FIRST NATIONAL COMMUNITY BANCORP INC
Form 10-Q
November 08, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-Q

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **September 30, 2007**
OR

_ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____________ to _____________

Commission File No. 333-24121

First National Community Bancorp, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania	**23-2900790**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
102 E. Drinker St. Dunmore, PA	**18512**
(Address of Principal Executive Offices)	(Zip Code)

(570) 346-7667

(Registrant s Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

YES X NO ____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer _____ Accelerated Filer X Non-Accelerated Filer ______

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

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

Common Stock, $1.25 par value

(Title of Class)

12,538,416 shares

(Outstanding at November 8, 2007)

FIRST NATIONAL COMMUNITY BANCORP, INC.

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PART I

FIRST NATIONAL COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in thousands)

	September 30, 2007 (UNAUDITED)	December 31, 2006 (AUDITED)
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 19,818	$ 26,418
Federal funds sold	0	2,325
Total cash and cash equivalents	19,818	28,743
Interest-bearing balances with financial institutions	0	0
Securities:		
Available-for-sale, at fair value	292,113	261,626
Held-to-maturity, at cost (fair value $1,839 on September 30, 2007 and $1,819 on December 31, 2006)	1,701	1,639
Federal Reserve Bank and FHLB stock, at cost	8,509	7,168
Net loans	912,569	829,121
Bank premises and equipment	15,235	13,671
Intangible Assets	9,861	9,873
Other assets	35,471	32,942
Total Assets	$1,295,277	$1,184,783
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand non-interest bearing	$ 83,684	$ 86,375
Interest bearing demand	319,833	291,400

Savings	71,850	73,205
Time ($100,000 and over)	185,906	187,884
Other time	324,761	282,109
Total deposits	986,034	920,973
Borrowed funds	189,537	152,872
Other liabilities	15,241	14,076
Total Liabilities	$1,190,812	$1,087,921
Shareholders' equity:		
Common Stock, $1.25 par value,		
Authorized: 50,000,000 shares		
Issued and outstanding:		
12,538,416 shares at September 30, 2007 and		
12,398,168 shares at December 31, 2006	$ 15,673	$ 15,498
Additional Paid-in Capital	55,128	52,418
Retained Earnings	36,180	29,016
Accumulated Other Comprehensive Income (Loss)	(2,516)	(70)
Total shareholders' equity	$ 104,465	$ 96,862
Total Liabilities and Shareholders Equity	$1,295,277	$1,184,783

Note: The balance sheet at December 31, 2006 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

See notes to financial statements

(1)

FIRST NATIONAL COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Dollars in thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Interest Income:				
Loans	$ 17,595	$ 14,598	$ 50,245	$ 40,928
Balances with banks	0	10	0	55
Investments	3,669	2,891	10,567	8,383
Federal Funds Sold	5	5	24	19
Total interest income	21,269	17,504	60,836	49,385
Interest Expense:				
Deposits	8,989	6,579	25,400	17,782
Borrowed Funds	2,296	1,966	6,340	5,706
Total interest expense	11,285	8,545	31,740	23,488

Net Interest Income before Loan Loss Provision	9,984	8,959	29,096	25,897
Provision for credit losses	300	270	900	810
Net interest income	9,684	8,689	28,196	25,087
Other Income:				
Service charges	709	686	2,090	1,989
Other Income	614	475	1,805	1,298
Gain / (Loss) on sale of:				
Loans	62	17	254	90
Securities	851	0	879	(1)
Other Real Estate	0	75	0	108
Total other income	2,236	1,253	5,028	3,484
Other expenses:				
Salaries & benefits	2,982	2,573	8,717	7,608
Occupancy & equipment	890	721	2,676	2,212
Advertising expense	210	180	630	540
Data processing expense	460	348	1,230	1,096
Other	1,331	1,159	4,135	3,462
Total other expenses	5,873	4,981	17,388	14,918
Income before income taxes	6,047	4,961	15,836	13,653
Income tax expense	1,639	1,250	4,065	3,395
NET INCOME	$ 4,408	$ 3,711	$11,771	$10,258
Basic earnings per share	$ 0.35	$ 0.30	$ 0.94	$ 0.84
Diluted earnings per share	$ 0.35	$ 0.29	$ 0.93	$ 0.82
Weighted average number of basic shares	12,500,495	12,298,284	12,457,737	12,258,698
Weighted average number of diluted shares	12,754,919	12,589,001	12,718,634	12,559,612

See notes to financial statements

(2)

FIRST NATIONAL COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

(UNAUDITED)

	September 30, 2007	September 30, 2006
	(Dollars in thousands)	

