Benioff Marc
Form 4
May 18, 2018

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
Benioff Marc

(Last) (First) (Middle)

THE LANDMARK @ ONE MARKET STREET, SUITE 300

(Street)

SAN FRANCISCO, CA 94105

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SALESFORCE COM INC [CRM]

3. Date of Earliest Transaction (Month/Day/Year)
05/17/2018

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chairman of the Board and CEO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	05/17/2018		S (1)		2,192	D	$ 126.1755 (2)	33,089,608	D (3)	
Common Stock	05/17/2018		S (1)		1,908	D	$ 127.3754 (4)	33,087,700	D (3)	
Common Stock	05/17/2018		S (1)		800	D	$ 128.3425 (5)	33,086,900	D (3)	
Common Stock	05/17/2018		S (1)		100	D	$ 129.32	33,086,800	D (3)	

Common Stock	05/18/2018		S (1)	3,501	D	$ 126.7362 (6)	33,083,299	D (3)
Common Stock	05/18/2018		S (1)	1,499	D	$ 127.186 (7)	33,081,800	D (3)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Benioff Marc THE LANDMARK @ ONE MARKET STREET SUITE 300 SAN FRANCISCO, CA 94105	X		Chairman of the Board and CEO	

Signatures

/s/ Scott Siamas, Attorney-in-Fact for Marc Benioff	05/18/2018
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Pursuant to a 10b5-1 Plan.

(2) Weighted average price. These shares were sold in multiple transactions at prices ranging from $125.7700 to $126.6600 inclusive. The reporting person undertakes to provide to the issuer, any security holder of the issuer, or the staff of the Securities and Exchange Commission, upon request, full information regarding the number of shares sold at each separate price within the range set forth above.

(3) Shares held in The Marc R. Benioff Revocable Trust.

(4) Weighted average price. These shares were sold in multiple transactions at prices ranging from $126.8400 to $127.8300 inclusive. The reporting person undertakes to provide to the issuer, any security holder of the issuer, or the staff of the Securities and Exchange Commission, upon request, full information regarding the number of shares sold at each separate price within the range set forth above.

(5) Weighted average price. These shares were sold in multiple transactions at prices ranging from $128.0800 to $128.7300 inclusive. The reporting person undertakes to provide to the issuer, any security holder of the issuer, or the staff of the Securities and Exchange Commission, upon request, full information regarding the number of shares sold at each separate price within the range set forth above.

(6) Weighted average price. These shares were sold in multiple transactions at prices ranging from $126.0100 to $127.0000 inclusive. The reporting person undertakes to provide to the issuer, any security holder of the issuer, or the staff of the Securities and Exchange Commission, upon request, full information regarding the number of shares sold at each separate price within the range set forth above.

(7) Weighted average price. These shares were sold in multiple transactions at prices ranging from $127.0100 to $127.4700 inclusive. The reporting person undertakes to provide to the issuer, any security holder of the issuer, or the staff of the Securities and Exchange Commission, upon request, full information regarding the number of shares sold at each separate price within the range set forth above.

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Proceeds from maturities and repayments

of securities -

Available for sale

158,903,787

87,005,097

Held to maturity

63,292,740

16,884,855

Proceeds from sales of securities available for sale

-

18,102,327

Net increase in loans

(38,433,491
)

(8,765,060
)

Purchase of bank-owned life insurance

(750,000
)

-

Capital expenditures

(1,861,211
)

(581,620
)
Additional investment in other real estate owned

(83,737
)

(396,139
)
Proceeds from sales of other real estate owned

1,911,672

5,241,431

Net cash provided by (used in) investing activities

20,949,039

(102,649,885
)

FINANCING ACTIVITIES:

Exercise of stock options and issuance of treasury stock

230,517

353,625

Purchase of treasury stock

(4,464
)

(78,466
)
Dividends paid on preferred stock

(570,000
)

(536,667
)
Preferred stock issuance costs paid

-

(22,500
)
Net (decrease) increase in demand, savings and time deposits

(28,420,205
)

157,470,623

Repayment of long-term borrowings

(12,500,000
)

(8,000,000
)
Net increase (decrease) in short-term borrowings

15,900,000

(21,000,000
)
Repayment of preferred stock

(12,000,000
)

-

Net cash (used in) provided by financing activities

(37,364,152
)

128,186,615

(Decrease) increase in cash and cash equivalents

(8,143,784)

11,521,166

CASH AND CASH EQUIVALENTS

AT BEGINNING OF YEAR	25,854,285	14,333,119
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 17,710,501	$ 25,854,285
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for -		
Interest	$ 9,142,311	$ 12,482,299
Income taxes	2,360,000	775,916
Non-cash investing activities		
Real estate acquired in full satisfaction of loans in foreclosure	5,324,212	4,435,364
Foreclosed real estate transferred to bank premises for bank use	-	2,606,677

The accompanying notes are an integral part of these financial statements

Explanation of Responses:

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1st CONSTITUTION BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

1. Summary of Significant Accounting Policies

1st Constitution Bancorp (the "Company") is a bank holding company registered under the Bank Holding Company Act of 1956, as amended, and was organized under the laws of the State of New Jersey. The Company is parent to 1st Constitution Bank (the "Bank"), a state chartered commercial bank. The Bank provides community banking services to a broad range of customers, including corporations, individuals, partnerships and other community organizations in the central and northeastern New Jersey area. The Bank conducts its operations through its main office located in Cranbury, New Jersey, and operates eleven additional branch offices in downtown Cranbury, Fort Lee, Hamilton Square, Hightstown, Jamesburg, Lawrenceville, Montgomery, Perth Amboy, Plainsboro, West Windsor, and Princeton, New Jersey.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2010 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.

Basis of Presentation

The accounting and reporting policies of the Company conform to accounting principals generally accepted in the United States of America ("U.S. GAAP") and to the accepted practices within the banking industry. The following is a description of the more significant of these policies and practices.

Principles of Consolidation

The accompanying consolidated financial statements include the Company and its wholly-owned subsidiary, 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, 204 South Newman Street LLC and 249 New York Avenue LLC. 1st Constitution Capital Trust II, a subsidiary of the Company ("Trust II"), 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.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, other-than-temporary security impairment, the fair value of other real estate owned and the valuation of deferred tax assets.

Concentration of Credit Risk

Financial instruments which potentially subject the Company and its subsidiaries to concentrations of credit risk primarily consist of investment securities and loans. At December 31, 2010, 64.2% of our investment securities consisted of U.S. Government and Agency issues, mortgage-backed securities and municipal bonds. In addition, another 16.4% of our portfolio consisted of highly rated collateralized mortgage obligations. The remaining 19.4% of our investment securities consisted primarily of corporate debt issues and restricted stock of the Federal Home Loan Bank of New York. The Bank's lending activity is primarily concentrated in loans collateralized by real estate located in the State of New Jersey. As a result, credit risk is broadly dependent on the real estate market and general economic conditions in that state.

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Interest Rate Risk

The Bank is principally engaged in the business of attracting deposits from the general public and using these deposits, together with other funds, to purchase securities and to make loans, the majority of which are secured by real estate. The potential for interest-rate risk exists as a result of the generally shorter duration of interest-sensitive assets compared to the generally longer duration of interest-sensitive liabilities. In a volatile rate environment, assets held by the Bank will re-price faster than liabilities of the Bank, thereby affecting net interest income. For this reason, management regularly monitors the maturity structure and rate adjustment features of the Bank's assets and liabilities in order to measure its level of interest-rate risk and to plan for future volatility.

Investment Securities

Investment Securities which the Company has the intent and ability to hold until maturity are classified as held to maturity and are recorded at cost, adjusted for amortization of premiums and accretion of discounts. Investment Securities which are held for indefinite periods of time, which management intends to use as part of its asset/liability management strategy, or that may be sold in response to changes in interest rates, changes in prepayment risk, increased capital requirements or other similar factors, are classified as available for sale and are carried at fair value, except for restricted stock of the Federal Home Loan Bank of New York and Atlantic Central Banker Bank, which are carried at cost. Unrealized gains and losses on such securities are recorded as a separate component of shareholders' equity. Realized gains and losses, which are computed using the specific identification method, are recognized on a trade date basis.

If the fair value of a security is less than its amortized cost, the security is deemed to be impaired. Management evaluates all securities with unrealized losses quarterly to determine if such impairments are temporary or other-than-temporary in accordance with the Accounting Standards Codification ("ASC") of the Financial Accounting Standards Board ("FASB"). Temporary impairments on available for sale securities are recognized, on a tax-effected basis, through other comprehensive income ("OCI") with offsetting adjustments to the carrying value of the security and the balance of related deferred taxes. Temporary impairments of held to maturity securities are not recorded in the consolidated financial statements; however, information concerning the amount and duration of impairments on held to maturity securities is disclosed.

Other-than-temporary impairments on all equity securities and on debt securities that the Company has decided to sell, or will, more likely than not, be required to sell prior to the full recovery of fair value to a level equal to or exceeding amortized cost, are recognized in earnings. If neither of these conditions regarding the likelihood of sale for a debt security apply, the other-than-temporary impairment is bifurcated into credit-related and noncredit-related components. Credit-related impairment generally represents the amount by which the present value of the cash flows that are expected to be collected on a debt security fall below its amortized cost. The noncredit-related component represents the remaining portion of the impairment not otherwise designated as credit-related. The Company recognizes credit-related other-than-temporary impairments in earnings. Noncredit-related other-than-temporary impairments on debt securities are recognized in OCI. For held to maturity debt securities, the amount of any other-than-temporary impairment recorded in OCI is amortized prospectively over the remaining lives of the securities based on the timing of future estimated cash flows related to those securities.

Premiums and discounts on all securities are amortized/accreted to maturity by use of the level-yield method considering the impact of principal amortization and prepayments.

Federal law requires a member institution of the Federal Home Loan Bank ("FHLB") system to hold restricted stock of its district FHLB according to a predetermined formula. The Bank's investment in the restricted stock of the FHLB of New York, while included in investment securities available for sale, is carried at cost.

Management evaluates the FHLB restricted stock for impairment in accordance with U.S. GAAP. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB. Management believes no impairment charge is necessary related to the FHLB stock as of December 31, 2010.

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Bank-Owned Life Insurance

The Company invests in bank-owned life insurance (“BOLI”). BOLI involves the purchasing of life insurance by the Company on a chosen group of employees. The Company is the owner and beneficiary of the policies. This pool of insurance, due to the advantages of the Bank, is profitable to the Company. This profitability offsets a portion of future benefit costs and is intended to provide a funding source for the payment of future benefits. The Bank’s deposits fund BOLI and the earnings from BOLI are recognized as non-interest income.

