

1ST CONSTITUTION BANCORP  
Form 10-Q  
May 14, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file Number: 000-32891

1ST CONSTITUTION BANCORP  
(Exact Name of Registrant as  
Specified in Its Charter)

New Jersey  
(State of Other Jurisdiction  
of Incorporation or  
Organization)

22-3665653  
(I.R.S. Employer Identification  
No.)

2650 Route 130, P.O. Box 634,  
Cranbury, NJ  
(Address of Principal Executive  
Offices)

08512  
(Zip Code)

(609) 655-4500  
(Issuer's Telephone Number, Including Area Code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  
x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>

(Do not check if a 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  
o No x

As of May 11, 2009, there were 4,271,314 shares of the registrant's common stock, no par value, outstanding.

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## 1ST CONSTITUTION BANCORP

## FORM 10-Q

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

1st Constitution Bancorp and Subsidiaries  
Consolidated Balance Sheets  
(unaudited)

	March 31, 2009	December 31, 2008
<b>ASSETS</b>		
CASH AND DUE FROM BANKS	\$ 25,743,159	\$ 14,321,777
FEDERAL FUNDS SOLD / SHORT-TERM INVESTMENTS	11,363	11,342
Total cash and cash equivalents	25,754,522	14,333,119
<b>INVESTMENT SECURITIES:</b>		
Available for sale, at fair value	82,117,870	93,477,023
Held to maturity (fair value of \$36,565,268 and \$36,140,379 at March 31, 2009 and December 31, 2008, respectively)	37,130,942	36,550,577
Total investment securities	119,248,812	130,027,600
LOANS HELD FOR SALE	12,754,158	5,702,082
LOANS	409,611,983	377,348,416
Less- Allowance for loan losses	(4,130,264)	(3,684,764)
Net loans	405,481,719	373,663,652
PREMISES AND EQUIPMENT, net	2,149,840	2,302,489
ACCRUED INTEREST RECEIVABLE	2,058,861	2,192,601
BANK-OWNED LIFE INSURANCE	10,020,226	9,929,204
OTHER REAL ESTATE OWNED	4,326,211	4,296,536
OTHER ASSETS	5,149,505	3,839,246
Total assets	\$ 586,943,854	\$ 546,286,529
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Deposits		
Non-interest bearing	\$ 73,741,909	\$ 71,772,486
Interest bearing	400,905,516	342,912,245
Total deposits	474,647,425	414,684,731
BORROWINGS	30,500,000	51,500,000

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REDEEMABLE SUBORDINATED DEBENTURES	18,557,000	18,557,000
ACCRUED INTEREST PAYABLE	1,893,017	1,984,102
ACCRUED EXPENSES AND OTHER LIABILITIES	5,159,512	3,941,044
Total liabilities	530,756,954	490,666,877

COMMITMENTS AND CONTINGENCIES

SHAREHOLDERS' EQUITY:

Preferred Stock, no par value; 5,000,000 shares authorized, of which 12,000 shares of Series B, \$1,000 liquidation preference, 5% cumulative increasing to 9% cumulative on February 15, 2014, were issued and outstanding at March 31, 2009 and December 31, 2008	11,392,312	11,387,828
Common stock, no par value; 30,000,000 shares authorized; 4,226,943 and 4,204,202 shares issued and 4,222,960 and 4,198,871 shares outstanding at March 31, 2009 and December 31, 2008, respectively	35,175,365	35,180,433
Retained earnings	9,941,963	9,653,923
Treasury Stock, at cost, 3,983 and 5,331 shares at March 31, 2009 and December 31, 2008, respectively	(31,408)	(53,331)
Accumulated other comprehensive loss	(291,332)	(549,201)
Total shareholders' equity	56,186,900	55,619,652
Total liabilities and shareholders' equity	\$ 586,943,854	\$ 546,286,529

See accompanying notes to consolidated financial statements.

