

1ST CONSTITUTION BANCORP
Form 10-Q
August 13, 2007

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 June 30, 2007

or

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

For the transition period from _____ to _____

Commission file 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 ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of August 8, 2007, there were 3,744,465 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**

	June 30, 2007 (unaudited)	December 31, 2006
ASSETS		
CASH AND DUE FROM BANKS	\$ 9,559,584	\$ 10,336,334
FEDERAL FUNDS SOLD / SHORT-TERM INVESTMENTS	20,901	25,478
Total cash and cash equivalents	9,580,485	10,361,812
INVESTMENT SECURITIES:		
Available for sale, at fair value	82,047,134	70,421,328
Held to maturity (fair value of \$26,041,037 and \$19,164,679 in 2007 and 2006, respectively)	26,528,257	19,254,476
Total investment securities	108,575,391	89,675,804
LOANS HELD FOR SALE	8,937,522	13,608,942
LOANS	285,576,595	265,142,313
Less- Allowance for loan losses	(3,310,080)	(3,228,360)
Net loans	282,266,515	261,813,953
PREMISES AND EQUIPMENT, net	2,916,754	3,033,618
ACCRUED INTEREST RECEIVABLE	2,582,561	2,235,671
BANK - OWNED LIFE INSURANCE	9,357,989	9,179,408
OTHER ASSETS	3,982,204	2,668,338
Total assets	\$ 428,199,422	\$ 392,677,546
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits		
Non-interest bearing	\$ 59,254,332	\$ 64,305,445
Interest bearing	266,696,151	248,418,977
Total deposits	325,950,483	312,724,422
BORROWINGS	43,000,000	17,200,000
REDEEMABLE SUBORDINATED DEBENTURES	18,557,000	23,712,000
ACCRUED INTEREST PAYABLE	1,869,468	1,957,574

ACCRUED EXPENSES AND OTHER LIABILITIES	1,430,128	1,886,980
Total liabilities	390,807,079	357,480,976
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock, no par value; 30,000,000 shares authorized; 3,732,689 shares issued and 3,742,662 shares outstanding as of June 30, 2007 and December 31, 2006, respectively	28,935,469	28,886,105
Retained earnings	10,194,120	7,290,916
Treasury Stock, shares at cost, 10,171 shares and 198 shares at June 30, 2007 and December 31, 2006, respectively	(186,969)	(3,545)
Accumulated other comprehensive (loss)	(1,550,277)	(976,906)
Total shareholders' equity	37,392,343	35,196,570
Total liabilities and shareholders' equity	\$ 428,199,422	\$ 392,677,546

See accompanying notes to consolidated financial statements.

1ST Constitution Bancorp and Subsidiaries
Consolidated Statements of Income
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
INTEREST INCOME				
Loans, including fees	\$ 6,092,841	\$ 5,822,356	\$ 12,260,566	\$ 10,999,172
Securities				
Taxable	1,083,967	795,540	2,076,294	1,601,906
Tax-exempt	225,791	147,052	432,359	307,843
Federal funds sold and short-term investments	42,879	24,674	65,423	33,338
Total interest income	7,445,478	6,789,622	14,834,642	12,942,259
INTEREST EXPENSE				
Deposits	2,435,381	1,524,009	4,651,466	2,874,339
Securities sold under agreement to repurchase and other borrowed funds	346,073	490,796	632,412	957,133
Redeemable subordinated debentures	349,507	165,708	778,574	267,552
Total interest expense	3,130,961	2,180,513	6,062,452	4,099,024
Net interest income	4,314,517	4,609,109	8,772,190	8,843,235
Provision for loan losses	30,000	170,000	70,000	340,000
Net interest income after provision for loan losses	4,284,517	4,439,109	8,702,190	8,503,235
NON-INTEREST INCOME				
Service charges on deposit accounts	175,181	167,042	325,036	353,601
Gain on sale of loans	188,741	174,930	420,518	493,619
Losses on sales of investment securities, net	0	(99,714)	0	(99,714)
Income on bank-owned life insurance	88,233	82,934	178,581	163,534
Other income	196,268	149,517	368,029	293,255
Total non-interest income	648,423	474,709	1,292,164	1,204,295
NON-INTEREST EXPENSE				
Salaries and employee benefits	1,637,213	1,712,959	3,450,012	3,397,981
Occupancy expense	406,012	378,143	796,944	697,127
Other operating expenses	779,101	1,017,201	1,596,583	2,103,223
Total non-interest expenses	2,822,326	3,108,303	5,843,539	6,198,331
Income before income taxes	2,110,614	1,805,515	4,150,815	3,509,199
INCOME TAXES	612,909	448,251	1,247,610	897,177
Net income	\$ 1,497,705	\$ 1,357,264	\$ 2,903,205	\$ 2,612,022
NET INCOME PER SHARE				

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Basic	\$	0.40	\$	0.37	\$	0.78	\$	0.72
Diluted	\$	0.39	\$	0.36	\$	0.76	\$	0.69

See accompanying notes to consolidated financial statements

1st Constitution Bancorp and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
For the Six Months Ended June 30, 2007 and 2006
(unaudited)

	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
BALANCE, December 31, 2005	\$ 25,589,320	\$ 5,981,803	\$ (1,008,998)	\$ (765,258)	\$ 29,796,867
Exercise of stock options, net and issuance of vested shares under employee benefit programs	(108,992)		153,948		44,956
FAS 123R share-based compensation	46,085				46,085
Treasury Stock, shares purchased at cost			(35,472)		(35,472)
Adjustment to initially apply FASB Statement No. 158 (net of tax benefit of \$257,160)				(499,194)	(499,194)
Comprehensive Income: Net Income for the six months ended June 30, 2006		2,612,022			2,612,022
Unrealized loss on securities available for sale, net of tax benefit				(756,596)	(756,596)
Total comprehensive Income					1,855,426
BALANCE, June 30, 2006	\$ 25,526,413	\$ 8,593,825	\$ (890,522)	\$ (2,021,048)	\$ 31,208,668
BALANCE, December 31, 2006	\$ 28,886,105	\$ 7,290,916	\$ (3,545)	\$ (976,906)	\$ 35,196,570
Exercise of stock options, net and					

issuance of vested shares under employee benefit programs	(13,881)	45,093	31,212
FAS 123R share-based compensation	63,245		63,245
Treasury Stock, shares purchased at cost		(228,517)	(228,517)
Comprehensive Income:			
Net Income for the six months ended June 30, 2007	2,903,205		2,903,205
Reduction of retirement plan defined benefit liability		36,823	36,823
Unrealized loss on securities available for sale, net of tax benefit		(610,194)	(610,194)
Total comprehensive Income			2,293,011
BALANCE, June 30, 2007	\$ 28,935,469	\$ 10,194,120	\$ (186,969) \$ (1,550,277) \$ 37,392,343

See accompanying notes to
consolidated financial
statements

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

Six months ended June 30,
2007 2006

OPERATING ACTIVITIES:

Net income	\$ 2,903,205	\$ 2,612,022
Adjustments to reconcile net income to net cash provided by operating activities-		
Provision for loan losses	70,000	340,000
Depreciation and amortization	369,719	288,413
Net amortization of premiums on securities	11,907	29,515
Gain on sales of loans held for sale	(420,518)	(493,619)
Loss on sale of securities available for sale	-	99,714
Originations of loans held for sale	(30,603,730)	(26,714,241)
Income on Bank – owned life insurance	(178,581)	(163,534)
Proceeds from sales of loans held for sale	35,695,668	31,014,958
Increase in accrued interest receivable	(346,890)	(757,644)
(Increase) in other assets	(115,036)	(298,599)
(Decrease) increase in accrued interest payable	(88,106)	340,671
(Decrease) increase in accrued expenses and other liabilities	(456,852)	1,062,056
Net cash provided by operating activities	6,840,786	7,359,712

INVESTING ACTIVITIES:

Purchases of securities -		
Available for sale	(15,776,240)	(6,958,616)
Held to maturity	(7,677,917)	-
Proceeds from maturities and prepayments of securities -		
Available for sale	3,226,445	7,479,257
Held to maturity	337,517	4,311,655
Proceeds from sales of securities available for sale	-	2,899,385
Net increase in loans	(20,422,562)	(24,514,687)
Capital expenditures	(252,855)	(279,000)
Cash consideration paid to acquire branch	(730,257)	-
Cash and cash equivalents acquired from branch	19,514,239	-
Net cash used in investing activities	(21,781,630)	(17,062,006)

FINANCING ACTIVITIES:

Issuance of common stock, net	31,212	44,956
Purchase of treasury stock	(228,517)	(35,472)
Net increase (decrease) in demand, savings and time deposits	(6,288,178)	(11,884,098)
(Repayments) proceeds from issuance of redeemable subordinated debentures	(5,155,000)	18,557,000
Net advances (repayments) in other borrowings	25,800,000	(100,000)
Net cash provided by financing activities	14,159,517	6,582,386
Increase (decrease) in cash and cash equivalents	(781,327)	(3,119,908)

CASH AND CASH EQUIVALENTS

AT BEGINNING OF PERIOD	10,361,812	12,137,750
AT END OF PERIOD	\$ 9,580,485	\$ 9,017,842

SUPPLEMENTAL DISCLOSURES

OF CASH FLOW INFORMATION:

Cash paid during the year for -		
Interest	\$ 6,150,558	\$ 3,758,353
Income taxes	1,421,600	1,352,372

See accompanying notes to consolidated financial statements.

