FNRN 10-Q 9/30/2008

Section 1: 10-Q (FNCBANCORP 3RD QUARTER 10-Q REPORT)

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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2008

OR

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

For the transition period from _______________ to _______________

Commission File Number 000-30707

FIRST NORTHERN COMMUNITY BANCORP
(Exact name of registrant as specified in its charter)

California	**68-0450397**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

195 N. First Street, Dixon, California	**95620**
(Address of principal executive offices)	(Zip Code)

707-678-3041
(Registrant's telephone number including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or Section 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 ☒ **No** ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined by Rule 12b-2 of the Exchange Act).

Large accelerated filer ☐ **Accelerated filer** ☒ **Non-accelerated filer** ☐ **Smaller reporting company** ☐

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

Yes ☐ **No** ☒

The number of shares of Common Stock outstanding as of November 7, 2008 was 8,607,597.

FIRST NORTHERN COMMUNITY BANCORP

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PART I - FINANCIAL INFORMATION

ITEM 1.

FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	(UNAUDITED) September 30, 2008	December 31, 2007
ASSETS		
Cash and due from banks	$ 27,347	$ 52,090
Federal funds sold	12,595	46,940
Investment securities – available-for-sale	43,452	74,849
Loans, net of allowance for loan losses of $13,438 at September 30, 2008 and $10,876 at December 31, 2007	528,707	497,971
Loans held-for-sale	1,615	1,343
Stock in Federal Home Loan Bank and other equity securities, at cost	2,290	2,199
Premises and equipment, net	9,035	7,872
Other Real Estate Owned	4,725	879
Accrued interest receivable and other assets	27,757	25,752
TOTAL ASSETS	$ 657,523	$ 709,895
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand deposits	$ 161,562	$ 193,258
Interest-bearing transaction deposits	121,395	135,381
Savings and MMDA's	163,632	178,137
Time, under $100,000	53,439	46,411
Time, $100,000 and over	59,194	69,484
Total deposits	559,222	622,671
FHLB Advances and other borrowings	30,577	15,832
Accrued interest payable and other liabilities	5,860	7,417
TOTAL LIABILITIES	595,659	645,920
Stockholders' equity		
Common stock, no par value; 16,000,000 shares authorized; 8,577,689 shares issued and outstanding at September 30, 2008 and 8,169,772 shares issued and outstanding at December 31, 2007	58,631	50,956
Additional paid in capital	977	977
Retained earnings	3,568	12,209
Accumulated other comprehensive loss	(1,312)	(167)
TOTAL STOCKHOLDERS' EQUITY	61,864	63,975
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 657,523	$ 709,895

See notes to unaudited condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Interest and Dividend Income				
Loans	$ 9,062	$ 10,681	$ 26,842	$ 31,435
Federal funds sold	70	384	487	2,236
Due from banks interest bearing accounts	109	116	521	116
Investment securities				
Taxable	282	779	1,122	2,113
Non-taxable	300	335	986	915
Other earning assets	33	26	99	86
Total interest and dividend income	9,856	12,321	30,057	36,901
Interest Expense				
Deposits	1,282	2,930	4,635	8,920
Other borrowings	247	81	394	247
Total interest expense	1,529	3,011	5,029	9,167
Net interest income	8,327	9,310	25,028	27,734
Provision for loan losses	3,638	990	10,060	1,250
Net interest income after provision for loan losses	4,689	8,320	14,968	26,484
Other operating income				
Service charges on deposit accounts	952	903	2,805	2,512
(Losses) gains on other real estate owned	(724)	174	(1,376)	353
Gains on sales of loans held-for-sale	29	6	203	190
Investment and brokerage services income	251	37	635	141
Mortgage brokerage income	3	13	16	90
Loan servicing income	30	66	189	232
Fiduciary activities income	72	65	245	210
ATM fees	61	77	199	216
Signature based transaction fees	153	134	444	377
Gains on sales of available-for-sale securities	29	146	524	146
Other income	188	179	583	539
Total other operating income	1,044	1,800	4,467	5,006
Other operating expenses				
Salaries and employee benefits	3,650	4,373	11,716	13,183
Occupancy and equipment	913	834	2,777	2,731
Data processing	436	424	1,254	1,217
Stationery and supplies	83	119	370	406
Advertising	137	212	503	641
Directors’ fees	53	49	158	149
Other real estate owned expense	41	9	76	27
Other expense	1,021	1,170	3,979	3,909
Total other operating expenses	6,334	7,190	20,833	22,263
(Loss) income before income tax expense (benefit)	(601)	2,930	(1,398)	9,227
(Benefit) provision for income taxes	(1,573)	911	(1,566)	3,133
Net income	$ 972	$ 2,019	$ 168	$ 6,094
Basic income per share	$ 0.11	$ 0.23	$ 0.02	$ 0.69
Diluted income per share	$ 0.11	$ 0.22	$ 0.02	$ 0.67

See notes to unaudited condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(in thousands, except share amounts)

	Common Stock Shares	Common Stock Amounts	Comprehensive Income (Loss)	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2007	8,169,772	$ 50,956		$ 977	$ 12,209	$ (167)	$ 63,975
Cumulative effect of adoption of EITF 06-04					(158)		(158)
Comprehensive income (loss)							
Net income			$ 168		168		168
Other comprehensive income:							
Unrealized holding losses on securities arising during the current period, net of tax effect of $677			(1,016)				
Reclassification adjustment due to gains realized on sales of securities, net of tax effect of $210			(314)				
Directors’ and officers’ retirement plan equity adjustments, net of tax effect of $124			185				
Total other comprehensive loss, net of tax effect of $763			(1,145)			(1,145)	(1,145)
Comprehensive loss			$ (977)				
6% stock dividend	486,542	8,641			(8,641)		
Cash in lieu of fractional shares					(10)		(10)
Stock-based compensation and related tax benefits		393					393
Stock options exercised, net of swapped shares	6,790						
Stock repurchase and retirement	(85,415)	(1,359)					(1,359)
Balance at September 30, 2008	8,577,689	$ 58,631		$ 977	$ 3,568	$ (1,312)	$ 61,864

See notes to unaudited condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	(in thousands)	
	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Operating Activities		
Net Income	$ 168	$ 6,094
Adjustments to reconcile net income to net cash		
provided by operating activities:		
Depreciation and amortization	791	853
Provision for loan losses	10,060	1,250
Stock plan accruals	373	426
Tax benefit for stock options	20	82
Gains on sales of available-for-sale securities	(524)	(146)
Losses (gains) on sales of other real estate owned	1,376	(353)
Gains on sales of loans held-for-sale	(203)	(190)
Proceeds from sales of loans held-for-sale	27,386	33,447
Originations of loans held-for-sale	(27,455)	(30,415)
Increase in accrued interest receivable and other assets	(4,175)	(959)
Decrease in accrued interest payable and other liabilities	(1,557)	(799)
Net cash provided by operating activities	6,260	9,290
Investing Activities		
Net decrease (increase) in investment securities	32,808	(15,000)
Net increase in loans	(46,018)	(33,967)
Net increase in other interest earning assets	(91)	(79)
Purchases of premises and equipment, net	(1,954)	(722)
Net cash used in investing activities	(15,255)	(49,768)
Financing Activities		
Net (decrease) increase in deposits	(63,449)	4,138
Net increase (decrease) in FHLB advances and other borrowings	14,745	(303)
Cash dividends paid	(10)	(13)
Stock options exercised	—	101
Tax benefit for stock options	(20)	(82)
Repurchase of stock	(1,359)	(4,542)
Net cash used in financing activities	(50,093)	(701)
Net decrease in cash and cash equivalents	(59,088)	(41,179)
Cash and cash equivalents at beginning of period	99,030	98,001
Cash and cash equivalents at end of period	$ 39,942	$ 56,822
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 5,260	$ 6,524
Income Taxes	$ 342	$ 4,615
Supplemental disclosures of non-cash investing and financing activities:		
Transfer of loans held-for-sale to loans held-for-investment	—	$ 2,892
Transfer of loans held-for-investment to other real estate owned	$ 6,343	$ 1,352
Stock dividend distributed	$ 8,641	$ 10,851

See notes to unaudited condensed consolidated financial statements.

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of First Northern Community Bancorp (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Articles 9 and 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for any interim period are not necessarily indicative of results expected for the full year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report to stockholders and Form 10-K for the year ended December 31, 2007 as filed with the Securities and Exchange Commission. The preparation of financial statements in conformity with GAAP also requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates. All material intercompany balances and transactions have been eliminated in consolidation.

Recently Issued Accounting Pronouncements:

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard was effective for the Company in the fiscal year beginning January 1, 2008. The adoption of SFAS No. 157 did not have a material impact on the Company's financial position and results of operations. See footnote 8 "Fair Value Measurement" for further information.