1st Constitution Bancorp and Subsidiaries  
Consolidated Statements of Income  
(unaudited)

	Three Months Ended March 31,	
	2009	2008
<b>INTEREST INCOME:</b>		
Loans, including fees	\$ 6,039,601	\$ 6,009,100
Securities:		
Taxable	1,237,655	975,401
Tax-exempt	128,555	145,599
Federal funds sold and short-term investments	8,594	36,956
<b>Total interest income</b>	<b>7,414,405</b>	<b>7,167,056</b>
<b>INTEREST EXPENSE:</b>		
Deposits	2,584,951	2,538,093
Securities sold under agreements to repurchase and other borrowed funds	363,230	376,027
Redeemable subordinated debentures	266,235	249,806
<b>Total interest expense</b>	<b>3,214,416</b>	<b>3,163,926</b>
<b>Net interest income</b>	<b>4,199,989</b>	<b>4,003,130</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>463,000</b>	<b>165,000</b>
<b>Net interest income after provision for loan losses</b>	<b>3,736,989</b>	<b>3,838,130</b>
<b>NON-INTEREST INCOME:</b>		
Service charges on deposit accounts	238,519	185,888
Gain on sales of loans	272,193	310,044
Income on Bank-owned life insurance	91,022	91,827
Other income	245,318	198,618
<b>Total non-interest income</b>	<b>847,052</b>	<b>786,377</b>
<b>NON-INTEREST EXPENSE:</b>		
Salaries and employee benefits	2,227,329	1,978,061
Occupancy expense	452,665	432,015
Data processing expenses	259,683	211,781
Other operating expenses	1,080,936	792,493
<b>Total non-interest expenses</b>	<b>4,020,613</b>	<b>3,414,350</b>
<b>Income before income taxes</b>	<b>563,428</b>	<b>1,210,157</b>
<b>Income taxes</b>	<b>86,738</b>	<b>407,960</b>
<b>Net income</b>	<b>476,690</b>	<b>802,197</b>
<b>Dividends on preferred stock and accretion</b>	<b>188,650</b>	<b>-</b>
<b>Net income available to common shareholders</b>	<b>\$ 288,040</b>	<b>\$ 802,197</b>
<b>NET INCOME PER COMMON SHARE:</b>		
Basic	\$ 0.07	\$ 0.19
Diluted	\$ 0.07	\$ 0.19

See accompanying notes to consolidated financial statements.

1st Constitution Bancorp and Subsidiaries  
Consolidated Statements of Changes in Shareholders' Equity  
For the Three Months Ended March 31, 2009 and 2008  
(unaudited)

	Preferred Stock	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
BALANCE, January 1, 2008	\$ -	\$ 32,514,936	\$ 9,009,955	\$ (18,388)	\$ (533,186)	\$ 40,973,317
Adoption of EITF 06-4 FAS 123R share-based compensation		32,113	(329,706)			(329,706)
Treasury stock, shares acquired at cost (1,721 shares)				(28,195)		(28,195)
Comprehensive Income:						
Net Income for the three months ended March 31, 2008			802,197			802,197
Unrealized gain on securities available for sale, net of tax					634,517	634,517
Unrealized loss on interest rate swap contract net of tax benefit					(436,418)	(436,418)
Comprehensive Income						1,000,296
Balance, March 31, 2008	\$ -	\$ 32,547,049	\$ 9,482,446	\$ (46,583)	\$ (335,087)	\$ 41,647,825
Balance, January 1, 2009	\$ 11,387,828	\$ 35,180,433	\$ 9,653,923	\$ (53,331)	\$ (549,201)	\$ 55,619,652
FAS 123R share-based compensation		19,445				19,445
Treasury stock, shares acquired at cost (5,935 shares)				(36,382)		(36,382)
Exercise of stock options (7,283 shares)		(24,513)		58,305		33,792
Dividends accrued on preferred stock			(161,666)			(161,666)
Preferred stock issuance costs	(22,500)					(22,500)
Accretion of discount on preferred stock	26,984		(26,984)			
Comprehensive Income:			476,690			476,690



Net Income for the three  
months  
ended March 31, 2009

Pension liability, net of tax						29,687	29,687
Unrealized gain on securities for sale net of tax						210,536	210,536
Unrealized gain on interest rate swap contract net of tax						17,646	17,646

Comprehensive Income							734,559
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BALANCE, March 31, 2009	\$ 11,392,312	\$ 35,175,365	\$ 9,941,963	\$ (31,408)	\$ (291,332)	\$ 56,186,900
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See accompanying notes to consolidated financial statements.

