1ST CONSTITUTION BANCORP
Form 10-Q
May 16, 2011

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

FORM 10-Q

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

For the quarterly period ended March 31, 2011

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: 000-32891

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	o	Accelerated filer	o
Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company	x

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 12, 2011, there were 4,803,459 shares of the registrant's common stock, no par value, outstanding.

1ST CONSTITUTION BANCORP

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	March 31, 2011	December 31, 2010
ASSETS		
CASH AND DUE FROM BANKS	$ 114,047,708	$ 17,699,103
FEDERAL FUNDS SOLD / SHORT-TERM INVESTMENTS	11,401	11,398
Total cash and cash equivalents	114,059,109	17,710,501
INVESTMENT SECURITIES:		
Available for sale, at fair value	112,658,102	85,470,993
Held to maturity (fair value of $142,264,108 and $81,712,004 at March 31, 2011 and December 31, 2010, respectively)	141,271,366	81,889,895
Total investment securities	253,929,468	167,360,888
LOANS HELD FOR SALE	4,944,106	21,219,230
LOANS	323,728,977	411,987,339
Less- Allowance for loan losses	(5,750,043)	(5,762,712)
Net loans	317,978,934	406,224,627
PREMISES AND EQUIPMENT, net	10,794,590	6,148,626
ACCRUED INTEREST RECEIVABLE	2,453,402	2,405,741
BANK-OWNED LIFE INSURANCE	11,569,780	11,474,643
OTHER REAL ESTATE OWNED	6,358,232	4,850,818
OTHER ASSETS	13,000,050	7,000,155
Total assets	$ 735,087,671	$ 644,395,229
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits		
Non-interest bearing	$ 112,437,456	$ 92,023,123
Interest bearing	537,582,192	451,712,026
Total deposits	650,019,648	543,735,149
BORROWINGS	10,000,000	25,900,000
REDEEMABLE SUBORDINATED DEBENTURES	18,557,000	18,557,000
ACCRUED INTEREST PAYABLE	1,312,042	1,434,338
ACCRUED EXPENSES AND OTHER LIABILITIES	4,678,816	5,087,586

Total liabilities	684,567,506	594,714,073
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock, no par value; 30,000,000 shares authorized; 4,812,344 and 4,812,344 shares issued and 4,803,459 and 4,803,459 shares outstanding at March 31, 2011 and December 31, 2010, respectively	38,963,652	38,899,855
Retained earnings	11,531,647	10,741,779
Treasury Stock, at cost, 8,885 shares and 8,885 shares at March 31, 2011 and December 31, 2010, respectively	(62,409)	(58,652)
Accumulated other comprehensive income	87,275	98,174
Total shareholders' equity	50,520,165	49,681,156
Total liabilities and shareholders' equity	$ 735,087,671	$ 644,395,229

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2011	2010
INTEREST INCOME:		
Loans, including fees	$ 5,354,207	$ 5,328,865
Securities:		
Taxable	1,284,944	1,393,886
Tax-exempt	285,072	107,930
Federal funds sold and short-term investments	9,106	19,709
Total interest income	6,933,329	6,850,390
INTEREST EXPENSE:		
Deposits	1,398,130	1,880,668
Borrowings	106,920	266,415
Redeemable subordinated debentures	264,154	264,150
Total interest expense	1,769,204	2,411,233
Net interest income	5,164,125	4,439,157
PROVISION FOR LOAN LOSSES	399,998	300,000
Net interest income after provision for loan losses	4,764,127	4,139,157
NON-INTEREST INCOME:		
Service charges on deposit accounts	175,842	176,356
Gain on sales of loans	436,739	320,544
Income on Bank-owned life insurance	95,137	96,639
Other income	317,032	355,307
Total non-interest income	1,024,750	948,846
NON-INTEREST EXPENSE:		
Salaries and employee benefits	2,576,664	2,376,700
Occupancy expense	566,738	445,927
FDIC insurance expense	227,547	247,683
Data processing expenses	303,473	258,807
Other operating expenses	988,410	804,829
Total non-interest expenses	4,662,832	4,133,946
Income before income taxes	1,126,045	954,057
Income taxes	336,177	254,799
Net income	789,868	699,258
Dividends on preferred stock and accretion	0	176,984
Net income available to common shareholders	$ 789,868	$ 522,274
NET INCOME PER COMMON SHARE:		
Basic	$ 0.16	$ 0.11

Diluted	$ 0.16	$ 0.11

See accompanying notes to consolidated financial statements.