In February 2008, the FASB issued Staff Position (FSP) 157-2, Effective Date of FASB Statement No. 157. This FSP delays the effective date of FAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods with those fiscal years. The expected impact of adoption will not be material.

On October 10, 2008, the FASB issued FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active. The FSP clarifies the application of FASB Statement No. 157, Fair Value Measurements, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The FSP is effective immediately, and includes prior period financial statements that have not yet been issued, and therefore the Company is subject to the provision of the FSP effective September 30, 2008. The implementation of FSP FAS 157-3 did not affect the Company's fair value measurement as of September 30, 2008.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." Under this Standard, the Company may elect to report many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis with changes in value reported in earnings each reporting period. This election is irrevocable. SFAS No. 159 provides an opportunity to mitigate volatility in reported earnings that is caused by measuring hedged assets and liabilities that were previously required to use a different accounting method than the related hedging contracts when the complex provisions of SFAS No. 133 hedge accounting are not met. SFAS No. 159 was effective for the Company in the fiscal year beginning January 1, 2008. The Company did not choose to report additional assets and liabilities at fair value other than those required to be accounted at fair value prior to the adoption of SFAS No. 159. The adoption of SFAS No. 159 did not have a material impact on the Company's financial position and results of operations.

In September 2006, the Emerging Issues Task Force issued EITF Issue No. 06-4, “Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements.” This consensus concludes that for a split-dollar life insurance arrangement within the scope of this Issue, an employer should recognize a liability for future benefits in accordance with SFAS No. 106 (if, in substance, a postretirement benefit plan exits) or APB Opinion No. 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. The consensus was effective for the Company in the fiscal year beginning January 1, 2008. The adoption of EITF 06-4 did not have a material impact on the Company’s financial position and results of operations.

In November 2007, EITF Issue No. 07-6, *Accounting for the Sale of Real Estate Subject to the Requirements of FASB Statement No. 66, Accounting for Sales of Real Estate, When the Agreement Includes a Buy-Sell Clause*, was issued. The Task Force reached a consensus that a buy-sell clause in a sale of real estate that otherwise qualifies for partial sale accounting does not by itself constitute a form of continuing involvement that would preclude partial sale accounting under SFAS No. 66, *Accounting for Sales of Real Estate*. However, continuing involvement could be present if the buy-sell clause in conjunction with other implicit and explicit terms of the arrangement indicate that the seller has an obligation to repurchase the property, the terms of the transaction allow the buyer to compel the seller to repurchase the property, or the seller can compel the buyer to sell its interest in the property back to the seller. The consensus is effective for fiscal years beginning after December 15, 2007. The consensus applies to new assessments made under SFAS No. 66 after January 1, 2008. The adoption of EITF Issue No. 07-6 did not have a material impact on the Company’s financial position and results of operations.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements*, which will require non-controlling interests (previously referred to as minority interests) to be treated as a separate component of equity, not as a liability or other item outside of permanent equity. SFAS No. 160 applies to the accounting for non-controlling interests and transactions with non-controlling interest holders in consolidated financial statements. SFAS No. 160 is effective for periods beginning on or after December 15, 2008. Earlier application is prohibited. SFAS No. 160 will be applied prospectively to all non-controlling interests, including any that arose before the effective date except that comparative period information must be recast to classify non-controlling interests in equity, attribute net income and other comprehensive income to non-controlling interests, and provide other disclosures required by SFAS No. 160. The Company does not expect the adoption of SFAS No. 160 to have any material impact on the consolidated financial statements or results of operations of the Company.

Reclassifications

Certain reclassifications have been made to prior period balances in order to conform to the current year presentation.

2. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is maintained at levels considered adequate by management to provide for loan losses that can be reasonably anticipated. The allowance is based on management's assessment of various factors affecting the loan portfolio, including problem loans, economic conditions and loan loss experience, and an overall evaluation of the quality of the underlying collateral. See discussion on page 30 "Asset Quality" regarding impaired/problem loans.

Changes in the allowance for loan losses during the nine-month periods ended September 30, 2008 and 2007 and for the year ended December 31, 2007 were as follows:

(in thousands)

	Nine months ended September 30, 2008	Nine months ended September 30, 2007	Year ended December 31, 2007
Balance, beginning of period	$ 10,876	$ 8,361	$ 8,361
Provision for loan losses	10,060	1,250	4,795
Loan charge-offs	(8,009)	(970)	(3,060)
Loan recoveries	511	512	780
Balance, end of period	$ 13,438	$ 9,153	$ 10,876

3. MORTGAGE OPERATIONS

Transfers and servicing of financial assets and extinguishments of liabilities are accounted for and reported based on consistent application of a financial-components approach that focuses on control. Transfers of financial assets that are sales are distinguished from transfers that are secured borrowings. Retained interests (mortgage servicing rights) in loans sold are measured by allocating the previous carrying amount of the transferred assets between the loans sold and retained interests, if any, based on their relative fair value at the date of transfer. Fair values are estimated using discounted cash flows based on a current market interest rate.

The Company recognizes a gain and a related asset for the fair value of the rights to service loans for others when loans are sold. The Company sold substantially its entire conforming long-term residential mortgage loans originated during the nine months ended September 30, 2008 for cash proceeds equal to the fair value of the loans.

The recorded value of mortgage servicing rights is included in other assets, and is amortized in proportion to, and over the period of, estimated net servicing revenues. The Company assesses capitalized mortgage servicing rights for impairment based upon the fair value of those rights at each reporting date. For purposes of measuring impairment, the rights are stratified based upon the product type, term and interest rates. Fair value is determined by discounting estimated net future cash flows from mortgage servicing activities using discount rates that approximate current market rates and estimated prepayment rates, among other assumptions. The amount of impairment recognized, if any, is the amount by which the capitalized mortgage servicing rights for a stratum exceeds their fair value. Impairment, if any, is recognized through a valuation allowance for each individual stratum.

At September 30, 2008, the Company had $1,615,000 of mortgage loans held-for-sale. At September 30, 2008 and December 31, 2007, the Company serviced real estate mortgage loans for others of $118,673,000 and $116,310,000, respectively.

The following table summarizes the Company’s mortgage servicing rights assets as of September 30, 2008 and December 31, 2007.

	(in thousands)			
	December 31, 2007	Additions	Reductions	September 30, 2008
Mortgage servicing rights	$ 956	$ 135	$ 134	$ 957
Valuation allowance	—	(34)	—	(34)
Mortgage servicing rights, net of valuation allowance	$ 956	$ 101	$ 134	$ 923

There was no valuation allowance recorded for mortgage servicing rights as of December 31, 2007.

4. OUTSTANDING SHARES AND EARNINGS PER SHARE

On January 24, 2008, the Board of Directors of the Company declared a 6% stock dividend paid March 31, 2008 to stockholders of record as of February 29, 2008.

Earnings per share amounts have been adjusted retroactively to reflect the effects of the stock dividend.

Earnings Per Share (EPS)

Basic EPS includes no dilution and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS includes all common stock equivalents ("in-the-money" stock options, unvested restricted stock, stock units, warrants and rights, convertible bonds and preferred stock), which reflects the potential dilution of securities that could share in the earnings of an entity.

The following table presents a reconciliation of basic and diluted EPS for the three-month and nine-month periods ended September 30, 2008 and 2007.

	(in thousands, except share and earnings per share amounts)			
	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Basic earnings per share:				
Net income	$ 972	$ 2,019	$ 168	$ 6,094
Weighted average common shares outstanding	8,577,689	8,793,412	8,619,059	8,860,922
Basic EPS	$ 0.11	$ 0.23	$ 0.02	$ 0.69
Diluted earnings per share:				
Net income	$ 972	$ 2,019	$ 168	$ 6,094
Weighted average common shares outstanding	8,577,689	8,793,412	8,619,059	8,860,922
Effect of dilutive options	80,088	219,638	141,189	260,179
Adjusted weighted average common shares outstanding	8,657,777	9,013,050	8,760,248	9,121,101
Diluted EPS	$ 0.11	$ 0.22	$ 0.02	$ 0.67

Options not included in the computation of diluted earnings per share because they would have had an anti-dilutive effect amounted to 211,384 shares and 112,171 shares for the three months ended September 30, 2008 and 2007, respectively.

Options not included in the computation of diluted earnings per share because they would have had an anti-dilutive effect amounted to 118,911 shares and 111,719 shares for the nine months ended September 30, 2008 and 2007, respectively.

5. STOCK PLANS

The following table presents the activity related to stock options and restricted stock for the three months ended September 30, 2008.

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (in years)
Options outstanding at Beginning of Period	564,145	$ 10.55		
Granted	—	—		
Cancelled / Forfeited	—	—		
Exercised	—	—	—	
Options outstanding at End of Period	564,145	$ 10.55	$ 1,067,210	5.10
Exercisable (vested) at End of Period	437,669	$ 9.55	$ 774,210	4.28

The following table presents the activity related to stock options and restricted stock for the nine months ended September 30, 2008.