INCREASE (DECREASE) IN CASH EQUIVALENTS:		
Cash Flows From Operating Activities:		
Interest Received	$ 60,239	$ 49,326
Fees & Commissions Received	3,925	3,287
Interest Paid	(31,259)	(21,459)
Income Taxes Paid	(3,742)	(3,401)
Cash Paid to Suppliers & Employees	(17,459)	(13,388)
Net Cash Provided by Operating Activities	$ 11,704	$ 14,365
Cash Flows from Investing Activities:		
Securities available for sale:		
Proceeds from Sales prior to maturity	$ 55,398	$ 6,398
Proceeds from Calls prior to maturity	21,659	19,771
Proceeds from Maturities	500	0
Purchases	(111,314)	(36,029)
Net Decrease in Interest-Bearing Bank Balances	0	2,079
Net Increase in Loans to Customers	(84,236)	(67,303)
Capital Expenditures	(2,639)	(764)
Net Cash Used by Investing Activities	$(120,632)	$(75,848)
Cash Flows from Financing Activities:		
Net Increase in Demand Deposits, Money Market Demand, NOW Accounts, and Savings Accounts	$24,388	$ 22,885
Net Increase in Certificates of Deposit	40,673	55,991
Net Increase/(Decrease) in Borrowed Funds	36,665	(16,300)
Net Proceeds from Issuance of Common Stock Through Dividend Reinvestment	2,639	2,364
Net Proceeds from Issuance of Common Stock Stock Option Plans	246	383
Dividends Paid	(4,608)	(4,045)
Cash dividends paid in lieu of fractional shares 10% stock dividend	0	(6)
Net Cash Provided by Financing Activities	$ 100,003	$ 61,272
Net Increase/(Decrease) in Cash and Cash Equivalents	$ (8,925)	$ (211)
Cash & Cash Equivalents at Beginning of Year	$ 28,743	$ 21,880
CASH & CASH EQUIVALENTS AT END OF PERIOD	$ 19,818	$ 21,669

(Continued)

(3)

FIRST NATIONAL COMMUNITY BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOW (CONTINUED)
NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

(UNAUDITED)

	2007	2006
	(Dollars in thousands)	
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Income	$ 11,771	$ 10,258
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Amortization (Accretion), Net	(959)	414
Depreciation	1,229	1,016
Provision for Probable Credit Losses	900	810
Provision for Deferred Taxes	(112)	(228)
Gain on Sale of Loans	(254)	(90)
Loss/(Gain) on Sale of Investment Securities	(879)	1
Gain on Sale of Other Real Estate	0	(108)
Increase in Taxes Payable	30	57
Decrease (Increase) in Interest Receivable	362	(474)
Increase in Interest Payable	481	2,029
Increase in Prepaid Expenses and Other Assets	(1,518)	(901)
Increase in Accrued Expenses and Other Liabilities	653	1,581
Total Adjustments	$ (67)	$ 4,107
NET CASH PROVIDED BY OPERATING ACTIVITIES	$11,704	$14,365

See notes to financial statements

FIRST NATIONAL COMMUNITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN
STOCKHOLDERS' EQUITY
For The Nine Months Ended September 30, 2007

(In thousands, except share data)
(UNAUDITED)

	COMP-REHEN-SIVE INCOME	COMMON STOCK SHARES	AMOUNT	ADD L PAID-IN CAPITAL	RETAINED EARNINGS	ACCUM- ULATED OTHER COMP-REHEN-SIVE INCOME/ (LOSS)	TOTAL
BALANCES, DECEMBER 31, 2006		12,398,168	$15,498	$52,418	$29,016	$(70)	$96,862
Comprehensive Income:							
Net income for the period	11,771				11,771		11,771
Other comprehensive income, net of tax:							
Unrealized loss on securities available-for-sale, net of deferred income tax benefit of $1,260	(1,567)						
Reclassification adjustment for gain or loss included in income (tax effect of $299)	(879)						
Total other comprehensive loss, net of tax	(2,446)					(2,446)	(2,446)
Comprehensive Income	9,325						
Issuance of Common Stock Stock Option Plans		25,170	31	215			246
Issuance of Common Stock through Dividend Reinvestment		115,078	144	2,495			2,639
Cash dividends paid, $0.37 per share					(4,607)		(4,607)
BALANCES, SEPTEMBER 30, 2007		12,538,416	$15,673	$55,128	$36,180	$(2,516)	$104,465