1st Constitution Bancorp and Subsidiaries
Notes To Consolidated Financial Statements
June 30, 2007 (Unaudited)

Summary of Significant Accounting Policies

The accompanying unaudited Consolidated Financial Statements herein have been prepared by 1st Constitution Bancorp (the “Company”), in accordance with 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”). 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 financial statements and the notes thereto included in the Company’s Form 10-K for the year ended December 31, 2006, filed with the SEC on April 2, 2007.

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.

Net Income Per Common Share

Basic net income per common share is calculated by dividing net income by the weighted average number of shares outstanding during each period.

Diluted net income per common share is calculated by dividing net income by the weighted average number of shares outstanding, as adjusted for the assumed exercise of potential common stock options, using the treasury stock method. All share information has been restated for the effect of a 6% stock dividend declared on December 21, 2006 and paid on January 31, 2007 to shareholders of record on January 23, 2007.

The following (unaudited) tables illustrate the reconciliation of the numerators and denominators of the basic and diluted earnings per share (EPS) calculations.

	Three Months Ended June 30, 2007		
	Income	Weighted-average shares	Per share amount
Basic EPS			
Net income available to common stockholders	\$ 1,497,705	3,734,800	\$ 0.40
Effect of dilutive securities			
Options and Grants	-	59,623	(0.01)
Diluted EPS			
Net income available to common stockholders plus assumed conversion	\$ 1,497,705	3,794,423	\$ 0.39

All options have been included in the computation of diluted earnings per share.

	Three Months Ended June 30, 2006		
	Income	Weighted-average shares	Per share Amount
Basic EPS			
Net income available to common stockholders	\$ 1,357,264	3,650,024	\$ 0.37
Effect of dilutive securities			
Options and Grants	-	125,093	(0.01)
Diluted EPS			
Net income available to common stockholders plus assumed conversion	\$ 1,357,264	3,775,117	\$ 0.36

All options have been included in the computation of diluted earnings per share.

	Six Months Ended June 30, 2007		
	Income	Weighted-average shares	Per share Amount
Basic EPS			
Net income available to common stockholders	\$ 2,903,205	3,738,709	\$ 0.78
Effect of dilutive securities			
Options and Grants	-	60,422	(0.02)
Diluted EPS			
Net income available to common stockholders plus assumed conversion	\$ 2,903,205	3,799,131	\$ 0.76

All options have been included in the computation of diluted earnings per share.

	Six Months Ended June 30, 2006		
	Income	Weighted-average shares	Per share Amount
Basic EPS			
Net income available to common stockholders	\$ 2,612,022	3,647,062	\$ 0.72
Effect of dilutive securities			
Options and Grants	-	125,251	(0.03)
Diluted EPS			
Net income available to common stockholders plus assumed conversion	\$ 2,612,022	3,772,313	\$ 0.69

All options have been included in the computation of diluted earnings per share.

Share-based Compensation

Effective January 1, 2006, the Company adopted FASB Statement No. 123 (R), "Share-Based Payment". Statement 123 (R) requires that compensation cost relating to share-based payment transactions be recognized in financial statements. The cost is measured based on the fair value of the equity or liability instruments issued.

The Company adopted Statement 123 (R) using the modified prospective transition method. Under this method, the Company records compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding as of the beginning of the period of adoption. The Company measures share-based compensation cost using the Black-Scholes option pricing model for stock option grants. The assumptions used in the option-pricing model in 2006 were: dividend yield of 0%; expected volatility of 26.6%; risk-free interest rate of 4.53%; and expected term of 7 years. Although the initial fair value of stock options is not adjusted after the grant date, changes in the Company's assumptions may change the value of, and therefore the expense related to, future stock option grants. Forfeitures did not affect the calculated expense based upon historical activities of option grantees.

The Company issued no stock options during the first six months of 2007 or 2006.

Transactions under the Company's stock option plans during the six months ended June 30, 2007 are summarized as follows:

Stock Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2006	132,851	\$ 10.58		
Options Granted	-	-		
Options Exercised	(852)	3.30		
Options Expired	-	-		
Outstanding at June 30, 2007	131,999	\$ 10.58	5.6	\$ 915,406
Exercisable at June 30, 2007	100,583	\$ 8.54	4.6	\$ 901,315

The following table summarized non-vested stock options activity for the six months ended June 30, 2007:

	Number of Shares	Average Grant Date Fair Value
Non-vested stock options at December 31, 2006	42,780	\$ 16.07
Granted	-	-
Vested	-	-
Forfeited	-	-
Non-vested stock options at June 30, 2007	42,780	\$ 16.07

As of June 30, 2007, there was approximately \$271,388 of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's stock incentive plans. That cost is expected to

be recognized over the next three years.

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The total intrinsic value (spread between the market value and exercise price) of the stock options exercised during the six months ended June 30, 2007 was \$12,601. The amount of cash received from the exercise of options for the six month period ended June 30, 2007 was \$2,812.

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 SFAS No. 132, as revised in December 2003, "Employers' Disclosures about Pensions and Other Post-retirement Benefits" and 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 additional information about changes in the benefit obligation and the fair values of plan assets. It also standardized 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 postretirement 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 incremental effect of apply SFAS No. 158 on individual line items in the December 31, 2006 Consolidated Balance Sheet is as follows (in thousands):

	Before Application of Statement 158		After Application of Statement 158	
		Adjustments		
Deferred income taxes	\$ 1,905	\$ 257	\$	2,162
Total Assets	392,421	257		392,678
Other liabilities	1,131	756		1,887
Total liabilities	356,725	756		357,481
Accumulated other comprehensive loss	(478)	(499)		(977)
Total shareholders' equity	\$ 35,696	\$ (499)	\$	35,197

Redeemable Subordinated Debentures

On April 10, 2002, 1ST Constitution Capital Trust I ("Trust I"), a statutory business trust and a wholly-owned subsidiary of the Company, issued \$5.0 million of variable rate trust preferred securities (the "Trust Preferred Securities") in a pooled institutional placement transaction maturing April 22, 2032. Trust I utilized the \$5.0 million proceeds along with \$155,000 invested in Trust I by the Company to purchase \$5,155,000 of floating rate subordinated debentures issued by the Company and due to mature on April 22, 2032 (the "Subordinated Debentures"). The Subordinated Debentures constituted the sole assets of Trust I, had terms that mirrored the Trust Preferred Securities and were redeemable in whole or part prior to maturity after April 22, 2007. Trust I was obligated to distribute all proceeds of a redemption of the Subordinated Debentures, whether voluntary or upon maturity, to holders of the Trust Preferred Securities. The Company's obligation with respect to the Trust Preferred Securities and the Subordinated Debentures, when taken together, provided a full and unconditional guarantee on a subordinated basis by the Company of the obligations of Trust I to pay amounts when due on the Trust Preferred Securities. On February 23, 2007, the Company

notified Wilmington Trust Company, as Indenture Trustee, of the Company's intention to redeem the Subordinated Debentures on April 22, 2007, and the Company redeemed the Subordinated Debentures on that date, as discussed below.

On May 30, 2006, 1ST Constitution Bancorp established 1ST Constitution Capital Trust II, a Delaware business trust subsidiary ("Trust II"), for the sole purpose of issuing \$18 million of trust preferred securities (the "Capital Securities"). The Capital Securities were issued in connection with a pooled offering involving approximately 50 other financial institution holding companies. All of the Capital Securities were sold to a single pooling vehicle.

The proceeds from the sale of the Capital Securities were loaned to the Company under 30-year floating rate junior subordinated debentures issued to Trust II by the Company. The debentures are the only asset of Trust II. Interest payments on the debentures flow through Trust II to the pooling vehicle. Payments of distributions by Trust II to the pooling vehicle are guaranteed by the Company.

Effective April 22, 2007, the Company redeemed all of the Subordinated Debentures. The redemption price was 100% of the aggregate \$5,155,000 principal amount of the Subordinated Debentures, plus approximately \$233,786 of accrued interest thereon through the redemption date. As a result of the redemption of the Subordinated Debentures, a like amount of capital securities issued by 1ST Constitution Capital Trust I will also be redeemed under the same terms and conditions. This redemption does not impact the Capital Securities issued by the Company's wholly-owned subsidiary 1ST Constitution Capital Trust II on May 30, 2006.

