ESTATE COFFEE HOLDINGS CORP.
Form 8-K
August 20, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): August 14, 2010
ESTATE COFFEE HOLDINGS CORP.
Exact name of registrant as specified in its charter

Nevada	000-53703	98-0531819
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

201 Portage Avenue, CanWest Place Suite 1680, Winnipeg MB, Canada	R3B 3K6
(Address of principal executive offices)	(Zip Code)

(876) 428-4309
Registrant's telephone number, including area code

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 Other Events

On August 14, 2010, Estate Coffee Holdings Corp. (the "Company") received an executed Letter of Intent (the "LOI") from Fresh Traffic Group ("Fresh") and the shareholders of Fresh Traffic Group ("Fresh Shareholders") setting out the terms of a share purchase agreement to be entered into between the Company, Fresh and the Fresh Shareholders. Fresh is an established private company incorporated pursuant to the laws of the Province of Manitobautilizing powerful web marketing techniques to deliver a one-stop shop Internet Marketing solution which is both effective and affordable.

Under the terms of the LOI, the Company will acquire all of the issued and outstanding shares of Fresh in exchange for issuance of a total of 4,000,000 restricted shares of the Company's common stock to the Fresh Shareholders. Upon the closing of the transaction Fresh will conduct its operations as a wholly-owned subsidiary of the Company. The operations of Fresh will be in conjunction with the Company's already operating businesses.

Under the terms of the LOI, the share purchase agreement is to be completed no later than September 17, 2010 and the closing of the acquisition to be defined by the share purchase agreement shall take place no later than September 30, 2010. The acquisition will be subject to presentation of audited financial statements by Fresh among other things. A copy of the LOI is appended as an exhibit to this filing.

Item 9.01 Financial Statements and Exhibits

9.01(d) Exhibits

Exhibit Number	Description	
10.1	Letter of Intent between the Company, Fresh Traffic Group and the shareholders of Fresh Traffic Group executed August 14, 2010.	Filed herewith

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 hereunto duly authorized.

August 20, 2010

Estate Coffee Holdings Corp.
By: /s/ Errol Gillespie
Errol Gillespie
Director

op:0pt;margin-bottom:0pt'>

1,761

579

1,182

Other time deposits

3,783

1,256

2,527

1,051

(25)

1,076

Total Interest-Bearing Deposits

10,109

2,706

7,403

4,975

1,216

3,759

Borrowed funds and other interest-bearing liabilities

720

223

497

422

195

227

Total Interest Expense

10,829

2,929

7,900

5,397

1,411

3,986

Net Interest Income

$

4,807

$

4,476

$

331

$

5,890

$

3,794

$

2,096

(1) Changes in interest income and interest expense attributable to changes in both volume and rate have been allocated proportionately to changes due to volume and changes due to rate.

19

CURRENT YEAR

During 2006, tax-equivalent net interest income increased $4.8 million over the prior year total. Balance sheet growth was profitable as evidenced by the $4.5 million of improvement related to volume. The repricing of interest sensitive assets and liabilities combined with growth at current market levels contributed to a positive variance due to rate for a second consecutive year.

Interest income recognized on loans increased $14.2 million in 2006. The $101 million increase in average loans outstanding led to a $6.7 million increase in interest income, while repricing resulting from Federal Reserve interest rate increases combined with growth at higher rates contributed to the $7.5 million improvement due to rate. Investment securities added $1.7 million more interest income in 2006 due to the $15.0 million increase in average balances and the repositioning of the taxable securities portfolio into higher earning assets. Earnings from money market assets were $233,000 less than the prior year as funds were utilized in higher earning asset categories.

New deposits added $2.7 million of interest expense in 2006, but rising interest rates led to an additional $7.4 million of interest expense. The $10.1 million of additional cost on deposits combined with a $700,000 increase in the cost of borrowings resulted in a $10.8 million rise in interest expense.

PRIOR YEAR

In 2005, tax-equivalent net interest income was $5.9 million higher than the 2004 total. Growth of the balance sheet added $3.8 million to earnings in 2005 as the $5.2 million of income earned on new loans and securities more than offset the $1.4 million cost of new deposits and borrowings. Loan growth added $4.1 million of income while new securities and money market assets provided an additional $1.1 million. Interest expense increased $1.2 million due to deposit growth while additional borrowings cost $200,000. Interest rate increases and repricing to current levels also had a positive impact on earnings in 2005. The increased yield on loans resulted in a $5.7 million increase due to rate while income from investment securities and money market assets increased $330,000 from the 2004 level. Interest expense was also impacted by rising rates but to a lesser extent, resulting in a $4.0 million increase in interest expense. Interest on deposits increased $3.8 million in 2005 while the cost of borrowed funds increased $227,000.

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 conditions. Consideration is also given to examinations performed by regulatory authorities and the company's independent auditors. The provision for credit losses was $2,080,000 in 2006, $1,860,000 in 2005, and $1,400,000 in 2004. The ratio of the loan loss reserve to total loans was .90% at December 31, 2006 and 1.05% at December 31, 2005.