Loans And Loans Held For Sale

Loans that management intends to hold to maturity are stated at the principal amount outstanding, net of unearned income. Unearned income is recognized over the lives of the respective loans, principally using the effective interest method. Interest income is generally not accrued on loans, including impaired loans, where interest or principal is 90 days or more past due, unless the loans are adequately secured and in the process of collection, or on loans where management has determined that the borrowers may be unable to meet contractual principal and/or interest obligations. When it is probable that, based upon current information, the Bank will not collect all amounts due under the contractual terms of the loan, the loan is reported as impaired. Smaller balance homogenous type loans, such as residential loans and loans to individuals, which are collectively evaluated, are excluded from consideration for impairment. Loan impairment is measured based upon the present value of the expected future cash flows discounted at the loan’s effective interest rate or the underlying fair value of collateral for collateral dependent loans. When a loan, including an impaired loan, is placed on non-accrual, interest accruals cease and uncollected accrued interest is reversed and charged against current income. Non-accrual loans are generally not returned to accruing status until principal and interest payments have been brought current and full collectibility is reasonably assured. Cash receipts on non-accrual and impaired loans are applied to principal, unless the loan is deemed fully collectible.

Loans held for sale are carried at the aggregate lower of cost or market value. Realized gains and losses on loans held for sale are recognized at settlement date and are determined based on the cost, including deferred net loan origination fees and the costs of the specific loans sold.

The Bank accounts for its transfers and servicing of financial assets in accordance with ASC Topic 860, “Transfers and Servicing.” The Bank originates mortgages under a definitive plan to sell those loans with servicing generally released. Mortgage loans originated and intended for sale in the secondary market are carried at the lower aggregate cost or estimated fair value. Gains and losses on sales are also accounted for in accordance with ASC Topic 860.

The Bank enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Time elapsing between the issuance of a loan commitment and closing and sale of the loan generally ranges from 30 to 120 days. The Bank protects itself from changes in interest rates through the use of best efforts forward delivery contracts, whereby the Bank commits to sell a loan at the time the borrower commits to an interest rate with the intent that the buyer has assumed interest rate risk on the loan. As a result, the Bank is not exposed to losses nor will it realize significant gains related to its rate lock commitments due to changes in interest rates.

The market value of rate lock commitments and best efforts contracts is not readily ascertainable with precision because rate lock commitments and best efforts contracts are not actively traded in stand-alone markets. The Bank determines the fair value of rate lock commitments and best efforts contracts by measuring the change in the value of the underlying asset while taking into consideration the probability that the rate lock commitments will close. Due to high correlation between rate lock commitments and best efforts contracts, no gain or loss occurs on the rate lock commitments.

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ASC Topic 460, “Guarantees,” requires a guarantor entity, at the inception of a guarantee covered by the measurement provisions of the interpretation, to record a liability for the fair value of the obligation undertaken in issuing the guarantee.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the financial performance of a customer to a third party. Those guarantees are primarily issued to support contracts entered into by customers. Most guarantees extend for one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank defines the fair value of these letters of credit as the fees paid by the customer or similar fees collected on similar instruments. The Bank amortizes the fees collected over the life of the instrument. The Bank generally obtains collateral, such as real estate or liens on customer assets for these types of commitments. The Bank’s potential liability would be reduced by any proceeds obtained in liquidation of the collateral held. The Bank had standby letters of credit for customers aggregating $3,563,120 and $3,387,018 at December 31, 2010 and 2009, respectively. These letters of credit are primarily related to our real estate lending and the approximate value of underlying collateral upon liquidation is expected to be sufficient to cover this maximum potential exposure at December 31, 2010. The amount of the liability related to guarantees under standby letters of credit issued was not material as of December 31, 2010 and 2009.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level sufficient 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.

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 highly unlikely. Consumer loans are generally charged off no later than 120 days past due on a contractual basis, or 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 losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

Loans are placed in a nonaccrual status when the ultimate collectability of principal or interest in whole, or part, is in doubt. Past-due loans contractually past-due 90 days or more for either principal or interest are also placed in nonaccrual status unless they are both well secured and in the process of collection. Impaired loans are evaluated individually.

The following is our charge-off policy by our loan segments:

Commercial

Loans are generally fully or partially charged down to the fair value of collateral securing the asset when:

- Management judges the loan to be uncollectible;
- Repayment is deemed to be protracted beyond reasonable time frames;
- The loan has been classified as a loss by either internal loan review process or external examiners;
- The customer has filed bankruptcy and the loss becomes evident owing to a lack of assets; or
- The loan is significantly past due unless both well secured and in the process of collection.

Consumer

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.

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Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed primarily on the straight-line method over the estimated useful lives of the related assets for financial reporting purposes and using the mandated methods by asset type for income tax purposes. Building, furniture and fixtures, equipment and leasehold improvements are depreciated or amortized over the estimated useful lives of the assets or lease terms, as applicable. Estimated useful lives of buildings are forty years, furniture and fixtures and equipment are three to fifteen years, and leasehold improvements are three to ten years . Expenditures for maintenance and repairs are charged to expense as incurred.

The Company accounts for impairment of long lived assets in accordance with ASC Topic 360, "Property, Plant, and Equipment," which requires recognition and measurement for the impairment of long lived assets to be held and used or to be disposed of by sale. The Bank had no impaired long lived assets at December 31, 2010 and 2009.

Derivative Contracts

Derivative contracts, as required by ASC Topic 815, "Derivatives and Hedging," are carried at fair value as either assets or liabilities in the statement of financial condition with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders' equity, net of related income tax effects. Gains and losses on derivative contracts are recognized upon realization utilizing the specific identification method.

Income Taxes

There are two components of income tax expense: current and deferred. Current income tax expense approximates cash to be paid or refunded for taxes for the applicable period. Deferred tax assets and liabilities are recognized due to differences between the basis of assets and liabilities as measured by tax laws and their basis as reported in the financial statements. Deferred tax assets are subject to management's judgment based upon available evidence that future realizations are likely. If management determines that the Company may not be able to realize some or all of the net deferred tax asset in the future, a charge to income tax expense may be required to reduce the value of the net deferred tax asset to the expected realizable value. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax expense or benefit is recognized for the change in deferred tax liabilities.

The Company accounts for uncertainty in income taxes recognized in its consolidated financial statements in accordance with ASC Topic 740, "Income Taxes," which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company has not identified any significant income tax uncertainties through the evaluation of its income tax positions for the years ended December 31, 2010 and 2009, and has not recognized any liabilities for tax uncertainties as of December 31, 2010 and 2009. Our policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense; such amounts were not significant during the years ended December 31, 2010 and 2009. The tax years subject to examination by the taxing authorities are, for federal purposes, the years ended December 31, 2010, 2009, and 2008, and for state purposes, the years ended December 31, 2010, 2009, 2008 and 2007.

Other Real Estate Owned

Other real estate owned obtained through loan foreclosures or the receipt of deeds-in-lieu of foreclosure is carried at the lower of fair value of the related property, as determined by current appraisals less estimated costs to sell, or the recorded investment in the property. Write-downs on these properties, which occur after the initial transfer from the loan portfolio, are recorded as operating expenses. Costs of holding such properties are charged to expense in the current period. Gains, to the extent allowable, and losses, on the disposition of these properties are reflected in current operations.

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Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost of an acquired entity over the fair value of the identifiable net assets acquired in accordance with the purchase method of accounting. Goodwill is not amortized but is reviewed for potential impairment on an annual basis, or more often if events or circumstances indicated that there may be impairment, in accordance with ASC Topic 350, “Intangibles – Goodwill and Other.” Goodwill is tested for impairment at the reporting unit level and an impairment loss is recorded to the extend that the carrying amount of goodwill exceeds its implied fair value. Core deposit intangibles are a measure of the value of checking and savings deposits acquired in business combinations accounted for under the purchase method. Core deposit intangibles are amortized on a straight-line basis over their estimated lives (ranging from five to ten years) and identifiable intangible assets are evaluated for impairment if events and circumstances indicate a possible impairment. Any impairment loss related to goodwill and other intangible assets is reflected as other non-interest expense in the statement of operations in the period in which the impairment was determines. No assurance can be given that future impairment tests will not result in a charge to earnings. See Note 8 – Goodwill and Other Intangibles for additional information.

Share-Based Compensation

The Company recognizes compensation expense for stock options in accordance with ASC Topic 718, “Compensation – Stock Compensation.” The expense of the option is generally measured at fair value at the grant date with compensation expense recognized over the service period, which is usually the vesting period. The Company utilizes the Black-Scholes option-pricing model to estimate the fair value of each option on the date of grant. The Black-Scholes model takes into consideration the exercise price and expected life of the options, the current price of the underlying stock and its expected volatility, the expected dividends on the stock and the current risk-free interest rate for the expected life of the option. The Company’s estimate of the fair value of a stock option is based on expectations derived from historical experience and may not necessarily equate to its market value when fully vested. See Note 15 – Stock-Based Compensation for additional information.

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. In accordance with ASC Topic 715, “Compensation – Retirement Benefits,” the Company recognizes the under funded status of this postretirement plan as a liability in its statement of financial position and recognizes changes in that funded status in the year in which the changes occur through other comprehensive income.

Cash And Cash Equivalents

Cash and cash equivalents includes cash on hand, interest and non-interest bearing amounts due from banks, Federal funds sold and short-term investments. Generally, Federal funds are sold and short-term investments are made for a one or two-day period.

Reclassifications

Certain reclassifications have been made to the prior period amounts to conform with the current period presentation. Such reclassification had no impact on net income or total stockholders’ equity.

Advertising Costs

It is the Company’s policy to expense advertising costs in the period in which they are incurred.

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Earnings 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 warrants, common stock options and unvested restricted stock awards, using the treasury stock method. All share information has been restated for the effect of a 5% stock dividend declared on December 17, 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 share (EPS) calculations:

	Year Ended December 31, 2010		
	Income	Weighted-average shares	Per share Amount
Basic EPS			
Net income	$ 3,307,791		
Preferred stock dividends and accretion	(1,021,738)		
Income available to common shareholders	2,286,053	4,776,809	$ 0.48
Effect of dilutive securities			
Stock options and unvested stock awards	-	26,694	-
Diluted EPS			
Net income available to common shareholders plus assumed conversion	$ 2,286,053	4,803,503	$ 0.48

	Year Ended December 31, 2009		
	Income	Weighted-average shares	Per share Amount
Basic EPS			
Net income available to common stockholders	$ 2,560,761		
Preferred stock dividends and accretion	(719,601)		
Income available to common shareholders	1,841,160	4,693,941	$ 0.39
Effect of dilutive securities			
Stock options and unvested stock awards	-	15,968	-
Diluted EPS			
Net income available to common stockholders plus assumed conversion	$ 1,841,060	4,709,909	$ 0.39

As disclosed in Note 19, the Company repurchased all outstanding preferred stock on October 27, 2010. During the years ended December 31, 2010 and 2009, preferred stock dividends and discount accretion served to decrease earnings per share by $0.21 and $0.15, respectively. For the years ended December 31, 2010 and 2009, 79,400 and 141,412 options, respectively, were anti-dilutive and were not included in the computation of diluted earnings per common share. For the two years ended December 31, 2010 and 2009, all common stock warrants issued under the CPP were anti-dilutive.

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Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, other-than-temporary non-credit related security impairments, unrealized gains and losses on cash flows hedges, and changes in the funded status of benefit plans which are also recognized in equity.

Variable Interest Entities

Management has determined that Trust II qualifies as a variable interest entity under ASC Topic 810, "Consolidation." Trust II issued mandatorily redeemable preferred stock to investors, loaned the proceeds to the Company and holds, as its sole asset, subordinated debentures issued by the Company. As a qualified variable interest entity, Trust II's Balance Sheet and Statement of Operations have never been consolidated with those of the Company.