Variable Interest Entities

Management has determined that Trust I and Trust II (the "Trusts") qualify as variable interest entities under FASB Interpretation 46 ("FIN 46"). The Trusts issued mandatorily redeemable preferred stock to investors and loaned the proceeds to the Company. Each of the Trusts holds, as its sole asset, subordinated debentures issued by the Company. Subsequent to the issuance of FIN 46, and prior to the establishment of Trust II, the FASB issued a revised interpretation, FIN 46(R), the provisions of which were required to be applied to certain variable interest entities, including the Trust, by March 31, 2004, at which time the Trust I was deconsolidated.

In March 2005, the Federal Reserve Board adopted a final rule that would continue to allow the inclusion of trust preferred securities in Tier 1 capital, but with stricter quantitative limits. Under the final rule, after a five-year transition period, the aggregate amount of trust preferred securities and certain other capital elements would be limited to 25% of Tier 1 capital elements, net of goodwill. The amount of trust preferred securities and certain other elements in excess of the limit could be included in Tier 2 capital, subject to restrictions. Based on the final rule, as of June 30, 2007, the Company included all of its then-outstanding \$18.6 million in trust preferred securities in Tier 1 capital.

Segment Information

SFAS No. 131, *Segment Reporting*, establishes standards for public business enterprises to report information about operating segments in their annual financial statements and requires that those enterprises report selected information about operating segments in subsequent interim financial reports issued to shareholders. It also established standards for related disclosure about products and services, geographic areas, and major customers. Operating segments are components of an enterprise, which are evaluated regularly by the chief operating decision-maker in deciding how to allocate and assess resources and performance. The Company's chief operating decision-maker is the President and Chief Executive Officer. The Company has applied the aggregation criteria set forth in SFAS No. 131 for its operating segments to create one reportable segment, "Community Banking."

The Company's Community Banking segment consists of construction, commercial, retail and mortgage banking. The Community Banking segment is managed as a single strategic unit, which generates revenue from a variety of products and services provided by the Company. For example, construction and commercial lending is dependent upon the ability of the Company to fund itself with retail deposits and other borrowings and to manage interest rate and credit risk. This situation is also similar for consumer and residential real estate lending.

Recent Accounting Pronouncements

In February, 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140" ("SFAS 155"), to simplify and make more consistent the accounting for certain financial instruments. SFAS 155 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") and permits fair value re-measurement for any hybrid financial instrument with an embedded derivative that otherwise would require bifurcation, provided that the whole instrument is accounted for on a fair value basis. Prior to fair value measurement, interests in securitized financial assets must be evaluated to identify interests containing embedded derivatives requiring bifurcation. The amendments to SFAS 133 also clarify which interest-only and principal-only strips are not subject to the requirements of SFAS 133, and that concentration of credit risk in the form of subordination are not embedded derivatives. SFAS 155 amends SFAS 140 to allow a qualifying special-purpose entity to hold a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 applies to all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of SFAS 155 did not have a material impact on the Company's consolidated financial statements.

In March 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 156, "Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140" ("SFAS 156"). SFAS 156 amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 156 permits, but does not require, an entity to choose either the amortization method or the fair value measurement method for measuring each class of separately recognized servicing assets and servicing liabilities. The adoption of SFAS 156 did not have a material impact on the Company's consolidated financial statements.

The Company adopted the provisions of FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. Previously, the Company had accounted for tax contingencies in accordance with Statement of Financial Accounting Standards 5, *Accounting for Contingencies*. As required by Interpretation 48, which clarifies Statement 109, *Accounting for Income Taxes*, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company is subject to income taxes in the U.S. federal jurisdiction, and the states of New Jersey and Delaware. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply.

The Company applied Interpretation 48 to all tax positions for which the statute of limitations remained open. The adoption of Interpretation 48 did not have a material impact on the results operations or financial condition of the Company.

In September 2006, FASB Issued Statement No. 157, "Fair Value Measurements" ("SFAS 157"), which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. The Company is currently evaluating the impact the adoption of SFAS No. 157 will have on its consolidated financial statements.

At its September 2006 meeting, the Emerging Issues Task Force ("EITF") reached a final consensus on Issue 06-04, *"Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements."* In accordance with the EITF consensus, an agreement by an employer to share a portion of the proceeds of a life insurance policy with an employee during the postretirement period is a postretirement benefit arrangement required to be accounted for under SFAS No. 106 and, therefore, a liability for the postretirement obligation must be recognized under SFAS No. 106 if the benefit is offered under an arrangement that constitutes a plan or under APB No. 12 if it is not part of a plan. The provisions of Issue 06-04 are to be applied through either a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or retrospective application. Issue 06-04 is effective for annual or interim reporting periods beginning after December 15, 2007. The application of Issue 06-04 is not expected to have a material effect on the Company's financial position or results of operations.

At its September 2006 meeting, the EITF reached a final consensus on Issue 06-05, *"Accounting for Purchases of Life Insurance - Determining the Amount That Could be Realized in Accordance with FASB Technical Bulletin No. 85-4."* Issue 06-05 concludes that in determining the amount that could be realized under an insurance contract accounted for under FASB Technical Bulletin No. 85-4, *"Accounting for Purchases of Life Insurance,"* the policyholder should (1) consider any additional amounts included in the contractual terms of the policy; (2) assume the surrender value on an individual life-by individual-life policy basis; and (3) not discount the cash surrender value component of the amount that could be realized when contractual restrictions on the ability to surrender a policy exist. Issue 06-05 should be adopted through either (1) a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or (2) a change in accounting principle through retrospective application to all prior periods. Issue 06-05 is effective for fiscal years beginning after December 15, 2006. The application of Issue 06-05 did not have a material effect on the Company's financial position or results of operations.

In February 2007, the FASB issued Statement of Financial Standards No. 159, "The Fair Value for Financial Assets and Financial Liabilities" (Statement 159). Statement 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Statement is effective as of the beginning of an entities first year that begins after November 15, 2007. The Company does not expect the adoption of Statement 159 to have a material impact on the consolidated financial statements.

(2) Acquisition of Unaffiliated Branch

On February 27, 2007, the Company, through the Bank, completed its acquisition of the Hightstown, New Jersey branch of another financial institution for a purchase price of \$730,257.

As a result of the acquisition, the Hightstown branch became a branch of the Bank. Included in the acquisition of the branch were deposit liabilities of \$19.5 million, mostly in certificates of deposit, cash of approximately \$18.8 million, net of assets acquired, cash on hand of approximately \$137,000, fixed and other assets of approximately \$91,000 and the assumption of the lease of the branch premises. The cash received in the transaction was utilized to repay short term borrowings used to purchase investment securities prior to, and in contemplation of, the completion of the acquisition.

In addition, the Bank recorded goodwill of \$445,653 and a core deposit intangible asset of \$274,604.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The purpose of this discussion and analysis of the operating results and financial condition at June 30, 2007 is intended to help readers analyze the accompanying financial statements, notes and other supplemental information contained in this document. Results of operations for the three and six month periods ended June 30, 2007 are not necessarily indicative of results to be attained for any other period.

This discussion and analysis should be read in conjunction with the Consolidated Financial Statements, notes and tables included elsewhere in this report and Part II, Item 7 of the Company's Form 10-K (Management's Discussion and Analysis of Financial Condition and Results of Operations) for the year ended December 31, 2006, as filed with the SEC on April 2, 2007.

General

Throughout the following sections, the "Company" refers to¹ Constitution Bancorp and, as the context requires, its subsidiaries, 1st Constitution Bank and 1st Constitution Capital Trust II, and its former subsidiary, 1st Constitution Capital Trust I, the "Bank" refers to¹ Constitution Bank, and the "Trusts" refers to¹ Constitution Capital Trust I and 1st Constitution Capital Trust II, collectively.

The Company is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company was organized under the laws of the State of New Jersey in February 1999 for the purpose of acquiring all of the issued and outstanding stock of the Bank, a full service commercial bank which began operations in August 1989, and thereby enabling the Bank to operate within a bank holding company structure. The Company became an active bank holding company on July 1, 1999. The Bank is a wholly-owned subsidiary of the Company. Other than its ownership interest in the Bank, the Company currently conducts no other significant business activities.

The Bank operates eleven branches, and manages an investment portfolio through its subsidiary, 1st Constitution Investment Company of Delaware, Inc. FCB Assets Holdings, Inc., a subsidiary of the Bank, is used by the Bank to manage and dispose of repossessed real estate.

1st Constitution Capital Trust II, a subsidiary of the Company, and 1st Constitution Capital Trust I, which was formerly a subsidiary of the Company, were created to issue trust preferred securities to assist the Company to raise additional regulatory capital.