See notes to financial statements

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FIRST NATIONAL COMMUNITY BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) The accounting and financial reporting policies of First National Community Bancorp, Inc. and its subsidiary conform to U.S. generally accepted accounting principles and to general practice within the banking industry. The consolidated statements of First National Community Bancorp, Inc. and its subsidiary, First National Community Bank (Bank) including its subsidiary, FNCB Realty, Inc. (collectively, Company) were compiled in accordance with the accounting policies set forth in note 1 of Notes to Consolidated Financial Statements in the Company's 2006 Annual Report to Shareholders. All material intercompany accounts and transactions have been eliminated in consolidation. The accompanying interim financial statements are unaudited. In management s opinion, the consolidated financial statements reflect a fair presentation of the consolidated financial position of the Company and subsidiary, and the results of its operations and its cash flows for the interim periods presented, in conformity with U.S. generally accepted accounting principles. Also in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the Company s financial position, results of operations and cash flows at September 30, 2007 and for all periods presented have been made.

These interim financial statements should be read in conjunction with the audited financial statements and footnote disclosures in the Company's Annual Report to Shareholders for the fiscal year ended December 31, 2006.

(2) Basic earnings per share have been computed by dividing net income (the numerator) by the weighted average number of common shares (the denominator) for the period. Such shares amounted to 12,457,737 and 12,258,698 for the periods ending September 30, 2007 and 2006, respectively.

Diluted earnings per share have been computed by dividing net income (the numerator) by the weighted average number of common shares and options outstanding (the denominator) for the period. Such shares amounted to 12,718,634 and 12,559,612 for the periods ending September 30, 2007 and 2006, respectively.

(3) During the first quarter of calendar 2003, the Company adopted the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, for stock-based employee compensation, effective as of January 1, 2003. Under the prospective method of adoption selected by the Company, stock-based compensation cost will be recognized using the fair value method for all awards granted, modified or settled on or after that effective date.

There were no stock option awards granted during the first three quarters of 2007 or 2006.

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

	Nine months ended September 30,			
	2007		2006	
		Weighted		Weighted
		Average		Average

	Shares	Exercise Price	Shares	Exercise Price
Outstanding at the beginning of the period	279,870	$13.56	332,920	$10.80
Granted	0		0	
Exercised	(25,170)	9.79	(48,800)	7.51
Forfeited	(1,320)	28.91	0	
Outstanding at the end of the period	253,380	13.85	284,120	11.36
Options exercisable at September 30,	253,380	13.85	284,120	11.36
Weighted average fair value of options granted during the period		---		---

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Information pertaining to options outstanding at September 30, 2007 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$6.49-$28.91	253,380	6.0 years	$13.85	253,380	$13.85

(4) In February 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities". Statement 159 permits entities to make an irrevocable election to carry almost any financial instrument at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The company analyzed the benefits of the early adoption of SFAS No. 159, but has determined that such action is not consistent with the overall strategies of the company. The adoption of SFAS No. 159 is not expected to have a material impact on the Company's consolidated financial statements.

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ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The consolidated financial information of First National Community Bancorp, Inc. (the company) provides a comparison of the performance of the company for the periods ended September 30, 2007 and 2006. The financial information presented should be read in conjunction with the consolidated financial statements and accompanying notes appearing elsewhere in this report.

Background

The company is a Pennsylvania Corporation, incorporated in 1997 and is registered as a financial holding company under the Bank Holding Company Act of 1956, as amended. The company became an active bank holding company on July 1, 1998 when it assumed ownership of First National Community Bank (the bank). On November 2, 2000, the Federal Reserve Bank of Philadelphia approved the company s application to change its status to a financial holding company as a complement to the company s strategic objective which includes expansion into financial services activities. The bank is a wholly-owned subsidiary of the company.

The company s primary activity consists of owning and operating the bank, which provides the customary retail and commercial banking services to individuals and businesses. The bank provides practically all of the company s earnings as a result of its banking services. As of September 30, 2007, the company had 18 full-service branch banking offices in its principal market area in Lackawanna, Luzerne, Wayne and Monroe Counties, Pennsylvania. At September 30, 2007, the company had 276 full-time equivalent employees.

The bank was established as a national banking association in 1910 as "The First National Bank of Dunmore." Based upon shareholder approval received at a Special Shareholders' Meeting held October 27, 1987, the bank changed its name to "First National Community Bank" effective March 1, 1988. The bank's operations are conducted from offices located in Lackawanna, Luzerne, Wayne and Monroe Counties, Pennsylvania:

Office	Date Opened
Main	October 1910
Scranton	September 1980
Dickson City	December 1984
Fashion Mall	July 1988
Wilkes-Barre	July 1993
Pittston Plaza	April 1995
Kingston	August 1996
Exeter	November 1998
Daleville	April 2000
Plains	June 2000
Back Mountain	October 2000
Clarks Green	October 2001
Hanover Township	January 2002
Nanticoke	April 2002
Hazleton	October 2003
Route 315	February 2004
Honesdale	November 2006
Stroudsburg	May 2007

The bank provides the usual commercial banking services to individuals and businesses, including a wide variety of loan, deposit instruments and investment options. As a result of the bank s partnership with INVEST, our customers are able to access alternative products such as mutual funds, bonds, equities and annuities directly from the INVEST representatives.