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, the Company has included all of its $18.0 million in trust preferred securities in Tier 1 capital at December 31, 2010 and 2009.

Segment Information

U.S. GAAP 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 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 June 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2009-16, Transfers and Servicing (Topic 860) – Accounting for Transfers of Financial Assets. ASU 2009-16 provides guidance regarding the accounting for transfers of financial assets that prescribes the information that a reporting entity must provide in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor's continuing involvement in transferred financial assets. This guidance specifically removes the concept of a qualifying special-purpose entity and the exception from applying otherwise applicable consolidation requirements to variable interest entities that are qualifying special-purpose entities. It also modifies the financial-components approach used in accounting for transfers. This guidance is effective for fiscal years beginning after November 15, 2009. Adoption of the new guidance did not significantly impact the Company’s financial statements.

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In June 2009, the FASB issued ASU 2009-17, Consolidations (TOPIC 810) – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. ASU 2009-17 amended previously existing guidance to require that an enterprise determine whether its variable interest or interests give it a controlling financial interest in a variable interest entity. The primary beneficiary of a variable interest entity is the enterprise that has both (1) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. This guidance requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity and is effective for fiscal years beginning after November 15, 2009. Adoption of the new guidance did not significantly impact the Company's financial statements.

The FASB has issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. The FASB's objective is to improve these disclosures and thus, increase the transparency in financial reporting. Specifically, ASU 2010-06 amends Codification Subtopic 820-10 to now require: (1) a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and (2) in the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements. In addition, ASU 2010-06 clarifies the requirements of the following existing disclosures: (1) for purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and (2) a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The implementation of the effective portions of this ASU, effective January 1, 2010, did not have a material impact on the Company's consolidated financial statements.

The FASB issued ASU 2010-11, Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives. The FASB believes this ASU clarifies the type of embedded credit derivative that is exempt from embedded derivative bifurcation requirements. Specifically, only one form of embedded credit derivative qualifies for the exemption – one that is related only to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. The amendments in the ASU are effective for each reporting entity at the beginning of its first fiscal quarter beginning after June 15, 2010. The adoption of this guidance has not had a material impact on the Company's consolidated financial position or results of operations.

The FASB issued ASU 2010-18, Receivables (Topic 310): Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset, codifies the consensus reached in EITF Issue No. 09-I, "Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset." The amendments to the Codification provide that modifications of loans that are accounted for within a pool under Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. ASU 2010-18 does not affect the accounting for loans under the scope of Subtopic 310-30 that are not accounted for within pools. Loans accounted for individually under Subtopic 310-30 continue to be subject to the troubled debt restructuring accounting provisions within Subtopic 310-40. ASU 2010-18 is effective prospectively for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. Upon initial adoption of ASU 2010-18, an entity may make a one-time election to terminate accounting for loans as a pool under Subtopic 310-30. This election may be applied on a pool-by-pool basis and does not preclude an entity from applying pool accounting to subsequent acquisitions of loans with credit deterioration. The adoption of ASU 2010-18 did not to have a significant impact to the Company's consolidated financial position or result of operations.

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The FASB issued ASU 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, will help investors assess the credit risk of a company's receivables portfolio and the adequacy of its allowance for credit losses held against the portfolios by expanding credit risk disclosures. This ASU requires more information about the credit quality of financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure. The amendments in this Update apply to all public and nonpublic entities with financing receivables. Financing receivables include loans and trade accounts receivable. However, short-term trade accounts receivable, receivables measured at fair value or lower of cost or fair value, and debt securities are exempt from these disclosure amendments. The effective date of ASU 2010-20 differs for public and nonpublic companies. For public companies, the amendments that require disclosures as of the end of a reporting period are effective for periods ending on or after December 15, 2010. The amendments that require disclosures about activity that occurs during a reporting period are effective for periods beginning on or after December 15, 2010. The adoption of ASU 2010-20 has not had and is not expected to have a significant impact on the Company's consolidated financial position or results of operations.

In January 2011, the FASB issued ASU 2011-01, Deferral of the Effective Date of Disclosures abut Troubled Debt Restructurings in ASU No. 2010-20. ASU 2011-01 deferred the disclosure requirements related to troubled debt restructurings that were required at December 31, 2010 under ASU 2010-20 but did not defer the effective date of the other disclosure requirements in ASU 2010-20. This guidance is not expected to have a significant impact on the Company's consolidated financial position or results of operations.

2. Investment Securities

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

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 – single issuer	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

	Amortized Cost	Other-Than-Temporary Impairment Recognized In Accumulated Other Comprehensive Loss	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

2009	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	$ 138,351,028	$ 291,906	$ (673,252)	$ 137,969,682
Residential collateralized mortgage obligations - GSE	26,541,021	141,061	(158,696)	26,523,387
Residential collateralized mortgage obligations – non- GSE	8,208,102	31,637	(93,327)	8,146,411
Residential mortgage backed securities – GSE	24,182,584	1,449,071	0	25,631,655
Obligations of State and Political subdivisions	2,633,210	45,644	(91,212)	2,587,642

Trust preferred debt securities – single issuer	2,457,262	0	(687,089)	1,770,173
Restricted Stock	1,464,900	0	0	1,464,900
Mutual Fund	25,000	0	0	25,000
	$ 203,863,107	$ 1,959,319	$ (1,703,576)	$ 204,118,850

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	Amortized Cost	Other-Than-Temporary Impairment Recognized In Accumulated Other Comprehensive Loss	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity-						
Residential collateralized mortgage obligations – GSE	$4,881,475	$ -	$4,881,475	$150,055	$0	$5,031,530
Residential mortgage backed securities – GSE	6,111,131	-	6,111,131	97,782	(29,521)	6,179,392
Obligations of State and Political subdivisions	8,600,596	-	8,600,596	270,947	0	8,871,543
Trust preferred debt securities - pooled	633,998	(500,944)	133,054	0	0	133,054
Corporate debt securities	3,882,724	-	3,882,724	117,287	0	4,000,011
	$24,109,924	$ (500,944)	$23,608,980	$636,071	$(29,521)	$24,215,530

The carrying value and estimated fair value of investment securities at December 31, 2010, 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."

	Carrying Value	Fair Value
Available for sale-		
Due in one year or less	$ 35,978,738	$ 36,039,903
Due after one year through five years	3,021,270	3,087,164
Due after five years through ten years	5,855,939	6,167,604
Due after ten years	39,469,506	40,176,322
Total	$ 84,325,453	$ 85,470,993
Held to maturity-		
Due in one year or less	$ 1,268,643	$ 1,264,678
Due after one year through five years	48,663,237	48,622,175
Due after five years through ten years	12,653,167	12,825,064
Due after ten years	19,805,792	19,000,087
Total	$ 82,390,839	$ 81,712,004

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 December

31, 2010 and 2009 are as follows:

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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)

2009		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	33	$73,177,106	$(673,252)	$-	$-	$73,177,106	$(673,252
Residential collateralized mortgage obligations – GSE	4	9,399,574	(158,696)	-	-	9,399,524	(158,696
Residential collateralized mortgage obligations - Non-GSE	1	-	-	428,264	(93,127)	428,264	(93,127
Residential mortgage backed securities GSE	1	2,885,660	(29,521)	-	-	2,885,660	(29,521
Obligations of State and Political Subdivisions	1	924,549	(91,212)	-	-	924,549	(91,212

Trust preferred debt securities – single issue	4	-	-	1,770,172	(687,089)	1,770,172	(687,089
Trust preferred debt securities – pooled	1	-	-	133,054	(500,944)	133,054	(500,944
Total temporarily impaired securities	45	$86,386,889	$(952,681)	$2,331,490	$(1,281,360)	$88,718,379	$(2,234,041

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.

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Residential collateralized mortgage obligations and residential mortgage-backed securities: The unrealized losses on investments in residential collateralized mortgage obligations and residential mortgage-backed securities were caused by interest rate increases. The contractual cash flows of these securities are guaranteed by the issuer, primarily 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.

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.

Trust preferred debt securities – single issuer: The investments in these securities with unrealized losses are comprised of 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 the 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.

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 before a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

The Company regularly reviews the composition of the investment securities portfolio, taking into account market risks, the current and expected interest rate environment, liquidity needs, and its overall interest rate risk profile and strategic goals.

On a quarterly basis, management evaluates each security in the portfolio with an individual unrealized loss to determine if that loss represents other-than-temporary impairment. During the fourth quarter of 2009, management determined that it was necessary, following other-than-temporary impairment requirements, to write down the cost basis of the Company's only pooled trust preferred security. The trust preferred 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. The primary factor used to determine the credit portion of the impairment through the income statement for this security was the discounted present value of projected cash flow where that present value of cash flow was less than the amortized cost basis of the security. The present value of cash flow was developed using a model that considered performing collateral ratios, the level of subordination to senior tranches of the security, credit ratings of and projected credit defaults in the underlying collateral. During the fourth quarter of 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 the other comprehensive loss component of shareholders' equity.

The following table sets forth information with respect to this security at December 31, 2010:

Pooled Trust Preferred Security Detail

Security	Class	Book Value	Fair Value	Unrealized Gain (Loss)	Percent of Underlying Collateral Performing	Percent of Underlying Collateral In Deferral	Percent of Underlying Collateral In Default	Moody's/ S & P Ratings
PreTSL XXV	B-1	$141,534	$4,273	$(137,261)	64.1%	23.3%	12.6%	Caa2/NR

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The original cost of PreTSL XXV at December 31, 2010 and 2009 was $997,781. In reviewing our investment in PreTSL XXV at December 31, 2010, we have assumed average deferrals and defaults of 1.50% per year through the remaining term of the security (through June 2027). Based on management's evaluation of this security at December 31, 2010, and because the Company does not intend to sell this security before a market price recovery or maturity, there was no additional other-than-temporary impairment recorded at December 31, 2010.

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 impairment that is other-than-temporary. 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 these securities.

The Company recorded gross gains and losses on sales of securities available for sale of $1,138,655 and zero respectively, in 2009. There were no sales of securities in 2010.

As of December 31, 2010 and 2009, securities having a book value of $34,568,523 and $25,388,488, respectively, were pledged to secure public deposits, other borrowings and for other purposes required by law.

3. Loans and Loans Held for Sale

Loans are as follows:

		2010		2009
Commercial business	$	54,733,172	$	57,925,392
Commercial real estate		95,277,814		96,306,097
Mortgage warehouse lines		169,575,899		119,382,078
Construction loans		67,890,703		79,805,278
Residential real estate loans		10,435,038		10,253,895
Loans to individuals		13,349,036		15,554,027
All other loans		181,924		229,159
Gross Loans		411,443,586		379,435,926
Deferred loan fees		543,753		489,809
	$	411,987,339	$	379,945,735

The Bank's business is concentrated in New Jersey, particularly Middlesex, Mercer and Somerset Counties and the Fort Lee area of Bergen County. A significant portion of the total loan portfolio is secured by real estate or other collateral located in these areas.