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term
Options outstanding at Beginning of Period	542,221	$ 10.78		
Granted	31,464	$ 4.66		
Cancelled / Forfeited	(297)	$ 21.83		
Exercised	(9,243)	$ 3.76	$ 97,143	
Options outstanding at End of Period	564,145	$ 10.55	$ 1,067,210	5.10
Exercisable (vested) at End of Period	437,669	$ 9.55	$ 774,210	4.28

The weighted average fair value of options and restricted stock granted during the nine-month period ended September 30, 2008 was $12.11 per share.

As of September 30, 2008, there was $665,696 of total unrecognized compensation cost related to non-vested stock options and restricted stock. This cost is expected to be recognized over a weighted average period of approximately 1.65 years.

There was $307,998 of recognized compensation cost related to non-vested stock options and restricted stock for the nine-month period ended September 30, 2008.

A summary of the weighted average assumptions used in valuing stock options during the three months and nine months ended September 30, 2008 is presented below:

	Three Months Ended September 30, 2008*	Nine Months Ended September 30, 2008
Risk Free Interest Rate	—	2.76%
Expected Dividend Yield	—	0.0%
Expected Life in Years	—	5.00
Expected Price Volatility	—	27.92%

* There were no stock options or restricted stock granted during the three-month period ended September 30, 2008.

The Company has a 2000 Employee Stock Purchase Plan (“ESPP”). Under the plan, the Company is authorized to issue to eligible employees shares of common stock. There are 280,900 (adjusted for the 2008 stock dividend) shares authorized under the ESPP. The ESPP will terminate February 27, 2017. The ESPP is implemented by participation periods of not more than twenty-seven months each. The Board of Directors determines the commencement date and duration of each participation period. The Board of Directors approved the current participation period of November 24, 2007 to November 23, 2008. An eligible employee is one who has been continually employed for at least ninety (90) days prior to commencement of a participation period. Under the terms of the ESPP, employees can choose to have up to 10 percent of their compensation withheld to purchase the Company’s common stock each participation period. The purchase price of the stock is 85 percent of the lower of the fair market value on the last trading day before the date of participation or the fair market value on the last trading day during the participation period.

As of September 30, 2008, there was $21,750 of unrecognized compensation cost related to ESPP grants. This cost is expected to be recognized over a weighted average period of approximately 0.25 years.

There was $65,250 of recognized compensation cost related to ESPP grants for the nine-month period ended September 30, 2008.

The weighted average fair value at grant date during the nine-month period ended September 30, 2008 was $4.66.

A summary of the weighted average assumptions used in valuing ESPP grants during the three months and nine months ended September 30, 2008 is presented below:

	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Risk Free Interest Rate	3.28%	3.28%
Expected Dividend Yield	0.00%	0.00%
Expected Life in Years	1.00	1.00
Expected Price Volatility	31.90%	31.90%

6. EXECUTIVE SALARY CONTINUATION PLAN

The Company has an unfunded non-contributory defined benefit pension plan provided in two forms to a select group of highly compensated employees.

Four executives have Salary Continuation Plans providing retirement benefits between $50,000 and $100,000 based on responsibilities and tenure at the Company. The retirement benefits are paid for 10 years following retirement at age 65. Reduced retirement benefits are available after age 55 and 10 years of service.

The Supplemental Executive Retirement Plan is intended to provide a fixed annual benefit for 10 years plus 6 months for each full year of service over 10 years (limited to 180 months total) subsequent to retirement at age 65. Reduced benefits are payable as early as age 55 if the participant has at least 10 years of service. Two employees currently have Supplemental Executive Retirement Plan agreements. The agreements provide a target benefit of 2% (2.5% for the CEO) times years of service multiplied by final average compensation. Final average compensation is defined as three-year average salary plus seven-year average bonus. The target benefit is reduced by benefits from social security and the Company's profit sharing plan. The maximum target benefit is 50% of final average compensation.

	Three months ended September,	
	2008	2007
Components of Net Periodic Benefit Cost		
Service Cost	$ 33,232	$ 30,383
Interest Cost	29,684	28,784
Amortization of prior service cost	21,821	21,821
Net periodic benefit cost	$ 84,737	$ 80,988

The Company estimates that the annual net periodic benefit cost will be $336,855 for the year ended December 31, 2008. This compares to an annual net periodic benefit cost of $323,948 for the year ended December 31, 2007.

Estimated Contributions for Fiscal 2008

For unfunded plans, contributions to the Executive Salary Continuation Plan are the benefit payments made to participants. At December 31, 2007 the Company expected to make benefit payments of $54,144 in connection with the Executive Salary Continuation Plan during fiscal 2008.

7. DIRECTORS' RETIREMENT PLAN

The Company has an unfunded non-contributory defined benefit pension plan ("Directors’ Retirement Plan"). The Directors’ Retirement Plan provides a retirement benefit equal to $1,000 per year of service as a director up to a maximum benefit of $15,000. The retirement benefit is payable monthly for 10 years following retirement at age 65. Reduced retirement benefits are available after age 55 and 10 years of service.

	Three months ended September 30,	
	2008	2007
Components of Net Periodic Benefit Cost		
Service Cost	$ 14,424	$ 14,366
Interest Cost	7,731	6,736
Amortization of net loss	—	121
Net periodic benefit cost	$ 22,155	$ 21,223

The Company estimates that the annual net periodic benefit cost will be $88,622 for the year ended December 31, 2008. This compares to annual net periodic benefit costs of $84,890 for the year ended December 31, 2007.

Estimated Contributions for Fiscal 2008

For unfunded plans, contributions to the Directors’ Retirement Plan are the benefit payments made to participants. At December 31, 2007 the Company expected to make cash contributions of $15,000 to the Directors’ Retirement Plan during fiscal 2008.

8. FAIR VALUE MEASUREMENT

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available-for-sale, trading securities and derivatives are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a non-recurring basis, such as loans held-for-sale, loans held-for-investment and certain other assets. These non-recurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Fair Value Hierarchy

Under SFAS No. 157, the Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

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

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques and include management judgment and estimation which may be significant.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Investment Securities Available-for-Sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, if available. If quoted market prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Loans Held-for-Sale

Loans held-for-sale are carried at the lower of cost or market value. The fair value of loans held-for-sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Company classifies loans subjected to non-recurring fair value adjustments as Level 2.

Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, the Company measures impairment in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan" (SFAS No. 114). The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At September 30, 2008, substantially all of the total impaired loans were evaluated based on the fair value of the underlying collateral securing the loan. In accordance with SFAS No. 157, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as non-recurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as non-recurring Level 3.

Loan Servicing Rights

Loan servicing rights are subject to impairment testing. A valuation model, which utilizes a discounted cash flow analysis using interest rates and prepayment speed assumptions currently quoted for comparable instruments and a discount rate determined by management, is used in the completion of impairment testing. If the valuation model reflects a value less than the carrying value, loan servicing rights are adjusted to fair value through a valuation allowance as determined by the model. As such, the Company classifies loan servicing rights subjected to non-recurring fair value adjustments as Level 3.

Assets Recorded at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis as of September 30, 2008 by SFAS No. 157 valuation hierarchy.

(in thousands)

September 30, 2008	Total	Level 1	Level 2	Level 3
Investment securities available-for-sale	$ 43,452	$ 2,272	$ 41,180	$ —
Total investments at fair value	$ 43,452	$ 2,272	41,180	$ —

Assets Recorded at Fair Value on a Non-recurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a non-recurring basis in accordance with U.S. GAAP. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period.

Assets measured at fair value on a non-recurring basis are included in the table below by level within the fair value hierarchy as of September 30, 2008.

(in thousands)

September 30, 2008	Total	Level 1	Level 2	Level 3
Impaired loans	$ 11,561	$ —	$ 8,097	$ 3,464
Loan servicing rights	923	—	—	923
Total impaired loans and loan servicing rights at fair value	$ 12,484	$ —	$ 8,097	$ 4,387

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and subject to the "safe harbor" created by those sections. Forward-looking statements include the information concerning possible or assumed future results of operations of the Company set forth under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Report. Forward-looking statements also include statements in which words such as "expect," "anticipate," "intend," "plan," "believe," estimate," "consider" or similar expressions are used, and include assumptions concerning the Company's operations, future results and prospects. These forward-looking statements are based upon current expectations and are subject to risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from those set forth in or implied by the forward-looking statements and related assumptions. Some factors that may cause actual results to differ from the forward-looking statements include the following: (i) the effect of changing regional and national economic conditions, including the continuing fiscal challenges for the State of California and the financial crisis affecting the banking system and financial markets; (ii) uncertainty regarding the economic outlook resulting from the continuing hostilities in Iraq and the war on terrorism, as well as actions taken or to be taken by the United States or other governments as a result of further acts or threats of terrorism; (iii) significant changes in interest rates and prepayment speeds; (iv) credit risks of commercial, agricultural, real estate, consumer and other lending activities; (v) adverse effects of current and future federal and state banking or other laws and regulations or governmental fiscal or monetary policies including legislative responses to the financial crisis affecting the banking system and financial markets; (vi) competition in the banking industry; (vii) changes in demand for loan products and other bank products; (viii) changes in accounting standards; and (ix) other external developments which could materially impact the Company's operational and financial performance. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances arising after the date on which they are made. For additional information concerning risks and uncertainties related to the Company and its operations, please refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2007 and Item 1A. of Part II of this Report.