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1st Constitution Bancorp and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
For the Three Months Ended March 31, 2011 and 2010
(unaudited)

	Preferred Stock	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
BALANCE, January 1, 2010	$ 11,473,262	$ 36,774,621	$ 10,307,331	$ (73,492)	$ (1,080,669)	$ 57,401,053
Issuance of vested shares under employee benefit program (10,042 shares)		56,165				56,165
Share-based compensation		14,288				14,288
Dividends on preferred stock			(150,000)			(150,000)
Accretion of discount on preferred stock	26,984		(26,984)			
Comprehensive Income:						
Net Income for the three months ended March 31, 2010			699,258			699,258
Minimum pension liability net of tax benefit					69,230	69,230
Unrealized gain on securities available for sale net of tax					519,932	519,932
Unrealized gain on interest rate swap contract net of tax					36,039	36,039
Comprehensive Income						1,324,459
Balance, March 31, 2010	$ 11,500,246	$ 36,845,074	$ 10,829,605	$ (73,492)	$ (455,468)	$ 58,645,965
Balance, January 1, 2011	$ 0	$ 38,899,855	$ 10,741,779	$ (58,652)	$ 98,174	$ 49,681,156
Issuance of vested shares under employee benefit program and exercise of stock options		46,294		11,597		57,891

(1,651 shares)						
Share-based compensation		17,503				17,503
Treasury stock purchased (1,651 shares)				(15,354)		(15,354)
Comprehensive Income:						
Net income for the three months ended March 31, 2011			789,868			789,868
Minimum pension liability, net of tax benefit					1,927	1,927
Unrealized gain on securities available for sale, net of tax benefit					(117,197)	(117,197)
Unrealized gain on interest rate swap contract, net of tax benefit					104,371	104,371
Comprehensive Income						778,969
Balance, March 31, 2011	$ 0	$ 38,963,652	$ 11,531,647	$ (62,409)	$ 87,275	$ 50,520,165

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, 2011	2010
OPERATING ACTIVITIES:		
Net income	$ 789,868	$ 699,258
Adjustments to reconcile net income to net cash provided by (used in) operating activities-		
Provision for loan losses	399,998	300,000
Provision for loss on other real estate owned	147,178	0
Depreciation and amortization	218,243	137,241
Net amortization of premiums and discounts on securities	447,515	192,923
Gains on sales of loans held for sale	(436,739)	(320,544)
Originations of loans held for sale	(25,228,512)	(26,796,844)
Proceeds from sales of loans held for sale	41,940,375	32,306,333
Income on Bank – owned life insurance	(95,137)	(96,639)
Share-based compensation expense	90,518	49,288
Increase in accrued interest receivable	(47,647)	(179,917)
(Increase) decrease in other assets	745,772	169,351
Decrease in accrued interest payable	(215,411)	(220,646)
Decrease in accrued expenses and other liabilities	(375,625)	(523,663)
Net cash provided by operating activities	16,891,852	5,716,141
INVESTING ACTIVITIES:		
Purchases of securities -		
Available for sale	(62,763,601)	(32,936,864)
Held to maturity	(65,546,545)	0
Proceeds from maturities and prepayments of securities -		
Available for sale	35,216,978	42,312,938
Held to maturity	5,899,501	1,471,850
Net decrease in loans	85,597,345	18,483,261
Purchase of bank owned life insurance	0	(750,000)
Capital expenditures	(255,029)	(564,662)
Additional investment in other real estate owned	(139,668)	(1,650)
Proceeds from sales of other real estate owned	595,363	0
Cash consideration received in connection with acquisition of branches	101,539,588	0
Net cash provided by investing activities	101,143,932	28,014,873
FINANCING ACTIVITIES:		
Exercise of stock options and issuance of vested shares	57,891	56,165
Purchase of Treasury Stock	(15,354)	0
Dividend paid on preferred stock	0	(150,000)
Net decrease in demand, savings and time deposits	(5,829,713)	(38,454,338)
Net decrease in borrowings	(15,900,000)	0
Net cash used in financing activities	(21,687,176)	(38,548,173)

Increase (decrease) in cash and cash equivalents	96,348,608	(4,817,159)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	17,710,501	25,854,285
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 114,059,109	$ 21,037,126
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for -		
Interest	$ 1,984,615	$ 2,631,879
Income taxes	-	-
Non-cash investing activities		
Real estate acquired in full satisfaction of loans in foreclosure	$ 2,110,287	$ 0

See accompanying notes to consolidated financial statements.

