

FIRST KEYSTONE CORP
Form 10-K/A
December 17, 2010

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

FORM 10-K/A
Amendment No. 2

☒ ANNUAL REPORT UNDER SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

or

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

For the transition period from _____ to _____

Commission file Number: 2-88927

FIRST KEYSTONE CORPORATION
(Exact name of registrant as specified in its Charter)

Pennsylvania

23-2249083

(State or other jurisdiction of incorporation or
organization)

(I.R.S. Employer Identification Number)

111 West Front Street Berwick, Pennsylvania
(Address of principal executive offices)

18603
(Zip Code)

Registrant's telephone number, including area code: (570) 752-3671

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$2.00 per share

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes " No "

Indicate by check mark if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

x

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 definitions of "large accelerated filer," "accelerated filer," and "small reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer " Accelerated
filer x Non-accelerated filer " Smaller reporting company "

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

Yes " No x

The aggregate market value of the registrant's outstanding voting common stock held by non-affiliates on June 30, 2009 determined by using a per share closing price on that date of \$16.15 as quoted on the Over the Counter Bulletin Board, was \$79,988,721.

At March 8, 2010, there were 5,440,196 shares of Common Stock, \$2.00 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's 2010 definitive Proxy Statement are incorporated by reference in Part III of this Report.

EXPLANATORY NOTE

We are filing this Amendment No. 2 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (the "Annual Report"), which was filed with the Securities and Exchange Commission on March 15, 2010 as amended on May 20, 2010, to amend and restate Part II, Item 9A, "Controls and Procedures," to correct the disclosure previously provided in the Annual Report. As required by Rule 12b-15 promulgated under the Exchange Act of 1934, as amended (the "Exchange Act"), new certifications by our Chief Executive Officer and Chief Financial Officer are being filed as Exhibits 32.1 and 32.2 of this Amendment No. 2.

This Amendment No. 2 does not change, amend or alter any other section of the Annual Report not otherwise discussed herein and continues to speak as of the date of the Annual Report. Accordingly, this Amendment No. 2 should be read in conjunction with our other filings made with the Securities and Exchange Commission subsequent to the filing of the Annual Report.

Part II

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

First Keystone Corporation maintains disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) designed to ensure that information required to be disclosed in the reports that the Corporation files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those disclosure controls and procedures performed as of the end of the period covered by this report, the chief executive officer and chief financial officer of the Corporation concluded that the Corporation's disclosure controls and procedures were effective. The Corporation believes that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a Corporation have been detected.

During the fourth quarter of 2009, management uncovered a defalcation in the pre-tax amount of \$850,000. The Corporation determined the defalcation was the result of unauthorized activities by an employee of the Bank who was immediately terminated. The Corporation expects insurance to cover the defalcation amount less a \$50,000 deductible.

Management's Report on Internal Control Over Financial Reporting

The management of First Keystone Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. The Corporation's internal control system was designed to provide reasonable assurance to the Corporation's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

The Corporation's internal control over financial reporting are supported by written policies that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipt and expenditures of the Corporation are being made only in accordance with authorization of the Corporation's management and Board of Directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation's assets that could have a material effect on the consolidated financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The management of First Keystone Corporation assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2009. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework. Based on our assessment we believe that, as of December 31, 2009, the Corporation's internal control over financial reporting is effective based on those criteria.

First Keystone Corporation's independent registered public accounting firm that audited the consolidated financial statements has issued an audit report on our assessment of, and the effective operation of, the Corporation's internal control over financial reporting as of December 31, 2009. This report appears on page 73.

Changes in Internal Controls

In response to the defalcation discussed above, the Audit Committee and the Board of Directors has approved and management has implemented certain changes to the Corporation's internal control over financial reporting which include: broadened segregation and rotation of duties; intensified management oversight and analysis of general ledger accounts; expanded documentation and approval procedures for certain general ledger entries; and instituted an online, real-time core banking system. In addition, management has instituted a program to require periodic testing of these changes. The Corporation made no other changes in its internal controls or in other factors that has materially affected, or is reasonably likely to materially affect these controls subsequent to the date of the evaluation of the controls by the Chief Executive and Chief Financial Officers.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements

The following consolidated financial statements are included in Part II, Item 8, of this Report:

First Keystone Corporation and Subsidiary.

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2. Financial Statement Schedules

Financial statements schedules are omitted because the required information is either not applicable, not required, or is shown in the financial statements or in their notes.

3. Exhibits

Exhibits required by Item 601 of Regulation S-K:

Exhibit Number Referred to Item 601 of Regulation S-K	Description of Exhibit
3i	Articles of Incorporation, as amended (Incorporated by reference to Exhibit 3(i) to the Registrant's Report on Form 10-Q for the quarter ended March 31, 2006).
3ii	By-Laws, as amended (Incorporated by reference to Exhibit 3(ii) to the Registrant's Report on Form 8-K dated February 25, 2009).
10.1	Supplemental Employee Retirement Plan (Incorporated by reference to Exhibit 10 to Registrant's Report on Form 10-Q for the quarter ended September 31, 2005).
10.2	Management Incentive Compensation Plan. (2)
10.3	Profit Sharing Plan (Incorporated by reference to Exhibit 10 to Registrant's Report on Form 10-Q for the quarter ended September 30, 2006).
10.4	First Keystone Corporation 1998 Stock Incentive Plan (Incorporated by reference to Exhibit 10 to Registrant's Report on Form 10-Q for the quarter ended September 30, 2006).
10.5	Employment Agreement between First Keystone Corporation, First Keystone National Bank and John G. Gerlach dated May 10, 2007 (Incorporated by reference to Annex B to the Proxy Statement/Prospectus on the Registrant's Registration Statement on Form S-4, as amended (No. 333-145658)).
10.6	Consulting Agreement between Keystone Corporation, First Keystone National Bank and John G. Gerlach dated May 10, 2007 (Incorporated by reference to Annex C to the Proxy Statement/Prospectus on the Registrant's Registration Statement on Form S-4, as amended (No. 333-145658)).
10.7	Form of Non-Competition and Non-Solicitation Agreement by and between First Keystone Corporation and the Pocono Community Bank directors (Incorporated by reference to Annex F to the Proxy Statement/Prospectus on the Registrant's Registration Statement on Form S-4, as amended (No. 333-145658)).
14	Code of Ethics (Incorporated by reference to Exhibit 14 to Registrant's Report on Form 8-K dated January 9, 2007).
21	List of Subsidiaries of the Corporation. (1)

23	Consent of Independent Auditors. (1)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer. (1)
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer. (1)
32.1	Section 1350 Certification of Chief Executive Officer. (3)
32.2	Section 1350 Certification of Chief Financial Officer. (3)
(1)	Incorporated by reference to the corresponding exhibit to the original filing.
(2)	Incorporated by reference to the corresponding exhibit to Amendment No. 1 to the original filing.
(3)	Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST KEYSTONE
CORPORATION

/s/ Matthew P. Prosseda
Matthew P. Prosseda
Chief Executive Officer

Date: December 16,
2010
