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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q/A**

Amendment No. 1

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

For the quarterly period ended March 31, 2009

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

For the transition period from                      to                      .

Commission File No. 0-12870

**FIRST CHESTER COUNTY CORPORATION**

(Exact name of Registrant as specified in its charter)

**Pennsylvania**  
(State or other jurisdiction of  
incorporation or organization)

**23-2288763**  
(I.R.S. Employer  
Identification No.)

**9 North High Street, West Chester, Pennsylvania 19380**  
(Address of principal executive office)  
(Zip code)

**(484) 881-4000**  
(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 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

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

The number of shares outstanding of Common Stock of the Registrant as of May 11, 2009 was 6,248,568.

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## EXPLANATORY NOTE

First Chester County Corporation (the “Corporation”) is filing this Amendment No. 1 on Form 10-Q/A to its Quarterly Report for the quarter ended March 31, 2009 (this “Amendment”) to amend and restate the Corporation’s unaudited consolidated financial statements as of and for the three months ended March 31, 2009, as filed with the Securities and Exchange Commission (the “SEC”) on May 11, 2009 (the “Original Filing”).

Subsequent to the year ended December 31, 2009, management identified a material weakness in internal controls related to the Corporation’s process to review the valuation of Mortgage Loans Held for Sale. Mortgage Loans Held for Sale represent mortgage loans originated by the Corporation and held until sold to secondary market investors. Upon the closing of a residential mortgage loan originated by the Corporation, the mortgage loan is typically warehoused for a period of time and then sold into the secondary market. While in this warehouse phase, mortgage loans held for sale are recorded at fair value under the fair value option with changes in fair value recognized through earnings. An error was identified in the Corporation’s process to properly identify a certain population of loans held for sale prior to sending the loan details to the Corporation’s third party valuation firm. As such, the Corporation erroneously excluded from the population to be fair valued, loans which were identified for sale but for which the Corporation was awaiting the consideration from the counterparty to complete the sales transaction. These particular loans were correctly classified as loans held for sale on the Consolidated Balance Sheet at March 31, 2009; however these loans were not reflected at their fair value in the Consolidated Balance Sheet and the related unrealized gains (losses) within the Statement of Operations for the three months ended March 31, 2009. This error resulted in an understatement in the carrying amount of Mortgage Loans Held for Sale at March 31, 2009 as well as an understatement of net income for the three months ended March 31, 2009. As a result of the material weakness, the Corporation increased Mortgage Loans Held for Sale and net gains from mortgage banking activities \$1.2 million at and for the quarter ended March 31, 2009.

As of the date of this Amendment, management is continuing their ongoing efforts to correct, revise and test the processes surrounding the material weakness described above. Additional changes will be implemented as determined necessary.

The decision to restate the financial statements for the three months ended March 31, 2009 was approved by the Corporation’s Board of Directors on March 18, 2010.

The information in this Amendment has been updated to give effect to the restatement. The Corporation has not modified nor updated the information in the Original Filing, except as necessary to reflect the effects of the restatement described above. This Amendment continues to speak as of the dates described herein, and the Corporation has not updated the disclosures contained in the Original Filing to reflect any events that occurred subsequent to such dates. Information not affected by the restatement is unchanged and reflects the disclosures made at the time of the Original Filing. Accordingly, this Amendment should be read in conjunction with the Corporation’s subsequent filings with the SEC, as information in such filings may update or supersede certain information contained in this Amendment.

Based on the foregoing, only the following items have been amended:

- Part I — Financial Information:
  - Item 1 — Financial Statements
  - Item 2 — Management’s Discussion and Analysis of Financial Condition and Results of Operations
  - Item 3 — Quantitative and Qualitative Disclosures About Market Risk
  - Item 4 — Controls and Procedures

For the convenience of the reader, this Form 10-Q/A sets forth the initial Form 10-Q in its entirety, although the Corporation is only amending those portions affected by the restatement described above.

In addition, as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new, currently-dated certifications of our principal executive officer and principal financial officer are filed herewith.

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## FIRST CHESTER COUNTY CORPORATION AND SUBSIDIARIES

## PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## CONSOLIDATED BALANCE SHEET

<u>(Dollars in thousands)</u>	<u>March 31,</u> <u>2009</u> <u>(Unaudited — Restated)</u>	<u>December 31,</u> <u>2008</u>
<b>ASSETS</b>		
Cash and due from banks	\$ 15,020	\$ 24,939
Federal funds sold and other overnight investments	2,501	4,884
Interest bearing deposits	37,722	65,327
Total cash and cash equivalents	55,243	95,150
Investment securities available-for-sale, at fair value	99,779	114,584
Mortgage loans held for sale, at fair value	187,411	90,940
Loans and leases	940,131	940,083
Less: allowance for possible loan and lease losses	(11,263)	(10,335)
Net loans and leases	928,868	929,748
Premises and equipment, net	23,664	22,076
Net deferred tax asset	8,407	8,585
Due from mortgage investors	—	9,036
Bank owned life insurance	1,411	1,398
Goodwill	7,506	5,906
Other assets	23,958	22,755
Total assets	<u>\$ 1,336,247</u>	<u>\$ 1,300,178</u>
<b>LIABILITIES</b>		
Deposits		
Non-interest-bearing	\$ 147,276	\$ 146,248
Interest-bearing (including certificates of deposit over \$100 of \$115,073 and \$100,018 at March 31, 2009 and December 31, 2008, respectively)	902,047	868,944
Total deposits	1,049,323	1,015,192
Federal Home Loan Bank advances and other borrowings	164,998	171,170
Subordinated debentures	15,465	15,465
Other liabilities	18,712	13,034
Total liabilities	<u>1,248,498</u>	<u>1,214,861</u>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, par value \$1.00; authorized 25,000,000 shares; Outstanding, 6,331,975 at March 31, 2009 and December 31, 2008	6,332	6,332
Additional paid-in capital	24,596	24,708
Retained earnings	60,584	57,899
Accumulated other comprehensive loss	(3,696)	(3,292)
Treasury stock, at cost: 83,407 shares and 92,931 shares at March 31, 2009 and December 31, 2008, respectively	(1,597)	(1,815)
Total First Chester County Corporation stockholders' equity	86,219	83,832
Non-controlling interest	1,530	1,485
Total stockholders' equity	<u>87,749</u>	<u>85,317</u>
Total liabilities and stockholders' equity	<u>\$ 1,336,247</u>	<u>\$ 1,300,178</u>

The accompanying notes are an integral part of these statements.

## FIRST CHESTER COUNTY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)

(Dollars in thousands - except per share)	Three Months Ended March 31,	
	2009 (Restated)	2008
<b>INTEREST INCOME</b>		
Loans and leases, including fees	\$ 13,205	\$ 12,389
Mortgage loans held for sale	1,844	7
Investment securities	1,230	1,230
Federal funds sold and deposits in banks	28	451
Total interest income	<u>16,307</u>	<u>14,077</u>
<b>INTEREST EXPENSE</b>		
Deposits	4,471	4,497
Subordinated debt	174	259
Federal Home Loan Bank and other borrowings	1,536	1,443
Total interest expense	<u>6,181</u>	<u>6,199</u>
Net interest income	10,126	7,878
Provision for loan and lease losses	1,387	211
Net interest income after provision for loan and lease losses	<u>8,739</u>	<u>7,667</u>
<b>NON-INTEREST INCOME</b>		
Wealth management and advisory services	918	995
Service charges on deposit accounts	632	553
Net gains (losses) on sales of investment securities	(88)	262
Operating lease rental income	340	310
Net gains on the sale of fixed assets and OREO	46	45
Loan fees and other	996	91
Net gain from mortgage banking activities	12,007	69
Bank-owned life insurance	13	65
Other	493	468
Total non-interest income	<u>15,357</u>	<u>2,858</u>
<b>NON-INTEREST EXPENSE</b>		
Salaries and employee benefits	12,164	4,798
Occupancy, equipment and data processing	2,776	1,438
Depreciation expense on operating leases	280	255
FDIC deposit insurance	413	94
Bank shares tax	234	192
Professional services	1,246	424
Marketing	258	197
Other	1,711	1,050
Total non-interest expense	<u>19,082</u>	<u>8,448</u>
Income before income taxes	5,014	2,077
<b>INCOME TAXES</b>	<u>1,526</u>	<u>557</u>
<b>NET INCOME</b>	<u>\$ 3,488</u>	<u>\$ 1,520</u>
Less: Net income attributable to the non-controlling interest	(168)	—
Net income attributable to First Chester County Corporation	<u>\$ 3,320</u>	<u>\$ 1,520</u>
<b>PER SHARE DATA</b>		
Net income per share (Basic)	<u>\$ 0.53</u>	<u>\$ 0.29</u>
Net income per share (Diluted)	<u>\$ 0.53</u>	<u>\$ 0.29</u>
Dividends declared	<u>\$ 0.140</u>	<u>\$ 0.140</u>
Basic weighted average shares outstanding	<u>6,242,252</u>	<u>5,176,512</u>
Diluted weighted average shares outstanding	<u>6,242,252</u>	<u>5,203,441</u>

The accompanying notes are an integral part of these statements.

## FIRST CHESTER COUNTY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

(Dollars in thousands)	Three Months Ended March 31,	
	2009 (Restated)	2008
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 3,488	\$ 1,520
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	904	593
Provision for loan and lease losses	1,387	211
Amortization of investment security premiums and accretion of discounts, net	78	65
Amortization of deferred loan fees	28	(48)
(Gains) losses on sales of investment securities, net	88	(262)
Gains from sales of assets	—	(45)
Net gain from mortgage banking activities	(12,007)	(69)
Proceeds from the sale of mortgage loans held for sale	527,417	4,707
Origination of mortgage loans held for sale	(602,845)	(5,000)
Net cash paid for the settlement of derivative contracts	(981)	—
Stock-based compensation expense	41	46
(Increase) decrease in other assets	(1,210)	(3,614)
Increase (decrease) in other liabilities	4,804	1,366
Net cash used in operating activities	\$ (78,808)	\$ (530)
<b>INVESTING ACTIVITIES</b>		
Net increase in loans	(535)	(6,873)
Proceeds from sales of investment securities available-for-sale	11,807	11,675
Proceeds from maturities of investment securities available-for-sale	2,952	6,816
Purchases of investment securities available-for-sale	(731)	(30,841)
Purchase of BOLI (Bank Owned Life Insurance)	—	(10,000)
Purchase of premises and equipment	(2,493)	(1,582)
Proceeds from the sale of fixed assets	—	48
Net cash provided by (used in) investing activities	\$ 11,000	\$ (30,757)
<b>FINANCING ACTIVITIES</b>		
Change in subsidiary's shares from non-controlling interest	(123)	—
Decrease in short term Federal Home Loan Bank and other short term borrowings	(1,000)	—
Increase in long term Federal Home Loan Bank borrowings	15,000	37,000
Repayment of long term Federal Home Loan Bank borrowings	(20,172)	(16)
Net increase in deposits	34,131	52,426
Cash dividends paid	—	(726)
Net increase (decrease) in treasury stock transactions	65	(44)
Net cash provided by financing activities	27,901	88,640
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(39,907)	57,353
Cash and cash equivalents at beginning of period	95,150	53,360
Cash and cash equivalents at end of period	\$ 55,243	\$ 110,713

The accompanying notes are an integral part of these statements.