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1st Constitution Bancorp and Subsidiaries

Notes To Consolidated Financial Statements

March 31, 2011 (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., 1ST Constitution Investment Company of New Jersey, Inc., FCB Assets Holdings, Inc. 1ST Constitution Title Agency, LLC, Riverside Lofts, LLC and 249 New York Avenue, 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, 2010, filed with the SEC on March 23, 2011.

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.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of March 31, 2011 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date these financial statements were issued.

(2) Acquisition of Unaffiliated Branches

On March 25, 2011, the Bank acquired certain deposit and other liabilities, real estate and related assets of the Rocky Hill, Hillsborough and Hopewell, New Jersey branch banking offices from another financial institution for a purchase price of $9.85 million (the "Acquisition"). The Acquisition was completed pursuant to the terms and conditions of the Branch Purchase and Assumption Agreement and Agreement for Purchase dated as of December 30, 2010, which was previously disclosed on a Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on January 3, 2011.

The Company accounted for this transaction using applicable accounting guidance regarding business combinations. The fair value of savings and transaction deposit accounts acquired was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. A core deposit intangible was ascribed to the value of non-maturity deposits based upon an independent third party evaluation which was prepared using the actual characteristics of the deposits and assumptions we believe to be reasonable. Certificates of deposit accounts were valued utilizing a discounted cash flows analysis based upon the underlying accounts' contractual maturities and interest rates. The present value of the projected cash flow was then determined using discount rates based upon certificate of deposit interest rates available in the marketplace for accounts with similar terms. The fair value of the three branch buildings was determined via appraisals performed by qualified independent third party appraisers. The fair value of loans acquired, all of which were performing, was assumed to approximate amortized cost based upon the small size and nature of those loans. The fair value amounts stated above are preliminary estimates and are subject to adjustment but are not expected to be materially different than those disclosed.

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As a result of the Acquisition, the three branches became branches of the Bank. Included in the Acquisition were the assumption of deposit liabilities of $111.9 million, primarily consisting of demand deposits, and the acquisition of cash of approximately $101.5 million, fixed assets of approximately $4.6 million, which includes, without limitation, ownership of the real estate and improvements upon which the branches are situated, and loans of $862,000. The Bank recorded goodwill of approximately $3.2 million and a core deposit intangible asset of approximately $1.7 million as a result of the Acquisition.

(3) 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 potential common stock options and unvested restricted stock awards (as defined below), using the treasury stock method. All share information has been adjusted for the effect of a 5% common stock dividend declared December 16, 2010 and paid on February 2, 2011 to shareholders of record on January 18, 2011.

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, 2011		
	Income	Weighted-average shares	Per share Amount
Basic EPS			
Net income	$ 789,868		
Preferred stock dividends and accretion	0		
Income available to common shareholders	789,868	4,802,615	$ 0.16
Effect of dilutive securities			
Stock options and unvested stock awards		89,453	
Diluted EPS			
Income available to common shareholders			
Plus assumed conversion	$ 789,868	4,892,068	$ 0.16

	Three Months Ended March 31, 2010		
	Income	Weighted-average shares	Per share Amount
Basic EPS			
Net income	$ 699,258		
Preferred stock dividends and accretion	(176,984)		
Income available to common shareholders	522,274	4,751,339	$ 0.11

Effect of dilutive securities					
Stock options and unvested stock awards			5,996		
Diluted EPS					
Net income available to common shareholders					
Plus assumed conversion	$	522,274	4,757,335	$	0.11

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(4) Investment Securities

Amortized cost, gross unrealized gains and losses, and the estimated fair value by security type are as follows:

March 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale-				
U. S. Treasury securities and obligations of U.S. Government sponsored corporations (“GSE”) and agencies	$ 31,366,918	$ 24,496	$ (58,430)	$ 31,332,984
Residential collateralized mortgage obligations – GSE	16,835,632	341,947	(9,876)	17,167,703
Residential collateralized mortgage obligations – non-GSE	5,175,527	86,160	(12,222)	5,249,465
Residential mortgage backed securities – GSE	48,029,899	1,160,174	(150,921)	49,039,152
Obligations of State and Political subdivisions	5,388,857	81,729	(64,682)	5,405,904
Trust preferred debt securities – single issuer	2,461,096	0	(438,609)	2,022,487
Corporate Debt Securities	1,482,605	8,202	0	1,490,807
Restricted stock	924,600	0	0	924,600
Mutual fund	25,000	0	0	25,000
	$ 111,690,134	$ 1,702,708	$ (734,740)	$ 112,658,102

March 31, 2011	Amortized Cost	Other-Than-Temporary Impairment Recognized In Accumulated Other Comprehensive Income	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity-						
U. S. Treasury securities and obligations of U.S. Government sponsored corporations (“GSE”) and agencies	$19,158,760	$0	$19,158,760	$38,360	$(34,465)	$19,162,655
Residential collateralized Mortgage obligations – GSE	8,819,534	0	8,819,534	63,059	(16,194)	8,866,399
Residential mortgage backed Securities – GSE	39,864,463	0	39,864,463	278,206	(44,054)	40,098,615
Residential mortgage backed Securities – non-GSE	15,393,765	0	15,393,765	199,368	0	15,593,133

Obligations of State and Political subdivisions	30,856,207	0	30,856,207	738,297	(93,691)	31,500,813
Trust preferred debt securities – pooled	644,495	(500,944)	143,551	0	(140,938)	2,613
Corporate debt securities	27,035,086	0	27,035,086	93,839	(89,045)	27,039,880
	$141,772,310	$(500,944)	$141,271,366	$1,411,129	$(418,387)	$142,264,108

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December 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale-				
U. S. Treasury securities and obligations of U.S. Government sponsored corporations (“GSE”) and agencies	$ 34,299,374	$ 60,189	$ 0	$ 34,359,563
Residential collateralized mortgage obligations- GSE	18,653,850	483,908	0	19,137,758
Residential collateralized mortgage obligations- non GSE	5,677,577	113,496	(29,751)	5,761,322
Residential mortgage backed securities – GSE	16,963,589	1,206,146	0	18,169,735
Obligations of State and Political subdivisions	3,110,145	23,768	(112,485)	3,021,428
Trust preferred debt securities	2,460,380	0	(602,877)	1,857,503
Corporate debt securities	1,495,438	4,973	(1,827)	1,498,584
Restricted stock	1,640,100	0	0	1,640,100
Mutual fund	25,000	0	0	25,000
	$ 84,325,453	$ 1,892,480	$ (746,940)	$ 85,470,993

December 31, 2010	Amortized Cost	Other-Than-Temporary Impairment Recognized In Accumulated Other Comprehensive Income	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity-						
U. S. Treasury securities and obligations of U.S. Government sponsored corporations (“GSE”) and agencies	$23,170,741	$0	$23,170,741	$93,600	$(50,721)	$23,213,620
Residential collateralized mortgage obligations – GSE	2,520,690	0	2,520,690	84,253	0	2,604,943
Residential mortgage backed securities – GSE	9,344,517	0	9,344,517	131,443	(41,711)	9,434,249
Obligations of State and Political subdivisions	19,467,404	0	19,467,404	245,290	(352,534)	19,360,160
Trust preferred debt securities – pooled	642,478	(500,944)	141,534	0	(137,361)	4,173
Corporate debt securities	27,245,009	0	27,245,009	67,696	(217,846)	27,094,859
	$82,390,839	$(500,944)	$81,889,895	$622,282	$(800,173)	$81,712,004

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Restricted stock at March 31, 2011 and December 31, 2010 consists of $909,600 and $1,625,100, of Federal Home Loan Bank of New York stock and $15,000 of Atlantic Central Bankers Bank stock.

The amortized cost and estimated fair value of investment securities at March 31, 2011, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Restricted stock is included in “Available for sale - Due in one year or less.”