OTHER INCOME

Other Income	2006	2005	2004
	(in thousands)		
Service charges	$2,645	$2,240	$1,929

Net gain/(loss) on the sale of securities	(201)	(250)	846
Net gain on the sale of loans	240	210	499
Net gain on the sale of other real estate	297	14	25
Net loss on the sale of other assets	(3)	0	0
Other	1,919	1,690	1,490
Total Other Income	$4,897	$3,904	$4,789

The company s other income category can be separated into three distinct sub-categories; service charges make up the core component of this area of earnings while net gains (losses) from the sale of assets and other fee income comprise the balance.

During 2006, total other income increased $1.0 million, or 25%, over the 2005 total due to improvement in all three components. Service charges improved $405,000, or 18%, due primarily to a $364,000 increase in overdraft privilege fees. Income generated from the sale of assets increased $359,000 compared to 2005. Securities were sold to

20

reposition the portfolio for future benefits and residential mortgages were sold to reduce the company s exposure to interest rate risk. Additionally, a $297,000 gain was recognized from the sale of several properties which were previously classified as Other Real Estate Owned. Other fee income also increased $229,000, or 13%, due to a $229,000 increase in fees recognized on outstanding letters of credit.

In 2005, other income decreased $885,000 compared to the prior year due to a $1.4 million negative variance in income generated from the sale of assets. Income from securities sales decreased $1.1 million to a $250,000 net loss in 2005 as rising interest rates led to portfolio restructuring which was projected to have a positive impact on future periods. Residential mortgage loan sales to shed long-term interest rate risk continued in 2005, but rising interest rates also contributed to a $289,000 decrease from the prior year in this area. Service charge income improved $311,000, or 16%, in 2005 due to increased overdraft privilege fees and income from automated teller machines. All other income improved $200,000 in 2005 due primarily to earnings from our relationship with INVEST Financial Corp. and check card processing.

OTHER EXPENSES

Other Expenses	2006	2005	2004
	(in thousands)		
Salary expense	$ 8,494	$ 7,775	$ 6,905
Employee benefit expense	2,090	1,877	1,787
Occupancy expense	1,626	1,676	1,556
Equipment expense	1,388	1,293	1,257
Directors fees	600	528	468
Advertising expense	705	706	650
Data processing expense	1,560	1,435	1,309
Bank shares tax	563	473	583
Other operating expenses	3,747	3,180	2,884
Total Other Expenses	$20,773	$18,943	$17,399

In 2006, total other expenses increased $1.8 million, or 10%, from the prior year total. Employee costs rose $932,000, which accounts for 50% of the increase, while data processing and shares tax expense increased approximately $100,000 each. All other expenses increased $683,000, or 9%. The company s overhead ratio, which measures non-interest expense as a percentage of average assets, was 1.94% in 2006 compared to 1.99% in 2005, reflecting the stringent controls over expenses in spite of the significant growth recorded during the year.

Salary and benefit costs accounted for 51% of total operating expenses in 2006. The $932,000 increase in employee costs includes a $719,000 increase in salaries and a $213,000 increase in employee benefits as new employees were added to support growth. The addition of the new community office in Honesdale and higher contributions to the Employee s Profit Sharing Plan and deferred compensation plans also contributed to the increase. As of December 31, 2006, the company had 257 full-time equivalent employees on staff, an 8% increase over the 238 reported on December 31, 2005.

Occupancy and equipment costs rose a mere $45,000 in 2006. The increase in all other operating expenses includes a $135,000 increase in legal fees related to loan work-outs and branch expansion.

During 2005, total other expenses increased $1.5 million, or 9%, from the 2004 level. Employee costs increased $960,000, or 62% of the total while occupancy and equipment costs rose $156,000. All other expenses increased $428,000, or 28% of the total increase. The company s overhead ratio was 1.99% in 2005 compared to 2.02% in 2004.

Salaries increased $870,000 in 2005 including a $492,000 increase in regular salaries and a $287,000 increase in expenses due to FAS 91 salary deferrals. The increase in regular salaries was due to merit increases and staff additions while the additional FAS 91 expense reflects a decrease in the number of loan closings recorded during the year and the deferred costs associated with the loan closings. Stock based compensation and incentive compensation also added $91,000 to the salary expense variance in 2005. Employee benefit costs increased $90,000 over the 2004 level due to the company s increased contribution to the Employees Profit Sharing Plan and payroll taxes associated with the increased level of salaries. At December 31, 2005, the company had 238 full-time equivalent employees on staff compared to the 236 reported on December 31, 2004.

21

Occupancy and equipment costs increased 8% and 3%, respectively, due primarily to increased maintenance expenses. All other operating expenses increased $428,000, or 7%. Much of the increase was attributed to rising data processing costs and the increased cost of goods and services.

PROVISION FOR INCOME TAXES

Federal income tax expense increased $1.2 million in 2006 due primarily to the $3.5 million improvement in income before taxes. Benefits derived from tax-exempt income and other permanent differences had a positive impact in 2006. The company s effective tax rate was 22.9% in 2006 and 20.1% in 2005.

In 2005, federal income tax expense increased $830,000 compared to 2004. The $2.8 million increase in income before taxes added $949,000 to the book provision while benefits received from tax-exempt income and other permanent differences had a $119,000 positive effect compared to 2004. The company s effective tax rate was 20.1% in 2005 and 17.7% in 2004.