During 1996, FNCB Realty Inc. was formed as a wholly owned subsidiary of the Bank to manage, operate and liquidate properties acquired through foreclosure.

Summary:

Net income for the nine months ended September 30, 2007 amounted to $11,771,000, an increase of $1,513,000 or 15% compared to the same period of the previous year. This increase can be attributed to the $3,199,000 improvement in net interest income which reflects the benefits derived from balance sheet growth and the repricing of interest-sensitive assets and liabilities. Other income increased $1,544,000 primarily due to gains on security sales of $880,000 to restructure the portfolio and a $353,000 increase in letter of credit fees due to the addition of several large credits. Other expenses increased $2,470,000 over the same period of last year due primarily to an increase in Salaries & Benefits of $1,109,000 and a $464,000 increase in occupancy and equipment costs related to the company's expansion.

Net income for the three months ended September 30, 2007 amounted to $4,408,000, an increase of $697,000 or 19% compared to the same period of the previous year. This increase can be attributed to the $1,025,000 improvement in net interest income which reflects the benefits derived from balance sheet growth and the repricing of interest-sensitive assets and liabilities. Other income increased $983,000 due to security sales and letter of credit fees. Other expenses increased $892,000, or 18%, over the same period of last year due primarily to an increase in Salaries & Benefits and occupancy and equipment costs related to the company's expansion.

RESULTS OF OPERATIONS

Net Interest Income:

The company s primary source of revenue is net interest income which totaled $29,096,000 and $25,897,000 (before the provision for credit losses) during the first nine months of 2007 and 2006, respectively. The year to date net interest margin (tax equivalent) decreased sixteen basis points to 3.53% in 2007 compared to 2006 comprised of a thirty-one basis point increase in the yield earned on earning assets which was offset by a forty-seven basis point increase in the cost of interest-bearing liabilities. Excluding investment leveraging transactions, the 2007 margin would be 3.66% which is eighteen basis points lower than the 3.84% recorded during the first nine months of last year.

Earning assets increased $115 million to $1.221 billion during the first nine months of 2007 and total 94.3% of total assets, a slight increase from the 93.5% at year-end.

Yield/Cost Analysis

The following tables set forth certain information relating to the company s Statement of Financial Condition and reflect the weighted average yield on assets and weighted average costs of liabilities for the periods indicated. Such yields and costs are derived by dividing the annualized income or expense by the weighted average balance of assets or liabilities, respectively, for the periods shown:

	Nine months ended September 30, 2007		
	Average Balance	Interest	Yield/ Cost
	(Dollars in thousands)		
Assets:			
Interest-earning assets:			
Loans (taxable)	$846,426	$48,910	7.64%
Loans (tax-free) (1)	36,527	1,335	7.30
Investment securities (taxable)	200,637	7,999	5.31
Investment securities (tax-free)(1)	75,517	2,568	6.87
Time deposits with banks and federal funds sold	615	24	5.16
Total interest-earning assets	1,159,722	60,836	7.17%
Non-interest earning assets	70,686		
Total Assets	$1,230,408		
Liabilities and Shareholders' Equity:			
Interest-bearing liabilities:			
Deposits	$869,671	$25,400	3.90%
Borrowed funds	166,895	6,340	5.01
Total interest-bearing liabilities	1,036,566	31,740	4.08%
Other liabilities and shareholders' equity	193,842		
Total Liabilities and Shareholders' Equity	$1,230,408		
Net interest income/rate spread		$29,096	3.09%
Net yield on average interest-earning assets			3.53%
Interest-earning assets as a percentage of interest-bearing liabilities			112%

(1) Yields on tax-exempt loans and investment securities have been computed on a tax equivalent basis.

