avoid the possible delay and expense associated with calling and holding a special meeting of shareholders to authorize additional capital stock. The Board of Directors believes that the enhanced ability to respond to favorable capital market conditions and other opportunities before conditions or opportunities pass is in the best interests of the company and its shareholders.

Effect of Preferred Stock Upon Holders of Common Stock

The actual effect of the issuance of any shares of preferred stock upon the rights of holders of the common stock cannot be stated until the Board of Directors determines the specific terms of the issued preferred stock. However, the effects might include, among other things, restricting dividends on the common stock, diluting the voting power of the common stock, diluting the equity interest of the existing holders of common stock if the preferred stock is convertible into common stock, reducing the market price of the common stock, or impairing the liquidation rights of the common stock.

If shareholders approve and adopt this amendment to the company's articles of incorporation, the Board of Directors will have the authority to create and issue a class of preferred stock without further shareholder approval. Among other things, the Board of Directors will have the authority to establish the number of shares constituting a series, dividend rights, voting rights, conversion or exchange privileges, redemption features, sinking fund provisions, and rights in the event of a voluntary or involuntary liquidation or dissolution.

Furthermore, any issuance of preferred stock with voting rights could, under certain circumstances, have the effect of delaying or preventing a change in control of the company by increasing the number of outstanding shares entitled to vote on the matter, thereby increasing the number of votes required to approve a change in control. Preferred stock with voting rights or that is convertible into shares of common stock (or rights to purchase such shares) could be issued to render more difficult or discourage an attempt to obtain control of the company by means of a tender offer, proxy contest, merger or otherwise. The ability of the Board of Directors to issue additional shares of preferred stock, with the rights and preferences it deems advisable, could discourage an attempt by a party to acquire control of the company by tender offer or other means. These issuances could, therefore, deprive shareholders of benefits that could result from an attempt, such as the realization of a premium over the market price. However, the preferred stock is not being proposed for an anti-takeover-related purpose, and the company has no knowledge of any current efforts to obtain control of the company or to effect large accumulations of the company's voting stock.

Holders of common stock will not have preemptive rights with respect to the issuance of preferred stock. The company does not currently have any definitive plans, arrangements or understandings with respect to the issuance of any of the proposed shares of preferred stock.

Required Vote

Approval and adoption of the amendment to our articles of incorporation to authorize a class of preferred stock requires the affirmative vote of the holders of a majority of the votes cast at the annual meeting.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" APPROVAL AND ADOPTION OF THE AMENDMENT TO THE COMPANY'S ARTICLES OF INCORPORATION TO AUTHORIZE PREFERRED STOCK.

INDEPENDENT AUDITORS

Demetrius & Company, L.L.C., Certified Public Accountants, of Wayne, New Jersey, has been appointed as the company's independent auditor for the fiscal year ending December 31, 2010. Services for 2010 will include an audit and opinion on the company's consolidated financial statements as well as a review of the schedules to be included in the company's Form 10-K to be filed with the SEC. All professional services rendered by Demetrius & Company, L.L.C. will be furnished at customary rates and terms after Board approval. Demetrius & Company, L.L.C. served as the company's independent auditors for the 2009 fiscal year.

Aggregate fees billed to the company and the bank by the independent auditors for services rendered during the years ended December 31, 2009 and 2008 were as follows:

	2009	2008
Audit Fees	$78,100	$78,100
Tax Fees	$ 0	$ 0
All Other Fees	$ 0	$ 0

Audit Fees include fees billed for professional services rendered for the audit of annual financial statements and fees billed for the review of financial statements included in the company's Forms 10-Q or services that are normally provided by Demetrius & Company in connection with statutory and regulatory filings or engagements.

All Other Fees include fees billed for products and services provided by Demetrius & Company other than the services reported under the Audit Fees, Audit Related Fees, or Tax Fees sections of the table above. These include examination of management's assertion regarding compliance with minimum services standards and preparation of audited financial statements for the company's profit sharing plan.