FINANCIAL CONDITION

Total assets increased $177 million, or 18%, during 2006 due to significant internal growth and the acquisition of a community office. Internal asset growth amounted to $102 million, or 10%, while assets acquired totaled $75 million. Loan growth of $122 million and a $32 million increase in securities was funded by a $170 million increase in total deposits.

SECURITIES

The primary objectives in managing the company s securities portfolio are to maintain the necessary flexibility to meet liquidity and asset and liability management needs and to provide a stable source of interest income.

Total securities increased $32 million in 2006 as excess funds received from the acquisition of a branch office were utilized to fund securities purchases. During the year, an emphasis was placed on adding securities which would reduce the company s risk to declining interest rates. Additionally, due to the significant growth recorded in municipal deposit relationships, an emphasis was placed on adding securities which would provide eligible collateral for those deposits. Municipal bonds and eligible U.S. Agency securities were added to meet collateral needs, while holdings of mortgage-backed securities were reduced through principal prepayments and sales.

During 2006, the company did not add any investment leveraging transactions due to limited borrowing capacity at the Federal Home Loan Bank. As of December 31, 2006, the company had $65 million of these leveraged transactions outstanding. Management remains committed to strategies which limit purchases to those that are virtually free of credit risk and will help to meet the objectives of the company s investment and asset/liability management policies. Investment sales were executed to shed the portfolio of low earning bonds and bonds which had been reduced in size by principal prepayments to below portfolio parameters.

The following table sets forth the carrying value of securities at the dates indicated:

	December 31,		
	2006	2005	2004
	(in thousands)		
U.S. Treasury securities and obligations of U.S. government agencies	$59,347	$48,175	$ 31,770
Obligations of state and political subdivisions	77,128	65,226	55,955
Collateralized mortgage obligations	63,288	47,368	56,345
Mortgage-backed securities	42,501	48,682	60,705
Corporate debt securities	20,006	20,008	18,983
Equity securities	8,163	8,764	8,073
Total	$270,433	$238,223	$231,831

The following table sets forth the maturities of securities at December 31, 2006 (in thousands) and the weighted average yields of such securities calculated on the basis of the cost and effective yields weighted for the scheduled maturity of each security. Tax-equivalent adjustments, using a 34% rate, have been made in calculating yields on obligations of state and political subdivisions.

	Within One Year	2 - 5 Years	6 - 10 Years	Over 10 Years	Mortgage-Backed Securities	No Fixed Maturity	Total
U.S. Treasury securities	$ 499	$ 503	$ 0	$ 0	$ 0	$ 0	$ 1,002
Yield	4.23%	4.39%					4.31%
Obligations of U.S. government agencies		9,959	31,607	16,934			58,500
Yield		4.00%	5.23%	5.29%			5.04%
Obligations of state and political subdivisions (1)			9,438	65,987			75,425
Yield			6.74%	6.84%			6.83%
Corporate debt securities		979	1,589	17,510			20,078
Yield		4.50%	4.83%	6.29%			6.09%
Collateralized mortgage obligations					64,041		64,041
Yield					4.98%		4.98%
Mortgage-backed securities					43,315		43,315
Yield					4.89%		4.89%
Equity securities (2)						8,178	8,178
Yield						4.95%	4.95%
Total maturities	$ 499	$11,441	$42,634	$100,431	$107,356	$8,178	$270,539
Weighted yield	4.23%	4.06%	5.55%	6.48%	4.94%	4.95%	5.57%

(1) Yields on state and municipal securities have been adjusted to a tax-equivalent basis using a 34% federal income tax rate.

(2) Yield presented represents 2006 actual return.

LOANS

Total loans increased $122 million, or 17% in 2006 including $21 million acquired with a branch purchase. Real estate loans again contributed significantly to the growth, as evidenced by the $88 million increase in this segment of the portfolio. Commercial mortgages provided $49 million of the growth in 2006 while residential mortgage balances increased $10 million, home equity lending added $6 million and other real estate secured loans increased $23 million. The growth in residential mortgage loans was recorded after accounting for the sale of over $15 million of loan balances in 2006 to reduce the company s exposure to interest rate risk and to secure funding for additional loan originations. Installment loans outstanding increased $7.6 million due to growth in the company s indirect lending portfolio. Other commercial loan balances increased $25 million during the year.

Details regarding the loan portfolio for each of the last five years ending December 31 are as follows:

Loans Outstanding (in thousands)

	2006	2005	2004	2003	2002
Commercial and Financial	$157,837	$132,838	$130,937	$132,319	$115,651
Real Estate	567,030	478,582	402,792	337,423	294,864
Installment	80,770	73,217	69,027	66,981	63,258
Other	31,591	30,139	30,136	22,052	20,343
Total Loans Gross	837,228	714,776	632,892	558,775	494,116
Unearned Discount	(569)	0	0	0	0
Allowance for Credit Losses	(7,538)	(7,528)	(7,100)	(6,578)	(6,140)
Net Loans	$829,121	$707,248	$625,792	$552,197	$487,976

23

The following schedule shows the repricing distribution of loans outstanding as of December 31, 2006. Also provided are these amounts classified according to sensitivity to changes in interest rates.