The following is a discussion and analysis of the significant changes in the Company's Unaudited Condensed Consolidated Balance Sheets and of the significant changes in income and expenses reported in the Company's Unaudited Condensed Consolidated Statements of Income and Stockholders' Equity and Comprehensive Income as of and for the three-month and nine-month periods ended September 30, 2008 and 2007 and should be read in conjunction with the Company's consolidated 2007 financial statements and the notes thereto contained in the Company's Annual Report to Stockholders and Form 10-K for the year ended December 31, 2007, along with other financial information included in this Report.

INTRODUCTION

This overview of Management's Discussion and Analysis highlights selected information in this Report and may not contain all of the information that is important to you. For a more complete understanding of trends, events, commitments, uncertainties, liquidity, capital resources and critical accounting estimates, you should carefully read this entire Report, together with our Consolidated Financial Statements and the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2007.

Our subsidiary, First Northern Bank of Dixon (the "Bank"), is a California state-chartered bank that derives most of its revenues from lending and deposit taking in the Sacramento Valley region of Northern California. Interest rates, business conditions and customer confidence all affect our ability to generate revenues. In addition, the regulatory environment and competition can challenge our ability to generate those revenues.

Significant results and developments during the third quarter and year-to-date 2008 include:

· Net income of $0.17 million for the nine months ended September 30, 2008, down 97.2% from the $6.09 million earned in the same fiscal period last year.

· Diluted income per share for the nine months ended September 30, 2008 was $0.02, down 97.0% from the diluted income per share of $0.67 reported in the same period last year (per share data has been adjusted for stock dividends).

· Net interest income decreased in the nine months ended September 30, 2008 by $2.7 million, or 9.8%, to $25.0 million from $27.7 million in the same period last year. The decrease in net interest income was primarily attributable to decreases in the average volume of interest-earning assets combined with a decrease in interest yields, which was partially offset by decreases in interest-bearing deposits combined with a decrease in interest costs. Net interest margin decreased from 5.86% for the nine-month period ending September 30, 2007 to 5.43% for the same period ending September 30, 2008.

· Provision for loan losses of $10.1 million for the nine-month period ended September 30, 2008 compared to a provision for loan losses of $1.3 million for the same period in 2007. The increase in the provision for loan losses during the nine-month period in 2008 was primarily due to continued deterioration in collateral values and repayment abilities of some of the Bank's customers centered in the Company's residential construction and construction related commercial segment of the loan portfolio affected by the repercussions of the country's housing market crisis.

· Total assets at September 30, 2008 were $657.5 million, a decrease of $32.8 million, or 4.8%, from levels at September 30, 2007.

· Total net loans at September 30, 2008 (including loans held-for-sale) increased $19.9 million, or 3.9%, to $530.3 million compared to September 30, 2007.

· Total investment securities at September 30, 2008 decreased $45.9 million, or 51.4%, to $43.5 million compared to September 30, 2007.

· Total deposits of $559.2 million at September 30, 2008, represented a decrease of $48.6 million, or 8.0%, compared to September 30, 2007. The primary reason for the decrease in deposits was due to the ongoing economic impact of the slowing real estate activity in the communities served by the Company. Since the peak in the real estate market, deposits in the real estate related business accounts show consistent reduction in average and end of period balances while the number of customers has remained stable.

· Net income for the quarter of $0.97 million, down 52.0% from the $2.02 million earned in the third quarter of 2007.

· Diluted income per share for the quarter of $0.11 compared to $0.22 income per diluted share earned a year ago.

SUMMARY

The Company recorded net income of $972,000 for the three-month period ended September 30, 2008, representing a decrease of $1,047,000 or 51.9% from net income of $2,019,000 for the same period in 2007.

The Company recorded net income of $168,000 for the nine-month period ended September 30, 2008, representing a decrease of $5,926,000 or 97.2% from net income of $6,094,000 for the same period in 2007.

The following table presents a summary of the results for the three-month and nine-month periods ended September 30, 2008 and 2007.

	(in thousands, except per share and percentage amounts)			
	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
For the Period:				
Net Income	$ 972	$ 2,019	$ 168	$ 6,094
Basic Earnings Per Share*	$ 0.11	$ 0.23	$ 0.02	$ 0.69
Diluted Earnings Per Share*	$ 0.11	$ 0.22	$ 0.02	$ 0.67
At Period End:				
Total Assets			$ 657,523	$ 690,333
Total Loans, Net (including loans held-for-sale)			$ 530,322	$ 510,360
Total Investment Securities			$ 43,452	$ 89,377
Total Deposits			$ 559,222	$ 607,820
Loan-To-Deposit Ratio			94.8%	84.0%%

*Adjusted for stock dividends

Distribution of Average Statements of Condition and Analysis of Net Interest Income
(in thousands, except percentage amounts)

	Three months ended September 30, 2008			Three months ended September 30, 2007		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets						
Interest-earning assets:						
Loans (1)	$ 530,220	$ 9,062	6.78%	$ 501,560	$ 10,681	8.45%
Federal funds sold	15,044	70	1.85%	29,187	384	5.22%
Interest bearing due from banks	10,261	109	4.21%	7,532	116	6.11%
Investment securities, taxable	23,175	282	4.83%	61,819	779	5.00%
Investment securities, non-taxable (2)	28,248	300	4.21%	31,061	335	4.28%
Other interest earning assets	2,271	33	5.77%	2,159	26	4.78%
Total interest-earning assets	609,219	9,856	6.42%	633,318	12,321	7.72%
Non-interest-earning assets:						
Cash and due from banks	22,521			28,348		
Premises and equipment, net	8,096			8,068		
Other real estate owned	5,630			56		
Accrued interest receivable and other assets	25,992			22,540		
Total average assets	671,458			693,330		
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
Interest-bearing transaction deposits	128,313	208	0.64%	135,061	772	2.27%
Savings and MMDA's	171,971	422	0.97%	174,348	1,003	2.28%
Time, under $100,000	45,811	214	1.85%	45,394	384	3.36%
Time, $100,000 and over	61,658	438	2.82%	70,468	772	4.35%
FHLB advances and other borrowings	28,271	247	3.47%	10,626	80	2.99%
Total interest-bearing liabilities	436,024	1,529	1.39%	435,897	3,011	2.74%
Non-interest-bearing liabilities:						
Non-interest-bearing demand deposits	167,339			186,703		
Accrued interest payable and other liabilities	6,178			7,591		
Total liabilities	609,541			630,191		
Total stockholders' equity	61,917			63,139		
Total average liabilities and stockholders' equity	$ 671,458			$ 693,330		
Net interest income and net interest margin (3)		$ 8,327	5.42%		$ 9,310	5.83%

1. Average balances for loans include loans held-for-sale and non-accrual loans and are net of the allowance for loan losses, but non-accrued interest thereon is excluded. Loan interest income includes loan fees of approximately $409 and $521 for the three months ended September 30, 2008 and 2007, respetively.
2. Interest income and yields on tax-exempt securities are not presented on a taxable equivalent basis.
3. Net interest margin is computed by dividing net interest income by total average interest-earning assets.

