FIRST NORTHERN COMMUNITY BANCORP
Form 10-Q
May 08, 2009

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2009

OR

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

For the transition period from _______________ to _______________

Commission File Number 000-30707

First Northern Community Bancorp
(Exact name of registrant as specified in its charter)

California	68-0450397
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
195 N. First Street, Dixon, California	95620
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or Section 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes r No x

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

Large accelerated filer ¨	Accelerated filer x	Non-accelerated filer ¨	Smaller reporting company ¨

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

Yes ¨ No x

The number of shares of Common Stock outstanding as of May 8, 2009 was 9,009,462.

FIRST NORTHERN COMMUNITY BANCORP

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PART I - FINANCIAL INFORMATION

ITEM 1.

FIRST NORTHERN COMMUNITY BANCORP
FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	March 31, 2009 (unaudited)	December 31, 2008 (audited)
Assets		
Cash and due from banks	$ 36,292	$ 25,150
Federal funds sold	77,710	40,860
Investment securities – available-for-sale	47,522	42,106
Loans, net of allowance for loan losses of $14,463 at March 31, 2009 and $14,435 at December 31, 2008	480,583	516,968
Loans held-for-sale	5,159	2,192
Stock in Federal Home Loan Bank and other equity securities, at cost	2,311	2,311
Premises and equipment, net	7,707	7,620
Other Real Estate Owned	3,657	4,368
Accrued interest receivable and other assets	27,483	29,227
Total Assets	$ 688,424	$ 670,802
Liabilities and Stockholders' Equity		
Liabilities:		
Demand deposits	$ 163,999	$ 181,600
Interest-bearing transaction deposits	124,335	123,614
Savings and MMDA's	165,356	155,656
Time, under $100,000	56,752	64,252
Time, $100,000 and over	78,354	59,596
Total deposits	588,796	584,718
FHLB Advances and other borrowings	13,981	18,259
Accrued interest payable and other liabilities	5,779	5,796
Total liabilities	608,556	608,773
Stockholders' Equity:		
Preferred stock, no par value; $1,000 per share liquidation preference, 18,500 shares authorized; 17,390 shares issued and outstanding at March 31, 2009 and none at December 31, 2008	16,732	—
Common stock, no par value; 16,000,000 shares authorized;		

8,973,645 shares issued and outstanding at March 31, 2009 and		
8,608,802 shares issued and outstanding at December 31, 2008	61,990	58,983
Additional paid in capital	977	977
Retained earnings	174	2,026
Accumulated other comprehensive (loss) income	(5)	43
Total stockholders’ equity	79,868	62,029
Total Liabilities and Stockholders’ Equity	$ 688,424	$ 670,802

See notes to unaudited condensed consolidated financial statements.

FIRST NORTHERN COMMUNITY BANCORP
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)

	Three months ended March 31, 2009	Three months ended March 31, 2008
Interest and Dividend Income:		
Loans	$ 7,937	$ 9,240
Federal funds sold	19	290
Due from banks interest bearing accounts	31	268
Investment securities		
Taxable	194	498
Non-taxable	262	358
Other earning assets	—	29
Total interest and dividend income	8,443	10,683
Interest Expense:		
Deposits	1,062	1,912
Other borrowings	158	86
Total interest expense	1,220	1,998
Net interest income	7,223	8,685
Provision for loan losses	1,106	3,659
Net interest income after provision for loan losses	6,117	5,026
Other operating income:		
Service charges on deposit accounts	863	924
Gains on other real estate owned	2	—
Gains on sales of loans held-for-sale	174	100
Investment and brokerage services income	149	177
Mortgage brokerage income	15	1
Loan servicing income	96	47
Fiduciary activities income	98	97
ATM fees	58	69
Signature based transaction fees	139	139
Gains on sales of available-for-sale securities	—	511
Other income	146	207
Total other operating income	1,740	2,272
Other operating expenses:		
Salaries and employee benefits	3,648	4,107
Occupancy and equipment	998	912
Data processing	447	399
Stationery and supplies	123	116
Advertising	161	175
Directors' fees	52	52
Other real estate owned expense and write-downs	724	78
Other expense	1,515	1,402