Loans Outstanding - Repricing Distribution (in thousands)

	Within One Year	One to Five Years	Over Five Years	Total
Commercial and Financial	$113,224	$39,751	$4,862	$157,837
Real Estate	355,479	129,890	81,661	567,030
Installment	2,623	70,884	7,263	80,770
Other	8,989	5,727	16,875	31,591
Total	$480,315	$246,252	$110,661	$837,228
Loans with predetermined interest rates	$117,316	$113,039	$92,335	$322,690
Loans with floating rates	362,999	133,213	18,326	514,538
Total	$480,315	$246,252	$110,661	$837,228

ASSET QUALITY

The company manages credit risk through the application of policies and procedures designed to foster sound underwriting and credit monitoring practices, although, as is the case with any financial institution, a certain degree of credit risk is dependent in part on local and general economic conditions that are beyond the company s control.

The company's risk management committee meets quarterly or more often as required and makes recommendations to the board of directors regarding provisions for credit losses. The committee reviews individual problem credits and ensures that ample reserves are established considering both general allowances and specific allocations.

The following schedule reflects various non-performing categories as of December 31 for each of the last five years:

	2006 (in thousands)	2005	2004	2003	2002
Nonaccrual:					
Impaired	$ 0	$ 0	$ 0	$ 0	$ 0
Other	2,299	70	303	844	37
Loans past due 90 days or more and still accruing	412	721	539	622	299
Other Real Estate Owned	2,188	0	0	0	0
Total Non-Performing Assets	$4,899	$791	$842	$1,466	$336

In 2006, total non-performing assets increased $4.1 million. Nonaccrual loans increased $2.2 million due to the addition of three credits caused by the borrowers inability to make scheduled payments. As of December 31, 2006, the company has recognized a loss of $902,000 on these credits. Any future losses from loans carried as nonaccrual is expected to be minimal after accounting for the sale of the collateral. Other Real Estate Owned increased $2.1 million in 2006 due to the addition of one property obtained in lieu of foreclosure. Title to this property is subject to a future lease option payment payable in 2008. As of December 31, 2006, the company has recognized a loss of $953,000 on this credit. Any future loss is expected to be minimal based on the market value of the property and the carrying value of the asset. No losses were recognized in 2006 on loans carried as nonaccrual on December 31, 2005.

During 2005, total non-performing assets decreased $51,000. Nonaccrual loans decreased $233,000 during the year and are now limited to $70,000. Scheduled payments combined with a $186,000 charge-off of loans classified as nonaccrual on December 31, 2004 account for the reduction. Any future loss resulting from loans classified as nonaccrual on December 31, 2005 would be minimal. Loans past due over ninety days increased $182,000 during the year. The carrying balance of other real estate owned on December 31, 2005 was $0.

24

On December 31, 2006, the company s ratio of nonaccrual loans to total loans was .27% compared to the .01% reported in 2005. The ratio of the allowance for credit losses was .90% at December 31, 2006 compared to 1.05% in 2005, reflecting growth in loans, asset quality and regulatory guidance pertaining to the allowance. We continue to rank well ahead of peer banks in measurements of delinquency. The company continues to acknowledge the weakness in local real estate markets, emphasizing strict underwriting standards to minimize the negative impact of the current environment.

ALLOWANCE FOR CREDIT LOSSES

The following table presents an allocation of the allowance for credit losses as of the end of each of the last five years (in thousands):

Loan Loss Reserve Allocation (in thousands)

	12/31/06		12/31/05		12/31/04		12/31/03		12/31/02	
		Percentage of Loans in Each Category to Total Loans		Percentage of Loans in Each Category to Total Loans		Percentage of Loans in Each Category to Total Loans		Percentage of Loans in Each Category to Total Loans		Percentage of Loans in Each Category to Total Loans
	Amount		Amount		Amount		Amount		Amount	
Commercial and Financial	$6,995	77%	$6,933	79%	$4,028	79%	$5,303	76%	$4,840	76%
Real Estate	114	4%	55	4%	44	3%	53	4%	44	5%
Installment	377	19%	427	17%	292	18%	276	20%	244	19%
Unallocated	52	-	113	-	2,736	-	946	-	1,012	-
	$7,538	100%	$7,528	100%	$7,100	100%	$6,578	100%	$6,140	100%

The following schedule presents an analysis of the allowance for credit losses for each of the last five years (in thousands):

	Year Ended December 31,				
	2006	2005	2004	2003	2002
Balance, January 1	$7,528	$7,100	$6,578	$6,140	$5,594
Charge-Offs:					
Commercial and Financial	83	64	293	314	256
Real Estate	1,802	1,523	412	109	455
Installment	535	435	423	579	307
Total Charge-Offs	2,420	2,022	1,128	1,002	1,018
Recoveries on Charged-Off Loans:					
Commercial and Financial	8	257	51	13	2
Real Estate	110	108	66	7	10
Installment	232	225	133	220	152