Forward-Looking Statements

When used in this and in future filings by the Company with the SEC, in the Company's press releases and in oral statements made with the approval of an authorized executive officer of the Company, the words or phrases "will," "will likely result," "could," "anticipates," "believes," "continues," "expects," "plans," "will continue," "is anticipated," "estimated," "outlook" or similar expressions (including confirmations by an authorized executive officer of the Company of any such expressions made by a third party with respect to the Company) are intended to identify forward-looking

statements. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, each of which speak only as of the date made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected.

Factors that may cause actual results to differ from those results expressed or implied, include, but are not limited to, those listed under “Business”, “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K filed with the SEC on April 2, 2007, such as the overall economy and the interest rate environment; the ability of customers to repay their obligations; the adequacy of the allowance for loan losses; competition; significant changes in accounting, tax or regulatory practices and requirements; certain interest rate risks; and risks associated with speculative construction lending. Although management has taken certain steps to mitigate any negative effect of the aforementioned items, significant unfavorable changes could severely impact the assumptions used and have an adverse effect on profitability. The Company has no obligation to publicly release the result of any revisions which may be made to any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2007 and June 30, 2006

Summary

The Company realized net income of \$1,497,705 for the three months ended June 30, 2007, an increase of 10.3% from the \$1,357,264 reported for the three months ended June 30, 2006. Diluted net income per share was \$0.39 for the three months ended June 30, 2007 compared to \$0.36 per diluted share for the three months ended June 30, 2006. All prior year share information has been restated for the effect of a 6% stock dividend declared on December 21, 2006 and paid on January 31, 2007 to shareholders of record on January 23, 2007.

Key performance ratios remained strong for the three months ended June 30, 2007. Return on average assets and return on average equity were 1.43% and 16.22% for the three months ended June 30, 2007 compared to 1.45% and 17.69%, respectively, for the three months ended June 30, 2006.

A significant factor impacting the Company’s net interest income has been the rising level of market interest rates that characterized the marketplace in 2006 and has continued through the first half of 2007. The Federal Reserve Bank’s Open Market Committee raised short-term interest rates four times during 2006, which raised the targeted Federal funds rate to the current 5.25% at June 30, 2007. These increases in short-term market rates drive up the cost of the Company’s core deposits. As a result, the Company experienced a 92 basis point increase in the cost of its interest-bearing deposits to 3.93% at June 30, 2007 compared to 3.01% at June 30, 2006. The Company’s net interest margin experienced a decrease of 54 basis points to 4.64% at June 30, 2007 compared to 5.18% at June 30, 2006.

A second significant factor impacting financial results for the first half of 2007 was the February 27, 2007 closing of a transaction whereby the Bank acquired all of the deposit liabilities and related assets of the Hightstown, New Jersey branch banking office of another financial institution. This acquisition added approximately \$19.5 million in new deposits and \$18.8 million in cash to the balance sheet in 2007 in addition to having an impact on most components of income/expense on the statement of income for the six months ended June 30, 2007.

Earnings Analysis

Interest Income

Interest income for the three months ended June 30, 2007 was \$7,445,478, increasing by 9.7% from the \$6,789,622 reported in the three months ended June 30, 2006. This is primarily attributable to a higher volume of total interest-earning assets when compared to the prior year period. For the three months ended June 30, 2007, average interest earning assets increased \$43,618,780 or 12.4%, to \$395,860,393 compared to \$352,241,613 for the three months ended June 30, 2006. For the three months ended June 30, 2007, the average yield on earning assets decreased 16 basis points to 7.65% from 7.81% for the three months ended June 30, 2006.

Interest Expense

Interest expense for the three months ended June 30, 2007 was \$3,130,961, an increase of \$950,448 from \$2,180,513 reported for the three months ended June 30, 2006. Total average interest bearing liabilities increased by \$43,929,636 to \$318,230,562 for the three months ended June 30, 2007 from \$274,300,926 for the three months ended June 30, 2006. The average cost of interest bearing liabilities increased 76 basis points to 3.95% for the three months ended June 30, 2007 from 3.19% for the three months ended June 30, 2006, primarily as a result of an increase in market-driven rates paid on deposits and short-term borrowed funds.

Net Interest Income

The Company's net interest income for the three months ended June 30, 2007 was \$4,314,517, a decrease of 6.4% from the \$4,609,109 reported for June 30, 2006. The net interest margin (on a tax-equivalent basis), which is net interest income divided by average interest-earning assets, decreased 85 basis points to 4.48% for the three months ended June 30, 2007 from 5.33% for the three months ended June 30, 2006. The increased cost of deposits in the competitive New Jersey marketplace combined with a shift in the Company's deposit mix to higher cost certificates of deposit accounts has been contributed significantly to this margin compression.

Provision for Loan Losses

Management maintains the allowance for loan losses at a level that is considered adequate to absorb losses on existing loans that may become uncollectible based upon an evaluation of known and inherent risks in the loan portfolio. Additions to the allowance are made by charges to the provision for loan losses. The evaluation considers a complete review of the following specific factors: historical losses by loan category, non-accrual loans, problem loans as identified through internal classifications, collateral values, and the growth and size of the portfolio. Additionally, current economic conditions and local real estate market conditions are considered. As a result of this evaluation process, the Company's provision for loan losses was \$30,000 for the three months ended June 30, 2007 and \$170,000 for the three months ended June 30, 2006. See "Allowance for Loan Losses" on page 23.

Non-Interest Income

Total non-interest income for the three months ended June 30, 2007 was \$648,423, an increase of \$173,714, or 36.6%, over non-interest income of \$474,709 for the three months ended June 30, 2006.

Service charges on deposit accounts represents a significant source of non-interest income. Service charge revenues increased by \$8,139, or 4.9%, to \$175,181 for the three months ended June 30, 2007 from the \$167,042 for the three months ended June 30, 2006. This increase was the result of a higher volume of uncollected and overdraft fees collected on deposit accounts during the second quarter of 2007 compared to the same period in 2006.

Gain on sales of loans increased by \$13,811, or 7.9%, to \$188,741 for the three months ended June 30, 2007 when compared to \$174,930 for the three months ended June 30, 2006. The rising rate environment that existed throughout 2006 and continued into the first half of 2007 has impacted the volume of sales transactions in the mortgage loan and SBA loan markets and resultant gains resulting from these transactions.

Non-interest income also includes income from bank-owned life insurance ("BOLI") which amounted to \$88,233 for the three months ended June 30, 2007 compared to \$82,934 for the three months ended June 30, 2006. The Bank purchased tax-free BOLI assets to partially offset the cost of employee benefit plans and reduced the Company's overall effective tax rate.

The Bank also generates non-interest income from a variety of fee-based services. These include safe deposit box rental, wire transfer service fees and Automated Teller Machine fees for non-Bank customers. Increased customer demand for these services contributed to the other income component of non-interest income amounting to \$196,268 for the three months ended June 30, 2007, compared to \$149,517 for the three months ended June 30, 2006.

The Company recorded net losses on sales of investment securities of \$99,714 for the three months ended June 30, 2006. These transactions were primarily the result of modest portfolio restructurings. Their purpose was to improve the Company's longer-term interest rate risk position.

Non-Interest Expense

Non-interest expenses decreased by \$285,977, or 9.2%, to \$2,822,326 for the three months ended June 30, 2007 from \$3,108,303 for the three months ended June 30, 2006. The following table presents the major components of non-interest expenses for the three months ended June 30, 2007 and 2006.

Non-interest Expenses

	Three months ended June 30,	
	2007	2006
Salaries and employee benefits	\$ 1,637,213	\$ 1,712,959
Occupancy expenses	406,012	378,143
Equipment expense	120,796	116,163
Marketing	22,145	65,100
Computer services	215,898	175,327
Regulatory, professional and other fees	73,320	290,178
Office expense	152,408	105,630
All other expenses	794,534	264,803
Total	\$ 2,822,326	\$ 3,108,303

Salaries and employee benefits, which represent the largest portion of non-interest expenses, decreased by \$75,746, or 4.4%, to \$1,637,213 for the three months ended June 30, 2007 compared to \$1,712,959 for the three months ended June 30, 2006. The decrease in salaries and employee benefits for the three months ended June 30, 2007 was a result of a lower level of expenses incurred in connection with the Company's health insurance and other employee benefit plans partially offset by an increase in staffing levels. Staffing levels overall increased to 97 full-time equivalent employees at June 30, 2007 as compared to 93 full-time equivalent employees at June 30, 2006. The February 23, 2007 acquisition of the Hightstown branch contributed to this increase by increasing the number of full-time equivalent employees by 4.

Regulatory, professional and other fees decreased by \$216,858, or 74.7%, to \$73,320 for the three months ended June 30, 2007 compared to \$290,178 for the three months ended June 30, 2006. During 2006, the Company chose to incur additional accounting, legal and consulting fees primarily as a result of the new internal control compliance requirements contained in Section 404 of the Sarbanes-Oxley Act in anticipation of the Company's compliance in 2008.