	Amortized Cost	Fair Value
Available for sale-		
Due in one year or less	$ 5,489,353	$ 5,508,907
Due after one year through five years	12,813,219	12,841,698
Due after five years through ten years	22,866,413	23,216,050
Due after ten years	70,521,149	71,091,447
Total	$ 111,690,134	$ 112,658,102
Held to maturity-		
Due in one year or less	$ 2,839,312	$ 2,841,036
Due after one year through five years	43,619,379	43,705,186
Due after five years through ten years	21,032,969	21,448,137
Due after ten years	74,280,650	74,269,749
Total	$ 141,772,310	$ 142,264,108

Gross unrealized losses on securities and the estimated fair value of the related securities aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2011 and December 31, 2010 are as follows:

March 31, 2011		Less than 12 months		12 months or longer		Total	
	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealize
S. Treasury securities and obligations of U.S. Government sponsored corporations and agencies	19	$ 26,409,895	$ (92,895)	$ 0	$ 0	$ 26,409,895	$ (92,89
esidential collateralized mortgage obligations - GSE	6	9,703,759	(26,070)	0	0	9,703,759	(26,07
esidential collateralized mortgage obligations – non-GSE	2	1,860,851	(10,687)	350,719	(1,535)	2,211,570	(12,22
esidential mortgage backed Securities - GSE	28	39,251,493	(194,975)	0	0	39,251,493	(194,97
bligations of State and Political Subdivisions	13	6,448,847	(109,914)	964,634	(48,459)	7,413,481	(158,37
ust preferred debt securities –	4	0	0	2,022,487	(438,609)	2,022,487	(438,60

single issuer							
ust preferred debt securities – single issuer - pooled	1	0	0	2,613	(641,882)	2,613	(641,88
rporate Debt Securities	32	17,192,880	(89,045)	0	0	17,192,880	(89,04
otal temporarily impaired securities	105	$ 100,867,725	$ (523,586)	$ 3,340,453	$ (1,130,485)	$ 104,208,178	$ (1,654,07

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December 31, 2010		Less than 12 months		12 months or longer		Total	
	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government sponsored corporations and agencies	6	$5,120,020	$(50,721)	$-	$-	$5,120,020	$(50,721)
Residential collateralized mortgage Obligations – Non-GSE	2	2,035,105	(21,478)	372,747	(8,273)	2,407,852	(29,751)
Residential mortgage backed securities GSE	4	4,393,707	(41,711)	-	-	4,393,707	(41,711)
Obligations of State and Political Subdivisions	31	11,124,090	(378,918)	927,538	(86,101)	12,051,628	(465,019)
Trust preferred debt securities – Single issuer	4	0	0	1,857,503	(602,877)	1,857,503	(602,877)
Trust preferred debt securities – Pooled	1	0	0	4,173	(638,305)	4,173	(638,305)
Corporate debt securities	45	24,917,591	(219,673)	0	0	24,917,591	(219,673)
Total temporarily impaired securities	93	$47,590,513	$(712,501)	$3,161,961	$(1,335,556)	$50,752,474	$(2,048,057)

U.S. Treasury securities and obligations of U.S. Government sponsored corporations and agencies: The unrealized losses on investments in these securities were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before a market price recovery or maturity, these investments are not considered other-than temporarily impaired.

Residential collateralized mortgage obligations and residential mortgaged-backed securities: The unrealized losses on investments in residential collateralized residential mortgage obligations and mortgage-backed securities were caused by interest rate increases. The contractual cash flows of these securities are guaranteed by the issuer, which are generally government or government sponsored agencies. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

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Obligations of State and Political Subdivisions: The unrealized losses or investments in these securities were caused by interest rate increases. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

Corporate debt securities: The unrealized losses on investments in corporate debt securities were caused by interest rate increases. None of the corporate issuers have defaulted on interest payments. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

Trust preferred debt securities – single issuer: The investments in these securities with unrealized losses are comprised of four corporate trust preferred securities that mature in 2027, all of which were single-issuer securities. The contractual terms of the trust preferred securities do not allow the issuer to settle the securities at a price less than the face value of the trust preferred securities, which is greater than the amortized cost of the trust preferred securities. None of the corporate issuers have defaulted on interest payments. Because the decline in fair value is attributable to widening of interest rate spreads and the lack of an active trading market for these securities and to a lesser degree market concerns on the issuers' credit quality, and because the Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

Trust preferred debt security – pooled: This trust preferred debt security was issued by a two issuer pool (Preferred Term Securities XXV, Ltd. co-issued by Keefe, Bruyette and Woods, Inc. and First Tennessee ("PreTSL XXV")), consisting primarily of financial institution holding companies. During 2009, the Company recognized an other-than-temporary impairment charge of $864,727 of which $363,783 was determined to be a credit loss and charged to operations and $500,944 was recognized in other comprehensive income (loss) component of shareholders' equity.