Total Recoveries	350	590	250	240	164
Net Charge-Offs	2,070	1,432	878	762	854
Provision for Credit Losses	2,080	1,860	1,400	1,200	1,400
Balance, December 31	$7,538	$7,528	$7,100	$6,578	$6,140
Net Charge-Offs during the period as a percentage of average loans outstanding during the period	.27%	.21%	.15%	.15%	.18%
Allowance for credit losses as a percentage of net loans outstanding at end of period	.90%	1.05%	1.12%	1.18%	1.24%

25

Net charge-offs total $2.1 million in 2006 due primarily to deterioration in two relationships. Based on management s evaluation of the borrowers ability to make future payments and the value of the underlying collateral, charge-offs totaling $1.6 million were recommended and processed in the fourth quarter. As a result of these charge-offs, the company determined that additional provisions were necessary to maintain the strength of the reserve and provided an additional $1,000,000 in December. Other activity is consistent with prior periods and includes writedowns on credits incurred in the normal course of business. The installment loan charge-offs include $305,000 of indirect auto loans, of which $220,000 was recovered in 2006 through sales of the vehicles. During 2006, there were no charge-offs on loans carried as nonaccrual on December 31, 2005. The company s ratio of net charge-offs to average loans is comparable to its national peer groups while the ratio of the allowance for credit losses to total loans is adequate considering current delinquency levels.

DEPOSITS

The primary source of funds to support the company s growth is its deposit base, and emphasis has been placed on accumulating new deposits while making every effort to retain current relationships. Total deposits increased $170 million in 2006 comprised of $49 million in lower costing savings and demand accounts and a $121 million increase in time deposit balances. Included in the 2006 growth is $74 million of deposits acquired through the purchase of a branch office.

The average daily amount of deposits and rates paid on such deposits is summarized for the periods indicated in the following table (in thousands):

	Year Ended December 31,					
	2006		2005		2004	
	Amount	Rate	Amount	Rate	Amount	Rate
Noninterest bearing demand deposits	$73,637		$68,572		$72,700	
Interest-bearing demand deposits	254,065	2.54%	220,373	1.59%	163,826	0.98%
Savings deposits	72,889	1.32%	81,899	1.06%	80,112	0.75%
Time deposits	409,552	4.42%	342,193	3.23%	316,037	2.60%
Total	$810,143		$713,037		$632,675	

Maturities of time deposits of $100,000 or more outstanding at December 31, 2006, are summarized as follows (in thousands):

3 months or less	$104,565
Over 3 through 6 months	17,154
Over 6 through 12 months	37,689
Over 12 months	28,476
Total	$187,884

CAPITAL

A strong capital base is essential to the continued growth and profitability of the company and is therefore 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 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.

26

The following schedules present information regarding the company s risk-based capital at December 31, 2006, 2005 and 2004 and selected other capital ratios.

CAPITAL ANALYSIS

(in thousands)

	December 31, 2006	2005	2004
Tier I Capital:			
Total Tier I Capital	$ 97,048	$ 84,943	$ 74,693
Tier II Capital:			
Allowable portion of allowance for credit losses	$ 7,538	$ 7,528	$ 7,100
Total Risk-Based Capital	$104,586	$ 92,471	$ 81,793
Total Risk-Weighted Assets	$980,201	$819,339	$728,681

CAPITAL RATIOS

	Regulatory Minimum	2006	2005	2004
Total Risk-Based Capital	8.00%	10.67%	11.29%	11.22%
Tier I Risk-Based Capital	4.00%	9.90%	10.37%	10.25%
Tier I Leverage Ratio	4.00%	9.16%	8.91%	8.69%
Return on Assets	N/A	1.26%	1.18%	1.08%
Return on Equity*	N/A	15.30%	13.96%	12.86%
Equity to Assets Ratio*	N/A	8.18%	8.37%	8.34%
Dividend Payout Ratio	N/A	42.75%	40.20%	41.95%

* Includes the effect of SFAS 115 in the amount of $(70,000) in 2006, $(524,000) in 2005, and $1,030,000 in 2004.

During 1999, the company implemented a Dividend Reinvestment Plan which has resulted in an influx to capital of $13.3 million to date. The company also adopted stock option plans for directors and senior officers. New capital generated from the exercise of stock options is $3.8 million at December 31, 2006. In February 2006, the company declared a 10% stock dividend payable March 31, 2006, resulting in the issuance of 1,112,868 new shares. The company has also paid 100% stock dividends on September 30, 2004 and January 31, 2003 which resulted in 5,423,425 and 2,603,838 new shares, respectively. At the 2005 Annual Meeting, shareholders approved management s proposal to increase the number of authorized shares of common stock from 20,000,000 to 50,000,000 shares.

In 2006, regulatory capital increased $12.1 million comprised of a $6.1 million increase in retained earnings after paying cash dividends of $5.8 million and accounting for the 10% stock dividend paid March 31, 2006, a $3.3 million increase due to the company s dividend reinvestment plan and a $.9 million increase due to the issuance of shares from the company s stock option plans. As of December 31, 2006, there were 36,780,372 shares of stock available for future sale or stock dividends. The number of shareholders of record at December 31, 2006 was 1,523. Quarterly market highs and lows, dividends paid and known market makers are highlighted in the Investor Information section of this Annual Report. Refer to Note 15 to the financial statements for further discussion of capital requirements and dividend limitations.