Distribution of Average Statements of Condition and Analysis of Net Interest Income
(in thousands, except percentage amounts)

	Nine months ended September 30, 2008			Nine months ended September 30, 2007		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets						
Interest-earning assets:						
Loans (1)	$ 507,804	$ 26,842	7.04%	$ 485,664	$ 31,435	8.65%
Federal funds sold	25,996	487	2.50%	57,295	2,236	5.22%
Interest bearing due from banks	16,524	521	4.20%	2,538	116	6.11%
Investment securities, taxable	30,602	1,122	4.88%	56,928	2,113	4.96%
Investment securities, non-taxable (2)	31,398	986	4.18%	28,320	915	4.32%
Other interest earning assets	2,237	99	5.90%	2,133	86	5.39%
Total interest-earning assets	614,561	30,057	6.52%	632,878	36,901	7.80%
Non-interest-earning assets:						
Cash and due from banks	23,501			26,639		
Premises and equipment, net	8,012			8,174		
Other real estate owned	3,368			891		
Accrued interest receivable and other assets	25,293			22,575		
Total average assets	674,735			691,157		
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
Interest-bearing transaction deposits	130,451	758	0.77%	129,708	2,286	2.36%
Savings and MMDA's	174,921	1,419	1.08%	180,286	3,225	2.39%
Time, under $100,000	44,569	798	2.39%	46,270	1,148	3.32%
Time, $100,000 and over	66,628	1,660	3.32%	70,936	2,261	4.26%
FHLB advances and other borrowings	15,964	394	3.29%	10,518	247	3.14%
Total interest-bearing liabilities	432,533	5,029	1.55%	437,718	9,167	2.80%
Non-interest-bearing liabilities:						
Non-interest-bearing demand deposits	172,669			183,662		
Accrued interest payable and other liabilities	6,080			7,106		
Total liabilities	611,282			628,486		
Total stockholders' equity	63,453			62,671		
Total average liabilities and stockholders' equity	$ 674,735			$ 691,157		
Net interest income and net interest margin (3)		$ 25,028	5.43%		$ 27,734	5.86%

1. Average balances for loans include loans held-for-sale and non-accrual loans and are net of the allowance for loan losses, but non-accrued interest thereon is excluded. Loan interest income includes loan fees of approximately $1,503 and $1,767 for the nine months ended September 30, 2008 and 2007, respectively.
2. Interest income and yields on tax-exempt securities are not presented on a taxable equivalent basis.
3. Net interest margin is computed by dividing net interest income by total average interest-earning assets.

CHANGES IN FINANCIAL CONDITION

The assets of the Company set forth in the Unaudited Condensed Consolidated Balance Sheets reflect a $24,743,000 decrease in cash and due from banks, a $34,345,000 decrease in Federal funds sold, a $31,397,000 decrease in investment securities available-for-sale, a $30,736,000 increase in net loans held-for-investment, a $272,000 increase in loans held-for-sale, a $3,846,000 increase in other real estate owned and a $2,005,000 increase in accrued interest receivable and other assets from December 31, 2007 to September 30, 2008. The decrease in cash and due from banks was substantially the result of a decrease in interest bearing due from banks accounts combined with a decrease in items in process of collection. The decrease in Federal funds sold was largely due to an increase in loans held-for-investment, loans held-for-sale, accrued interest receivable and other assets and a decrease in deposits, which was partially offset by decreases in cash and due from banks and investment securities available-for-sale. The decrease in investment securities available-for-sale was largely due to sales, maturities and calls of agency investment securities, taxable and tax exempt municipal investment securities and mortgage-backed investment securities. Management evaluated the unrealized loss associated with the investment securities available-for-sale and no decline was considered “other than temporary” at September 30, 2008. Due to the fact the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired. The increase in net loans held-for-investment was due to increases in the following loan categories: commercial; real estate; agricultural; equipment; and home equity lines of credit, which were partially offset by decreases in real estate commercial and construction; real estate small business administration; and equipment leases. These fluctuations were due to changes in the demand for loan products by the Company’s borrowers and transfers of loans held-for-investment to OREO. The increase in loans held-for-sale was in real estate loans and was due, for the most part, to an increase in the origination of loans. The Company originated approximately $27,455,000 in residential mortgage loans during the first nine months of 2008, which was offset by approximately $27,386,000 in loan sales during this period. The increase in other real estate owned was due to the transfer of real estate loans to OREO from loans held-for-investment. The increase in accrued interest receivable and other assets was mainly due to increases in the cash surrender value of bank owned life insurance, unamortized costs and income taxes receivable, which were partially offset by decreases in loan and securities interest receivables.

The liabilities of the Company set forth in the Unaudited Condensed Consolidated Balance Sheets reflect a decrease in total deposits of $63,449,000 at September 30, 2008 compared to December 31, 2007. The decrease in deposits was due to lower demand deposits, interest-bearing transaction deposits, time deposits, savings and money market deposits. The primary reason for the decrease in deposits was due to the ongoing economic impact of the slowing real estate activity in the communities served by the Company. Since the peak in the real estate market, deposits in the real estate related business accounts show consistent reduction in average and end of period balances while the number of customers has remained stable. Federal Home Loan Bank advances (“FHLB advances”) and other borrowings increased $14,745,000 for the nine months ended September 30, 2008 compared to the year ended December 31, 2007, due to an increase in FHLB advances, which was partially offset by decreases in Federal funds purchased. Other liabilities decreased $1,557,000 from December 31, 2007 to September 30, 2008. The decrease in other liabilities was due to decreases in accrued profit sharing expense, accrued off-balance sheet loan losses expense and accrued interest expense, which was partially offset by increases in accrued FDIC assessment expense, accrued retirement expense, accrued deferred compensation expense and accrued reserve for operational losses expense.

CHANGES IN RESULTS OF OPERATIONS

Interest Income

The Federal Open Market Committee decreased the Federal Funds rate 275 basis points during the twelve-month period ended September 30, 2008.

Interest income on loans for the nine-month period ended September 30, 2008 was down 14.6% from the same period in 2007, decreasing from $31,435,000 to $26,842,000 and was down 15.2% for the three-month period ended September 30, 2008 over the same period in 2007, from $10,681,000 to $9,062,000. The decrease in interest income on loans for the nine-month period ended as compared to the same period a year ago was primarily due to a 161 basis point decrease in loan yields, which was partially offset by an increase in average loans. The decrease for the three-month period ended September 30, 2008 as compared to the same period a year ago was primarily due to a 167 basis point decrease in loan yields, which was partially offset by an increase in average loans.

Interest income on investment securities available-for-sale for the nine-month period ended September 30, 2008 was down 30.4% from the same period in 2007, decreasing from $3,028,000 to $2,108,000 and was down 47.8% for the three-month period ended September 30, 2008 over the same period in 2007, from $1,114,000 to $582,000. The decrease in interest income on investment securities for the nine-month period ended as compared to the same period a year ago was primarily due to a decrease in average investment securities combined with a 20 basis point decrease in investment securities yields. This decrease for the three-month period ended September 30, 2008 as compared to the same period a year ago was primarily due to a decrease in average investment securities combined with a 27 basis point decrease in investment securities yields.

Interest income on Federal Funds sold for the nine-month period ended September 30, 2008 was down 78.2% from the same period in 2007, decreasing from $2,236,000 to $487,000 and was down 81.8% for the three-month period ended September 30, 2008 over the same period in 2007, from $384,000 to $70,000. The decrease in interest income on Federal Funds for the nine-month period ended as compared to the same period a year ago was primarily due to a decrease in average Federal Funds sold combined with a 272 basis point decrease in Federal Funds yields. The decrease for the three-month period ended September 30, 2008 as compared to the same period a year ago was primarily due to a decrease in average Federal Funds sold combined with a 337 basis point decrease in Federal Funds yields.

Interest income on other interest-earning assets for the nine-month period ended September 30, 2008 was up 15.1% from the same period in 2007, increasing from $86,000 to $99,000 and was up 26.9% for the three-month period ended September 30, 2008 over the same period in 2007. The increase in interest income on other interest-earning assets for the nine-month period ended September 30, 2008 as compared to the same period a year ago was primarily due to an increase in average other interest earning assets combined with a 50 basis point increase in other earning asset yields. The increase in interest income on other interest-earning assets for the three-month period ended September 30, 2008 as compared to the same period a year ago was primarily due to an increase in average other interest-earning assets combined with an 99 basis point increase in other earning asset yields.

Interest income on interest-bearing due from banks for the nine-month period ended September 30, 2008 was up 349.1% from the same period in 2007, increasing from $116,000 to $521,000 and was down 6.0% for the three-month period ended September 30, 2008 over the same period in 2007, from $116,000 to $109,000. The increase in interest income on interest-bearing due from banks for the nine-month period ended September 30, 2008 as compared to the same period a year ago was primarily due to an increase in average interest-bearing due from banks, which was partially offset by a 191 basis point decrease in interest yields. The decrease in interest income on interest-bearing due from banks for the three-month period ended September 30, 2008 as compared to the same period a year ago was due to a 190 basis point decrease in interest yields, which was partially offset by an increase in average interest-bearing due from banks.

Interest Expense

The decrease in general market interest rates decreased the Company’s cost of funds in the first nine months of 2008 compared to the same period a year ago.

Interest expense on deposits and other borrowings for the nine-month period ended September 30, 2008 was down 45.1% from the same period in 2007, decreasing from $9,167,000 to $5,029,000, and was down 49.2% for the three-month period ended September 30, 2008 over the same period in 2007 from $3,011,000 to $1,529,000. The decrease in interest expense during the nine-month period ended September 30, 2008 was primarily due to a 125 basis point decrease in the Company’s average cost of funds combined with a decrease in average interest-bearing liabilities. The decrease in interest expense during the three-month period ended September 30, 2008 was primarily due to a 135 basis point increase in the Company’s average cost of funds, which was partially offset by an increase in average interest-bearing liabilities.