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1st Constitution Bancorp and Subsidiaries

Consolidated Statements of Cash Flows  
(unaudited)

	Three Months Ended March 31,	
	2009	2008
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 476,690	\$ 802,197
Adjustments to reconcile net income to net cash used in operating activities-		
Provision for loan losses	463,000	165,000
Depreciation and amortization	166,843	173,960
Net (accretion) amortization of premiums and discounts on securities	19,438	(3,229)
Gain on sales of loans held for sale	(272,193)	(310,044)
Proceeds from sales of loans held for sale	24,741,138	16,450,496
Originations of loans held for sale	(31,521,021)	(19,388,430)
Income on Bank – owned life insurance	(91,022)	(91,827)
Share-based compensation expense	71,605	32,113
Decrease in accrued interest receivable	133,740	435,125
(Increase) in other assets	(1,456,121)	(1,493,738)
(Decrease) increase in accrued interest payable	(91,085)	25,858
Increase in accrued expenses and other liabilities	1,167,289	812,440
Net cash used in operating activities	(6,191,699)	(2,390,079)
<b>INVESTING ACTIVITIES:</b>		
Purchases of securities -		
Available for sale	(4,424,641)	(3,020,614)
Held to maturity	(1,619,834)	-
Proceeds from maturities and prepayments of securities -		
Available for sale	16,118,915	8,128,985
Held to maturity	1,003,482	7,018,220
Net increase in loans	(33,312,594)	(49,822,652)
Additional investment in other real estate owned	(179,123)	(1,344,566)
Proceeds from sales of other real estate owned	1,180,975	-
Capital expenditures	(5,016)	(61,479)
Net cash used in investing activities	(21,237,836)	(39,102,106)
<b>FINANCING ACTIVITIES:</b>		
Net increase in demand, savings and time deposits	59,962,694	49,377,121
Net (repayments) of borrowings	(21,000,000)	(3,800,000)
Exercise of stock options and issuance of treasury stock	33,792	-
Purchase of treasury stock	(36,382)	(28,195)
Dividend paid on preferred stock	(86,666)	-
Preferred stock issuance costs paid	(22,500)	-
Net cash provided by financing activities	38,850,938	45,548,926
Increase in cash and cash equivalents	11,421,403	4,056,741

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14,333,119	7,548,102
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 25,754,522	\$ 11,604,843
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for -		
Interest	\$ 3,305,501	\$ 3,173,981
Income taxes	-	1,051,040
Non-cash investing activities		
Real estate acquired in full satisfaction of loans in foreclosure	1,031,527	-

See accompanying notes to consolidated financial statements.

1st Constitution Bancorp and Subsidiaries  
Notes To Consolidated Financial Statements  
March 31, 2009 (Unaudited)

## (1) Summary of Significant Accounting Policies

The accompanying unaudited Consolidated Financial Statements include 1st Constitution Bancorp (the “Company”), its wholly-owned subsidiary, 1st Constitution Bank (the “Bank”), and the Bank’s wholly-owned subsidiaries, 1st Constitution Investment Company of Delaware, Inc., FCB Assets Holdings, Inc. and 1st Constitution Title Agency, LLC. 1st Constitution Capital Trust II, a subsidiary of the Company, is not included in the Company’s consolidated financial statements, as it is a variable interest entity and the Company is not the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation and certain prior period amounts have been reclassified to conform to current year presentation. The accounting and reporting policies of the Company and its subsidiaries conform to accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) including the instructions to Form 10-Q and Article 8 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to such rules and regulations. These Consolidated Financial Statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company’s Form 10-K for the year ended December 31, 2008, filed with the SEC on March 27, 2009.

In the opinion of the Company, all adjustments (consisting only of normal recurring accruals) which are necessary for a fair presentation of the operating results for the interim periods have been included. The results of operations for periods of less than a year are not necessarily indicative of results for the full year.

## (2) Net Income Per Common Share

Basic net income per common share is calculated by dividing net income less dividends and discount accretion on preferred stock by the weighted average number of common shares outstanding during each period.

Diluted net income per common share is calculated by dividing net income less dividends and discount accretion on preferred stock by the weighted average number of common shares outstanding, as adjusted for the assumed exercise of stock options and the vesting of unvested Stock Awards (as defined below), using the treasury stock method. All 2008 share information has been restated for the effect of a 5% stock dividend declared December 18, 2008 and paid on February 2, 2009 to shareholders of record on January 20, 2009.