The Bank had residential mortgage loans held for sale of $21,219,230 at December 31, 2010 and $21,514,785 at December 31, 2009. The Bank sells residential mortgage loans in the secondary market on a non-recourse basis. The related loan servicing rights are generally released to the purchaser. Loans held for sale at December 31, 2010 and 2009 are residential mortgage loans that the Bank intends to sell under forward contracts providing for delivery to purchasers generally within a two month period. Changes in fair value of the forward sales contracts, and the related loan origination commitments and closed loans, were not significant at December 31, 2010 and 2009.

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4. Allowance for Loan Losses

A summary of the allowance for loan losses is as follows:

		2010		2009
Balance, beginning of year	$	4,505,387	$	3,684,764
Provision charged to operations		2,325,000		2,553,000
Loans charged off		(1,081,555)		(1,740,518)
Recoveries of loans charged off		13,880		8,141
Balance, end of year	$	5,762,712	$	4,505,387

The amount of loans which were not accruing interest amounted to $8,809,167 and $4,161,628 at December 31, 2010 and 2009, respectively. Impaired loans totaled $8,809,167 and $5,267,533 at December 31, 2010 and 2009, respectively. There were specific valuation allowances of $574,765 on $3,459,515 of impaired loans at December 31, 2010 and $176,781 of specific valuation allowances on $1,292,910 of impaired loans at December 31, 2009. At December 31, 2009, the Bank had two loans that totaled $145,898 in loans that were 90 days or more past due and still accruing interest income. There were no loans 90 days or more past due and still accruing interest at December 31, 2010.

Additional income before taxes amounting to $515,723 and $624,224 would have been recognized in 2010 and 2009, respectively, if interest on all loans had been recorded based upon original contract terms. No interest was recognized on impaired loans in 2010 or 2009. The average recorded investment in impaired loans for the years ended December 31, 2010 and 2009 was $8,192,166 and $5,469,035 respectively.

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.

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

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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.

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 criticized 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.

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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.

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 from 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 December 31, 2010.

Commercial Credit Exposure - By Internally Assigned Grade	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse Lines	Residential 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

Consumer Credit Exposure - By Payment Activity	Loans To Individuals	Other
Performing	$ 13,271,178	$ 181,924
Nonperforming	77,858	0
Total	$ 13,349,036	$ 181,924

Impaired Loans Disclosures

Loans are considered to be impaired when, based on current information and events, it is determined that the Company will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. When a loan is placed on nonaccrual status, it is also considered to be impaired. Loans are placed on nonaccrual status when: (1) the full collection of interest or principal becomes uncertain; or (2) they are contractually past due 90 days or more as to interest or principal payments unless both well secured and in the process of collection.

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Period-End Balances By Impairment Method

	Construction	Commercial	Commercial Real Estate	Mortgage Warehouse	Residential Real Estate	Consumer	C
Allowance for credit losses:							
Ending Balance	$1,744,068	$971,994	$1,723,865	$763,092	$67,828	$192,457	$1.
Ending Balance							
Individually evaluated for impairment	45,000	180,525	271,382	0	0	77,858	0
Collectively evaluated for impairment	1,699,068	791,469	1,452,483	763,092	67,828	114,599	1.
Loans receivables:							
Ending Balance	$67,890,703	$54,733,172	$95,277,814	$169,575,899	$10,435,038	$13,271,178	$18
Individually evaluated for impairment	4,142,137	3,177,782	1,411,390	0	0	77,858	0
Collectively evaluated for impairment	63,748,566	51,555,390	93,866,424	169,575,899	10,435,038	13,271,178	18
Loans acquired with deteriorated credit quality	0	0	0	0	0	0	0

When a loan is identified as impaired, the measurement of impairment is based on the present value of expected future cash flows, discounted at the loan’s effective interest rate, except when the sole remaining source of repayment for the loan is the liquidation of the collateral. In such cases, the current fair value of the collateral less selling costs is used. If the value of the impaired loan is less than the recorded investment in the loan, the impairment is recognized through an allowance estimate or a charge to the allowance.

Impaired Loans Receivables (By Class)

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Commercial			
Construction	$ 4,409,296	$ 4,453,796	$ --
Commercial Business	385,370	394,654	--
Commercial Real Estate	554,986	554,986	--
Mortgage Warehouse Lines	0	0	--
Residential Real Estate	0	0	--
Consumer			
Loans to Individuals	0	0	--
Other	0	0	--
With an allowance:			
Commercial			
Construction	2,160,000	2,160,000	45,000
Commercial Business	365,253	365,253	180,525
Commercial Real Estate	856,404	856,404	271,382
Mortgage Warehouse Lines	0	0	0
Residential Real Estate	0	0	0
Consumer			
Loans to Individuals	77,858	77,858	77,858
Other	0	0	0
Total:			
Commercial	$ 8,731,309	$ 8,785,093	$ 496,907
Residential Real Estate	0	0	0
Consumer	77,858	77,858	77,858

5. Loans to Related Parties

Activity related to loans to directors, executive officers and their affiliated interests during 2010 and 2009 is as follows:

	2010	2009
Balance, beginning of year	$ 4,371,039	$ 4,795,649
Loans granted	101,954	68,252
Repayments of loans	(1,104,207)	(492,862)

Balance, end of year	$	3,368,786	$	4,371,039

All such loans were made under customary terms and conditions and were current as to principal and interest payments as of December 31, 2010 and 2009.

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6. Premises and Equipment

Premises and equipment consist of the following:

	Estimated Useful Lives	2010	2009
Land		$ 241,784	$ 241,784
Construction in progress		3,897	2,929,011
Building	40 Years	4,143,798	735,579
Leasehold improvements	10 Years	3,101,081	2,287,324
Furniture and equipment	3 – 15 Years	3,182,512	2,907,147
		10,673,072	9,100,854
Less Accumulated depreciation		(4,524,446)	(4,201,754)
		$ 6,148,626	$ 4,899,091

Construction in progress at December 31, 2009, consisted primarily of a $2,606,677 property acquired via the receipt of deed-in-lieu of a foreclosure on a commercial real estate loan and subsequent costs incurred in preparing this property for use in the Company's operations during 2010.

Depreciation expense was $611,676 and $591,695 for the years ended December 31, 2010 and 2009, respectively.

7. Other Real Estate Owned ("OREO")

The Bank held five properties valued at $4,850,818 at December 31, 2010 and four properties valued at $1,362,621 at December 31, 2009. The Company incurred an impairment write-down of $150,612 on one OREO property during the year ended December 31, 2010. The Company did not incur any write-downs on OREO properties during the year ended December 31, 2009. Further declines in real estate values may result in increased foreclosed real estate expense in the future. Routine holding costs are charged to expense as incurred and improvements to real estate owned that enhance the value of the real estate are capitalized. Net OREO expenses amounted to $336,307 and $123,795 for the years ended December 31, 2010 and 2009, respectively.

8. Goodwill and Intangible Assets

Goodwill and intangible assets are summarized as follows:

	2010	2009
Goodwill	$ 472,726	$ 472,726
Core deposits intangible	136,935	173,647
Total	$ 609,661	$ 646,373

Amortization expense of intangible assets was $36,712 for each of the years ended December 31, 2010 and 2009.

Scheduled amortization of the core deposits intangible is as follows:

2011	$ 36,712
2012	36,712
2013	36,712
2014	26,799

$ 136,935

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9. Deposits

Deposits consist of the following:

	2010	2009
Demand		
Non-interest bearing	$ 92,023,123	$ 82,473,328
Interest bearing	129,869,045	125,529,223
Savings	165,388,564	193,369,640
Time	156,454,417	170,783,163
	$ 543,735,149	$ 572,155,354

At December 31, 2010, time deposits have contractual maturities as follows:

Year	Amount
2011	$ 107,952,166
2012	29,890,786
2013	8,533,143
2014	2,066,993
2015	8,011,329
	$ 156,454,417

Individual time deposits $100,000 or greater amounted to $83,557,138 and $87,499,947 at December 31, 2010 and 2009, respectively. As of December 31, 2010, time certificates of deposit in amounts of $100,000 or more have remaining maturity time as follows:

Maturity Range	Amount
Three months or less	$ 18,836,294
Over three months through six months	12,034,755
Over six months through twelve months	26,363,274
Over twelve months	26,322,815
	$ 83,557,138

10. Borrowings

The balance of borrowings was $25,900,000 at December 31, 2010, consisting of a long-term FHLB advance of $10,000,000 and overnight funds purchased of $15,900,000. The balance of borrowings was $22,500,000 at December 31, 2009 and consisted entirely of long-term FHLB borrowings.

The Bank has established a borrowing relationship with the FHLB which further supports and enhances liquidity. During 2010, FHLB replaced its Overnight Line of Credit and One-Month Overnight Repricing Line of Credit facilities available to member banks with a fully secured line of up to 50 percent of a bank’s quarter-end total assets. Under the terms of this facility, the Bank’s total credit exposure to FHLB cannot exceed 50 percent, or $322,174,000, of its December 31, 2010 total assets. In addition, the aggregate outstanding principal amount of the Bank’s advances, letters of credit, the dollar amount of the FHLB’s minimum collateral requirement for off balance sheet financial contracts and advance commitments cannot exceed 30 percent of the Bank’s total assets, unless the Bank obtains approval from FHLB’s Board of Directors or its Executive Committee. These limits are further restricted by a member’s ability to provide eligible collateral to support its obligations to FHLB as well as the ability to meet the FHLB’s stock requirement. The Bank also maintains an unsecured federal funds line of $20,000,000 with a correspondent bank that will expire on June 30, 2011 at which time it will be subject to review and renewal.

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The Bank has one ten-year fixed rate convertible advances from the FHLB. This advance, in the amount of $10,000,000 bears interest at the rate of 4.08%. This advance is convertible quarterly at the option of the FHLB and is fully secured by marketable securities. The FHLB advance matures on July 31, 2017. Due to the call provision, expected maturity could differ from contractual maturity.

11. Redeemable Subordinated Debentures

On May 30, 2006, the Company established 1st Constitution Capital Trust II, a Delaware business trust and wholly owned subsidiary of the Company ("Trust II"), for the sole purpose of issuing $18 million of trust preferred securities (the "Capital Securities"). Trust II utilized the $18 million proceeds along with $557,000 invested in Trust II by the Company to purchase $18,557,000 of floating rate junior subordinated debentures issued by the Company and due to mature on June 15, 2036. The subordinated debentures carry a floating interest rate based on the three-month LIBOR plus 165 basis points (1.95% at December 31, 2010). 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 floating rate junior subordinated debentures are the only asset of Trust II and have terms that mirrored the Capital Securities. These debentures are redeemable in whole or in part prior to maturity after June 15, 2011. Trust II is obligated to distribute all proceeds of a redemption of these debentures, whether voluntary or upon maturity, to holders of the Capital Securities. The Company's obligation with respect to the Capital Securities and the debentures, when taken together, provided a full and unconditional guarantee on a subordinated basis by the Company of the obligations of Trust II to pay amounts when due on the Capital Securities. Interest payments on the floating rate junior subordinated debentures flow through Trust II to the pooling vehicle.