Total other operating expenses		7,668		7,241
Income before benefit for income taxes		189		57
Benefit for income taxes		(264)		(3)
Net income	$	453	$	60
Preferred stock dividends and accretion	$	(51)		—
Net income available to common shareholders	$	402	$	60
Basic income per share	$	0.04	$	0.01
Diluted income per share	$	0.04	$	0.01

See notes to unaudited condensed consolidated financial statements.

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FIRST NORTHERN COMMUNITY BANCORP
UNAUDITED CONDENSED CONSOLIDATED STATEMENT
OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(in thousands, except share amounts)

	Preferred Stock	Common Stock Shares	Common Stock Amounts	Comprehensive Income (Loss)	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2008	$ —	8,608,802	$ 58,983		$ 977	$ 2,026	$ 43	$ 62,029
Comprehensive income (loss):								
Net income				$ 453		453		453
Other comprehensive income (loss), net of tax:								
Unrealized holding losses on securities arising during the current period, net of tax effect of $31				(48)				
Total other comprehensive loss, net of tax effect of $31				(48)			(48)	(48)
Comprehensive income				$ 405				
Issuance of preferred stock	16,726							16,726
Issuance of common stock warrants			664					664
4% stock dividend		346,011	2,249			(2,249)		—
Dividend on preferred stock						(45)		(45)
Accretion of preferred stock	6					(6)		—
Cash in lieu of fractional shares						(5)		(5)

Stock-based compensation and related tax benefits			94					94
Common shares issued, stock options exercised, net of swapped shares		18,832		—				
Balance at March 31, 2009	$ 16,732	8,973,645	$ 61,990		$ 977	$ 174	$ (5)	$ 79,868

See notes to unaudited condensed consolidated financial statements.

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FIRST NORTHERN COMMUNITY BANCORP
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	(in thousands) Three months ended March 31, 2009	(in thousands) Three months ended March 31, 2008
Cash Flows From Operating Activities		
Net Income	$ 453	$ 60
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	244	264
Provision for loan losses	1,106	3,659
Stock plan accruals	94	123
Tax benefit for stock options	—	20
Gains on sales of available-for-sale securities	—	(511)
(Gains) losses on sales of other real estate owned	(2)	—
Write-downs on other real estate owned	713	69
Gains on sales of loans held-for-sale	(174)	(100)
Proceeds from sales of loans held-for-sale	31,392	13,220
Originations of loans held-for-sale	(34,185)	(12,650)
Changes in assets and liabilities:		
Increase in accrued interest receivable and other assets	1,776	1,121
Decrease in accrued interest payable and other liabilities	(62)	(1,543)
Net cash provided by operating activities	1,355	3,732
Cash Flows From Investing Activities		
Net (increase) decrease in investment securities	(5,496)	13,098
Net decrease in loans	35,279	8,992
Net increase in other interest earning assets	—	(28)
Purchases of premises and equipment, net	(331)	(287)
Net cash provided by investing activities	29,452	21,775
Cash Flows From Financing Activities		
Net increase (decrease) in deposits	4,078	(22,053)
Proceeds from issuance of preferred stock	16,726	—
Proceeds from issuance of common stock warrants	664	—
Net decrease in FHLB advances and other borrowings	(4,278)	(4,718)
Cash dividends paid	(5)	(10)
Tax benefit for stock options	—	(20)
Repurchase of stock	—	(1,356)
Net cash provided by (used) in financing activities	17,185	(28,157)
Net Increase (Decrease) in Cash and Cash Equivalents	47,992	(2,650)
Cash and Cash Equivalents, beginning of period	66,010	99,030
Cash and Cash Equivalents, end of period	$ 114,002	$ 96,380

Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 1,260	$ 2,113
Supplemental disclosures of non-cash investing and financing activities:		
Preferred stock dividend payable and accretion	$ 51	—
Transfer of loans held-for-investment to other real estate owned	—	$ 406
Stock dividend distributed	$ 2,249	$ 8,642

See notes to unaudited condensed consolidated financial statements.