Provision for Loan Losses

There was a provision for loan losses of $10,060,000 for the nine-month period ended September 30, 2008 compared to a provision for loan losses of $1,250,000 for the same period in 2007. The allowance for loan losses was approximately $13,438,000, or 2.48% of total loans, at September 30, 2008 compared to $10,876,000, or 2.14% of total loans, at December 31, 2007. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable loan losses inherent in the loan portfolio.

There was a provision for loan losses of $3,638,000 for the three-month period ended September 30, 2008 compared to a $990,000 provision for the same period in 2007.

The increase in the provision for loan losses during the three-month and nine-month periods in 2008 were primarily due to continued deterioration in collateral values and repayment abilities of some of the Bank's customers centered in the Company's residential construction and construction-related commercial segment of the loan portfolio affected by the repercussions of the country's housing market crisis.

Provision for Unfunded Lending Commitment Losses

There was a recovery of provision for unfunded lending commitment losses of $108,000 for the nine-month period ended September 30, 2008 compared to a provision of $110,000 for the same period in 2007. The recovery of provision for unfunded lending commitment losses was due to a decrease in unfunded lending commitments.

There was a recovery of provision for unfunded lending commitment losses of $104,000 for the three-month period ended September 30, 2008 compared to a provision of $100,000 for the same period in 2007.

The provision for unfunded lending commitment losses is included in non-interest expense.

Other Operating Income

Other operating income was down 10.8% for the nine-month period ended September 30, 2008 from the same period in 2007 decreasing from $5,006,000 to $4,467,000.

This decrease was primarily due to decreases in gains (losses) on other real estate owned, mortgage brokerage income and loan servicing income, which was partially offset by increases in investment brokerage services income, gains on available-for-sale securities, service charges on deposit accounts, signature based transaction fees, fiduciary services income and other miscellaneous income. The decrease in gains (losses) on other real estate owned was due to write downs of other real estate properties. The decrease in mortgage brokerage income was due to a decrease in the demand for those services. The decrease in loan servicing income was due to a decrease in the booked income for the Company's mortgage servicing asset. The increase in investment brokerage services income was due to an increase in the demand for those services. The increase in gains (losses) on available-for-sale securities was due to the sale of securities during the first quarter of 2008. The increase in service charges on deposit accounts was due to an increase in overdraft fees. The increase in signature based transaction fees was due to an increase in signature based transactions. The increase in fiduciary services income was due to an increase in the demand for those services. The increase in other miscellaneous income was due to increases in standby letters of credit fees and deferred compensation insurance earnings.

Other operating income was down 42.0% for the three-month period ended September 30, 2008 from the same period in 2007, decreasing from $1,800,000 to $1,044,000.

This decrease was primarily due to decreases in gains (losses) on other real estate owned, gains (losses) on available-for-sale securities and loan servicing income, which was partially offset by increases in investment brokerage services income and service charges on deposit accounts. The decrease in gains (losses) on other real estate owned was due to write downs of other real estate properties. The decrease in gains (losses) on available-for-sale securities was due to lower sales of securities as compared to the sale of securities during the third quarter of 2007. The decrease in loan servicing income was due to a decrease in the booked income for the Company's mortgage servicing asset. The increase in investment brokerage services income was due to an increase in the demand for those services. The increase in service charges on deposit accounts was due to an increase in overdraft fees.

Other Operating Expenses

Total other operating expenses was down 6.4% for the nine-month period ended September 30, 2008 from the same period in 2007, decreasing from $22,263,000 to $20,833,000.

The principal reasons for the decrease in other operating expenses in the nine-month period ended September 30, 2008 were due to decreases in the following: salaries and benefits; advertising costs and stationary and supplies, which was partially offset by an increase in data processing; other real estate owned expense; occupancy and equipment and other miscellaneous operating expenses. The decrease in salaries and benefits was due to decreases in the following: profit sharing expenses; provision for incentive compensation due to decreased profits, contingent sick pay and vacation pay; stock compensation expense; deferred loan processing costs; welfare and recreation expense; administration fees expense and worker's compensation expense, which were partially offset by increases in merit salaries; commissions paid; referrals and awards expense and payroll taxes. The decrease in advertising costs was due to a decrease in printed materials and related costs. The decrease in stationary and supplies expense was due to decreased supply usage. The increase in occupancy and equipment was due to increased rent expense, equipment maintenance and rental expense, property taxes and relocation expense, which was partially offset by decreases in depreciation expense on computer hardware and furniture and equipment, service contracts and hazard and liability insurance. The increase in data processing costs was due to increased expenses associated with maintaining and monitoring the Company's data communications network and internet banking system. The increase in other real estate owned expense was due to maintenance and other expenses related to OREO properties that were transferred from loans held-for-investment.

Total other operating expenses was down 11.91% for the three-month period ended September 30, 2008 from the same period in 2007, decreasing from $7,190,000 to $6,334,000.

The principal reasons for the decrease in other operating expenses in the three-month period ended September 30, 2008 were decreases in the following: salaries and benefits; stationary and supplies; advertising costs and other miscellaneous operating expense, which were partially offset by an increase occupancy and equipment expense; data processing and in other real estate owned expenses. The decrease in salaries and benefits was due to decreases in the following: provision for incentive compensation due to decreased profits; profit sharing expenses; deferred loan processing costs and worker's compensation expense, which was partially offset by increases in merit salaries, commissions paid, worker's compensation expense and payroll taxes. The decrease in advertising costs was due to a decrease in printed materials and related costs. The increase in occupancy and equipment expense was due to increases in rent expense, depreciation on leasehold improvements and property taxes, which were partially offset by decreases in depreciation on computer hardware and utilities. The increase in data processing costs was due to increased expenses associated with maintaining and monitoring the Company's data communications network and internet banking system. The decrease in stationery and supplies was due to a decrease in supply usage. The increase in other real estate owned expense was due to maintenance and other expenses related to OREO properties that were transferred from loans held-for-investment.

The change in other miscellaneous operating expense nine-month and three-month periods ended September 30, 2008 are set forth in the table on the following page.

The following table sets forth other miscellaneous operating expenses by category for the three-month and nine-month periods ended September 30, 2008 and 2007.

	(in thousands)			
	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Other miscellaneous operating expenses				
Provision (recovery of provision) for unfunded lending commitments	$ (104)	$ 100	$ (108)	$ 110
FDIC assessments	133	17	358	52
Contributions	39	15	109	110
Legal fees	47	58	225	237
Accounting and audit fees	92	57	429	309
Consulting fees	76	73	308	286
Postage expense	79	87	248	264
Telephone expense	87	63	223	186
Public relations	50	90	249	291
Training expense	43	43	167	182
Loan origination expense	53	87	317	486
Computer software depreciation	64	60	186	171
Other miscellaneous expense	362	420	1,268	1,225
Total other miscellaneous operating expenses	$ 1,021	$ 1,170	$ 3,979	$ 3,909

Income Taxes

The Company's tax rate, the Company's income or loss before taxes and the amount of tax relief provided by non-taxable earnings primarily affect the Company's provision for income taxes.

In the nine months ended September 30, 2008, the Company's provision for income taxes decreased $4,699,000 from the same period last year, from $3,133,000 to $(1,566,000).

In the three months ended September 30, 2008, the Company's provision for income taxes decreased $2,484,000 from the same period last year, from $911,000 to $(1,573,000).

The decrease in provision for income taxes for all periods presented is primarily attributable to the respective level of reduced earnings. The amount of the provision was also effected by the interim effective tax rate and the incidence of allowable deductions, in particular non-taxable municipal bond income, tax credits generated from low-income housing investments, excludable interest income and, for California franchise taxes, higher excludable interest income on loans within designated enterprise zones.

Accounting for Uncertainty in Income Taxes

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized an increase for unrecognized tax benefits. A reconciliation of the beginning and ending amount of unrecognized tax benefits for the nine months ended September 30, 2008 is as follows:

	(in thousands)
Balance at January 1, 2008	$ 122
Additions for tax positions taken in the current period	—
Reductions for tax positions taken in the current period	—
Additions for tax positions taken in prior years	—
Reductions for tax positions taken in prior years	—
Decreases related to settlements with taxing authorities	—
Decreases as a result of a lapse in statue of limitations	—
Balance at September 30, 2008	$ 122

The Company does not anticipate any significant increase or decrease in unrecognized tax benefits during 2008. If recognized, the entire amount of the unrecognized tax benefits would affect the effective tax rate.

The Company classifies interest and penalties as a component of the provision for income taxes. At September 30, 2008, recognized interest and penalties were $23 thousand. The tax years ended December 31, 2007, 2006, 2005 and 2004 remain subject to examination by the Internal Revenue Service. The tax years ended December 31, 2007, 2006, 2005, 2004 and 2003 remain subject to examination by the California Franchise Tax Board. The deductibility of these tax positions will be determined through examination by the appropriate tax jurisdictions or the expiration of the tax statute of limitations.