The following tables illustrate the reconciliation of the numerators and denominators of the basic and diluted earnings per common share (EPS) calculations. Dilutive securities in the tables below exclude common stock options and warrants with exercise prices that exceed the average market price of the Company’s common stock during the periods presented. Inclusion of these common stock options and warrants would be anti-dilutive to the diluted earnings per common share calculation.

	Three Months Ended March 31, 2009		
	Income	Weighted- average shares	Per share amount
Basic Earnings Per Common Share			
Net income	\$ 476,690		
Preferred stock dividends and accretion	(188,650)		
Income available to common shareholders	288,040	4,218,698	\$ 0.07

Effect of dilutive securities

Stock options and unvested stock awards	-	17,242	-
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Diluted Earnings Per Common Share

Income available to common shareholders plus assumed conversion	\$ 288,040	4,235,940	\$ 0.07
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	Three Months Ended March 31, 2008		
	Income	Weighted- average shares	Per share Amount
<b>Basic Earnings Per Common Share</b>			
Net income	\$ 802,197		
Preferred stock dividends and accretion	-		
Income available to common shareholders	802,197	4,188,899	\$ 0.19
<b>Effect of dilutive securities</b>			
Stock options and unvested stock awards	-	57,680	-
<b>Diluted Earnings Per Common Share</b>			
Net income available to common shareholders plus assumed conversion	\$ 802,197	4,246,579	\$ 0.19

### (3) Share-Based Compensation

Share-based compensation is accounted for in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 123 (revised 2004) (“SFAS No. 123R”), Share-Based Payment. The Company adopted SFAS No. 123R on January 1, 2006 using the modified prospective approach. The Company establishes fair value for its equity awards to determine its cost and recognizes the related expense for stock options over the vesting period using the straight-line method. The grant date fair value for stock options is calculated using the Black-Scholes option valuation model.

The Company’s stock plans authorize the issuance of an aggregate of 1,119,022 shares of common stock pursuant to awards that may be granted in the form of stock options to purchase common stock (“Options”) and awards of shares of common stock (“Stock Awards”). The purpose of the Company’s stock-based incentive plans is to attract and retain personnel for positions of substantial responsibility and to provide additional incentive to certain officers, directors, employees and other persons to promote the success of the Company. Under the Company’s stock plans, options expire ten years after the date of grant. Options are granted at the then fair market value of the Company’s common stock. As of March 31, 2009, there were 309,756 shares of common stock (as adjusted for the 5% stock dividend declared December 18, 2008 and paid February 2, 2009 to shareholders of record on January 20, 2009) available for Options or Stock Awards under the Company’s stock plans.

Stock-based compensation expense related to Options was \$19,445 and \$32,113 for the three months ended March 31, 2009 and 2008, respectively.

Option transactions under the Company’s stock plans during the three months ended March 31, 2009 are summarized as follows:

Stock Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at January 1, 2009	164,041	\$ 9.92		
Options Granted	17,220	10.00		
Options Exercised	(7,283)	4.64		
Options Forfeited	-	-		

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Options Expired	-		-		
Outstanding at March 31, 2009	173,978	\$	10.15	5.0	\$ 84,157
Exercisable at March 31, 2009	138,116	\$	9.42	3.8	\$ 84,157

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The total intrinsic value (market value on date of exercise less grant price) of Options exercised during the three month period ended March 31, 2009 was \$12,524.

Significant assumptions used to calculate the fair value of the Options granted for the three month period ended March 31, 2009 are as follows:

Fair value of options granted	\$ 3.26
Risk-free rate of return	1.60%
Expected option life in years	7
Expected volatility	27.58%
Expected dividends (1)	-

(1) To date, the Company has not paid cash dividends on its common stock.

As of March 31, 2009, there was approximately \$175,126 of unrecognized compensation costs related to non-vested stock option-based compensation arrangements granted under the Company's stock plans. That cost is expected to be recognized over the next four years.

Stock Awards generally vest over a four-year service period on the anniversary of the grant date. Once vested, Stock Awards are irrevocable. The product of the number of shares granted and the grant date market price of the Company's common stock determine the fair value of shares covered by the Stock Award under the Company's stock plans. Management recognizes compensation expense for the fair value of the shares covered by the Stock Award on a straight-line basis over the requisite service period. Stock-based compensation expense related to Stock Awards was \$50,000 and \$82,950 for the three months ended March 31, 2009 and 2008, respectively.