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FIRST NORTHERN COMMUNITY BANCORP
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2009 and 2008 and December 31, 2008

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of First Northern Community Bancorp (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Articles 9 and 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for any interim period are not necessarily indicative of results expected for the full year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report to stockholders and Form 10-K for the year ended December 31, 2008 as filed with the Securities and Exchange Commission. The preparation of financial statements in conformity with GAAP also requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates. All material intercompany balances and transactions have been eliminated in consolidation.

Recently Issued Accounting Pronouncements:

In December 2007, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 141R, Business Combinations, which requires most identifiable assets, liabilities, non-controlling interests, and goodwill acquired in a business combination to be recorded at "full fair value" at the acquisition date. SFAS No. 141R applies to all business combinations, including combinations among mutual entities and combinations by contract alone. Under SFAS No. 141R, all business combinations will be accounted for by applying the acquisition method. SFAS No. 141R is effective for periods beginning on or after December 15, 2008. Earlier application is prohibited. SFAS No. 141R will be applied to business combinations occurring after the effective date. The Company currently does not have any business combination contemplated that are expected to be closed after the effective date; therefore, the adoption of SFAS No. 141R will not have an impact, if any, on the consolidated financial statements or results of operations of the Company.

In December 2007, the SEC issued Staff Accounting Bulletin No. 110 ("SAB No. 110"), Certain Assumptions Used in Valuation Methods, which extends the use of the "simplified" method, under certain circumstances, in developing an estimate of expected term of "plain vanilla" share options in accordance with SFAS No. 123R. Prior to SAB No. 110, SAB No. 107 stated that the simplified method was only available for grants made up to December 31, 2007. The Company currently plans to continue to use the simplified method in developing an estimate of expected term of stock options.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities ("SFAS 161"). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improving the transparency of financial reporting. It is intended to enhance the current disclosure framework in SFAS 133 by requiring that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. This disclosure better conveys the purpose of derivative use in terms of the risks that the entity is intending to manage. SFAS 161 was effective for the Company on January 1, 2009 and will result in additional disclosures if the Company enters into any material derivative or hedging activities.

In May 2008, the FASB issued FASB Statement No. 162, The Hierarchy of Generally Accepted Accounting Principals (SFAS 162). SFAS 162 is intended to improve financial statements that are presented in conformity with U.S. generally accepted accounting principals for non-governmental entities. SFAS 162 is effective 60 days following the SEC's approval of the PCAOB amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principals.

Management does not believe the adoption of SFAS 162 will have a material impact on the Company's financial statements.

In June, 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities, ("FSP EITF 03-6-1"). The Staff Position provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and must be included in the earnings per share computation. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period earnings per share data presented must be adjusted retrospectively. Early application is not permitted. The adoption of the Staff Position had no material effect on the Company's financial position, results of operations or cash flows.

On April 9, 2009, the FASB issued three Staff Positions (FSPs) intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities. FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly", provides guidelines for making fair value measurements more consistent with the principles presented in FASB Statement No. 157, Fair Value Measurements. FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, enhances consistency in financial reporting by increasing the frequency of fair value disclosures. FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments", provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities.

FSP FAS 157-4 relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive.

FSP FAS 107-1 and APB 28-1 relate to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. Prior to issuing this FSP, fair values for these assets and liabilities were only disclosed once a year. The FSP now requires these disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value.

