1ST CONSTITUTION BANCORP
Form 10-Q
May 10, 2007

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

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2007

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______ to ______

Commission file Number: 000-32891

1ST CONSTITUTION BANCORP

(Exact Name of Registrant as Specified in Its Charter)

New Jersey (State of Other Jurisdiction of Incorporation or Organization)	22-3665653 (I.R.S. Employer Identification No.)
2650 Route 130, P.O. Box 634, Cranbury, NJ (Address of Principal Executive Offices)	08512 (Zip Code)

(609) 655-4500

(Issuer's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer o Accelerated filer o Non-accelerated filer x

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

As of May 9, 2007, there were 3,731,514 shares of the registrant s common stock, no par value, outstanding.

1ST CONSTITUTION BANCORP

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

1st Constitution Bancorp and Subsidiaries

Consolidated Balance Sheets

ASSETS	March 31, 2007 **(unaudited)**	December 31, 2006
CASH AND DUE FROM BANKS	$9,212,906	$10,336,334
FEDERAL FUNDS SOLD / SHORT-TERM INVESTMENTS	10,928,022	25,478
Total cash and cash equivalents	20,140,928	10,361,812
INVESTMENT SECURITIES:		
Available for sale, at fair value	79,765,545	70,421,328
Held to maturity (fair value of $26,485,649 and $19,164,679 in 2007 and 2006, respectively)	26,577,983	19,254,476
Total investment securities	106,343,528	89,675,804
LOANS HELD FOR SALE	10,664,170	13,608,942
LOANS	270,021,017	265,142,313
Less- Allowance for loan losses	(3,348,063)	(3,328,360)
Net loans	266,672,954	261,813,953
PREMISES AND EQUIPMENT, net	3,039,206	3,033,618
ACCRUED INTEREST RECEIVABLE	2,396,829	2,235,671
BANK OWNED LIFE INSURANCE	9,269,756	9,179,408
OTHER ASSETS	2,992,749	2,668,338
Total assets	$421,520,120	$392,577,546
LIABILITIES AND SHAREHOLDERS EQUITY		
LIABILITIES:		
Deposits		
Non-interest bearing	$60,435,356	$64,305,445
Interest bearing	280,346,289	248,418,977
Total deposits	340,781,645	312,724,422
BORROWINGS	15,500,000	17,200,000
REDEEMABLE SUBORDINATED DEBENTURES	23,712,000	23,712,000
ACCRUED INTEREST PAYABLE	2,005,887	1,957,574
ACCRUED EXPENSES AND OTHER LIABILITIES	2,687,296	1,886,980

Total liabilities	384,686,828	357,480,976
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS EQUITY:		
Common stock, no par value; 30,000,000 shares authorized; 3,742,860 shares issued and 3,742,662 shares outstanding as of March 31, 2007 and December 31, 2006, respectively	28,918,957	28,886,105
Retained earnings	8,696,416	7,290,916
Treasury Stock, shares at cost, 198 shares at March 31, 2007 and December 31, 2006, respectively	(3,545)	(3,545)
Accumulated other comprehensive (loss)	(778,536)	(976,906)
Total shareholders equity	36,833,292	35,196,570
Total liabilities and shareholders equity	$421,520,120	$392,677,546

See accompanying notes to consolidated financial statements

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

	Three Months Ended March 31, 2007	2006
INTEREST INCOME:		
Loans, including fees	$6,167,725	$5,176,816
Securities:		
Taxable	992,327	806,366
Tax-exempt	206,568	160,791
Federal funds sold and short-term investments	22,544	8,664
Total interest income	7,389,164	6,152,637
INTEREST EXPENSE:		
Deposits	2,216,085	1,350,330
Securities sold under agreements to repurchase and other borrowed funds	286,339	466,337
Redeemable subordinated debentures	429,067	101,844
Total interest expense	2,931,491	1,918,511
Net interest income	4,457,673	4,234,126
PROVISION FOR LOAN LOSSES	40,000	170,000
Net interest income after provision for loan losses	4,417,673	4,064,126
NON-INTEREST INCOME:		
Service charges on deposit accounts	149,855	186,559
Gain on sales of loans	231,777	318,689
Income on Bank-owned life insurance	90,348	80,600
Other income	171,761	143,738
Total non-interest income	643,741	729,586
NON-INTEREST EXPENSE:		
Salaries and employee benefits	1,812,799	1,685,022
Occupancy expense	525,195	318,984
Other operating expenses	683,219	1,086,022
Total non-interest expenses	3,021,213	3,090,028
Income before income taxes	2,040,201	1,703,684
INCOME TAXES	634,701	448,926
Net income	$1,405,500	$1,254,758
NET INCOME PER SHARE:		
Basic	$0.38	$0.34
Diluted	$0.37	$0.33

See accompanying notes to consolidated financial statements.