**FIRST CHESTER COUNTY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

(Dollars in thousands)	Common Shares	Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(loss)	Treasury Stock	Non- controlling Interest	Total Stockholders' Equity	Comprehensive Income
Balance January 1, 2008	5,279,815	\$ 5,280	\$ 11,113	\$ 55,347	\$ (1,207)	\$ (2,554)	—	\$ 67,979	
Net income				1,520				1,520	\$ 1,520
Cash dividends declared				(726)				(726)	
Other comprehensive income									
Net unrealized losses on investment securities available- for-sale					179			179	179
Treasury stock transactions			(759)			715		(44)	
Total comprehensive income									\$ 1,699
Balance March 31, 2008	<u>5,279,815</u>	<u>\$ 5,280</u>	<u>\$ 10,354</u>	<u>\$ 56,141</u>	<u>\$ (1,028)</u>	<u>\$ (1,839)</u>	<u>—</u>	<u>\$ 68,908</u>	
Balance January 1, 2009	6,331,975	\$ 6,332	\$ 24,708	\$ 57,899	\$ (3,292)	\$ (1,815)	1,485	\$ 85,317	
Cumulative effect adjustment under FASB No. 156				240				240	
Balance January 1, 2009, as adjusted	<u>6,331,975</u>	<u>6,332</u>	<u>24,708</u>	<u>58,139</u>	<u>(3,292)</u>	<u>(1,815)</u>	<u>1,485</u>	<u>85,557</u>	
Change in subsidiary shares from non- controlling interest							(123)	(123)	
Net income (restated)				3,320			168	3,488	3,488
Cash dividends declared				(875)				(875)	
Other comprehensive income									
Net unrealized gains on investment securities available- for-sale					(404)			(404)	(404)
Treasury stock transactions			(153)			218		65	
Stock based compensation			41					41	
Total comprehensive income (restated)									\$ 3,084
Balance March 31, 2009 (restated)	<u>6,331,975</u>	<u>\$ 6,332</u>	<u>\$ 24,596</u>	<u>\$ 60,584</u>	<u>\$ (3,696)</u>	<u>\$ (1,597)</u>	<u>1,530</u>	<u>\$ 87,749</u>	

The accompanying notes are an integral part of these statements.

**FIRST CHESTER COUNTY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)****1. BASIS OF PRESENTATION, AS RESTATED**

The foregoing unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. In the opinion of Management, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the financial position and the results of operations for the interim period presented have been included. These interim financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008 (our "2008 Annual Report").

The results of operations for the three-month period ended March 31, 2009 are not necessarily indicative of the results to be expected for the full year. Information regarding risks and uncertainties that could cause actual results to vary materially from our prior performance may be found in Part I, Item 1A of our 2008 Annual Report.

The consolidated financial statements include the accounts of First Chester County Corporation (the "Corporation") and First National Bank of Chester County (the "Bank"). All material intercompany balances and transactions have been eliminated in consolidation.

The Corporation completed its acquisition of American Home Bank ("AHB") on December 31, 2008, and, accordingly, the December 31, 2008 and the March 31, 2009 consolidated balance sheet reflects the addition of assets acquired and liabilities assumed in this acquisition. The results of operations presented in the consolidated income statement for the three months ended March 31, 2009 include the results of operations from AHB.

As a result of the acquisition of AHB's operations, the Corporation reports the following new lines in the income statement:

- Loan fees and other consist mainly of fees earned at the inception of a loan as well as fees earned on the servicing of loan portfolios not owned by the Bank. Loan fees and other also includes gains and losses on the Bank's mortgage servicing rights.
- Net gain from mortgage banking activities consists of unrealized gains and losses on interest rate lock commitments, loans held for sale, and forward sale commitments combined with realized gains and losses on the actual sale of the loan and the settlement of forward sale commitments.

**Restatement of Previously Issued Financial Statements**

During the preparation of our consolidated financial statements for the year ended December 31, 2009, the Corporation determined that certain mortgage loans held for sale were excluded from the mark-to-market process. This has resulted in a material understatement of net income for the quarterly period ended March 31, 2009.

The Corporation identified this error in its accounting for the fair value adjustment to its loans held for sale portfolio (primarily the residential loan portfolio), resulting in an adjustment to net income for the three months ending March 31, 2009. The Corporation erroneously excluded from the population to be fair valued, certain loans which were identified for sale to a third party but for which the Corporation was awaiting the final approval and agreement from the counterparty to complete the transaction. The Corporation's policy is to continue to record the loans in this portfolio-segment as loans held for sale until the criteria for a sale is met and to record loans held for sale at fair value under the fair value option.

As a result of this error, the Corporation's Board of Directors, in consultation with management and its Audit Committee, determined that the financial statements contained in its Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, could no longer be relied upon. Accordingly, we have restated our unaudited consolidated financial statements as of and for the three months ended March 31, 2009 to record an adjustment for the correction of this error. As a result of the restatement, the following financial statement line items were adjusted (dollars in thousands, except per share amounts):

	<b>March 31, 2009</b>		
	<u>As Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
<b>Statement of Financial Condition</b>			
<u>Assets</u>			
Mortgage loans held for sale	186,249	1,162	187,411
Net deferred tax asset	8,802	(395)	8,407
<b>Total Assets</b>	<b>1,335,480</b>	<b>767</b>	<b>1,336,247</b>
<u>Liabilities and Stockholders' Equity</u>			
Retained earnings	59,817	767	60,584
Total First Chester County Corporation Stockholders' equity	85,452	767	86,219
Total stockholders' equity	86,982	767	87,749
<b>Total liabilities and stockholders' equity</b>	<b>1,335,480</b>	<b>767</b>	<b>1,336,247</b>

**FIRST CHESTER COUNTY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

	<b>Three Months Ended March 31, 2009</b>		
	<b>As Reported</b>	<b>Adjustment</b>	<b>As Restated</b>
<b>Statement of Income</b>			
Net gains from mortgage banking activities	10,845	1,162	12,007
Total non-interest income	14,195	1,162	15,357
Income before income taxes and cumulative effect of change in accounting for income taxes	3,852	1,162	5,014
Income Taxes	1,131	395	1,526
Net Income	2,721	767	3,488
Net income attributable to First Chester County Corporation	2,553	767	3,320
Net Income per share (Basic)	0.41	0.12	0.53
Net Income per share (Diluted)	0.41	0.12	0.53

	<b>Three Months Ended March 31, 2009</b>		
	<b>As Reported</b>	<b>Adjustment</b>	<b>As Restated</b>
<b>Statement of Cash Flows</b>			
Net Income	2,721	767	3,488
Net gain from mortgage banking activities	(10,845)	(1,162)	(12,007)
Increase in other assets (DTA)	(1,605)	395	(1,210)

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following supplements the significant accounting policies described in the footnotes to the consolidated financial statements in the 2008 Annual Report:

As a result of the acquisition of AHB's operations, the Corporation reports the following new lines in the income statement:

Loan servicing fees and other consist mainly of fees earned at the inception of a loan as well as fees earned on the servicing of loan portfolios not owned by the Bank. Loan servicing fees and other also includes gains and losses on the Bank's mortgage servicing rights.

Net gain from mortgage banking activities consists of unrealized gains and losses on interest rate lock commitments, loans held for sale, and forward sale commitments combined with realized gains and losses on the actual sale of the loan and the settlement of forward sale commitments.

**FIRST CHESTER COUNTY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

**3. ACCOUNTING FOR STOCK-BASED COMPENSATION PLANS**

At March 31, 2009, the Corporation had one stock based compensation plan, pursuant to which, shares of the Corporation's common stock could be issued, subject to certain restrictions. The plan, adopted in 2005, allows the Corporation to grant up to 150 thousand shares of restricted stock to employees. During the three months ended March 31, 2009, the Corporation granted no shares of restricted stock under this plan. During the three months ended March 31, 2008, the Corporation granted 34,500 shares valued at \$17.80 per share at the grant date. One third of these shares vest on each of the first three anniversaries of the date of the grant. These restricted stock grants are also subject to accelerated vesting of all or a portion of the shares upon the occurrence of certain events, as described more fully in our Proxy Statement for the 2009 Annual Meeting of Shareholders. A summary of the Corporation's unvested restricted shares is as follows:

(Dollars in thousands, except shares, and per share data)

	Shares	Grant Date Fair Value	Aggregate Intrinsic Value of Unvested Shares
Unvested at January 1, 2009	44,075	\$ 18.74	
Granted	—	—	
Vested	6,400	\$ 21.05	
Forfeited			
Unvested at March 31, 2009	37,675	\$ 20.50	\$ 293.1

The Corporation recorded \$41 thousand and \$46 thousand of restricted stock expense for the three months ended March 31, 2009 and 2008, respectively.

The Corporation's ability to issue stock options under the Corporation's 1995 Stock Option Plan has expired. Outstanding stock options, however, remain in effect according to their terms. Aggregated information regarding the Corporation's Stock Option Plan as well as options assumed in connection with the AHB acquisition as of March 31, 2009 are presented below.

(Dollars in thousands, except shares, per share and years data)

Options	Shares	Weighted- Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at January 1, 2009	298,034	\$ 15.43	—	\$ 0
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited	(880)	14.79	—	—
Expired	—	—	—	—
Outstanding at March 31, 2009	297,154	\$ 15.43	3.28	\$ 0
Exercisable at March 31, 2009	297,154	\$ 15.43	3.28	\$ 0

There were no options granted during the three months ended March 31, 2009. The total intrinsic value (market value on date of exercise less grant price) of options exercised during the year ended December 31, 2008 was \$0.

FIRST CHESTER COUNTY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

4. **EARNINGS PER SHARE, AS RESTATED**

**Three Months ended March 31, 2009**

	Income (thousands) (numerator) (Restated)	Shares (denominator)	Per Share Amount (Restated)
Basic earnings per share			
Net income available to common stockholders	\$ 3,320	6,242,252	\$ 0.53
Effect of Dilutive Securities			
Options to purchase common stock	—	—	—
Diluted earnings per share			
Net income available to common stockholders	<u>\$ 3,320</u>	<u>6,242,252</u>	<u>\$ 0.53</u>

297,154 anti-dilutive weighted average shares have been excluded from this computation because the option exercise price was greater than the average market price of the common shares.

**Three Months ended March 31, 2008**

	Income (thousands) (numerator)	Shares (denominator)	Per Share Amount
Basic earnings per share			
Net income available to common stockholders	\$ 1,520	5,176,512	\$ 0.29
Effect of Dilutive Securities			
Options to purchase common stock	—	26,929	—
Diluted earnings per share			
Net income available to common stockholders	<u>\$ 1,520</u>	<u>5,203,441</u>	<u>\$ 0.29</u>

27,242 anti-dilutive weighted shares have been excluded from this computation because the option exercise price was greater than the average market price of the common shares.