ECONOMIC CONDITIONS AND FORWARD OUTLOOK

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

27

and the credit risk inherent in the loan portfolio in order to minimize the effects of fluctuations caused by changes in general economic conditions.

While we are optimistic about the prospect of continued growth and earnings improvement, any forward-looking statements by their nature are subject to assumptions, risks and uncertainties. Actual results could vary from those implied for a variety of reasons including:

A change in interest rates which is more immediate or more significant than anticipated.

The demand for new loans and the ability of borrowers to repay outstanding debt.

The timing of expansion plans could be altered by forces beyond our control such as weather or regulatory approvals.

Our ability to continue to attract new deposits from our marketplace to meet the daily liquidity needs of the company.

As of this writing, the company was not aware of any pronouncements or legislation that would have a material impact on the results of operations.

Item 7A Quantitative and Qualitative Disclosures About Market Risk

ASSET AND LIABILITY MANAGEMENT

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 company manages these objectives through its Senior Management and Asset and Liability Management Committees (ALCO). 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 company s earnings sensitivity to changes in these rates.

INTEREST RATE SENSITIVITY

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. Interest rate risk arises from mismatches in the repricing of assets and liabilities within a given time period. Gap analysis is an approach used to quantify these differences. A positive gap results when the amount of interest-sensitive assets exceeds that of interest-sensitive liabilities within a given time period. A negative gap results when the amount of interest-sensitive liabilities exceeds that of interest-sensitive assets.

While gap analysis is a general indicator of the potential effect that changing interest rates may have on net interest income, the gap report has some limitations and does not present a complete picture of interest rate sensitivity. First, changes in the general level of interest rates do not affect all categories of assets and liabilities equally or simultaneously. Second, assumptions must be made to construct a gap table. For example, non-maturity deposits are assigned a repricing interval based on internal assumptions. Management can influence the actual repricing of these deposits independent of the gap assumption. Third, the gap table represents a one-day position and cannot incorporate a changing mix of assets and liabilities over time as interest rates change.

Because of the limitations of the gap reports, the company 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.

INTEREST RATE GAP

The following schedule illustrates the company s interest rate gap position as of December 31, 2006 which measures sensitivity to interest rate fluctuations for certain interest sensitivity periods.

Interest Rate Sensitivity Analysis
as of December 31, 2006
(in thousands)

			Rate Sensitive			Not	
	1 to 90 Days	91 to 180 Days	181 to 365 Days	1 to 5 Years	Beyond 5 Years	Rate Sensitive	Total
Commercial loans	$431,105	$12,015	$23,820	$150,683	$ 28,286	$ 0	$645,909
Mortgage loans	912	1,330	3,393	20,061	9,642	0	35,338
Installment loans	16,018	7,942	18,308	89,640	23,504	0	155,412
Total Loans	448,035	21,287	45,521	260,384	61,432	0	836,659
Securities-taxable	25,488	3,919	13,134	81,192	63,097	8,178	195,008
Securities-tax free	1,905	630	2,820	34,475	35,595	0	75,425
Total Securities	27,393	4,549	15,954	115,667	98,692	8,178	270,433
Interest-bearing deposits with banks	0	0	0	0	0	0	0
Federal funds sold	2,325	0	0	0	0	0	2,325
Total Money Market Assets	2,325	0	0	0	0	0	2,325
Total Earning Assets	477,753	25,836	61,475	376,051	160,124	8,178	1,109,417
Non-earning assets	0	0	0	0	0	82,904	82,904
Allowance for credit losses	0	0	0	0	0	(7,538)	(7,538)
Total Assets	$477,753	$25,836	$61,475	$376,051	$160,124	$83,544	$1,184,783
Interest-bearing demand deposits	$291,400	$ 0	$ 0	$ 0	$ 0	$ 0	$291,400
Savings deposits	72,408	0	797	0	0	0	73,205
Time deposits $100,000 and over	133,094	12,962	21,558	19,916	354	0	187,884
Other time deposits	114,929	37,921	45,826	78,883	4,550	0	282,109
Total Interest-Bearing Deposits	611,831	50,883	68,181	98,799	4,904	0	834,598
Borrowed funds and other interest-bearing liabilities	25,105	1,062	1,964	89,247	35,494	0	152,872
Total Interest-Bearing Liabilities	636,936	51,945	70,145	188,046	40,398	0	987,470
Demand deposits	0	0	0	0	0	86,375	86,375
Other liabilities	0	0	0	0	0	14,076	14,076
Stockholders' equity	0	0	0	0	0	96,862	96,862
Total Liabilities and Stockholders' Equity	$636,936	$51,945	$70,145	$188,046	$40,398	$197,313	$1,184,783
Interest Rate Sensitivity gap	$(159,183)	$(26,109)	$(8,670)	$188,005	$119,726	$(113,769)	
Cumulative gap	$(159,183)	$(185,292)	$(193,962)	$(5,957)	$113,769		

29

EARNINGS AT RISK AND ECOMONIC VALUE AT RISK SIMULATIONS

The company recognizes that more sophisticated tools exist for measuring the interest rate risk in the balance sheet beyond static gap analysis. Although it will continue to measure its static gap position, the company utilizes additional modeling for identifying and measuring the interest rate risk in the overall balance sheet. The ALCO is responsible for focusing on earnings at risk and economic value at risk , and how both relate to the risk-based capital position when analyzing the interest rate risk.