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	Nine-months ended September 30, 2006		
	Average Balance	Interest	Yield/ Cost
	(Dollars in thousands)		
Assets:			
Interest-earning assets:			
Loans (taxable)	$714,828	$39,798	7.36%
Loans (tax-free) (1)	31,153	1,130	7.25
Investment securities (taxable)	172,335	5,940	4.59
Investment securities (tax-free)(1)	68,360	2,443	7.22
Time deposits with banks and federal funds sold	2,210	74	4.44
Total interest-earning assets	988,886	49,385	6.86%
Non-interest earning assets	48,932		
Total Assets	$1,037,818		
Liabilities and Shareholders' Equity:			
Interest-bearing liabilities:			
Deposits	$709,309	$17,782	3.35%
Borrowed funds	158,022	5,706	4.77
Total interest-bearing liabilities	867,331	23,488	3.61%
Other liabilities and shareholders' equity	170,487		
Total Liabilities and Shareholders' Equity	$1,037,818		
Net interest income/rate spread		$25,897	3.25%
Net yield on average interest-earning assets			3.69%
Interest-earning assets as a percentage of interest-bearing liabilities			114%

(1) Yields on tax-exempt loans and investment securities have been computed on a tax equivalent basis.

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Rate Volume Analysis

The table below sets forth certain information regarding the changes in the components of net interest income for the periods indicated. For each category of interest earning asset and interest bearing liability, information is provided on changes attributed to: (1) changes in rate (change in rate multiplied by current volume); (2) changes in volume (change in volume multiplied by old rate); (3) the total. The net change attributable to the combined impact of volume and rate has been allocated proportionately to the change due to volume and the change due to rate (in thousands).

	Period Ended September 30,		
	2007 vs 2006 Increase (Decrease)		
	Due to Rate	Volume	Total
Loans (taxable)	$1,671	$7,441	$9,112
Loans (tax-free)	10	195	205
Investment securities (taxable)	1,117	942	2,059
Investment securities (tax-free)	(131)	256	125
Time deposits with banks and federal funds sold	1	(51)	(50)
Total interest income	$2,668	$8,783	$11,451
Deposits	$2,972	$4,646	$7,618
Borrowed funds	313	321	634
Total interest expense	$3,285	$4,967	$8,252
Net change in net interest income	$ (617)	$3,816	$3,199

	Period Ended September 30,		
	2006 vs 2005 Increase (Decrease)		
	Due to Rate	Volume	Total
Loans (taxable)	$5,894	$4,296	$10,190
Loans (tax-free)	49	25	74
Investment securities (taxable)	538	31	569

Investment securities (tax-free)	(72)	426	354
Time deposits with banks and federal funds sold	21	(222)	(201)
Total interest income	$6,430	$4,556	$10,986
Deposits	$5,491	$ 1,624	$7,115
Borrowed funds	358	129	487
Total interest expense	$5,849	$1,753	$7,602
Net change in net interest income	$ 581	$2,803	$3,384

Other Income and Expenses:

Other income in the first nine months of 2007 increased $1,544,000 in comparison to the same period of 2006. Service charges and fees increased $608,000, or 18%, over the prior period. Income from service charges on deposits increased $101,000, or 5%, in comparison to the same period of last year due to the addition of two community offices. Other fee income increased $507,000, or 39% primarily due to a $353,000 increase in letter of credit fee income. Net gains from asset sales increased $936,000.

On a quarterly basis, other income for the third quarter of 2007 increased $983,000 in comparison to the same quarter of 2006. Service charges and fees increased $162,000, or 14%, over the prior period. Income from service charges increased $23,000, or 3%, in comparison to the same period of last year while other fee income increased $139,000, or 29%, due to increased letter of credit fees. Net gains from asset sales increased $821,000 when compared to the third quarter of 2006.

Other expenses increased $2,470,000 or 17% for the period ended September 30, 2007 compared to the same period of the previous year. Salaries and Benefits costs added $1,109,000, or 15% in comparison to the first nine months of 2007 due to the opening of two new branch offices, additional staff and merit increases. Occupancy and equipment costs increased $464,000, or 21%, advertising costs rose 17%, data processing costs rose 12%, and other operating expenses increased $673,000, or 19%.

Other expenses for the third quarter of 2007 increased $892,000, or 18% in comparison to the same period of 2006. Salaries and Benefits costs increased $409,000, or 16%. Occupancy and equipment costs increased $169,000, or 23%, advertising costs rose 17%, data processing costs rose 32%, and other operating expenses increased $172,000, or 15%.

Other Comprehensive Income:

The Company s other comprehensive income includes unrealized holding gains (losses) on securities which it has classified as available-for-sale in accordance with FASB 115, Accounting for Certain Investments in Debt and Equity Securities.