The Audit Committee has considered whether, and determined that, the provision of the non-audit services is compatible with maintaining Demetrius & Company's independence.

Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The Audit Committee has a policy for the pre-approval of services provided by the independent auditors. The policy requires the Audit Committee to pre-approve all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit related services, tax services, and other services. Under the policy, pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is subject to a specific budget. In addition, the Audit Committee may also pre-approve particular services on a case by case basis. For each proposed service, the independent auditor is required to provide detailed back-up documentation at the time of approval. None of the services related to the Audit Related Fees, Tax Fees, or All Other Fees described above was approved by the Audit Committee pursuant to the pre-approval waiver provisions set forth in applicable SEC rules.

SECTION 16(a) BENEFICIAL
OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the company's directors, executive officers and shareholders who beneficially own more than 10% of the company's outstanding equity stock to file initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the company with the Securities and Exchange Commission. Based on a review of copies of the reports we received, and on the statements of the reporting persons, we believe that all Section 16(a) filing requirements were complied with in a timely fashion during 2009.

OTHER MATTERS

The Board of Directors knows of no other business which will be presented for consideration at the meeting other than as stated in the Notice of Meeting. However, if other matters properly come before the meeting, the shares of common stock represented by the signed proxies will be voted in accordance with the recommendations of the Board of Directors, and authority to do so is included in the proxy.

ADDITIONAL INFORMATION

A copy of the company's annual report to shareholders for its fiscal year ended December 31, 2009, was mailed on April 12, 2010. Any shareholder may obtain additional copies of the company's Annual Report on Form 10-K for the year ended December 31, 2009, including the financial statements and related schedules and exhibits, required to be filed with the Securities and Exchange Commission, without charge, from our website at www.fncb.com or via email at fncb@fncb.com. This information may also be obtained by submitting a written request to Michael J. Cestone, Jr., Secretary, 102 East Drinker Street, Dunmore, Pennsylvania 18512.

In accordance with Securities Exchange Act Rule 14a-3(3)(1), in the future, First National Community Bancorp, Inc. intends to deliver only one annual report and proxy statement to multiple shareholders sharing an address unless we receive contrary instructions from one or more of the shareholders. This method of delivery is known as "house-holding". Upon written or oral request, the company will promptly deliver a separate copy of the annual report or proxy statement, as applicable, to a shareholder at a shared address to which a single copy of the documents was delivered. Further, shareholders can notify the company by writing or calling Michael J. Cestone, Jr., Secretary of First National Community Bancorp, Inc. at 102 E. Drinker Street, Dunmore, PA 18512 or (570) 346-7667 and inform us that the shareholder wishes to receive a separate copy of an annual report or proxy statement in the future. In addition, if you are receiving multiple copies of the company's annual report or proxy statement, you may request that we deliver only a single copy of annual reports or proxy statements by notifying us at the above address or telephone number.

INCORPORATION BY REFERENCE

The rules of the SEC permit us to "incorporate by reference" certain information we file with the SEC into this proxy statement. This means that we can disclose important information to shareholders by referring the shareholders to another document. Any information incorporated by reference into this proxy statement is considered to be part of this proxy statement from the date we file that information with the SEC. Any reports filed by us with the SEC after the date of this proxy statement will automatically update and, where applicable, supersede any information contained in this proxy statement or incorporated by reference into this proxy statement.

This proxy statement incorporates by reference the following items of Part II of the company's Annual Report on Form 10-K filed with the SEC for the fiscal year ended December 31, 2009:

- Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations;
- Item 7A. Quantitative Disclosures About Market Risk;
- Item 8. Financial Statements and Supplementary Data; and
- Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

All documents filed by First National Community Bancorp, Inc. with the SEC subsequent to the date hereof and prior to the date of the annual meeting pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, are incorporated herein by reference. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this proxy statement to the extent that a statement contained in another subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement.