5. **COMPREHENSIVE INCOME, AS RESTATED**

Components of comprehensive income are presented in the following chart:

	Three Months Ended March 31,	
	2009 (Restated)	2008
Unrealized gains (losses) on securities:		
Unrealized gains (losses) arising in period	\$ (523)	\$ 10
Reclassification adjustment	(88)	262
Net unrealized gains (losses)	(611)	272
Other comprehensive income before taxes	(611)	272
Income tax benefit (expense)	207	(93)
Other comprehensive income (loss)	(404)	179
Net income	3,488	1,520
Comprehensive income	3,084	1,699
Comprehensive income attributable to non-controlling interest	(168)	—
Total comprehensive income attributable to First Chester County Corp.	<u>\$ 2,916</u>	<u>\$ 1,699</u>

**FIRST CHESTER COUNTY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)****6. CASH FLOW INFORMATION**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold and overnight investments. Generally, federal funds and overnight investments are purchased and sold for one-day periods. Cash paid for interest for the three month periods ended March 31, 2009 and 2008 was \$6.3 million and \$7.2 million, respectively. Cash paid for income taxes for the three month periods ended March 31, 2009 and 2008 was \$50 thousand and \$0, respectively.

**7. ACQUISITION**

On December 31, 2008, the Corporation completed its acquisition of American Home Bank (“AHB”). This acquisition was intended to help the Bank to further diversify the Bank’s products, services, and sources of income as well as expand the Bank’s geographic footprint. The AHB merger was accounted for under the purchase method of accounting in accordance with SFAS No. 141, “Business Combinations.” In accordance with SFAS No. 141, certain deal costs and other cash paid are capitalized as part of the total purchase price. The purchase price has been allocated to the assets acquired and the liabilities assumed based on their estimated fair values at the AHB merger date. Goodwill resulted from the acquisition. During the first quarter of 2009, the Corporation recorded a \$1.6 million purchase accounting adjustment related to additional consideration identified for the acquisition. This amount relates to the lump sum payments made to certain former executive officers of AHB in connection with the finalization of the AHB Management Incentive Plan (as described in the Corporation’s Current Report on Form 8-K filed on May 5, 2009 containing Item 5.02 disclosure). The full amount of this additional consideration was allocated to goodwill. The following shows the prior and current balance of goodwill:

(Dollars in thousands)

	<u>Goodwill Balance</u>
December 31, 2008	\$ 5,906
Purchase accounting adjustment for acquisition	<u>1,600</u>
March 31, 2009	<u><u>\$ 7,506</u></u>

**8. SEGMENT REPORTING, AS RESTATED**

The Corporation has determined that it has two operating and reporting segments: Community Banking and Mortgage Banking.

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

The Corporation’s Mortgage Banking segment operates under the trade name, “American Home Bank, a division of First National Bank of Chester County,” referred to herein as the “AHB Division”). Its principal activities include providing mortgages and associated products to customers and selling most of those mortgages into the secondary market on a servicing released basis. The AHB Division retains the servicing on a portion of the loans that it sells. The AHB Division also holds some residential mortgage and construction loans. The AHB Division was formed on December 31, 2008 following the acquisition of American Home Bank, National Association.

Reportable segment-specific information and reconciliation to consolidated financial information is as follows:

**FIRST CHESTER COUNTY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

<u>(Dollars in thousands)</u>	<u>As of and for the three months ended March 31, 2009</u>		
	<u>Community Banking Segment</u>	<u>Mortgage Banking Segment (Restated)</u>	<u>Consolidated Segment (Restated)</u>
Total assets	\$ 1,087,350	\$ 248,897	\$ 1,336,247
Net interest income	\$ 8,276	\$ 1,850	\$ 10,126
Total non-interest income	\$ 2,453	\$ 12,904	\$ 15,357
Total non-interest expense	\$ 8,939	\$ 10,143	\$ 19,082
Net Income	\$ 719	\$ 2,601	\$ 3,320

<u>(Dollars in thousands)</u>	<u>As of and for the three months ended March 31, 2008</u>		
	<u>Community Banking Segment</u>	<u>Mortgage Banking Segment</u>	<u>Consolidated Segment</u>
Total assets	\$ 1,006,441	\$ —	\$ 1,006,441
Net interest income	\$ 7,878	\$ —	\$ 7,878
Total non-interest income	\$ 2,858	\$ —	\$ 2,858
Total non-interest expense	\$ 8,448	\$ —	\$ 8,448
Net Income	\$ 1,520	\$ —	\$ 1,520

**9. RECENT ACCOUNTING PRONOUNCEMENTS**

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments,” (“FSP FAS 107-1”). FSP 107-1 expands disclosures for fair value of financial instruments that are within the scope of FASB statement number 107 (“SFAS 107”) and now requires the FAS107 fair value disclosures in interim period reports. FSP FAS 107-1 is effective for interim reporting periods ending after June 15, 2009. The Corporation has not yet determined the impact, if any, that FSP FAS 107-1 will have on our consolidated financial statements.

In April 2009, the FASB issued 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,” (“FSP 157-4”). FSP 157-4 provides guidance for estimating fair value in accordance with FASB Statement No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability have significantly decreased. FSP 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP 157-4 is effective for interim and annual reporting periods ending after June 15, 2009. The Corporation has not yet determined the impact, if any, that FSP 157-4 will have on our consolidated financial statements.

In October 2008, the FASB issued FSP FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active,” (“FSP FAS 157-3”). FSP FAS 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. We adopted the provisions of FSP FAS 157-3 in September 2008. FSP FAS 157-3 did not have a material impact on our consolidated financial statements.

**FIRST CHESTER COUNTY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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In June 2008, the FASB posted 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"). This statement addressed whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the calculation of earnings per share (EPS) as described in FASB Statement No. 128, "Earnings per Share." FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 with prior period EPS data adjusted retrospectively to conform to its provisions. FSP EITF 03-6-1 did not have a material impact on our consolidated financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities," ("SFAS No. 161"). This statement is an amendment to Statement no. 133 and changes the disclosure requirements for derivative instruments and hedging activities. No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. SFAS No. 161 did not have a material impact on our consolidated financial statements.

In February 2008, the FASB issued Staff Position 157-2 ("FSP 157-2"), "Effective Date of FASB Statement No. 157." FSP 157-2 delays the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. FSP 157-2 did not have a material impact on our consolidated financial statements.

In December 2007, the FASB issued Statement No. 141(R) ("SFAS 141(R)"), "Business Combinations." This Statement replaces SFAS 141, "Business Combinations." This Statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the "purchase method") be used for all business combinations and for an acquirer to be identified for each business combination. This Statement also establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) will apply prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after December 15, 2008. While the Corporation has not yet evaluated SFAS 141(R) for the impact, if any, that SFAS 141(R) will have on our consolidated financial statements, we will be required to expense costs related to any acquisitions on or after January 1, 2009, rather than capitalize such costs as currently required.

In December 2007, the FASB issued Statement No. 160 ("SFAS 160"), "Noncontrolling Interests in Consolidated Financial Statements." This Statement amends Accounting Research Bulletin 51 to establish accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. The Corporation adopted the provisions of SFAS 160 on January 1, 2009 and accordingly, changed the way in which it reports minority interest in the Corporation's balance sheet. The Corporation now includes minority interest in the equity section of the balance sheet.

**10. FAIR MARKET VALUE, AS RESTATED**

Statement 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. Statement 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. FSP FAS 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset

**FIRST CHESTER COUNTY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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when the market for that financial asset is not active. We considered the requirements of FSP 157-3 when estimating fair value.

FASB Statement No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. The Corporation elected to account for loans held for sale under this election option.

Statement 157 describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Corporation used the following methods and significant assumptions to estimate fair value:

**Securities:** Trading securities and investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. Level 1 securities include those traded on nationally recognized securities exchanges, U.S. Treasury and Agency securities, and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

**Loans held for sale:** The fair value of loans held for sale is based primarily on secondary-market price quotes. If no such quoted price exists, the fair value of a loan is determined using quoted prices for comparable instruments. As such, the Corporation classifies loans subjected to nonrecurring fair value adjustments as Level 2.

**Loans and leases:** The Corporation does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with SFAS 114, "Accounting by Creditors for Impairment of a Loan," ("SFAS 114"). The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At March 31, 2009, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. In accordance with SFAS 157, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the impaired loan as nonrecurring Level 3.

**Other Real Estate Owned ("OREO"):** OREO is adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, OREO is carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair

**FIRST CHESTER COUNTY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation records the foreclosed asset as nonrecurring Level 3.

Mortgage Servicing Rights (“MSRs”): To determine the fair value of MSRs, the Bank uses an independent third party to estimate the present value of estimated future net servicing income. This valuation method incorporates an assumption that market participants would use in estimating future net servicing income, which include estimates of the cost to service, the discount rate, custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, and default rates and losses. The fair value of servicing rights was determined using discount rates ranging from 8.0% to 10.0%, prepayment speeds ranging from 8.1% to 48.18% depending on the stratification of the specific right, and a weighted average default rate of 2.14%.

Derivative instruments: The fair value of interest rate lock commitments and forward sales commitments are estimated using a process similar to mortgage loans held for sale. Loan commitments and best efforts commitments are assigned a probability that the related loan will be funded and the commitment will be exercised. The Bank relies on historical “pull-through” percentages in establishing probability.

The table below presents the balance of assets and liabilities at March 31, 2009, measured at fair value on a recurring basis:

<u>Dollars in thousands</u>	<u>Level 1</u>	<u>Level 2</u> <u>(Restated)</u>	<u>Level 3</u>	<u>Total</u> <u>(Restated)</u>
<u>Assets</u>				
Investment securities available for sale	\$ 1,206	\$ 98,573	\$ —	\$ 99,779
Loans held for sale	—	187,411	—	187,411
Mortgage servicing rights	—	—	421	421
Interest rate lock commitments	—	—	873	873
<u>Liabilities</u>				
Mandatory forward sales commitments	\$ —	\$ 682	\$ —	\$ 682

The aggregate unpaid principal balance of mortgage loans held for sale is \$183.2 million.

The table below presents the balance of assets and liabilities at March 31, 2009, measured at fair value on a nonrecurring basis:

<u>Dollars in thousands</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Impaired loans & leases	\$ —	\$ —	\$ 18,927	\$ 18,927
OREO	—	—	2,142	2,142

The table below presents the rollforward of assets that are valued using significant unobservable inputs (Level 3) for the quarter ended March 31, 2009:

**FIRST CHESTER COUNTY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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Dollars in thousands	Mortgage Servicing Rights	Interest Rate lock Commitments	Loans	OREO
Beginning balance	\$ 239	\$ 412	\$ 10,515	\$ 1,872
Net transferred into (out of) level 3	215	(1,429)	9,386	270
Net unrealized gains (losses)	(33)	1,890	(974)	
Ending Balance	<u>\$ 421</u>	<u>\$ 873</u>	<u>\$ 18,927</u>	<u>\$ 2,142</u>

**11. DERIVATIVE INSTRUMENTS**

The Bank, as part of its real estate lending and mortgage banking activities, originates fixed-rate 1-4 unit residential loans for sale in the secondary market. At the time of origination, management identifies loans that are expected to be sold in the near future. These warehoused loans have been classified as mortgage loans held for sale in the consolidated balance sheet. These loans expose the Bank to variability in their fair value due to changes in interest rates. If interest rates increase, the value of the loans decreases. Conversely, if interest rates decrease, the value of the loans increases.