Provision for Income Taxes:

The provision for income taxes is calculated based on annualized taxable income. The provision for income taxes differs from the amount of income tax determined applying the applicable U.S. statutory federal income tax rate to pre-tax income from continuing operations as a result of the following differences:

	2007	2006
Provision at statutory rate	$5,378	$4,676
Add (Deduct):		
Tax effect of non-taxable interest income	(1,478)	(1,368)
Non-deductible interest expense	220	185
Tax benefit from stock options exercised	(79)	(119)
Deferred tax benefits	(16)	0
Other items, net	40	21
Income tax expense	$4,065	$3,395

(13)

Securities:

Carrying amounts and approximate fair value of investment securities are summarized as follows (in thousands):

	September 30, 2007		December 31, 2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
U.S. Treasury securities and obligations of U.S. government agencies	$67,454	$67,454	$ 59,347	$ 59,347
Obligations of state & political subdivisions	67,269	67,407	77,128	77,308
Collateralized mortgage obligations	83,392	83,392	63,288	63,288
Mortgage-backed securities	54,924	54,924	42,501	42,501
Corporate debt securities	19,796	19,796	20,006	20,006
Equity securities and mutual funds	979	979	995	995
Total	$293,814	$293,952	$263,265	$263,445

The following summarizes the amortized cost, approximate fair value, gross unrealized holding gains, and gross unrealized holding losses at September 30, 2007 of the company s Investment Securities classified as available-for-sale (in thousands):

	September 30, 2007			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government agencies:	$ 68,851	$ 260	$1,657	$ 67,454
Obligations of state and political subdivisions:	66,587	158	1,177	65,568
Collateralized mortgage obligations:	83,657	464	729	83,392
Mortgage-backed securities:	55,753	95	924	54,924
Corporate debt securities:	20,067	23	294	19,796
Equity securities and mutual funds:	1,010	0	31	979
Total	$295,925	$1,000	$4,812	$292,113

The following summarizes the amortized cost, approximate fair value, gross unrealized holding gains, and gross unrealized holding losses at September 30, 2007 of the company s Investment Securities classified as held-to-maturity (dollars in thousands):

	September 30, 2007			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Obligations of state and political subdivisions:	$ 1,701	$138	$ 0	$ 1,839
Total	$1,701	$138	$ 0	$ 1,839

(14)

The following table shows the amortized cost and approximate fair value of the company s debt securities at September 30, 2007 using contractual maturities. Expected maturities will differ from contractual maturity because issuers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands).

	Available- for sale		Held-to-maturity	
	Amortized	Fair	Amortized	Fair

	Cost	Value	Cost	Value
Amounts maturing in:				
One year or less	$ 0	$ 0	$ 0	$ 0
After one year through five years	6,640	6,641	0	0
After five years through ten years	33,481	33,524	0	0
After ten years	115,385	112,654	1,701	1,839
Collateralized mortgage obligations	83,656	83,391	0	0
Mortgage-backed securities	55,753	54,924	0	0
Total	$294,915	$291,134	$1,701	$1,839

Gross proceeds from the sale of investment securities for the periods ended September 30, 2007 and 2006 were $55,397,992 and $6,398,475 respectively with the gross realized gains being $1,123,429 and $30,400 respectively, and gross realized losses being $244,415 and $30,936, respectively.

At September 30, 2007 and 2006, investment securities with a carrying amount of $228,530,602 and $210,182,431 respectively, were pledged as collateral to secure public deposits and for other purposes.

Loans:

The following table sets forth detailed information concerning the composition of the company s loan portfolio as of the dates specified (in thousands):

	September 30, 2007		December 31, 2006	
	Amount	%	Amount	%
Real estate loans, secured by residential properties	$164,576	17.9	$151,470	18.1
Real estate loans, secured by nonfarm, nonresidential properties	428,851	46.5	415,560	49.6
Commercial & industrial loans	192,372	20.9	157,837	18.9
Loans to individuals for household, family and other personal expenditures	91,336	9.9	80,770	9.6
Loans to state and political subdivisions	43,411	4.7	31,355	3.8
All other loans, including overdrafts	763	0.1	236	0.0
Total Gross Loans	$921,309	100.0	$837,228	100.0
Less: Allow. for Credit Losses	(8,246)		(7,538)	
Less: Unearned Discount	(494)		(569)	
Net Loans	$912,569		$829,121	

(15)

The following table sets forth certain information with respect to the company s allowance for credit losses and charge-offs (in thousands)

	Nine months Ended September 30, 2007	Year to date Ended December 31, 2006
Balance, January 1	$7,538	$7,528
Recoveries Credited	209	350
Losses Charged	(401)	(2,420)
Provision for Credit Losses	900	2,080
Balance at End of Period	$8,246	$7,538

The following table presents information about the company s non-performing assets for the periods indicated (in thousands):

	September 30, 2007	December 31, 2006
Nonaccrual loans:		
Impaired	$ 0	$ 0
Other	4,992	2,299
Loans past due 90 days or more and still accruing	416	412
Total non-performing loans	5,408	2,711
Other Real Estate Owned	2,188	2,188
Total non-performing assets	$7,596	$4,899
Non-performing loans as a percentage of gross loans	0.6%	0.3%
Non-performing assets as a percentage of total assets	0.6%	0.4%