12. Income Taxes

The components of income tax expense (benefit) are summarized as follows:

	2010	2009
Federal-		
Current	$ 2,048,673	$ 1,338,992
Deferred	(773,914)	(1,015,655)
	1,274,759	323,337
State-		
Current	188,297	113,560
Deferred	(196,018)	(280,615)
	(7,721)	(167,055)
	$ 1,267,038	$ 156,282

A comparison of income tax expense at the Federal statutory rate in 2010 and 2009 to the Company's provision for income taxes is as follows:

	2010	2009
Federal income tax	$ 1,555,442	$ 923,795
Add (deduct) effect of:		
State income taxes net of federal income tax effect	(5,096)	(110,257)
Tax-exempt interest income	(154,070)	(165,462)
Bank-owned life insurance	(137,900)	(132,549)
Other items, net	8,662	(359,245)
Provision for income taxes	$ 1,267,038	$ 156,282

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The tax effects of existing temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	2010	2009
Deferred tax assets (liabilities):		
Write down of OREO	$ 63,749	$ -
Allowance for loan losses	2,301,627	1,799,452
Unrealized gain on securities available for sale	(389,483)	(86,953)
SERP Liability	1,279,855	1,171,736
Unrealized loss on interest rate swap	141,990	353,772
State net operating loss carryover	-	45,319
Other than temporary impairment loss	294,007	294,007
Depreciation	383,700	310,523
Nonaccrual interest	478,435	249,315
FAS 158 pension liability	75,841	258,425
Other	20,422	26,830
Subtotal	4,650,142	4,422,426
Valuation allowance	-	(45,319)
Net deferred tax assets	$ 4,650,142	$ 4,377,107

Based upon the current facts, management has determined that it is more likely than not that there will be sufficient taxable income in future years to realize the deferred tax assets. However, there can be no assurances about the level of future earnings.

13. Comprehensive Income and Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) and their related income tax effects are as follows:

	December 31, 2010	December 31, 2009
Unrealized holding gains on securities available for sale	$ 1,145,540	$ 255,744
Related income tax effect	(389,483)	(86,953)
	756,057	168,791
Unrealized impairment loss on held to maturity security	(500,944)	(500,944)
Related income tax effect	170,321	170,321
	(330,623)	(330,623)
Unrealized holding loss interest rate swap contract	(353,552)	(883,806)
Related income tax effect	141,990	353,772
	(211,562)	(530,034)
Pension Liability	(191,539)	(647,228)
Related income tax effect	75,841	258,425
	(115,698)	(388,803)
Accumulated other comprehensive income (loss)	$ 98,174	$ (1,080,669)

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The components of other accumulated comprehensive income (loss), net of tax, which is a component of shareholders equity were as follows:

	Net Unrealized Gains (Losses) On Available for Sale Securities	Net Unrealized Impairment Loss On Held to Maturity Security	Net Change in Fair Value of Interest Rate Swap Contract	Net Change Related to Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2008	$ 603,527	$ -	$ (695,408)	$ (457,320)	$ (549,201)
Net Change	(434,736)	(330,623)	165,374	68,517	(531,468)
Balance, December 31, 2009	168,791	(330,623)	(530,034)	(388,803)	(1,080,669)
Net Change	587,266	-	318,472	273,105	1,178,843
Balance, December 31, 2010	$ 756,057	$ (330,623)	$ (211,562)	$ (115,698)	$ 98,174

14. Benefit Plans

Retirement Savings Plan

The Bank has a 401(K) plan which covers substantially all employees with six months or more of service. The plan permits all eligible employees to make basic contributions to the plan up to the IRS salary deferral limit. Under the plan, the Bank provided a matching contribution of 50% in 2010 and 2009 up to 6% of base compensation. Employer contributions to the plan amounted to $157,868 in 2010 and $150,298 in 2009.

Benefit Plans

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 present value of the benefits accrued under these plans as of December 31, 2010 and 2009 is approximately $3,392,213 and $3,609,184, respectively, and is included in other liabilities and accumulated other comprehensive income in the accompanying consolidated balance sheets. Compensation expense of $669,706 and $688,179 is included in the accompanying consolidated statements of income for the years ended December 31, 2010 and 2009, respectively.

In connection with the benefit plans, the Bank has life insurance policies on the lives of its executives, directors and divisional officers. The Bank is the owner and beneficiary of the policies. The cash surrender values of the policies total approximately $11.5 million and $10.3 million as of December 31, 2010 and 2009, respectively.

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The following table sets forth the changes in benefit obligations of the Company's supplemental executive retirement plan.

		2010		2009
Change in Benefit Obligation				
Liability for pension, beginning	$	3,609,184	$	3,045,192
Service cost		250,739		286,843
Interest cost		181,665		188,057
Actuarial loss		(218,383)		89,092
Benefits		(430,992)		-
Liability for pension, ending	$	3,392,213	$	3,609,184
Amount Recognized in Consolidated Balance Sheets				
Liability for pension	$	(3,392,213)	$	(3,609,184)
Net actuarial loss included in accumulated other comprehensive income		(25,743)		330,510
Prior service cost included in accumulated other comprehensive income		207,310		306,742
Net recognized pension expense	$	(3,210,646)	$	(2,971,932)
Information for pension plans with an accumulated benefit obligation in excess of plan assets				
Projected benefit obligation	$	3,392,213	$	3,609,184
Accumulated benefit obligation		3,173,092		3,393,837

Components of Net Periodic Benefit Cost		2010		2009
Service cost	$	250,739	$	286,843
Interest cost		181,665		188,057
Amortization of prior service cost		99,432		99,432
Recognized net actuarial gain		137,870		113,847
Net periodic benefit expense	$	669,706	$	688,179

The net periodic benefit cost for the year ended December 31, 2011 is projected to be $513,698.

During the year ended December 31, 2011, actuarial (gains) and prior service cost of $(13,579) and $99,432, respectively, are expected to be removed from accumulated other comprehensive income and recognized as a component of net periodic benefit expense.

Weighted-Average Assumptions, December 31	2010	2009
Discount Rate	6.00%	6.00%
Salary Scale	4.00%	4.00%

Projected Annual Benefit Payments

2011	$	288,860
2012	$	288,860
2013	$	349,603
2014	$	349,603

2015	$	349,603
2016-2020	$	2,020,411

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15. Share Based Compensation

The Company's Stock Plans authorize the issuance of an aggregate of 1,236,375 shares of common stock (as adjusted for subsequent stock dividends) pursuant to awards that may be granted in the form of stock options to purchase common stock ("options") and awards of shares of common stock ("stock awards"). The purpose of the Company's stock-based incentive plans is to attract and retain personnel for positions of substantial responsibility and to provide additional incentive to certain officers, directors, employees and other persons to promote the success of the Company. Under the Company's Stock Plans, options expire ten years after the date of grant. Options are granted at the then fair market value of the Company's stock. The grant date fair value is calculated using the Black-Scholes option valuation model. As of December 31, 2010, there were 235,554 shares of common stock (as adjusted for the 5% stock dividend declared December 16, 2010 and paid February 2, 2011 to shareholders of record on January 18, 2011) available for future grants under the Company's Stock Plans.

Stock-based compensation expense related to stock options was $62,416 and $111,116 for the years ended December 31, 2010 and 2009, respectively.

Transactions under the Company's stock option plans during the years ended December 31, 2010 and 2009 (as adjusted to reflect the 5% stock dividend declared in December 2010) are summarized as follows:

Stock Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at January 1, 2009	180,855	$ 9.00		
Granted	40,264	8.23		
Exercised	(58,674)	4.27		
Forfeited	-	-		
Expired	-	-		
Outstanding at December 31, 2009	162,445	10.51	6.1	$ 11,274
Granted	-	-		
Exercised	(3,793)	3.05		
Forfeited	(2,408)	9.02		
Expired	-	-		
Outstanding at December 31, 2010	156,244	$ 10.74	5.3	$ 56,467
Exercisable at December 31, 2010	128,075	$ 11.18	4.6	$ 47,662

The total intrinsic value (market value on date of exercise less grant price) of options exercised during the years ended December 31, 2010 and 2009 was $16,363 and $83,322, respectively.

The following table summarizes stock options outstanding and exercisable at December 31, 2010:

	Outstanding Options			Exercisable Options		
Exercise Price Range	Number	Average Life in Years	Average Exercise Price	Number	Average Life in Years	Average Exercise Price
$5.81 to $6.27	18,415	1.0	$ 5.86	18,415	1.0	$ 5.86
$7.49 to $11.85	75,261	6.5	$ 9.23	47,901	5.5	$ 9.59

$12.69 to $15.18	62,568	5.1	$ 13.99	61,759	5.1	$ 14.01
	156,244	5.3	$ 10.74	128,075	4.6	$ 11.18

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The fair value of each option and the significant weighted average assumptions used to calculate the fair value of the options granted for the year ended December 31, 2009 are as follows:

	January 2009		August 2009	
Number of options granted	18,984		21,279	
Fair value of options granted	$ 3.26		$ 2.89	
Risk-free rate of return	1.60	%	2.57	%
Expected option life in years	7		7	
Expected volatility	27.58	%	27.58	%
Expected dividends (1)	-		-	

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

As of December 31, 2010, there was approximately $85,663 of unrecognized compensation cost related to non-vested stock option-based compensation arrangements granted under the Company's stock incentive plans. That cost is expected to be recognized over the next three years.

The following table summarizes nonvested restricted shares for the years ended December 31, 2010 and 2009 (as adjusted to reflect the 5% stock dividend declared in December 2010):

Nonvested Shares	Number of Shares	Average Grant-Date Fair Value
Nonvested at January 1, 2009	33,594	$ 13.34
Granted	62,578	8.10
Vested	(16,613)	12.94
Forfeited	-	-
Nonvested at December 31, 2009	79,559	9.08
Granted	56,359	6.85
Vested	(23,325)	10.07
Forfeited	(3,075)	9.63
Nonvested at December 31, 2010	109,518	$ 7.70

The value of restricted shares is based upon the closing price of the common stock on the date of grant. The shares generally vest over a four year service period with compensation expense recognized on a straight-line respectively.

Stock based compensation expense related to stock grants was $208,000 and $142,100 for the year ended December 31, 2010 and 2009.

As of December 31, 2010, there was approximately $668,940 of unrecognized compensation cost related to non-vested stock grants that will be recognized over the next three years.

16. Commitments and Contingencies

As of December 31, 2010, future minimum rental payments under non-cancelable operating leases are as follows:

2011	$940,670
2012	914,336
2013	937,037

2014	698,628
2015	454,530
Thereafter	1,459,977
	$5,405,178

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Rent expense aggregated $1,144,337 and $1,112,313 for the years ended December 31, 2010 and 2009, respectively.

Commitments With Off-Balance Sheet Risk

The consolidated balance sheet does not reflect various commitments relating to financial instruments which are used in the normal course of business. Management does not anticipate that the settlement of those financial instruments will have a material adverse effect on the Company's financial position. These instruments include commitments to extend credit and letters of credit. These financial instruments carry various degrees of credit risk, which is defined as the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. As these off-balance sheet financial instruments have essentially the same credit risk involved in extending loans, the Bank generally uses the same credit and collateral policies in making these commitments and conditional obligations as it does for on-balance sheet investments. Additionally, as some commitments and conditional obligations are expected to expire without being drawn or returned, the contractual amounts do not necessarily represent future cash requirements.