A number of factors or combinations of factors could cause management to conclude in one or more future reporting periods that an unrealized loss that exists with respect to PreTSL XXV constitutes an additional credit impairment. These factors include, but are not limited to, failure to make interest payments, an increase in the severity of the unrealized loss, an increase in the continuous duration of the unrealized loss without an impairment in value or changes in market conditions and/or industry or issuer specific factors that would render management unable to forecast a full recovery in value. In addition, the fair value of trust preferred securities could decline if the overall economy and the financial condition of the issuers continue to deteriorate and there remains limited liquidity for this security.

The following table presents a cumulative roll forward of the amount of other-than-temporary impairment related to credit losses, all of which relate to PreTSL XXV, which have been recognized in earnings for debt securities held to maturity and not intended to be sold.

(in thousands)	Three months ended March 31, 2011	Three months ended March 31, 2010
Balance at beginning of period	$ 364	$ 364
Change during the period	-	-
Balance at end of period	$ 364	$ 364

(5) Loans and Allowance for Loan Losses

The Company’s primary lending emphasis is the origination of commercial and commercial real estate loans and mortgage warehouse lines of credit. Based on the composition of the loan portfolio, the inherent primary risks are deteriorating credit quality, a decline in the economy, and a decline in New Jersey real estate market values. Any one, or a combination, of these events may adversely affect the loan portfolio and may result in increased delinquencies, loan losses and increased future provision levels.

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The following table provides an aging of the loan portfolio by loan class at March 31, 2011:

	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days Accruing	Nonaccrual Loans
Commercial								
Construction	$4,459,663	$0	$4,092,421	$8,552,084	$56,086,773	$64,638,857	$0	$4,092,421
Commercial Business	519,832	0	665,132	1,184,964	46,741,004	47,925,968	0	1,138,045
Commercial Real Estate	1,185,224	0	1,407,644	2,592,868	90,975,362	93,568,230	0	1,407,545
Mortgage Warehouse Lines	0	0	0	0	92,947,939	92,947,939	0	0
Residential Real Estate	526,544	0	0	526,544	10,144,798	10,671,342	0	0
Consumer								
Loans to Individuals	0	0	77,858	77,858	12,952,904	13,030,762	0	77,858
Other	0	0	0	0	236,274	236,274	0	0
Deferred Loan Fees	0	0	0	0	709,605	709,605	0	0
Total	$6,691,263	$0	$6,243,055	$12,934,318	$310,794,659	$323,728,977	$0	$6,715,869

The following table provides an aging of the loan portfolio by loan class at December 31, 2010:

	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days Accruing	Nonaccrual Loans
Commercial								
Construction	$0	$0	$6,569,296	$6,569,296	$61,321,407	$67,890,703	$0	$6,569,296
Commercial Business	113,801	60,526	605,208	779,335	53,953,637	54,733,172	0	750,623
Commercial Real Estate	3,179,541	0	1,411,390	4,590,931	90,686,883	95,277,814	0	1,411,390
Mortgage Warehouse Lines	0	0	0	0	169,575,899	169,575,899	0	0

Residential Real Estate	173,708	0	0	173,708	10,261,330	10,435,038	0	0
Consumer								
Loans to Individuals	0	0	77,858	77,858	13,271,178	13,349,036	0	77,858
Other	0	0	0	0	181,924	181,924	0	0
Deferred Loan Fees	0	0	0	0	543,753	543,753	0	0
Total	$3,467,050	$60,526	$8,663,752	$12,191,328	$399,796,011	$411,987,339	$0	$8,809,167

Management reviews the adequacy of the allowance on at least a quarterly basis to ensure that the provision for loan losses has been charged against earnings in an amount necessary to maintain the allowance at a level that is adequate based on management's assessment of probable estimated losses. The Company's methodology for assessing the adequacy of the allowance for loan losses consists of several key elements. These elements include a specific reserve for impaired loans, an allocated reserve, and an unallocated portion.