The Bank enters into rate lock commitments to extend credit to borrowers at a specified interest rate upon the ultimate funding of the loan. These rate lock commitments are generally 30 days for a permanent loan and can range up to 360 days for a construction loan. Unfunded loans for which commitments have been entered into are called "pipeline loans." Some of these rate lock commitments will ultimately expire without being completed. To the extent that a loan is ultimately granted and the borrower ultimately accepts the terms of the loan, these rate lock commitments expose the Bank to variability in their fair value due to changes in interest rates. If interest rates increase, the value of these rate lock commitments decreases. Conversely, if interest rates decrease, the value of these rate lock commitments increases.

Loan commitments relate to the origination of mortgage loans that will be held for sale are accounted for as derivative instruments. Such commitments, along with any related fees received from potential borrowers, are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in net revenue from sales and brokering of loans.

To mitigate the effect of this interest rate risk on both the held for sale loans and interest rate lock commitments, the Bank enters into offsetting derivative contracts, primarily forward loan commitments. The forward loan sales commitments lock in the price for the sale of specific loans or loans to be funded under specific interest rate lock commitments or for a generic group of loans with similar characteristics. Mandatory forward sales commitments are agreements to sell a certain notional amount of loans at a specified future time period at a specified price. The Bank incurs a penalty for failure to follow through with the commitment. Best efforts forward sales commitments also result in direct or indirect financial penalties for failure to follow through if the related loans close. The fair value of forward loan sales commitments that hedge warehouse loans and interest rate lock commitments, as well as interest rate lock commitments themselves, are summarized as follows at December 31, 2008. The fair values of all of these items are recorded on the balance sheet within other assets and other liabilities as these items are financial derivatives.

The fair value of derivative instruments not designated as hedging instruments under FASB Statement No. 133 are presented in the following table:

(Dollars in thousands)	Asset Derivatives				Liability Derivatives			
	March 31, 2009		December 31, 2008		March 31, 2009		December 31, 2008	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Mandatory forward sales commitments	Other assets	\$ —	Other assets	\$ —	Other Liabilities	\$ 682	Other Liabilities	\$ 583
Best efforts forward sales commitments	Other assets	—	Other assets	—	Other Liabilities	—	Other Liabilities	35
Interest rate lock commitments	Other assets	873	Other assets	412	Other Liabilities	—	Other Liabilities	—

**FIRST CHESTER COUNTY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

**12. SUBSEQUENT EVENTS**

In April 2009, the Corporation completed the placement of \$5,175,000 aggregate liquidation amount of fixed rate trust preferred securities (the "Trust Preferred Securities"), through a newly formed subsidiary, First Chester County Capital Trust IV, a wholly owned Delaware statutory trust (the "Trust"). In connection with the sale of the Trust Preferred Securities, the Corporation issued \$5,330,000 of junior subordinated deferrable interest debentures (the "Debentures") to the Trust. The Trust Preferred Securities and the Debentures have a 30 year maturity, and carry a fixed rate of interest of 12%. The Corporation has retained the right to redeem the Trust Preferred Securities at par (plus accrued but unpaid interest) on any interest payment date on or after April 28, 2014.

**13. RECLASSIFICATIONS**

Certain 2008 numbers have been reclassified to conform with current period presentation. These reclassifications have no impact on net income or earnings per share.

## **ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This discussion is intended to further your understanding of the consolidated financial condition and results of operations of First Chester County Corporation and its direct and indirect wholly-owned subsidiaries. It should be read in conjunction with the consolidated financial statements included in this report.

In addition to historical information, this discussion and analysis contains statements relating to future results of the Corporation that are considered “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can often be identified by the use of forward-looking terminology such as “believes,” “expects,” “intends,” “may,” “will,” “should” “or anticipates” or similar terminology. These statements involve risks and uncertainties and are based on various assumptions. Although the Corporation believes that its expectations are based on reasonable assumptions, investors and prospective investors are cautioned that such statements are only projections, and that these risks and uncertainties are all difficult to predict and most are beyond the control of the Corporation’s Management. Information about the primary risks and uncertainties that could cause the Corporation’s actual future results to differ materially from our historic results or the results described in forward-looking statements made in this report or presented elsewhere by Management from time to time are included in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008 (our “2008 Annual Report”). Material changes to such “risk factors” may be reported in subsequent Quarterly Reports on Form 10-Q in Part II, Item 1A. There have been no such changes from the risk factors set forth in our 2008 Annual Report.

The Corporation undertakes no obligation to publicly release any revisions to any forward-looking statements to reflect events or circumstances after the date of this Report.

### **CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES**

The accounting and reporting policies of the Corporation conform with the accounting principles generally accepted in the United States of America and general practices within the financial services industry. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates. For a discussion of significant accounting policies please refer to the footnotes to the Corporation’s consolidated financial statements included in this Report and in our 2008 Annual Report.

### **GOODWILL IMPAIRMENT**

Goodwill was recorded as a result of the AHB acquisition. Goodwill and other intangible assets must be reviewed at least annually for potential impairment, or more often if events or circumstances indicate that there may be impairment, in accordance with SFAS No. 142, “Goodwill and Other Intangible Assets and SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” Goodwill is tested for impairment at the reporting unit level and requires that the fair value of each of our reporting units be compared to the carrying amount of its net assets, including goodwill. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. The Corporation will utilize general industry practices in evaluating the fair value of its goodwill and other intangible assets.

### **INVESTMENT SECURITIES**

In accordance with FASB Statement No. 115, the Corporation evaluates the individual securities making up the investment portfolio for other than temporary impairment on a quarterly basis. If a security is deemed to be other than temporarily impaired, the impairment is recorded in non-interest income in the period in which it is recognized. Evaluating whether a security is other than temporarily impaired involves a high degree of judgment. Factors considered by management in determining whether a security is other than temporarily impaired include current and forecasted market conditions for that security as well as our ability and intent to hold the security until recovery.

## **ALLOWANCE FOR LOAN AND LEASE LOSSES**

The Corporation considers that the determination of the allowance for loan and lease losses involves a higher degree of judgment and complexity than its other significant accounting policies. The balance in the allowance for loan losses is determined based on Management's review and evaluation of the loan and lease portfolio in relation to past loss experience, the size and composition of the portfolio, current economic events and conditions, and other pertinent factors, including Management's assumptions as to future delinquencies, recoveries and losses. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from Management's estimates, additional provisions for loan and lease losses may be required that would adversely impact earnings in future periods.

## **INCOME TAXES**

Under the liability method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities. Deferred tax assets are subject to Management's judgment based upon available evidence that future realization is more likely than not. If Management determines that the Corporation may be unable to realize all or part of the net deferred tax assets in the future, a direct charge to income tax expense may be required to reduce the recorded value of the net deferred tax asset to the expected realizable amount.

## **ACQUISITION**

Effective December 31, 2008, the Corporation completed its acquisition of American Home Bank, National Association ("AHB"). The mortgage banking business of AHB is now operating as a division of the Bank under the trade name, "American Home Bank, a Division of First National Bank of Chester County." AHB's mortgage-banking activities include providing mortgages and associated products to customers and selling most of those mortgages into the secondary market on a servicing released basis. AHB retains the servicing on a portion of the loans that it sells. The sourcing of mortgage loans is conducted through a direct, retail delivery channel comprised of retail loan offices, affiliated business arrangements with builders and realtors, and a wholesale lending operation. The wholesale operation sources loans through relationships with unrelated mortgage brokers. The acquisition of AHB was intended to help the Bank to further diversify the Bank's products, services, and sources of income as well as expand the Bank's geographic footprint.

## **FINALIZATION OF THE AHB MANAGEMENT INCENTIVE PLAN**

On May 4, 2009, the Corporation finalized the AHB Management Incentive Plan (as described in Footnote 6 to the Financial Statements), which resulted in the treatment for accounting purposes under GAAP of certain lump sum payments under the finalized Plan as additional consideration for the AHB shares of certain former executive officers of AHB who were to participate in the Plan. Under the structure of the Plan outlined in the Corporation's Registration Statement on Form S-4, which was not concluded and was subject to finalization, amounts earned under the AHB MIP may have been considered compensation expense or additional consideration. The Agreement to finalize the AHB MIP provided for lump sum payments in the amount of \$1,600,000 to be paid in May 2009, which are not subject to forfeiture due to employment status or any other provision of the employment agreements entered into with the executives in connection with the merger. The Agreement to finalize the AHB MIP also provided for participation in the Bank's Executive Incentive Plan in 2009, which will be treated as compensation expense as earned.

## **EARNINGS AND DIVIDEND SUMMARY**

The Corporation completed its acquisition of American Home Bank on December 31, 2008, and, accordingly, the December 31, 2008 and the March 31, 2009 consolidated balance sheets reflect the addition of assets acquired and liabilities assumed in this acquisition. The results of operations presented in the consolidated income statement for the three months ended March 31, 2009 include the results of operations from AHB; however, the consolidated income statement for the three months ended March 31, 2008 does not include the results of AHB.

Net income for the three months ended March 31, 2009 was \$3.32 million, an increase of \$1.8 million or 118.4% from \$1.5 million for the same period in 2008. Diluted earnings per share for the three months ended March 31, 2009 and 2008 were \$0.53 and \$0.29, respectively. Basic earnings per share for the three months ended March 31, 2009 and 2008

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were also \$0.53 and \$0.29 respectively. Cash dividends declared during the three month period ended March 31, 2009 and 2008 were \$0.14 and \$0.14, respectively.

The increase in net income for the first quarter of 2009 was largely due to an increase in net interest income due mainly to the higher average interest-earning assets from the acquisition of AHB. In addition, non-interest income increased significantly, due mainly to the net gains from the mortgage banking activities of the AHB Division. Offsetting these increases was an increase in non-interest expense, due mainly to the addition of AHB’s operations, combined with an increase in the provision for loan and lease losses. The increase in the provision was driven by the ongoing impact from recessionary economic conditions.

**SELECTED RATIOS**

	Three Months Ended March 31,	
	2009	2008
	(Restated)	
<b>SELECTED RATIOS</b>		
Return on Average Assets	0.78%	0.64%
Return on Average Equity	11.74%	8.80%
Dividend Payout Ratio	34.23%	47.76%
Book Value Per Share	\$ 13.92	\$ 13.67

**SEGMENT INFORMATION**

The Corporation has determined that it has two operating and reporting segments: Community Banking and Mortgage Banking.