Commitments to extend credit are legally binding loan commitments with set expiration dates. They are intended to be disbursed, subject to certain conditions, upon request of the borrower. The Bank receives a fee for providing a commitment. The Bank was committed to advance $182,610,215 and $216,651,774 to its borrowers as of December 31, 2010 and December 31, 2009, respectively.

The Bank issues financial standby letters of credit that are within the scope of ASC Topic 460, "Guarantees." These are irrevocable undertakings by the Bank to guarantee payment of a specified financial obligation. Most of the Bank's financial standby letters of credit arise in connection with lending relationships and have terms of one year or less. The maximum potential future payments the Bank could be required to make under these standby letters of credit amounted to $3,563,120 at December 31, 2010 and $3,387,018 at December 31, 2009. The current amount of the liability as of December 31, 2010 and 2009 for guarantors under standby letters of credit is not material.

The Bank also enters into forward contracts to sell residential mortgage loans it has closed (loans held for sale) or that it expects to close (commitments to originate loans held for sale). These contracts are used to reduce the Bank's market price risk during the period from the commitment date to the sale date. The notional amount of the Bank's forward sales contracts was approximately $21.2 million at December 31, 2010 and $21.5 million at December 31, 2009. Changes in fair value of the forward sales contracts, and the related loan origination commitments and closed loans, were not significant at December 31, 2010 and 2009.

Litigation

The Company may, in the ordinary course of business, become a party to litigation involving collection matters, contract claims and other legal proceedings relating to the conduct of its business. The Company may also have various commitments and contingent liabilities which are not reflected in the accompanying consolidated statement of condition. Management is not aware of any present legal proceedings or contingent liabilities and commitments that would have a material impact on the Company's financial position or results of operations.

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17. Other Operating Expenses

The components of other operating expenses for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
Equipment expense	$ 657,905	$ 631,677
Advertising	140,975	130,393
Regulatory, professional and other consulting fees	1,087,314	1,006,830
Office expense	657,430	572,477
Directors' fees	104,375	105,700
Other real estate owned expenses, net	336,307	123,795
All other expenses	905,902	1,130,972
	$ 3,890,208	$ 3,701,844

18. Regulatory Requirements

The Company and the Bank are subject to various regulatory capital requirements administered by the Federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Bank's and the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of Total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital to average assets (as defined). As of December 31, 2010, the Company and the Bank met all capital adequacy requirements to which they are subject.

To be categorized as adequately capitalized, the Company and the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. As of December 31, 2010, the Bank's capital ratios exceed the regulatory standards for well-capitalized institutions. Certain bank regulatory limitations exist on the availability of the Bank's assets for the payment of dividends by the Bank without prior approval of bank regulatory authorities.

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Actual capital amounts and ratios for the Company and the Bank as of December 31, 2010 and 2009 are as follows:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2010 -						
Company						
Total Capital (to Risk Weighted Assets)	$ 72,736,033	14.43%	$ 40,335,354	>8%	N/A	N/A
Tier I Capital (to Risk Weighted Assets)	65,484,454	12.99%	20,167,677	>4%	N/A	N/A
Tier I Capital (to Average Assets)	65,484,454	9.63%	27,196,758	>4%	N/A	N/A
Bank						
Total Capital (to Risk Weighted Assets)	$ 70,084,660	13.92%	$ 40,272,800	>8%	$ 50,341,000	>10%
Tier I Capital (to Risk Weighted Assets)	64,321,948	12.78%	20,136,400	>4%	30,204,600	>6%
Tier I Capital (to Average Assets)	64,321,948	9.51%	27,054,854	>4%	33,818,567	>5%
As of December 31, 2009						
Company						
Total Capital (to Risk Weighted Assets)	$ 79,091,277	17.23%	$ 36,713,599	>8%	N/A	N/A
Tier I Capital (to Risk Weighted Assets)	74,585,890	16.25%	18,356,800	>4%	N/A	N/A
Tier I Capital (to Average Assets)	74,585,890	10.99%	27,143,523	>4%	N/A	N/A
Bank						
Total Capital (to Risk Weighted Assets)	$ 77,370,821	16.90%	$ 36,633,760	>8%	$ 45,792,200	>10%
Tier I Capital (to Risk Weighted Assets)	72,865,434	15.91%	18,316,040	>4%	27,475,320	>6%
Tier I Capital (to Average Assets)	72,865,434	10.78%	27,043,305	>4%	33,804,131	>5%

Dividend payments by the Bank to the Company are subject to the New Jersey Banking Act of 1948 (the "Banking Act") and the Federal Deposit Insurance Act (the "FDIA"). Under the Banking Act and the FDIA, the Bank may not pay any dividends if after paying the dividend, it would be undercapitalized under applicable capital requirements. In addition to these explicit limitations, the federal regulatory agencies are authorized to prohibit a banking subsidiary or bank holding company from engaging in an unsafe or unsound banking practice. Depending upon the circumstances, the agencies could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

In the event the Company defers payments on the junior subordinated debentures used to fund payments to be made pursuant to the terms of the Capital Securities, the Company would be unable to pay cash dividends on its common stock until the deferred payments are made.

19. Shareholders' Equity

On December 23, 2008, pursuant to the Troubled Asset Relief Program ('TARP") Capital Purchase Program (the "CPP") under the Emergency Economic Stabilization Act of 2008 ("EESA"), the Company entered into a Letter Agreement, including the Securities Purchase Agreement – Standard Terms, with the United States Department of the Treasury (the "Treasury") pursuant to which the Company issued and sold, and the Treasury purchased (i) 12,000 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series B ("Preferred Stock Series B") and (ii) a ten-year warrant to purchase up to 200,222 shares of the Company's common stock, no par value, at an initial exercise price of $8.99 per share, for aggregate cash consideration of $12,000,000. As a result of the 5% stock dividends paid on

February 2, 2009, February 3, 2010 and February 2, 2011, the shares of common stock initially underlying the warrant were adjusted to 231,781 shares and the initial exercise price was adjusted to $7.766 per share. On October 27, 2010, the Company repurchased from the Treasury all of the outstanding shares of the Preferred Stock Series B.

During the period in which the Preferred Stock Series B was outstanding, the Preferred Stock Series B paid quarterly cumulative dividends at a rate of 5% per year for the first five years and thereafter at a rate of 9% per year and has a liquidation preference of $1,000 per share.

The warrant provides for the adjustment of the exercise price and the number of shares of the Company's common stock issuable upon exercise pursuant to customary anti-dilution provisions, such as upon stock splits or distributions of securities or other assets to holders of the Company's common stock, and upon certain issuances of the Company's common stock at or below a specified price relative to the initial exercise price. The warrant is immediately exercisable and expires ten years from the issuance date. The Treasury has agreed not to exercise voting power with respect to any shares of common stock issued upon exercise of the warrant.

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During the period in which the Preferred Stock Series B was outstanding, the Company was subject to restrictions contained in the agreement between the Treasury and the Company related to the sale of the Preferred Stock Series B which among other things restricted the payment of cash dividends or making other distributions by the Company on its common stock or the repurchase of its shares of common stock or other capital stock or other equity securities of any kind of the Company or any of its or its affiliates' trust preferred securities with certain exceptions without approval of the Treasury and the Company was prohibited by the terms of the Preferred Stock Series B from paying dividends on the common stock of the Company or redeeming or otherwise acquiring its common stock or certain other of its equity securities unless all dividends on the Preferred Stock Series B had been declared and either paid in full or set aside with certain limited exceptions.

In addition, during the period in which the Preferred Stock Series B was outstanding, EESA, as amended by the American Recovery and Reinvestment Act of 2009 ("AARA"), and guidance issued by the Treasury limit executive compensation, required the reporting of information to the Treasury and others and limited the deductibility for Federal income tax purposes of compensation paid to certain executives in excess of $500,000 per year and the payment of certain severance and change in control payments to certain executives, provided for the claw back of certain compensation paid to certain executives of the Company or the Bank and imposed new corporate governance requirements on the Company, including the inclusion of a non-binding "say to pay" proposal in the Company's annual proxy statement.

The Board of Governors of the Federal Reserve System has issued a supervisory letter to bank holding companies that contains guidance on when the board of directors of a bank holding company should eliminate or defer or severely limit dividends including for example when net income available for shareholders for the past four quarters net of previously paid dividends paid during that period is not sufficient to fully fund the dividends. The letter also contains guidance on the redemption of stock by bank holding companies which urges bank holding companies to advise the Federal Reserve of any such redemption or repurchase of common stock for cash or other value which results in the net reduction of a bank holding company's capital at the beginning of the quarter below the capital outstanding at the end of the quarter.

The warrant issued under the TARP CCP qualifies and is accounted for as permanent equity on the Company's balance sheet.

Of the $12 million in issuance proceeds, $11.4 million and $0.6 million were allocated to the Preferred Stock Series B and the warrant, respectively, based upon their estimated relative fair values as of December 23, 2008. Offering costs of $72,500 were incurred resulting in net proceeds of $11,927,500.

In July, 2005, the Board of Directors of the Company 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. During the years ended December 31, 2010 and 2009, the Company repurchased 1,231 and 12,971 shares, respectively, as adjusted for subsequent stock dividends, for an aggregate price of approximately $9,700 and $78,466, respectively.

20. Fair Value Disclosures

U.S. GAAP has established a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1:	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

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Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial assets and financial liabilities carried at fair value.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and counterparty creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective value or reflective of future values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available for Sale. Securities classified as available for sale are reported at fair value utilizing Level 2 Inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the security's terms and conditions, among other things.

Impaired loans. Loans included in the following table are those which the Company has measured and recognized impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third party appraisals of the properties, or discounted cash flows based on the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the loan balances less specific valuation allowances.

Other Real Estate Owned. Foreclosed properties are adjusted to fair value less estimated selling costs at the time of foreclosure in preparation for transfer from portfolio loans to other real estate owned ("OREO"), establishing a new accounting basis. The Company subsequently adjusts the fair value on the OREO utilizing Level 3 inputs on a non-recurring basis to reflect partial write-downs based on the observable market price, current appraised value of the asset or other estimates of fair value.

Derivatives – Interest Rate Swap. Derivatives are reported at fair value utilizing Level 2 Inputs. The Company obtains dealer quotations to value its interest rate swap.

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The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2010:				
Securities available for sale	-	$ 85,470,993	-	$ 85,470,993
Derivative liabilities	-	(353,552)	-	(353,552)
December 31, 2009:				
Securities available for sale	-	$ 204,118,850	-	$ 204,118,850
Derivative liabilities	-	(883,806)	-	(883,806)

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a non-recurring basis at December 31, 2010 are as follows:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2010:				
Impaired loans	-	-	$ 2,884,750	$ 2,884,750
Other real estate owned	-	-	243,023	243,023
December 31, 2009:				
Impaired loans	-	-	$ 1,116,129	$ 1,116,129
Other real estate owned	-	-	1,362,621	1,362,621
Security held to maturity	-	133,054	-	133,054

Impaired loans measured at fair value and included in the above table, consisted of seven loans having an aggregate principal balance of $3,459,515 and specific loan loss allowances of $574,765 at December 31, 2010 and twelve loans at December 31, 2009, having an aggregate principal balance of $1,292,910 and specific loan loss allowances of $176,781.