Off-Balance Sheet Commitments

The following table shows the distribution of the Company's undisbursed loan commitments at the dates indicated.

	(in thousands)	
	September 30, 2008	December 31, 2007
Undisbursed loan commitments	$ 188,928	$ 214,274
Standby letters of credit	7,347	15,188
	$ 196,275	$ 229,462

The reserve for unfunded lending commitments amounted to $997,000 at September 30, 2008, down from $1,105,000 at December 31, 2007. The decrease was primarily related to a decrease in undisbursed loan commitments. The reserve for unfunded lending commitments is included in other liabilities.

Asset Quality

The Company manages asset quality and credit risk by maintaining diversification in its loan portfolio and through review processes that include analysis of credit requests and ongoing examination of outstanding loans and delinquencies, with particular attention to portfolio dynamics and loan mix. The Company strives to identify loans experiencing difficulty early enough to correct the problems, to record charge-offs promptly based on realistic assessments of current collateral values and to maintain an adequate allowance for loan losses at all times.

It is generally the Company's policy to discontinue interest accruals once a loan is past due for a period of 90 days as to interest or principal payments. When a loan is placed on non-accrual, interest accruals cease and uncollected accrued interest is reversed and charged against current income. Payments received on non-accrual loans are applied against principal. A loan may only be restored to an accruing basis when it again becomes well secured and in the process of collection or all past due amounts have been collected.

Non-accrual loans amounted to $11,138,000 at September 30, 2008 and were comprised of one commercial loan totaling $14,000, two agricultural loans totaling $297,000, two consumer loans totaling $141,000 and twenty-three real estate loans totaling $10,686,000. At December 31, 2007, non-accrual loans amounted to $15,173,000 and consisted of three non-accrual commercial loans totaling $511,000, four non-accrual agricultural loans totaling $1,504,000, three non-accrual commercial real estate loans totaling $3,816,000, twelve non-accrual residential mortgage loans totaling $9,335,000 and one non-accrual consumer loan totaling $7,000. Non-accrual loans amounted to $9,479,000 at September 30, 2007 and were comprised of three commercial loans totaling $1,616,000, three agricultural loans totaling $761,000 and eleven real estate loans totaling $7,102,000. The decrease in non-accrual loans at September 30, 2008 from the balance at December 31, 2007 was due to payments received on one commercial loan, four real estate loans and one agricultural loan, payoffs received on three agricultural loans, one commercial loan and three real estate loans, partial charge-offs on one commercial loan and one real estate loan and charge-offs of one commercial loan and one consumer loan combined with partial charge-offs and transfers of eight real estate loans and one agriculture loan to other real estate owned ("OREO"), which was partially offset by the addition of one commercial loan, thirty-one real estate loans, two consumer loans and one agricultural loan to non-accrual.

The Company had loans restructured and in compliance with modified terms totaling $423,000 at September 30, 2008. The Company had no restructured loans at September 30, 2007 and December 31, 2007.

Total impaired loans at September 30, 2008, consisting of loans on non-accrual status and restructured loans, totaled $11,561,000, the majority of the impaired loans were in management's opinion adequately collateralized based on recently obtained appraised property values or guaranteed by a governmental entity; for the unsecured portion of the impaired loans, specific reserves amounting to $451,000 were allocated to these loans. *See* "Allowance for Loan Losses" below for additional information. No assurance can be given that the existing or any additional collateral will be sufficient to secure full recovery of the obligations owed under these loans.

The Company had loans 90 days past due and still accruing totaling $1,919,000, 1,613,000 and $263,000 at September 30, 2008, September 30, 2007 and December 31, 2007, respectively.

OREO is made up of property that the Company has acquired by deed in lieu of foreclosure or through foreclosure proceedings, and property that the Company does not hold title to but is in actual control of, known as in-substance foreclosure. The estimated fair value of the property is determined prior to transferring the balance to OREO. The balance transferred to OREO is the lesser of the estimated fair market value of the property, or the book value of the loan, less estimated cost to sell. A write-down may be deemed necessary to bring the book value of the loan equal to the appraised value. Appraisals or loan officer evaluations are then done periodically thereafter charging any additional write-downs to the appropriate expense account.

OREO amounted to $4,725,000, $252,000 and $879,000 for the periods ended September 30, 2008, September 30, 2007 and December 31, 2007, respectively. The increase in OREO loans at September 30, 2008 from the balance at December 31, 2007 was due to the transfer of eight real estate construction loans, and two real estate development loans and one commercial loan to OREO, which was partially offset by the sale of four real estate construction properties.

Allowance for Loan Losses

The Company's Allowance for Loan Losses is maintained at a level believed by management to be adequate to provide for loan losses that can be reasonably anticipated. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. The Company makes credit reviews of the loan portfolio and considers current economic conditions, loan loss experience and other factors in determining the adequacy of the reserve balance. The allowance for loan losses is based on estimates, and actual losses may vary from current estimates.

The following table summarizes the loan loss experience of the Company for the nine-month periods ended September 30, 2008 and 2007, and for the year ended December 31, 2007.

Analysis of the Allowance for Loan Losses
(Amounts in thousands, except percentage amounts)

	Nine months ended September 30, 2008	Nine months ended September 30, 2007	Year ended December 31, 2007
Balance at beginning of period	$ 10,876	$ 8,361	$ 8,361
Provision for loan losses	10,060	1,250	4,795
Loans charged-off:			
Commercial	(537)	(201)	(1,428)
Agriculture	—	—	(82)
Real estate mortgage	(1,909)	(216)	(249)
Real estate construction	(5,271)	(17)	(537)
Consumer loans to individuals	(292)	(536)	(764)
Total charged-off	(8,009)	(970)	(3,060)
Recoveries:			
Commercial	150	116	256
Agriculture	51	150	200
Real estate mortgage	57	—	—
Consumer loans to individuals	253	246	324
Total recoveries	511	512	780
Net charge-offs	(7,498)	(458)	(2,280)
Balance at end of period	$ 13,438	$ 9,153	$ 10,876
Ratio of net charge-offs			
To average loans outstanding during the period	(1.45%)	(0.09%)	(0.46%)
Allowance for loan losses			
To total loans at the end of the period	2.48%	1.77%	2.14%
To non-performing loans at the end of the period	111.65%	85.52%	70.46%

Non-performing loans totaled $12,036,000, $11,092,000 and $15,436,000 at September 30, 2008 and 2007 and December 31, 2007, respectively.

Deposits

Deposits are one of the Company's primary sources of funds. At September 30, 2008, the Company had the following deposit mix: 29.3% in savings and MMDA deposits, 20.1% in time deposits, 21.7% in interest-bearing transaction deposits and 28.9% in non-interest-bearing transaction deposits. Non-interest-bearing transaction deposits enhance the Company's net interest income by lowering its cost of funds.

The Company obtains deposits primarily from the communities it serves. No material portion of its deposits has been obtained from or is dependent on any one person or industry. The Company accepts deposits in excess of $100,000 from customers. These deposits are priced to remain competitive.

Maturities of time certificates of deposits of $100,000 or more outstanding at September 30, 2008 and December 31, 2007 are summarized as follows:

	(in thousands) September 30, 2008	December 31, 2007
Three months or less	$ 19,524	$ 29,632
Over three to twelve months	33,644	34,161
Over twelve months	6,026	5,691
Total	$ 59,194	$ 69,484

The decrease in time certificates of deposit (CD's) of $100,000 or more, three months or less is primarily attributable to a decrease of higher cost short term CD's. The Company chose not to match interest rates considered above market.

Liquidity and Capital Resources

In order to serve our market area, the Company must maintain adequate liquidity and adequate capital. Liquidity is measured by various ratios with the most common being the ratio of net loans to deposits (including loans held-for-sale). This ratio was 94.8% on September 30, 2008. In addition, on September 30, 2008, the Company had the following short-term investments: $12,595 in Federal funds sold; $4,500,000 in Certificate of Deposit Account Registry Service ("CDARS"); $5,269,000 in securities due within one year; and $3,610,000 in securities due in one to five years.

To meet unanticipated funding requirements, the Company maintains short-term unsecured lines of credit with other banks totaling $19,500,000 at September 30, 2008; additionally the Company has a line of credit with the Federal Home Loan Bank, on which the current borrowing capacity is $61,732,000.

The Company's primary source of liquidity on a stand-alone basis is dividends from the Bank. Dividends from the Bank are subject to regulatory restrictions.

As of September 30, 2008, the Bank's capital ratios exceeded applicable regulatory requirements. The following tables present the capital ratios for the Bank, compared to the standards for well-capitalized depository institutions, as of September 30, 2008.