Non-performing assets are comprised of non-accrual loans and loans past due 90 days or more and still accruing, and other real estate owned. Loans are placed in nonaccrual status when management believes that the collection of interest or principal is doubtful, or generally when a default of interest or principal has existed for 90 days or more, unless such loan is fully secured and in the process of collection. When interest accrual is discontinued, interest credited to income in the current year is reversed and interest accrued in prior years is charged against the allowance for credit losses. Any payments received are applied, first to the outstanding loan amounts, then to the recovery of any charged-off loan amounts. Any excess is treated as a recovery of lost interest. Nonaccrual loans at September 30, 2007 were comprised of eight credits which are adequately secured by mortgages or UCC s on the property. The company currently anticipates that any loss recognized on these credits would not exceed $400,000.

Provision for Credit Losses:

The provision for credit losses varies from year to year based on management's evaluation of the adequacy of the allowance for credit losses in relation to the risks inherent in the loan portfolio. In its evaluation, management considers credit quality, changes in loan volume, composition of the loan portfolio, past experience, delinquency trends, and the economic condition. Consideration is also given to examinations performed by regulatory authorities and the company s independent accountants. A monthly provision of $100,000 was credited to the allowance during the first nine months of 2007. A monthly provision of $90,000 was credited to the allowance during the first nine months of 2006. The ratio of the loan loss reserve to total loans at September 30, 2007 and 2006 was 0.90% and 1.02%, respectively.

Asset/Liability Management, Interest Rate Sensitivity and Inflation

The major objectives of the company s asset and liability management are to (1) manage exposure to changes in the interest rate environment to achieve a neutral interest sensitivity position within reasonable ranges, (2) ensure adequate liquidity and funding, (3) maintain a strong capital base, and (4) maximize net interest income opportunities. The bank manages these objectives through its Senior Management and Asset and Liability Management Committees. Members of the committees meet regularly to develop balance sheet strategies affecting the future level of net interest income, liquidity and capital. Items that are considered in asset and liability management include balance sheet forecasts, the economic environment, the anticipated direction of interest rates and the bank s earnings sensitivity to changes in these rates.

The company analyzes its interest sensitivity position to manage the risk associated with interest rate movements through the use of gap analysis and simulation modeling. Because of the limitations of the gap reports, the bank uses simulation modeling to project future net interest income streams incorporating the current gap position, the forecasted balance sheet mix, and the anticipated spread relationships between market rates and bank products under a variety of interest rate scenarios.

Economic conditions affect financial institutions, as they do other businesses, in a number of ways. Rising inflation affects all businesses through increased operating costs but affects banks primarily through the manner in which they manage their interest sensitive assets and liabilities in a rising rate environment. Economic recession can also have a material effect on financial institutions as the assets and liabilities affected by a decrease in interest rates must be managed in a way that will maximize the largest component of a bank s income, that being net interest income. Recessionary periods may also tend to decrease borrowing needs and increase the uncertainty inherent in the borrowers ability to pay previously advanced loans. Additionally, reinvestment of investment portfolio maturities can pose a problem as attractive rates are not as available. Management closely monitors the interest rate risk of the balance sheet and the credit risk inherent in the loan portfolio in order to minimize the effects of fluctuations caused by changes in general economic conditions.

Liquidity

The term liquidity refers to the ability of the company to generate sufficient amounts of cash to meet its cash-flow needs. Liquidity is required to fulfill the borrowing needs of the bank's credit customers and the withdrawal and maturity requirements of its deposit customers, as well as to meet other financial commitments.

The short-term liquidity position of the company is strong as evidenced by $19,818,000 in cash and cash equivalents. A secondary source of liquidity is provided by the investment portfolio with $54 million or 18% of the portfolio maturing or expected to provide cash flow within one year through maturities, projected calls or principal reductions.

The company's focus is on retail deposits as a source of funds, although short-term needs can be funded with municipal deposits. The bank has the ability to sell Federal funds to invest excess cash; however, the bank can also borrow in the Federal Funds market to meet temporary liquidity needs. Other sources of potential liquidity include Federal Home Loan Bank advances, the Federal Reserve Discount Window, CDARS deposits and the Brokered CD market.

Capital Management

A strong capital base is essential to the continued growth and profitability of the company and in that regard the maintenance of appropriate levels of capital is a management priority. The company s principal capital planning goals are to provide an adequate return to shareholders while retaining a sufficient base from which to provide for future growth, while at the same time complying with all regulatory standards. As more fully described in Note 15 to the year end audited financial statements, regulatory authorities have prescribed specified minimum capital ratios as guidelines for determining capital adequacy to help insure the safety and soundness of financial institutions.