EARNINGS AT RISK

Earnings at risk simulation measures the change in net interest income and net income should interest rates rise and fall. The simulation recognizes that not all assets and liabilities reprice equally and simultaneously with market rates (i.e., savings rate). The ALCO looks at earnings at risk to determine income changes from a base case scenario under an increase and decrease of 200 basis points in the interest rate simulation model.

ECONOMIC VALUE AT RISK

Earnings at risk simulation measures the short-term risk in the balance sheet. Economic value (or portfolio equity) at risk measures the long-term risk by finding the net present value of the future cash flows from the company s existing assets and liabilities. The ALCO examines this ratio monthly utilizing a rate shock of ±200 basis points in the interest rate simulation model. The ALCO recognizes that, in some instances, this ratio may contradict the earnings at risk ratio.

The following table illustrates the simulated impact of a 200 basis point upward or downward movement in interest rates on net interest income, and the change in economic value. This analysis assumed that interest-earning asset and interest-bearing liability levels at December 31, 2006 remained constant. The impact of the rate movements were developed by simulating the effect of rates changing over a twelve-month period from the December 31, 2006 levels.

	RATES + 200	RATES 200
Earnings at risk:		
Percent change in net interest income	(3.96)%	(2.48)%
Economic value at risk:		
Percent change in economic value of equity	(16.49)%	12.13%

Economic value has the most meaning when viewed within the context of risk-based capital. Therefore, the economic value may change beyond the company s policy guideline for a short period of time as long as the risk-based capital ratio is greater than 10%.

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 company s credit customers and the withdrawal and maturity requirements of its deposit customers, as well as to meet other financial commitments. Cash and cash equivalents (cash and due from banks and federal funds sold) are the company s most liquid assets. At December 31,

30

2006 cash and cash equivalents totaled $28.7 million, compared to the December 31, 2005 level of $21.9 million. Financing activities provided $157.2 million and operating activities provided $19.8 million of cash and cash equivalents during the year while investing activities utilized $170.2 million. The cash flows provided by financing activities is due primarily to an increase in deposits while the funds provided by operating activities pertains to interest payments received on loans and investments. The cash used in investing activities consists of loan proceeds and security purchases.

Core deposits, which represent the company s primary source of liquidity, averaged $648 million in 2006, an increase of $62 million, or 11%, from the $586 million average in 2005. This increase in average core deposits was supplemented with a $36 million increase in average jumbo certificates and a $7 million increase in average borrowed funds and other interest-bearing liabilities.

The company has other potential sources of liquidity, including repurchase agreements. Additionally, the company can borrow on credit lines established at several correspondent banks, the Federal Home Loan Bank of Pittsburgh and the Federal Reserve Discount Window.

Item 8 - Financial Statements and Supplementary Data

The information required by this item is set forth on pages 34-48 of the Company s 2006 Annual Report to Shareholders, which pages are included as Exhibit 13 hereto, and incorporated herein by reference.

Item 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not Applicable

Item 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure 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 as of December 31, 2006 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.

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

Management s Report on Internal Control Over Financial Reporting

The management of First National Community Bancorp, Inc. (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 December 31, 2006, 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 December 31, 2006.

Management s assessment of the effectiveness of the company s internal control over financial reporting as of December 31, 2006, has been audited by Demetrius and Company, L.L.C., the independent registered public accounting firm that audited the company s financial statements for the period covered. A copy of the Demetrius and Company, L.L.C. report is included in this annual report.

/s/ J. David Lombardi	/s/ William Lance
J. David Lombardi	William S. Lance
President and Chief Executive Officer	Principal Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Stockholders of First National Community Bancorp, Inc.

We have audited management s assessment, included in the accompanying Management s Report on Internal Control over Financial Reporting, that First National Community Bancorp, Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). First National Community Bancorp, Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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.

In our opinion, management s assessment that First National Community Bancorp, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also in our opinion, First National Community Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2006 and 2005 and the related consolidated statements of income, stockholders equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2006 of First National Community Bancorp, Inc., and our report dated March 14, 2007 expressed an unqualified opinion.

DEMETRIUS & COMPANY, L.L.C.

Wayne, New Jersey

March 14, 2007

Item 9B. Other Information

None

33

Part III.

Item 10 Directors, Executive Officers and Corporate Governance

Information regarding directors, nominees, principal officers, audit committees and audit committee financial experts required by this item is set forth under the captions Information as to Nominees and Directors , Principal Officers of the Company , Principal Officers of the Bank , Information about the Company s Audit Committee and its Charter , and Section 16(a) Beneficial Ownership Reporting Compliance in the Proxy Statement filed for the annual meeting of shareholders to be held on May 16, 2007 and is incorporated herein by reference.