On written request, First National Community Bancorp, Inc. will provide without charge to each record or beneficial holder of the corporation's common stock, a copy of Union National Financial Corporation's Form 10-K and Form 10-Q, as filed with the SEC. Requests should be addressed to Linda D'Amario, First National Community Bancorp, Inc., 102 East Drinker Street, Dunmore, Pennsylvania 18512-2491.

All documents filed with the SEC by First National Community Bancorp, Inc. pursuant to sections 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this proxy statement and prior to the date of the annual meeting are incorporated herein by reference. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this proxy statement to the extent that a statement contained in another subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement.

APPENDIX A

AMENDMENT
TO ARTICLES OF INCORPORATION
OF FIRST NATIONAL COMMUNITY BANCORP, INC.

5. (a) The aggregate number of shares that the Corporation shall have authority to issue is Fifty Million (50,000,000) shares of Common Stock having a par value of $1.25 per share (the “Common Stock”) and Twenty Million (20,000,000) shares of Preferred Stock having a par value of $1.25 per share (the “Preferred Stock”).

(b) The Preferred Stock may be issued from time to time by the Board of Directors as herein provided in one or more series. The designations, relative rights, preferences and limitations of the Preferred Stock, and particularly of the shares of each series thereof, may, to the extent permitted by law, be similar to or may differ from those of any other series. The Board of Directors of the Corporation is hereby expressly granted authority, subject to the provisions of this Article 5, to issue Preferred Stock, from time to time, in one or more series and to fix, from time to time, before issuance thereof, by filing a certificate pursuant to the Business Corporation Law, the number of shares in each such series of such class and all designations, relative rights (including the right, to the extent permitted by law, to convert into shares of any class or into shares of any series of any class), preferences and limitations of the shares in each such series, including, but without limiting the generality of the foregoing, the following:

(i) The number of shares to constitute such series (which number may at any time, or from time to time, be increased or decreased by the Board of Directors, notwithstanding that shares of the series may be outstanding at the time of such increase or decrease, unless the Board of Directors shall have otherwise provided in creating such series) and the distinctive designation thereof;

(ii) The dividend rate on the shares of such series, whether or not dividends on the shares of such series shall be cumulative, and the date or dates, if any, from which dividends thereon shall be cumulative;

(iii) Whether or not the shares of such series shall be redeemable, and, if redeemable, the date or dates upon or after which they shall be redeemable and the amount or amounts per share (which shall be, in the case of each share, not less than its preference upon involuntary liquidation, plus an amount equal to all dividends thereon accrued and unpaid, whether or not earned or declared) payable thereon in the case of the redemption thereof, which amount may vary at different redemption dates or otherwise as permitted by law;

(iv) The right, if any, of holders of shares of such series to convert the same into, or exchange the same for, Common Stock or other stock as permitted by law, and the terms and conditions of such conversion or exchange, as well as provisions for adjustment of the conversion rate in such events as the Board of Directors shall determine;

(v) The amount per share payable on the shares of such series upon the voluntary and involuntary liquidation, dissolution or winding up of the Corporation;

(vi) Whether the holders of shares of such series shall have voting power, full or limited, in addition to the voting powers provided by law, and, in case additional voting powers are accorded, to fix the extent thereof; and,

(vii) Generally to fix the other rights and privileges and any qualifications, limitations or restrictions of such rights and privileges of such series, provided, however, that no such rights, privileges, qualifications, limitations or restrictions shall be in conflict with the articles of incorporation of the Corporation or with the resolution or resolutions adopted by the Board of Directors providing for the issue of any series of which there are shares then outstanding.

(c) All shares of Preferred Stock of the same series shall be identical in all respects, except that shares of any one series issued at different times may differ as to dates, if any, from which dividends thereon may accumulate. All shares of Preferred Stock of all series shall be of equal rank and shall be identical in all respects, except that to the extent not otherwise limited in this Article 5 any series may differ from any other series with respect to any one or more of the designations, relative rights, preferences and limitations described or referred to in subparagraphs (b)(i) to (vii) inclusive of this Article 5.