Total stockholders' equity increased $7,603,000 or 8% during the first nine months of 2007 comprised of an increase in retained earnings in the amount of $7,164,000 after paying cash dividends, $2,885,000 from stock issued through Dividend Reinvestment and Stock Option Plans offset by a $2,446,000 decrease in other comprehensive income. During the same period of 2006, total stockholders' equity increased $9,465,000, or 11%, comprised of an increase in retained earnings of $6,207,000, after paying cash dividends and $2,747,000 from stock issued through Dividend Reinvestment and a $511,000 increase in other comprehensive income. The total dividend payout during the

first nine months of 2007 and 2006 represents $.37 per share and $.34 per share, respectively. Excluding the impact due to securities valuation, increases in core equity amounted to $10,049,000 and $8,954,000, respectively.

The Board of Governors of the Federal Reserve System and other various regulatory agencies have specified guidelines for purposes of evaluating a bank's capital adequacy. Currently, banks must maintain a leverage ratio of core capital to total assets at a prescribed level, namely 3%. In addition, bank regulators have issued risk-based capital guidelines. Under such guidelines, minimum ratios of core capital and total qualifying capital as a percentage of risk-weighted assets and certain off-balance sheet items of 4% and 8% are required. As of September 30, 2007, the bank met all capital requirements with a leverage ratio of 8.48% and core capital and total risk-based capital ratios of 10.26% and 11.05%, respectively. On a consolidated basis, the company's leverage ratio, core capital and total risk-based capital ratios at September 30, 2007 were 8.50%, 10.28% and 11.08%, respectively.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no material change in the company s exposure to market risk during the first nine months of 2007. For discussion of the company s exposure to market risk, refer to Item 7A, Quantitative and Qualitative Disclosure about Market Risk, contained in the company s Annual Report incorporated by reference in Form 10-K for the year ended December 31, 2006.

ITEM 4. CONTROLS AND PROCEDURES

The company carried out an evaluation, under the supervision and with the participation of the company s management, including the company s Chief Executive Officer along with the company s Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures, as such term is defined under Rule 13a 15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon that evaluation, the company s Chief Executive Officer along with the company s Chief Financial Officer concluded that the company s disclosure controls and procedures are effective in timely alerting them to material information relating to the company (including its consolidated subsidiaries) required to be included in the company s periodic SEC filings.

The management of the company is responsible for (1) the preparation of the accompanying financial statements; (2) establishing and maintaining internal controls over financial reporting; and (3) the assessment of the effectiveness of internal control over financial reporting. The Securities and Exchange Commission defines effective internal control over financial reporting as a process designed under the supervision of the company s principal executive officer and principal financial officer, and implemented in conjunction with management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles.

The company s internal control over financial reporting is supported by written policies and procedures. All internal control systems, no matter how well designed, have inherent limitations and provide only reasonable assurance that the objectives of the control system are met. Therefore, no evaluation of controls can provide absolute assurance that all control issues and misstatements due to error or fraud, if any, within the company have been detected. Additionally, any system of controls is subject to the risk that controls may become inadequate due to changes in conditions or that compliance with policies or procedures may deteriorate.

As of September 30, 2007, management of the company conducted an assessment of the effectiveness of the company s internal control over financial reporting based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that the company s internal control over financial reporting was effective as of September 30, 2007.

There were no changes in our internal control over financial reporting that occurred during the period covered by this quarterly report that have materially affected, or are, reasonably likely to materially affect, the company s internal controls over financial reporting.

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Part II Other Information

Item 1 - Legal Proceedings.

The bank is not involved in any material pending legal proceedings, other than routine litigation incidental to the business.

Item 1A. Risk Factors.

No material changes in risk factors occurred from those previously disclosed in the company s Form 10-K for the year ended December 31, 2006.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3 - Defaults upon Senior Securities.

None

Item 4 - Submission of Matters to a Vote of Security Holders.

None

Item 5 - Other Information.

None

Item 6 Exhibits.

Exhibit 31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
Exhibit 31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
Exhibit 32.1	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act
Exhibit 32.2	Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act

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SIGNATURES

Pursuant to the requirements 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.

Registrant: FIRST NATIONAL COMMUNITY BANCORP, INC

Date:	November 6, 2007	/s/ J. David Lombardi J. David Lombardi, President/ Chief Executive Officer
Date:	November 6, 2007	/s/ William Lance William Lance, Treasurer/ Principal Financial Officer

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