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

The Corporation’s Mortgage Banking segment operates under the trade name, “American Home Bank, a division of First National Bank of Chester County,” referred to herein as (the “AHB Division”). Its principal activities include providing residential mortgages and associated products to customers and selling most of those mortgages into the secondary market on a servicing released basis. The AHB Division retains the servicing on a portion of the loans that it sells. The AHB Division also holds some residential mortgage and construction loans. The AHB Division was formed on December 31, 2008 following the acquisition of American Home Bank, National Association.

The tables below summarize the performance of each of the operating segments:

(Dollars in thousands)	As of and for the three months ended March 31, 2009		
	Community Banking Segment	Mortgage Banking Segment (Restated)	Consolidated (Restated)
Total assets	\$ 1,087,350	\$ 248,897	\$ 1,336,247
Net interest income	8,276	1,850	10,126
Total non-interest income	2,453	12,904	15,357
Total non-interest expense	8,939	10,143	19,082
Net Income	719	2,601	3,320

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(Dollars in thousands)	As of and for the three months ended March 31, 2008		
	Community Banking Segment	Mortgage Banking Segment	Consolidated
Total assets	\$ 1,006,441	\$ —	\$ 1,006,441
Net interest income	7,878	—	7,878
Total non-interest income	2,858	—	2,858
Total non-interest expense	8,448	—	8,448
Net Income	1,520		1,520

The results presented in the Net Interest Income, Interest Income, Interest Expense and Provision for Loan and Lease Losses sections present information for both the loans held in the Community Banking segment as well as the Mortgage Banking segment. Factors driving net interest income and the provision for loan and lease losses are similar for the loans held in each of these segments. Specific discussion is made below where factors driving the specific components of Non-interest income and expense for the operating segments differ from the consolidated Corporation.

**CONSOLIDATED AVERAGE BALANCE SHEET  
AND TAXABLE EQUIVALENT INCOME/EXPENSE AND RATES FOR THE  
THREE MONTHS ENDED MARCH 31,**

(Dollars in thousands)	2009			2008		
	Average Balance	Interest	Rate%	Average Balance	Interest	Rate%
<b>ASSETS</b>						
Federal funds sold, interest-bearing deposits in banks and other overnight investments	\$ 26,516	\$ 28	0.43%	\$ 49,482	\$ 451	3.67%
Investment securities:						
Taxable	101,900	1,152	4.59%	92,698	1,116	4.84%
Tax-exempt (1)	9,606	114	4.79%	13,678	164	4.81%
Total investment securities	111,506	1,266	4.61%	106,376	1,280	4.84%
Loans held for sale	151,157	1,844	4.95%	607	7	4.64%
Loans and leases: (2)						
Taxable	919,111	12,950	5.71%	728,464	12,151	6.71%
Tax-exempt (1)	20,737	375	1.81%	19,572	348	7.15%
Total loans and leases	939,848	13,325	5.75%	748,036	12,499	6.72%
Total interest-earning assets	1,229,027	16,463	5.43%	904,501	14,237	6.33%
Non-interest-earning assets						
Allowance for loan and lease losses	(10,569)			(7,884)		
Cash and due from banks	27,952			21,148		
Other assets	61,187			35,014		
Total assets	\$ 1,307,597			\$ 952,779		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
<b>Savings, NOW, and money market deposits</b>						
Certificates of deposit and other time	447,521	3,266	2.96%	221,127	2,462	4.48%
Total interest-bearing deposits	872,515	4,471	2.08%	594,625	4,497	3.04%
Subordinated debt	15,465	174	4.55%	15,465	259	6.74%
Federal Home Loan Bank advances and other borrowings	174,200	1,536	3.58%	146,564	1,443	3.96%
Total interest-bearing liabilities	1,062,180	6,181	2.36%	756,654	6,199	3.30%
Non-interest-bearing liabilities:						
Non-interest-bearing demand deposits	144,060			116,481		
Other liabilities	14,393			10,530		
Total liabilities	1,220,633			883,665		
Stockholders' equity	86,964			69,114		
Total liabilities and stockholders' equity	\$ 1,307,597			\$ 952,779		
Net interest income		\$ 10,282			\$ 8,038	
Net yield on interest-earning assets			3.39%			3.57%

- (1) The indicated income and annual rate are presented on a taxable equivalent basis using the federal marginal rate of 34% adjusted for the TEFRA 20% interest expense disallowance for 2009 and 2008.
- (2) Non-accruing loans are included in the average balance.

#### **NET INTEREST INCOME**

Net interest income is the difference between interest income earned on interest-earning assets and interest expense paid on interest-bearing liabilities. Net interest income on a tax equivalent basis for the three-month period ended March 31, 2009 was \$10.3 million, an increase of 27.9 % from \$8.0 million for the same period in 2008. The net yield on interest-earning assets, on a tax-equivalent basis, was 3.39% for the three-month period ended March 31, 2009, compared to 3.57% for the same period in 2008, a decrease of 18 basis points (one basis point is equal to 1/100 of a percent).

The yield earned on interest-earning assets decreased 90 basis points to 5.43% in 2009 from 6.33% in 2008. The average yield paid on interest-bearing liabilities decreased 94 basis points to 2.36% in 2009 from 3.30% in 2008.

Average interest-earning assets increased approximately \$324.5 million or 35.9% to \$1.2 billion for the three-months ended March 31, 2009 from \$904.5 million in the same period last year. The increase in average interest-earning assets for the three-month period ended March 31, 2009 was the result of a 25.6% or \$191.8 million increase in average total Loans and leases combined with a 4.8% or \$5.1 million increase in average investment securities, a 46.4% or \$23.0 million decrease in the average Federal funds sold and interest bearing deposits in banks balance, and a \$150.6 million increase in average loans held for sale balances. The increases in Loans, Loans held for sale and investment securities were primarily due to the acquisition of American Home Bank as of December 31, 2008. Assets acquired at December 31, 2008 through the American Home Bank acquisition included \$17.4 million of investments, \$89.5 million of loans held for sale and \$110.9 million of loans and leases. The decrease in Federal funds sold and interest bearing deposits in banks was primarily due to growth in Loans held for sale as a result of increased residential mortgage volume in the first quarter of 2009.

Average interest-bearing liabilities increased approximately \$305.5 million or 40.4% to \$1.06 billion for the three-months ended March 31, 2009, from \$756.7 million in the same period in 2008. The increase in average interest-bearing liabilities for the three-month period was the result of a \$277.9 million or 46.7% increase in interest-bearing deposits, combined with a \$27.6 million or 18.9% increase in Federal Home Loan Bank (FHLB) advances and other borrowings. The increases in interest bearing deposits and Federal Home Loan Bank advances and other borrowings were primarily due to the acquisition of American Home Bank as of December 31, 2008. Liabilities acquired at December 31, 2008 through the American Home Bank acquisition included \$186.7 million of interest bearing deposits and \$36.6 million of Federal Home Loan Bank advances and other borrowings.

#### **INTEREST INCOME**

Interest income on federal funds sold and interest-bearing deposits in banks for the three-month period ended March 31, 2009 decreased 93.8% to \$28 thousand when compared to the same period in 2008. The decrease in interest income on

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federal funds sold and interest-bearing deposits in banks for the three-month period is primarily the result of a \$23.0 million decrease in the average federal funds sold and interest bearing deposits at banks balances combined with a 324 basis point decrease on the rates earned on these assets as a result of Federal Reserve actions to reduce market interest rates.

On a tax equivalent basis, interest income on investment securities decreased by 1.0% or \$14 thousand to \$1.27 million for the three-month period ended March 31, 2009 from \$1.28 million for the same period in 2008. The decrease was the result of a 23 basis point decrease in the yield earned on investment securities, offset partially by a \$5.1 million increase in average total investment security balances.

Interest income on loans held for sale increased to \$1.8 million during the first quarter of 2009. This was due to a significant increase in the average loans held for sale balance. Average loans held for sale during the first quarter of 2009 was \$151.2 million as compared to \$607 thousand in the first quarter of 2008. The increase was due to the American Home Bank acquisition. \$89.5 million of loans held for sale were acquired at December 31, 2008 through the acquisition. The increase in average balance from December 31, 2008 to March 31, 2009 was due to increased volume in the residential mortgage loan originations.

Interest income on loans, on a tax equivalent basis, generated by the Corporation's loan portfolio increased 6.6% or \$826 thousand to \$13.3 million for the three-month period ended March 31, 2009 compared to \$12.5 million for the three months ended March 31, 2008. The increase in interest income for the three-month period ended March 31, 2009 is primarily the result of a \$191.8 million or 25.6% increase in average loans outstanding. The increase in average loan balances was primarily due to the American Home Bank acquisition. \$110.9 million of loans were acquired at December 31, 2008 through the acquisition. The impact from the increase in average loan balances was partially offset by a decrease in the tax equivalent yield earned on average loans outstanding, which decreased by 97 basis points to 5.75% for the three-month period ended March 31, 2009 from 6.72% for the same period in 2008. This rate decrease is the result of Federal Reserve actions to reduce market interest rates.

## **INTEREST EXPENSE**

Interest expense on deposit accounts decreased by \$26 thousand or 0.6% to \$4.5 million for the three-month period ended March 31, 2009 from \$4.5 million for the same period in 2008. This decrease was primarily due to a decrease in the average interest rates paid on interest-bearing deposits. The average rate paid in the first quarter of 2009 was 2.08%, a 96 basis point decrease from 3.04% in the first quarter of 2008. This rate decrease was primarily the result of Federal Reserve actions to reduce market interest rates. This impact from rate decreases was partially offset by increases in average interest-bearing deposit balances. These balances increased \$277.9 million to \$872.5 million in the first quarter of 2009 from \$594.6 million in 2008. The increase in average interest bearing deposit balances was primarily due to the American Home Bank acquisition. \$186.7 million of interest bearing deposit balances were acquired at December 31, 2008 through the acquisition. The increase was also due to stronger consumer demand for traditional interest-bearing deposit products.

Interest expense on subordinated debentures decreased \$85 thousand to \$174 thousand for the three-month period ended March 31, 2009 from \$259 thousand for the same period in 2008. The decrease for the three-month period ended March 31, 2009 was a direct result of a 219 basis point decrease in the average interest rate paid on these debentures. The issuance bears an interest rate of 3 month LIBOR plus 140 basis points. The rate decrease was due to a decrease in the 3 month LIBOR between the two periods. Average balances between the two periods remained unchanged at \$15.5 million.

Interest expense on FHLB and other borrowings increased by \$93 thousand or 6.4% to \$1.5 million for the three-month period ended March 31, 2009 from \$1.4 million for the same period in 2008. Average balances of these funding sources increased by 18.9% or \$27.6 million between the two periods. The increase in average FHLB and other borrowings was primarily due to the American Home Bank acquisition. \$36.6 million of FHLB and other borrowings balances were acquired at December 31, 2008 through the acquisition. The average rate paid on these borrowings was 3.58% in the first quarter of 2009, a decrease of 38 basis points from 3.96% during the same period in 2008. FHLB and other borrowings have been a favorable alternative to deposits to support asset growth.