The following table summarizes the non-vested portion of Stock Awards outstanding at March 31, 2009:

Stock Awards	Number of Shares	Average Grant Date Fair Value
Non-vested stock awards at January 1, 2009	30,470	\$ 14.80
Shares granted	22,260	10.00
Shares vested	-	-
Shares forfeited	-	-
Non-vested stock awards at March 31, 2009	52,730	\$ 12.77

As of March 31, 2009, there was approximately \$524,565 of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's stock plans. That cost is expected to be recognized over the next four years.

#### (4) Benefit Plans

The Company provides certain retirement benefits to employees under a 401(k) plan. The Company's contributions to the 401(k) plan are expensed as incurred.

The Company also provides retirement benefits to certain employees under a supplemental executive retirement plan. The plan is unfunded and the Company accrues actuarial determined benefit costs over the estimated service period of the employees in the plan. The Company follows Statement of Financial Accounting Standards No. 132, as revised in December 2003 ("SFAS No. 132"), "Employers' Disclosures about Pensions and Other Post-retirement Benefits—an amendment of FASB Statements No. 87, 88, and 106" and Statement of Financial Accounting Standards



No. 158 (“SFAS No. 158”), “Employers Accounting for Defined Benefit Pension and Other Post-retirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)”. SFAS No. 132 revised employers’ disclosures about pension and other post-retirement benefit plans. It requires the disclosure of additional information about changes in the benefit obligation and the fair values of plan assets. It also standardizes the requirements for pensions and other postretirement benefit plans, to the extent possible, and illustrates combined formats for the presentation of pension plan and other post-retirement benefit plan disclosures. SFAS 158 requires an employer to recognize the over funded or under funded status of a defined benefit post-retirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur, through comprehensive income.

The components of net periodic expense for the Company's supplemental executive retirement plan for the three months ended March 31, 2009 and 2008 are as follows:

	Three months ended March 31,	
	2009	2008
Service cost	\$ 61,094	\$ 57,637
Interest cost	45,630	39,830
Actuarial loss recognized	21,744	15,375
Prior service cost recognized	24,858	24,858
	\$ 153,326	\$ 137,700

In September 2006, the Financial Accounting Standards Board ("FASB") Emerging Issues Task Force finalized Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-dollar Life Insurance Arrangements ("EITF 06-4"). EITF 06-4 requires that a liability be recorded during the service period when a split-dollar life insurance agreement continues after participants' employment or retirement. The required accrued liability is based on either the post-employment benefit cost for the continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement. The Company adopted EITF 06-4 on January 1, 2008, and recorded a cumulative effect adjustment of \$329,706 as a reduction of retained earnings effective January 1, 2008.

#### (5) Comprehensive Income and Accumulated Other Comprehensive Loss

The components of other comprehensive income are as follows:

	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
For the three months ended March 31, 2009			
Net unrealized gains on available for sale securities:			
Net unrealized holding losses arising during the period	\$ 318,572	\$ (108,036)	\$ 210,536
Minimum pension liability	46,600	(16,913)	29,687
Change in fair value of interest rate swap contract	29,381	(11,735)	17,646
Other comprehensive income	\$ 394,553	\$ (136,684)	\$ 257,869

	Before Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
For the three months ended March 31, 2008			
Net unrealized gains on available for sale securities:			
Net unrealized holding losses arising during the period	\$ 961,183	\$ (326,666)	\$ 634,517

Minimum pension liability	-	-	-
Change in fair value of interest rate swap contract	(726,278)	289,860	(436,418)
Other comprehensive income	\$ (234,905)	\$ 36,806	\$ 198,899

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The components of Accumulated other comprehensive loss, net of tax, which is a component of shareholders' equity, were as follows:

	Net Unrealized Gains On Available for Sale Securities	Fair Value of Interest Rate Swap Contract	Defined Benefit Pension Plans	Accumulated Other Comprehensive Loss
Balance, December 31, 2008	\$ 603,527	\$ (695,408)	\$ (457,320)	\$ (549,201)
Net change	210,536			