An important financial services industry productivity measure is the efficiency ratio. The efficiency ratio is calculated by dividing total operating expenses by net interest income plus non-interest income. An increase in the efficiency ratio indicates that more resources are being utilized to generate the same or greater volume of income, while a decrease would indicate a more efficient allocation of resources. The Bank's efficiency ratio decreased to 56.9% for the three months ended June 30, 2007, compared to 61.1% for the three months ended June 30, 2006.

Six Months Ended June 30, 2007 and June 30, 2006

Summary

The Company realized net income of \$2,903,205 for the six months ended June 30, 2007, an increase of \$291,183, or 11.1%, over the \$2,612,022 realized for the six months ended June 30, 2006. Net income per diluted share was \$0.76 for the six months ended June 30, 2007 compared to \$0.69 per diluted share for the six months ended June 30, 2006.

Key performance ratios remained strong for the six months ended June 30, 2007. Return on average assets and return on average equity were 1.42% and 16.02%, respectively, for the six months ended June 30, 2007 compared to 1.42% and 17.31%, respectively, for the six months ended June 30, 2006.

Earnings Analysis

Interest Income

For the six months ended June 30, 2007, total interest income was \$14,834,642 an increase of \$1,892,383 or 14.6%, compared to total interest income of \$12,942,259 for the six months ended June 30, 2006.

The following table sets forth the Company's consolidated average balances of assets, liabilities and shareholders' equity as well as interest income and expense on related items, and the Company's average rate for the six month periods ended June 30, 2007 and 2006.

Average Balance Sheets with Resultant Interest and Rates

(yields on a

tax-equivalent basis)

	Six months ended June 30, 2007			Six months ended June 30, 2006		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets:						
Federal Funds						
Sold/Short-Term						
Investments	\$ 2,542,891	\$ 65,423	5.20%	\$ 882,764	\$ 33,338	4.88%
Investment						
Securities:						
Collateralized						
Mortgage						
Obligations/						
Mortgage Backed						
Securities	79,834,540	2,076,294	5.20%	67,267,461	1,601,907	4.76%
Obligations of						
States and Political						
Subdivisions	22,534,371	639,892	5.68%	16,826,536	455,607	5.42%
Total	102,368,911	2,716,186	5.31%	84,093,997	2,057,514	4.89%
Loan Portfolio:						
Construction	128,038,453	5,772,790	9.09%	122,076,525	5,308,225	8.77%
Residential Real						
Estate	7,657,934	342,816	9.03%	8,373,845	281,883	6.79%
Home Equity	13,978,390	529,513	7.64%	14,349,464	510,640	7.18%
Commercial and						
commercial real						
estate	112,177,995	4,341,501	7.80%	95,523,253	3,576,994	7.55%
Installment	1,543,012	64,859	8.48%	2,212,513	92,273	8.41%
All Other Loans	21,698,761	1,209,086	11.24%	22,361,005	1,229,158	11.08%
Total	285,094,545	12,260,565	8.67%	264,896,605	10,999,173	8.37%
Total						
Interest-Earning						
Assets	390,006,347	15,042,174	7.78%	349,873,366	13,090,025	7.54%
Allowance for Loan						
Losses	(3,202,227)			(2,521,830)		
Cash and Due From						
Bank	9,840,214			9,192,148		
Other Assets	16,993,628			15,117,762		
Total Assets	\$ 413,637,962			\$ 371,661,446		

Liabilities and Shareholders'

Equity:						
Interest-Bearing Liabilities:						
Money Market and NOW Accounts	\$ 83,227,341	\$ 838,662	2.03%	\$ 91,223,484	\$ 680,438	1.50%
Savings Accounts	65,745,828	1,004,462	3.08%	43,010,509	369,525	1.73%
Certificates of Deposit	117,341,127	2,808,342	4.83%	95,281,466	1,824,376	3.86%
Other Borrowed Funds	24,034,530	632,412	5.31%	38,242,265	957,133	5.05%
Trust Preferred Securities	21,093,923	778,574	7.34%	6,591,160	267,552	8.07%
Total Interest-Bearing Liabilities	311,442,749	6,062,452	3.93%	274,348,884	4,099,024	3.01%
Net Interest Spread			3.85%			4.53%
Demand Deposits	60,426,470			61,998,664		
Other Liabilities	5,212,864			4,882,757		
Total Liabilities	377,082,083			341,230,305		
Shareholders' Equity	36,555,879			30,431,141		
Total Liabilities and Shareholders' Equity	\$ 413,637,962			\$ 371,661,446		
Net Interest Margin	\$ 8,979,722	4.64%		\$ 8,991,001	5.18%	

The current year increase in interest income resulted from a higher average balance in the loan portfolio combined with higher average yields earned on the securities and loan portfolios. Average loans increased \$20,197,940, or 7.6%, to \$285,094,545 for the six months ended June 30, 2007 from \$264,896,605 for the six months ended June 30, 2006, while the yield on the portfolio increased 30 basis points to 8.67% for the six months ended June 30, 2007 from 8.37% for the six months ended June 30, 2006. The higher loan yield reflected the higher interest rate environment that existed during 2006 and continued through the first half of 2007.

Average securities increased \$18,274,914, or 21.7%, from \$84,093,997 for the six months ended June 30, 2006 to \$102,368,911 for the six months ended June 30, 2007, while the yield on the securities portfolio increased to 5.31% for the six months ended June 30, 2007 from 4.89% for the six months ended June 30, 2006.

Overall, the yield on the Company's total interest-earning assets increased 24 basis points to 7.78% for the six months ended June 30, 2007 from 7.54% for the six months ended June 30, 2006.

Interest Expense

Total interest expense for the six months ended June 30, 2007 was \$6,062,452, an increase of \$1,963,428, or 47.9%, compared to \$4,099,024 for the six months ended June 30, 2006. The increase in interest expense for the current period resulted primarily from the impact of higher levels of interest-bearing liabilities priced at higher market interest rate levels and a change in the mix of interest bearing liabilities, principally the decline in lower rate money market and NOW accounts and an increase in higher rate savings accounts, certificates of deposit and trust preferred securities. The average rate paid on interest bearing liabilities for the six months ended June 30, 2007 increased 92 basis points to 3.93% from 3.01% for the six months ended June 30, 2006.

Net Interest Income

The Company's net interest income for the six months ended June 30, 2007 was \$8,772,190, a decrease of \$71,045, or 0.8%, compared to \$8,843,235 for the six months ended June 30, 2006. The net interest margin (on a tax-equivalent basis) was 4.64% for the six months ended June 30, 2007 compared to 5.18% for the six months ended June 30, 2006. The increased cost of deposits in the competitive New Jersey marketplace combined with a shift in the Company's deposit mix to higher cost certificates of deposit accounts has contributed significantly to this margin compression.

Provision for Loan Losses

Management considers a complete review of the following specific factors in determining the provision for loan losses: historical losses by loan category, non-accrual loans, problem loans as identified through internal classifications, collateral values, and the growth and size of the portfolio. In addition to these factors, management takes into consideration current economic conditions and local real estate market conditions. As a result of this evaluation process, the Company's provision for loan losses was \$70,000 for the six months ended June 30, 2007 and \$340,000 for the six months ended June 30, 2006. Net charge offs/recoveries amounted to a net recovery of \$11,720 for the six months ended June 30, 2007 compared to a net charge off of \$8,639 for the six months ended June 30, 2006. See "Allowance for Loan Losses" on page 23.

Non-Interest Income

Total non-interest income for the six months ended June 30, 2007 was \$1,292,164, an increase of \$87,869, or 7.3%, from non-interest income of \$1,204,295 for the six months ended June 30, 2006.

Gain on sale of loans held for sale represents the largest single source on non-interest income. Gain on sale of loans held for sale for the six months ended June 30, 2007 was \$420,518 compared to \$493,619 for the six months ended June 30, 2006. The current rising interest rate environment has significantly impacted the volume of sales transactions in the mortgage loan and SBA loan markets and resultant gains from these transactions.

Service charges on deposit accounts were \$325,036 for the six months ended June 30, 2007 compared to \$353,601 for the six months ended June 30, 2006. Service charge income decreased in 2007 principally due to a lower volume of uncollected and overdraft fees collected on deposit accounts during the first six months of 2007 compared to 2006.

Income from Bank Owned Life Insurance ("BOLI") amounted to \$178,581 for the six months ended June 30, 2007, compared to \$163,534 for the six months ended June 30, 2006. The Company owns \$9.4 million in tax-free BOLI assets which partially offset the cost of employee benefit plans and reduced the Company's overall effective tax rate.

The Company recorded net losses on sales of investment securities of \$99,714 for the six months ended June 30, 2006. These transactions were primarily the result of modest portfolio restructurings. Their purpose was to improve the Company's longer-term interest rate risk position.