**PROVISION FOR LOAN AND LEASE LOSSES**

During the three months ended March 31, 2009 and 2008, the Corporation recorded a \$1.4 million provision for loan and lease losses as compared to \$211 thousand for the same period in 2008. The increase in the provision for loan and lease losses was driven mainly by an increase in non-accrual loan balances due to the effects of a recessionary economy. The percentage of non-accrual loans to gross loans was 2.21% at March 31, 2009 compared to 1.12% at December 31, 2008 and .24% at March 31, 2008. The allowance for loan and lease losses as a percentage of loans at March 31, 2009 was 1.20% compared to 1.10% at December 31, 2008 and 1.06% at March 31, 2008. Net charge-offs increased to \$297 thousand for the first quarter of 2009 as compared to \$59 thousand in the first quarter of 2008.

The allowance for loan and lease losses is an amount that Management believes will be adequate to absorb possible loan losses on existing loans that may become uncollectible and is established based on Management’s evaluation of the collectability of loans. These evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, adequacy of collateral, review of specific problem loans, and current economic conditions that may affect our borrowers’ ability to pay.

<u>(Dollars in thousands)</u>	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<u>2009</u>	<u>2008</u>
Balance at beginning of period	\$ 10,335	\$ 7,817
Provision charged to operating expense	1,387	211
Recoveries of loans previously charged-off	145	100
Loans charged-off	(442)	(159)
Net loan (charge-offs) recoveries	<u>(297)</u>	<u>(59)</u>
Allowance other adjustment (1)	<u>(162)</u>	<u>(39)</u>
Balance at end of period	<u>\$ 11,263</u>	<u>\$ 7,930</u>
Period-end loans outstanding	\$ 940,131	\$ 750,625
Average loans outstanding	\$ 939,848	\$ 748,036
Allowance for loan and lease losses as a percentage of period-end loans outstanding	1.20%	1.06%
Net charge-offs (recoveries) to average loans Outstanding	-0.03%	0.01%

(1) The “Allowance other adjustment” represents the reclassification of an allowance for possible losses on unfunded loans and unused lines of credit. These loans and lines of credit, although unfunded, have been committed to by the Bank.

Non-performing loans and leases include those on non-accrual status and loans past due 90 days or more and still accruing. The Corporation’s policy is to write down all non-performing loans to net realizable value based on updated appraisals. Non-performing loans are generally collateralized and are in the process of collection. Non-accrual loans reduce the Corporation’s earnings because interest income is not earned on such assets. The non-accrual loan and lease balance at March 31, 2009 was \$20.8 million as compared to \$10.5 million at December 31, 2008 and \$1.6 million at March 31, 2008.

OREO represents real estate owned by the Bank following default by the borrowers. OREO is recorded at the lower of the loan carrying value or fair market value. Fair market value is based primarily upon independent market prices, appraised values of the collateral or management’s estimation of the value of the collateral. OREO reduces the Corporation’s earnings because interest income is not earned on such assets.

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The following chart represents detailed information regarding non-performing loans and leases and OREO:

(Dollars in thousands)	March 31,		December 31,
	2009	2008	2008
Past due over 90 days and still accruing	\$ 46	\$ 261	\$ 870
Non-accrual loans and leases (1)	20,757	1,555	10,514
Total non-performing loans and leases	20,803	1,816	11,384
Other real estate owned	2,142	441	1,872
Total non-performing assets	\$ 22,945	\$ 2,257	\$ 13,256
Non-performing loans and leases as a percentage of total loans and leases	2.21%	0.24%	1.21%
Allowance for loan and lease losses as a percentage of non-performing loans and leases	54.14%	436.69%	90.78%
Non-performing assets as a percentage of total loans and other real estate owned	2.44%	0.30%	1.41%
Allowance for loan and lease losses as a percentage of non-performing assets	49.09%	351.36%	77.96%

(1) Generally, the Bank places a loan or lease in non-accrual status when principal or interest has been in default for a period of 90 days or more unless the loan is both well secured and in the process of collection.

Management is not aware of any loans or leases other than those included in these tables that would be considered potential problem loans and cause Management to have doubts as to the borrower's ability to comply with loan repayment terms.

The Corporation identifies a loan as impaired when it is probable that interest and principal will not be collected according to the contractual terms of the loan agreement. The accrual of interest is discontinued on impaired loans and no income is recognized until all recorded amounts of interest and principal are recovered in full.

FASB 114 "Accounting by Creditors for Impairment of Loans" requires the Corporation to examine commercial and non-residential mortgage loans on non-accrual status for impairment. The balance of impaired loans was \$20.8 million, \$10.5 million, and \$1.6 million at March 31, 2009, December 31, 2008, and March 31, 2008, respectively. The associated specific reserve for impaired loans was \$1.8 million, \$856 thousand, and \$40 thousand at March 31, 2009, December 31, 2008, and March 31, 2008, respectively.

For the three-month period ended March 31, 2009, activity in the allowance for impaired loan losses includes a provision of \$974 thousand and charge-offs of \$386 thousand. There were no recoveries for the three-month period ended March 31, 2009. Contractual interest amounted to \$256 thousand for the three-months ended March 31, 2009. Total cash collected on impaired loans for the three-month period ended March 31, 2009 was \$672 thousand all of which was applied to principal. Loans returned to performing for the three-months ended March 31, 2009 were \$92 thousand.

For the three-month period ended March 31, 2008, activity in the allowance for impaired loan losses includes a provision of \$18 and charge-offs of \$0. There were no recoveries for the three-month period ended March 31, 2008. Contractual interest amounted to \$25 thousand for the three-months ended March 31, 2008. Total cash collected on non-accrual loans for the three-month period ended March 31, 2008 was \$54 thousand all of which was applied to principal. Loans returned to performing for the three-months ended March 31, 2008 was \$20 thousand.

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The following charts present additional information about impaired loans and lease balances as of March 31, 2009 and December 31, 2008:

March 31, 2009

<u>(Dollars in thousands)</u>	<u>Loans by Type</u>	<u>Impaired by type</u>	<u>Number of impaired loans</u>	<u>Specific reserve on impaired</u>
Commercial loans	\$ 332,515	\$ 6,057	22	\$ 248
Real estate — commercial	285,662	2,239	2	253
Real estate — commercial construction	69,051	4,387	4	684
Real estate — residential	83,940	4,580	15	380
Real estate — residential construction	39,265	1,307	5	76
Consumer loans	126,353	1,909	33	189
Lease financing receivables	3,345	278	7	—
<b>Totals</b>	<b>\$ 940,131</b>	<b>\$ 20,757</b>	<b>88</b>	<b>\$ 1,830</b>

December 31, 2008

<u>(Dollars in thousands)</u>	<u>Loans by type</u>	<u>Impaired by type</u>	<u>Number of impaired loans</u>	<u>Allocable allowance on impaired</u>
Commercial loans	\$ 327,472	\$ 3,632	20	\$ 285
Real estate — commercial	280,549	1,650	2	126
Real estate — commercial construction	69,057	—	—	—
Real estate — residential	87,413	3,876	13	350
Real estate — residential construction	45,466	—	—	—
Consumer loans	125,318	1,166	30	95
Lease financing receivables	4,808	190	4	—
<b>Totals</b>	<b>\$ 940,083</b>	<b>\$ 10,514</b>	<b>69</b>	<b>\$ 856</b>

**NON-INTEREST INCOME, AS RESTATED**

Total non-interest income increased \$12.5 million to \$15.4 million for the three months ended March 31, 2009, compared to \$2.9 million for the same period in 2008. The various components of non-interest income are discussed below.

Wealth Management and Advisory Services revenue decreased \$77 thousand or 7.7% to \$918 thousand for the three months ended March 31, 2009 from \$995 thousand during the same period in 2008. Wealth management and advisory services revenue includes fee income from both the Wealth Management division of the Bank and the First National Financial Advisory Services subsidiary of the Bank. In aggregate, wealth management and advisory services revenue consists primarily of fee income from services such as trust and portfolio management, estate management, insurance, full-service brokerage, financial planning and mutual fund services. Wealth management and advisory services revenue is based partially on the market value of assets under management. The market value of assets under management decreased \$94.8 million or 17.0% to \$462.6 million at March 31, 2009 as compared to \$557.4 million at March 31, 2008. These balances decreased primarily due to decreases in the market values of the underlying securities within the assets under management.

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Service charges on deposit accounts increased \$79 thousand or 14.3% to \$632 thousand for the three-month period ended March 31, 2009 compared to \$553 thousand for the same period in 2008. The increase in service charges is primarily due to increases in deposit account balances.

The Corporation recognized a net loss of \$88 thousand on sales of investment securities during the three-month period ended March 31, 2009 compared with a net gain of \$262 thousand during the same period in 2008. These net gains and losses were taken as a result of normal portfolio management.

The Corporation has operating lease agreements with one customer. The income on these leases is classified as "Rental Income". Rental Income on operating lease agreements for the three-month period ended March 31, 2009 was \$340 thousand, an increase of \$30 thousand or 9.7% from \$310 thousand during the same period in 2008.

Gains on the sale of fixed assets and OREO was \$46 thousand for the three-months ended March 31, 2009 as compared to gains of \$45 thousand for the same period in 2008. The gains recorded in 2009 and 2008 were the amortization of a deferred gain attributable to a sale-leaseback transaction that occurred during 2007.

Loan servicing fees and other was \$996 thousand during the three months ended March 31, 2009, an increase of \$905 thousand from \$91 thousand during the same period in 2008. Loan servicing fees and other primarily relates to the Mortgage Banking segment and consist mainly of fees earned at the inception of a loan as well as fees earned on the servicing of residential loan portfolios not owned by the Bank. Loan servicing fees and other also includes gains and losses on the Bank's mortgage servicing rights. The increase in loan servicing fees was due to the addition of the American Home Bank division's mortgage operations.

Net gain from mortgage banking activities relates to the Mortgage Banking segment and consists of unrealized gains and losses on interest rate lock commitments, loans held for sale, and forward sale commitments combined with realized gains and losses on the actual sale of the loan and the settlement of forward sale commitments. The increase in the net gain from mortgage banking activities during the first quarter of 2009 was primarily from the addition of the American Home Bank division's residential mortgage operations.

The distinguishing activity within the mortgage banking segment is the origination and sale of residential mortgage and construction loans. This activity drives the net gain on mortgage banking activity line of the income statement. For the quarter ended March 31 2009, this line was positively impacted by the actions of the Federal Reserve to reduce market rates. These actions resulted in mortgage interest rates declining, beginning in December 2008. The decline in rates was advantageous to consumers, leading many borrowers to refinance their existing mortgage loan. The increase in refinance activity reduced the negative impact from weak new and existing home sale sectors. The AHB Division originated \$602.8 million of loans during the period, with refinance activity accounting for 81%, or \$489.8 million, of the total. Loans for the purchase of new or existing homes totaled \$104.5 million, or 17% of total originations, while loans to individual borrowers for construction of single-family residences were \$8.5 million, or 2% of total originations.