FSP FAS 115-2 and FAS 124-2 on other-than-temporary impairments are intended to bring greater consistency to the timing of impairment recognition, and provide greater clarity to investors about the credit and noncredit components of impaired debt securities that are not expected to be sold. The measure of impairment in comprehensive income remains fair value. The FSP also requires increased and timelier disclosures sought by investors regarding expected cash flows, credit losses, and an aging of securities with unrealized losses.

The FSPs are effective for interim and annual periods ending after June 15, 2009, but entities may early adopt the FSPs for the interim and annual periods ending after March 15, 2009. The Company is currently assessing the impact of these FSPs on its financial statements.

Reclassifications

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

2. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is maintained at levels considered adequate by management to provide for loan losses that can be reasonably anticipated. The allowance is based on management's assessment of various factors affecting the loan portfolio, including problem loans, economic conditions and loan loss experience, and an overall evaluation of the quality of the underlying collateral. See discussion on page 29 “Asset Quality” regarding impaired/problem loans.

Changes in the allowance for loan losses during the three-month periods ended March 31, 2009 and 2008 and for the year ended December 31, 2008 were as follows:

(in thousands)

	Three months ended March 31, 2009	Three months ended March 31, 2008	Year ended December 31, 2008
Balance, beginning of period	$ 14,435	$ 10,876	$ 10,876
Provision for loan losses	1,106	3,659	16,164
Loan charge-offs	(1,570)	(3,066)	(13,324)
Loan recoveries	492	178	719
Balance, end of period	$ 14,463	$ 11,647	$ 14,435

3. MORTGAGE OPERATIONS

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

The Company recognizes a gain and a related asset for the fair value of the rights to service loans for others when loans are sold. The Company sold substantially its entire conforming long-term residential mortgage loans originated during the three months ended March 31, 2009 for cash proceeds equal to the fair value of the loans.

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

At March 31, 2009, the Company had $5,159,000 of mortgage loans held-for-sale. At March 31, 2009 and December 31, 2008, the Company serviced real estate mortgage loans for others of $138,443,000 and $122,734,000, respectively.

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The following table summarizes the Company's mortgage servicing rights assets as of March 31, 2009 and December 31, 2008.

(in thousands)	December 31, 2008	Additions	Reductions	March 31, 2009
Mortgage servicing rights	$ 978	$ 186	$ 52	$ 1,112
Valuation allowance	(85)	(119)	—	(204)
Mortgage servicing rights, net of valuation allowance	$ 893	$ 67	$ 52	$ 908

4. OUTSTANDING SHARES AND EARNINGS PER SHARE

On January 22, 2009, the Board of Directors of the Company declared a 4% stock dividend payable as of March 31, 2009 to shareholders of record as of February 27, 2009. All income per share amounts have been adjusted to give retroactive effect to stock dividends.

Earnings Per Share (EPS)

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

The following table presents a reconciliation of basic and diluted EPS for the three-month periods ended March 31, 2009 and 2008

(in thousands, except share and earnings per share amounts)

	Three months ended March 31, 2009	Three months ended March 31, 2008
Basic earnings per share:		
Net income	$ 453	$ 60
Preferred stock dividend and accretion	$ (51)	—
Net income available to common shareholders	$ 402	$ 60
Weighted average common shares outstanding	8,964,482	9,157,511
Basic EPS	$ 0.04	$ 0.01
Diluted earnings per share:		
Net income	$ 453	$ 60
Preferred stock dividend and accretion	$ (51)	—
Net income available to common shareholders	$ 402	$ 60
Weighted average common shares outstanding	8,964,482	9,157,511
Effect of dilutive options	26,407	193,376
Adjusted weighted average common shares outstanding	8,990,889	9,350,887
Diluted EPS	$ 0.04	$ 0.01

Options not included in the computation of diluted earnings per share because they would have had an anti-dilutive effect amounted to 429,954 shares and 120,366 shares for the three months ended March 31, 2009 and 2008 respectively. In addition, 352,977 warrants issued to the US Treasury were not used in the computation of diluted earnings per share because they would have had an anti-dilutive effect.