(d) Dividends on the outstanding Preferred Stock of each series shall be declared and paid or set apart for payment before any dividends shall be declared and paid or set apart for payment on the Common Stock with respect to the same quarterly dividend period. Dividends on any shares of Preferred Stock shall be cumulative only if and to the extent set forth in a certificate filed pursuant to law. After dividends on all shares of Preferred Stock (including cumulative dividends if and to the extent any such shares shall be entitled thereto) shall have been declared and paid or set apart for payment with respect to any quarterly dividend period, then and not otherwise as long as any shares of Preferred Stock shall remain outstanding, dividends may be declared and paid or set apart for payment with respect to the same quarterly dividend period on the Common Stock out of the assets or funds of the Corporation legally available therefor.

(e) All shares of Preferred Stock of all series shall be of equal rank, preference and priority as to dividends irrespective of whether or not the rates of dividends to which the particular series of Preferred Stock shall be entitled are the same and when the stated dividends are not paid in full, the shares of all series of Preferred Stock shall share ratably in the payment thereof in accordance with the sums which would be payable on such shares if all dividends were paid in full, provided, however, that any two or more series of Preferred Stock may differ from each other as to the existence and extent of the right to cumulative dividends, as aforesaid.

(f) Except as otherwise specifically provided in the certificate filed pursuant to law with respect to any series of Preferred Stock or as otherwise provided by law, the Preferred Stock shall not have any right to vote for the election of directors or for any other purpose, and the Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes. Each holder of Common Stock shall be entitled to one vote for each share thereof held. In all instances in which voting rights are granted to the Preferred Stock or any series thereof, such Preferred Stock or series shall vote with the Common Stock as a single class, except with respect to any vote for the approval of any merger, consolidation, liquidation or dissolution of the Corporation and except as otherwise provided in the certificate filed pursuant to law with respect to any series of the Preferred Stock or as otherwise provided by law.

(g) In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, each series of Preferred Stock shall have preference and priority over the Common Stock for payment of the amount to which each outstanding series of Preferred Stock shall be entitled in accordance with the provisions thereof and each holder of Preferred Stock shall be entitled to be paid in full such amount, or have a sum sufficient for the payment in full set aside, before any payments shall be made to the holders of Common Stock. If, upon liquidation, dissolution or winding up of the Corporation, the assets of the Corporation, or the proceeds thereof, distributable among the holders of the shares of all series of Preferred Stock shall be insufficient to pay in full the preferential amount aforesaid, then such assets, or the proceeds thereof, shall be distributed among such holders ratably in accordance with the respective amounts which would be payable if all amounts payable thereon were paid in full. After the holders of the Preferred Stock of each series shall have been paid in full the amounts to which they respectively shall be entitled, or a sum sufficient for the payment in full set aside, the remaining net assets of the Corporation shall be distributed pro rata to the holders of the Common Stock in accordance with their respective rights and interests, to the exclusion of the holders of the Preferred Stock. A consolidation or merger of the Corporation with or into another corporation or corporations, or a sale, whether for cash, shares of stock, securities or properties, of all or substantially all of the assets of the Corporation, shall not be deemed or construed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Article 5.

(h) In the event that Preferred Stock of any series shall be made redeemable as provided in subparagraph (b)(iii) of this Article 5, the Corporation, at the option of the Board of Directors, may redeem at any time or times, from time to time, all or any part of any one or more series of Preferred Stock outstanding by paying for each share the then applicable redemption price fixed by the Board of Directors as provided herein, plus an amount equal to accrued and unpaid dividends to the date fixed for redemption, upon such notice and terms as may be specifically provided in the certificate filed pursuant to law with respect to such series of Preferred Stock.

(i) No holder of Preferred Stock of the Corporation shall be entitled, as such, as a matter of right, to subscribe for or purchase any part of any new or additional issue of stock of any class or series whatsoever, any rights or options to purchase stock of any class or series whatsoever, or any securities convertible into, exchangeable for or carrying rights or options to purchase stock of any class or series whatsoever, whether now or hereafter authorized, and whether issued for cash or other consideration or by way of dividend."