Bank-owned life insurance ("BOLI") income relates to a policy acquired through the American Home Bank acquisition. BOLI involves the purchase of a life insurance policy on a group of employees. The Bank is the owner and beneficiary of the policy. The BOLI investment is carried on the balance sheet at the cash surrender value of the underlying policies. Income or loss resulting from increases or decreases in the cash surrender value of the properties is recorded on the income statement.

Other non-interest income increased 5.3% or \$25 thousand for the three-month period ended March 31, 2009 due mainly to increases in various fee income earned from the American Home Bank operations. Other non-interest income also includes ATM surcharge revenue, STAR/Visa Check Card revenue, safe deposit box income, merchant services income, rental income, lease referral fees and other miscellaneous income.

Wealth management and advisory services revenue, service charges on deposit accounts, Gains and losses on investment securities, Operating lease rental income, Gains on the sale of fixed assets and OREO, BOLI income and nearly all of Other non-interest income are included within the results of the community banking segment. Nearly all of Loan servicing fees and other and all of Net gain from mortgage banking activities are included within the mortgage banking segment.

## **NON-INTEREST EXPENSE**

Total non-interest expense increased \$10.6 million or 125.9% to \$19.1 million for the three-month period ended March 31, 2009, compared to \$8.4 million during the same period in 2008. The various components of non-interest expense are discussed below.

Salaries and employee benefits increased 153.5% or \$7.4 million to \$12.2 million for the three-month period ended March 31, 2009 compared to the same periods in 2008. The higher salary and benefits expense was primarily due to the addition of the American Home Bank operations in the first quarter of 2009.

Salaries and benefits directly attributable to the Mortgage Banking segment totaled \$7.4 million for the three months ended March 31, 2009. Of that amount, variable compensation, that is compensation paid to loan originators accounted for \$4.4 million, or 60% of the total. This variable compensation amounts to .73% of total originations, a rate typical in the mortgage banking industry. This variable compensation is directly related to the amount of, and type of, mortgage loans originated.

Net occupancy, equipment and data processing expense increased \$1.3 million or 93.0% to \$2.8 million for the three-month period ended March 31, 2009 when compared to the same periods in 2008. Approximately \$1.0 million of this increase was due to the addition of the American Home Bank's operations in the first quarter of 2009. Occupancy, equipment and data processing expense from American Home Bank's operations include the operations of administrative facilities as well as two branches combined with IT systems operations. The increase was also due to the opening of the new Jennersville grocery store branch as well as the opening of the new one north high administrative complex in the first quarter of 2009.

Depreciation expense on operating leases increased \$25 thousand or 9.9% to \$280 thousand for the three-month period ended March 31, 2009 when compared to the same period in 2008. This depreciation expense is the result of operating lease agreements the Bank has with one of our customers. The income associated with these operating leases is classified as Rental Income, as discussed above.

FDIC insurance premiums increased \$319 thousand or 339.4% to \$413 thousand for the three month period ended March 31, 2009 when compared to the same periods in 2008. In 2008 the FDIC adopted rules that increased FDIC premiums significantly for assessment periods beginning in the first quarter of 2009. In 2009, the FDIC adopted rules that further increased FDIC insurance assessment rates beginning in the second quarter of 2009. This will cause the Bank's 2009 FDIC premiums and assessment expense to increase significantly over 2008. The \$94 thousand of FDIC insurance expense in the first quarter of 2008 was net of a \$65 thousand assessment credit granted to the Bank under 2006 legislation.

Professional services expense increased \$822 thousand or 193.9% to \$1.2 million for the three-month period ended March 31, 2009 when compared to the same periods in 2008. Approximately \$678 thousand of the increase in professional fees is due to increased legal, consulting, audit fees and human resource expenses from the addition of American Home Bank's operations. The balance of the increase was mainly due to increased legal and consulting fees related to the acquisition and integration of American Home Bank.

Marketing expense increased \$61 thousand or 31.0% from the same period in 2008. Most of this increase was due to the addition of American Home Bank's operations.

Total other non-interest expense increased \$661 thousand or 63.0% to \$1.7 million for the three-month period ended March 31, 2009 compared to the same periods in 2008. Other non-interest expense includes loan costs, annual meeting and reports, trust processing, postage, directors' costs, telephone, travel and entertainment and operating supplies. Most of the increase is due to the addition of American Home Bank's operations.

## **INCOME TAXES, AS RESTATED**

Income tax expense for the three-month period ended March 31, 2009 was \$1.5 million, compared to \$557 thousand for the same period in 2008. This represents an effective tax rate of 30.4 for the three-month period ended March 31, 2009

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compared with 26.8% for the same periods in 2008. The higher effective tax rates in 2009 as compared with 2008 is primarily due to a decrease in permanent differences as a relative percentage of pretax income.

**LIQUIDITY MANAGEMENT AND INTEREST RATE SENSITIVITY**

The objective of liquidity management is to ensure the availability of sufficient cash flows to meet all financial commitments and to capitalize on opportunities for business expansion. Liquidity management addresses the Corporation’s ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature and to make new loans and investments as opportunities arise. Liquidity is managed on a daily basis enabling Senior Management to monitor changes in liquidity and to react accordingly to fluctuations in market conditions. The primary sources of liquidity for the Corporation are funding available from growth of our existing deposit base, new deposits, FHLB, and cash flow from the investment and loan portfolios. The Corporation considers funds from such sources to comprise its “core” funding sources because of the historical stability of such sources of funds. Additional liquidity comes from the Corporation’s non-interest bearing demand deposit accounts and credit facilities. Other deposit sources include a tiered savings product and certificates of deposit in excess of \$100,000. Details of core deposits, non-interest bearing demand deposit accounts, and other deposit sources are highlighted in the following table:

(Dollars in thousands) DEPOSIT TYPE	For the Three Months Ended March 31, 2009		For the Year Ended December 31, 2008	
	Average Balance	Effective Yield	Average Balance	Effective Yield
NOW Accounts	\$ 185,027	1.01%	\$ 179,512	1.64%
Money Market	152,665	1.47%	117,393	2.46%
Statement Savings	41,485	0.60%	40,300	0.70%
Other Savings	1,787	1.08%	2,802	1.50%
Tiered Savings	44,030	1.18%	48,915	1.30%
Total NOW Savings, and Money Market	424,994	1.15%	388,922	1.75%
CDs Less than \$100,000	338,082	2.96%	162,650	3.73%
CDs Greater than \$100,000	109,439	2.95%	74,822	3.90%
Total CDs	447,521	2.96%	237,472	3.78%
Total Interest Bearing Deposits	872,515		626,394	
Non-Interest Bearing Demand Deposits	144,060		120,941	
Total Deposits	\$ 1,016,574		\$ 747,335	

The Bank, as a member of FHLB, maintains several credit facilities. During the first quarter of 2009, average FHLB advances were \$174.2 million and consisted of term advances with a variety of maturities. The average interest rate on these advances was 3.58%. The Bank currently has a maximum borrowing capacity with FHLB of approximately \$320.8 million. FHLB advances are collateralized by a pledge on the Bank’s portfolio of unencumbered investment securities, certain mortgage loans, and a lien on the Bank’s FHLB stock.

The goal of interest rate sensitivity management is to avoid fluctuating net interest margins, and to enhance consistent growth of net interest income through periods of changing interest rates. Such sensitivity is measured as the difference in the volume of assets and liabilities in the existing portfolio that are subject to repricing in a future time period. The Corporation’s net interest rate sensitivity gap within one year is a negative \$273.9 million or 20.5% of total assets at March 31, 2009 compared with a negative \$292.9 million or 22.5% of total assets at December 31, 2008. The Corporation’s gap position is one tool used to evaluate interest rate risk and the stability of net interest margins. Another tool that

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management uses to evaluate interest rate risk is a computer simulation model that assesses the impact of changes in interest rates on net interest income, net income under various interest rate forecasts and scenarios. Management has set acceptable limits of risk within its Asset Liability Committee (“ALCO”) policy and monitors the results of the simulations against these limits quarterly. As of the most recent quarter-end, all results are within policy limits and indicate an acceptable level of interest rate risk. Management monitors interest rate risk as a regular part of corporate operations with the intention of maintaining a stable net interest margin. The following table presents our interest sensitivity analysis as of March 31, 2009:

(Dollars in thousands)	Within one year (Restated)	Two through five years (Restated)	Over five years (Restated)	Non-rate sensitive (Restated)	Total (Restated)
<b>ASSETS</b>					
Federal funds sold and overnight investments	\$ 2,501	\$ 0	\$ 0	\$ 0	\$ 2,501
Investment securities	22,584	47,236	29,959	0	99,779
Interest bearing deposits in banks	37,722	0	0	0	37,722
Loans held for sale	187,411	0	0	0	187,411
Net loans and leases	429,014	406,245	104,872	(11,263)	928,868
Cash and due from banks	0	0	0	15,020	15,020
Premises and equipment	0	0	0	23,664	23,664
Other assets	14	0	0	41,268	41,282
Total assets	<u>\$ 679,246</u>	<u>\$ 453,481</u>	<u>\$ 134,831</u>	<u>\$ 68,689</u>	<u>\$ 1,336,247</u>
<b>LIABILITIES AND CAPITAL</b>					
Non-interest bearing deposits	\$ 0	\$ 0	\$ 0	\$ 147,276	\$ 147,276
Interest bearing deposits	867,765	27,294	6,988	0	902,047
FHLB advances and other borrowings	67,794	93,518	3,686	0	164,998
Subordinated debentures	15,465	0	0	0	15,465
Other liabilities	1,000	0	17,712	0	18,712
Capital	0	0	0	87,749	87,749
Total liabilities & capital	<u>\$ 952,024</u>	<u>\$ 120,812</u>	<u>\$ 28,386</u>	<u>\$ 235,025</u>	<u>\$ 1,336,247</u>
Net interest rate sensitivity gap	<u>\$ (272,778)</u>	<u>\$ 332,669</u>	<u>\$ 106,445</u>	<u>\$ (166,336)</u>	
Cumulative interest rate sensitivity gap	<u>\$ (272,778)</u>	<u>\$ 59,891</u>	<u>\$ 166,336</u>	<u>\$ 0</u>	
Cumulative interest rate sensitivity gap divided by total assets	<u>(20.4)%</u>	<u>4.5%</u>	<u>12.4%</u>		

**BRANCHING, TECHNOLOGY AND CAPITAL PROJECTS**

During the first quarter of 2009, the Bank completed renovations on a new office building located at one North High Street in West Chester, PA. The building, along with and adjacent to our main branch and existing facility at nine North High Street will serve as the company’s corporate headquarters. During the first quarter of 2009, the Bank also opened a new grocery store branch in Jennersville, PA. Technological improvements, including enhanced security over customer information, a more proactive disaster recovery system and an improved infrastructure to support more internet banking products are also expected in the future. We are continuously looking for appropriate opportunities to expand our branch system and invest in technology to better serve our customers.