Non-Interest Expense

Total non-interest expense for the six months ended June 30, 2007 was \$5,843,539, a decrease of \$354,792, or 5.7%, compared to non-interest expense of \$6,198,331 for the six months ended June 30, 2006.

The following table presents the major components of non-interest expense for the six months ended June 30, 2007 and 2006.

Non-interest Expenses

	Six months ended June 30,	
	2007	2006
Salaries and employee benefits	\$ 3,450,012	\$ 3,397,981
Occupancy expense	796,944	697,127
Equipment expense	246,209	237,167
Marketing	47,026	174,198
Computer services	412,974	341,962
Regulatory, professional and other fees	182,106	681,569
Office expense	294,782	207,652
All other expenses	413,486	460,676
	\$ 5,843,539	\$ 6,198,332

Salaries and employee benefits increased \$52,031, or 1.5%, to \$3,450,012 for the six months ended June 30, 2007 compared to \$3,397,981 for the six months ended June 30, 2006. This increase reflects the increase in staffing levels plus normal employee salary increases.

Regulatory, professional and other fees decreased by \$499,463, or 73.2%, to \$182,106 for the six months ended June 30, 2007 compared to \$681,569 for the six months ended June 30, 2006. During the first six months of 2006, the Company incurred increased consulting fees primarily as a result of preparations for internal control compliance requirements contained in Section 404 of the Sarbanes-Oxley Act for which the Company must be in compliance at December 31, 2008.

The Company's efficiency ratio decreased to 58.1% for the six months ended June 30, 2007 compared to a ratio of 61.7% for the six months ended June 30, 2006.

Financial Condition

June 30, 2007 Compared with December 31, 2006

Total consolidated assets at June 30, 2007 totaled \$428,199,422, increasing by \$35,521,876 from \$392,677,546 at December 31, 2006. On February 27, 2007, the Bank acquired all of the deposit liabilities and related assets of the Hightstown, New Jersey branch banking office of another financial institution. This acquisition added approximately \$19 million in new deposits. In connection with such acquisition, the Company recorded \$445,653 in goodwill and \$274,604 in core deposit intangibles, which appear as "Other Assets" in the Consolidated Balance Sheet at June 30, 2007.

Cash and Cash Equivalents

Cash and Cash Equivalents at June 30, 2007 totaled \$9,580,485 compared to \$10,361,812 at December 31, 2006. Cash and cash equivalents at June 30, 2007 consisted of cash and due from banks of \$9,559,584 and Federal funds sold/short term investments of \$20,901. The corresponding balances at December 31, 2006 were \$10,336,334 and \$25,478, respectively.

Investment Securities

The Bank's investment securities represented 25.4% of total assets at June 30, 2007 and 22.8% at December 31, 2006. Total investment securities increased \$18,899,587, or 21.1%, at June 30, 2007 to \$108,575,391 from \$89,675,804 at December 31, 2006.

Securities available for sale are investments that may be sold in response to changing market and interest rate conditions or for other business purposes. Securities available for sale consist primarily of U.S. Government and Federal agency securities as well as mortgage-backed securities. Activity in this portfolio is undertaken primarily to manage liquidity and interest rate risk and to take advantage of market conditions that create economically more attractive returns. At June 30, 2007, available-for-sale securities amounted to \$82,047,134, and increase of \$11,625,806 or 16.5%, from December 31, 2006.

At June 30, 2007, the securities available for sale portfolio had net unrealized losses of \$1,648,343 compared to net unrealized losses of \$719,367 at December 31, 2006. These unrealized losses are reflected net of tax in shareholders' equity as a component of other comprehensive income (loss).

Securities held to maturity, which are carried at amortized historical cost, are investments for which there is the positive intent and ability to hold to maturity. The held-to-maturity portfolio consists primarily of obligations of states and political subdivisions. At June 30, 2007, securities held to maturity were \$26,528,257, an increase of \$7,273,781, or 37.8% from \$19,254,476 at December 31, 2006. The fair value of the held-to-maturity portfolio at June 30, 2007, was \$26,041,037, resulting in a net unrealized loss of \$487,219.

During the six months ended June 30, 2007, the Bank purchased securities in the amounts of \$15,776,240 and \$7,677,917 for the available for sale and held to maturity portfolios, respectively. These purchases were funded primarily by the cash received in the Hightstown branch acquisition completed in February 2007.

Loans

The loan portfolio, which represents the Bank's largest asset, is a significant source of both interest and fee income. Elements of the loan portfolio are subject to differing levels of credit and interest rate risk. The Company's primary lending focus continues to be construction loans, commercial loans, owner-occupied commercial mortgage loans and tenanted commercial real estate loans.

The following table sets forth the classification of loans by major category at June 30, 2007 and December 31, 2006.

Loan Portfolio Composition	June 30, 2007		December 31, 2006	
	Amount	% of total	Amount	% of total
Construction loans	\$ 130,623,738	46%	\$ 125,268,871	47%
Residential real estate loans	9,155,735	4%	7,670,370	3%
Commercial and commercial real estate	129,611,101	45%	114,897,040	44%
Loans to individuals	15,598,979	5%	16,728,025	6%
Deferred loan fees	409,494	0%	404,074	0%
All other loans	177,548	0%	173,933	0%
	\$ 285,576,595	100%	\$ 265,142,313	100.0%

The loan portfolio increased \$20,434,282, or 7.7%, at June 30, 2007 to \$285,576,595 from \$265,142,313 at December 31, 2006. The ability of the Company to enter into larger loan relationships and management's philosophy of relationship banking are key factors in the Company's strategy for loan growth. The ultimate collectability of the loan portfolio and the recovery of the carrying amount of real estate are subject to changes in the Company's market region's economic environment and real estate market.

Non-Performing Assets

Non-performing assets consist of non-performing loans and other real estate owned. Non-performing loans are composed of (1) loans on a non-accrual basis, (2) loans which are contractually past due 90 days or more as to interest and principal payments but have not been classified as non-accrual, and (3) loans whose terms have been restructured to provide a reduction or deferral of interest on principal because of a deterioration in the financial position of the borrower.

The Bank's policy with regard to non-accrual loans is that generally, loans are placed on a non-accrual status when they are 90 days past due unless these loans are well secured and in the process of collection or, regardless of the past due status of the loan, when management determines that the complete recovery of principal or interest is in doubt. Consumer loans are generally charged off after they become 120 days past due. Subsequent payments on loans in non-accrual status are credited to income only if collection of principal is not in doubt.

Non-performing loans decreased by \$699,453 to \$3,493,756 at June 30, 2007 from \$4,193,209 at December 31, 2006. The largest segment of non-accrual loans represents unfinished residential construction where litigation has commenced and workout negotiations are in process. The balance of the non-performing loans are centered in commercial loans for which litigation has commenced. The table below sets forth non-performing assets and risk elements in the Bank's portfolio by type for the years indicated. As the table demonstrates, non-performing loans to total loans decreased to 1.23% at June 30, 2007 from 1.58% at December 31, 2006 for the reasons previously stated, but loan quality is still considered to be strong. This was accomplished through quality loan underwriting, a proactive

approach to loan monitoring and aggressive workout strategies.

Non-performing assets decreased by \$679,453 to \$3,513,756 at June 30, 2007 from \$4,193,209 at December 31, 2006. Non-performing assets represented 0.82% of total assets at June 30, 2007 and 1.07% at December 31, 2006. Non-performing loans as a percentage of total loans were 1.23% at June 30, 2007, compared to 1.58% at December 31, 2006.

The Bank had no loans classified as restructured loans at June 30, 2007 or December 31, 2006.

At June 30, 2007 and December 31, 2006, the Bank had no loans that were 90 days or more past due but still accruing interest.

Non-Performing Assets and Loans	June 30 2007	December 31 2006
Non-Performing loans:		
Loans 90 days or more past due and still accruing	\$ 0	\$ 0
Non-accrual loans	3,493,756	4,193,209
Total non-performing loans	3,493,756	4,193,209
Other real estate owned	0	0
Total non-performing assets	\$ 3,493,756	\$ 4,193,209
 Non-performing loans to total loans	 1.23%	 1.58%
Non-performing assets to total assets	0.82%	1.07%

Management takes a proactive approach in addressing delinquent loans. The Company's President meets weekly with all loan officers to review the status of credits past-due ten days or more. An action plan is discussed for each of the loans to determine the steps necessary to induce the borrower to cure the delinquency and restore the loan to a current status. Also, delinquency notices are system generated when loans are five days past-due and again at 15 days past-due.