The fair value of other real estate owned was determined using appraisals, which may be discounted based on management's review and changes in market conditions.

The following is a summary of fair value versus the carrying value of all the Company's financial instruments. For the Company and the Bank, as for most financial institutions, the bulk of its assets and liabilities are considered financial instruments. Many of the financial instruments lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction. Therefore, significant estimations and present value calculations were used for the purpose of this note. Changes in assumptions could significantly affect these estimates.

Estimated fair values have been determined by using the best available data and an estimation methodology suitable for each category of financial instruments as follows:

Cash and Cash Equivalents, Accrued Interest Receivable and Accrued Interest Payable (Carried at Cost). The carrying amounts reported in the balance sheet for cash and cash equivalents, accrued interest receivable and accrued interest payable approximate fair value.

Securities Held to Maturity (Carried at Amortized Cost). The fair values of securities held to maturity are determined in the same manner as for securities available for sale.

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Loans Held For Sale (Carried at Lower of Aggregated Cost or Fair Value). The fair values of loans held for sale are determined, when possible, using quoted secondary market prices. If no such quoted market prices exist, fair values are determined using quoted prices for similar loans, adjusted for the specific attributes of the loans.

Gross Loans Receivable (Carried at Cost). The fair values of loans, excluding impaired loans subject to specific loss reserves, are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying values.

Deposit Liabilities (Carried at Cost). The fair values disclosed for demand deposits (e.g., interest and non-interest demand and savings accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Borrowings and Subordinated Debentures (Carried at Cost). The carrying amounts of short-term borrowings approximate their fair values. The fair values of long-term FHLB advances and subordinated debentures are estimated using discounted cash flow analysis, based on quoted or estimated interest rates for new borrowings with similar credit risk characteristics, terms and remaining maturity.

The estimated fair values, and the recorded book balances, were as follows:

	December 31, 2010		December 31, 2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and cash equivalents	$ 17,710,501	$ 17,710,501	$ 25,854,285	$ 25,854,285
Securities available for sale	85,470,993	85,470,993	204,118,850	204,118,850
Securities held to maturity	81,889,895	81,712,004	23,608,980	24,215,530
Loans held for sale	21,219,230	21,219,230	21,514,785	21,514,785
Gross loans	411,987,339	410,144,000	379,945,735	379,617,000
Accrued interest receivable	2,405,741	2,405,741	2,274,087	2,274,087
Deposits	(543,735,149)	(545,225,000)	(572,155,354)	(573,596,000)
Other borrowings	(25,900,000)	(27,979,000)	(22,500,000)	(25,321,000)
Redeemable subordinated debentures	(18,557,000)	(18,557,000)	(18,557,000)	(18,557,000)
Interest rate swap contract	(353,552)	(353,552)	(883,806)	(883,806)
Accrued interest payable	(1,434,338)	(1,434,338)	(1,757,151)	(1,757,151)

Loan commitments and standby letters of credit as of December 31, 2010 and 2009 are based on fees charged for similar agreements; accordingly, the estimated fair value of loan commitments and standby letters of credit is nominal.

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21. Condensed Financial Statements of 1st Constitution Bancorp (Parent Company Only)

CONDENSED STATEMENTS OF CONDITION

	December 31, 2010	December 31, 2009
Assets:		
Cash	$ 727,417	$ 690,968
Investment securities available for sale	557,000	557,000
Investment in subsidiaries	65,241,346	73,681,106
Other assets	2,114,369	1,961,198
Total Assets	$ 68,640,132	$ 76,890,272
Liabilities And Shareholders' Equity		
Subordinated debentures	$ 18,557,000	$ 18,557,000
Other liabilities	401,977	932,219
Shareholders' equity	49,681,155	57,401,053
Total Liabilities and Shareholders' Equity	$ 68,640,132	$ 76,890,272

CONDENSED STATEMENTS OF INCOME

	Year ended December 31, 2010	2009
Income:		
Interest	$ 12,642	$ 15,796
Total Income	12,642	15,796
Expense:		
Interest	1,082,500	1,087,748
Total Expense	1,082,500	1,087,748
Loss before income taxes and equity in undistributed income of Subsidiaries	(1,069,858)	(1,071,952)
Federal income tax benefit	(364,432)	(364,661)
Loss before equity in undistributed income of subsidiaries	(705,426)	(707,291)
Equity in undistributed income of subsidiaries	4,013,217	3,268,052
Net Income	$ 3,307,791	$ 2,560,761

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CONDENSED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2010	2009
Operating Activities:		
Net Income	$ 3,307,791	$ 2,560,761
Adjustments:		
(Increase) decrease in other assets	(153,171)	307,870
(Decrease) increase in other liabilities	(530,242)	(274,181)
Equity in undistributed income of subsidiaries	(4,013,217)	(3,268,052)
Net cash used in operating activities	(1,388,839)	(673,602)
Investing Activities:		
Investment in subsidiaries	0	0
Repayment of investment in subsidiaries	13,769,235	967,985
Net cash provided by investing activities	13,769,235	967,985
Financing Activities:		
Repayment of common stock, net	230,517	353,625
Purchase of treasury stock	(4,464)	(78,466)
Repayment of preferred stock	(12,000,000)	0
Dividend paid on preferred stock	(570,000)	(536,667)
Net cash used in financing activities	(12,343,947)	(261,508)
Net increase in cash	36,449	32,875
Cash at beginning of year	690,968	658,093
Cash at end of year	$ 727,417	$ 690,968

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22. Unaudited Quarterly Financial Data

The following sets forth a condensed summary of the Company's quarterly results of operations:

	2010			
	Dec. 31	Sept. 30	June 30	March 31
Summary of Operations				
Interest income	$ 7,685,272	$ 7,690,074	$ 7,075,283	$ 6,850,390
Interest expense	2,034,546	2,146,827	2,226,892	2,411,233
Net interest income	5,650,726	5,543,247	4,848,391	4,439,157
Provision for loan losses	600,000	875,000	550,000	300,000
Net interest income after provision for loan losses	5,050,726	4,668,247	4,298,391	4,139,157
Non-interest income	1,284,868	996,697	1,007,020	948,846
Non-interest expense	5,033,790	4,372,297	4,279,090	4,133,946
Income before income taxes	1,301,804	1,292,647	1,026,321	954,057
Income taxes	370,429	411,048	230,762	254,799
Net income	931,375	881,599	795,559	699,258
Dividends and accretion on preferred stock	490,786	176,984	176,984	176,984
Net income available to common shareholders	$ 440,589	$ 704,615	$ 618,575	$ 522,274
Net income per common share :				
Basic	$ 0.09	$ 0.15	$ 0.13	$ 0.11
Diluted	$ 0.09	$ 0.15	$ 0.13	$ 0.11

	2009			
	Dec. 31	Sept. 30	June 30	March 31
Summary of Operations				
Interest income	$ 7,663,197	$ 7,467,175	$ 7,591,339	$ 7,414,405
Interest expense	2,851,147	3,117,646	3,072,139	3,214,416
Net interest income	4,812,050	4,349,529	4,519,200	4,199,989
Provision for loan losses	1,260,000	505,000	325,000	463,000
Net interest income after provision For loan losses	3,552,050	3,844,529	4,194,200	3,736,989
Non-interest income	1,482,026	1,233,197	942,801	847,052
Non-interest expense	3,953,516	4,350,106	4,791,566	4,020,613
Income before income taxes	1,080,560	727,620	345,435	563,428
Income taxes (benefit)	152,333	106,386	(189,175)	86,738
Net income	928,227	621,234	534,610	476,690
Dividends and accretion on preferred stock	176,983	176,983	176,985	188,650
Net income available to common shareholders	$ 751,244	$ 444,251	$ 357,625	$ 288,040
Net income per common share :				
Basic	$ 0.16	$ 0.09	$ 0.08	$ 0.06
Diluted	$ 0.16	$ 0.09	$ 0.08	$ 0.06

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23. Derivative Financial Instruments

The use of derivative financial instruments creates exposure to credit risk. This credit risk relates to losses that would be recognized if the counterparts fail to perform their obligations under the contracts. As part of the Company's interest rate risk management process, the Company entered into an interest rate derivative contract effective November 27, 2007. Interest rate derivative contracts are typically used to limit the variability of the Company's net interest income that could result due to shifts in interest rates. This derivative interest rate contract was an interest rate swap used to modify the repricing characteristics of a specific liability. At December 31, 2010 and December 31, 2009, the Company's position in derivative contracts consisted entirely of this interest rate swap.

Maturity	Hedged Liability	Notional Amounts	Swap Fixed Interest Rates	Swap Variable Interest Rates
June 15, 2011	Trust Preferred Securities	$18,000,000	5.87%	3 month LIBOR plus 165 basis points

During 2006, the Company issued trust preferred securities to fund loan growth and generate liquidity. In conjunction with the trust preferred securities issuance, the Company entered into a $18.0 million pay fixed swap designated as fair value hedges that was used to convert floating rate quarterly interest payments indexed to three month LIBOR, based on common notional amounts and maturity dates. The pay fixed swap changed the repricing characteristics of the quarterly interest payments from floating rate to fixed rate. The fair value of the pay fixed swap outstanding at December 31, 2010 and 2009 was ($353,552) and ($883,806), respectively, and was recorded in other liabilities in the consolidated balance sheets, with the change in fair value recorded through OCI.

24. Subsequent Event

On December 31, 2010, the Company, through the Bank, announced that it has entered into a Branch Purchase and Assumption Agreement and Agreement for Purchase to acquire all of the deposit liabilities, real estate, and related assets of the Rocky Hill, Hillsborough and Hopewell, New Jersey branch banking offices of Amboy Bank. The purchase is subject to regulatory approval and certain closing conditions. The transaction is expected to close during the first quarter of 2011.

The Bank will acquire the deposit liabilities of the purchased branches for cash, with an option to purchase certain loan relationships associated with three branch offices, on or before closing. The Bank will pay a deposit premium of $5.25 million, subject to certain adjustments, for approximately $110 million of deposit liabilities. This agreement also provides for the acquisition of the real estate on which the acquired branches are located for cash in the amount of $4.6 million.

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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.