1st Constitution Bancorp and Subsidiaries

Consolidated Statements of Changes in Shareholders Equity

For the Three Months Ended March 31, 2007 and 2006

(unaudited)

	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Total Shareholders Equity
BALANCE, December 31, 2005	$25,589,320	$5,981,803	($1,008,998)	($765,258)	$29,796,867
Exercise of stock options, net and issuance of vested shares under employee benefit programs	(108,992)		153,948		44,956
FAS 123R share-based compensation	23,042				23,042
Treasury Stock, shares purchased at cost			(30,784)		(30,784)
Adjustment to initially apply FASB Statement No. 158 (net of tax benefit Of $257,160)				(499,194)	(499,194)
Comprehensive Income:					
Net Income for the three months ended March 31, 2006		1,254,758			1,254,758
Unrealized loss on securities available for sale net of tax benefit				(262,425)	(262,425)
Total comprehensive Income					992,333
	$25,503,370	$7,236,561	($885,834)	($1,526,877)	$30,327,220

BALANCE, March 31, 2006

BALANCE, December 31, 2006	$28,886,105	$7,290,916	($3,545)	($976,906)	$35,196,570
FAS 123R share-based compensation	32,852				32,852
Comprehensive Income:					
Net Income for the three months ended March 31, 2007		1,405,500			1,405,500
Unrealized gain on securities available for sale net of tax benefit				198,370	198,370
Total comprehensive Income					1,603,870
BALANCE, March 31, 2007	$28,918,957	$8,696,416	($3,545)	($778,536)	$36,833,292

See accompanying notes to consolidated financial statements

1st Constitution Bancorp and Subsidiaries

Consolidated Statements of Cash Flows

(unaudited)

	Three months ended March 31,	
	2007	2006
OPERATING ACTIVITIES:		
Net income	$1,405,501	$1,254,758
Adjustments to reconcile net income to net cash provided by operating activities-		
Provision for loan losses	40,000	170,000
Depreciation and amortization	180,573	139,666
Net amortization of premiums on securities	11,378	15,830
Gain on sales of loans held for sale	(231,777)	(318,689)
Originations of loans held for sale	(14,001,050)	(10,572,208)
Income on Bank owned life insurance	(90,348)	(80,600)
Proceeds from sales of loans held for sale	17,177,599	16,675,189
Increase in accrued interest receivable	(161,158)	(706,448)
Decrease (increase) in other assets	342,680	(218,492)
Increase in accrued interest payable	48,313	33,287
Increase in accrued expenses and other liabilities	800,316	1,932,924
Net cash provided by operating activities	5,522,027	8,325,217
INVESTING ACTIVITIES:		
Purchases of securities -		
Available for sale	(11,920,653)	-
Held to maturity	(7,677,917)	-
Proceeds from maturities and prepayments of securities -		
Available for sale	2,871,299	4,757,557
Held to maturity	342,556	4,257,226
Net increase in loans	(4,799,001)	(12,793,371)
Capital expenditures	(186,161)	(275,362)
Cash consideration paid to acquire branch	(730,257)	-
Cash and cash equivalents acquired from branch	19,514,239	-
Net cash used in investing activities	(2,585,895)	(4,053,950)
FINANCING ACTIVITIES:		

Issuance of common stock, net	-	44,956
Purchase of treasury stock	-	(30,784)
Net increase (decrease) in demand, savings and time deposits	8,542,984	(21,366,940)
Net advances (repayments) in other borrowings	(1,700,000)	15,700,000
Net cash provided by (used in) financing activities	6,842,984	(5,652,768)
Increase (decrease) in cash and cash equivalents	9,779,116	(1,381,501)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	10,361,812	12,137,750
CASH AND CASH EQUIVALENTS AT END OF YEAR	$20,140,928	$10,756,249
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for -		
Interest	$2,883,178	$1,885,224
Income taxes	325,000	61,500

See accompanying notes to consolidated financial statements.