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The Company consistently applies the following comprehensive methodology. During the quarterly review of the allowance for loan losses, the Company considers a variety of factors that include:

- General economic conditions.
- Trends in charge-offs.
- Trends and levels of delinquent loans.
- Trends and levels of non-performing loans, including loans over 90 days delinquent.
- Trends in volume and terms of loans.
- Levels of allowance for specific classified loans.
- Credit concentrations.

The methodology includes the segregation of the loan portfolio into loan types with a further segregation into risk rating categories, such as special mention, substandard, doubtful, and loss. This allows for an allocation of the allowance for loan losses by loan type; however, the allowance is available to absorb any loan loss without restriction. Larger balance, non-homogeneous loans representing significant individual credit exposures are evaluated individually through the internal loan review process. It is this process that produces the watch list. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated. Based on these reviews, an estimate of probable losses for the individual larger-balance loans are determined, whenever possible, and used to establish specific loan loss reserves. In general, for non-homogeneous loans not individually assessed, and for homogeneous groups, such as residential mortgages and consumer credits, the loans are collectively evaluated based on delinquency status, loan type, and historical losses. These loan groups are then internally risk rated.

The watch list includes loans that are assigned a rating of special mention, substandard, doubtful and loss. Loans classified special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans rated as doubtful in whole, or in part, are placed in nonaccrual status. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses.

The specific reserve for impaired loans is established for specific loans which have been identified by management as being impaired. These impaired loans are assigned a doubtful risk rating grade because the loan has not performed according to payment terms and there is reason to believe that repayment of the loan principal in whole, or part, is unlikely. The specific portion of the allowance is the total amount of potential unconfirmed losses for these individual doubtful loans. To assist in determining the fair value of loan collateral, the Company often utilizes independent third party qualified appraisal firms which in turn employ their own criteria and assumptions that may include occupancy rates, rental rates, and property expenses, among others.

The second category of reserves consists of the allocated portion of the allowance. The allocated portion of the allowance is determined by taking pools of loans outstanding that have similar characteristics and applying historical loss experience for each pool. This estimate represents the potential unconfirmed losses within the portfolio. Individual loan pools are created for commercial and commercial real estate loans, construction loans, and various types of loans to individuals. The historical estimation for each loan pool is then adjusted to account for current conditions, current loan portfolio performance, loan policy or management changes, or any other factor which may cause future losses to deviate from historical levels.

The Company also maintains an unallocated allowance. The unallocated allowance is used to cover any factors or conditions which may cause a potential loan loss but are not specifically identifiable. It is prudent to maintain an unallocated portion of the allowance because no matter how detailed an analysis of potential loan losses is performed, these estimates by definition lack precision. Management must make estimates using assumptions and information that is often subjective and changing rapidly.

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The following discusses the risk characteristics of each of our loan portfolio segments, commercial and consumer.

Commercial

The Company's primary lending emphasis is the origination of commercial and commercial real estate loans and mortgage warehouse lines of credit. Based on the composition of the loan portfolio, the inherent primary risks are deteriorating credit quality, a decline in the economy, and a decline in New Jersey real estate market values. Any one, or a combination, of these events may adversely affect the loan portfolio and may result in increased delinquencies, loan losses and increased future provision levels.

Consumer

The Company's loan portfolio consumer segment is comprised of residential real estate loans, home equity loans and other loans to individuals. Individual loan pools are created for the various types of loans to individuals.

In general, for homogeneous groups, such as residential mortgages and consumer credits, the loans are collectively evaluated based on delinquency status, loan type, and industry historical losses. These loan groups are then internally risk rated.

The Company considers the following credit quality indicators in assessing the risk in the loan portfolio:

- Consumer credit scores
- Internal credit risk grades
- Loan-to-value ratios
- Collateral
- Collection experience

The Company's internal credit risk grades are based on the definitions currently utilized by the banking regulatory agencies. The grades assigned and definitions are as follows, and loans graded excellent, above average, good and watch list are treated as "pass" for grading purposes:

1. Excellent - Loans that are based upon cash collateral held at the Bank and adequately margined. Loans that are based upon "blue chip" stocks listed on the major exchanges and adequately margined.