In most cases, the Company's collateral is real estate and when the collateral is foreclosed upon, the real estate is carried at the lower of fair market value less estimated selling costs, or at cost. The amount, if any, by which the recorded amount of the loan exceeds the fair market value of the asset is a loss which is charged to the allowance for loan losses at the time of foreclosure or repossession. Resolution of a past-due loan can be delayed if the borrower files a bankruptcy petition because collection action cannot be continued unless the Company first obtains relief from the automatic stay provided by the bankruptcy code.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level sufficient in the opinion of management to absorb estimated credit losses in the loan portfolio as of the date of the financial statements. The allowance for loan losses is a valuation reserve available for losses incurred or inherent in the loan portfolio and other extensions of credit. The determination of the adequacy of the allowance for loan losses is a critical accounting policy of the Company.

The Company's primary lending emphasis is the origination of commercial and commercial real estate loans, including construction loans. Based on the composition of the loan portfolio, the primary risks inherent in it are deteriorating credit quality, increases in interest rates, 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.

All, or part, of the principal balance of commercial and commercial real estate loans, and construction loans are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is unlikely. Consumer loans are generally charged off no later than 120 days past due on a contractual basis, earlier in the event of bankruptcy, or if there is an amount deemed uncollectible. Because all identified losses are immediately charged off, no portion of the allowance for loan and lease losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan and lease losses.

Management reviews the adequacy of the allowance on at least a quarterly basis to ensure that the provision for loan and lease 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 and lease losses consists of several key elements. These elements include a specific reserve for doubtful or high risk loans, an allocated reserve, and an unallocated portion. The Company consistently applies the following comprehensive methodology.

During the quarterly review of the allowance for loan and lease losses, management of 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 specific reserve for high risk loans is established for specific commercial loans, commercial real estate loans, and construction loans which have been identified by management as being high risk loan assets. These high risk 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 for the 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 which is often subjective and changing rapidly. At June 30, 2007, management believed that the allowance for loan losses and non-performing loans was adequate.

The allowance for loan losses amounted to \$3,310,080 at June 30, 2007, an increase of \$81,720 from December 31, 2006. The ratio of the allowance for loan losses to total loans was 1.12% at June 30, 2007 and 1.16% at December 31, 2006, respectively. Management believes the quality of the loan portfolio remains strong and that the allowance for loan losses is adequate in relation to credit risk exposure levels.

The following table presents, for the periods indicated, an analysis of the allowance for loan losses and other related data.

Allowance for Loan Losses	June 30, 2007	December 31, 2006	June 30, 2006
Balance, beginning of period	\$ 3,228,360	\$ 2,361,375	\$ 2,361,375
Provision charged to operating expenses	70,000	893,500	340,000
Loans charged off:			
Construction loans	-	-	-
Residential real estate loans	-	-	-
Commercial and commercial real estate	(65,891)	(11,154)	(11,154)
Loans to individuals	(1,614)	(18,314)	(285)
Lease financing	(478)	-	-
All other loans	-	-	-
	(67,983)	(29,468)	(11,439)
Recoveries:			
Construction loans	75,000	-	-
Residential real estate loans	-	-	-
Commercial and commercial real estate	-	153	-
Loans to individuals	4,703	2,800	2,800
Lease financing	-	-	-
All other loans	-	-	-
	79,703	2,953	2,800
Net (charge offs) / recoveries	11,720	(26,515)	(8,639)
Balance, end of period	\$ 3,310,080	\$ 3,228,360	\$ 2,692,736
Loans:			
At period end	\$ 294,514,117	\$ 278,751,255	\$ 277,471,033
Average during the period	285,094,544	271,740,647	264,896,605

Net charge offs to average loans outstanding	0.00%	(0.01%)	0.00%
Allowance for loan losses to:			
Total loans at period end	1.12%	1.16%	0.97%
Non-performing loans	94.74%	76.99%	325.25%

Deposits

Deposits, which include demand deposits (interest bearing and non-interest bearing), savings and time deposits, are a fundamental and cost-effective source of funding. The Company offers a variety of products designed to attract and retain customers, with the Company's primary focus being on building and expanding long-term relationships.

Total deposits increased \$13,226,061, or 4.2%, to \$325,950,483 at June 30, 2007 from \$312,724,422 at December 31, 2006. On February 27, 2007, the Bank acquired all of the deposit liabilities and related assets of the Hightstown, New Jersey branch banking office of another financial institution. This acquisition added approximately \$19 million in new deposits.

Borrowings

Borrowings are mainly comprised of fixed rate convertible advances from the Federal Home Loan Bank ("FHLB") and federal funds purchased. These borrowings are primarily used to fund asset growth not supported by deposit generation. The balance of other borrowings at June 30, 2007 consisted of long-term FHLB borrowings of \$15,500,000 and overnight funds purchased of \$27,500,000. The balance of borrowings at December 31, 2006 consisted of long-term FHLB borrowings of \$15,500,000 and overnight funds purchased of \$1,700,000. FHLB advances are fully secured by marketable securities.

Shareholders' Equity And Dividends

Shareholders' equity at June 30, 2007 totaled \$37,392,343, an increase of \$2,195,773, or 6.2%, from \$35,196,570 at December 31, 2006. Book value per common share rose to \$10.02 at June 30, 2007 from \$9.40 at December 31, 2006. The ratio of shareholders' equity to total assets was 8.73% at June 30, 2007 and 8.96% at December 31, 2006.

The increase in shareholders' equity and book value per share resulted primarily from net income of \$2,903,205 partially offset by the increase in unrealized holding losses on available for sale securities.

The Company's stock is listed for trading on the Nasdaq Global Market System, under the symbol "FCCY."

In 2005, the Board of Directors authorized a common stock repurchase program that allows for the repurchase of a limited number of the Company's shares at management's discretion on the open market. The Company undertook this repurchase program in order to increase shareholder value. A table disclosing repurchases of Company shares made during the quarter ended June 30, 2007 is set forth under Part II, Item 2 of this report, *Unregistered Sales of Equity Securities and Use of Proceeds*.

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Actual capital amounts and ratios for the Company and the Bank as of June 30, 2007 and December 31, 2006 are as follows:

	Actual Amount	Ratio	For Capital Adequacy Purposes Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provision Amount	Ratio
As of June 30, 2007						
-						
Company						
Total Capital to Risk Weighted Assets	\$ 59,514,548	17.60%	\$ 27,048,560	> 8%	\$ 33,810,700	N/A
Tier 1 Capital to Risk Weighted Assets	51,172,360	15.13%	13,524,280	> 4%	20,286,420	N/A
Tier 1 Capital to Average Assets	51,172,360	12.19%	16,788,365	> 4%	20,985,457	N/A
Bank						
Total Capital to Risk Weighted Assets	\$ 56,921,903	16.84%	\$ 27,048,560	> 8%	\$ 33,810,700	>10%
Tier 1 Capital to Risk Weighted Assets	53,611,833	15.86%	13,524,280	> 4%	20,286,420	> 6%
Tier 1 Capital to Average Assets	53,611,823	12.80%	16,749,000	> 4%	20,936,250	> 5%
As of December 31, 2006 -						
Company						
Total Capital to Risk Weighted Assets	\$ 62,614,642	20.23%	\$ 24,751,678	>8%	\$ 30,939,598	N/A
Tier 1 Capital to Risk Weighted Assets	47,720,050	15.42%	12,375,839	>4%	18,563,759	N/A
Tier 1 Capital to Average Assets	47,720,050	12.18%	15,752,046	>4%	19,690,058	N/A
Bank						
Total Capital to Risk Weighted Assets	\$ 53,871,072	17.38%	\$ 24,751,040	>8%	\$ 30,938,800	>10%
Tier 1 Capital to Risk Weighted Assets	50,542,712	16.34%	12,375,520	>4%	18,563,280	>6%
Tier 1 Capital to Average Assets	50,542,712	12.87%	15,710,320	>4%	19,637,900	>5%

The minimum regulatory capital requirements for financial institutions require institutions to have a Tier 1 capital to average assets ratio of 4.0%, a Tier 1 capital to risk weighted assets ratio of 4.0% and a total capital to risk weighted assets ratio of 8.0%. To be considered “well capitalized,” an institution must have a minimum Tier 1 leverage ratio of 5.0%. At June 30, 2007, the ratios of the Company exceeded the ratios required to be considered well capitalized. It is management’s goal to monitor and maintain adequate capital levels to continue to support asset growth and continue its status as a well-capitalized institution.

Liquidity

At June 30, 2007, the amount of liquid assets remained at a level management deemed adequate to ensure that contractual liabilities, depositors withdrawal requirements, and other operational and customer credit needs could be satisfied.

Liquidity measures the ability to satisfy current and future cash flow needs as they become due. Liquidity management refers to the Company’s ability to support asset growth while satisfying the borrowing needs and deposit withdrawal requirements of customers. In addition to maintaining liquid assets, factors such as capital position, profitability, asset quality and availability of funding affect a bank’s ability to meet its liquidity needs. On the asset side, liquid funds are maintained in the form of cash and cash equivalents, Federal funds sold, investment securities held to maturity maturing within one year, securities available for sale and loans held for sale. Additional asset-based liquidity is derived from scheduled loan repayments as well as investment repayments of principal and interest from mortgage-backed securities. On the liability side, the primary source of liquidity is the ability to generate core deposits. Short-term borrowings are used as supplemental funding sources when growth in the core deposit base does not keep pace with that of earnings assets.