**CAPITAL ADEQUACY**

The Corporation is subject to Risk-Based Capital Guidelines adopted by the Federal Reserve Board for bank holding companies. The Bank is also subject to similar capital requirements adopted by the Office of the Comptroller of the Currency. Under these requirements, the regulatory agencies have set minimum thresholds for Tier I Capital, Total Capital, and Leverage ratios. At March 31, 2009, both the Corporation’s and the Bank’s capital exceeded all minimum regulatory

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requirements, and the Bank was considered “well capitalized” as defined in the regulations issued pursuant to the FDIC Improvement Act of 1992.

In April 2009, the Corporation completed the placement of \$5,175,000 aggregate liquidation amount of fixed rate trust preferred securities (the “Trust Preferred Securities”), through a newly formed subsidiary, First Chester County Capital Trust IV, a wholly owned Delaware statutory trust (the “Trust”). In connection with the sale of the Trust Preferred Securities, the Corporation issued \$5,330,000 of junior subordinated deferrable interest debentures (the “Debentures”) to the Trust. The Trust Preferred Securities and the Debentures have a 30 year maturity, and carry a fixed rate of interest of 12%. The Corporation has retained the right to redeem the Trust Preferred Securities at par (plus accrued but unpaid interest) on any interest payment date on or after April 28, 2014. The net proceeds of the offering have been contributed as additional paid in capital to fund growth in the banking operations of First National Bank of Chester County, the Corporation’s wholly owned subsidiary (the “Bank”).

	As of March 31,		As of December 31, 2008	“Well Capitalized” Requirements
	2009 (Restated)	2008		
<b>Corporation</b>				
Leverage Ratio	7.49%	8.87%	9.87%	N/A
Tier I Capital Ratio	9.36%	10.35%	9.14%	N/A
Total Risk-Based Capital Ratio	10.50%	11.39%	10.15%	N/A
<b>Bank</b>				
Leverage Ratio	7.64%	8.25%	9.95%	5.00%
Tier I Capital Ratio	9.66%	9.64%	9.40%	6.00%
Total Risk-Based Capital Ratio	10.80%	10.69%	10.42%	10.00%

The Bank is not under any agreement with the regulatory authorities nor is it aware of any current recommendations by the regulatory authorities that, if they were to be implemented, would have a material affect on liquidity, capital resources, or operations of the Corporation.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the Corporation’s assessment of its sensitivity to market risk since its presentation in the 2008 Annual Report. Please refer to Item 7A on pages 39-42 of the Corporation’s 2008 Annual Report for more information.

### ITEM 4. CONTROLS AND PROCEDURES

#### Disclosure Controls and Procedures.

As of March 31, 2009, the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13(a)-15(e) and 15(d)-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) was performed under the supervision and with the participation of management, including our President and CEO, Chief Operating Officer and our Chief Financial Officer. Based on that evaluation and the identification of the material weakness in our internal control over financial reporting as described below, management has concluded that our disclosure controls and procedures were ineffective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and (ii) accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures.

#### Changes in internal control over financial reporting.

Subsequent to the year ended December 31, 2009, management identified a material weakness in internal controls related to the Corporation’s process to review the valuation of mortgage loans held for sale. Mortgage loans held for sale represent mortgage loans originated by the Corporation and held until sold to secondary market investors. Upon the closing

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of a residential mortgage loan originated by the Corporation, the mortgage loan is typically warehoused for a period of time and then sold into the secondary market. While in this warehouse phase, mortgage loans held for sale are recorded at fair value under the fair value option with changes in fair value recognized through earnings. An error was identified in the Corporation's process to properly identify a certain population of loans held for sale prior to sending the loan details to the Corporation's third party valuation firm. As such, the Corporation erroneously excluded from the population to be fair valued, loans which were identified for sale but for which the Corporation was awaiting the consideration from the counterparty to complete the sales transaction. These particular loans were correctly classified as loans held for sale on the Consolidated Balance Sheet at March 31, 2009; however these loans were not reflected at their fair value in the Consolidated Balance Sheet and the related unrealized gains (losses) within the Statement of Operations for the three months ended March 31, 2009. This error resulted in an understatement in the carrying amount of loans held for sale at March 31, 2009, as well as an understatement net income for the three months ended March 31, 2009. As a result of the material weakness, the Corporation increased loans held for sale and net gains from mortgage banking activities \$1.2 million at and for the quarter ended March 31, 2009.

**Remediation of Material Weakness**

Subsequent to the year ended December 31, 2009, and immediately following management's identification of the material weakness surrounding the mark-to-market accounting of Mortgage Loans Held for Sale, management enhanced an existing process that will ensure the portfolio of Mortgage Loans Held for Sale is complete prior to delivery to the third party valuation firm. At each month-end a reconciliation is performed to ensure the loans held for sale included in the file sent to the third party valuation firm reconciles to the Corporation's internal subledger. This internal subledger of loans held for sale is reconciled to the Corporation's general ledger. These reconciliations are reviewed by management monthly to ensure timely completion and that reconciling items, if any are appropriately addressed.

As of the date of this Amendment, management is continuing their ongoing efforts to correct, revise and test the processes surrounding the material weaknesses described above. Additional changes will be implemented as determined necessary.

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

There are no material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the Corporation, or any of its subsidiaries, is a party or of which any of their respective property is the subject. The Corporation and the Bank are not parties to any legal proceedings under federal and state environmental laws.

**Item 1A. Risk Factors**

Information regarding risk factors appears in Part 1, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008. There are no material changes in the risk factors relevant to our operations, except as discussed below.

**Our disclosure controls and procedures and internal control over financial reporting were determined not to be effective as of March 31, 2009, as evidenced by a material weakness that existed in our internal controls. Our disclosure controls and procedures and internal control over financial reporting may not be effective in future periods, as a result of newly identified material weakness in internal controls.**

Effective internal control over financial reporting is necessary for compliance with the Sarbanes-Oxley Act of 2002 and appropriate financial reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process, under the supervision of the Corporation's Chief Executive Officer and Chief Financial Officer, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with GAAP. As disclosed in this Quarterly Report on Form 10-Q, management's assessment of our internal control over financial reporting identified a material weakness as discussed in *Item 4. Controls and Procedures*. A material weakness is a deficiency in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Corporation's annual or interim financial statements will not be prevented or detected on a timely basis. See *Item 4. Controls and Procedures* of this Form 10-Q for remediation status of the material weakness identified. However, there can be no assurance that additional material weaknesses will not be identified in the future. We are committed to continuing to improve our internal control processes and we will continue to diligently and vigorously review our financial reporting controls and procedures. As we continue to evaluate and improve our internal control over financial reporting, we may determine to take additional measures to address internal control deficiencies or determine to modify certain of the remediation measures described herein. We will continue to be at an increased risk that our financial statements could contain errors that will be undetected, and we will continue to incur significant expense and management burdens associated with the additional procedures required to prepare our consolidated financial statements.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

**ISSUER PURCHASES OF EQUITY SECURITIES (1)**

<b>Period</b>	<b>(a) Total Number of Shares (or Units) Purchased</b>	<b>(b) Average Price Paid per Share (or Unit)</b>	<b>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1)</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1)</b>
January 1 to January 31, 2009	—	—	—	\$ 10,000,000
February 1 to February 28, 2009	—	—	—	\$ 10,000,000
March 1 to March 31, 2009	—	—	—	\$ 10,000,000
<b>Total</b>	—	—	—	<b>\$ 10,000,000</b>

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(1) The Corporation announced on November 16, 2007 a program to repurchase up to \$10.0 million of the Corporation's Common Stock. This program replaced a previous program that expired in October 2007.

**Item 3. Defaults upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Security Holders**

None

**Item 5. Other Information**

None

**Item 6. Exhibits**

Exhibits marked as "(cp)" are management contracts or compensatory plans, contracts or arrangements in which a director or executive officer participates or may participate. Exhibits marked with an asterisk are filed with this report.

3(i). Certificate of Incorporation. Copy of the Corporation's Articles of Incorporation, as amended, is incorporated herein by reference to Exhibit 3 (i) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.

3(ii). Bylaws of the Corporation, as amended. Copy of the Corporation's Bylaws, as amended, is incorporated herein by reference to Exhibit 3(ii) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2007.

10.1 Amended and Restated Exhibit B, Annual Incentive Plan, to Executive Incentive Plan dated May 4, 2009. (CP) Portions of this exhibit have been redacted and are subject to a confidential treatment request filed with the Secretary of the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended, is incorporated herein by reference to Exhibit 10.1 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.

10.2 Amended and Restated Exhibit C, Long Term Incentive Plan, to Executive Incentive Plan dated May 4, 2009. (CP) Portions of this exhibit have been redacted and are subject to a confidential treatment request filed with the Secretary of the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended, is incorporated herein by reference to Exhibit 10.2 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.

10.3 Agreement by and among the Corporation, the Bank, James M. Deitch and Anna Ruth Smith dated May 5, 2009 to Finalize the AHB Management Incentive Plan, is incorporated herein by reference to Exhibit 10.3 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009. (CP)

31.1 Rule 13a-14(a) Certification of Chief Executive Officer and President\*

31.2 Rule 13a-14(a) Certification of Chief Financial Officer\*

32.1 Section 906 Certification of the Chief Executive Officer and President\*

32.2 Section 906 Certification of the Chief Financial Officer\*

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\* Filed herewith

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on July 26, 2010.

**FIRST CHESTER COUNTY CORPORATION**

/s/ John A. Featherman

John A. Featherman, III  
Chairman, President and Chief Executive Officer  
(Principal Executive Officer)

/s/ Eric A. Segal

Eric A. Segal  
Interim Chief Financial Officer  
(Principal Financial and Accounting Officer)

**INDEX TO EXHIBITS**

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32.2 Section 906 Certification of the Chief Financial Officer\*

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\* Filed herewith

**CERTIFICATION**

I, John A. Featherman, III, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A for the period ending March 31, 2009 of First Chester County Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reports (as defined in Exchange Act Rules 13a-15(f) and 15d — 15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

July 26, 2010

/s/ John A. Featherman, III

John A. Featherman, III  
Chairman, Chief Executive Officer and President  
(Principal Executive Officer)

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**CERTIFICATION**

I, Eric A. Segal, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A for the period ending March 31, 2009 of First Chester County Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reports (as defined in Exchange Act Rules 13a-15(f) and 15d — 15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

July 26, 2010

/s/ Eric A. Segal

Eric A. Segal  
Interim Chief Financial Officer  
(Principal Accounting and Financial Officer)

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CERTIFICATION PURSUANT TO  
18 U.S.C. § 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of First Chester County Corporation (the "Company") on Form 10-Q/A for the period ending March 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John A. Featherman, III, President, Chief Executive Officer and Chairman of the Board of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: July 26, 2010

/s/ John A. Featherman, III  
John A. Featherman, III  
President and Chief Executive Officer  
Chairman of the Board

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CERTIFICATION PURSUANT TO  
18 U.S.C. § 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of First Chester County Corporation (the "Company") on Form 10-Q/A for the period ending March 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric Segal, Interim Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: July 26, 2010

/s/ Eric A. Segal  
Eric A. Segal  
Interim Chief Financial Officer

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