1st CONSTITUTION BANCORP

Date: March 23, 2011	By:	/s/ ROBERT F. MANGANO Robert F. Mangano President and Chief Executive Officer (Principal Executive Officer)

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

Signature	Capacity	Date
/s/ ROBERT F. MANGANO Robert F. Mangano	President, Chief Executive Officer and Director (Principal Executive Officer)	March 23, 2011
/s/ CHARLES S. CROW, III Charles S. Crow, III	Chairman of the Board	March 23, 2011
/s/ DAVID C. REED David C. Reed	Director	March 23, 2011
/s/ WILLIAM M. RUE William M. Rue	Director	March 23, 2011
/s/ FRANK E. WALSH, III Frank E. Walsh, III	Director	March 23, 2011
/s/ JOSEPH M. REARDON Joseph M. Reardon	Senior Vice President and Treasurer (Principal Accounting and Financial Officer)	March 23, 2011

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EXHIBIT INDEX

Exhibit No.		Description
3	(i)(A)	Certificate of Incorporation of the Company (conformed copy) (incorporated by reference to Exhibit 3(i)(A) to the Company’s Form 10-K filed with the SEC on March 27, 2009)
3	(i)(B)	Certificate of Amendment to the Certificate of Incorporation increasing the number of shares designated as Series A Junior Participating Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company’s Form 8-K filed with the SEC on December 23, 2008)
3	(i)(C)	Certificate of Amendment to the Certificate of Incorporation establishing the terms of the Fixed Rate Cumulative Perpetual Preferred Stock, Series B (incorporated by reference to Exhibit 3.2 to the Company’s Form 8-K filed with the SEC on December 23, 2008)
3	(ii)(A)	Bylaws of the Company (conformed copy) (incorporated by reference to Exhibit 3(ii)(A) to the Company’s Form 8-K filed with the SEC on October 22, 2007)
3	(ii)(B)	Amendment No. 2 to By-laws of the Company (incorporated by reference to Exhibit 3(ii)(B) to the Company’s Form 8-K filed with the SEC on October 22, 2007)
4.1		Specimen Share of Common Stock (incorporated by reference to Exhibit 4.1 to the Company’s Form 10-KSB (SEC File No. 000-32891) filed with the SEC on March 22, 2002)
4.2		Amended and Restated Declaration of Trust of 1st Constitution Capital Trust I dated as of April 10, 2002 among the Registrant, as sponsor, Wilmington Trust Company, as Delaware and institutional trustee, and the Administrators named therein (incorporated by reference to Exhibit 4.2 to the Company’s Form 10-QSB (SEC File No. 000-32891) filed with the SEC on May 8, 2002)
4.3		Indenture dated as of April 10, 2002 between the Registrant, as issuer, and Wilmington Trust Company, as trustee, relating to the Floating Rate Junior Subordinated Debt Securities due 2032 (incorporated by reference to Exhibit 4.3 to the Company’s Form 10-QSB (SEC File No. 000-32891) filed with the SEC on May 8, 2002)
4.4		Guarantee Agreement dated as of April 10, 2002 between the Registrant and the Wilmington Trust Company, as guarantee trustee (incorporated by reference to Exhibit 4.4 to the Company’s Form 10-QSB (SEC File No. 000-32891) filed with the SEC on May 8, 2002)
4.5		

		Rights Agreement, dated as of March 18, 2004, between 1st Constitution Bancorp and Registrar and Transfer Company, as Rights Agent, (incorporated by reference to Exhibit 4.5 to the Company's Form 8-A12G (SEC File No. 000-32891) filed with the SEC on March 18, 2004)
4.6		Warrant, dated December 23, 2008, to purchase shares of 1st Constitution Bancorp common stock (incorporated by reference to Exhibit 3.3 to the Company's Form 8-K filed with the SEC on December 23, 2008)
10.1	#	1st Constitution Bancorp Supplemental Executive Retirement Plan, dated as of October 1, 2002 (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-QSB (SEC File No. 000-32891) filed with the SEC on November 13, 2002)
10.2	#	Amended and Restated 1st Constitution Bancorp Directors' Insurance Plan, effective as of June 16, 2005 (incorporated by reference to Exhibit No. 10 to the Company's Form 8-K filed with the SEC on March 24, 2006)
10.3	#	1st Constitution Bancorp Form of Executive Life Insurance Agreement (Incorporated by reference to Exhibit 10.4 to the Company's Form 10-QSB (SEC File No. 000-32891) filed with the SEC on November 13, 2002)

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Exhibit No.		Description
10.4	#	2000 Employee Stock Option and Restricted Stock Plan (incorporated by reference to Exhibit No. 6.3 to the Company’s Form 10-SB (SEC File No. 000-32891) filed with the SEC on June 15, 2001)
10.5	#	Directors Stock Option and Restricted Stock Plan (incorporated by reference to Exhibit No. 6.4 to the Company’s Form 10-SB (SEC File No. 000-32891) filed with the SEC on June 15, 2001)
10.6	#	Employment Agreement between the Company and Robert F. Mangano dated April 22, 1999 (incorporated by reference to Exhibit No. 6.5 to the Company’s Form 10-SB (SEC File No. 000-32891) filed with the SEC on June 15, 2001)
10.7	#	Amendment No. 1 to 1st Constitution Bancorp Supplemental Executive Retirement Plan, effective January 1, 2004 (incorporated by reference to Exhibit 10.12 to the Company’s Form 10-Q (SEC File No. 000-32891) filed with the SEC on August 11, 2004)
10.8	#	Change of Control Agreement, effective as of April 1, 2004, by and between the Company and Joseph M. Reardon (incorporated by reference to Exhibit 10.13 to the Company’s Form 10-Q (SEC File No. 000-32891) filed with the SEC on August 11, 2004)
10.9	#	Form of Stock Option Agreement under the 1st Constitution Bancorp Employee Stock Option and Restricted Stock Plan (incorporated by reference to Exhibit 10.14 to the Company’s Form 8-K (SEC File No. 000-32891) filed with the SEC on December 22, 2004)
10.10	#	Form of Restricted Stock Agreement under the 1st Constitution Bancorp Employee Stock Option and Restricted Stock Plan (incorporated by reference to Exhibit 10.15 to the Company’s Form 8-K (SEC File No. 000-32891) filed with the SEC on December 22, 2004)
10.11	#	Employment Agreement between the Company and Robert F. Mangano dated February 22, 2005 (incorporated by reference to Exhibit No. 10.16 to the Company’s Form 8-K (SEC File No. 000-32891) filed with the SEC on February 24, 2005)
10.12	#	The 1st Constitution Bancorp 2005 Equity Incentive Plan (incorporated by reference to Appendix A of the Company's proxy statement (SEC File No. 000-32891) filed with the SEC on April 15, 2005)
10.13	#	Form of Restricted Stock Agreement under the 1st Constitution Bancorp 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.18 to the Company’s Form 10-Q (SEC File No. 000-32891) filed with the SEC on August 8, 2005)

10.14	#	Form of Nonqualified Stock Option Agreement under the 1st Constitution Bancorp 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.19 to the Company's Form 10-Q (SEC File No. 000-32891) filed with the SEC on August 8, 2005)
10.15	#	Form of Incentive Stock Option Agreement under the 1st Constitution Bancorp 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.20 to the Company's Form 10-Q (SEC File No. 000-32891) filed with the SEC on August 8, 2005)
10.16	#	1st Constitution Bancorp 2006 Directors Stock Plan (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (SEC File No. 000-32891) filed with the SEC on May 19, 2006)

Exhibit No.		Description
10.17	#	Form of Nonqualified Stock Option Agreement under the 1st Constitution Bancorp 2006 Directors Stock Plan (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K (SEC File No. 000-32891) filed with the SEC on May 19, 2006)
10.18	#	Form of Restricted Stock Agreement under the 1st Constitution Bancorp 2006 Directors Stock Plan (incorporated by reference to Exhibit 10.3 to the Company's Form 8-K (SEC File No. 000-32891) filed with the SEC on May 19, 2006)
10.19		Amended and Restated Declaration of Trust of 1st Constitution Capital Trust II, dated as of June 15, 2006, among 1st Constitution Bancorp, as sponsor, the Delaware and institutional trustee named therein, and the administrators named therein (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (SEC File No. 000-32891) filed with the SEC on June 16, 2006)
10.20		Indenture, dated as of June 15, 2006, between 1st Constitution Bancorp, as issuer, and the trustee named therein, relating to the Floating Rate Junior Subordinated Debt Securities due 2036 (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K (SEC File No. 000-32891) filed with the SEC on June 16, 2006)
10.21		Guarantee Agreement, dated as of June 15, 2006, between 1st Constitution Bancorp and the guarantee trustee named therein (incorporated by reference to Exhibit 10.3 to the Company's Form 8-K (SEC File No. 000-32891) filed with the SEC on June 16, 2006)
10.22	#	Amendment No. 2 to 1st Constitution Bancorp Supplemental Executive Retirement Plan, effective as of December 31, 2004 (incorporated by reference to Exhibit 10.24 to the Company's Form 10-K filed with the SEC on April 15, 2008)
10.23	#	1st Constitution Bancorp 2005 Supplemental Executive Retirement Plan, effective as of January 1, 2005 (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (SEC File No. 000-32891) filed with the SEC on December 28, 2006)
10.24		Letter Agreement, dated December 23, 2008, including Securities Purchase Agreement – Standard Terms incorporated by reference therein, between 1st Constitution Bancorp and the U.S. Department of the Treasury (incorporated by reference to Exhibit 10 to the Company's Form S-3 filed with the SEC on January 29, 2009)
10.25	#	Form of Waiver, executed by each of Messrs. Robert Mangano and Joseph M. Reardon (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed with the SEC on December 23, 2008)

10.26	#	Form of Senior Executive Officer Agreement, executed by each of Messrs. Robert Mangano and Joseph M. Reardon (incorporated by reference to Exhibit 10.3 to the Company's Form 8-K filed with the SEC on December 23, 2008)
10.27	#	Letter Agreement with Robert F. Mangano dated November 5, 2009 and executed by Mr. Mangano on November 7, 2009 (incorporated by reference to Exhibit 10.27 to the Company's Form 10-K filed with the SEC on March 26, 2010)
10.28	#	Letter Agreement with Joseph M. Reardon dated November 5, 2009 and executed by Mr. Reardon on November 7, 2009 (incorporated by reference to Exhibit 10.28 to the Company's Form 10-K filed with the SEC on March 26, 2010)
10.29	#	Amended and Restated Employment Agreement between the Company and Robert F. Mangano dated as of July 1, 2010 (incorporated by reference to Exhibit 10 to the Company's Form 8-K filed with the SEC on July 14, 2010)
10.30		Branch Purchase and Assumption Agreement and Agreement for Purchase between Amboy Bank and 1st Constitution Bank dated as of December 31, 2010 (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on January 3, 2011)

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Exhibit No.		Description
14		Code of Business Conduct and Ethics (incorporated by reference to Exhibit 14 to the Company's Form 10-K (SEC File No. 000-32891) filed with the SEC on March 25, 2004)
21	*	Subsidiaries of the Company
23	*	Consent of Independent Registered Public Accounting Firm
31.1	*	Certification of the principal executive officer of the Company, pursuant to Securities Exchange Act Rule 13a-14(a)
31.2	*	Certification of the principal 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 the principal executive officer and the principal financial officer of the Company
99.1	*	Certification of principal executive officer of the Company, pursuant to Section 111(b) (4) of the Emergency Economic Stability Act of 2008, as amended by the American Recovery and Reinvestment Act of 2009
99.2	*	Certification of principal financial officer of the Company, pursuant to Section 111(b) (4) of the Emergency Economic Stability Act of 2008, as amended by the American Recovery and Reinvestment Act of 2009

* Filed herewith.
\# Management contract or compensatory plan or arrangement.