(amounts in thousands except percentage amounts)

	Actual		Well Capitalized	
	Capital	Ratio	Ratio Requirement	Minimum Capital
Leverage	$ 63,035	9.37%	5.0%	4.0%
Tier 1 Risk-Based	$ 63,035	10.66%	6.0%	4.0%
Total Risk-Based	$ 70,515	11.92%	10.0%	8.0%

ITEM 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company believes that there have been no material changes in the quantitative and qualitative disclosures about market risk as of September 30, 2008, from those presented in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which are incorporated by reference herein.

ITEM 4.

CONTROLS AND PROCEDURES

Our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer) have concluded that the design and operation of our disclosure controls and procedures are effective as of September 30, 2008. This conclusion is based on an evaluation conducted under the supervision and with the participation of management. Disclosure controls and procedures are those controls and procedures which ensure that information required to be disclosed in this filing is accumulated and communicated to management and is recorded, processed, summarized and reported in a timely manner and in accordance with Securities and Exchange Commission rules and regulations.

During the quarter ended September 30, 2008, there were no changes in our internal controls over financial reporting that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1A.

RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in the Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect our business, financial condition or future results and the following information.

The capital and credit markets have been experiencing significant volatility and disruption for more than 12 months. In recent weeks, the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations. As a result of these volatile and disrupted credit markets, our customers' ability to raise capital and refinance maturing obligations could be adversely affected, and this could result in a further adverse impact on our business, financial condition and results of operations. as contributing to a widening of credit spreads and a general lack of liquidity in the marketplace, all of which can result in a further adverse impact on our business, financial condition and results of operations.

The U.S. and global economies have experienced a slowing of economic growth, unprecedented volatility in the financial markets, and significant deterioration in sectors of the U.S. residential real estate markets, all of which present challenges for the banking and financial services industry

Commencing in 2007 and continuing throughout 2008, certain adverse financial developments have impacted the U.S. and global economies and financial markets and present challenges for the banking and financial services industry and for First Northern. These developments include a general slowing of economic growth both globally and in the U.S. which has prompted the Congress to adopt an economic stimulus bill which President Bush signed into law on February 13, 2008, and which prompted the Federal Reserve Board to decrease its discount rate and the federal funds rate numerous times in the first nine months of 2008. In addition, financial and credit conditions in the domestic residential real estate markets have deteriorated significantly, particularly in the subprime sector. These conditions in turn have led to significant deterioration in certain financial markets, particularly the markets for subprime residential mortgage-backed securities and for collateralized debt obligations backed by residential mortgage-backed securities. On July 30, 2008, President Bush signed into law a housing bill which grants the Treasury Department broad authority to safeguard Fannie Mae and Freddie Mac and authorizes the Federal Housing Administration to insure up to $300 billion in refinanced mortgages. In the third quarter of 2008, the volatility and disruption in the capital and credit markets reached unprecedented levels. On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act of 2008 (EESA) in response to the recent financial crises affecting the banking system and financial markets. EESA is intended as a response to the financial crises affecting the banking system and financial markets. Under EESA, the U.S. Treasury will have the authority to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. Further, pursuant to the EESA, on October 14, 2008, the U.S. Treasury announced a voluntary Capital Purchase Program pursuant to which the Treasury will purchase up to $250 billion in senior preferred stock of qualifying U.S. financial institutions. On October 13, 2008, the U.S. Treasury announced that it had agreed, under the authority of the new law, with the nine largest banks in the U.S. to purchase an aggregate of $125 billion in senior preferred stock in such banks and that it would allocate an additional $125 billion to the purchase of senior preferred stock in other banking institutions. The purpose of the program is to provide substantial new capital to the U.S. banking industry. It cannot be predicted whether this recent legislation will result in significant improvement in financial and economic conditions affecting the banking industry. If, notwithstanding the federal government's recent fiscal and monetary measures, the U.S. economy were to remain in a recessionary condition for an extended period, this would present additional significant challenges for the U.S. banking and financial services industry and for First Northern. While it is difficult to predict how long these conditions will exist and which markets and businesses of our company may be affected, these factors could continue to present risks for some time for the industry and our company.

Adverse economic factors affecting certain industries we serve could adversely affect our business

We are subject to certain industry-specific economic factors. For example, a portion of our total loan portfolio is related to residential real estate, especially in California. Increases in residential mortgage loan interest rates could have an adverse effect on our operations by depressing new mortgage loan originations, which in turn could negatively impact our title and escrow deposit levels. Additionally, a further downturn in the residential real estate and housing industries in California could have an adverse effect on our operations and the quality of our real estate and construction loan portfolio. Although we do not engage in subprime or negative amortization lending, effects of recent subprime market challenges, combined with the ongoing deterioration in the U.S. and California real estate markets, could result in further price reductions in single family home prices and a lack of liquidity in refinancing markets. These factors could adversely impact the quality of our residential construction, residential mortgage and construction related commercial portfolios in various ways, including by decreasing the value of the collateral for our loans. These factors could also negatively affect the economy in general and thereby our overall loan portfolio.

We provide financing to, and receive deposits from, businesses in a number of other industries that may be particularly vulnerable to industry-specific economic factors, including the home building, commercial real estate, retail, agricultural, industrial and commercial industries. The home building industry in California has been especially adversely impacted by the deterioration in residential real estate markets, which has lead us to take additional provisions and charge-offs against credit losses in this portfolio. Continued increases in fuel prices and energy costs could adversely affect businesses in several of these industries. Industry-specific risks are beyond our control and could adversely affect our portfolio of loans, potentially resulting in an increase in non-performing loans or charge-offs and a slowing of growth or reduction in our loan portfolio.

The risk factors in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2007, as modified by the additional information above, are incorporated herein by reference. The risks described above and in our Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 2.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Repurchases of Equity Securities

On September 22, 2007, the Company approved a new stock repurchase program effective September 22, 2007 to replace the Company's previous stock repurchase plan that commenced May 1, 2006. The new stock repurchase program, which will remain in effect until September 21, 2009, allows repurchases by the Company in an aggregate of up to 4% of the Company's outstanding shares of common stock over each rolling twelve-month period. The Company repurchased no shares of the Company's outstanding common stock during the third quarter ended September 30, 2008.

The Company made no purchases of its common stock during the quarter ended September 30, 2008:

Period	Total number of shares purchased	Average price paid per share	Number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
July 1 – July 31, 2008	—	—	—	41,180
August 1 – August 31, 2008	—	—	—	106,514
September 1 – September 30, 2008	—	—	—	123,957
Total	—	—	—	123,957

A 6% stock dividend was declared on January 24, 2008 with a record date of February 29, 2008 and is reflected in the number of shares purchased and average prices paid per share.

ITEM 6.

EXHIBITS

Exhibit Number	**Exhibit**
31.1	Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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.

FIRST NORTHERN COMMUNITY BANCORP

Date: November 10, 2008 By: /s/ Louise A. Walker

Louise A. Walker, Sr. Executive Vice President / Chief Financial Officer
(Principal Financial Officer and Duly Authorized Officer)

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Section 2: EX-31.1 (CEO CERTIFICATION SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002)

EXHIBIT 31.1

Rule 13(a) – 14(a) / 15(d) – 14(a) Certification

I, Owen J. Onsum, certify that:

1. I have reviewed this report on Form 10-Q of First Northern Community Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2008 /s/ Owen J. Onsum

Owen J. Onsum, President and Chief Executive Officer

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Section 3: EX-31.2 (CFO CERTIFICATION SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002)

EXHIBIT 31.2

Rule 13(a) – 14(a) / 15(d) – 14(a) Certification

I, Louise A. Walker, certify that:

1. I have reviewed this report on Form 10-Q of First Northern Community Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial

reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2008 /s/ Louise A. Walker

Louise A. Walker, Sr. Executive Vice President and Chief Financial Officer

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Section 4: EX-32.1 (CEO CERTIFICATION SECTION 1350 SARBANES-OXLEY ACT OF 2002)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. § 1350

In connection with the filing of the Quarterly Report of First Northern Community Bancorp (the "Company") on Form 10-Q for the period ended September 30, 2008 (the "Report"), I, Owen J. Onsum, the Chief Executive Officer of the Company, certify pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge,

(i) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 10, 2008 /s/ Owen J. Onsum

Owen J. Onsum, President and Chief Executive Officer

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Section 5: EX-32.2 (CFO CERTIFICATION SECTION 1350 SARBANES-OXLEY ACT OF 2002)

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. § 1350

In connection with the filing of the Quarterly Report of First Northern Community Bancorp (the "Company") on Form 10-Q for the period ended September 30, 2008 (the "Report"), I, Louise A. Walker, the Chief Financial Officer of the Company, certify pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge,

(i) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 10, 2008 /s/ Louise A. Walker

Louise A. Walker, Sr. Executive Vice President and Chief Financial Officer

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