5. STOCK PLANS

The following table presents the activity related to stock options for the three months ended March 31, 2009.

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (in years)
Options outstanding at Beginning of Period	555,591	$ 10.71		
Granted	8,000	$ 4.50		
Cancelled / Forfeited	(1,840)	$ 3.65		
Exercised	(41,415)	$ 3.81	$ 101,246	
Options outstanding at End of Period	520,336	$ 11.19	$ 17,998	4.79
Exercisable (vested) at End of Period	462,840	$ 10.40	$ 14,078	4.41

The weighted average fair value of options granted during the three-month period ended March 31, 2009 was $1.75 per share.

As of March 31, 2009, there was $240,000 of total unrecognized compensation cost related to non-vested stock options. This cost is expected to be recognized over a weighted average period of approximately 1.63 years.

There was $45,000 of recognized compensation cost related to non-vested stock options for the three months ended March 31, 2009.

A summary of the weighted average assumptions used in valuing stock options during the three months ended March 31, 2009 is presented below:

	Three Months Ended March 31, 2009
Risk Free Interest Rate	2.00%
Expected Dividend Yield	0.00%
Expected Life in Years	5
Expected Price Volatility	41.39%

The following table presents the activity related to restricted stock for the three months ended March 31, 2009.

	Number of Shares	Weighted Average Grant-Date Fair Value	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (in years)
Options outstanding at Beginning of Period	31,071	$ 16.03		
Granted	9,300	$ 4.50		
Cancelled / Forfeited	—	—		
Exercised/Released/Vested	(4,554)	$ 14.79	$ 22,551	
Options outstanding at End of Period	35,817	$ 13.20	$ 178,727	8.90

The weighted average fair value of options granted during the three-month period ended March 31, 2009 was $4.50 per share.

As of March 31, 2009, there was $306,000 of total unrecognized compensation cost related to non-vested restricted stock. This cost is expected to be recognized over a weighted average period of approximately 2.76 years.

There was $31,000 of recognized compensation cost related to non-vested stock options for the three months ended March 31, 2009.

The Company has a 2000 Employee Stock Purchase Plan ("ESPP"). Under the plan, the Company is authorized to issue to eligible employees shares of common stock. There are 292,136 (adjusted for the 2009 stock dividend) shares authorized under the ESPP. The ESPP will terminate February 27, 2017. The ESPP is implemented by participation periods of not more than twenty-seven months each. The Board of Directors determines the commencement date and duration of each participation period. The Board of Directors approved the current participation period of November 24, 2008 to November 23, 2009. An eligible employee is one who has been continually employed for at least ninety (90) days prior to commencement of a participation period. Under the terms of the ESPP, employees can choose to have up to 10 percent of their compensation withheld to purchase the Company's common stock each participation period. The purchase price of the stock is 85 percent of the lower of the fair market value on the last trading day before the date of participation or the fair market value on the last trading day during the participation period.

As of March 31, 2009, there was $53,000 of unrecognized compensation cost related to ESPP grants. This cost is expected to be recognized over a weighted average period of approximately 0.75 years.

There was $18,000 of recognized compensation cost related to ESPP grants for the three-month period ended March 31, 2009.

The weighted average fair value at grant date during the three-month period ended March 31, 2009 was $2.36.

A summary of the weighted average assumptions used in valuing ESPP grants during the three months ended March 31, 2009 is presented below:

	Three Months Ended March 31, 2009
Risk Free Interest Rate	0.95%
Expected Dividend Yield	0.00%
Expected Life in Years	1.00
Expected Price Volatility	48.13%

6. EXECUTIVE SALARY CONTINUATION PLAN

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

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

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

	Three months ended March 31,	
	2009	2008
Components of Net Periodic Benefit Cost		
Service Cost	$ 3,990	$ 33,232
Interest Cost	26,418	29,684