The Bank has established a borrowing relationship with the FHLB and a correspondent bank which further supports and enhances liquidity. At June 30, 2007, the Bank maintained an Overnight Line of Credit at the FHLB in the amount of \$16,176,500 plus a One-Month Overnight Repricing Line of Credit of \$10,176,500. Effective August 1, 2007, these lines were renewed by FHLB at the amount of \$28,883,000 for the Overnight Line of Credit and the One-Month Overnight Repricing Line of Credit. Advances issued under these programs are subject to FHLB stock level and collateral requirements. Pricing of these advances may fluctuate based on existing market conditions. The Bank also maintains an unsecured Federal funds line of \$13,500,000 with a correspondent bank.

The Consolidated Statements of Cash Flows present the changes in cash from operating, investing and financing activities. At June 30, 2007, the balance of cash and cash equivalents was \$9,580,485.

Net cash provided by operating activities totaled \$6,840,786 in the six months ended June 30, 2007 compared to \$7,359,712 in the six months ended June 30, 2006. The primary sources of funds are net income from operations adjusted for provision for loan losses, depreciation expenses, and net proceeds from sales of loans held for sale.

Net cash used in investing activities totaled \$21,781,630 in the six months ended June 30, 2007 compared to \$17,062,006 used in investing activities in the six months ended June 30, 2006. The current period amount was primarily the result of investment securities purchases partially offset by the cash and cash equivalents acquired with the Hightstown branch.

Net cash provided by financing activities amounted to \$14,159,517 in the six months ended June 30, 2007 compared to \$6,582,386 provided by financing activities in the six months ended June 30, 2006. The current period amount resulted primarily from an increase in borrowings combined with a decrease in demand, savings and time deposits plus the repayment of redeemable subordinated debentures during the six months period ended June 30, 2007.

The securities portfolio is also a source of liquidity, providing cash flows from maturities and periodic repayments of principal. During the six months ended June 30, 2007, maturities and prepayments of investment securities totaled \$3,563,962. Another source of liquidity is the loan portfolio, which provides a flow of payments and maturities.

The Company anticipates that cash and cash equivalents on hand, the cash flow from assets as well as other sources of funds will provide adequate liquidity for the Company's future operating, investing and financing needs. Management will continue to monitor the Company's liquidity and maintain it at a level that it deems adequate and not excessive.

Interest Rate Sensitivity Analysis

The largest component of the Company's total income is net interest income, and the majority of the Company's financial instruments are composed of interest rate-sensitive assets and liabilities with various terms and maturities. The primary objective of management is to maximize net interest income while minimizing interest rate risk. Interest rate risk is derived from timing differences in the repricing of assets and liabilities, loan prepayments, deposit withdrawals, and differences in lending and funding rates. Management actively seeks to monitor and control the mix of interest rate-sensitive assets and interest rate-sensitive liabilities.

The Company continually evaluates interest rate risk management opportunities, including the use of derivative financial instruments. Management believes that hedging instruments currently available are not cost-effective, and therefore, has focused its efforts on increasing the Company's spread by attracting lower-cost retail deposits.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

To measure the impacts of longer-term asset and liability mismatches beyond two years, the Company utilizes Modified Duration of Equity and Economic Value of Portfolio Equity ("EVPE") models. The modified duration of equity measures the potential price risk of equity to changes in interest rates. A longer modified duration of equity indicates a greater degree of risk to rising interest rates. Because of balance sheet optionality, an EVPE analysis is also used to dynamically model the present value of asset and liability cash flows, with rates ranging up or down 200 basis points. The economic value of equity is likely to be different as interest rates change. Results falling outside prescribed ranges require action by management. At June 30, 2007 and December 31, 2006, the Company's variance in the economic value equity as a percentage of assets with an instantaneous and sustained parallel shift of 200 basis points is within the negative 3% guideline, as shown in the tables below.

The market capitalization of the Company should not be equated to the EVPE, which only deals with the valuation of balance sheet cash flows using conservative assumptions. Calculated core deposit premiums may be less than what is available in an outright sale. The model does not consider potential premiums on floating rate loan sales, the impact of overhead expense, non-interest income, taxes, industry market price multiples and other factors reflected in the market capitalization of a company.

The following tables set forth certain information relating to the Company's financial instruments that are sensitive to changes in interest rates, categorized by expected maturity or repricing and the instruments fair value at June 30, 2007 and December 31, 2006.

Market Risk Analysis

June 30, 2007

Change in Interest Rates	Flat	-200bp	+200bp
Economic Value of Portfolio Equity	\$ 49,748,000	\$ 50,615,000	\$ 44,189,000
Change		\$ 867,000	\$ (5,559,000)
Change as a Percentage of Assets		0.20%	(1.30%)

December 31, 2006

Change in Interest Rates	Flat	-200bp	+200bp
Economic Value of Portfolio Equity	\$ 47,670,000	\$ 46,869,000	\$ 44,183,000
Change		\$ (800,000)	\$ (3,487,000)
Change as a Percentage of Assets		(0.20%)	(0.89%)

Item 4. Controls and Procedures.

The Company's chief executive officer and chief financial officer, with the assistance of other members of the Company's management, have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this quarterly report. Disclosure controls and procedures include those designed to ensure that information required to be disclosed is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding disclosure. Based upon such evaluation, the Company's chief executive officer and chief financial officer have concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

The Company's chief executive officer and chief financial officer have also concluded that there have not been any changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.*****Issuer Purchases of Equity Securities***

In 2005, the Board of Directors authorized a stock repurchase program under which the Company may purchase in open market or privately negotiated transactions up to 5% of its common shares outstanding on that date. The Company undertook these repurchase programs in an effort to increase shareholder value. The following table provides common stock repurchases made by or on behalf of the Company during the three months ended June 30, 2007.

Issuer Purchases of Equity Securities ⁽¹⁾

Period		Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plan or Program	Maximum Number of Shares That May Yet be Purchased Under the Plan or Program
Beginning	Ending				
April 1, 2007	April 30, 2007	12,000	\$ 18.40	12,000	153,441
May 1, 2007	May 30, 2007	225	\$ 18.18	225	153,216
June 1, 2007	June 30, 2007	200	\$ 18.13	200	153,016
Total		12,425	\$ 18.39	12,425	153,016

(1) The Company's common stock repurchase program covers a maximum of 175,271 shares of common stock of the Company, representing 5% of the outstanding common stock of the Company on July 21, 2005, as adjusted for the 6% stock dividend declared December 31, 2006 and paid on January 31, 2007.

Item 4. Submission of Matters to a Vote of Securities Holders.

The Company's Annual Meeting of Shareholders (the "Annual Meeting") was held on May 24, 2007.

There were present at the Annual Meeting in person or by proxy shareholders holding an aggregate of 3,195,726 shares of common stock of a total number of 3,742,860 shares of common stock issued, outstanding and entitled to vote at the Annual Meeting.

At the Annual Meeting, Frank E. Walsh III and William M. Rue were re-elected as a Class III directors of the Company, with 3,190,664 shares votes cast for and 5,062 shares withheld. Directors whose term of office continued following the meeting were Charles S. Crow, III, Robert F. Mangano, and David C. Reed.

A vote of the shareholders was taken at the Annual Meeting on the proposal to approve and ratify the appointment of Grant Thornton LLP as the Company's independent auditor for the year ending December 31, 2007. The proposal was approved by the shareholders, with 3,187,463 shares voting in favor of the proposal and 8,263 shares voting against the proposal. There were 547,134 abstentions and broker non-votes.

Item Exhibits.

6.

3(i)		Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3(i) to the Company's Form 10-K filed with the SEC on March 24, 2005)
3(ii)		Bylaws of the Company (incorporated by reference to Exhibit 3(ii) to the Company's Form 10-QSB filed with the SEC on May 14, 2003)
31.1	*	Certification of Robert F. Mangano, chief executive officer of the Company, pursuant to Securities Exchange Act Rule 13a-14(a)
31.2	*	Certification of Joseph M. Reardon, chief financial officer of the Company, pursuant to Securities Exchange Act Rule 13a-14(a)
32	*	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, signed by Robert F. Mangano, chief executive officer of the Company, and Joseph M. Reardon, chief financial officer of the Company

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

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Date: August 13, 2007

By: /s/ ROBERT F. MANGANO
Robert F. Mangano
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 13, 2007

By: /s/ JOSEPH M. REARDON
Joseph M. Reardon
Senior Vice President and Treasurer
(Principal Accounting Officer)