1st Constitution Bancorp and Subsidiaries

Notes To Consolidated Financial Statements

March 31, 2007 (Unaudited)

(1) **Summary of Significant Accounting Policies**

The accompanying unaudited Consolidated Financial Statements herein have been prepared by 1st Constitution Bancorp (the Company), in accordance with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to such rules and regulations. These Consolidated Financial Statements should be read in conjunction with the audited financial statements and the notes thereto included in the Company s Form 10-K for the year ended December 31, 2006, filed with the SEC on April 2, 2007.

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

Net Income Per Common Share

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

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

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

	Three Months Ended March 31, 2006		
	Income	Weighted-average shares	Per share amount
Basic EPS			
Net income available to common shareholders	$1,405,500	3,742,662	$0.38
Effect of dilutive securities			
Options and Grants	-	59,822	(0.01)
Diluted EPS			
Net income available to common shareholders plus assumed conversion	$1,405,500	3,802,484	$0.37

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

	Three Months Ended March 31, 2006		
		Weighted-average	Per share
	Income	shares	Amount
Basic EPS			
Net income available to common shareholders	$1,254,758	3,644,248	$0.34
Effect of dilutive securities			
Options and Grants	-	140,071	(0.01)
Diluted EPS			
Net income available to common shareholders plus assumed conversion	$1,254,758	3,784,319	$0.33

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

Share-based Compensation

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

The Company adopted Statement 123 (R) using the modified prospective transition method. Under this method, the Company records compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding as of the beginning of the period of adoption. The Company measures share-based compensation cost using the Black-Scholes option pricing model for stock option grants. The assumptions used in the option-pricing model in 2007 and 2006 were: dividend yield of 0%; expected volatility of 26.6%; risk-free interest rate of 4.53%; and expected term of 7 years. Although the initial fair value of stock options is not adjusted after the grant date, changes in the Company s assumptions may change the value of, and therefore the expense related to, future stock option grants. Forfeitures did not affect the calculated expense based upon historical activities of option grantees.

Share-based compensation of $32,852 and $23,042 was recognized for the three months ended March 31, 2007 and 2006, respectively, which related to option grants issued in 2006 plus the unvested portion of options to acquire shares of Company common stock granted prior to January 1, 2006. The Company expenses the fair value of stock awards determined at the grant date on a straight-line basis over the vesting period of the award.

Benefit Plans

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

The Company also provides retirement benefits to certain employees under a supplemental executive retirement plan. The plan is unfunded and the Company accrues actuarial determined benefit costs over the estimated service period of the employees in the plan. The Company follows SFAS No. 132, as revised in December 2003, Employers Disclosures about Pensions and Other Post-retirement Benefits and SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Post-retirement Plans-an amendment of FASB Statements No. 87, 88, 106 and 132(R). SFAS No. 132 revised employers disclosures about pension and other post-retirement benefit plans. It requires additional information about changes in the benefit obligation and the fair values of plan assets. It also standardized the requirements for pensions and other postretirement benefit plans to the extent possible, and illustrates combined formats for the presentation of pension plan and other post-retirement benefit plan disclosures. SFAS 158 requires an employer to recognize the over funded or under funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income.

The incremental effect of apply SFAS No. 158 on individual line items in the December 31, 2006 Consolidated Balance Sheet is as follows (In Thousands):

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

Redeemable Subordinated Debentures

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

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

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

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

Variable Interest Entities

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

In March 2005, the Federal Reserve Board adopted a final rule that would continue to allow the inclusion of trust preferred securities in Tier 1 capital, but with stricter quantitative limits. Under the final rule, after a five-year transition period, the aggregate amount of trust preferred securities and certain other capital elements would be limited to 25% of Tier 1 capital elements, net of goodwill. The amount of trust preferred securities and certain other elements in excess of the limit could be included in Tier 2 capital, subject to restrictions. Based on the final rule, as of March 31, 2007, the Company included all of its then-outstanding $23.7 million in trust preferred securities in Tier 1 capital.

Segment Information

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

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

Recent Accounting Pronouncements

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

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

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

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

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

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

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

(2) Acquisition of U