2. Above Average - Loans to companies whose balance sheets show excellent liquidity and long-term debt is on well-spread schedules of repayment easily covered by cash flow. Such companies have been consistently profitable and have diversification in their product lines or sources of revenue. The continuation of profitable operations for the foreseeable future is likely. Management is comprised of a mix of ages, experience, and backgrounds and management succession is in place. Sources of raw materials and service companies, the source of revenue is abundant. Future needs have been planned for. Character and ability of individuals or company principals are excellent. Loans to individuals supported by high net worths and liquid assets.

3. Good - Loans to companies whose balance sheets show good liquidity and cash flow adequate to meet maturities of long-term debt with a comfortable margin. Such company has established a profitable record over a number of years, and there has been growth in net worth. Operating ratios are in line with those of the industry, and expenses are in proper relationship to the volume of business done and the profits achieved. Management is well-balanced and competent in their responsibilities. Economic environment is favorable; however, competition is strong. The prospects for growth are good. Loans in this category do not meet the collateral requirements of loans in categories 1 and 2 above. Loans to individuals supported by good net worths but whose supporting assets are illiquid.

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3w. Watch List - Included in this category are loans evidencing problems identified by Bank management requiring closer supervision. Such problem has not developed to the point which requires a Special Mention rating. This category also covers situations where the Bank does not have adequate current information upon which credit quality can be determined. The account officer has the obligation to correct these deficiencies within 30 days after the time of notification.

4. Special Mention - Loans or borrowing relationships that require more than the usual amount of attention by Bank management. Industry conditions may be adverse or weak. The borrower's ability to meet current payment schedules may be questionable, even though interest and principal are being paid as agreed. Heavy reliance has been placed on the collateral. Profits, if any, are interspersed with losses. Management is "one man" or weak or incompetent or there is no plan for management succession. Expectations of a loan loss are not immediate; however, if present trends continue, a loan loss could be expected.

5. Substandard - Loans in this category possess weaknesses that jeopardize the ultimate collection of total outstandings. These weaknesses require close supervision by Bank management. Current financial statements are unavailable and the loan is inadequately protected by the collateral pledged. This category will normally include loans that have been classified as substandard by the regulators.

6. Doubtful - Loans with weaknesses inherent in the substandard classification and where collection or liquidation in full is highly questionable. It is likely that the loan will not be collected in full and the Bank will suffer some loss which is not quantifiable at the time of review.

7. Loss - Loans considered uncollectable and of such little value that their continuance as an active asset is not warranted. Loans in this category should immediately be eliminated from the Bank's loan loss reserve. Any accrued interest should immediately be backed out of income.

The following table provides a breakdown of the loan portfolio by credit quality indictor at March 31, 2011.

Commercial Credit Exposure - By Internally Assigned Grade	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse Lines	Residential Real Estate
Grade:					
Pass	$51,383,732	$45,219,025	$83,039,694	$92,947,939	$10,151,732
Special Mention	4,690,186	1,273,473	6,769,612	0	0
Substandard	8,564,939	1,253,733	3,095,174	0	519,610
Doubtful	0	179,737	663,750	0	0
Total	$64,638,857	$47,925,968	$93,568,230	$92,947,939	$10,671,342

Consumer Credit Exposure - By Payment Activity	Loans To Individuals	Other
Performing	$12,952,904	$236,274
Nonperforming	77,858	0
Total	$13,030,762	$236,274

The following table provides a breakdown of the loan portfolio by credit quality indictor at December 31, 2010.

Commercial Credit Exposure - By	Construction	Commercial	Commercial	Mortgage	Residential

Internally Assigned Grade		Business	Real Estate	Warehouse Lines	Real Estate
Grade:					
Pass	$52,445,421	$52,587,444	$85,122,509	$169,575,899	$10,435,038
Special Mention	4,482,569	433,377	3,668,243	0	0
Substandard	10,962,713	1,499,461	5,823,312	0	0
Doubtful	0	212,890	663,750	0	0
Total	$67,890,703	$54,733,172	$95,277,814	$169,575,899	$10,435,038