The company has adopted a Code of Ethics that applies to directors, officers and employees of the company and the bank. A copy of the Code of Ethics was included as an exhibit to the company s Form 10-K for the year ended December 31, 2005 and filed with the Securities and Exchange Commission. A request for the Company s Code of Ethics can be made either in writing to William Lance, First National Community Bancorp, Inc., 102 East Drinker Street, Dunmore, Pennsylvania, 18512 or by email at fncb@fncb.com.

Item 11 - Executive Compensation

The information required by this item is set forth under the captions Executive Compensation , Option Grants in 2006 , Compensation of Directors , Employment Agreement , Compensation Committee Report , and Board of Directors Interlocks and Insider Participation in the Proxy Statement filed for the annual meeting of shareholders to be held on May 16, 2007 and is incorporated herein by reference.

Item 12- Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item regarding security ownership of certain beneficial owners and management is set forth under the caption Principal Beneficial Owners of the Company s Common Stock in the Proxy Statement filed for the annual meeting of shareholders to be held on May 16, 2007 and is incorporated herein by reference.

Information regarding the Company s compensation plans under which equity securities of the registrant are authorized for issuance as of December 31, 2006 is set forth under the caption Equity Compensation Plan Information in the Proxy Statement filed for the annual meeting of shareholders to be held on May 16, 2007 and is incorporated herein by reference.

Item 13 - Certain Relationships and Related Transactions and Director Independence

The information required by this item is set forth under the captions Certain Relationships and Related Transactions and Governance of the Company in the Proxy Statement filed for the annual meeting of shareholders to be held on May 16, 2007 and is incorporated herein by reference.

Item 14 Principal Accountant Fees and Services

The information required by this item is set forth under the caption Independent Auditors in the Proxy Statement filed for the annual meeting of shareholders to be held on May 16, 2007 and is incorporated herein by reference.

34

Part IV.

Item 15 Exhibits and Financial Statement Schedules

1. Financial Statements

The following financial statements are included by reference in Part II, Item 8 hereof:

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheet
Consolidated Statement of Income
Consolidated Statement of Stockholders Equity
Consolidated Statement of Cash Flows
Notes to Consolidated Financial Statements

2. Financial Statement Schedules

Financial Statement Schedules are omitted because the required information is either not applicable, not required or is shown in the respective financial statements or in the notes thereto.

3. The following Exhibits are filed herewith or incorporated by reference:

EXHIBIT 3.1	Articles of Incorporation filed as Exhibit 3.1 to the Company s Form 10-K for the year ended December 31, 2005 is hereby incorporated by reference
EXHIBIT 3.2	By laws - filed as Exhibit 3.2 to the Company s Form 10-K for the year ended December 31, 2005 is hereby incorporated by reference
EXHIBIT 10.1	Dividend Reinvestment Plan filed as Exhibit 10.1 to the Company s Form 10-K for the year ended December 31, 2004 is hereby incorporated by reference
EXHIBIT 10.2	Stock Incentive Plan - filed as Exhibit 10.2 to the Company s Form 10-K for the year ended December 31, 2004 is hereby incorporated by reference
EXHIBIT 10.3	Stock Option Plan - filed as Exhibit 10.3 to the Company s Form 10-K for the year ended December 31, 2004 is hereby incorporated by reference
EXHIBIT 10.4	Deferred Compensation Plan - filed as Exhibit 10.4 to the Company s Form 10-K for the year ended December 31, 2004 is hereby incorporated by reference
EXHIBIT 21	Subsidiaries
EXHIBIT 13	Annual Report
EXHIBIT 14	Code of Ethics - filed as Exhibit 14 to the Company s Form 10-K for the year ended December 31, 2005 is hereby incorporated by reference
EXHIBIT 31.1	Certification of Chief Executive Officer
EXHIBIT 31.2	Certification of Chief Financial Officer
EXHIBIT 32.1	Section 1350 Certification Chief Executive Officer

EXHIBIT 32.2	Section 1350 Certification	Chief Financial Officer

35

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:

Registrant: FIRST NATIONAL COMMUNITY BANCORP, INC.

/s/ J. David Lombardi
J. David Lombardi, President and
Chief Executive Officer

/s/ William Lance
William Lance, Treasurer
Principal Financial Officer and
Principal Accounting Officer

/s/ Linda D Amario
Linda D Amario
Comptroller

DATE: March 14, 2007

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Directors:

/s/ Michael G. Cestone Michael G. Cestone	March 14, 2007 Date	/s/ Louis A. DeNaples Louis A. DeNaples	March 14, 2007 Date
Michael J. Cestone, Jr.	Date	Joseph J. Gentile	Date

/s/ Joseph Coccia	March 14, 2007		
Joseph Coccia	Date	Joseph O. Haggerty	Date
/s/ William P. Conaboy	March 14, 2007	/s/ J. David Lombardi	March 14, 2007
William P. Conaboy	Date	J. David Lombardi	Date
/s/ Michael T. Conahan	March 14, 2007	/s/ John P. Moses	March 14, 2007
Michael T. Conahan	Date	John P. Moses	Date
/s/ Dominick L. DeNaples	March 14, 2007		
Dominick L. DeNaples	Date	John R. Thomas	Date